MOCK TEST PAPER – 2

FINAL (OLD) COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

SUGGESTED ANSWERS/HINTS

1. (a) As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) 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

(ii) Its segment result whether profit or loss is 10% or more of:

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss,

whichever is greater in absolute amount; or

(iii) Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until atleast 75% of total enterprise revenue is included in reportable segments.

Accordingly, on the basis of turnover criteria segments A and B are reportable segments.

On the basis of the result criteria, segments A, B and F are reportable segments (since their results in absolute amount is 10% or more of Rs. 100 lakhs).

On the basis of asset criteria, all segments except F are reportable segments.

Since all the segments are covered in atleast one or the other criteria all segments have to be reported upon in accordance with AS 17. Hence, the opinion of chief accountant that only "A" and "B" are reportable segment is wrong.

(b) Net Realisable Value of Inventory as on 31st March, 2019

= Rs. 107.75 x 20 units = Rs. 2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

01.03.2019	Rs. 108 x 20 units = Rs. 2,160
08.3.2019	Rs. 107 x 15 units = Rs. 1,605
17.03.2019	Rs. 109 x 30 units = Rs. 3,270
25.03.2019	Rs. 107 x 15 units = Rs. 1,605
Total	80 units = Rs. 8,640

Weighted Average Cost = Rs. 8,640/80 units = Rs.108

Total Value = Rs. 108 x 20 units = Rs. 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2019 is, Cost or Net Realisable value whichever is lower i.e. Rs. 2,155.

(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 AS 9 "Revenue Recognition", revenue recognition is mainly concerned with the timing of recognition of revenue in the Statement of Profit and Loss of an enterprise. The amount of revenue arising on a transaction is usually determined by the agreement between the parties involved in the transaction. When uncertainties exist regarding the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

Effect of Uncertainty- In the case of the jewellery business the company is selling for cash and returns are negligible. Hence, revenue can be recognized on sales. On the other hand, in Apparels Business, the dealers have a right to return the unsold goods within one month of the end of the season. In this case, the company is bearing the risk of sales return and therefore, the company should not recognize the revenue to the extent of 25% of its sales. The company may disclose suitable revenue recognition policy in its financial statements separately for both Jewellery and Apparels business.

2. (a) (i) Calculation of Employee Compensation Expense for the Year ended 31st March 2017, 31st March 2018 and 31st March, 2019

(Refer Working Note)

Vesting Date as on 31st March	Cost to be recognized in the year ending on 31st March		
	2017	2018	2019
Lot I	6,24,000		
Lot II	2,88,000	2,88,000	
Lot III	2,40,000	2,40,000	2,40,000
Cost for the year	11,52,000	5,28,000	2,40,000
Cumulative cost	11,52,000	16,80,000	19,20,000

(ii) Balance of ESOP Outstanding Account as on 31st March 2017, 31st March 2018 and 31st March, 2019

	Total	2017	2018	2019
ESOS outstanding A/c at the end of 1st year	11,52,000	11,52,000		
Less: Vested Options lapsed during the year (200 x 240)	(48,000)			
Less: Vested Options exercised during the year (2,500 x 240)	(6,00,000)			
Add: ESOP credited in the 2nd year	5,28,000			
ESOP outstanding A/c at the end of 2nd year	10,32,000		10,32,000	
Less: Vested options lapsed (600 x 240)	(1,44,000)			
Less: Vested options exercised (2,000 x 240)	(4,80,000)			
Add: ESOP credited in the 3rd year	2,40,000			
ESOP outstanding at the end of 3rd year	6,48,000			6,48,000

Working Note:

Determination of number of options expected to vest under each group

Vesting Date (Year-end) 31st March		Shares expected to vest	Value per Shares (Rs.) (400 – 160)	Compensation Expense (Rs.)
2017	(10,000 shares x 30%) - 400 shares	2,600 shares	240	6,24,000
2018	(10,000 shares x 30%) - 600 shares	2,400 shares	240	5,76,000
2019	(10,000 shares x 40%) - 1,000 shares	3,000 shares	240	7,20,000
				19,20,000

Total compensation expense of Rs. 19,20,000, determined at the grant date, is attributed to 3 years.

Note: In the absence of estimated figures regarding lapse of unvested options, it is assumed that actual lapses were in accordance with the estimation.

(b) The above security deposit is an interest free deposit redeemable at the end of lease term for Rs. 10,00,000. Hence, this involves collection of contractual cash flows and shall be accounted at amortised cost.

Upon initial measurement –

Particulars	**Details**
Security deposit (A)	10,00,000
Present value of deposit at beginning (10,00,000 x 0.567427) (B)	5,67,427
Prepaid lease payment at beginning (A-B)	4,32,573

Journal Entries

Particulars		**Amount**	**Amount**
		Rs.	**Rs.**
Security deposit A/c	Dr.	5,67,427	
Prepaid expenses A/c	Dr.	4,32,573	
To Bank A/c			10,00,000

Subsequently, every annual reporting year, interest income shall be accrued @ 12% per annum and prepaid expenses shall be amortised on straight line basis over the lease term.

Year 1

Particulars		**Amount**	**Amount**
		Rs.	**Rs.**
Security deposit A/c (5,67,427 x 12%)	Dr.	68,091	
To Interest income A/c			68,091
Rent expense A/c (4,32,573 / 5 years)	Dr.	86,515	
To Prepaid expenses A/c			86,515

At the end of 5 years, the security deposit shall accrue to Rs. 10,00,000 and prepaid expenses shall be fully amortised. Journal entry for realisation of security deposit–

Particulars		*Amount (Rs.)*	*Amount (Rs.)*
Bank A/c	Dr.	10,00,000	
To Security deposit A/c			10,00,000

3. (i) Journal Entries

			Rs.	*Rs.*
(i)	Equity share capital (Rs. 50) A/c	Dr.	60,00,000	
	To Equity share capital (Rs. 10) A/c			8,00,000
	To 9% Preference share capital A/c (25,000 x Rs. 8)			2,00,000

	To 10% Debentures A/c (3,500 x Rs. 80)		2,80,000
	To Capital Reduction A/c		47,20,000
	(Being payment made in lieu of equity share capital of Rs. 50 each by issue of equity shares of Rs. 10 each, 9% Preference share capital and 10% Debentures as per reconstruction scheme)		
(ii)	9% Preference Share capital (Rs. 10) A/c Dr.	40,00,000	
	To 9% Preference Share Capital (Rs. 8) A/c		32,00,000
	To Capital Reduction A/c		8,00,000
	(Being 9% preference share capital of Rs. 10 each reduced to Rs. 8 each as per reconstruction scheme)		
(iii)	Bank A/c Dr.	16,00,000	
	To Equity Share Capital (Rs. 10) A/c		16,00,000
	(Being preference shareholders subscribed for 2 new equity shares of 10 each against every 5 shares)		
(iv)	(a) Provision for Taxation A/c Dr.	75,000	
	To Capital Reduction A/c		9,000
	To Taxation Liability A/c		66,000
	(Being liability for taxation settled)		
	(b) Taxation Liability A/c Dr.	66,000	
	To Bank A/c		66,000
	(Being liability for taxation paid)		
(v)	Trade payables A/c Dr.	1,00,000	
	To Equity share capital A/c (7,000 x Rs. 10)		70,000
	To Capital Reduction A/c		30,000
	(Being payment made to creditors in shares to the extent of 70% as per reconstruction scheme)		
(vi)	Trade Payables A/c Dr.	5,00,000	
	To 9% Preference share capital A/c (43,750 x Rs. 8)		3,50,000
	To Bank A/c		1,20,000
	To Capital Reduction A/c		30,000
	(Being payment made to creditors in shares and cash as per reconstruction scheme)		
(vii)	Capital Reduction A/c Dr.	26,000	
	To Bank A/c		26,000
	(Being contractual commitment settled by payment of 4% penalty)		
(viii)	7% Debentures A/c Dr.	23,00,000	
	To Plant & Machinery A/c		22,00,000
	To Capital Reduction A/c		1,00,000
	(Being 7% debenture holders settled through charge of plant & machinery as per reconstruction scheme)		

(ix)	8% Debentures A/c (34,000 x Rs. 50) Dr.	17,00,000	
	To 10% Debentures A/c (17,000 x Rs. 80)		13,60,000
	To Capital Reduction A/c		3,40,000
	(Being conversion of 8% debentures to 10% debentures at one for every two debentures held by them as per reconstruction scheme)		
(x)	Capital Reduction A/c Dr.	12,30,000	
	To Land & building A/c		3,75,000
	To Profit and Loss A/c		2,15,000
	To Trade receivables A/c		4,50,000
	To Inventories A/c		1,90,000
	(Being amount of Capital Reduction utilized in writing off Profit & Loss Dr. bal., Land & Building, Current Assets and Inventories through capital reduction account)		
(xi)	Capital Reduction A/c Dr.	47,73,000	
	To Capital Reserve A/c		47,73,000
	(Being balance in capital reduction account transferred to capital reserve account)		

(ii) Balance Sheet of Ankit Ltd. (as reduced) as on 31.3.2019

Particulars	*Notes*	*Rs.*
Equity and Liabilities		
1 Shareholders' funds		
a Share Capital	1	62,20,000
b Reserves and Surplus	2	47,73,000
2 Non-current liabilities		
a Long-term Borrowings	3	16,40,000
Total		**1,26,33,000**
Assets		
1 Non-current assets		
a Property, Plant and Equipment		
Tangible Assets	4	71,25,000
b Investments		16,50,000
2 Current assets		
a Inventories	5	7,60,000
b Trade Receivables	6	13,50,000
c Cash and Cash equivalents		17,48,000
Total		**1,26,33,000**

Notes to accounts

			Rs.
1.	**Share Capital**		
	Equity share capital		

	Issued, subscribed and paid up		
	2,47,000 equity shares of Rs. 10 each		24,70,000
	(out of which 7,000 equity shares have been issued for consideration for other than cash)		
	Preference share capital		
	Issued, subscribed and paid up		
	4,68,750 Preference shares of Rs. 8 each		37,50,000
	(out of which 43,750 preference shares have been issued for consideration for other than cash)		
			62,20,000
2.	**Reserves and Surplus**		
	Capital Reserve		47,73,000
3.	**Long-term borrowings**		
	Secured		
	20,500 10% Debentures of Rs. 80 each		16,40,000
4.	**Tangible assets**		
	Land & building	75,00,000	
	Adjustment under scheme of reconstruction	(3,75,000)	71,25,000
5.	**Inventories**	9,50,000	
	Adjustment under scheme of reconstruction	(1,90,000)	7,60,000
6.	**Trade receivables**	18,00,000	
	Adjustment under scheme of reconstruction	(4,50,000)	13,50,000

Working Notes:

1. **Cash at Bank Account**

Particulars	*Rs.*	*Particulars*	*Rs.*
To Balance b/d	3,60,000	By Taxation liability	66,000
To Equity Share capital A/c	16,00,000	By Trade Payables A/c	1,20,000
		By Penalty A/c	26,000
		By Balance c/d (bal. fig.)	17,48,000
	19,60,000		19,60,000

2. **Capital Reduction Account**

Particulars	*Rs.*	*Particulars*	*Rs.*
To Land & building A/c	3,75,000	By Equity Share Capital A/c	47,20,000
To Machinery A/c	2,15,000	By 9% Preference share capital	8,00,000
To Trade receivables A/c	4,50,000	By 7% Debentures	1,00,000
To Inventories A/c	1,90,000	By Provision for tax	9,000
To Bank	26,000	By Trade Payables	60,000
To Capital Reserve		(30,000 + 30,000)	
(bal. fig.)	47,73,000	By 8% Debentures	3,40,000
	60,29,000		60,29,000

4. **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		756
	(2)	**Minority Interest**			60
	(3)	**Current Liabilities** (200 + 200 + 200)			600
			Total		1,816
II.	**Assets**				
	(1)	**Non-current assets**			
		Property, Plant and Equipment			
			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 31.3.2019

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 31.3.2018

(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 31.3.2018	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 31.3.2019

C Ltd. became a subsidiary of A Ltd. on 1st April 2015 when 80% thereof was acquired. The holding – subsidiary relationship continued till 31st March, 2018 and from 1st April, 2018 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 (Total assets of Rs. 500 lakhs - Total liabilities of Rs. 200 lakhs)*	300
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, 2018	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 31.3.2019	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 1st April, 2018; 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.

* Calculation of net assets has been made on the basis of Balance Sheet as on 31.3.2018.

5. (a) **Calculation of NAV per unit**

	Rs. in lakhs	Rs. in lakhs	
Opening bank balance [Rs. (100- 90-7) lakhs]	3.00		
Add: Proceeds from sale of securities	40.00		
Dividend received	1.20	44.20	
Less: Cost of securities	28.20		
Fund management expenses [(4.50–0.25) Rs. lakhs]	4.25		
Capital gains distributed [75% of (40.00 – 38.00) Rs. lakhs]	1.50		
Dividends distributed (75% of Rs. 1.20 lakhs)	0.90	(34.85)	
Closing bank balance		9.35	
Closing market value of portfolio		101.90	
		111.25	
Less: Arrears of expenses		(0.25)	
Closing net assets		111.00	
Number of units			10,00,000
Closing Net Assets Value (NAV)			Rs. 11.10

(b) **Gross Value Added Statement of Rahul Ltd.**

for the year ended 31st March, 2019

		(Rs. in lakhs)	(Rs. in lakhs)
Sales			10,020
Less:	Cost of raw materials, stores and other services consumed	5,440	
	Administrative expenses	250	
	Interest on loan from bank for working capital	70	(5,760)
Value added by manufacturing and trading activities			4,260
Add:	Other income		260
Total value added			4,520

Application of Value Added

	(Rs. in lakhs	(Rs. in lakhs)	%
To pay employees			
Wages, salaries and bonus		1,220	26.99
To pay directors			
Salaries and commission to Directors		120	2.66
To pay Government			
Local taxes including cess	440		
Income tax	560	1,000	22.12
To pay providers of capital			
Interest on debentures	400		

	Preference dividend	200		
	Equity dividend	600	1,200	26.55
To	provide for the maintenance and expansion of the company:			
	Depreciation	740		
	Transfer to general reserve	200		
	Retained profit Rs. (60 – 40) lakhs	40	980	21.68
			4,520	100.00

6. (i) Future Maintainable Profit

Year	*Profit (P) Rs.*	*Weight (W)*	*Products (PW) Rs.*
2015-2016	24,55,000	1	24,55,000
2016-2017	29,25,000	2	58,50,000
2017-2018	36,25,000	3	1,08,75,000
2018-2019	42,50,000	4	1,70,00,000
		10	3,61,80,000

Weighted average annual profit (after tax)* $= \frac{3,61,80,000}{10}$ = Rs. 36,18,000	
Weighted average annual profit before tax is 36,18,000 $\times \frac{100}{60}$	60,30,000
Less: Increase in Managing Director's remuneration	(5,00,000)
	55,30,000
Add: Contract advantage	10,00,000
	65,30,000
Less: Tax @ 45%	(29,38,500)
Future maintainable profit	35,91,500

(ii) Average Capital Employed

	Rs.	*Rs.*
Assets		
Building		80,00,000
Machinery		70,00,000
Inventory		80,00,000
Trade Receivables		50,00,000
		2,80,00,000
Liabilities		
Bank Overdraft	46,50,000	
Trade Payables	52,75,000	
Provision for taxation	12,75,000	

* Loss amounting Rs. 13,75,000 for the year 2014-2015 has not been considered in calculation of weighted average profit assuming that the loss was due to abnormal conditions.

** Additional provision for taxation 5% of Rs. 70,83,333 (Rs. 42,50,000/60%) has also been created assuming that the necessary rectification is being done in the financial statements for the year 2018-2019.

Additional provision for taxation**	3,54,167	(1,15,54,167)
Capital employed at the end of the year		1,64,45,833
Less: ½ profit after tax for the year [(42,50,000-3,54,167)/2]		(19,47,917)
Average capital employed		1,44,97,916

(iii) Normal Profit

Average dividend for the last four years $\frac{10+10+15+15}{4} = 12.5$	
Market Price of share =Rs. 125	
Normal rate of return[*] $= \frac{12.5}{125} \times 100 = 10\%$	
Normal profit 10% of Rs. 1,44,97,916	Rs. 14,49,792

(iv) Valuation of Goodwill

	Rs.
Future maintainable profit	35,91,500
Less: Normal profit	(14,49,792)
Super Profit	21,41,708
Goodwill at 3 years' purchase of super profits (Rs. 21,41,708 x 3)	64,25,124

7. (a) Revenue shall be recognised by an entity by applying the following five steps:

1. **Identify contract with a customer:** Ind AS 115 defines a 'contract' and a 'customer' and specifies five mandatory criteria to be met for identification of a contract.
2. **Identify performance obligations in contract:** At contract inception, assess the goods or services promised and identify as a performance obligation each promise to transfer to the customer either:
   (a) a good or service (or a bundle of goods or services) that is distinct; or
   (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
3. **Determine transaction price:** The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised may include fixed amounts, variable amounts, or both.
4. **Allocate the transaction price to the performance obligations in the contract:** An entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. Amounts allocated to a

[*] Normal rate of return has been computed by dividend yield method.

satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

5. **Recognise revenue when the entity satisfies a performance obligation:** An entity recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognised is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time or over time.

(b) 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, 2019 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.

(c) 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

(d) Calculation of Economic Value Added

	Rs.
Net Operating Profit After Tax	25,00,000
Less: Cost of capital employed (Refer W.N.)	(6,00,000)
Economic Value Added	19,00,000

Economic value added is greater than zero. Therefore, the company qualifies for the loan.

Working Note:

Calculation of Cost of Capital employed	*Rs.*
Average total assets	75,00,000
Less: Average current liabilities	(15,00,000)
Capital employed	60,00,000

Cost of capital = Capital employed x Weighted average cost of capital

$$= \text{Rs. } 60,00,000 \times \frac{10}{100} = \text{Rs. } 6,00,000$$

(e) 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.