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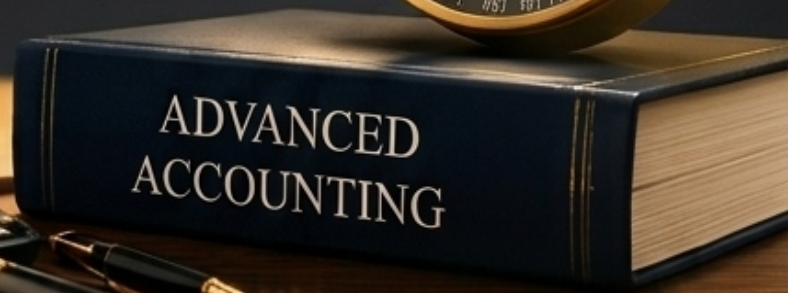
ADVANCED ACCOUNTING

THE SPRINT SERIES



FAST. FOCUSED. EXAM-ORIENTED.

-  **EXAM FOCUSED**
-  **CONCEPTS MADE SIMPLE**
-  **MOST EXPECTED QUESTIONS**
-  **MAX MARKS STRATEGY**



EXAM ORIENTED | CONCEPT CLARITY | PRACTICE. REVISE. SCORE.

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01

INTRODUCTION TO ACCOUNTING STANDARDS

CHAPTER DESIGN

ACCOUNTING STANDARDS :

1. INTRODUCTION
2. WHY ACCOUNTING STANDARD
3. WHAT ARE ACCOUNTING STANDARD
4. ACCOUNTING STANDARD DEALS WITH
5. ACCOUNTING STANDARD SETTING PROCESS
6. ACCOUNTING STANDARD BENEFITS
7. ACCOUNTING STANDARD DISADVANTAGES

INDIAN ACCOUNTING STANDARDS :

8. INTRODUCTION
9. WHY INDIAN ACCOUNTING STANDARD (IND AS)
10. WHAT ARE INDIAN ACCOUNTING STANDARD (IND AS)
11. INTERNATIONAL FINANCIAL REPORTING STANDARD
12. CARVE IN CARVE OUT
13. INDIAN ACCOUNTING STANDARD BENEFITS
14. GOVERNMENT OF INDIA'S COMMITMENT TO IND AS

“Why do we fall? So that we can learn to pick ourselves up.”

ACCOUNTING STANDARDS

1. INTRODUCTION :

Accounting Standards

Why do we need standards?
 What are Accounting Standards?
 What does AS deals with?
 Accounting Standard Setting Process
 Benefits of Accounting Standards
 Limitations of Accounting Standards

2. WHY ACCOUNTING STANDARDS :

Accounting as a “language of business” communicates the financial results various stakeholders by means of financial statements.

If the accounting process is not properly regulated, there is possibility of financial statements being misleading, tendentious and providing a distorted picture of the business rather than the true

To ensure transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardize the accounting principles and policies.

3. WHAT IS ACCOUNTING STANDARDS :

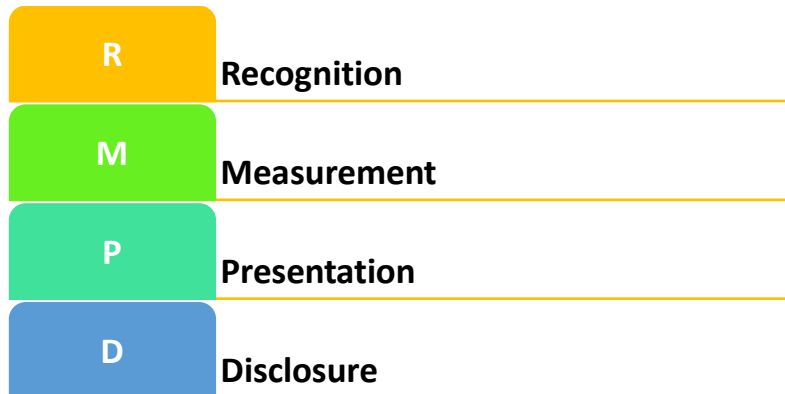


Accounting Standards (As) provide framework and standard accounting polices for treatment of transactions and events so that the financial statements of different enterprise become comparable.

Accounting Standards are written policy documents issued by the expert accounting body or by government or other regulatory body, to harmonies the accounting process to that financial statement presents true and fair picture of business.



4. AS DEAL WITH :



5. AS SETTING PROCESS :

ASB Of ICAI Set Up In 1977

Area

Study Group

Draft

Comments and Views

Exposure Draft

Comments and views

Modify

Issue the standard

6. AS BENEFITS :

S - Standardization



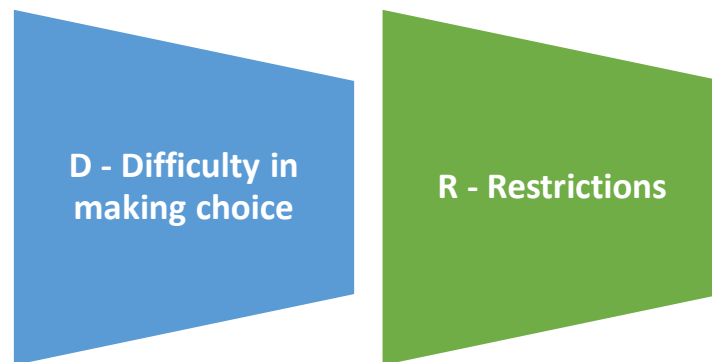
D - Disclosure



C - Comparability

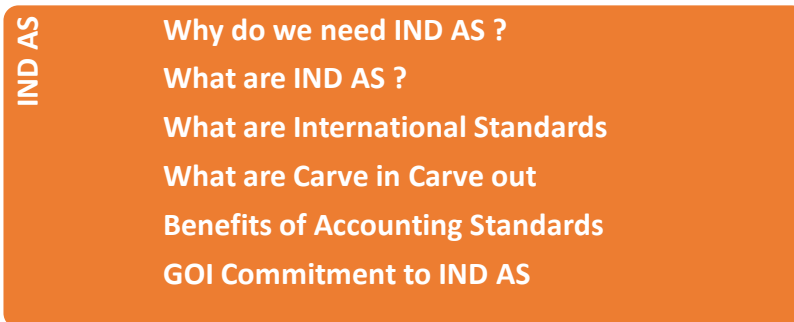


7. AS DISADVANTAGES :



INDIAN ACCOUNTING STANDARDS

8. INTRODUCTION :



9. WHY INDIAN ACCOUNTING STANDARDS (IND AS) :

In the present era of globalization and liberalization, the world has become an economic village. More and more Indian companies are being listed on overseas stock exchanges.

The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements.

This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalization of capital markets call for a single set of high quality accounting standards.

Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRS.

10. WHAT ARE INDIAN ACCOUNTING STANDARDS (IND AS) :

Indian Accounting Standards (Ind-AS) are the International Financial Reporting Standards (IFRS) converged standards issued by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with National Advisory Committee on Accounting Standards (NACAS).

ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, other professional bodies viz. icsi, icai, representatives from ASSOCHAM, CII, FICCI, etc.

The Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS).

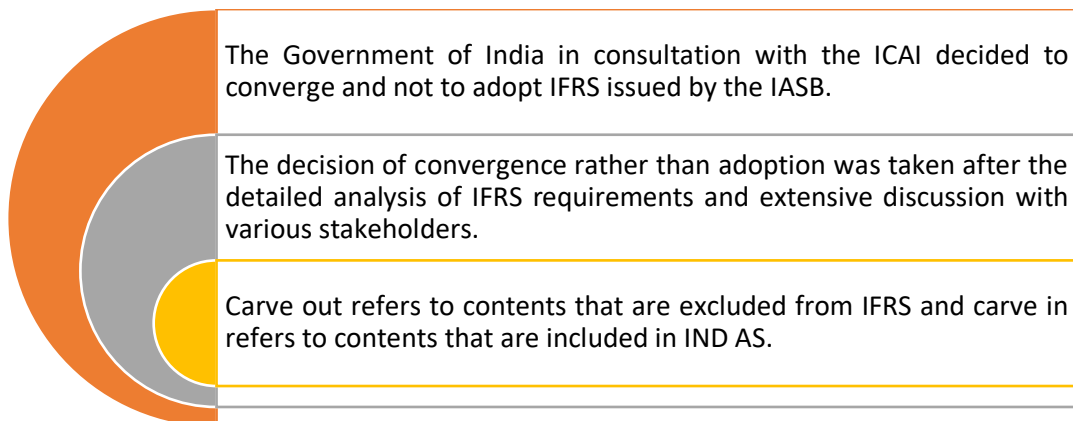
11. INTERNATIONAL FINANCIAL REPORTING STANDARDS :

IFRS – Collectively includes



In short it includes IAS, SIC, IFRS and IFRIC

12. CARVE IN CARVE OUT :



13. INDIAN ACCOUNTING STANDARDS BENEFITS :

S - Standardization**I - International Capital Flow****R - Benefits to regulators**

14. GOVERNMENT OF INDIA'S COMMITMENT TO IND AS :

Road Map to Implementation of IND AS

PHASE 1	PHASE 2	PHASE 3
<ul style="list-style-type: none"> • VOLUNTARY • 1/4/2015 	<ul style="list-style-type: none"> • MANDATORY • 1/4/2016 	<ul style="list-style-type: none"> • MANDATORY • 1/4/2017

PHASE 1	1st April 2015 or thereafter: Voluntary Basis for all companies	
PHASE 2	1st April 2016: Mandatory Basis	
	A	Companies listed / in process of listing on Stock Exchanges in India or Outside India having net worth \geq 500 crore
	B	Unlisted Companies having net worth \geq 500 crore
	C	Parent, Subsidiary, Associate and Joint venture of above
PHASE 3	1st April 2017: Mandatory Basis	
	A	All companies which are listed/or in process of listing inside or outside India on Stock Exchanges not covered in Phase I (other than companies listed on SME Exchanges)
	B	Unlisted companies having net worth \geq 250 crore
	C	Parent, Subsidiary, Associate and Joint venture of above

Thanks



02

AS 1

DISCLOSURE OF ACCOUNTING POLICIES

CHAPTER DESIGN

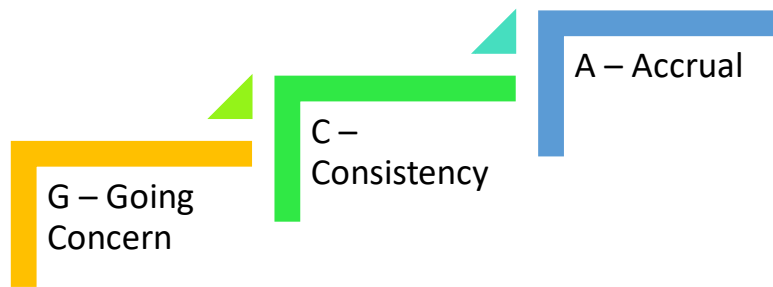
1. **WHAT ARE ACCOUNTING POLICIES**
2. **FUNDAMENTAL ACCOUNTING ASSUMPTIONS**
3. **DISCLOSURE**
4. **SELECTION OF ACCOUNTING POLICIES**
5. **CHANGES IN ACCOUNTING POLICIES**
6. **DISCLOSURE OF CHANGES IN ACCOUNTING POLICIES**
7. **ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**

“It’s not who I am underneath, but what I do that defines

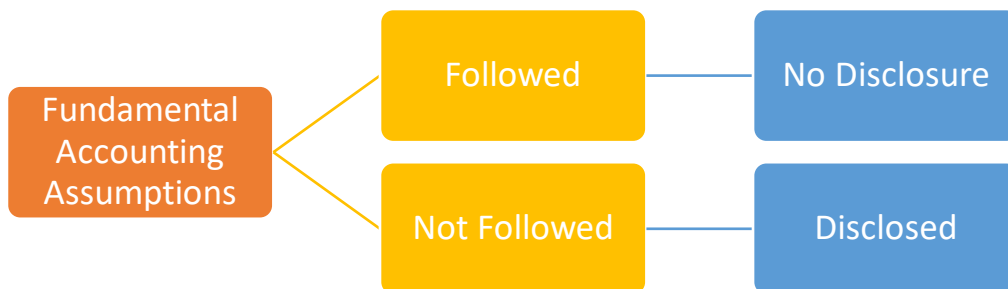
1. WHAT ARE ACCOUNTING POLICIES :

The Accounting policies refers to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.

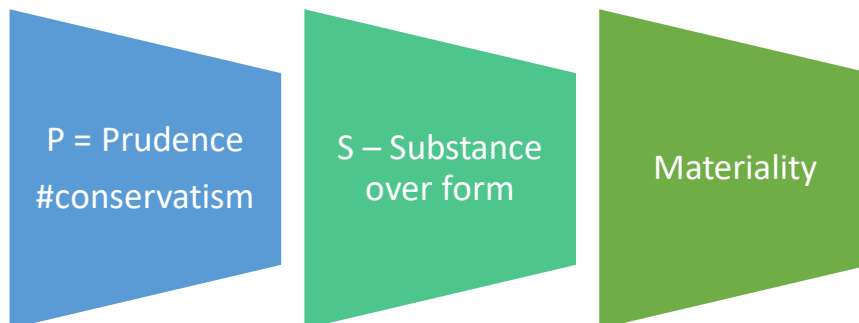
2. FUNDAMENTAL ACCOUNTING ASSUMPTIONS :

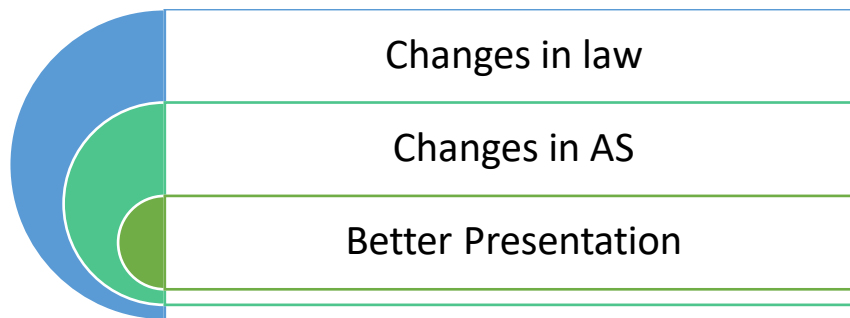
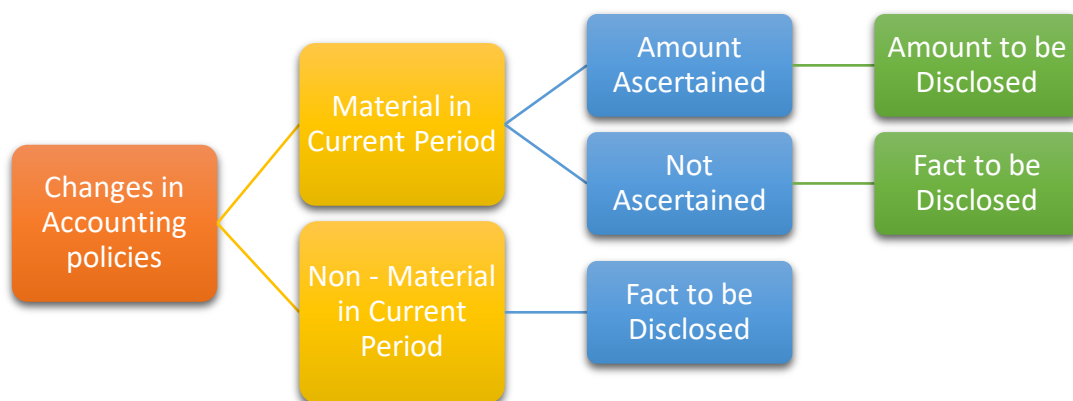


3. DISCLOSURE :



4. SELECTION OF ACCOUNTING POLICIES :



5. CHANGES IN ACCOUNTING POLICIES :**6. DISCLOSURE OF CHANGES IN ACCOUNTING POLICIES :****7. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES :**

1. Changes in Accounting Policies should be affected retrospectively
2. Accounting policies tells us what to do
3. Accounting estimates are more about how to do
4. Changes in Accounting estimates should be affected prospectively
5. Changes in method of depreciation is change in estimate – prospectively
6. Changes in inventory valuation from FIFO to WT Average and vice versa is change in policy – retrospectively
7. Change in provision for slow moving item is change in estimate - prospectively

**Question 1 : M/s Prashant Ltd.**

In the books of M/s Prashant Ltd., closing inventory as on 31.03.2015 amounts to Rs 1,63,000 (on the basis of FIFO method).

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15.

On the basis of weighted average method, closing inventory as on 31.03.2015 amounts to Rs 1,47,000. Realisable value of the inventory as on 31.03.2015 amounts to Rs 1,95,000. Discuss disclosure requirement of change in accounting policy as per AS-1.



Question 2 : ABC Ltd.

ABC Ltd. was making provision for non-moving inventories based on issues for the last 12 months up to 31.3.2016.

The company wants to provide during the year ending 31.3.2017 based on technical evaluation:

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

Does this amount to change in Accounting Policy?

Can the company change the method of provision?



Question 3 :

State whether the following statements are 'True' or 'False'. Also give reason for your answer.

1. Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.
2. If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.
3. All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.
4. Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.

Thanks



03

AS 2

VALUATION OF INVENTORY

CHAPTER DESIGN

1. **DEFINITIONS**
2. **MEASUREMENTS**
3. **COST OF INVENTORY**
4. **JOINT PRODUCT, BY PRODUCT AND SCRAP**
5. **NET REALIZABLE VALUE**
6. **INVENTORY VALUATION TECHNIQUES**

“It’s not who I am underneath, but what I do that defines

1. DEFINITIONS :

INVENTORIES :



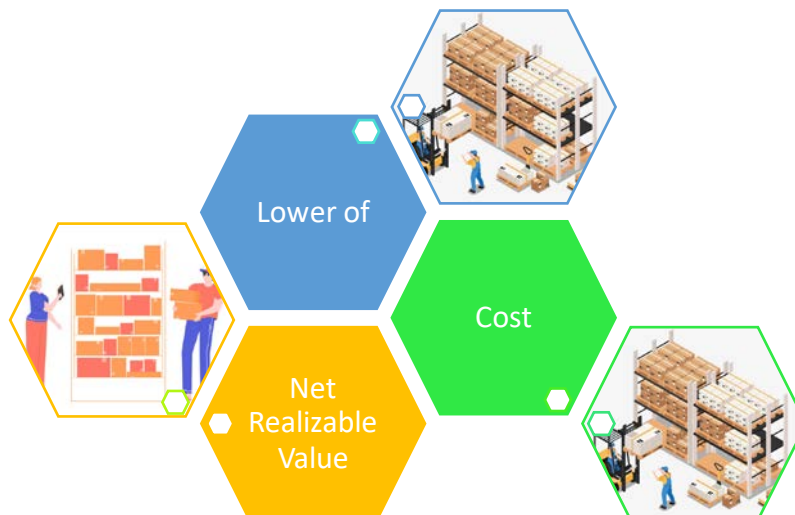
Inventories are Assets

- held for sale in the ordinary course of business
- in the process of production for such sale
- for consumption in the production of goods and services for sale
- including maintenance supplies and consumables
- other than machinery spares, servicing equipment and stand by equipment meeting the definition of Property, Plant and Equipment

Net Realizable Value means

Estimated Selling Price of Finished Goods	XXX
Less Estimated cost of Sales (FG/WIP)	XXX
Less Estimated cost of Completion (WIP)	<u>XXX</u>
	XXX

2. MEASUREMENTS :



We should remember that

1. Raw material should be valued “AT COST”
Only if the SP FG is less than is CP then raw material should be valued “AT REPLACEMENT COST”
2. Work in progress and Finished goods should be valued at lower of cost or Net Realizable Value.

3. COST OF INVENTORY :

Inclusions



- Cost of Purchase
- Cost of Conversions
- Other cost

Exclusions



- Storage Cost
- Abnormal Wastages
- Admin Cost
- Selling cost



Question 1 : ABC Ltd.

ABC Ltd. buys goods from an overseas supplier. It has recently taken delivery of 1,000 units of component X. The quoted price of component X was Rs. 1,200 per unit but ABC Ltd. has negotiated a trade discount of 5% due to the size of the order.

The supplier offers an early settlement discount of 2% for payment within 30 days and ABC Ltd. intends to achieve this.

Import duties (basic custom duties) of Rs. 60 per unit must be paid before the goods are released through custom. Once the goods are released through customs, ABC Ltd. must pay a delivery cost of Rs. 5,000 to have the components taken to its warehouse.

Calculate the cost of inventory.



Question 2 : Pluto Ltd.

Pluto Ltd. has a plant with the normal capacity to produce 5,00,000 unit of a product per annum and the expected fixed overhead is Rs.15,00,000. Fixed overhead on the basis of normal capacity is Rs.3 per unit (15,00,000/5,00,000). How shall u treat Fixed overheads under following circumstances

- Actual production is 5,00,000 units
- Actual production is 3,75,000 units
- Actual production is 7,50,000 units.

4. JOINT PRODUCT, BY PRODUCT AND SCRAP :

Scrap	–	Should be Valued at scrap value
By Product	–	Should always be valued at NRV (Ignore profits)
Joint Product	–	Based on Sales Value

**Question 3 : Mars Ltd.**

In a manufacturing process of Mars Ltd., one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process are here under :

Item	Unit	Amount	Output	Closing Stock 31/3/2011
Raw Material	14500	1,50,000	MP1 - 5,000 units	250
Wages	-	90,000	MP2 - 4,000 units	100
Fixed Overhead	-	65,000	BP2 - 2,000 units	
Variable Overhead	-	50,000		

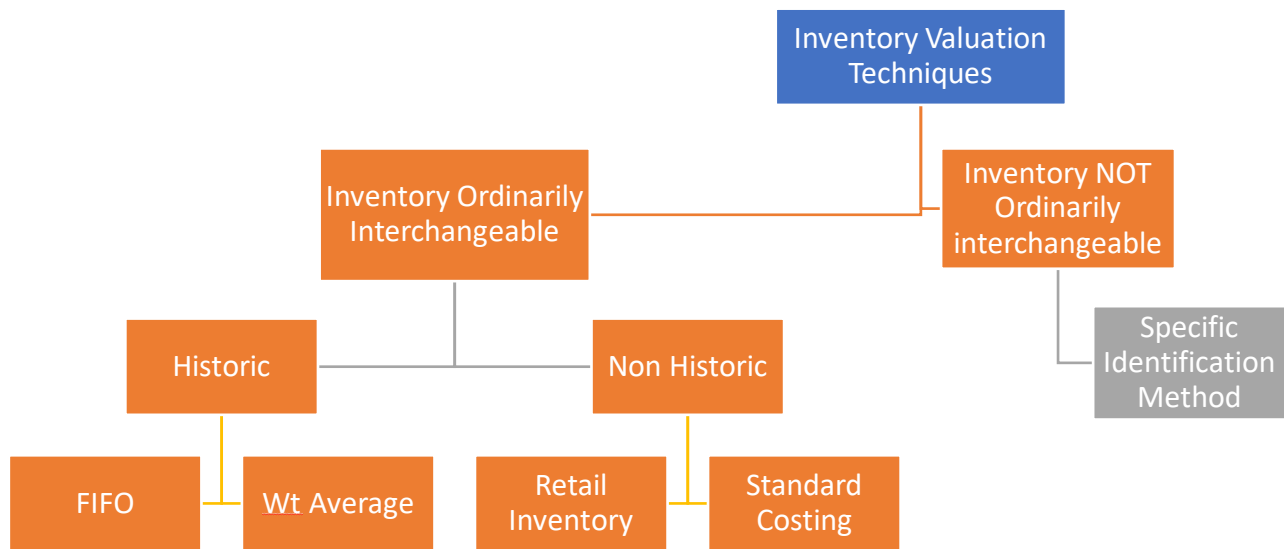
Average market price of MP1 and MP2 is Rs.60 per unit and Rs.50 per unit respectively, by-product is sold @ Rs.20 per unit. There is a profit of Rs.5,000 on sale of by-product after incurring separate processing charges of Rs.8,000 and packing charges of Rs.2,000, Rs.5,000 was realised from sale of scrap.

Required : Calculate the value of closing stock of MP1 and MP2 as on 31-03-2011.

5. NET REALIZABLE VALUE :**Question 4 :**

Cost of a partly finished unit at the end of 2016-17 is Rs 150. The unit can be finished next year by a further expenditure of Rs 100. The finished unit can be sold at Rs 250, subject to payment of 4% brokerage on selling price. Determine the value of inventory.

6. INVENTORY VALUATION TECHNIQUES :

**Question 5 : Mercury Ltd.**

Mercury Ltd. uses a periodic inventory system. The following information relates to 2011 – 2012 :

Date	Particulars	Unit	CPU	Total Cost
April	Inventory	200	10	2000
May	Purchase	50	11	550
Sept	Purchase	400	12	4800
Feb	Purchase	350	14	4900
	Total	1000		12,250

Physical inventory at 31.03.2012 400 units. Calculate ending inventory value and cost of sales using : (a) FIFO (b) Weighted Average.

**Question 6 : Mr.Jatin**

Mr.Jatin gives the following information relating to the items forming part of the inventory as on 31.03.2019. His enterprise produces product P using Raw Material X.

- (i) 900 units of Raw Material X (purchased @ Rs.100 per unit). Replacement cost of Raw Material X as on 31.03.2019 is Rs.80 per unit.
- (ii) 400 units of partly finished goods in the process of producing P. Cost incurred till date is Rs.245 per unit. These units can be finished next year by incurring additional cost of Rs.50 per unit.
- (iii) 800 unit of Finished goods P and total cost incurrent is Rs.295 per unit.

Expected selling price of product P is Rs.280 per unit, subject to a payment of 5% brokerage on selling price.

Determine how each item of inventory will be valued as on 31.03.2019.

Also calculate the value of total in Inventory as on 31.03.2019.



Question 7 : Joy Ltd.

Joy Ltd. purchased 20,000 kilograms of Raw Material @ Rs.20 per kilogram during the year 2020-21. They have furnished you with the following further information for the year ended 31st March, 2021:

Particulars	Units	Amount (Rs.)
Opening Inventory :		
Finished Goods	2,000	1,00,000
Raw Materials	2,200	44,000
Direct Labour		3,06,000
Fixed Overheads		3,00,000
Sales	20,000	11,20,000
Closing Inventory :		
Finished Goods	2,400	
Raw Materials	1,800	

The plant has a capacity to produce 30,000 Units of finished product per annum. However, the actual production of finished products during the year 2020-21 was 20,400 Units. Due to a fall in the market demand, the price of the finished goods in which the raw materials has been utilized is expected to be sold @ Rs.40 per unit. The replacement cost of the raw material was Rs.19 per kilogram.

You are required to ascertain the value of closing inventory as at 31st March, 2021 as per AS 2.

Thanks



04

AS 4 CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

CHAPTER DESIGN

1. DEFINITIONS
2. TYPES OF EVENTS
3. TREATMENT OF ADJUSTING & NON-ADJUSTING EVENTS
4. EXCEPTION TO RULE

“When you’re backed against the wall, break the wall down.”

1. DEFINITIONS :

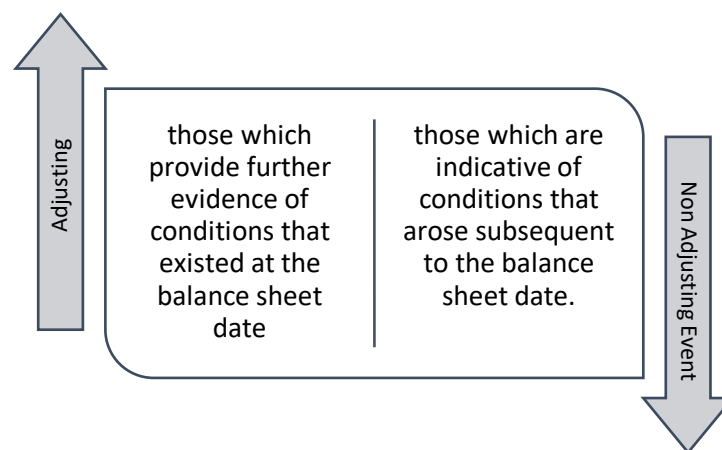
Contingencies

Contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

Events Occuring After Balance Sheet date

Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

2. TYPES OF EVENTS :



3. TREATMENT OF ADJUSTING AND NON-ADJUSTING EVENTS :

Event occurring after the Balance Sheet date	
Evidence of such condition been existed at the Balance Sheet date	No evidence of such condition been existed at the Balance sheet date
Adjusting event	Non -adjusting event
Adjustment to assets & liabilities is required	Adjustment to assets & liabilities is not required
Disclosure in the financial statements is required	Disclosure in the report of the approving authority is required

4. EXCEPTION TO THE RULE :**Dividend Declared After Balance sheet Date :**

If the dividends are declared after the balance sheet date but before the financial statements are approved,

the dividends are not recognised as liability at the balance sheet date

because no obligation exists at the time unless a statute requires otherwise.

Events indicating going concern assumption inappropriate :

As per AS 4 (Revised), an event occurring after the balance sheet date should be an adjusting event

even if it does not reflect any condition existing on the balance sheet date

if the event is such as to indicate that the fundamental accounting assumption of going concern is no longer appropriate.

**Question 1 : ACO Ltd.**

An earthquake destroyed a major warehouse of ACO Ltd. on 20.5.2024. The accounting year of the company ended on 31.3.2024. The accounts were approved on 30.6.2024. The loss from earthquake is estimated at Rs.30 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

Solution :

AS 4 (Revised) "Contingencies and Events Occurring after the Balance Sheet Date", states that adjustments to assets and liabilities are not appropriate for events occurring after the balance

sheet date, if such events do not relate to conditions existing at the balance sheet date. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.20X2. Therefore, loss occurred due to earthquake is not to be recognised in the financial year 20X1-20X2.

However, according to the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the earthquake has caused major destruction; therefore, fundamental accounting assumption of going concern would have to be evaluated. Considering that the going concern assumption is still valid, the fact of earthquake together with an estimated loss of ` 30 lakhs should be disclosed in the report of the approving authority for financial year 20X1-X2 to enable users of financial statements to make proper evaluations and decisions.

**Question 2 :**

A company has filed a legal suit against the debtor from whom Rs 15 lakh is recoverable as on 31.3.2024. The chances of recovery by way of legal suit are not good as per legal opinion given by the counsel in April, 2024. Can the company provide for full amount of Rs 15 lakhs as provision for doubtful debts? Discuss.

Solution :

As per AS 4 (Revised) “Contingencies and Events Occurring After the Balance Sheet Date”, assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date. In the given case, company should make the provision for doubtful debts, as legal suit has been filed on 31st March, 20X1 and the chances of recovery from the suit are not good. Though, the actual result of legal suit will be known in future yet situation of non-recovery from the debtors exists before finalisation of financial statements. Therefore, provision for doubtful debts should be made for the year ended on 31st March, 20X1.

**Question 3 : Raj Ltd.**

During the year 2023-2024, Raj Ltd. was sued by a competitor for Rs.15 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Raj Ltd. provided for a sum of Rs.10 lakhs in its financial statements for the year ended 31st March, 2024. On 18th May, 2024, the Court decided in favour of the party alleging infringement of the trademark and ordered Raj Ltd. to pay the aggrieved party a sum of Rs.14 lakhs. The

financial statements were prepared by the company's management on 30th April, 2024, and approved by the board on 30th May, 2024.

Solution :

As per AS 4 (Revised), adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date.

In the given case, since Raj Ltd. was sued by a competitor for infringement of a trademark during the year 2023-24 for which the provision was also made by it, the decision of the Court on 18th May, 2024, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Raj Ltd. should adjust the provision upward by Rs.4 lakhs to reflect the award decreed by the Court to be paid by them to its competitor.

Had the judgment of the Court been delivered on 1st June, 20X2, it would be considered as an event occurring after the approval of the financial statements which is not covered by AS 4 (Revised). In that case, no adjustment in the financial statements of 2023-24 would have been required.

**Question 4 : XYZ Ltd.**

XYZ Ltd. operates its business into various segments. Its financial year ended on 31st March, 2020 and the financial statements were approved by their approving authority on 15th June, 2020. The following material events took place:

- a. A major property was sold (it was included in the balance sheet at Rs. 25,00,000) for which contracts had been exchanged on 15th March, 2020. The sale was completed on 15th May, 2020 at a price of Rs. 26,50,000.
- b. On 2nd April, 2020, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of Rs. 10 million would be fully covered by the insurance company.
- c. A claim for damage amounting to Rs. 8 million for breach of patent had been received by the entity prior to the year-end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.

You are required to state with reasons, how each of the above items should be dealt with in the financial statements of XYZ Ltd. for the year ended 31st March, 2020.

Solution :

Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

(a)	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale should be reflected in the financial statements ended on 31.3.2020 and the profit on sale of property Rs. 1,50,000 would be considered.
(b)	The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.
(c)	On the basis of evidence provided, the claim against the company will not succeed. Thus, Rs. 8 million should not be provided in the account, but should be disclosed by means of a contingent liability with full details of the facts. Provision should be made for legal fee expected to be incurred to the extent that they are not expected to be recovered.



Question 5 : Five Companies

For five companies whose financial year ended on 31st March, 2023, the financial statements were approved by their approving authority on 15th June, 2023.

During 2023-2024, the following material events took place:

- a. A Ltd. sold a major property which was included in the balance sheet at Rs. 1,00,000 and for which contracts had been exchanged on 15th March, 2023. The sale was completed on 15th May, 2023 at a price of Rs. 2,50,000.
- b. On 30th April, 2023, a 100% subsidiary of B Ltd. declared a dividend of Rs. 3,00,000 in respect of its own shares for the year ended on 31st March, 2023.
- c. On 31st May, 2023, the mail order activities of C Ltd. (a retail trading group) were shut down with closure costs amounting to Rs. 2.5 million.
- d. On 1st July, 2023 the discovery of sand under D Ltd.'s major civil engineering contract site causes the cost of the contract to increase by 25% for .which there would be no corresponding recovery from the customer.
- e. A fire, on 2nd April, 2023, completely destroyed a manufacturing plant of E Ltd. It was expected that the loss of Rs. 10 million would be fully covered by the insurance company.

You are required to state with reasons, how each of the above items numbered (a) to (e) should be dealt with in the financial statement of the various companies for the year ended 31st March, 2023.

Solution :

Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

(a)	A Ltd.	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale would be reflected in the financial statements ended on 31.3.2023 and the profit on sale of property Rs. 1,50,000 would be treated as an extraordinary item.
(b)	B Ltd.	The declaration of dividend on 30th April, 2023 of Rs. 3,00,000 would be treated as a non-adjusting event in the financial statements of 2022-2023. This is because, the dividend has been declared after the balance sheet date and no conditions existed on the balance sheet date for such declaration of dividend. Further as per AS 9, right to receive dividend is established when it is declared and not before that.
(c)	C Ltd.	A closure not anticipated at the year-end would be treated as a non-adjusting event. Memorandum disclosure would be required for closure of mail order activities since non disclosure would affect user's understanding of the financial statements.
(d)	D Ltd.	The event took place after the financial statements were approved by the approving authority and is thus outside the purview of AS 4. However, in view of its significance of the transaction, the directors may consider publishing a separate financial statement/additional statement for the attention of the members in general meeting.
(e)	E Ltd.	The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.

Thanks



05

AS 10 PROPERTY, PLANT AND EQUIPMENT

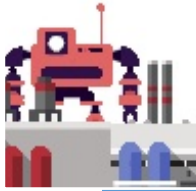
CHAPTER DESIGN

1. DEFINITIONS
2. RECOGNITION
3. MEASUREMENT
 - INITIAL MEASUREMENT
 - DEFERRED PAYMENT BEYOND NORMAL CREDIT TERMS
 - EXCHANGE OF ASSETS
 - SUBSEQUENT MEASUREMENTS
 - FREQUENCY OF REVALUATION
 - REVALUATION – INCREASE OR DECREASE
4. DEPRECIATION
5. DERECOGNITION

“Never give up on something that you can’t go a day without thinking about.”

1. DEFINITIONS :

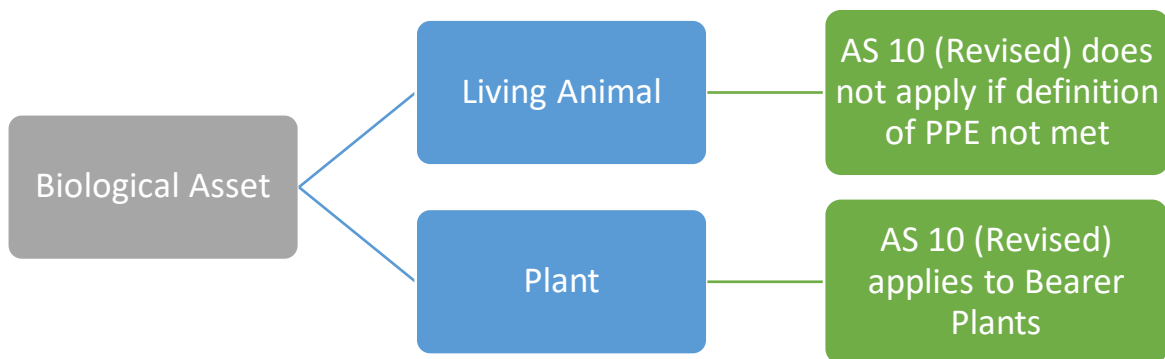
1. Property, Plant and Equipment :



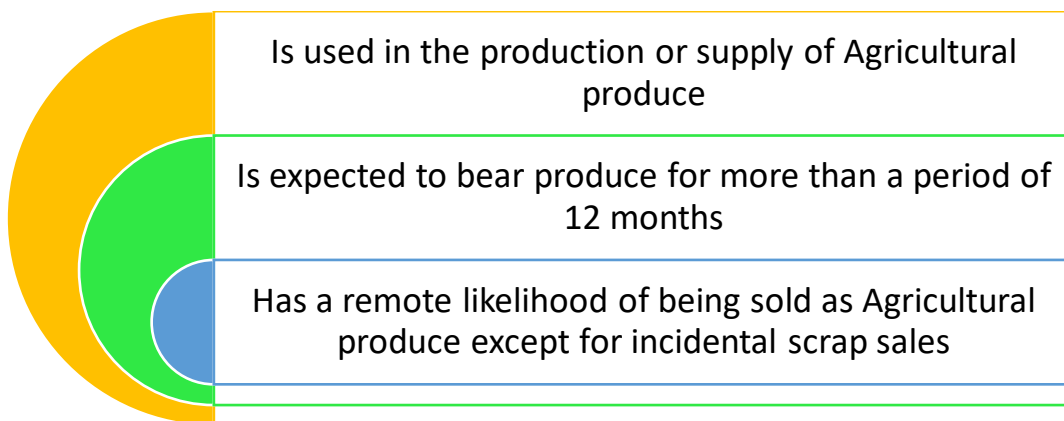
Property, Plant & Equipment

- Tangible
- Held for use in production or supply / Rental / Administrative purposes
- Expected to used during more than one period

2. Biological Asset :



3. Bearer Plant is a living plant that:



2. RECOGNITION :

1. Recognition :



2. Cost of day-to-day servicing :

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

3. Replacement of Parts of PPE :

An enterprise recognizes in the carrying amount of an item of PPE the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. Note : The carrying amount of those parts that are replaced is derecognised in accordance with the de-recognition provisions of this Standard.

4. Regular Major Inspections :

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

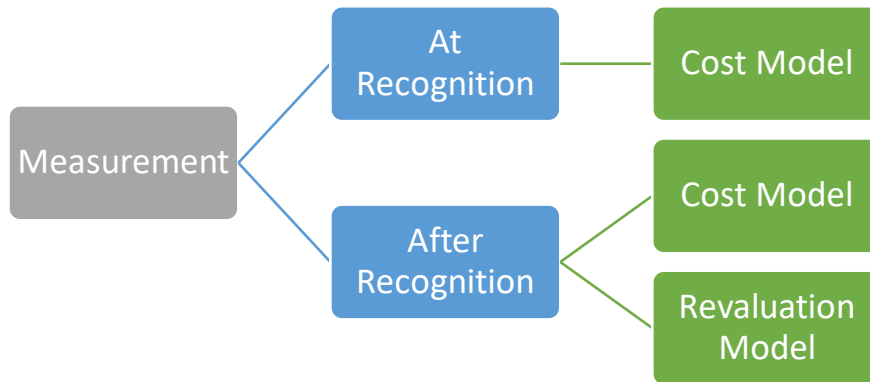


Question 1 : RM

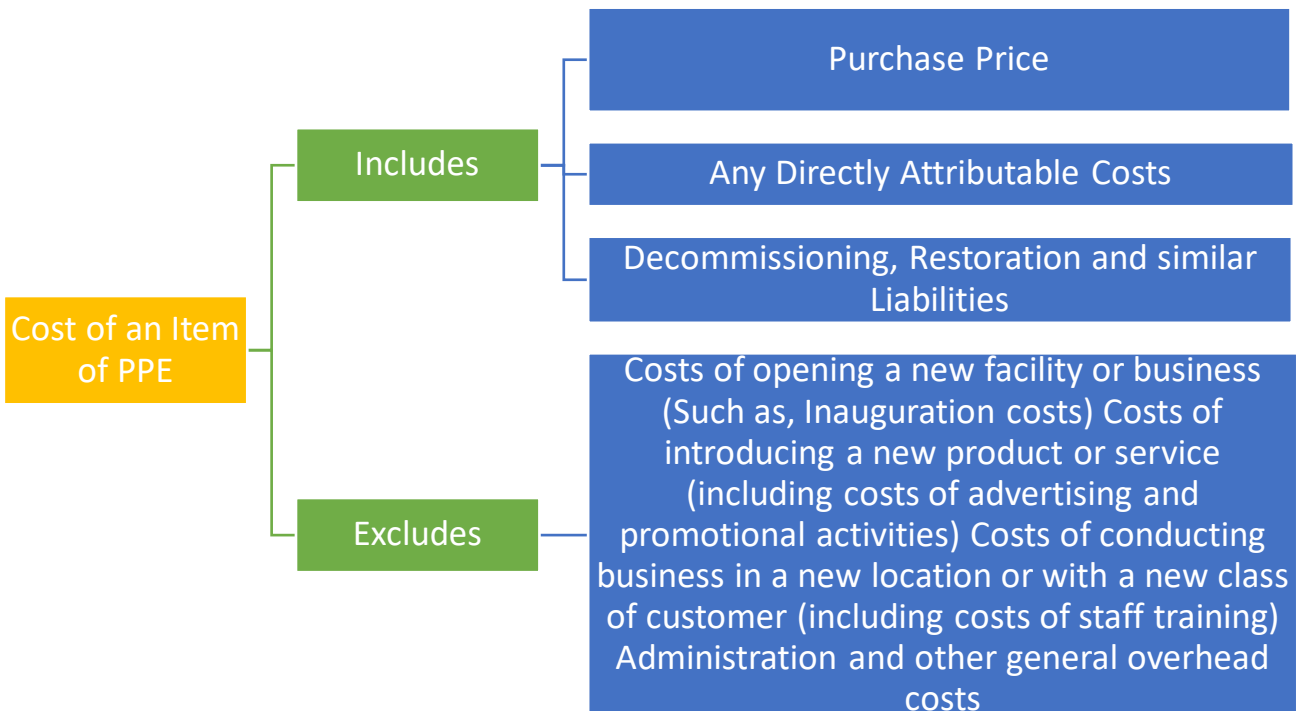
RM acquired an aircraft for Rs.1.5 crore on 1.4.2018. It has a life of 15 years. RM is required to get the aircraft inspected every 3 years to check its travel worthiness. On 1.4.2018, it

carried out inspection at a cost of Rs.60,00,000. On 1.4.2021, its incurred Rs.75,00,000 as the cost of new inspection. Show treatment

3. MEASUREMENT :



1. Initial Measurement :



**Question 2 : A Ltd.**

A Ltd. is installing a new plant at its production facility. It has incurred these costs

1.	Cost of Plant	Rs 25,00,000
2.	Initial Delivery and handling charges	Rs 2,00,000
3.	Cost of Site Preparation	Rs 6,00,000
4.	Consultants used for advice Acquisition	Rs 7,00,000
5.	Interest Charges for deferred credit	Rs 2,00,000
6.	Estimated dismantling charges	Rs 3,00,000
7.	Operating Losses before production	Rs 4,00,000

Advise A Ltd. on the costs that can be capitalized as per AS 10.

Solution :

According to AS 10 (Revised), these costs can be capitalised:

Cost of the plant	Rs. 25,00,000
Initial delivery and handling costs	Rs. 2,00,000
Cost of site preparation	Rs. 6,00,000
Consultants' fees	Rs. 7,00,000
Estimated dismantling costs to be incurred after 7 years	Rs. 3,00,000
	Rs. 43,00,000

Note: Interest charges paid on “Deferred credit terms” to the supplier of the plant (not a qualifying asset) of Rs. 2,00,000 and operating losses before commercial production amounting to Rs. 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

**Question 3 : Entity A**

Entity A 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:

1. Setup costs of Rs 5,00,000 to install machinery in the new location.
2. Rent of Rs 15,00,000

Removal costs of Rs 3,00,000 to transport the machinery from the old location to the temporary location. Can these costs be capitalised into the cost of the new building?

Solution :

Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The costs to be incurred by the company are in the nature of costs of relocating or reorganising operations of the company and do not meet the requirement of AS 10 (Revised) and therefore, cannot be capitalised.

**Question 4 : Shrishti Ltd.**

Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were Rs. 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs. 49,500 per month after adding 10% profit margin.

The machine was purchased at Rs. 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs. 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shrishti Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

Solution :**Calculation of Cost of Fixed Asset (i.e. Machinery)**

Particulars		Rs.
Purchase Price	Given (Rs. 158,34,000 x 100/ 112)	1,41,37,500
Add: Site Preparation Cost	Given	1,41,870
Technician's Salary	Specific/Attributable overheads for 3 months (See Note) (45,000 x 3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,45,00,140

2. Deferred payment beyond normal credit terms :

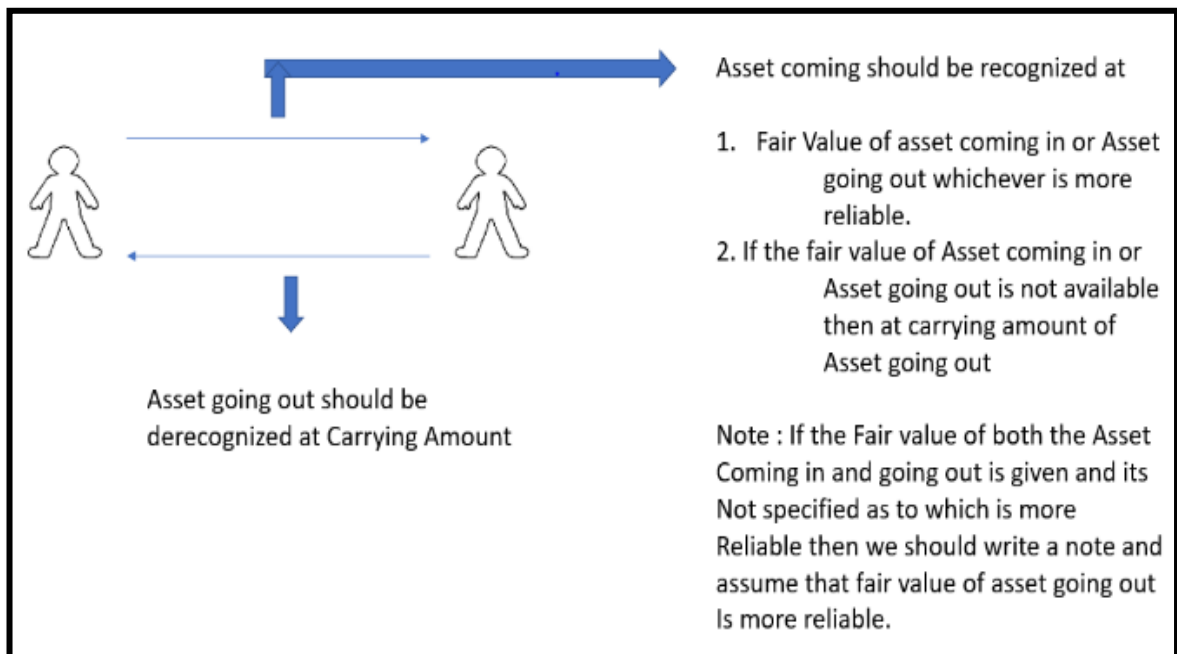
The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date.

If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit.

**Question 5 :**

The purchase price of the machinery is Rs.40,000. The company did not have enough cash, and therefore agreed to pay a year later. However they will pay Rs.45,000. What shall be the treated with reference to the above arrangement.

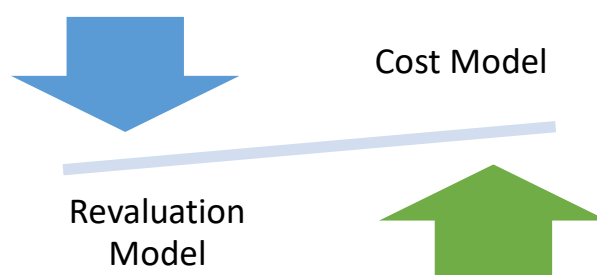
3. Exchange of Assets :



Question 6 : DM Ltd.

DM Ltd. purchases a Machinery in exchange of Motor Car B. Motor car B has a book Value of Rs.1,50,000. Fair Value of car given up is Rs.1,70,000. Fair value of Machine is Rs.1,80,000. Fair value of Machinery is more evidently known. Journalise.

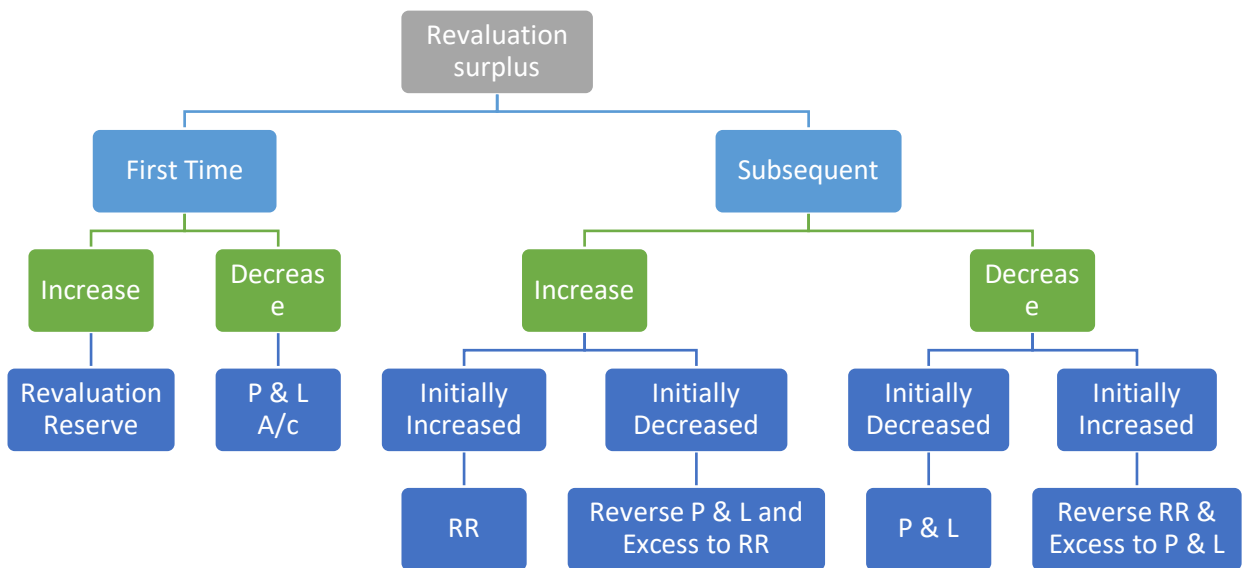
4. Subsequent Measurement :



5. Frequency of revaluation :



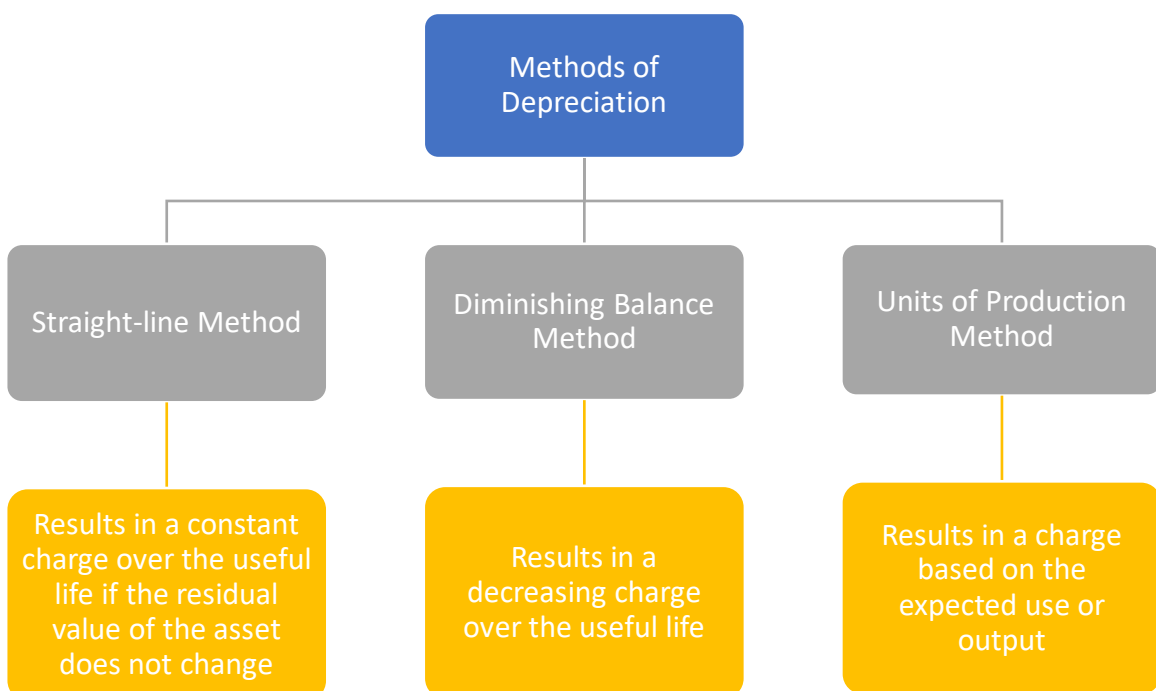
6. Revaluation – Increase or Decrease :



Question 7 : PPE

An item of PPE was purchased for Rs.9,00,000 on 1st April, 2011. It is estimated to have a useful life of 10 years and is depreciated on a straight line basis. On 1st April, 2013, the asset is revalued to Rs.9,60,000. The useful life remains unchanged as ten years. Ignore impact of deferred taxes. Show the necessary treatment as per Ind AS 16.

4. DEPRECIATION :



Review of Depreciation Method:

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

Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5.

**Question 8 : Entity A**

Entity A purchased an asset on 1st January 20X1 for Rs.1, 00,000 and the asset had an estimated useful life of 10 years and a residual value of nil.

On 1st January 20X5, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years.

Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

Solution :

As per AS 10 “Property, Plant & Equipment”. Entity should reestimate the estimated scrap value and estimated life at the end of each financial year. Any change in depreciation should be accounted for AS change in accounting estimate.

Accordingly,

	20X1	20X2	20X3	20X4	20X5
Cost/Carrying Amt.	1,00,000	90,000	80,000	70,000	60,000
Life	10	9	8	7	4
Depreciation	10,000	10,000	10,000	10,000	15,000
Carrying Amt.	90,000	80,000	70,000	60,000	45,000

5. DERECOGNITION :

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

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

Thanks



06

AS 12

ACCOUNTING FOR GOVERNMENT GRANTS

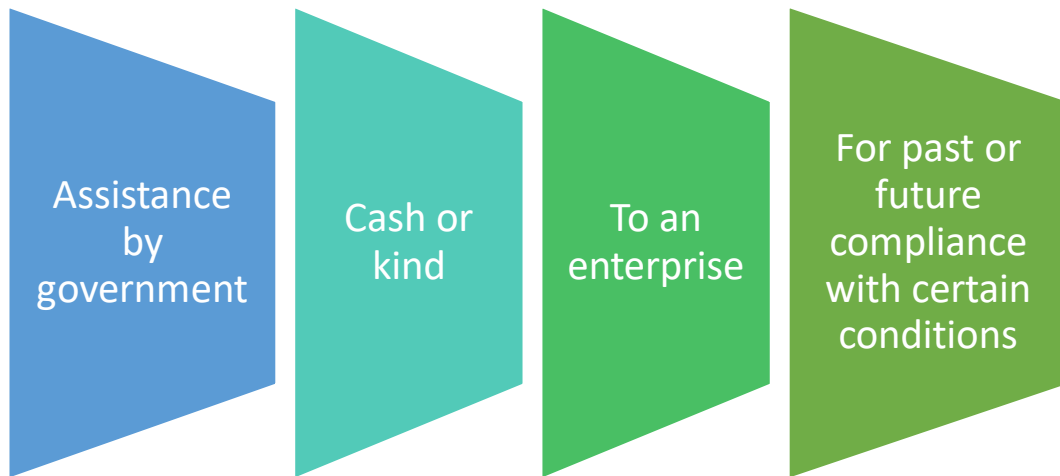
CHAPTER DESIGN

- 1. GOVERNMENT GRANTS**
- 2. RECOGNITION OF GOVERNMENT GRANTS**
- 3. ACCOUNTING FOR GOVERNMENT GRANTS**
- 4. NON-MONETARY GRANTS**
- 5. PRESENTATION OF GRANTS**
- 6. REFUND OF GOVERNMENT GRANTS**

You want to change your life? Change the way you think.”

1. GOVERNMENT GRANTS :

Government grants are :

**2. RECOGNITION OF GOVERNMENT GRANTS :**

A government grant is not recognized until there is reasonable assurance that:



Receipt of a grant is not of itself conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

3. ACCOUNTING FOR GOVERNMENT GRANTS :

Two broad approaches may be followed for the accounting treatment of government grants:

The 'capital approach', under which a grant is treated as part of shareholders' funds

The 'income approach', under which a grant is taken to income over one or more periods

4. NON MONETARY GRANTS :

Non-monetary assets given free of cost are recorded at a nominal value.

5. PRESENTATION OF GOVERNMENT GRANTS :**Presentation of Grants Related to Specific Fixed Assets :****Method I**

- The grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value.

Method II

- Grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

Presentation of Grants Related to Revenue :**Method I**

- Either separately under a general heading such as 'Other Income'.

Method II :

- Alternatively, they are deducted in reporting the related expense.

Presentation of Grants of the Nature of Promoters' Contribution :

Credited to capital reserve

**Question 1 : Z Ltd.**

Z Ltd. purchased a fixed asset for Rs.50 lakhs, which has the estimated useful life of 5 years with the salvage value of Rs.5,00,000. On purchase of the assets government granted it a grant for Rs.10 lakhs. Pass the necessary journal entries in the books of the company for first two years if the grant amount is deducted from the value of fixed asset.

Solution :

Journal in the books of Z Ltd.

Year	Particulars		Rs. (Dr.)	Rs. (Cr.)
1st	Fixed Assets Account	Dr.	50,00,000	
	To Bank Account			50,00,000
	(Being Fixed Assets purchased)			
	Bank Account	Dr.	10,00,000	
1st	To Fixed Assets Account			10,00,000
	(Being grant received from the government)			
	Depreciation Account	Dr.	7,00,000	
	To Fixed Assets Account			7,00,000
1st	(Being Depreciation charged on SLM)			
	Profit & Loss Account	Dr.	7,00,000	
	To Depreciation Account			7,00,000
	(Being Depreciation transferred to P&L Account)			
2nd	Depreciation Account	Dr.	7,00,000	
	To Fixed Assets Account			7,00,000
	(Being Depreciation charged on SLM)			
	Profit & Loss Account	Dr.	7,00,000	
2nd	To Depreciation Account			7,00,000
	(Being Depreciation transferred to P&L Account)			



Question 2 : T Ltd.

T Ltd. purchased a fixed asset for Rs.50 lakhs, which has the estimated useful life of 5 years with the salvage value of Rs.5,00,000. On purchase of the assets government granted it a grant for Rs. 10 lakhs. Pass the necessary journal entries in the books of the company for first two years if the grant is treated as deferred income.

Solution :

Journal in the books of Z Ltd.

Year	Particulars		Rs. (Dr.)	Rs. (Cr.)
1st	Fixed Assets Account	Dr.	50,00,000	
	To Bank Account			50,00,000
	(Being fixed assets purchased)			
1st	Bank Account	Dr.	10,00,000	
	To Deferred Government Grant Account			10,00,000
1st	(Being grant received from the government)			
	Depreciation Account	Dr.	9,00,000	
1st	To Fixed Assets Account			9,00,000

	(Being depreciation charged on SLM)			
	Profit & Loss Account	Dr.	9,00,000	
	To Depreciation Account			9,00,000
	(Being depreciation transferred to P/L Account)			
	Deferred Government Grants Account	Dr.	2,00,000	
	To Profit & Loss Account			2,00,000
	(Being proportionate government grant taken to P/L Account)			
2nd	Depreciation Account	Dr.	9,00,000	
	To Fixed Assets Account			9,00,000
	(Being depreciation charged on SLM)			
	Profit & Loss Account	Dr.	9,00,000	
	To Depreciation Account			9,00,000
	(Being depreciation transferred to P/L Account)			
	Deferred Government Grant Account	Dr.	2,00,000	
	To Profit & Loss Account			2,00,000
	(Being proportionate government grant taken to P/L Account)			

6. REFUND OF GOVERNMENT GRANT :

Government grants sometimes become refundable because certain conditions are not fulfilled and are treated as an extraordinary item (AS 5).

The amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement.

The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset.

Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfillment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve.

**Question 3 : A Ltd.**

A Ltd. purchased a machinery for Rs.40 lakhs. (Useful life 4 years and residual value Rs.8 lakhs) Government grant received is Rs.16 lakhs.

Show the Journal Entry to be passed at the time of refund of grant in the third year and the value of the fixed assets, if:

- (1) the grant is credited to Fixed Assets A/c.
- (2) the grant is credited to Deferred Grant A/c.

Solution :**In the books of A Ltd.****Journal Entries (at the time of refund of grant)****(1) If the grant is credited to Fixed Assets Account:**

(i)

		Rs.	Rs.
Fixed Assets A/c	Dr.	16 lakhs	
To Bank A/c			16 lakhs
(Being grant refunded)			

- (ii) The balance of fixed assets after two years depreciation will be Rs.16 lakhs (W.N.1) and after refund of grant it will become (Rs.16 lakhs + Rs.16 lakhs) = Rs.32 lakhs on which depreciation will be charged for remaining two years. Depreciation = $(32-8)/2$ = Rs.12 lakhs p.a. will be charged for next two years.

(2) If the grant is credited to Deferred Grant Account:

As per para 14 of AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years $(Rs.16 \text{ lakhs} / 4 \text{ years}) = Rs.4 \text{ lakhs p.a.} \times 2 \text{ years} = Rs.8 \text{ lakhs}$ were credited to Profit and Loss Account and Rs.8 lakhs was the balance of Deferred Grant Account after two years.

Therefore, on refund in the 3rd year, following entry will be passed:

(i)

		Rs.	Rs.
Deferred Grant A/c	Dr.	8 lakhs	
Profit & Loss A/c.	Dr.	8 lakhs	
To Bank A/c			16 lakhs
(Being Government grant refunded)			

- (ii) Deferred grant account will become Nil. The fixed assets will continue to be shown in the books at Rs.24 lakhs (W.N.2) and depreciation will continue to be charged at Rs.8 lakhs per annum for the remaining two years.

Working Notes:

1. Balance of Fixed Assets after two years but before refund (under first alternative)

Fixed assets initially recorded in the books = Rs.40 lakhs – Rs.16 lakhs
= Rs.24 lakhs

Depreciation p.a. = (Rs.24 lakhs – Rs.8 lakhs)/4 years = Rs.4 lakhs per year

Value of fixed assets after two years but before refund of grant

= Rs.24 lakhs – (Rs.4 lakhs x 2 years) = Rs.16 lakhs

2. Balance of Fixed Assets after two years but before refund (under second alternative)

Fixed assets initially recorded in the books = Rs.40 lakhs

Depreciation p.a. = (Rs.40 lakhs – Rs.8 lakhs)/4 years = Rs.8 lakhs per year

Book value of fixed assets after two years = Rs.40 lakhs – (Rs.8 lakhs x 2 years) = Rs.24 lakhs

Note: Value of fixed assets given above is after refund of government grant.

**Question 4 : Suraj Limited**

Suraj Limited provides you the following information :

- (i) It received a Government Grant @40% towards the acquisition of Machinery worth Rs.25 Crores.
- (ii) It received a Capital Subsidy of Rs.150 Lakhs from Government for setting up a Plant costing Rs.300 Lakhs in a notified backward region.
- (iii) It received Rs.50 Lakhs from Government for setting up a project for supply of arsenic free water in a notified area.
- (iv) It received Rs.5 Lakhs from the Local Authority for providing Corona Vaccine free of charge to its employees and their families.
- (v) It also received a performance award of Rs.500 Lakhs from Government with a condition of major renovation in the Power Plant within 3 years. Suraj Limited incurred 90% of amount towards Capital expenditure and balance for Revenue Expenditure.

State, how you will treat the above in the books of Suraj Limited.

Solution :

- (i) As per AS 12 “Accounting for Govt. Grants”, two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under the first alternative, the grant of Rs. 10 crores (40% of 25 crores) is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under second alternative method, grant amounting Rs. 10 crores is treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.
- (ii) In the given case, the grant amounting Rs. 150 lakhs received from the Central Government for setting up a plant in notified backward area may be considered as in the nature of

promoters' contribution. Thus, amount of Rs. 150 lakhs should be credited to capital reserve and the plant will be shown at Rs. 300 lakhs.

- (iii) Rs. 50 lakhs received from Govt. for setting up a project for supply of arsenic free water in notified area should be credited to capital reserve.
Alternatively, if it is assumed that the project consists of capital asset only, then the amount of Rs. 50 lakhs received from Govt. for setting up a project for supply of arsenic free water should either be deducted from cost of asset of the project concerned in the balance sheet or treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.
- (iv) Rs. 5 lakhs received from the local authority for providing corona vaccine to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss account, either separately or under a general heading 'Other Income'. Alternatively, Rs. 5 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.
- (v) Rs. 500 Lakhs will be reduced from the renovation cost of power plant or will be treated as deferred income irrespective of the expenditure done by the entity out of it as it was specifically received for the purpose major renovation of power plant. However, it may be, later on, decided by the Govt. whether the grant will have to be refunded or not due to non-compliance of conditions attached to the grant.

Thanks



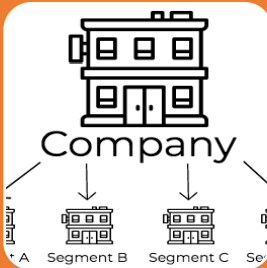
07

AS 17 SEGMENT REPORTING

CHAPTER DESIGN

1. BUSINESS SEGMENT
2. GEOGRAPHICAL SEGMENT
3. PRIMARY & SECONDARY REPORTING FORMATS
4. MATRIX PRESENTATION
5. REPORTABLE SEGMENT

1. BUSINESS SEGMENT :



A **business segment** is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

Factors that should be considered in determining whether products or services are related include:

The nature of the products or services

The nature of the production processes

The type or class of customers

The methods used to distribute the products

If applicable, the nature of the regulatory environment

2. GEOGRAPHICAL SEGMENT :



A **geographical segment** is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Factors that should be considered in identifying geographical segments include:

Similarity of economic and political conditions.

Relationships between operations in different geographical areas.

Proximity of operations.

Special risks associated with operations in a particular area.

Exchange control regulations and

The underlying currency risks.

3. PRIMARY AND SECONDARY SEGMENT REPORTING FORMATS :



4. MATRIX PRESENTATION :

A 'matrix presentation' both business segments and geographical segments as primary segment reporting formats with full segment disclosures on each basis. AS 17 does not require, but does not prohibit, a 'matrix presentation'.

5. REPORTABLE SEGMENT :

Revenue Test

- Segment Revenue = > 10% of Total of all Segment Revenue

Result Test

- Segment Result = > 10% of higher of segments in profits and loss

Asset Test

- Segment Assets = > 10% of Total Assets of all segments

Management Choice

- Management may decide to disclose any segment

75% Revenue Test

- Segment External Sales = > 75% of Total External Sale



Question 1 : AMF Ltd.

The senior Accountant of AMF Ltd. gives the following data regarding 5 segments

Particulars	P	Q	R	S	T	Total
Segment Assets	80	30	20	20	10	160
Segment Results	(190)	10	10	(10)	30	(150)
Segment Revenue	620	80	60	80	60	900

The senior accountant is of the opinion that segment 'P' alone should be reported. Is he justified in his view? Examine his opinion in the light of provision of AS 17 – Segment reporting?

Solution :

As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

- Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
- Its segment result whether profit or loss is 10% or more of:
 - The combined result of all segments in profit; or
 - The combined result of all segments in loss, whichever is greater in absolute amount; or
- Its segment assets are 10% or more of the total assets of all segments.

Accordingly,

- On the basis of revenue from sales criteria, segment P is a reportable segment.
- On the basis of the result criteria, segments P & T are reportable segments (since their results in absolute amount is 10% or more of Rs. 200 Lakhs).
- On the basis of asset criteria, all segments except T are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with AS 17. Hence, the opinion of chief accountant that only segment 'P' is reportable is wrong.

**Question 2 : ABC Limited**

ABC Limited has three segments viz. A, B and C. the total assets of the company is Rs.15 crores. The assets of Segment A is 1.85 cores, Segment B is 6.15 Crores and Segment C is Rs.7.00 Crores. Assets of each segment include deferred tax assets of Rs.0.50 Crores in A, Rs.0.40 Crores in B and Rs.0.30 Cores in C. the accountant of ABC Limited contends that all segments are reportable segments. Based on segment assets criteria. Determine the veracity of the contention of the accountant.

Thanks



08

AS 5

NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

CHAPTER DESIGN

- 1. NET PROFIT OR LOSS FOR THE PERIOD**
- 2. PRIOR PERIOD ITEMS**
- 3. CHANGES IN ACCOUNTING ESTIMATES**
- 4. CHANGES IN ACCOUNTING POLICY**

“The only time success comes before work is in the dictionary.”

1. NET PROFIT OR LOSS FOR THE PERIOD :

Net Profit or Loss for the period

Ordinary Items

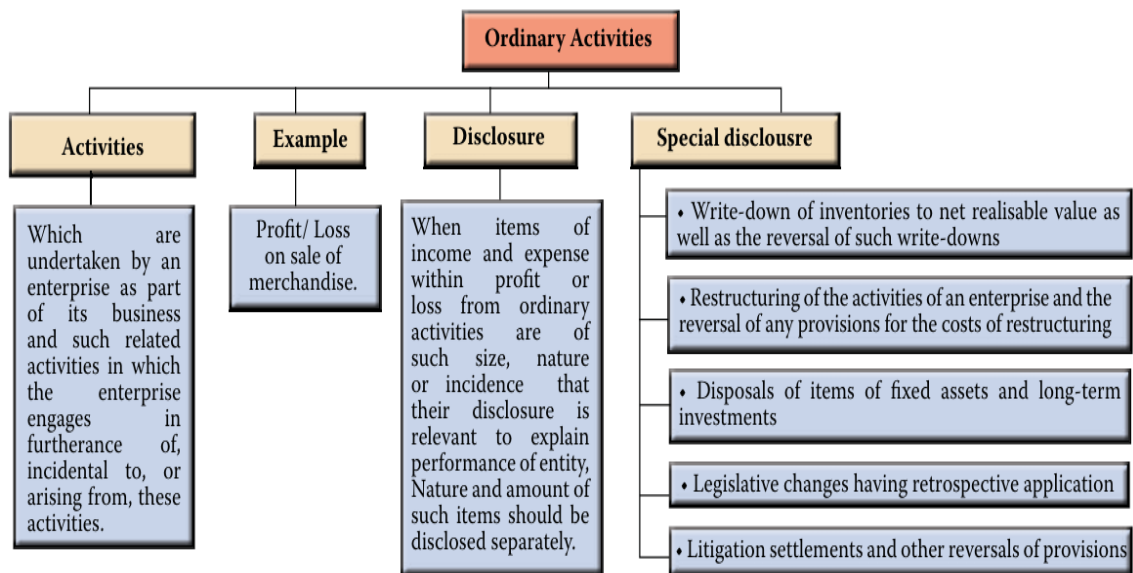
Extra ordinary items

Prior Period Items

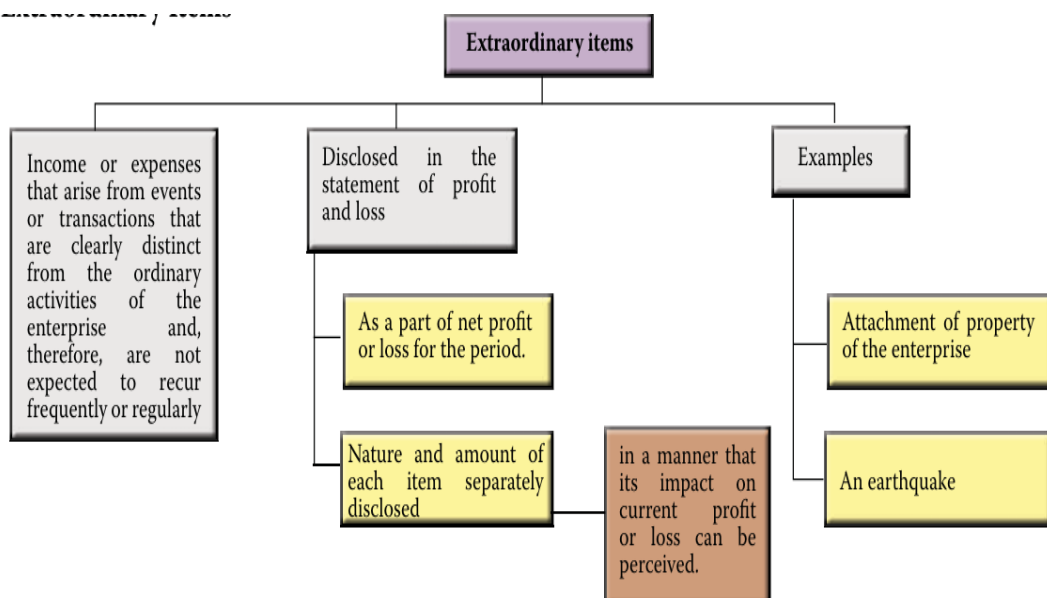
Changes in Accounting Estimates

Changes in Accounting Policies

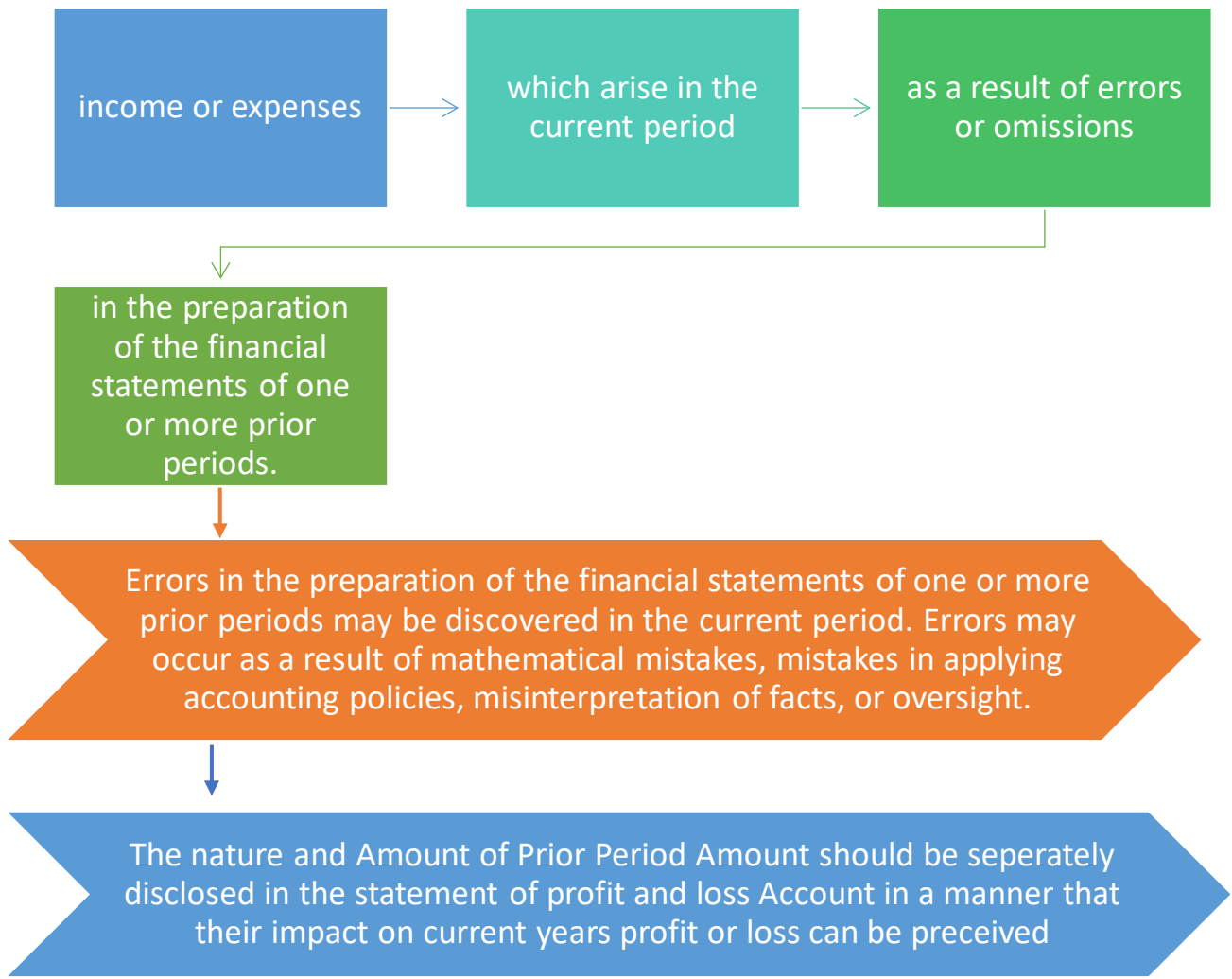
Profit or loss from ordinary activities:



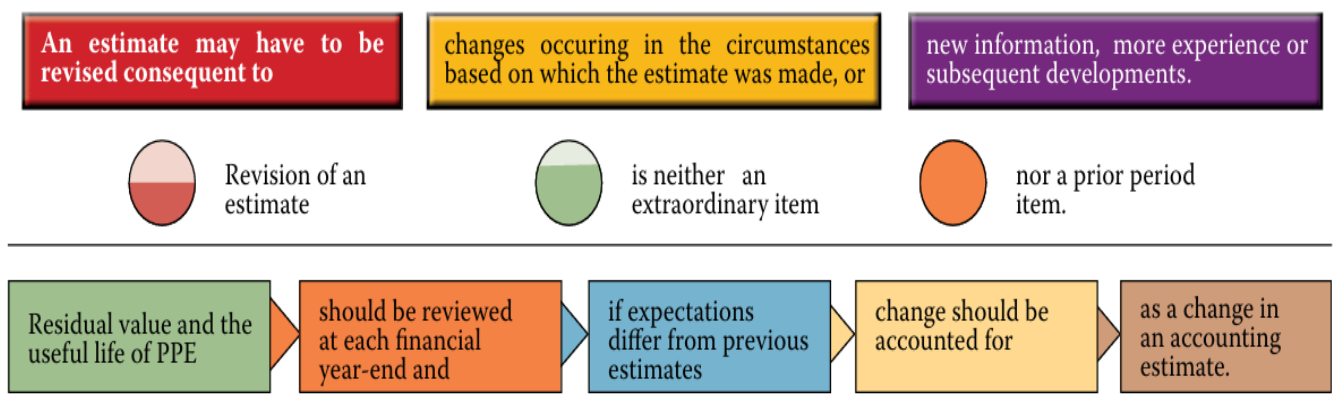
Extraordinary items :



2. PRIOR PERIOD ITEMS :



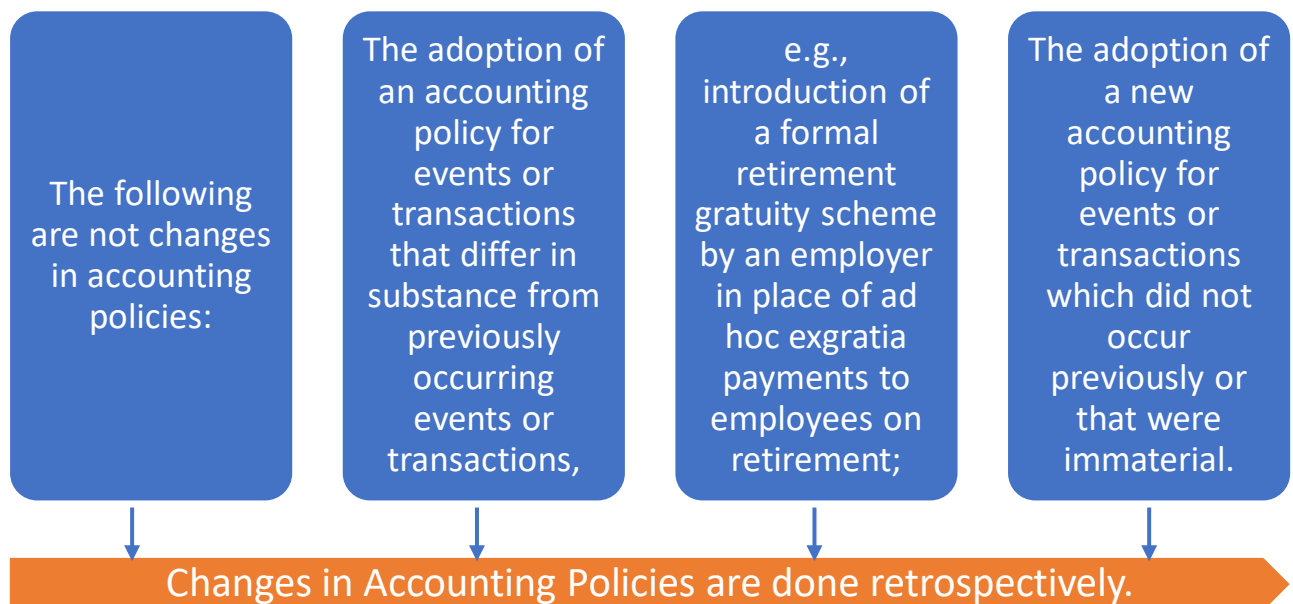
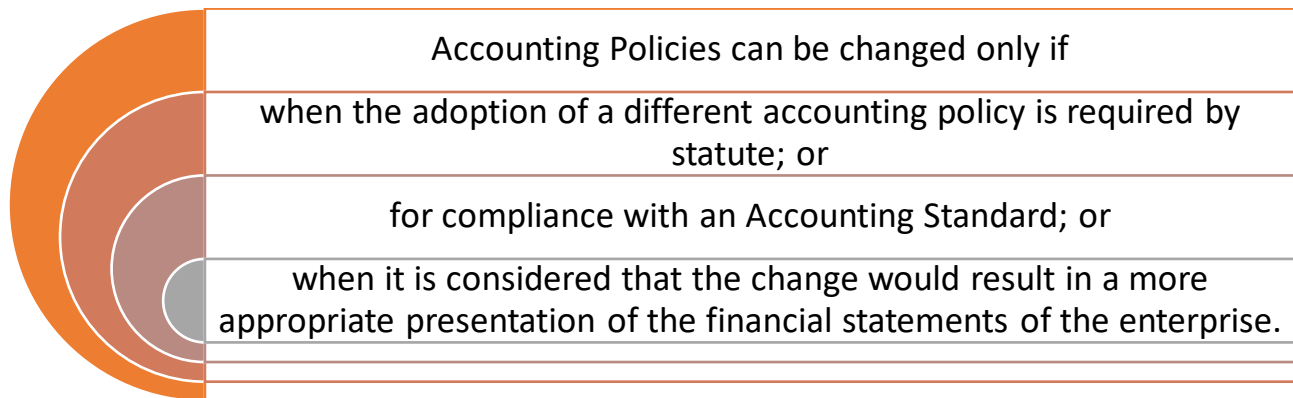
3. CHANGES IN ACCOUNTING ESTIMATES :



Changes in accounting estimate should be done prospectively.

4. CHANGES IN ACCOUNTING POLICY :

Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

**Question 1 : State Electricity Board**

Fuel surcharge is billed by the State Electricity Board at provisional rates. Final bill for fuel surcharge of Rs. 5.30 lakhs for the period October, 2008 to September, 2015 has been received and paid in February, 2016. However, the same was accounted in the year 2016-17. Comment on the accounting treatment done in the said case.

Solution :

The final bill having been paid in February, 2016 should have been accounted for in the annual accounts of the company for the year ended 31st March, 2016. However, it seems that as a result

of error or omission in the preparation of the financial statements of prior period i.e., for the year ended 31st March 2016, this material charge has arisen in the current period i.e., year ended 31st March, 2017. Therefore, it should be treated as 'Prior period item' as per AS 5. As per AS 5, prior period items are normally included in the determination of net profit or loss for the current period. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

It may be mentioned that it is an expense arising from the ordinary course of business. Although abnormal in amount or infrequent in occurrence, such an expense does not qualify an extraordinary item as per AS 5. For better understanding, the fact that power bill is accounted for at provisional rates billed by the state electricity board and final adjustment thereof is made as and when final bill is received may be mentioned as an accounting policy.

**Question 2 : Omega Ltd.**

The company finds that the inventory sheets of 31.3.2024 did not include two pages containing details of inventory worth Rs 14.5 lakhs. State, how you will deal with the following matters in the accounts of Omega Ltd. for the year ended 31st March, 2024.

Solution :

AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods". Rectification of error in inventory valuation is a prior period item vide AS 5. Separate disclosure of this item as a prior period item is required as per AS 5.

**Question 3 :**

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 organisation. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organisation.

Solution :

As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance

from previously occurring events or transactions, will not be considered as a change in accounting policy.

- (i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.
- (ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.



Question 4 :

State whether the following items are examples of change in Accounting Policy / Change in Accounting Estimates / Extraordinary items / Prior period items / Ordinary Activity:

- (i) Actual bad debts turning out to be more than provisions.
- (ii) Change from Cost model to Revaluation model for measurement of carrying amount of PPE.
- (iii) Government grant receivable as compensation for expenses incurred in previous accounting period.
- (iv) Treating operating lease as finance lease.
- (v) Capitalisation of borrowing cost on working capital.
- (vi) Legislative changes having long term retrospective application.
- (vii) Change in the method of depreciation from straight line to WDV.
- (viii) Government grant becoming refundable.
- (ix) Applying 10% depreciation instead of 15% on furniture.
- (x) Change in useful life of fixed assets.

Solution :

Classification of given items is as follows:

Sr. No.	Particulars	Remarks
(i)	Actual bad debts turning out to be more than provisions	Change in Accounting Estimates
(ii)	Change from Cost model to Revaluation model for measurement of carrying amount of PPE	Change in Accounting Policy
(iii)	Government grant receivable as compensation for expenses incurred in previous accounting period	Extra -ordinary Items
(iv)	Treating operating lease as finance lease.	Prior- period Items
(v)	Capitalisation of borrowing cost on working capital	Prior-period Items (as interest on working capital loans is not eligible for capitalization)

(vi)	Legislative changes having long term retrospective application	Ordinary Activity
(vii)	Change in the method of depreciation from straight line to WDV	Change in Accounting Estimates
(viii)	Government grant becoming refundable	Extra -ordinary Items
(ix)	Applying 10% depreciation instead of 15% on furniture	Prior- period Items
(x)	Change in useful life of fixed assets	Change in Accounting Estimates



Question 5 : Beryl Limited

The accountant of Beryl Limited has asked you to identify the following items as – Change in Accounting Policies / Change in Accounting Estimates / Extraordinary Items / Prior period items / Ordinary Activity:

- (i) Non- provision for salary already due in earlier year.
- (ii) Attachment of the property of the enterprise.
- (iii) Introduction of new pension scheme for employees.
- (iv) Change in Reserve for obsolete inventory.
- (v) Settlement of litigation case.
- (vi) Legislative changes having long term retrospective application.
- (vii) Change from Cost Molde to Revaluation Model for measurement of carrying amount of PPE.
- (viii) Government sanctioned grant in current year for expenses incurred in previous accounting year.

Solution :

- (i) Prior Period item
- (ii) Attachment of property of enterprise is an extraordinary item.
- (iii) Introduction of new pension scheme for employees is not a change in accounting policy. It is an ordinary activity.
- (iv) Change in provision for obsolete inventory is a change in accounting estimate.
- (v) Litigation settlement is an ordinary activity but requires separate disclosure
- (vi) Extra ordinary activity requiring separate disclosure
- (vii) Change in Accounting policy.
- (viii) prior period item.

Thanks



09

AS 7 CONSTRUCTION CONTRACTS

CHAPTER DESIGN

1. INTRODUCTION
2. CONSTRUCTION CONTRACTS
3. TYPES OF CONSTRUCTION CONTRACTS
4. MEASUREMENT OF CONTRACT REVENUE
5. STAGE OF COMPLETION
6. COMBINING AND SEGMENTING CONSTRUCTION CONTRACTS
7. CHANGES IN ESTIMATES

“I don’t have dreams. I have goals.”

1. INTRODUCTION :

AS 7 prescribes the principles of accounting for construction contracts in the financial statements of contractors.

The focus of the standard is on principles of revenue recognition by the contractors.

2. CONSTRUCTION CONTRACT :

Contracts Specially negotiated for the construction of an Asset or combination of Assets that are closely interrelated.

Contract for rendering of services related to construction of Assets.

Contracts for destruction or restoration of Assets.

3. TYPES OF CONSTRUCTION CONTRACT :

Types of Construction Contracts

Fixed Price Contracts

Cost Plus Contracts

Fixed Price Contracts

the price is agreed as fixed sum or a fixed rate per unit of output. In some cases, the contract may require the customer to pay additional sums to compensate the contractor against cost escalations.

Cost Plus Contracts

A cost plus contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus percentage of these costs or a fixed fee.

4. MEASUREMENT OF CONTRACT REVENUE :

Percentage Completion Method

Recognise revenue annually in proportion of progress of work to be matched with corresponding construction costs incurred in that year.

AS 7 prescribes that the percentage completion method should not be used unless it is possible to make a reasonable estimate of the final outcome of the contract.

Also, AS 7 provides that whenever total contract cost is expected to exceed the total contract revenue, the loss should be recognised as an expense immediately.

**Question 1 : X Ltd.**

X Ltd. commenced a construction contract on 01/04/24. The fixed contract price agreed was Rs 2,00, 000. The company incurred Rs 81,000 in 2024-25 for 45% work and received Rs 79,000 as progress payment from the customer. The cost incurred in 2024-25 was Rs 89,000 to complete the rest of work. Calculate the contract Revenue and profit to be recognized for both the years.

Solution :

Profit and Loss Account

Year		Rs. 000	Year		Rs. 000
20X1-X2	To Construction Costs (for 45% work)	81	20X1-X2	By Contract Price (45% of Contract Price)	90
	To Net profit (for 45% work)	9			
		90			90
20X2-X3	To Construction costs (for 55% work)	89	20X2-X3	By Contract Price (55% of Contract Price)	110
	To Net Profit (for 55% work)	21			
		110			110

Customer's Account

Year		Rs. 000	Year		Rs. 000
20X1-X2	To Contract Price	90	20X1-X2	By Bank	79
				By Balance c/d	11
		90			90
20X2-X3	To Balance b/d	11	20X2-X3	By Bank	121

	To Contract Price	110		
		121		121

AS 7 provides that the percentage completion method should not be applied if the outcome of a construction contract cannot be estimated reliably. In such cases:

- revenue should be recognised only to the extent of contract costs incurred of which recovery is probable; and
- contract costs should be recognised as an expense in the period in which they are incurred. An expected loss on the construction contract should be recognised as an expense immediately in accordance with paragraph 35.



Question 2 : XYZ Ltd.

XYZ Ltd. commenced a construction contract on 01/04/23. The contract price agreed was reimbursable cost plus 10%. The company incurred Rs 1,00,000 in 2023-24, of which Rs 90,000 is reimbursable. The further non-reimbursable costs to be incurred to complete the contract are estimated at Rs 5,000. The other costs to complete the contract could not be estimated reliably.

Solution :

Profit & Loss Account

	Rs. 000		Rs. 000
To Construction Costs	100	By Contract Price (90+9)	99
To Provision for loss	5	Net loss	6
	105		105

5. STAGE OF COMPLETION :

The stage of completion of a contract may be determined in a variety of ways.

Depending on the nature of the contract, the methods may include:

- the proportion that contract costs incurred for work performed upto the reporting date bear to the estimated total contract costs; or
- surveys of work performed; or
- completion of a physical proportion of the contract work.

Progress payments and advances received from customers may not necessarily reflect the work performed.

6. COMBINING & SEGMENTING CONSTRUCTION CONTRACTS :

A contractor may undertake a number of contracts. The standard identifies certain cases where for the purposes of accounting

(i) More than one contract can be taken as one and

(ii) a single contract can be taken as to comprise of more than one contract.

(a) When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when

separate proposals have been submitted for each asset AND

each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset AND

the costs and revenues of each asset can be identified

**Question 3 : Mr. Shyam**

Mr. Shyam, a construction contractor undertakes the construction of an industrial complex. He has separate proposals raised for each unit to be constructed in the industrial complex. Since each unit is subject to separate negotiation, he is able to identify the costs and revenues attributable to each unit. Should Mr. Shyam treat construction of each unit as a separate construction contract according to AS 7?

Solution :

As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- separate proposals have been submitted for each asset;
- each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- the costs and revenues of each asset can be identified.

Therefore, XYZ Ltd. is required to treat construction of each unit as a separate construction contract.

(b) A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when

the group of contracts is negotiated as a single package AND

the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; AND

the contracts are performed concurrently or in a continuous sequence

A contract may provide for the construction of an additional asset at the option of the customer or may be amended to include the construction of an additional asset.

The construction of the additional asset should be treated as a separate construction contract when:

(i) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or

(ii) the price of the asset is negotiated without regard to the original contract price.

7. CHANGES IN ESTIMATES :

The percentage of completion method is applied on a cumulative basis in each accounting period to the current estimates of contract revenue and contract costs.

Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate in accordance with AS 5.

The changed estimates are used in determination of the amount of revenue and expenses recognised in the statement of profit and loss in the period in which the change is made and in subsequent periods.

Question 4 : Vishwakarma Construction Co. Ltd.

On 1st December, 2024, Vishwakarma Construction Co. Ltd. undertook a contract to construct a building for Rs 85 lakhs. On 31st March, 2025, the company found that it had already spent Rs 64,99,000 on the construction. Prudent estimate of additional cost for completion was Rs 32,01,000. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2025 as per provisions of Accounting Standard 7 (Revised)?

Solution :

	Rs.
Cost incurred till 31st March, 20X2	64,99,000
Prudent estimate of additional cost for completion	<u>32,01,000</u>
Total cost of construction	97,00,000
Less: Contract price	<u>(85,00,000)</u>
Total foreseeable loss	<u>12,00,000</u>

According to AS 7, the amount of Rs. 12,00,000 is required to be recognised as an expense.

$$\text{Contract work in progress} = \frac{\text{Rs. } 64,99,000 \times 100}{97,00,000} = 67\%$$

Proportion of total contract value recognised as turnover:
= 67% of Rs. 85,00,000 = Rs. 56,95,000.

The amount of expected loss will be split as under:

Particulars	Workings	Amount
Expected Loss	97,00,000 – <u>85,00,000</u>	12,00,000
Contract revenue	67% of <u>85,00,000</u>	56,95,000
Contract cost	Given	64,99,000
Actual loss	56,95,000 – 64,99,000	8,04,000
Amount of provision required [As per Para 35]	12,00,000 – 8,04,000	3,96,000

Question 5 : Fisher Construction Co.

Fisher Construction Co. obtained a contract for construction of a commercial complex. The following details are available in records of a company for the year ended 31st March, 2023:

Particulars	Amount in lakhs
Total contract price	24000
Work certified	12500
Work not certified	2500
Estimated further cost to completion of work	17500

Progress payment received	11000
Progress payment to be received	3000

Applying the provisions of AS 7, you are required to compute:

- Profit / Loss for the year ended 31st March, 2023.
- Contract work in progress at the end of financial year 2022-2023.
- Revenue to be recognized out of the total contract value.
- Amount due from/ to customers as at the year end.

Solution :

- (Rs. in lakhs)**
- (i) Profit or Loss for the year ended 31.03.2023**
- | | |
|--|-----------------|
| Total cost of construction (12,500 + 2,500 + 17,500) | 32,500 |
| Less: Total contract price | <u>(24,000)</u> |
| Total foreseeable loss to be recognized as expense | <u>8,500</u> |
- According to AS 7, when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately.
- (Rs. in lakhs)**
- (ii) Contract work-in-progress i.e. cost incurred to date are Rs. 15,000 lakhs**
- | | |
|---|---------------|
| Work certified | 12,500 |
| Work not certified | <u>2,500</u> |
| Contract work in progress at the end of 2022-23 | <u>15,000</u> |
- (iii) Proportion of total contract value recognized as revenue:**
 For this, cost incurred till 31.03.2023 is 46.154% ($15,000/32,500 \times 100$) to total costs of construction.
 Therefore, Proportion of total contract value recognized as revenue is
 46.154% of Rs. 24,000 lakhs = Rs. 11,076.96 lakhs
 Or 46.15% (Approx.) of Rs. 24,000 lakhs = Rs. 11,076 lakhs
- (iv) Amount due from/ to customers =**
 (Contract costs + Recognised profits – Recognised Losses)
 – (Progress payments received + Progress payments to be received)
 = (15,000 + Nil – 8,500) – (11,000 + 3,000) Rs. in lakhs
 = [6,500 – 14,000] Rs. in lakhs
 Amount due to customers = Rs. 7,500 lakhs



Question 6 : Construction Contractor

A construction contractor has a fixed price contract for Rs.9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

	(Amount Rs.in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**

Estimated profit for whole contract	950	1,000	1,000
-------------------------------------	-----	-------	-------

*Includes Rs. 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes Rs. 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

Solution :

The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are computed below:

	(Amount in Rs. lakhs)		
	Up to the reporting date	Recognized in previous years	Recognized in current year
Year 1			
Revenue (9,000 x 26%)	2,340	-	2,340
Expenses (8,050 x 26%)	<u>2,093</u>	-	<u>2,093</u>
Profit	<u>247</u>	-	<u>247</u>
Year 2			
Revenue (9,200 x 74%)	6,808	2,340	4,468
Expenses (8,200 x 74%)	<u>6,068</u>	<u>2,093</u>	<u>3,975</u>
Profit	<u>740</u>	<u>247</u>	<u>493</u>
Year 3			
Revenue (9,200 x 100%)	9,200	6,808	2,392
Expenses (8,200 x 100%)	<u>8,200</u>	<u>6,068</u>	<u>2,132</u>
Profit	<u>1,000</u>	<u>740</u>	<u>260</u>

Working Note :

	Year 1	Year 2	Year 3
Revenue after considering variations	9,000	9,200	9,200
Less: Estimated profit for whole contract	950	1,000	1,000
Estimated total cost of the contract (A)	8,050	8,200	8,200
Actual cost incurred upto the reporting date (B)	2,093	6068	8200
		(6,168-100)	(8,100+100)
Degree of completion (B/A)	26%	74%	100%

Thanks



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AS 9 REVENUE RECOGNITION

CHAPTER DESIGN

1. INTRODUCTION
2. WHAT IS REVENUE?
3. REVENUE FROM SALE OF GOODS
4. REVENUE FROM RENDERING OF THE SERVICES
5. REVENUE FROM INTEREST
6. REVENUE FROM ROYALTIES
7. REVENUE FROM DIVIDEND

“Don’t ever let somebody tell you that you can’t do something.”

1. INTRODUCTION :

AS 9

is mandatory for all enterprises

The Standard is concerned with the recognition of revenue arising in the course of the ordinary activities of the enterprise from

- the sale of goods
- the rendering of services
- the use by others of enterprise resources yielding interest, royalties and dividends

2. WHAT IS REVENUE ? :

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

In simple words revenue is charge made to customers or clients for goods supplied and services rendered to them.

3. REVENUE FROM SALE OF GOODS :

Revenue from sales or service transactions should be recognised when the requirements as to performance set out in below paragraph are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection.

If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled

the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and

the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Recognition when delivery of goods sold are subject to conditions

Installation and Insepection

Revenue should be recognised when

- Goods are installed at the buyers place to his satisfaction
- Goods are inspected and accepted by the buyer

Sale or Return

Revenue should be recognised when

- Revenue should be recognised when buyer confirms his desire to buy such goods by communication

Guaranteed sales

Revenue should be recognised when

- Revenue should be recognised as per the substance of the agreement of sale or after the reasonable period has expired.

Warranty sales

Revenue should be recognised when

- Sales should be recognised immediately but the provision should be made to cover unexpired warranty.

Consignment sales

Revenue should be recognised when

Revenue should be recognised only when the goods are sold to the third party.

Special order and shipments

Revenue should be Recognised When

Revenue from such sales should be recognised when the goods are identified and ready for delivery.

Subscription for publication

Revenue should be recognised when

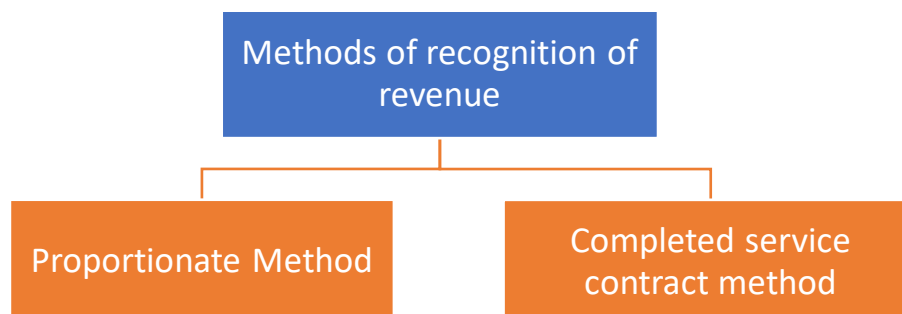
Items delivered vary in value from period to period : Revenue should be recognised on the basis of sales value of items delivered.

Items delivered do not vary in value from period to period : Revenue should be recognised on straight line basis over time.

Instalment sales

Revenue should be recognised when

Revenue of sale price excluding interest should be recognised on the date of sale. Interest should be recognised proportionately to unpaid balance.

4. REVENUE FROM RENDERING OF SERVICES :**Recognition norms for rendering of service under special conditions****Installation and Inseption**

Revenue should be recognised when

It is recognised when the installation has been completed and accepted by the clients.

Agency Commission

Revenue should be recognised when

- Advertising commission is recognised when the advertisement appears before public
- Insurance commission is recognised on the effective commencement / renewal date of the policies.

Financial Services comission

Revenue should be recognised when

- whether the service has been provided “once and for all”
- or is it on continuing basis.
- The incidence of costs relating to the service

Admission Fees

Revenue should be recognised when

- Revenue from artistic performance, banquets and other special events should be recognised when the event takes place.

Tuition Fees

Revenue should be recognised when

- Revenue should be recognised over the period of instruction

Entrance Fees

Revenue should be recognised when

- Recognition depends upon the nature of service being provided against entrance and membership fees, however entrance fees are generally capitalised and membership fees should recognised on systematic and rational basis having regards to timings and nature of service provided.

5. REVENUE FROM INTEREST :

Interest : charges for the use of cash resources or amounts due to the enterprise.

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

6. REVENUE FROM ROYALTIES :

Royalties : charges for the use of such assets as know-how, patents, trade marks and copyrights.

Revenue is recognised on an accrual basis in accordance with the terms of the relevant agreement.

7. REVENUE FROM DIVIDENDS :

Dividends : rewards from the holding of investments in shares.

Revenue is recognised when the owner's right to receive payment is established.

**Question 1 : The Board of Directors**

The Board of Directors decided on 31.3.2017 to increase the sale price of certain items retrospectively from 1st January, 2017. In view of this price revision with effect from 1st January 2017, the company has to receive Rs 15 lakhs from its customers in respect of sales made from 1st January, 2017 to 31st March, 2017. Accountant cannot make up his mind whether to include Rs 15 lakhs in the sales for 2016-2017. Advise.

Solution :

Price revision was effected during the current accounting period 2016-2017. As a result, the company stands to receive Rs. 15 lakhs from its customers in respect of sales made from 1st January, 2017 to 31st March, 2017. If the company is able to assess the ultimate collection with reasonable certainty, only then additional revenue arising out of the said price revision may be recognized in 2016-2017.

If the company is not reasonably certain on ultimate collection Rs. 15 lakhs from its customers in respect of sales made from 1st January, 2017 to 31st March, 2017, it shall postpone recognition of revenue and disclose it in financial statements for year 2016-2017 as per AS 1.

**Question 2 : Y Ltd.**

Y Ltd., used certain resources of X Ltd. In return X Ltd. received Rs 10 lakhs and Rs 15 lakhs as interest and royalties respective from Y Ltd. during the year 2016-17. You are required to state whether and on what basis these revenues can be recognised by X Ltd.

Solution :

As per AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognized when no significant uncertainty as to measurability or collectability exists. These revenues are recognized on the following bases:

- (i) Interest: on a time proportion basis taking into account the amount outstanding and the rate applicable. Therefore X Ltd. should recognize interest revenue of Rs.10 Lakhs
- (ii) Royalties: on an accrual basis in accordance with the terms of the relevant agreement. X Ltd. therefore should recognize royalty revenue of Rs.15 Lakhs.

**Question 3 :**

A claim lodged with the Railways in March, 2015 for loss of goods of Rs 2,00,000 had been passed for payment in March, 2017 for Rs 1,50,000. No entry was passed in the books of the Company, when the claim was lodged. Advise P Co. Ltd. about the treatment of the following in the Final Statement of Accounts for the year ended 31st March, 2017.

Solution :

AS 9 on 'Revenue Recognition' states that where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is certain to be collected. In this case it may be assumed that collectability of claim was not certain in the earlier periods. This is supposed from the fact that only Rs. 1,50,000 were collected against a claim of Rs. 2,00,000. So this transaction can not be taken as a Prior Period Item.

Hence receipt of Rs. 1,50,000 shall be recognized as revenue in year ended 31st March, 2017.

In the light of AS 5, it will not be treated as extraordinary item. However, AS 5 states that when items of income and expense within profit or loss from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Accordingly, the nature and amount of this item should be disclosed separately.

**Question 4 : A Ltd.**

A Ltd. Entered into a contract with B Ltd. To dispatch goods valuing Rs. 25,000 every month for 4 months upon receipt of entire payment. B Ltd accordingly made the payment of Rs. 1,00,000 and A Ltd. Requested A Ltd. Not to dispatch goods until further notice through A Ltd. Is holding the remaining goods worth Rs. 50,000 ready for dispatch. A Ltd. Accounted Rs. 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

Solution :

As per para 11 of AS 9 “Revenue Recognition”, in a transaction involving the sale of goods, performance should be regarded as being achieved when following conditions are fulfilled:

- a) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks & rewards of ownership have been transferred to buyer & seller retains no effective control of the goods transferred to a degree usually associated with ownership
- b) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer’s request. A Ltd. should recognize the entire sale of Rs.1,00,000 (Rs.25,000 x 4) and no part of the same is to be treated as Advance Receipt against Sales.



Question 5 : Rainbow Ltd.

Given the following information of Rainbow Ltd. :

- (i) On 15th November, goods worth Rs.5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.
- (ii) On 31st March, goods worth Rs.2,40,000 were sold to Bright Ltd. but due to refurbishing of their show-room being underway, on their request, goods were delivered on 10th April.
- (iii) Rainbow Ltd. supplied goods worth Rs.6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April.
- (iv) Dew Ltd. used certain assets of Rainbow Ltd. Rainbow Ltd. received Rs.7.5 lakhs and Rs.12 lakhs as interest and royalties respectively from Dew Ltd. during the year 2020-21.
- (v) On 25th December goods of Rs.4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year end on 31st March.

In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9.

Solution :

- (i) As per AS 9 “Revenue Recognition”, in case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should

be recognized for the total sales amounting Rs. 5,00,000 as the time period for rejecting the goods had expired.

- (ii) The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of Rs. 2,40,000 for the year ended 31st March.
- (iii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date, such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue. Hence no revenue to be recognized in the given case.
- (iv) Revenue arising from the use by others of enterprise resources yielding interest and royalty should be recognized when no significant uncertainty as to measurability or collectability exists. The interest should be recognized on time proportion basis taking into account the amount outstanding and rate applicable. The royalty should be recognized on accrual basis in accordance with the terms of relevant agreement.
- (v) 40% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 2,40,000 (60% of Rs. 4,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Thanks



11

AS 11 THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

CHAPTER DESIGN

1. INTRODUCTION
2. ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS
 - (A) INITIAL RECOGNITION
 - (B) SUBSEQUENT MEASUREMENT
3. FOREIGN CURRENCY OPERATIONS
 - (A) INTEGRAL OR NON-INTEGRAL OPERATIONS
 - (B) INTEGRAL OPERATIONS
 - (C) NON-INTEGRAL OPERATIONS
4. FORWARD EXCHANGE CONTRACT

“I don’t play the odds. I play the man.”

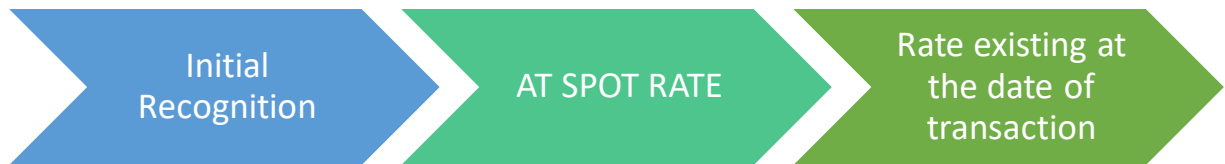
1. INTRODUCTION :



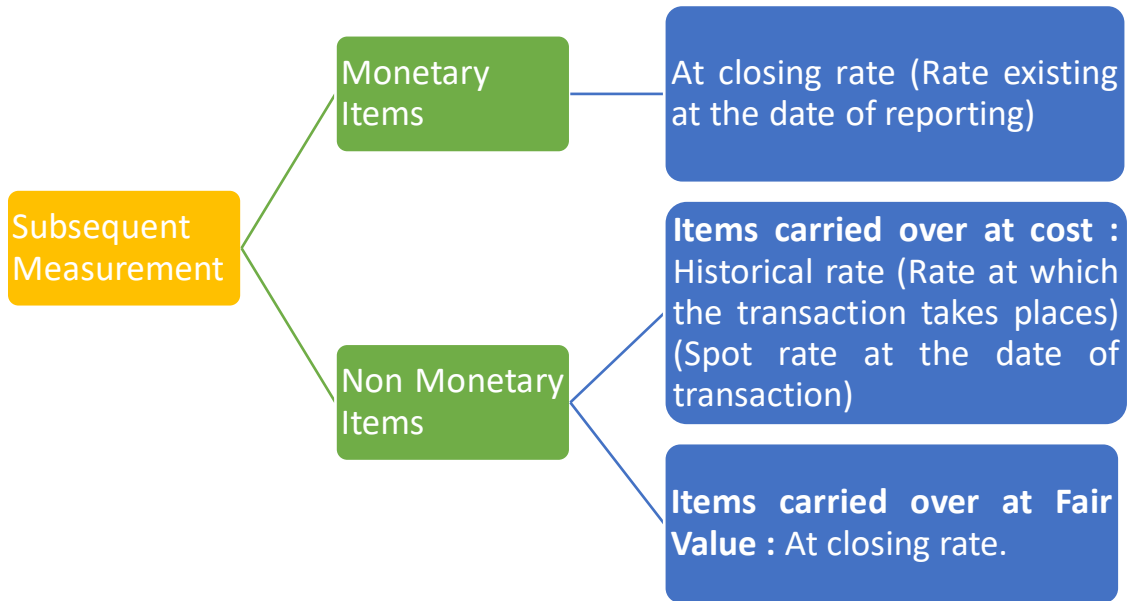
The Standard deals with the issues involved in accounting for foreign currency transactions and foreign operations i.e. to decide which exchange rate to use and how to recognize the financial effects of changes in exchange rates in the financial statements.

2. ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS :

(A) Initial Recognition :



(B) Subsequent Measurement :



Monetary items	are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. For example, cash, receivables and payables.
Non-monetary items	are assets and liabilities other than monetary items. For example, fixed assets, inventories and investments in equity shares.

**Question 1 : ABC Ltd.**

ABC Ltd. borrowed US \$ 5,00,000 on 01/01/2024, which was repaid as on 31/07/2024. ABC Ltd. prepares financial statement ending on 31/03/2024. Rate of Exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

1/1/2024	1 US\$ =	Rs.68.50
31/03/2024	1 US \$ =	Rs.69.50
31/07/2024	1 US \$ =	Rs.70.00

You are required to pass necessary journal entries in the books of ABC Ltd. as per AS 11.

Solution :

As per AS 11 “The Effects of Changes in Foreign Exchange Rates”,

Journal

Date	Particulars		Rs. (Dr.)	Rs. (Cr.)
Jan. 01, 2024	Bank Account	Dr.	342,50,000	
	To Foreign Loan Account (5,00,000 x 68.50)			342,50,000
Mar. 31, 2024	Foreign Exchange Difference Account	Dr.	5,00,000	
	To Foreign Loan Account [5,00,000 x (69.50-68.50)]			5,00,000
Jul. 31, 2024	Foreign Exchange Difference Account	Dr.	2,50,000	
	To Foreign Loan Account [5,00,000 x (70-69.5)]			2,50,000
Jul. 31, 2024	Foreign Loan Account	Dr.	3,50,00,000	
	To Bank Account (5,00,000 × 70)			3,50,00,000

**Question 2 : A company**

A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2022, when the exchange rate was Rs. 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, 2022 when the exchange rate was Rs. 47 per US Dollar. However, on 31st March, 2022, the rate of exchange was Rs. 48 per US Dollar. The company passed an entry on 31st March, 2022 adjusting the cost of raw materials consumed for the difference between Rs. 47 and Rs. 43 per US Dollar.

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

Solution :

As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Trade payables is a monetary item, hence should be valued at the closing rate i.e, Rs. 48 at 31st March, 2022 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of Rs. 5 (Rs. 48-Rs. 43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2022 and is not to be adjusted against the cost of raw materials. In the subsequent year, the company would record an exchange gain of Rs. 1 per US dollar, i.e., the difference between Rs. 48 and Rs. 47 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.



Question 3 : A Ltd.

On 30th January, 20X1, A Ltd. purchased a machinery for \$5,000 from USA supplier on credit basis. A's Ltd. functional currency is the Rupee. The exchange rate on the date of transaction is 1\$= Rs.60. The fair value of the machinery determined on 31st March, 20X1 is \$ 5,500. The exchange rate on 31st March, 20X1 is 1\$= Rs.65. The payment to overseas supplier done on 31st March 20X2 and the exchange rate on 31st March 20X2 is 1\$= Rs.67. The fair value of the machinery remain unchanged for the year ended on 31st March 20X2. Prepare the Journal entries for the year ended on 31st March 20X1 and year 20X2 according to Ind AS 11.

Solution :

Journal Entries

Purchase of Machinery on credit basis on 30th January 20X1:

		Rs.	Rs.
Machinery A/c (5,000 x \$60)	Dr.	3,00,000	
To Creditors			3,00,000
(Initial transaction will be recorded at exchange rate on the date of transaction)			

Exchange difference arising on translating monetary item on 31st March 20X1:

		Rs.	Rs.
Machinery A/c [(5,500 x \$65) – (5,000 x \$60)]	Dr.	57,500	
To Profit & Loss A/c (Exchange Profit & Loss)			57,500
Profit & Loss A/c [(5,000 x \$65) – (5,000 x \$60)]	Dr.	25,000	
To Creditors			20,000

Exchange difference arising on translating monetary item and settlement of creditors on 31st March 20X2:

		Rs.	Rs.
Creditors A/c (5,000 x \$65)	Dr.	3,25,000	
Profit & Loss A/c [(5,000 x (\$67 – \$ 65))	Dr.	10,000	57,500
To Bank A/c			3,35,000
Machinery A/c [(5,500*(\$67 – \$65))]	Dr.	11,000	
To Profit & Loss A/c			11,000

3. FOREIGN CURRENCY OPERATIONS :

- (A) **Foreign Operation** : is a subsidiary, associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.
- (B) **Integral Foreign Operation** : is a foreign operation, the activities of which are an integral part of those of the reporting enterprise. A foreign operation that is integral to the operations of the reporting enterprise carries on its business as if it were an extension of the reporting enterprise's operations.
- (C) **Non Integral Foreign Operation** : is a foreign operation that is not an integral foreign operation.

Transitional

Items	Integral	Non Integral
Assets	Date of Purchase / Closing Rate	closing rate
Liabilities	Date of Transaction	closing rate
Incomes	dates of the transactions / Average Rate	dates of the transactions / Average Rate
Expenses	dates of the transactions / Average Rate	dates of the transactions / Average Rate
Difference	foreign currency fluctuation Account to be transferred to P & L	foreign currency translation reserve

4. FORWARD EXCHANGE CONTRACT :

Forward Exchange Contract	Means an agreement to exchange different currencies at a forward rate.
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Forward Rate	Is the specified exchange rate for exchange of two currencies at a specified future date. 'Foreign currency' is a currency other than the reporting currency of an enterprise.
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- (a) **For Hedge :** A forward exchange contract, which is not intended for trading or speculation purposes, exchange difference should be calculated as difference between Spot Rate and Forward Rate, and should be amortised as expense or income over the life of the contract.
- (b) **For Specification :** In recording a forward exchange contract intended for trading or speculation purposes, the difference should be calculated between rate on the date of re-measurement and Forward Rate and gain / loss is recognised in P & L.



Question 4 : RM Limited

RM Limited purchased a Machine for US \$ 20,000 on 31st December, 2024 payable after four months. It entered into a forward contract for four months @ Rs.78.85 per US \$. On 31st December, 2024, the exchange rate was Rs.77.50 per US \$.

How will you recognized the Profits or Loss on Forward Contract for the year ended 31st March, 2025 in the books of RM Limited?

Solution :

	Rs.
Forward Rate	78.85
Less: Spot Rate	(77.50)
Premium on Contract	1.35
Contract Amount	US\$ 20,000
Total Loss (20,000 x 1.35)	Rs.27,000
Contract period 4 months (3 months falling in the year ended 31st March, 2025)	
Loss to be recognized (Rs.27,000x 3/4) = Rs. 20,250 in the year ended 31st March, 2025.	



Question 5 : Mr. A

Mr. A bought a forward contract for three months of US\$ 1,00,000 on 1st December at 1 US\$ = Rs.47.10 when exchange rate was US\$ 1 = Rs.47.02. On 31st December when he closed his books exchange rate was US\$ 1 = Rs.47.15. On 31st January, he decided to sell the contract at Rs.47.18 per dollar. Show how the profits from contract will be recognized in the books.

Solution :

Since the forward contract was for speculation purpose the premium on contract i.e. the difference between the spot rate and contract rate will not be recorded in the books. Only when the contract is sold the difference between the contract rate and sale rate will be recorded in the Profit & Loss Account.

Sale Rate	Rs. 47.18
Less: Contract Rate	<u>(Rs. 47.10)</u>
Premium on Contract	<u>Rs. 0.08</u>
Contract Amount	US\$ 1,00,000
Total Profit (1,00,000 x 0.08)	Rs. 8,000

Thanks

