J.K. SHAH®
CLASSES
CAFC→INTER CA→FINAL CA↗

INTER CA
MAY '19
REVISION NOTES
ACCOUNTING STANDARD

PART II

/officialjksc Jkshahclasses.com/revision

ACCOUNTING STANDARD

AS7 "Construction Contracts"

Q.1. B Ltd. undertook a construction contract for ₹ 50 crores in April, 2014. The cost of construction was initially estimated at ₹ 35 crores. The contract is to be completed in 3 years. While executing the contract, the company estimated the cost of completion of the contract at ₹ 53 crores. Can the company provide for the expected loss in the book of account for the year ended 31st March, 2015?

Q.2. A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years' time frame. A summary of some of the financial data is as under:

	(Amount ₹ 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 ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes ₹ 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).

AS 9 "Revenue Recognition"

Q.3. Arjun Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is payment of consideration in 14 days and in the event of delay interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2015, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at ₹ 9 lakhs. Decide, whether the income by way of interest from dealers is eligible for recognition as per AS 9?

Q.4. The Board of Directors of X Ltd. decided on 31.3.2015 to increase sale price of certain items of goods sold retrospectively from 1st January, 2015. As a result of this decision the company has to receive ₹ 5 lakhs from its customers in respect of sales made from 1.1.2015 to 31.3.2015. But the Company's Accountant was reluctant to make-up his mind. You are asked to offer your suggestion.

Q.5. A Ltd. entered into a contract with B Ltd. to despatch goods valuing ₹ 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of ₹ 1,00,000 and A Ltd. started despatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to despatch goods until further notice though A Ltd. is holding the remaining goods worth ₹ 50,000 ready for despatch. A Ltd. accounted ₹ 50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9.

Q.6. Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2014 and ₹ 60,000 on

10.4.2014 for the March 2014 issue. Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014?

Q.7. Given the following information of M/s. Paper Products Ltd.

(i) Goods of ₹ 60,000 were sold on 20-3-2015 but at the request of the buyer these were delivered on 10-4-2015.

(ii) On 15-1-2015 goods of ₹1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2015.

(iii) ₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2014. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2015 and no approval or disapproval received for the remaining goods till 31-3-2015.

(iv) Apart from the above, the company has made cash sales of ₹ 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of M/s. Paper Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-3-2015.

As 18 "related party disclosures"

Q.8. Identify the related parties in the following cases as per AS 18

A Ltd. Holds 51% of B Ltd.
B Ltd. Holds 51% of O Ltd.
Z Ltd. Holds 49% of O Ltd

Q.9. Mr. Raj a relative of key management personnel received remuneration of ₹ 2,50,000 for his services in the company for the period from 1.4.2016 to 30.6.2016. On 1.7.2016, he left the service.
Should the relative e identified as at the closing date i.e. on 31.3.2017 for the purposes of AS 18?

Q.10. A Ltd. sold to B Ltd. goods having a sales value of ₹ 50 lakhs during the financial year ended 31.3.2009. Mr. X, the Managing Director and Chief Executive of A Ltd. owns nearly 100% of the capital of B Ltd. The sales were made to B Ltd. at the normal selling price of A Ltd. The chief accountant of A Ltd. does not consider that these sales should be treated any differently from any other sale made by the company despite being made to a controlled company, because the sales were made at normal and that too, at arm's length prices. Discuss the above issue from the view point AS - 18.

As 19 "leases"

Q.11. Write short note on Sale and Lease Back Transactions as per Accounting Standard 19.

Q.12. Explain the types of lease as per AS 19.

Q.13. Define the term Finance Lease. State any three situations when a lease would be classified as finance lease.

Q.14. Annual lease rent = ₹ 40,000 at the end of each year
Lease period = 5 years
Guaranteed residual value = ₹ 14,000
Fair value at the inception (beginning) of lease = ₹1,50,000
Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7,0.622, 0.552 at the end of first, second, third, fourth and fifth year respectively.

Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

Q.15. B & P Ltd. availed a lease from N & L Ltd. The conditions of the lease terms are as under:

(i) Lease period is 3 years, in the beginning of the year 2010, for equipment costing ₹ 10,00,000 and has an expected useful life of 5 years.
(ii) The Fair market value is also ₹ 10,00,000.
(iii) The property reverts back to the lessor on termination of the lease.
(iv) The unguaranteed residual value is estimated at ₹1,00,000 at the end of the year 2012
(v) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%.
The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is ₹ 0.7513.
The present value of annuity of ₹1 due at the end of 3rd year at 10% IRR is ₹ 2.4868.
State whether the lease constitute finance lease and also calculate unearned finance income.

Q.16. X Ltd. sold JCB Machine having WDV of ₹ 50 Lakhs to Y Ltd for ₹ 60 Lakhs and the same JCB was leased back by Y Ltd to X Ltd. The lease is operating lease
Comment according to relevant Accounting Standard if

(i) Sale price of ₹ 60 Lakhs is equal to fair value
(ii) Fair Value is ₹ 50 Lakhs and sale price is ₹45 Lakhs.
(iii) Fair value is ₹ 55 Lakhs and sale price is ₹ 62 lakhs
(iv) Fair value is ₹ 45 Lakhs and sale price is ₹ 48 Lakhs.

Q.17. Classify the following into either operating or finance lease:

(i) Lessee has option to purchase the asset at lower than fair value, at the end of lease term;
(ii) Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of the lease term;
(iii) Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee;
(iv) Present value (PV) of Minimum lease payment (MLP) = "X". Fair value of the asset is "Y".

As 20 "earnings per share"

Q.18. Net profit for the year 2012 : ₹ 24,00,000
Weighted average number of equity shares outstanding during the year 2012: 10,00,000
Average Fair value of one equity share during the year 2012 : ₹ 25.00
Weighted average number of shares under option during the year 2012: 2,00,000
Exercise price for shares under option during the year 2012 : ₹ 20.00
Compute Basic and diluted earnings per share.

Q.19. In April, 2010, A Limited issued 18,00,000 Equity shares of ₹ 10 each, ₹ 5 per share was called up on that date which was paid by all the shareholders. The remaining ₹ 5 was called up on 1-9-2010. All the Shareholders (except one having 3,60,000 shares) paid the sum in September 2010. The net profit for the year ended 31-3-2011 is ₹ 33 lakhs after dividend on preference shares and dividend distribution tax of ₹ 6.60 lakhs.
Compute the basic EPS for the year ended 31st March, 2011 as per AS 20.

Q.20. While calculating diluted earnings per share, effect is given to all dilutive potential equity shares that were outstanding during that period." Explain. Also calculate the diluted earnings per share from the following information:

Net profit for the current year	₹ 85,50,000
No. of equity shares outstanding	20,00,000
No. of 8% convertible debentures of ₹ 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expenses for the current year	₹ 6,00,000
Tax relating to interest expenses	30%

Q.21. Compute Basic Earnings per share from the following information:

Date	Particulars No. of shares	No. of shares
1st April, 2008	Balance at the beginning of the year	1,500
1st August, 2008	Issue of shares for cash 600	600
31st March, 2009	Buy back of shares 500	500

Net profit for the year ended 31st March, 2009 was ₹ 2,75,000.

Q.22. Ram Ltd. had 12,00,000 equity shares on April 1, 2009. The company earned a profit of ₹ 30,00,000 during the year 2009-10. The average fair value per share during 2009-10 was ₹ 25. The company has given share option to its employees of 2,00,000 equity shares at option price of ` 15. Calculate basic E.P.S. and diluted E.P.S.

Q.23. From the following information relating to Y Ltd. Calculate Earnings Per Share (EPS):

	₹ in crores
Profit before V.R.S. payments but after depreciation	75.00
Depreciation	10.00
VRS payments	32.10
Provision for taxation	10.00
Fringe benefit tax	5.00
Paid up share capital (shares of ₹ 10 each fully paid)	93.00

Q.24. The following information is available for Raja Ltd. for the accounting year 2009-10 and 2010-11:

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

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

Right issue : One new share for each three outstanding i.e. 4,00,000 shares
: Right issue price ₹ 22
: Last date to exercise rights 30-6-2010

Fair value of one equity share immediately prior to exercise of rights on 30-6-2010 = ₹ 28. You are required to compute the basic earnings per share for the years 2009-10 and 2010-11.

Q.25. XYZ Ltd. had issued 30,000, 15% convertible debentures of ₹ 100 each on 1st April, 2008. The debentures are due for redemption on 1st March, 2011. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal Value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.

Q.26. The following information is available for AB Ltd. for the accounting year 2012-13 and 2013-14:

Net profit for		₹
Year	2012 – 13	22,00,000
Year	2013 – 14	30,00,000

No of shares outstanding prior to right issue 10,00,000 shares.

Right issue : One new share for each five shares outstanding i.e. 2,00,000 shares.
: Right Issue price ₹ 25
: Last date to exercise right 31st July, 2013

Fair value of one equity share immediately prior to exercise of rights on 31.07.2013 is ` 32.

You are required to compute:

(i) Basic earnings per share for the year 2012-13.
(ii) Restated basic earnings per share for the year 2012-13 for right issue.
(iii) Basic earnings per share for the year 2013-14.

As 24 "discontinuing operation"

Q.27 A healthcare goods producer has changed the product line as follows :

Monthly Sales	Washing Soap	Bathing Soap
January, 2009 - September, 2009	4,00,000	4,00,000
October, 2009 - December, 2009	2,00,000	6,00,000
January, 2010 - March, 2010	--	8,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors of the Company has passed a resolution in March, 2009 to this effect. The company follows calendar year as its accounting year. Should it be treated as discontinuing operation?

Q.28. A company has two divisions - cement and steel. It has started negotiating for disposal of the steel division informally since May 2008, discussion has been held with the possible buyers, the labour union has demonstrated against this secret deal, the company has given a statement that there is no move to sell the steel division. The significant reduction in the production has taken place because of decline in the market demand for the company's product not as planned strategy to close down operation. During November 2008 the Board of Directors has announced that they are considering disposal of the steel division because of continuing loss suffered by that division. But no formal resolution was passed. Necessary formalities for disposal of a division were fulfilled only during January 2005 and the steel division was disposed of in the last week of January 2009. The company follows calendar year as accounting year. Does this event require disclosure?

As 26 “intangible assets”

Q.29. Decide when research and development cost of a project can be deferred to future periods as per AS 26.

Q.30. How is software acquired for internal use accounted for under AS-26?

Q.31. A Company had deferred research and development cost of ₹ 150 lakhs. Sales expected in the subsequent years are as under:

Years	Sales (₹ in lakhs)
I	400
II	300
III	200
IV	100

You are asked to suggest how should Research and Development cost be charged to Profit and Loss account. If at the end of the III year, it is felt that no further benefit will accrue in the IV year, how the unamortised expenditure would be dealt with in the accounts of the Company?

Q.32. AB Ltd. launched a project for producing product X in October, 2009. The Company incurred ₹ 20 lakhs towards Research and Development expenses upto 31st March, 2011. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.
Advise the Company as per the applicable Accounting Standard.

Q.33. Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred ₹ 10 lakh on research during first 5 months of the financial year 2012-13. The development of the process began on 1st September, 2012 and upto 31st March, 2013, a sum of ₹ 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria.
From 1st April, 2013, the Company has implemented the new process design and it is likely that this will result in after tax saving of ₹ 2 lakh per annum for next five years.
The cost of capital is 10%. The present value of annuity factor of ₹ 1 for 5 years @ 10% is 3.7908.
Decide the treatment of Research and Development Cost of the project as per AS 26.

Q.34. A company acquired for its internal use a software on 28.01.2012 from the USA for US $ 1,00,000. The exchange rate on that date was ₹ 52 per USD. The seller allowed trade discount @ 5 %. The other expenditure were:
(i) Import Duty : 20%
(ii) Purchase Tax : 10%
(iii) Entry Tax : 5 % (Recoverable later from tax department)
(iv) Installation expenses : ` 25,000
(v) Profession fees for Clearance from Customs : ` 20,000
Compute the cost of Software to be capitalized.

Q.35. A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2013. This asset was acquired for ₹ 120 lakhs on 01.04.2009 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard.

As 29 'provisions, contingent liabilities and contingent assets'

Q.36. An airline is required by law to overhaul its aircraft once in every five years. The pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29.

Q.37. An engineering goods company provides after sales warranty for 2 years to its customers.

Based on past experience, the company has been following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year : 2% provision

More than 1 year : 3% provision

The company has raised invoices as under:

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

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

Q.38. WZW Ltd. is in dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 1000 Lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal the same in the Annual Accounts of the company?