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INTERMEDIATE NOVEMBER 2018 EXAM

SUBJECT- ACCOUNTS

Test Code - PIN 5031

BRANCH - () (Date :)

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Answer 1:
(A)

According to AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As per the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

The treatment of interest by Zen Bridge Construction Ltd. can be shown as:

	Qualifying Asset	**Interest to be capitalized Rs. in crores**	**Interest to be charged to Profit & Loss A/c Rs. in crores**	
Construction of hill road*	Yes	1.25		1.6/64 x 50
Purchase of equipment and machineries	No		0.15	1.6/64 x 6
Working capital	No		0.10	1.6/64 x 4
Purchase of vehicles	No		0.025	1.6/64 x 1
Advance for tools, cranes etc.	No		0.025	1.6/64 x 1
Purchase of technical know-how	No		0.05	1.6/64 x 2
Total		1.25	0.35	

***Note:** It is assumed that construction of hill road will normally take more than a year (substantial period of time), hence considered as qualifying asset.

(B)

AS-1 'Disclosure of Accounting Policies' recognizes 'prudence' as one of the major considerations governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

As per AS 1, 'accrual' is one of the fundamental accounting assumptions. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be placed in a disadvantageous position for non-payment of interest in respect of overdue amount. From the facts given in the question, it is apparent that the company has an obligation to pay because of the overdue interest amount.

Hence, the company should provide for the liability (since it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case. However, in respect of the overdue interest amounts, which are settled, the liability should be accrued to the extent of amounts settled. Non-provision of the overdue interest liability amounts to violation of accrual basis of accounting. Therefore, the treatment, done by the company, of not providing the interest amount from due date to the date of repayment, is not correct.

(C)

Cash flow statement consists of:(a) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (b) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value.

Cash flows are inflows (i.e. receipts) and outflows (i.e. payments) of cash and cash equivalents. *Any transaction, which does not result in cash flow, should not be reported in the cash flow statement.* Movements within cash or cash equivalents are not cash flows because they do not change cash as defined by AS 3 "Cash Flow Statements" which is sum of cash, bank and cash equivalents.

In the given case, due to increase in rate of foreign exchange by 75 paise, there is increase (change) in bank balance. This increase of Rs. 18,750 (25,000 x 0.75) is not a cash flow because neither there is any cash inflow nor there is any cash outflow. Therefore, this change in bank balance amounting Rs. 18,750 need not be disclosed in Cash Flow Statement of Ruby exports.
The net increase/decrease in Cash/Cash equivalents in the Cash Flow Statements are stated exclusive of exchange gains and losses. The resultant difference between Cash and Cash Equivalents as per the Cash flow statement and that recognized in the balance sheet is reconciled in the note on cash flow statements.

(D)

Gamma Limited

Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
2014-2015	11,00,000	7,00,000	4,00,000	1,40,000
2015-2016	16,00,000	18,00,000	2,00,000	70,000
2016-2017	21,00,000	23,00,000	NIL	NIL
	48,00,000	48,00,000		

As per AS 22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.

Answer 2:
(A)

1. Statement of Affairs as on 31st March 2017

Liabilities	Rs.	Assets	Rs.
Capital (balancing figure)	1,61,700	Machinery	1,10,000
Sundry Creditors	2,750	Stock	10,450
		Debtors	550
		Cash at bank (1,65,000 - 1,22,650)	42,350
		Cash in hand	1,100

Total	1,64,450	Total	1,64,450

2. Statement of Affairs as on 31st March 2018

Liabilities	Rs.	Assets	Rs.
Capital(Balancing figure)	1,80,400	Machinery (1,10,000 + 33,000)	1,43,000
Sundry Creditors	2,750	Stock	15,950
		Debtors	1,100
		Cash at Bank (OB. 42,350 + 1,26,500 - 1,48,500)	20,350
		Cash in hand	1,650
Total	**1,82,050**	**Total**	**1,82,050**

3.Profit and Loss for the Period

Particulars	1.1.2017 to 31.3.2017 (3 Months)	1.1.2017 to 31.3.2018 (12 Months)
Closing Capital as per Statement of Affairs above Add: Drawings (From Feb 2017)	1,61,700 2 x 385 =770	1,80,400 12 x 385 = 4,620
Less: Opening Capital	1,62,470 At Bank = 1,65,000	1,85,020 1,61,700
Profit / (Loss)	Loss(2,530)	Profit 23,320

(B)

1. Computation of Interest at 8% p.a. on various dates

Date	Particulars	FV(Rs.)	Period(months)	Interest Amt at 8% p.a (Rs.)
01.07.2017	Interest on Ex-Interest Purchase(100 x Rs. 100)	10,000	3	200
30.09.2017	Interest Received on Holding(1,20,000 + 10,000)	1,30,000	6	5,200
01.10.2017	Interest on Ex-Interest Sale(200 x Rs. 100)(No Interest, since the Interest Date is only 30.09.2017)	20,000	—	Nil
01.01.2018	Interest on Cum-interest Purchase(50 x Rs. 100)	5,000	3	100
01.02.2018	Interest on Ex-Interest Sale(200 x Rs. 100)	20,000	4	533
31.03.2018	Interest Received on Closing Balance(Note)	95,000	6	3,800

Note: FV of holding on 31st March = 1,30,000 (upto 30th Sep) - 20,000 + 5,000 - 20,000 = Rs. 95,000.

2. Computation of Cost of Purchase

	Particulars	01.07.2017	01.01.2018
	Amount paid	9,800	4,900
Less:	Interest (for Cum-Interest purchase only)	-	5,000 x 8% x 3/12= (100)
Add:	Brokerage at 1% of amount paid	98	48

Net Cost of Purchase	**9,898**	**4,848**

3. Computation of Profit / (Loss) on sale of Investments

Particulars	**01.10.2017**	**01.02.2018**
Sale Proceeds	20,000	19,800
Less: Brokerage at 1%	(200)	(198)
Net Sale Proceeds	19,800	19,602
Less: Cost on FIFO basis	1,80,000 x $\frac{20}{120}$ =(19,667)	1,18,000 x $\frac{20}{120}$ = (19,667)
Profit / (Loss) on Sale	**133**	**(65)**

4. Investment in 8% Debentures of P Ltd A/c

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
01.04.17	To bal. b/d	1,20,000	-	1,18,000	30.09.17	By Bank	-	5,200	-
01.07.17	To Bank	10,000	200	9,898	01.10.17	By Bank	20,000	-	19,800
01.10.17	To P&L- Pft tfr	-	-	133	01.02.18	By Bank	20,000	533	19,602
01.01.18	To Bank	5,000	100	4,848	01.02.18	By P&L- Loss	-	-	65
31.03.18	To P&L- Int tfr	(b/fig)	9,233	-	31.03.18	By bal. c/d	95,000	3,800	93,412
	Total	**1,35,000**	**9,533**	**1,32,879**		**Total**	**1,35,000**	**9,533**	**1,32,879**

Note:

- Net Gain on Sale of Investments **(from WN 3)** = Rs. 133 - Rs. 65 = Rs. 68, can be transferred to P&L A/c at the end of the year. In the above a/c, Gain of Rs. 133 and Loss of Rs. 65 are separately transferred to P&L, on the dates of sale itself.
- Market Value of Investments at year-end = 950 x Rs. 99 = Rs. 94,050. Cost as per above A/c (Closing Balance = bal. figure = Rs. 93,412. So, B/Sheet Value = Lower of Cost or Market Value = **Cost Rs. 93,412.**

Answer 3:
(A)

1. Computation of Ratios for apportionment purposes

Particulars	Pre-Incorpn.	Post-Incorpn.	Total
(a) Period in Months	1^{st} Jan to 31^{st} May = 5 months	1^{st} June to 31^{st} March next = 10 months	5:10 = 1:2
(b) Sales per Month Ratio (given)	Say, Rs.1 x 5 months	(Rs.2.5 x 7 months + Rs.3.5 x 3 months)	
(c) Overall Sales Ratio (a) x (b)	1 x 5 = 5	(2.5 x 7) + (3.5 x 3) = 28	5:28

(d) Salary Ratio	Say, Rs.1	Doubled from July = Rs.2	
(e) Total Salary Ratio (a) x (d)	1 x 5 months = 5	(1 x 1) + (2 x 9) = 19	5:19
(f) Rent for additional shown room	-	10,000 x 9 = 90,000	
(g) So, Balance Rent (1,35,000 – 90,000) in Time Ratio	15,000	30,000	
(h) Total Rent (f) + (g)	15,000	1,20,000	
(i) Interest charged to Company (9,00,000 x 10% x 10/12)	-	75,000	
(j) So, Balance Interest for Pre-Inc. (1,05,000 – 75,000)	30,000	-	-

2. Statement showing calculation of Profit / Losses for Pre and Post Incorporation Periods

	Particulars	Ratio	Pre Incorpn.	PostIncorpn.
	Sales (Apportioned in Sales Ratio)	5:28	3,00,000	16,80,000
Less:	Cost of Goods Sold	5:28	1,80,000	10,08,000
A.	**Gross Profit**		**1,20,000**	**6,72,000**
B.	**Apportionment of Expenses**			
	Discount to Dealers	5:28	7,000	39,200
	Salaries	5:19	18,750	71,250
	Rent(WN 1)		15,000	1,20,000
	Interest(WN 1)		30,000	75,000
	Depreciation	1:2	10,000	20,000
	Office Expenses	1:2	35,000	70,000
	Sales Promotion Expenses	5:28	5,000	28,000
	Director's Remuneration		-	60,000
	Preliminary Expenses		-	15,000
	Total Expenses		**1,20,750**	**4,98,450**
C.	**Profit / (Loss) (A - B)**		**(750)**	**1,73,550**

Note : It is assumed that Preliminary Expenses are fully written off against Post-Incorporation Profits.

(B)

(i)

Department Trading Account
For the year ending on 31.03.20X2
In the books of Head Office

Particulars	**Rs.**	**Particulars**	**Rs.**

To Opening Stock	65,000	By Sales	3,00,000
To Purchases	2,00,000	By Shortage	1,000
To Gross Profit c/d (b.f.)	58,880	By Closing Stock	22,880
	3,23,880		**3,23,880**

(ii) Memorandum stock account (for Department A) (at selling price)

Particulars	**Rs.**	**Particulars**	**Rs.**
To Balance b/d (Rs. 65,000+25% of Rs. 65,000)	81,250	By Profit & Loss A/c (Cost of Shortage)	1,000
To Purchases (Rs. 2,00,000 + 25% of Rs. 2,00,000)	2,50,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (Rs. 1,000 x 25%)	250
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	1,200
		By Debtors A/c (Sales)	3,00,000
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	600
		By Balance c/d (b.f.)	28,200
	3,31,250		**3,31,250**

(iii)

Memorandum Departmental Mark-up Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Memorandum Departmental Stock A/c (Rs. 1,000 × 25/100)	250	By Balance b/d (Rs. 81,250 x 25/125)	16,250
To Memorandum Departmental Stock A/c	1,200	By Memorandum Departmental Stock A/c (Rs. 2,50,000 x 25/125)	50,000
To Memorandum Departmental Stock A/c	600		
To Gross Profit transferred to Profit & Loss A/c	58,880		
To Balance c/d [(Rs. 28,200 + 400*) x 25/125 - Rs. 400]	5,320		
	66,250		**66,250**

*[Rs.1,200×5,000/15,000] = Rs. 400

Working Notes:

(i) Calculation of Cost of Sales

		Rs.
A.	Sales as per Books	3,00,000
B.	Add : Mark-0down in opening stock (given)	600
C.	Add : Mark-down in sales out of current purchases (RS.1,200 x 10,000 / 15,000)	800
D.	Value of sales if there was no mark-down (A+B+C)	3,01,400
E.	Less : Gross Profit (25/125 of Rs.3,01,400) subject to Mark Down (Rs.600 + Rs.800)	(60,280)
F.	Cost of Sales (D-E)	2,41,120

(ii) Calculation of Closing Stock

		Rs.
A.	Opening Stock	65,000
B.	Add ; Purchases	2,00,000
C.	Less : Cost of Sales	(2,41,120)
D.	Less : Shortage	(1,000)
E.	Closing Stock (A+B-C-D)	22,880

Note : It has been assumed that mark-up (given in question) is determined as a percentage of cost.

Answer 4:
(A)

In the books of C Limited

Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Being the issue of 25,000 equity shares of Rs. 10 each at par as per Board's resolution No……dated…..)			
	Bank A/c	Dr.	1,00,000	
	To 14% Debenture A/c			1,00,000
	(Being the issue of 1,000 Debentures of Rs. 100 each as per Board's Resolution No…..dated……)			
	12% Redeemable Preference Share Capital A/c	Dr.	3,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	30,000	
	To Preference Shareholders A/c			3,30,000

(Being the amount payable on redemption transferred to Preference Shareholders Account)				
Preference Shareholders A/c	Dr.	3,30,000		
To Bank A/c			3,30,000	
(Being the amount paid on redemption of preference shares)				
Profit & Loss A/c	Dr.	30,000		
To Premium on Redemption of Preference Shares A/c		30,000		
(Being the adjustment of premium on redemption against Profits & Loss Account)				
Profit & Loss	Dr.	50,000		
To Capital Redemption Reserve A/c			50,000	
(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)				

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	Rs. 3,00,000
Less: Proceeds from new issue	(Rs. 2,50,000)
Total Balance	Rs.50,000

(B)

Calculation of net profit u/s 198 of the Companies Act, 2013

	Rs.	**Rs.**
Balance from Trading A/c		40,25,365
Add : Subsidies received from Government		2,73,925
		42,99,290
Less : Administrative, selling and distribution expenses	8,22,542	
Director's fees	1,34,780	
Interest on debentures	31,240	
Depreciation on fixed assets as per Schedule II	5,75,345	(15,63,907)
Profit u/s 198		27,35,383

Maximum Managerial remuneration under Companies Act, 2013=11% of Rs.27,35,383= Rs.3,00,892.

(C)

Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500

Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	Rs. 3,67,500
Equity shares of Rs. 10 each issued on conversion [Rs. 3,67,500/ Rs. 15]	24,500 shares

(D)

(a) When Net Realizable Value of the Chemical Y is Rs. 800 perunit

NRV is greater than the cost of Finished Goods Y i.e. Rs. 660 (Refer W.N.) Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock:

	Qty.	Rate (Rs.)	Amount (Rs.)
Raw Material X	1,000	440	4,40,000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

(b) When Net Realizable Value of the Chemical Y is Rs. 600 per unit

NRV is less than the cost of Finished Goods Y i.e. Rs. 660. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

	Qty.	Rate (Rs.)	Amount (Rs.)
Raw Material X	1,000	300	3,00,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,40,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	Rs.
Cost Price	380
Add: Freight Inward	40

Unloading charges	20
Cost	440
Chemical Y	**Rs.**
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (Rs.4,00,000/20,000 units)	20
Cost	660

Answer 5:
(A)

Necessary Ledger Accounts in the books of Partnership Firm Realization Account

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Goodwill		10,000	By provision to		
To land		20,000	doubtful Debts		2,000
To Buildings		1,10,000	By Trade creditors		96,000
To Machinery		50,000	By Bills Payable		14,000
To Motor Car		28,000	By Bank overdraft		60,000
To Furniture		12,000	By Mrs. Aman's loan		15,000
To Investments		18,000	By ABC Ltd.		1,95,500
To Loose tools		7,000	(Purchase price)		
To Stock		18,000	By Aman's Capital A/c		13,000
To Bill receivable		20,000	(Investments taken over)		
To Debtors		40,000			
To Aman's Capital A/c (Mrs. Aman's Loan)		15,000	By Cash A/c:	20,000	
			Debtors	24,000	
To Cash A/c:	94,000		Motor Car	4,000	
Creditors	500	94,500	Furniture	1,000	49,000
Realization expenses			Loose tools		
To Profit on Realizationt/f to:	1,000				
Aman's Capital A/c	667				
Baal's Capital A/c	333	2,000			
Chand's Capital A/c					
		4,44,500			**4,44,500**

ABC Ltd. Account

Particulars	Rs.	Particulars	Rs.
To Realization A/c	1,95,500	By Cash A/c	75,500
		By Shares in ABC Ltd.	1,20,000
	1,95,500		**1,95,500**

Partners' Capital Accounts

Particulars	Aman Rs.	Baal Rs.	Chand Rs.	Particulars	Aman Rs.	Baal Rs.	Chand Rs.

To Profit and Loss A/c	6,000	4,000	2,000	By Balance b/d	70,000	80,000	10,000
To Realization A/c	13,000	-	-	By Chand's Loan A/c	-	-	33,000
				By General reserve	9,000	6,000	3,000
To Chand's Current A/c	-	-	56,000	By Investment Fluctuation Fund*	2,000	1,333	667
To shares in ABC Ltd.	60,000	40,000	20,000	By Realization A/c	1,000	667	333
To Cash A/c	18,000	44,000	-	By Realization A/c (Mrs.Aman's loan A/c)	15,000	-	-
				By Cash A/c	-	-	31,000
	97,000	**88,000**	**78,000**		**97,000**	**88,000**	**78,000**

*Alternatively, Investment Fluctuation Fund Account may be transferred to Realization Account.

Chand's Current Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	56,000	By Chand's Capital A/c-transfer	56,000
	56,000		**56,000**

Shares in ABC Ltd. Account

Particulars	Rs.	Particulars	Rs.
To ABC Ltd. Account	1,20,000	By Aman's Capital A/c	60,000
		By Baal's Capital A/c	40,000
		By Chand's Capital A/c	20,000
	1,20,000		**1,20,000**

Cash Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,000	By Realization A/c (Liabilities and expenses)	94,500
To ABC Ltd.	75,500		
To Realization A/c (sale of assets)	49,000	By Aman's Capital A/c	18,000
To Chand's Capital A/c	31,000	By Baal's Capital A/c	44,000
	1,56,500		**1,56,500**

(B)

1. 'Funds' shown in the above Schedule refer to Cash and Cash Equivalents (as per AS3).
2. Gross Margin as per Income Statement = Gross Profit = Sales - Cost of Goods Sold = 32,760 - 18,588 = 14,172
3. Cash Collected from Customers (as per above Schedule) = 33,134
4. Cash Paid for Purchases (as per above Schedule) = 18,457
5. Since there is a Decrease in Inventories, Working Capital will be reduced by 212.

Answer 6:

(A)

Computation of claim for loss of stock:

	Rs.
Stock on the date of fire i.e. 31.12.20X1(Refer working note)	30,500
Less: Salvaged stock	(3,000)
Loss of stock	27,500

Amount of claim

$$= \frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \text{ x loss of stock}$$

$$= \frac{Rs.25,000}{Rs.30,500} \text{ x Rs.27,500 = Rs.22,541}$$

Working Note:

Memorandum trading account can be prepared for the period from 1.10.20X1 to31.12.20X1 to compute the value of stock on 31.12.20X1.

Memorandum Trading Account

for period from 1.10.20X1 to 31.12.20X1

	Rs.	Rs.		Rs.
To Opening stock (Rs. 29,700×100/90		33,000	By Sales	1,40,000
To Purchases	75,000		By Closing stock (bal. fig.)	30,500
Less : Cost of plant	(5,000)	70,000		
To Wages	33,000			
Less : Wages paid for plant	(500)	32,500		
To Gross Profit (33.33% on cost or 25% on sales)		35,000		
		1,70,500		**1,70,500**

(B)

Machinery Account

		Rs.			Rs.
1 Yr.	To Hire Vendor A/c (W.N.)	15,533	1 Yr.	By Depreciation A/c	1,553
				By Balance c/d	13,980
		15,533			**15,533**
II Yr.	To Balance b/d	13,980	II Yr.	By Depreciation A/c*	1,398

				By Balance c/d	12,582
		13,980			**13,980**
III Yr.	To Balance b/d	12,582	III Yr.	By Depreciation A/c*	1,258
				By Hire Vendor	11,000
				By Profit & Loss A/c	324
				(Loss on Surrender) (bal. fig.)	
		12,582			**12,582**

*Depreciation has been directly credited to the Machinery Account; it could have been accumulated in provision for depreciation account.

Hire Vendor Account

		Rs.			Rs.
I Yr.	To Bank A/c	6,000	I Yr.	By Machinery A/c	15,533
	To Balance c/d	12,639		By Interest A/c	3,106
		18,639			**18,639**
II Yr.	To Bank A/c	6,000	II Yr.	By Balance b/d	12,639
	To Balance c/d	9,167		By Interest A/c	2,528
		15,167			**15,167**
III Yr.	To Machinery A/c (transfer)	11,000	III Yr.	By Balance b/d	9,167
				By Interest A/c	1,833
		11,000			**11,000**

Note : Alternatively, total interest could have been debited to Interest Suspense A/c and credited to Hire Vendor A/c with consequential changes.

Working Notes:

	Instalment Amount	Interest Rs.	Principal Rs.
4th Instalment	6,000		
Interest 6,000 x $\frac{20}{120}$	1,000	1,000	5,000
	5,000		
Add : 3rd Instalment	6,000		
	11,000		
Interest 11,000 x $\frac{20}{120}$	1,833	1,833	4,167
	9,167		
Add : 2nd Instalment	6,000		
	15,167		
Interest 15,167 x $\frac{20}{120}$	2,528	2,528	3,472
Add : Ist Instalment	6,000		

Interest 18,639 x $\frac{20}{120}$	18,639 3,106	3,106	2,894
	15,533	**8,467**	**15,533**

(C)

Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and conditionnecessaryforittobecapableofoperatinginthemannerintendedbymanagement.

The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the accompany. These costs do not meet that requirement of AS 10 “Property, Plant and Equipment” and cannot, therefore, be capitalized.