SUGGESTED SOLUTION

CA FINAL NOVEMBER 2018 EXAM

SUBJECT- FINANCIAL REPORTING

Test Code – FNJ 7016 O

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

Answer 1:

(A)

Statement showing calculation of Deferred Tax Asset (DTA) and Deferred Tax Liability (DTL)

S. No.	Particulars	Amount of difference	Nature of difference	DTA @ 35 %	DTL @ 35 %
		Rs.		Rs.	Rs.
(i)	Excess allowable depreciation as per income-tax law	1,22,500	Timing	-	42,875
(ii)	Provision for doubtful debts - disallowed as per income-tax law in the current year but reversible in future years.	54,300	Timing	19,005	-
(iii)	Share issue expenses charged in the accounting books but allowed as deduction in the income-tax law from the next year	6,23,500	Timing	2,18,225	-
(iv)	Disallowed expenses as per income tax law	7,84,500	Permanent	-	-
(v)	Donation debited to Profit & Loss Account				
	Allowed as per income tax	1,00,000	No difference	-	-
	Disallowed as per income tax	1,00,000	Permanent	-	-
				2,37,230	42,875

(B)

Mere gradual phasing is not considered as discontinuing operation as defined under para 3 of AS 24, 'Discontinuing Operation'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

(1) Gradual or evolutionary phasing out of a product line or class of service.

(2) Shifting of some production or marketing activities for a particular line of business from one location to another and

(3) Closing of a facility to achieve productivity improvements or other cost savings.

A Reportable business segment or geographical segment as defined in AS 17, would normally satisfy criteria (b) of the definition. However, other criterias would not be satisfied.

Hence, in view of the above the answers are:

(i) No. The companys' strategic plan has no final approval from the board through a resolution and no specific time bound activities like shifting of Assets and employees and above all the new segment commercial vehicle production line and factory has started.

(ii) No. The resolution is salient about stoppage of the Car segment in definite time period. Though, some assets sales and transfer proposal was passed through a resolution to the new factory, closure road map and new segment starting road map is missing. Hence, AS 24 will not be applicable.

(iii) Yes. Phased and time bound programme resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and clear road map. Hence, this action will attract AS 24 compliances.

(C)

Treatment of given items

- As per para 35 and 36 of AS 26 'Intangible Assets', internally generated goodwill should not be recognised as an asset since it is **not an identifiable resource controlled by the enterprise** that can be measured reliably at cost.

  In the given situation, the company has valued its goodwill which will be considered as internally generated since it is on account of differences between the market value of an enterprise and the carrying amount of its identifiable net assets at any point in time may be due to a range of factors that affect the value of the enterprise. However, such differences cannot be considered to represent the cost of intangible assets controlled by the enterprise. Therefore, the same shall not be recorded in the books. Thus raising goodwill by giving corresponding credit to Reserve is incorrect.

- As per para 12 of AS 10 'Property, Plant and Equipment', an enterprise does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in the statement of profit and loss as incurred. The purpose of such expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment. Therefore, only expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value e.g., an increase in capacity. The cost of an addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is usually added to its gross book value. Any other expenses incurred, **though substantial**, on machine towards its repairs and maintenance should not be capitalized but charged to profit and loss account since it does not increase capacity.

- As per para 21 of the AS 10, recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. It further illustrates that costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity; are not included in the carrying amount of an item of property, plant and equipment. Accordingly, the administrative cost incurred during the period does not help to bring the asset to bring in to the location and condition necessary for it to be capable of operating in the manner intended by management. Hence Rs. 10 lakhs shall not be capitalised.

(D)

As per paragraph 13 of AS 18 'Related Party Disclosures', Enterprises over which a key management personnel is able to exercise significant influence are related parties. This includes enterprises owned by directors or major shareholders of the reporting enterprise that have a member of key management in common with the reporting enterprise.

In the given case, Mountain Ltd. and Hill Ltd are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price.

Hence the contention of Chief Accountant of Mountain Ltd is wrong.

(E)

As per para 10 of AS 12 'Accounting for Government Grants', where the government grants are of the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof , the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue. Thus, it is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to capital reserve. Therefore, t he accounting treatment followed by the company is not proper.

Answer 2:

Consolidated Balance Sheet as on 31.3.2017

Particulars	Note No.	Rs. in lakhs
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		400
(b) Reserves and Surplus		756
(2) Minority Interest		60
(3) Current Liabilities (200 + 200 + 200)		600
Total		1,816
II. Assets		
(1) Non-current assets		
Fixed assets		
Intangible assets	1	16
(2) Current assets	2	1,800
Total		1,816

Notes to Accounts

		Rs. in lakhs
1.	**Intangible Assets**	
	Goodwill (after amortisation) (W.N. 1(c))	16
2.	**Current assets**	
	Other Assets (700 + 600 + 500)	1,800

Consolidated Balance Sheet as on 31.3.2018

Particulars	Note No.	Rs. in lakhs
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		400
(b) Reserves and Surplus		1,026
(2) Current Liabilities (250 + 280)		530
Total		1,956
II. Assets		
(1) Non-current assets		
Non-current investment	1	156
(2) Current assets		1,800
Total		1,956

Notes to Accounts

		Rs. in lakhs
1.	Non-current investment Carrying amount of Investment in Associate – C Ltd. [W.N.2(a)]128 (Identified goodwill included in the above Rs. 8 lakhs) [W.N.2(b)] *Add:* Increase in reserves and surplus during the year (280-200) x 40% 32 *Less:* Goodwill written off in the fourth year Rs. 8 lakhs x ½ (4)	156

Working Notes:

1. For Consolidated Balance Sheet as on 31.3.2017

(a) Analysis of Profits

	B Ltd.		C Ltd.	
	Pre-acquisition	**Post-acquisition**	**Pre-acquisition**	**Post-acquisition**
		Rs. in lakhs	**Rs. in lakhs**	**Rs. in lakhs**
Reserves and Surplus		300	100	100
A Ltd.		300	80	80
Minority Interest		-	20	20

(b) Minority Interest

	C Ltd.
	Rs. in lakhs
Share Capital (20%)	20
Reserves and Surplus	
Pre-acquisition (W.N. 1(a))	20
Post-acquisition (W.N. 1(a))	20
	60

(c) Cost of Control

	B Ltd.	C Ltd.
	Rs. in lakhs	**Rs. in lakhs**
Investment by A Ltd.	100	200
Less: Share capital (80%)	(100)	(80)
Capital profit (pre-acquisition) (W.N. 1(a))	-	(80)
Goodwill		40
Less: Amortization for 3 years [(40/5) x 3]		(24)
Carrying value of goodwill after 3 years		16

(d) Consolidated Reserves and Surplus

	Rs. in lakhs
Balance of A Ltd. as on 31.3.2017	400
Post-acquisition reserves and surplus of B Ltd. (W.N. 1(a))	300

Post-acquisition reserves and surplus of C Ltd. (W.N. 1(a))	80
	780
Less: Amortisation of goodwill	(24)
	756

2. For Consolidated Balance Sheet as on 31.3.2018

C Ltd. became a subsidiary of A Ltd. on 1st April 2014 when 80% thereof was acquired. The holding – subsidiary relationship continued till 31st March, 2017 and from 1st April, 2017 the relationship between the two companies changed to Associate. As per para 24 of AS 21, "Consolidated Financial Statements", the carrying value of the investment at the date it ceases to be subsidiary is regarded as cost thereafter.

Accordingly, if the nature of the investee changes to that of an associate, the carrying amount of the investment in Consolidated Financial Statements of the investor, as on date it ceases to be a subsidiary, would be considered as cost of investment in the associate. Goodwill or capital reserve arising on account of the change in the nature of the investment will be computed as on the date of such change.

(a) Ascertainment of carrying value of investment in C Ltd. disposed off and retained

	Rs. in lakhs
Net Assets of C Ltd. on the date of disposal	300
(Total assets of Rs. 500 lakhs - Total liabilities of Rs. 200 lakhs)	
Less: Minority's interest in C Ltd. on the date of disposal (20%)	(60)
Share of A Ltd. in Net Assets	240
Add: Carrying value of Goodwill (Refer W.N.1(c))	16
Total value of investment in consolidated financial statements of A Ltd.	256
Less: Carrying value of investment disposed off (Rs. 256 lakhs x 40,000/80,000)	(128)
Carrying value of investment retained	128

(b) Goodwill arising on the carrying value of unsold portion of the Investment

	Rs. in lakhs
Carrying value of retained 40% holdings in C Ltd. as on 1st April, 2017	128
Less: Share in value of equity of C Ltd., as at date of investment when its subsidiary relationship is transformed to an associate (300 x 40%)	

	(120)
Goodwill arising on such investment under Equity method as per AS 23	(8)

(c) **Consolidated Reserves and Surplus**

	Rs. in lakhs
Balance of reserves and surplus of A Ltd. as on 31.3.2018	550
Add: Post-acquisition reserves and surplus of B Ltd. (subsidiary)	420
Profit accumulated over the years on investment of A Ltd. (128-100)	28
Post-acquisition reserves and surplus of C Ltd. (280-200) x 40%	32
Less: Goodwill amortised for the period	(4)
	1,026

Note: As sale of part investment took place on 1^{st} April, 2017; therefore, it is not accounted again in the consolidated balance sheet assuming that the profit of A Ltd. includes the profit on sale of such investments.

Answer 3:

(a) **Projected Profit and Loss Account of EF Ltd. for the period ending 31^{st} March, 2018**

Particulars	**Rs.**
Total Revenue	
Dividend Income [50,000 + 17,600]	67,600
Interest Income	11,250
	78,850
Less: Expenses	
Finance Costs (Interest on Bank Overdraft)	(1,600)
Other Expenses [Directors Fee (7,500) + Administrative Expenses (16,000) + Preliminary expenses (8,000)]	(31,500)
Profit before tax	45,750

(b) **Projected Balance Sheet of EF Ltd. as on 31st March, 2018**

	Particulars	***Note No.***	***(Rs.)***
I.	Equity and Liabilities		
	(1) Shareholders' Funds		

	(a) Share Capital	1	15,70,000
	(b) Reserves and Surplus	2	3,49,450
	(2) Non-Current Liabilities		
	(3) Current Liabilities		
	(a) Other Current Liabilities	3	23,500
	Total		19,42,950
II.	Assets		
	(1) Non-Current Assets		
	Non-Current Investments	4	14,34,000
	(2) Current Assets		
	(a) Cash and Cash Equivalents (W.N.1)		58,950
	(b) Other Current Assets		4,50,000
	Total		19,42,950

Notes to Accounts:

	Particulars		(Rs.)
1.	**Share Capital**		
	Authorised share capital		
	4,00,000 Equity shares of Rs. 10 each		40,00,000
	Issued share capital		
	1,57,000 Equity Shares of Rs. 10 each		15,70,000
	(Of the above 1,19,500 shares were issued for consideration other than cash)		
2.	**Reserves and Surplus**		
	Securities Premium [2,39,000 + 1,12,500]		3,51,500
	Profit & Loss Account	45,750	
	Less: Interim dividend (Rs. 11,95,000 x 4%)	(47,800)	(2,050)
			3,49,450
3.	**Other Current Liabilities**		
	Bank Overdraft	16,000	
	Directors Fee	7,500	23,500
4.	**Non-current investment**		
	Investment in shares of AB Ltd. @ Rs.12	10,50,000	
	Investment in shares of CD Ltd. @ Rs.12	3,84,000	14,34,000

(c) Computation of Number of Shares to be issued to former shareholders

Particulars	AB Ltd.	CD Ltd.
	Rs.	Rs.
Future Maintainable EBIT	2,30,000	1,12,000
Less: Interest on Debentures	(20,000)	-

	2,10,000	1,1,2,000
Less: Income tax @ 50%	(1,05,000)	(56,000)
Profit after tax	1,05,000	56,000
Less: Preference Dividend	-	(8,000)
Profit to Equity Shareholders	1,05,000	48,000
PE Ratio	10	8
Capitalised Earning	10,50,000	3,84,000
Number of shares to be exchanged in EF Ltd.		
@ Rs. 12 (including Premium of Rs. 2 each)	87,500	32,000

Working Note:

Bank Account

Particulars	Rs.	Particulars	Rs.
To Equity Share Capital A/c	3,75,000	By Preliminary Expenses	8,000
To Securities Premium A/c	1,12,500	By Interest on Bank Overdraft	1,600
To Dividends from AB Ltd.	50,000	By Advance to AB Ltd.	2,50,000
To Dividends from CD Ltd.	17,600	By Advance to CD Ltd.	2,00,000
To Interest Income	11,250	By Interim Dividend	47,800
		By Balance c/d (Bal. fig.)	58,950
	5,66,350		5,66,350

Answer 4:

(A)

Employee Compensation Account

Year		Rs.	Year		Rs.
2015-16	To Provision for Liability (W.N. 3)	1,27,200	2015-16	By Profit & Loss A/c	1,27,200
2016-17	To Provision for Liability (W.N. 3)	1,52,633	2016-17	By Profit & Loss A/c	1,52,633
2017-18	To Provision for Liability (W.N. 3)	2,02,867	2017-18	By Profit & Loss A/c	2,02,867

Provision for Liability Component Account

Year		Rs.	Year		Rs.
2015-16	To Balance c/d	1,27,200	2015-16	By Employees Compensation A/c	1,27,200
		1,27,200			1,27,200
2016-17	To Balance c/d	2,79,833	2016-17	By Balance c/d	1,27,200
				By Employees Compensation A/c	1,52,633
		2,79,833			2,79,833
2017-18	To Balance c/d	4,82,700	2017-18	By Balance c/d	2,79,833
				By Employees compensation A/c	2,02,867
		4,82,700			4,82,700

If Employee opts for Cash settlement

Provision for Liability Component Account

Year	Particulars	Rs.	Year	Particulars	Rs.
2018-19	To Bank (5000 x Rs. 96.54)	4,82,700	2018-19	By Balance c/d	4,82,700

If employee opts for Equity Settlement

Provision for Liability Component Account

Year	Particulars	Rs.	Year	Particulars	Rs.
2018-19	To ESOP outstanding A/c	4,82,700	2018-19	By Balance c/d	4,82,700

ESOP Outstanding Account

Year		Rs.	Year		Rs.
2018-19	To Equity Share Capital A/c (6,000 x Rs. 10)	60,000	2018-19	By Provision for Liability Component A/c	4,82,700
	To Securities Premium A/c	12,86,700		By Bank (6,000 x Rs. 144)	8,64,000
		13,46,700			13,46,700

Working Notes:

3. Computation of Fair values

Fair value of shares subject to lock in as on 1st April, 2015	Rs. 60
% of increase in Fair Value of shares not subject to lock in	20%
Fair Value as on 1st April, 2015 of shares not subject to lock in (60 x 120%)	Rs. 72
% increase over previous value in respect of Fair Value on 31.03.2016	6%
Fair Value of Shares not subject to lock in restriction on 31.03.2016 (72 x 106%)	Rs. 76.32
% increase over previous value in respect of Fair Value on 31.03.2017	10%
Fair Value of Shares not subject to lock in restriction on 31.03.2017 (76.32 x 110%)	Rs. 83.95
@ increase over previous value in respect of Fair Value on 31.03.2018	15%
Fair Value of Shares not subject to lock in restriction on 31.03.2018 (83.95 x 115%)	Rs. 96.54

4. Expense to be recognized in respect of Equity Component

Fair Value under Equity Settlement Option (6,000 x Rs. 60)	3,60,000
Less: Fair Value under Cash Settlement (Liability Component) option (5,000 x Rs. 72)	(3,60,000)
Equity Component	Nil
Expenses to be recognized each year for Equity Component	Nil

5. Expenses to be recognized for Liability Component

	2015-16	2016-17	2017-18
Number of Shares (A)	5000	5000	5000
Fair Value at the end of each year (B)	76.32	83.95	96.54

Fair Value of Liability Component (Ax B)	3,81,600	4,19,750	4,82,700
Expenses to be recognized*	1,27,200	1,52,633	2,02,867

*Expenses to be recognized each year has been calculated on the basis:

$$\frac{Fair\ Value\ \ x\ \ No.of\ years\ Expired}{Vesting\ Period}$$ **x Expenditure recognized till previous year**

(B)

Synergy Ltd.

Value Added Statement for the year ended 31st March, 2018

	Rs. ('000)	Rs. ('000)	%
Turnover		29,872	
Less: Cost of bought in materials and services:			
Operating expenses (26,741 –14,761)	11,980		
GST	1,952		
Interest on Cash Credit	151	14,083	
Value added by manufacturing and trading activities		15,789	
Add: Other income		1,042	
Total value added		16,831	
Application of value added:			
To Pay to employees:			
Salaries, wages and other employee benefits		14,761	87.70
To Pay to Government:			
Corporation tax (376 – 54)		322	1.91
To Pay to providers of capital:			
Interest on 8% Debentures	987		
Dividends	125	1,112	6.61
To Provide for maintenance and expansion of the company:			
Depreciation	342		
Fixed Assets Replacement Reserve	65		
Deferred Tax Account	54		
Retained Profit	175	636	3.78
		16,831	100

Note: Deferred tax account could alternatively be shown as an item 'To pay to government'.

Reconciliation between total value added and profit before taxation

	Rs. ('000)	Rs. ('000)
Profit before tax		741
Add back: Depreciation	342	
Wages, salaries and other benefits	14,761	
Debenture interest	987	16,090

Total Value Added		16,831

Answer 5:

Calculation of value per share on yield basis (Earnings Capitalisation Method)

Particulars	
Earnings available to equity shareholders (W.N.1)	Rs. 1,01,040
Normal Rate of Return (W.N.3)	14.25%
Value of business	Rs. 7,09,053
Number of equity shares outstanding	50,000
Value per share	**14.18**

Working Notes:

1. Computation of FMP available for distribution

a. Weighted average profits

Year	Profit before tax	Weight	Product
2013-14	1,80,000	1	1,80,000
2014-15	2,50,000	2	5,00,000
2016-17	3,00,000	3	9,00,000
2017-18	3,50,000	4	14,00,000
		10	**29,80,000**

Note: Profit of the year 2015-16 has not been considered, because it is a year of strike (Abnormal operation).

	Rs.
Weighted average profit = 29,80,000 / 10	2,98,000
Less: Increase in managerial remuneration	(25,000)
PBT	2,73,000
Tax @ 40%	(1,09,200)
PAT	1,63,800
Less: Provision for replacement of fixed assets (Rs. 1,63,800 x 20%)	(32,760)
	1,31,040
Less: Dividend for preference shares (Rs. 2,50,000 x 12%)	(30,000)
Earnings available for distribution	1,01,040

2. Ascertainment of NRR criteria as applicable to Suvarn Ltd.

(A) Asset backing:

Particulars		**Rs.**
Total assets as per balance sheet		14,20,000
Add: Increase in the value of building	1,50,000	
Increase in the value of plant & machinery	2,00,000	3,50,000
Total		17,70,000
Less: Outside liabilities and preference share capital		
i. Sundry creditors	1,50,000	
ii. 15% debentures	1,20,000	
iii. 12% Preference share capital	2,50,000	(5,20,000)
Assets backing for equity share capital (a-b)		12,50,000
Equity share capital		5,00,000
Asset backing		2.5 times

(B) Dividend Rates:

Dividend rates have been fluctuating in the industry while Suvarn Ltd. has constant dividend rates.

3. Computation of adjusted Normal Rate of Return as applicable to Suvarn Ltd.

Particulars	**Asset backing**	**Dividend rates**
Industry standard	2 times	fluctuating
Suvarn Ltd.	2.5 times	constant
Degree of Variance from standard	+25%	N.A.
Impact on risk & consequent adjustment to NRR	↓	↓
Quantum of Adjustment to NRR (assuming 100% variance=1% change)	-0.25%	-0.50% (say)

Adjusted NRR = 15%-0.25%-0.50%=14.25%.

Answer 6:

(A)

Computation of Debt Component of Convertible Debentures as on 1.4.2017

Particulars	**Rs.**
Present value of the principal repayable after four years [50,00,000 x 50%× 1.10 × 0.68 (10% Discount factor)] (a)	18,70,000
Present value of interest [3,00,000 x 3.17 (4 years cumulative 10% discount factor)] (b) Total present value of debt component (I) (a + b) Issue proceeds from convertible debenture (II) Value of equity component (II – I)	9,51,000 28,21,00 0 50,00,000 21,79,000

Journal entry at initial recognition

	Dr. (Rs.)	Cr. (Rs.)
Cash / Bank A/c Dr.	50,00,000	
To 6% Debenture (Liability component) A/c		28,21,000
To 6% Debenture (Equity component) A/c		21,79,000
(Being the disbursement recorded at fair value)		

(B)

Calculation of NAV of a Mutual Fund Scheme

Units as at the end of the year		**Units in Crores**
Number of units at the beginning of the year		1.00
Add: Units issued during the year		0.20
Units as at end of the year		1.20
Net Asset Value of the scheme		**Rs. in crores**
Market value of Investments	(50% of Rs. 10 crores) x 80%	4.00
	10% x Rs. 10 crores - (10% below cost)	0.90
	Balance Investment at Market Price	13.60
Total Market Value		18.50
Less: Mutual fund scheme liabilities		(1.00)
Net asset value of the scheme		17.50
NAV per Unit= B/A=	Rs. 17.50 crore/1.2 crore	Rs. 14.58

Answer 7:

(A)

IAS 1 requires that in case of a loan liability, if any condition of the loan agreement which was classified as non-current is breached on the reporting date, such loan liability should be classified as current , even if the breach is rectified after the balance sheet date.

Carve Out: Ind AS 1 clarifies that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

Reason: Under Indian banking system, a long-term loan agreement generally contains a large number of conditions. Some of these conditions are substantive, such as, recalling the loan in case interest is not paid, and some conditions are procedural and not substantive, such as, submission of insurance details where the entity has taken the insurance but not submitted the details to the lender at the end of the reporting period. Generally, customer-banker relationships are developed whereby in case of any procedural breach, a loan is generally not recalled. Also, in many cases, a breach is rectified after the balance sheet date and before the approval of financial statements. Carve out has been made as it is felt that if the breach is rectified after the balance sheet date and before the approval of the financial statements, it would be appropriate that the users are informed about the true nature of liabilities being non-current liabilities and not current liabilities.

(B)

With the introduction of AS 26 'Intangible Assets', the concept of deferred revenue expenditure no longer prevails except in respect of a very few items, such as ancillary costs on borrowings, shares issue expenses etc. AS 26 does not permit the capitalization of expenses incurred on advertising or brand promotion, etc. Thus, the accounting treatment by the company of debiting the entire advertising expenditure of Rs.2 crore to the P & L account of the year is correct.

(C)

As per AS 11 (revised), monetary items denominated in a foreign currency should be reported using the closing rate. The effect of exchange difference should be taken into profit and loss account. Sundry creditors is a monetary item hence should be valued at the closing rate i.e. Rs. 68 at 31st March, 2018 irrespective of the payment for the same subsequently at lower rate. The difference of Rs. 5 (68 - 63) per US dollar should be shown as an exchange loss in the profit and loss account and is not to be adjusted against the cost of raw materials. In the subsequent year, the company would record an exchange gain of Re. 1 per US dollar, i.e., the difference between Rs. 68 and Rs. 67 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

(D)

As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs.13 lakhs in the books.

(ii) The carrying / book value of the long term investment is same as cost i.e. Rs. 14 lakhs. Hence this long term investment will be reclassified as current investment at book value of Rs. 14 lakhs only.

(iii) In this case, reclassification of current investment into long-term investments will be made at Rs. 20 lakhs as cost is less than its market value of Rs. 24 lakhs.

In this case, market value is Rs. 28 lakhs which is lower than the cost of Rs. 30 lakhs. The reclassification of current investment as long-term investments will be made at Rs.28 lakhs.