MOCK TEST PAPER –1

INTERMEDIATE: GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

ANSWERS

1. (a) (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 ₹ 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 ₹ 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 ₹ 2,40,000 (60% of ₹ 4,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

(b) Year 1

	₹
Actual expenditure	8,60,000
Future estimated expenditure	10,00,000
Total Expenditure	18,60,000

% of work completed = $\frac{8,60,000}{18,60,000} \times 100$ = 46.24% (rounded off)

Revenue to be recognized = 20,00,000 x 46.24% = ₹ 9,24,800

Year 2

Actual expenditure	4,75,000
Future Expenditure	4,00,000
Expenditure incurred in Year 1	8,60,000
	17,35,000

% of work completed = $\frac{4,75,000+8,60,000}{17,35,000}$ = 76.95% (rounded off)

Revenue to be recognized (cumulative)	= 20,00,000 x 76.95%	= 15,39,000
Less: revenue recognized in Year 1		= (9,24,800)
Revenue to be recognized in Year 2		₹ 6,14,200

Year 3

Whole contract got completed therefore total contract value less revenue recognized up to year 2 will be amount of revenue to be recognized in year 3 i.e. 20,00,000 – 15,39,000 (9,24,800 + 6,14,200) = ₹ 4,61,000.

Note: Calendar year has been considered as accounting year.

(c) Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual". In the given case, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

(d) Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year

= ₹ 50,000 x 0.7513 = ₹ 37,565

Present value of lease payments = ₹ 5,00,000 – ₹ 37,565 = ₹ 4,62,435

The percentage of present value of lease payments to fair value of the equipment is

(₹ 4,62,435/ ₹ 5,00,000) x 100 = 92.487%.

Since, lease payments substantially covers the major portion of the fair value; the lease constitutes a finance lease.

Calculation of Unearned Finance Income

Annual lease payment = ₹ 4,62,435/ 2.4868 = ₹ 1,85,956 (approx.)

Gross investment in the lease = Total minimum lease payments + unguaranteed residual value

= (₹ 1,85,956 × 3) + ₹ 50,000

= ₹ 5,57,868 + ₹ 50,000 = ₹ 6,07,868

Unearned finance income = Gross investment - Present value of minimum lease

payments and unguaranteed residual value = ₹ 6,07,868 – ₹ 5,00,000 = ₹ 1,07,868

2. (a) Balance Sheet of Little Ltd. as at 1st April, 2023

Particulars	Note No.	(₹ in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,150.0
(b) Reserves and Surplus	2	2,437.8
(2) Non-Current Liabilities		
Long-term borrowings	3	135.2
Other Borrowings- Unsecured Loans		50
(3) Current Liabilities		
Trade payables	4	130.0
Total		**3,903**

II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	1,885
(b) Non-current investment (95 + 80)		175
(2) Current assets		
(a) Inventory (415+389)		804
(b) Trade receivables	6	570
(c) Cash and bank balances (303 + 166)		469
Total		3,903

Notes to Accounts

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Equity share capital (W.N.1)		
	65,50,000[1] Equity shares of 10 each	655	
	4,95,000[2] Preference shares of ₹ 100 each	495	
	(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		
			1,150
2.	Reserves and surplus		
	Securities Premium Account (W.N.3) (1080+ 681.25)	1,761.25	
	Capital Reserve (W.N. 2)(283.33 + 393.22)	676.55	
	Investment Allowance Reserve (80 + 40)	120	
	Amalgamation Adjustment Reserve (80 + 40)	(120)	2,437.8
3.	Long-term borrowings		
	15% Debentures		135.2
4.	Trade payables		
	Sundry Creditors: High Ltd.	65	
	Low Ltd.	35	
	Bills Payable: High Ltd.	30	130
5.	Property, Plant and Equipment		
	Land and Building : High Ltd 670		
	Low Ltd 385	1055	
	Plant and Machinery: High Ltd. 475		
	Low Ltd. 355	830	1,885
6.	Trade receivables		
	Sundry Debtors: High Ltd.	322	
	Low Ltd.	213	
	Bills Receivables: High Ltd.	35	570

[1] 40,00,000 + 25,50,000
[2] 3,20,000 + 1,75,000

Working Notes:

			(₹ in lakhs)		
			High Ltd.		Low Ltd.
(1)	Computation of Purchase consideration				
	(a) Preference shareholders:				
	$\left(\frac{3,20,00,000}{100}\right.$ i.e. 3,20,000 shares$\left.\right)$ × ₹ 125 each		400		
	$\left(\frac{1,75,00,000}{100}\right.$ i.e. 1,75,000 shares$\left.\right)$ × ₹ 125 each				218.75
	(b) Equity shareholders:				
	$\left(\frac{10,00,00,000 \times 4}{100}\right.$ i.e. 40,00,000 shares$\left.\right)$ × ₹ 35 each		1,400		
	$\left(\frac{8,50,00,000 \times 3}{100}\right.$ i.e. 25,50,000 shares$\left.\right)$ × ₹ 35 each		_____		892.50
	Amount of Purchase Consideration		1,800		1,111.25
(2)	Computation of Capital Reserve				
	Assets taken over:				
	Land and Building		670		385
	Plant and Machinery		475		355
	Investments		95		80
	Inventory		415		389
	Trade receivables		322		213
	Bills Receivables		35		
	Cash and bank		303		166
			2,315		1,588
	Less: Liabilities taken over:				
	Debentures	86.67		48.53	
	Unsecured Loan	50			
	Creditors	65		35	
	Bills Payable	30			
			231.67		83.53
	Net assets taken over		2083.33		1,504.47
	Purchase consideration		1,800		1,111.25
	Capital reserve		283.33		393.22
(3)	Computation of securities premium				
	On preference share capital				
	High Ltd.- 3,20,000 x 25				
	Low Ltd.- 1,75,000 x 25		80		43.75
	On equity share capital				
	High Ltd.- 40,00,000 x 25				
	Low Ltd.- 25,50,000 x 25		1000		637.5
	Total		1080		681.25

(4)	Issue of Debentures (₹ In Lakhs) High Ltd.- 15% fresh issue of debenture for 13% old debentures = 100 X 13% /15% = 86.67(rounded off) Low Ltd.- 15% fresh issue of debenture for 13% old debentures = 56 X 13% /15% = 48.53 (rounded off) Total number of debentures issued = 86.67 + 48.53 = 135.20 Lakhs

(b) Statement of Liability as Contributories of Former Members

Date	Creditors outstanding	Amount paid to Creditors (Increase in Creditors)	No. of shares	E 400 shares	G/X 200 shares	H 700 shares	K 1,000 shares	Amount to be paid to Creditors
2022	₹	₹	Ratio	₹	₹	₹	₹	₹
Feb 15	13,500	13,500	4:2:7:10	2,348	1,174	4,108	5,870	13,500
Feb 28	16,000	2,500	2:7:10	—	263	921	1,316	2,500
March 15	19,000	3,000	2:7:10	—	316	1,105	1,579	3,000
April 5	31,000	12,000	2:10	—	2,000	—	10,000	12,000
	(a) Maximum amount payable to creditors			2,348	3,753	6,134	18,765	31,000
	(b) Maximum liability at ₹ 20 per share held			8,000	4,000	14,000	20,000	
	Lower of (a) and (b)			2,348	3,753	6,134	18,765	

Working Note:

(1) The transferors are D, E, H, J and K. When the transferees pay the amount due as "present" member contributories, there will not be any liability on the transferors. It is only when the transferees do not pay as "present" member contributories then the liability would arise in the case of "past" members as contributories.

(2) D will not be liable to pay any amount as the winding up proceedings commenced after one year from the date of the transfer.

(3) J also will not be liable as the transferee R has paid the balance ₹ 20 per share as call in advance.

(4) E, G/X, H and K will be liable, as former members, to the maximum extent as indicated, provided the transferees do not pay the calls.

(5) X to whom shares were transmitted on demise of his father G would be liable as an existing member contributory. He steps into the shoes of his deceased father under section 430. His maximum liability would be at ₹ 20 per share on 200 shares received on transmission i.e. for ₹ 4,000.

3 (a) (i)

	Case 1	**Case 2**
	₹	₹
Sanctioned limit	60,00,000	45,00,000
Drawing power	56,00,000	42,00,000

Amount outstanding continuously from 1.01.2023 to 31.03.2023	48,00,000	30,00,000
Total interest debited	3,84,000	2,40,000
Total credits	-	320,000
Is credit in the account is sufficient to cover the interest debited during the period or amount is not 'overdue' for a continuous period of 90 days.	No	Yes
	NPA	NOT NPA

(ii) The amount of rebate on bills discounted as on 31st March, 2023 the period which has not been expired upto that day will be calculated as follows:

Discount on ₹ 2,90,000 for 62 days @ 10%	4,926
Discount on ₹ 8,75,000 for 69 days @ 10%	16,541
Discount on ₹ 5,65,000 for 82 days @ 10%	12,693
Discount on ₹ 8,12,000 for 92 days @ 10%	20,467
Discount on ₹ 6,50,000 for 96 days @ 10%	17,096
Total	71,723

Note: The due date of the bills discounted is included in the number of days above.

The amount of discount to be credited to the profit and loss account will be:

	₹
Transfer from rebate on bills discounted as on 1.4. 2022	78,566
Add: Discount received during the year	1,60,572
	2,39,138
Less: Rebate on bills discounted as on 31.03. 2023 (as above)	(71,723)
	1,67,415

Journal Entries

	₹	₹
Rebate on bills discounted A/c Dr.	78,566	
To Discount on bills A/c		78,566
(Transfer of opening unexpired discount on 31.03. 2022)		
Discount on bills A/c Dr.	71,723	
To Rebate on bills discounted		71,723
(Unexpired discount on 31.03. 2023 taken into account)		
Discount on Bills A/c Dr.	1,67,415	
To P & L A/c		1,67,415
(Discount earned in the year, transferred to P&L A/c)		

(b) **Debt Equity Ratio Test**

	Particulars	₹
a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹ in crores)	21,00,000

(c)	Present equity shareholders fund (₹ in crores)	72,80,000
(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000 (72,80,000-12,95,000)
(e)	Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

Working Notes:

1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 +6,00,000+4,30,000)	42,80,000
	72,80,000

2. As per section 68 of the Companies Act, 2013, amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

   Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

   Equation 1 :(Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

   (72,80,000 –x)-21,00,000 = y (1)

   Since 51,80,000 – x = y

   Equation 2: $\left(\frac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \text{ x Nominal Value}\right)$

   = Nominal value of the shares bought –back to be transferred to CRR

   = $\left(\frac{y}{30}\times 10\right)$ = x

   3x = y (2)

   x = ₹ 12,95,000 crores and y = ₹ 38,85,000 crores

4. (a) In the books of Partnership Firm

Realization Account

Particulars	**₹**	**₹**	**Particulars**	**₹**	**₹**
To Land and Building		1,40,000	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. Om's loan		15,000
To Investments		18,000	By ABC Ltd. (Purchase price)		1,95,500
To Loose tools		7,000	By Om's Capital A/c (Investments taken over)		13,000

To Stock		18,000	By Cash A/c:		
To Bill receivable		20,000	Debtors	20,000	
To Debtors		38,000	Motor Car	24,000	
			Furniture	4,000	
To Om's Capital A/c (Mrs. Om's Loan)		15,000	Loose tools	1,000	49,000
To Cash A/c:					
Creditors	94,000				
Realization expenses	500	94,500			
To Profit on Realization transferred to:					
Om's Capital A/c	1,000				
Sai's Capital A/c	667				
Radhe's Capital A/c	333	2,000			
		4,42,500			4,42,500

ABC Ltd. Account

Particulars	₹	Particulars	₹
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	*Om* ₹	*Sai* ₹	*Radhe* ₹	*Particulars*	*Om* ₹	*Sai* ₹	*Radhe* ₹
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 Radhe's Loan A/c	-	-	33,000
To Radhe's Current A/c	-	-	56,000	By General reserve	11,000	7,333	3,667
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. Om's loan A/c)	15,000	-	-
				By Cash A/c	-		31,000
	97,000	88,000	78,000		97,000	88,000	78,000

Shares in ABC Ltd. Account

Particulars	₹	Particulars	₹
To ABC Ltd. Account	1,20,000	By Om's Capital A/c	60,000
		By Sai's Capital A/c	40,000

		By Radhe's Capital A/c	20,000
	1,20,000		1,20,000

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	1,000	By Realization A/c (Liabilities and expenses)	94,500
To ABC Ltd.	75,500	By Om's Capital A/c	18,000
To Realization A/c (realization of assets)	49,000	By Sai's Capital A/c	44,000
To Radhe's Capital A/c	31,000		-
	1,56,500		1,56,500

(b) **"Designated partner"** means any partner designated as such pursuant to section 7 of the Limited Liability Partnerships (LLPs) Act, 2008. As per section 7 of the LLP Act, every limited Liability Partnership shall have at least 2 designated Partners who are individuals and at least one of them shall be a resident in India.

Provided that in case of Limited Liability Partnership in which all the partners are bodies corporate or in which one or more partners are Individuals and bodies corporate, at least 2 individuals who are partners of such limited liability Partnership or Nominees of such Bodies corporate shall act as designated partners.

"Liabilities of designated partners"

As per Section 8 of LLP Act, unless expressly provided otherwise in this Act, a designated partner shall be-

(a) responsible for the doing of all acts, matters and things as are required to be done by the limited liability partnership in respect of compliance of the provisions of this Act including filing of any document, return, statement and the like report pursuant to the provisions of this Act and as may be specified in the limited liability partnership agreement; and;

(b) liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

5. (a) Consolidated Balance Sheet of H Ltd. and its subsidiary, S Ltd.

as at 31st March, 2023

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	13,07,200
(2) Minority Interest (W.N 4)		2,96,400
(3) Current Liabilities		
(a) Trade Payables	3	2,98,400
(b) Short term borrowings		3,00,000
Total		42,02,000

II. Assets		
(1) Non-current assets		
(i) Property, Plant and Equipment	4	29,34,000
(ii) Intangible assets (W.N.5)		1,60,000
(2) Current assets		
(a) Inventories	5	6,24,000
(b) Trade receivables	6	3,95,200
(c) Cash & Cash equivalents (Cash)	7	88,800
Total		42,02,000

Notes to Accounts

			₹	₹
1.	Share Capital			
	2,00,000 equity shares of ₹ 10 each			20,00,000
2.	Reserves and Surplus			
	Reserves		9,60,000	
	Profit & loss			
	H Ltd.	2,28,800		
	S Ltd. (As per W.N. 3)	1,18,400	3,47,200	13,07,200
3.	Trade Payables			
	H Ltd.		1,66,400	
	S Ltd. (80,000+52,000)		1,32,000	2,98,400
4.	Property, Plant and Equipment			
	Land and building			
	H Ltd.	7,20,000		
	S Ltd.	7,60,000	14,80,000	
	Plant & Machinery			
	H Ltd.	9,60,000		
	S Ltd. (As per W.N. 7)	4,94,000	14,54,000	29,34,000
5.	Inventories			
	H Ltd.		4,56,000	
	S Ltd.		1,68,000	6,24,000
6.	Trade Receivables			
	H Ltd.	1,76,000		
	S Ltd.	1,60,000	3,36,000	
	Bills receivable: H Ltd.		59,200	3,95,200
7.	Cash & Cash equivalents			
	Cash			
	H Ltd.		56,800	
	S Ltd.		32,000	88,800

Working Notes:

1. **Share holding pattern**

   Total Shares of S Ltd 80,000 shares

   Shares held by H Ltd. 64,000 shares i.e. 80 %;

   Minority Shareholding 16,000 shares i.e. 20 %

2. **Capital profits of S Ltd.**

	₹	₹
Reserve on 1st October, 2022 (Assumed there is no movement in reserves during the year and hence balance as on 1st October, 2022 is same as of 31st March 2023)		4,20,000
Profit & Loss Account Balance on 1st April, 2022	1,20,000	
Less: Dividend paid	(80,000)	40,000
Profit for year:		
Total ₹ 3,28,000		
Less: ₹ 40,000 (opening balance)		
₹ 2,88,000		
Proportionate up to 1st October, 2022 on time basis (₹ 2,88,000/2)		1,44,000
Reduction in value of Plant & Machinery (WN 6)		(50,000)
		5,54,000
Less: Preliminary expenses written off		(20,000)
Total Capital Profit		5,34,000
Holding company's share (5,34,000 X 80%)		4,27,200
Minority Interest (5,34,000 X 20%)		1,06,800

Note: Preliminary expenses as on 1st April, 2022 amounting ₹ 20,000 have been written off.

3. **Revenue profits of S Ltd.**

Profit after 1st October, 2022 (3,28,000 - 40,000)/2		1,44,000
Less 10% depreciation on ₹5,20,000 for 6 months	(26,000)	
Add: Depreciation already charged for 2nd half year on 6,00,000	30,000	
		4,000
		1,48,000
Holding company's share (1,48,000 X 80%)		1,18,400
Minority Interest (1,48,000 X 20%)		29,600

4. **Minority interest**

Par value of 16,000 shares (8,00,000 X 20%)	1,60,000
Add: 1/5 Capital Profits [WN 2]	1,06,800
1/5 Revenue Profits [WN 3]	29,600
	2,96,400

5. **Cost of Control**

Amount paid for 64,000 shares		12,27,200
Less:		
Par value of shares (8,00,000 X 80%)	6,40,000	
Capital Profits – share of H Ltd. [WN 2]	4,27,200	(10,67,200)
Cost of Control or Goodwill		1,60,000

6. **Calculation of revaluation loss on Plant and Machinery of S Ltd. on1st October, 2022**

	₹
Value of plant and machinery as on 1st April,2022	6,00,000
Less: Depreciation for the six months	(30,000)
Value of plant and machinery as on 1st October, 2022	5,70,000
Less: Plant and machinery valued by H Ltd. on 1st October,2022	(5,20,000)
Revaluation Loss	50,000

7. **Value of plant & Machinery of S Ltd. On 31st March,2023**

Value of machinery on 1st October, 2022	5,20,000
Less: depreciation for next six month	(26,000)
	4,94,000

(b) Calculation of provision required on advances as on 31st March, 2023:

	Amount ₹ in lakhs	Percentage of provision	Provision ₹ in lakhs
Sub-standard assets	2,680	10	268.00
Secured portions of doubtful debts			
–up to one year	640	20	128.00
–one year to three years	180	30	54.00
–more than three years	60	50	30.00
Unsecured portions of doubtful debts	194	100	194.00
Loss assets	96	100	96.00
			770.00

6. (a) **Journal Entries in the books of Company**

Date	*Particulars*		*Dr.* (₹)	*Cr.* (₹)
31.3.2020	Employees compensation expense account	Dr.	88,000	
	To Employee stock option outstanding account			88,000
	(Being compensation expenses recognized in respect of the employee stock option			
	Profit and loss account	Dr.	88,000	
	To Employees compensation expenses account			88,000
	(Being expenses transferred to profit and loss account at year end)			

31.3.2021	Employees compensation expenses account	Dr.	88,000	
	To Employee stock option outstanding account			88,000
	(Being compensation expense recognized in respect of the employee stock)			
	Profit and loss account	Dr.	88,000	
	To Employees compensation expenses account			88,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2022	Employee stock option outstanding account (W.N.2)	Dr.	22,000	
	To General Reserve account (W.N.2)			22,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
30.6.2022	Bank A/c (1,200 × ₹ 60)	Dr.	72,000	
	Employee stock option outstanding account (1,200 × ₹ 110)	Dr.	1,32,000	
	To Equity share capital account (1,200 × ₹ 10)			12,000
	To Securities premium account (1,200 x ₹ 160)			1,92,000
	(Being 1,200 employee stock option exercised at an exercise price of ₹ 60 each)			
01.10.2022	Employee stock option outstanding account (W.N.3)	Dr.	22,000	
	To General reserve account (W.N.3)			22,000
	(Being ESOS outstanding A/c on lapse of 200 options at the end of exercise of option period transferred to General Reserve A/c)			

Working Notes:

1. Compensation expenses recognized in respect of the employee stock option:

   2,000 options granted to employees at a discount of ₹ 110 each to be amortized on Straight line basis over $2\frac{1}{2}$ years i.e.

   2,000 stock options x ₹ 110 / 2.5 years = ₹ 88,000

2. On 31.3.2022, company will examine its actual forfeitures and make necessary adjustments, if any, to reflect expenses for the number of options that actually vested. Considering that 1400 stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

No. of options actually vested 1,400 x 110 (170 – 60 = 110)	₹ 1,54,000
Less: Expenses recognized ₹ (88,000 + 88,000)	(₹ 1,76,000)
Excess expense transferred to general reserve	₹ 22,000

3. Similarly, on 1.10.2022, Employee Stock Option Outstanding Account will be

No. of options actually vested (1,200 x 110)	₹ 1,32,000
Less: Expenses recognized	(₹ 1,54,000)
Excess expense transferred to general reserve	₹ 22,000

(b) The goods are sold with a right to return. The existence of such right gives rise to a present obligation on the company as per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets'. According to the standard, a provision should be created on the Balance sheet date, for sales returns after the Balance Sheet date, at the best estimate of the loss expected, along with any estimated incremental cost that would be necessary to resell the goods expected to be returned.

Sales during	Sales value (₹ in lacs)	Sales value(cumulative) ₹ (in lacs)	Likely returns (%)	Likely returns ₹ (in lacs)	Provision @ 20% (₹ in lacs) (Refer W.N.)
March	60	60	6%	3.60	0.720
February	48	108	7%	7.56	1.512
January	36	144	8%	11.52	2.304
Total				22.68	4.536

Revenue to be recognized

Revenue in respect of sale of goods is recognized fully at the time of sale itself assuming that the company has complied with the conditions stated in AS 9 relating to recognition of revenue in the case of sale of goods. As per AS 9, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

(i) 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

(ii) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. AS 9 also provides that in case of retail sales offering a guarantee of 'money back, if not completely satisfied, it may be appropriate to recognize the sale but to make a suitable provision for returns based on previous experiences.

Therefore, sale of ₹ 36 lakhs, ₹ 48 lakhs and ₹ 60 lakhs made in the months of January, February and March will be recognized at full value. Thus, total revenue to be recognized for ₹ 400 lacs for the year.

Working Note:

Calculation of Profit % on sales

	(₹ in lacs)
Sales for the year	400
Less: Cost of sales	(320)
Profit	80
Profit mark up on sales (80/400) x 100 = 20%	

(c) (i) The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of 85% of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig.

However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date. 15% of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

(ii) As per AS 29, a provision for restructuring costs is recognized only when the recognition criteria for provisions are met. A restructuring provision does not include costs as of retraining or relocating continuing staff.

The expenditures of training the staff related to the future conduct of the business and are not liabilities for restructuring at the balance sheet date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring. At the balance sheet date, no such expenditure has been incurred hence no provision is required.

(d) As per AS 26 'Intangible Assets'

Expenditure to be charged to Profit and Loss account for the year ending 31.03.2022

₹ 42 lakhs is recognized as an expense because the recognition criteria were not met until 1st November, 2021. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.

(i) Carrying value of intangible asset as on 31.03.2022

At the end of financial year, on 31st March 2022, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 38 (80-42) lakhs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st November 2021)

(ii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2023

	(₹ in lacs)
Carrying Amount as on 31.03.2022	38
Expenditure during 2022 – 2023	90
Book Value	128
Recoverable Amount	(82)
Impairment loss to be charged to Profit and loss account	46

₹ 46 lakhs to be charged to Profit and loss account for the year ending 31.03.2023.

(iii) Carrying value of intangible asset as on 31.03.2023

	(₹ in lacs)
Book Value	128
Less: Impairment loss	(46)
Carrying amount as on 31.03.2023	82

(e) 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.

On the basis of revenue criteria, segments A, B, C and D - all are reportable segments.

On the basis of the result criteria, segments A, B and C are reportable segments (since their results in absolute amount is 10% or more of 125 Lakhs).

On the basis of asset criteria, all segments except D 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 Accounting Standard (AS) 17.