PAPER – 1: ADVANCED ACCOUNTING

Announcements stating applicability for May 2026 Examination

I. Revised Criteria for classification of Non-company entities for applicability of Accounting Standards

The Council, at its 433rd meeting, held on August 13-15, 2024, considered the revised criteria for classification of Non-company entities for applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI) to Non-company entities (Enterprises) and recommended to revise the same. The revised scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2024, which is as under:

1. For the purpose of applicability of Accounting Standards, Non-company entities are classified into two categories, viz., Micro, Small and Medium Sized Entities (MSMEs) and Large entities.

2. Micro, Small and Medium Sized Entity (MSME) means, a non-company entity:

   (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

   (ii) which is not a bank, financial institution or an insurance company;

   (iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;

(iv) which does not have borrowings in excess of fifty crore rupees at any time during the immediately preceding accounting year; and

(v) which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity.

Explanation.- For the purposes of this clause, a non-company entity shall qualify as a Micro, Small and Medium Sized entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

Large entity is a non-company entity that is not an MSME.

The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME', respectively. Further, the terms Level II, Level III and Level IV entities used in Accounting Standards shall be read as 'Micro, Small and Medium Sized Entity' and Level I entity shall be read as a 'Large' entity.

3. Large entities are required to comply in full with all the Accounting Standards.

4. Certain exemptions/relaxations have been provided to Micro, Small and Medium sized Entity (MSMEs). Applicability of Accounting Standards and exemptions/relaxations to such entities are given in Annexure 1.

5. This Announcement supersedes the earlier Announcement of the ICAI on 'Criteria for classification of Non-company entities for applicability of Accounting Standards issued in March 2021[1].

[1] The said announcement was hosted on ICAI website on March 31, 2021 and published in 'The Chartered Accountant', May 2021 and it superseded the earlier announcement of the ICAI on 'Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government' issued in February 2008, to the extent it prescribed the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities, and the Announcement 'Revision in the criteria for classifying Level II non-corporate entities' issued in January 2013.

6. This Announcement is not relevant for Non-company entities which may be required to follow Indian Accounting Standards (Ind AS) or Accounting Standards (AS) as per relevant regulatory requirements applicable to such entities.

7. The changes arising from this Announcement will be incorporated in the Accounting Standards while publishing the updated Compendium of Accounting Standards.

Additional requirements

(1) An MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME and has complied with the Accounting Standards insofar as they are applicable to an MSME.

(2) Where an MSME had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be an MSME. The fact that it was an MSME in the previous period and it had availed of the exemptions or relaxations available to it shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.

(3) An entity which was previously not an MSME and subsequently becomes an MSME, shall not be qualified for exemption/relaxation in respect of Accounting Standards available to an MSME until the entity remains an MSME for two consecutive years.

(4) If an MSME opts not to avail of the exemptions or relaxations available to an MSME in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemption or relaxation.

(5) If an MSME opts not to avail any one or more of the exemptions or relaxations available to it, it shall comply with the relevant requirements of the Accounting Standard.

(6) An MSME may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard: Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead users of financial statements.

Annexure 1

Applicability of Accounting Standards to Non-company Entities The Accounting Standards issued by the ICAI, as on April 1, 2024, and such standards as issued from time-to-time are applicable to Non-company entities subject to the relaxations and exemptions in the announcement. The Accounting Standards issued by ICAI as on April 1, 2024, are:

AS 1	Disclosure of Accounting Policies
AS 2	Valuation of Inventories
AS 3	Cash Flow Statements
AS 4	Contingencies and Events Occurring After the Balance Sheet Date
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 7	Construction Contracts
AS 9	Revenue Recognition
AS 10	Property, Plant and Equipment
AS 11	The Effects of Changes in Foreign Exchange Rates
AS 12	Accounting for Government Grants
AS 13	Accounting for Investments
AS 14	Accounting for Amalgamations
AS 15	Employee Benefits
AS 16	Borrowing Costs
AS 17	Segment Reporting

AS 18	Related Party Disclosures
AS 19	Leases
AS 20	Earnings Per Share
AS 21	Consolidated Financial Statements
AS 22	Accounting for Taxes on Income
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets
AS 27	Financial Reporting of Interests in Joint Ventures
AS 28	Impairment of Assets
AS 29	Provisions, Contingent Liabilities and Contingent Assets

(1) Applicability of the Accounting Standards to Large Non- company entities.

Large entities are required to comply in full with all the Accounting Standards.

(2) Applicability of the Accounting Standards and exemptions/ relaxations for Micro, Small and Medium sized Non-company entities

(A) Accounting Standards not applicable to Micro, Small and Medium sized entity (MSME) in their entirety

(i) Accounting Standards not applicable to all MSMEs in their entirety:

- AS 3, Cash Flow Statements
- AS 17, Segment Reporting
- AS 20, Earnings per Share
- AS 24, Discontinuing Operations

(ii) AS 18, Related Party Disclosures and AS 28, Impairment of Assets not applicable in their entirety to MSMEs :

(a) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;

(b) which does not have borrowings in excess of rupees ten crore at any time during the immediately preceding accounting year; and

(c) which is not a Holding and subsidiary of an MSME not covered above.

(B) Relaxations/exemptions from certain requirements of Accounting Standards to Micro, Small and Medium sized Entities (MSMEs)

(i) Accounting Standard (AS) 10, Property, Plant and Equipment MSMEs may not comply with paragraph 87 relating to encouraged disclosures.

(ii) AS 11, The Effects of Changes in Foreign Exchange Rates MSMEs may not comply with paragraph 44 relating to encouraged disclosures.

(iii) AS 15, Employee Benefits

(1) MSMEs may not comply with the following paragraphs:

(a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are nonvesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

(c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and

(d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

(iv) AS 19, Leases

MSMEs may not comply with paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); 38; and 46 (b), (d) and (e) relating to disclosures.

(v) AS 22, Accounting for Taxes on Income

(a) MSMEs shall comply with the requirements of

AS 22, Accounting for Taxes on Income, for Current tax defined in paragraph 4.4 of AS 22, with recognition as per paragraph 9, measurement as per paragraph 20 of AS 22, and presentation and disclosure as per paragraphs 27-28 of AS 22.

(b) Transitional requirements on the first occasion when an MSME avails this exemption, the accumulated deferred tax asset/liability appearing in the financial statements of immediate previous accounting period, shall be adjusted against the opening revenue reserves/owner's funds.

(vi) AS 26, Intangible Assets MSMEs may not comply with paragraphs 90(d)(iii); 90(d)(iv) and 98 relating to disclosures.

(vii) AS 28, Impairment of Assets (a) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if such MSME chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard. (b) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] may not comply with paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures.

(viii) AS 29, Provisions, Contingent Liabilities and Contingent Assets

MSMEs may not comply with paragraphs 66 and 67 relating to disclosures.

(C) In case of Micro, Small and Medium sized Non-company entities, generally there are no such transactions that are covered under AS 14, Accounting for Amalgamations, or jointly controlled operations or jointly controlled assets covered under AS 27, Financial Reporting of Interests in Joint Ventures. Therefore, these standards are not applicable to Micro, Small and Medium size Non-company entities. However, if there are any such transactions, these entities shall apply the requirements of the relevant standard.

(D) AS 21, Consolidated Financial Statements, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements, AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements), and AS 25, Interim Financial Reporting, do not require a Non-company entity to present consolidated financial statements and interim financial report, respectively. Relevant AS is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

II. Amendments to AS 22, Accounting for Taxes on Income

Paragraphs 2A, 32A–32D (including their related heading and example after paragraph 32D) and 35 are added.

Scope: 2A This Standard applies to taxes on income arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Such tax law, and the taxes on income arising from it, are hereafter referred to as 'Pillar Two legislation' and 'Pillar Two income taxes'. As an exception to the requirements in this Standard, an enterprise should neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Presentation and Disclosure: International tax reform—Pillar Two model rules 32A An enterprise should disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 2A). 32B An enterprise should disclose separately its current tax expense (income) related to Pillar Two income taxes. 32C In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an enterprise should disclose known or reasonably estimable information that helps users of financial statements understand the enterprise's exposure to Pillar Two income taxes arising from that legislation. 32D To meet the disclosure objective in paragraph 32C, an enterprise should disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an enterprise should instead disclose a statement to that effect and disclose information about the enterprise's progress in assessing its exposure.

Examples illustrating paragraphs 32C–32D Examples of information an enterprise could disclose to meet the objective and requirements in paragraphs 32C–32D include: (a) qualitative information such as information about how an enterprise is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and (b) quantitative information such as: (i) an indication of the proportion of an enterprise's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or (ii) an indication of how an enterprise's average effective tax rate would have changed if Pillar Two legislation had been in effect.

Provided that a Micro, Small and Medium-sized Enterprise (Levels IV, III and II non-company entities) may not apply the disclosure requirements laid down in paragraphs 32C and 32D. ... Effective date 35 International Tax Reform—Pillar Two Model Rules, added paragraphs 2A and 32A–32D. An enterprise should: (a) apply paragraphs 2A and 32A immediately upon the issue of these amendments and retrospectively; and (b) apply paragraphs 32B–32D for annual reporting periods beginning on or after 1 April 2024. An enterprise is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 March 2025.

QUESTIONS

PART – I: Multiple Choice Questions based on Case Scenarios

1. Year 1 - A Company purchased a land from its own funds and started construction on two towers on the land. The Company for the construction borrowed funds of ₹ 60 lakhs each for both the towers. The Company is required to pay interest of ₹ 60,000 annually for each loan. During the first year the Company allotted the vacant area for parking purposes which fetched revenue of ₹ 15,000 in year 1 only. Tower 1 got ready at the end of year 2. The Company capitalised the same and started using the same for intended purpose.

   (i) How much borrowing cost should be charged to profit and loss at the end of year 1:

   (a) ₹ 60,000

   (b) ₹ 1,20,000

   (c) ₹ 1,05,000

   (d) Nil

   (ii) How much borrowing cost is eligible for capitalisation at the end of year 1:

   (a) ₹ 60,000

   (b) ₹ 1,20,000

   (c) ₹ 1,05,000

   (d) Nil

   (iii) How much borrowing cost should be charged to profit and loss at the end of year 3:

   (a) ₹ 60,000

   (b) ₹ 1,20,000

   (c) ₹ 1,05,000

(d) Nil

(iv) How much borrowing cost is eligible for capitalisation at the end of year 3:

(a) ₹ 60,000

(b) ₹ 1,20,000

(c) ₹ 1,05,000

(d) Nil

General MCQs

2. Suraj Ltd. (the lessee) acquires machinery on lease from Chand Ltd. (the lessor) on April 1, 2025 for 3 years. The economic life of machinery is also 3 years. The fair value of the machinery is ₹ 2,50,000 and the guaranteed residual value is ₹ 2,000. As per the lease agreement, the lessee is required to pay ₹ 1,00,000 per year from April 1, 2025. The lessor has guaranteed a residual value of ₹ 20,000. However, lessor estimates that it would have a value of 5,000 only after 3 years. At what value the machinery would be recognised.

(a) ₹ 2,50,000

(b) ₹ 2,24,500 approx

(c) ₹ 2,37,400 approx

(d) ₹ 2,27,700 approx

3. Which of the following is not an example of cash and cash equivalent balances held by the entity that are not available for use?

(a) balance in unpaid dividend account;

(b) balance in bank account as Fixed deposits

(c) earmarked bank balances for specific purposes. Examples: bank account for debenture redemption, dividend payment etc.

(d) balance in bank account subject to legal restrictions.

4. Following is the example of research activities as per AS 26 which is recognised as expense when it is incurred:

(a) the design, construction and testing of pre-production or pre-use prototypes and models.

(b) the search for alternatives for materials, devices, products, processes, systems or services.

(c) the design of tools, jigs, moulds and dies involving new technology.

(d) the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production.

Part II - Descriptive Questions

Introduction to Accounting Standards

5. Write a short note on International Accounting Standard Board (IASB).

Framework for Preparation & Presentation of Financial Statements

6. Giant Ltd. has entered into a binding agreement with Tiny Ltd. to buy a custom-made machine of ₹ 1,00,000 at the end of 2024-25, before delivery of the machine, Giant Ltd. had to change its method of production. The new method will not require the machine ordered and it will be scrapped after delivery. The expected scrap value is nil.

   You are required to advise the accounting treatment and give necessary journal entry in the year 2024-25.

Applicability of Accounting Standards

7. Virat Traders, an unlisted partnership firm, had a turnover of ₹ 249.99 crore and borrowings of ₹ 25.01 crore during the financial year 2023-24. It is not a bank, financial institution, or insurance company, and also not a subsidiary of any other entity. The firm wishes to avail MSME exemptions for FY 2024—25. Is it eligible?

AS 3 “Cash flow statements ”

8. The following are the summarised Balance Sheets of Dark Limited as at 31^{st} March, 2025 and 31^{st} March, 2024:

Particulars	31st March, 2025 ₹ in Lakhs	31st March, 2024 ₹ in Lakhs
Equity and Liabilities		
Equity Share Capital	250.00	195.00
Profit & Loss Account	15.00	10.00
8% Debentures	50.00	40.00
Trade Payables	75.00	82.00
Unpaid Interest on Debentures	2.00	---
Provision for Taxation	8.00	5.00
	400.00	332.00
Assets		
Property, Plant & Equipment	255.00	205.00
Goodwill	6.00	8.00
Inventories	28.00	42.00
Trade Receivables	52.00	50.00
Cash & Cash Equivalents	59.00	27.00
	400.00	332.00

Other Information:

Dividend paid during the year 2024-25 is ₹ 3,00,000,

- Depreciation charged during the year 2024-25 is ₹ 20,00,000.

Fresh debentures were issued on 1st April, 2024.

You are required to prepare the Cash Flow Statement for the year ended 31st March, 2025 using Indirect Method.

AS 4 "Contingencies and Events Occurring after the Balance Sheet Date"

9. While preparing its financial statements for the year ended 31st March, 2025, B Limited has come across the following events which took place after 31st March, 2025. The financial statements of the company were approved by the Board of Directors on 30th May, 2025:

(i) B Limited started negotiations with S Limited during 2024-25 to acquire their Consumer Durables Business for ₹ 400 lakhs. The deal was finalized on 20th April, 2025 and B Limited invested ₹ 275 lakhs before 30th May, 2025.

(ii) During the course of audit for the year ended 31st March, 2025, the auditor discovered a fraud of ₹ 1,25,000 done by the accountant of the company. The fraud was discovered on 20th April, 2025. The accountant of the company had left the job and absconded on 29th March, 2025.

(iii) A fire engulfed the warehouse of B Limited on 13th April, 2025 and destroyed inventory worth ₹ 15 lakhs lying there.

You are required to state with reasons, whether, the aforesaid events are adjusting or non-adjusting events as per the provisions of the relevant AS.

AS 7 "Construction Contracts"

10. On 1st April, 2024, Y Limited purchased an industrial plot of land for ₹ 50,00,000 for the purpose of constructing a new factory. This cost of ₹ 50,00,000 included legal cost of ₹ 2,50,000 incurred for the purpose of acquisition of this plot. The construction of the factory commenced on 1st May, 2024. Y Limited provides you with the following details of the costs incurred in relation to the above construction:

Particulars	Amount (₹)
Preparation and levelling of the land	1,60,000
Employment costs of construction workers (per month)	58,000
Purchase of Raw materials for the construction	42,48,000
Cost of relocating the workers to new factory for work	75,000
Costs of inaugural function of the new factory on 1st January,2025	95,000
Overhead costs incurred directly on the construction of the factory (per month)	50,000

The construction of the factory was completed on 31st December, 2024 and production could commence on 1st February, 2025. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof would need to be replaced 20 years after the date of completion. The cost of replacing the roof at current prices would be 25% of the total cost of the building. The construction of the factory was partly financed by a loan of ₹ 56,00,000 raised from State Bank of India on 1st April, 2024 at an interest rate of 9% per annum. During the period when the loan proceeds had been fully utilized to finance the construction, Y Limited earned an income of ₹ 50,000 from the temporary investment of the proceeds. Assume that all of the net finance cost needs to be allocated to the cost of factory (excluding land) and interest cost to be capitalized based on eight months' period.

You are required to compute the carrying amount (i.e. value after charging depreciation) of the Factory in the books of Y Limited as at 31 March, 2025 as per the provisions of the relevant Accounting Standard.

AS 12 "Accounting for Government Grants"

11. Era Limited installed Plant and Machinery costing ₹ 100 lakhs on 1st April, 2023 and received a Government Grant of 40% towards its cost on the same day. The Grant was credited to Plant & Machinery Account. The life of the Plant & Machinery is 5 years and its residual value is ₹ 10 lakhs. The company charges depreciation on Straight Line Method. After one year, the Company had to refund the Grant to the extent of ₹ 25 lakhs on 1st April, 2024 due to non-compliance with certain conditions.

    You are required to pass the necessary Journal entries in the books of Era Limited for the first two years for the above transactions.

AS 14 "Amalgamation"

12. A Limited and B Limited were amalgamated on 31st March, 2025 to form a new company named AB Limited. Prior to the amalgamation, the Balance Sheets of the two companies stood as under:

Balance Sheets of A Limited and B Limited as at 31.03.2025

Particulars	Note No.	A Limited (₹ lakhs)	B Limited (₹ lakhs)
I. Equity and Liabilities			
(1) Shareholders' Funds			
(a) Share Capital	1	1,188.00	1,026.00
(b) Reserves and Surplus	2	453.60	356.40
(2) Non- Current Liabilities			
Long Term Borrowings	3	90.00	48.00
(3) Current Liabilities			
Trade Payables		428.40	189.60
Total		2,160.00	1,620.00
II. Assets			
(1) Non – Current Assets			
(a) Property, Plant and Equipment		972.00	702.00
(b) Non-Current Investments		162.00	54.00
(2) Current Assets			
(a) Inventories		350.00	275.00
(b) Trade Receivables		360.00	380.00
(c) Cash and Cash Equivalents	4	316.00	209.00
Total		2,160.00	1,620.00

Notes to Accounts:

Particulars	A Limited (₹lakhs)	B Limited (₹lakhs)
1. Share Capital		
Equity shares of ₹ 100 each	864.00	810.00
8% Preference shares of ₹100 each	324.00	216.00

Total		1,188.00	1026.00
2.	**Reserves and Surplus**		
	Capital Reserve	162.00	108.00
	General Reserve	183.60	162.00
	Investment Allowance Reserve	---	54.00
	Profit and Loss Account	108.00	32.40
Total		453.60	356.40
3.	Long Term Borrowings		
	8% Debentures of ₹100 each	90.00	48.00
Total		90.00	48.00
4.	**Cash and Cash equivalents**		
	Cash at Bank	316.00	209.00

Additional Information:(i) The Authorized Capital of AB Limited will be ₹ 100 lakhs Equity Shares of ₹ 10 each and 7.50 lakhs 9% Redeemable Preference Shares of 100 each.

(ii) AB Limited will issue four Equity Shares for each Equity Share of A Limited. The face value of the equity share of AB Limited is ₹ 10 and the issue price is ₹ 25 per share.

(iii) AB Limited will issue five Equity Shares for each Equity Share of B Limited. The face value of the equity share of AB Limited is ₹ 10 and the issue price is ₹ 25 per share.

(iv) Preference shareholders of A Limited and B Limited are issued an equivalent number of 9% Redeemable Preference Shares of ₹ 100 each of AB Limited at an issue price of ₹ 200 per share.

(v) Existing 8% Debenture holders of both the Companies will get two 9% Redeemable Preference Shares of ₹ 100 each for three debentures held by them at an issue price of ₹ 150 per share.

(vi) All Current assets and Current liabilities of A Limited and B Limited are taken over by AB Limited at book value except Inventory which is taken over at 4% lesser than their book value and Trade

Receivables for which a provision for doubtful debts is created at 5%.

(vii) AB Limited will be required to maintain the Investment Allowance Reserve for further 3 years.

Prepare the Balance Sheet of AB Limited as at 31st March, 2025, after amalgamation has been completed, on the basis of amalgamation in the nature of purchase, along with Notes to Accounts as per Schedule III of Companies Act, 2013.

AS 17 "Segment Reporting"

13. Whether interest expense relating to overdrafts and other operating liabilities identified to a particular segment should be included in the segment expense or not?

AS 19 "Leases"

14 Explain, in brief, the accounting treatment for an asset given under Operating Lease in the books of the Lessor.

AS 24 "Discontinuing Operation"

15. Arzoo Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner.

(i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

(ii) If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24?

(iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

AS 28 "Impairment of Assets"

16. A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment.

    Whether it will be a cash-generating unit as per AS 28?

AS 29 "Provisions, Contingent Liabilities and Contingent Assets"

17 Galaxy Limited is in the process of finalization of its accounts for the year ended 31st March, 2025 and needs your advice on the following issues in line with the provisions of AS 29:

(i) Galaxy Limited is selling cosmetic products under its brand name "Angel" but is getting these products manufactured from X Limited. It has an understanding (enforceable agreement) with X Limited that if the company becomes liable for any damage claims, due to any injury or harm to the customer of the cosmetic products, 40% shall be reimbursed to it by X Limited. During the year 2024-25, an estimate of the claim of ₹ 25 lakhs may be payable to the customers by Galaxy Limited. How should Galaxy Limited account for the claim that becomes payable?

(ii) Galaxy Limited has been sued by one of its competitor for alleged infringement of trademark and a notice for levy of penalty of ₹ 50 lakhs has been rmeceived by it. The company has appointed a law firm to defend its case for a fee of ₹ 5 lakhs. 60% of the fees has been paid in advance and the rest 40% would be paid after finalization of the case. There are 70% chances that the penalty may not be imposed.

Financial statements of companies

18 The following is the Trial Balance of Anmol Limited as on 31st March, 2025:

Debit Balance	**Amount (₹)**	**Credit Balances**	**Amount (₹)**
Purchases	82,95,000	Sales	1,25,87,000
Wages and Salaries	12,72,000	Commission	72,500
Rent	2,20,000	Equity Share Capital	10,00,000
Rates and Taxes	50,000	General Reserve	10,00,000
Selling & Distribution Expenses	4,36,000	Surplus (P&L A/c) 01.04.2024	8,75,500
Directors Fees	32,000	Securities Premium	2,50,000
Bad Debts	38,500	Term Loan form Public Sector Bank	1,02,00,000
Interest on Term Loan	8,05,000	Trade Payables	55,08,875
Land	24,00,000	Provision for Depreciation:	
Factory Building	36,80,000	On Plant	9,37,500
Plant and Machinery	62,50,000	On Furniture and Fittings	82,500
Furniture and Fittings	8,25,000	On Factory Building	1,84,000
Trade Receivables	64,75,000	Provision for Doubtful Debts	25,000
Advance Income Tax Paid	37,500	Bills Payable	1,25,000
Stock (1st April,2024)	9,25,000		
Bank Balances	9,75,000		
Cash on Hand	1,31,875		
Total	3,28,47,875	Total	3,28,47,875

Following information is provided:

(1) The Authorized Share Capital of the Company is 2,00,000 Equity Shares of ₹ 10 each. The Company has issued 1,00,000 Equity Shares of ₹ 10 each.

(2) Rent of ₹ 20,000 and Wages of ₹ 1,56,500 are outstanding as on 31st March, 2025.

(3) Provide Depreciation @ 10% per annum on Plant and Machinery, 10% on Furniture and Fittings and 5% on Factory Building on written down value basis.

(4) Closing Stock as on 31st March, 2025 is ₹ 11,37,500.

(5) Make a provision for Doubtful Debt @ 5% on Debtors.

(6) Make a provision of 25% for Corporate Income Tax

(7) Transfer ₹ 1,00,000 to General Reserve.

(8) Term Loan from Public Sector Bank is secured against Hypothecation of Plant and Machinery. Installment of Term Loan falling due within one year is ₹ 17,00,000.

(9) Trade Receivables of ₹ 85,600 are outstanding for more than six months.

(10) The Board declared a dividend @10% on Paid up Share Capital on 5th April, 2025.

You are required to prepare Balance Sheet as on 31st March 2025 and Statement of Profit and Loss with Note to Accounts for the year ending 31st March, 2025 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures.

Internal reconstruction

19. Following is the Balance Sheet of Ellora Limited as at 31st March, 2025:

Particulars	Note	Amount (₹)
Equity and Liabilities		
Shareholders' Funds		
Share Capital	1	46,00,000

Reserves and Surplus	2	(21,40,000)
Non-current Liabilities		
Long Term borrowings	3	15,00,000
Current Liabilities		
Trade Payables		12,00,000
Short Term Borrowings – Bank Overdraft		7,80,000
Other Current Liabilities	4	4,90,000
Short Term Provisions-Provision for Taxation		4,00,000
Total		68,30,000
Assets		
Non-current Assets		
Property, Plant and Equipment	5	23,00,000
Intangible Assets	6	6,70,000
Non-current Investments	7	2,20,000
Current Assets		
Inventories		17,00,000
Trade Receivables		19,40,000
Total		68,30,000

Notes to Accounts

	Particulars	Amount (₹)
1	**Share Capital**	
	Equity Share Capital	
	3,00,000 Equity Shares of ₹10 each, fully paid up	30,00,000
	Preference Shares Capital	
	16,000 6% Cumulative Preference Shares of ₹ 100 each, fully paid up	16,00,000
	Total	46,00,000

2	**Reserves and Surplus**	
	Debit balance of Profit and Loss Account	(21,40,000)
3	**Long Term Borrowings**	
	Secured	
	6% Debentures (secured on the freehold property)	15,00,000
4	Other Current Liabilities	
	Loan from Directors	4,00,000
	Interest Payable on Debentures	90,000
	Total	4,90,000
5	**Property, Plant and Equipment**	
	Freehold Property	17,00,000
	Plant and Machinery	6,00,000
	Total	23,00,000
6	**Intangible Assets**	
	Goodwill	5,20,000
	Patents and Trademarks	1,50,000
	Total	6,70,000
7	**Non-current Investments**	
	Investments in Marketable Securities – valued at Cost	
	(Market Value ₹5,40,000)	2,20,000

Due to continued losses and liquidity constraints, it was decided to reconstruct the company. The following scheme of internal reconstruction was approved by the shareholders and sanctioned by the Tribunal:

1. The Equity Shares shall be written down to ₹ 2 each and the Preference Shares shall be written down to ₹ 75 each.

2. Of the Preference Shares' Dividends which are in arrears for four years, the Preference Shareholders have agreed to forego their claim for arrears of dividends for three years and accept allotment of Equity Shares of ₹ 2 each towards dividend for the fourth year.

3. Interest payable on Debentures is paid in cash.

4. The Debenture holders have agreed to take over freehold property, book value ₹ 4,00,000 at a valuation of ₹ 4,80,000 in part repayment of their holdings. Besides they have agreed to provide additional funds of ₹ 5,20,000 secured by a floating charge on the company's assets at an interest rate of 9%.
5. Inventory is to be written down by ₹ 2,60,000
6. Provision for bad and doubtful debts is to be created for ₹ 2,74,000.
7. Intangible Assets and Debit balance of Profit and Loss Account are to be written off.
8. The remaining freehold property after giving to Debenture holders is to be revalued at ₹ 15,50,000,
9. The Non-current Investments are sold off for ₹ 5,60,000.
10. A contingent liability of ₹ 1,00,000 is payable, which has arisen due to the wrong action of one of the Directors. He has agreed to compensate this loss out of the loan given by him to the company. For the remaining loan of ₹ 3,00,000, the Directors have agreed to accept a cash payment of ₹ 20,000 and allotment of ₹ 1,30,000 Equity Shares of ₹ 2 each in full settlement.
11. There is a capital commitment of ₹ 10,00,000. The contract is cancelled on payment of 5% of the contract price as a penalty.
12. The company issued 2,00,000 new Equity shares of ₹ 2 each at par, payable in full on allotment. The issue was underwritten for a commission of 5%. Shares were fully taken up.
13. The taxation liability of the company is settled at ₹ 3,00,000 and the same is paid immediately.
14. The expenses of reconstruction amounted to ₹ 15,000,

You are required to:

(a) Pass the Journal Entries to record the above transactions (including cash transactions) in the books of the company.

(b) Prepare Capital Reduction Account.

Accounting for Branches

20. Following is the Trial Balance as on 31st December, 2025 of the Cambridge Branch of Harry Limited whose Head Office is situated at Pune, India.

	Dr €	Cr €
Furniture	80,000	
Stock as on 1st January,2024	36,000	
Debtors	16,000	
Cash at Bank	3,000	
Head Office A/c		80,000
Creditors		12,000
Sales		2,80,000
Expenses		
Goods sent from Head Office	12,000	
Total	3,72,000	3,72,000

In the books of Head Office, the Branch Account stood as under:

Cambridge Branch Account

	₹ in Lakhs		₹ in Lakhs
To Balance b/d	27.00	By Bank	146.00
To Goods sent to Branch	180.00	By Balance c/d	61.00
	207.00		207.00

Additional Information:

1. Good are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%.
2. Furniture was acquired on 1st April, 2023 when € 1.00 ₹ 84. Furniture is depreciated at 10%.
3. The Branch Manager is entitled to a commission of 10% on the profits of the branch before charging such commission.

4. Rates of Exchange were on 1st January, 2025 € 1.00 ₹ 91, on 31st December, 2025 € 1.00 = ₹ 89 and Average € 1.00 = ₹ 86.

You are required to:

(i) Prepare the Branch Trading and Profit & Loss Account in Euros.

(ii) Convert the Trial Balance of the Branch in Indian Currency.

SUGGESTED ANSWERS/HINTS

Answer to Case Scenario and MCQ

Q. No.		Hints
1.	**(i)**	**(d)**
	(ii)	**(b)**
	(iii)	**(a)**
	(iv)	**(a)**
2.		**(c)**
3.		**(b)**
4.		**(b)**

Descriptive Answers

5. With a view of achieving the objective of setting global standards, the London based group namely the International Accounting Standards Committee (IASC), responsible for developing International Accounting Standards (IAS), was established in June, 1973.

- It is presently known as International Accounting Standards Board (IASB).
- Between 1973 and 2001, the IASC released IASs. Between 1997 and 1999, the IASC restructured their organisation, which resulted in formation of IASB. These changes came into effect on 1st April, 2001. Subsequently, IASB issued statements about current and future standards.

- IASB publishes its Standards in a series of pronouncements called International Financial Reporting Standards (IFRS).
- The standards issued by IASC till 31.03.2001 are known as IASs and the standards issued by IASB since 01.04.2001 are known as IFRSs.

6. A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured.

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognised as an expense rather than as an asset.

In the given case, Giant Ltd. should recognise a liability of ₹1,00,000 to Tiny Ltd.

Also, the flow of future economic benefit from the machine to the enterprise is improbable.

Thus, the entire amount of purchase price of the machine should be recognised as an expense.

Journal Entries

Loss on Change in Production Method	Dr	1,00,000	
To Tiny Ltd.			1,00,000
(Being loss due to change in production method)			
Profit & Loss A/c	Dr	1,00,000	
To Loss on Change in Production Method			1,00,000
(Being loss transferred to P&L)			

7. Company qualifies as an MSME if following conditions are satisfied:

(a) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

(b) which is not a bank, financial institution or an insurance company;

(c) whose turnover (excluding other income) does not exceed 250 crore rupees in the immediately preceding accounting year;

(d) which does not have borrowings in excess of 50 crore rupees at any time during the immediately preceding accounting year; and

(e) which is not a holding or subsidiary of an entity which is not a MSME entity.

Yes, Virat Traders qualifies as an MSME since it meets all five criteria.

Further, it has been assumed that Virat Traders is not newly qualifying as an MSME in FY 2024-25 because a non-company entity that newly qualifies as an MSME can avail exemptions only after it remains as MSME for two consecutive years.

Until then, full AS compliance is required.

8. Cash Flow statement of Dark Limited for the year ended 31st March, 2025

Particulars	**₹ in Lakhs**	**₹ in Lakhs**
Net Cash Flow from Operating Activities		
Closing Net Profit	15.00	
Less: Opening Net Profit	(10.00)	
Add: Dividend Paid	3.00	
Provision for Tax	8.00	
Interest on Debentures	4.00	
Amortization of Goodwill	2.00	
Net Profit before Taxation and extraordinary items	22.00	
Depreciation	20.00	
Operating Profit before working capital changes		42.00
Decrease in Trade Payable	(7.00)	
Decrease in Inventories	14.00	
Increase in Trade Receivables	(2.00)	
Changes in working capital		5.00
Cash generated from Operations		47.00

Less: Tax paid		(5.00)
Net cash from Operating Activities		42.00
Cash Flow from Investing Activities		
Purchase of Fixed Assets	(70.00)	
Net Cash used in Investing Activities		(70.00)
Cash Flow from Financing Activities		
Issue of Shares	55.00	
Issue of Debentures	10.00	
Dividend Paid	(3.00)	
Interest Paid	(2.00)	
Net Cash from Financing Activities		60.00
Net Increase in Cash and Cash Equivalents		32.00
Cash and Cash Equivalents as on 31.03.2024		27.00
Cash and Cash Equivalents as on 31.03.2025		59.00

9. AS 4 (Revised) defines Events Occurring after the Balance Sheet Date" as those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Approving Authority in the case of a company.

Accordingly,

(i) The acquisition of Consumer Durables Business of S Limited by B Limited is an event occurring after the balance sheet date. However, it is a non-adjusting event as it does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2025. The disclosure should be made in the report of the approving authority about the investment of ₹ 275 lakhs to enable the users of financial statements to make proper evaluations and decisions.

(ii) This is an adjusting event. If a fraud of the accounting period is detected after the balance sheet date but before approval of the financial statements, it is necessary to recognize the loss of

₹ 1,25,000and adjust the accounts of the company for the year ended 31st March, 2025.

(iii) This is a non-adjusting event. The destruction of warehouse due to fire did not exist on the balance sheet date i.e.31st March, 2025. Therefore, loss occurred due to fire is not to be recognized in the financial year 2024-25. Considering that the going concern assumption is still valid, the fact of fire together with a loss of ₹ 15 lakhs should be disclosed in the report of the approving authority for 2024-25 to enable the users of financial statements to make proper evaluations and decisions.

10. Cost of construction of the factory

Particulars	**Amount (₹)**
Cost of Industrial Plot	50,00,000
Preparation and levelling of the land	1,60,000
Employment costs of construction workers (₹ 58,000 per month) for 8 months	4,64,000
Purchase of Raw materials for the construction	42,48,000
Overhead costs incurred directly on the construction of the factory (50,000per month) for 8 months	4,00,000
Interest on ₹ 56,00,000 for 9 months @ 9% = ₹ 3,78,000 less ₹ 50,000	3,28,000
Total Cost (A)	1,06,00,000
Depreciation (B) (W.N.)	43,750
Carrying amount of the factory (A-B)	1,05,56,250

Working Note:

(1) Calculation of Depreciation

(a) On land of ₹ 50,00,000 Nil

(b) On remaining cost of Building i.e.
₹ 1,06,00,000 – 50,00,000 = ₹ 56,00,000

(a) Building ₹ 56,00,000 x 75% /40 yrs x 3/12 = ₹ 26,250

(b) On roof ₹ 56,00,000 x 25% / 20 yrs x 3/12 = ₹ 17,500

Total Depreciation charged ₹ 43,750

(2) Cost of relocating the workers to new factory for work and cost of inaugural function of the new factory is not directly attributable to construction cost, hence not considered.

11. Journal Entries in the books of Era Limited

Date	Particulars	₹ in Lakhs	₹ in Lakhs
01/04/2023	Plant & Machinery A/c Dr.	100.00	
	To Bank A/c		100.00
	(Being Machinery Purchased)		
01/04/2023	Bank A/c Dr.	40.00	
	To Plant & Machinery A/c		40.00
	(Being Grant received from the Government Credited to Plant and Machinery Account)		
31/03/2024	Depreciation A/c Dr.	10.00	
	To Plant & Machinery A/c		10.00
	(Being Depreciation charged)		
31/03/2024	Profit & Loss A/c Dr.	10.00	
	To Depreciation A/c		10.00
	(Being Depreciation transferred to Profit & Loss A/c)		
01/04/2024	Plant & Machinery A/c Dr.	25.00	
	To Bank A/c		25.00
	(Being Government Grant on asset partly refunded with a corresponding increase in cost of asset)		

31/03/2025	Depreciation A/c Dr. To Plant & Machinery A/C (Being Depreciation charged on SLM on revised value of Plant & Machinery prospectively)	16.25	16.25
31/03/2025	Profit & Loss A/c Dr. To Depreciation A/c (Being Depreciation transferred to Profit & Loss A/c at the end of Year 2)	16.25	16.25

Working Notes:

1. Depreciation for the year ended 31.03.2024

   (Cost of Machinery – Grant Received – Residual value) / Useful life

   = (100-40-10)/ 5 Lakhs = ₹ 10 Lakhs

2. Depreciation for the year ended 31.03.2025

Particulars	**₹ in Lakhs**
Cost of Asset	100.00
Less: Government Grant Received	40.00
	60.00
Less: Depreciation for first year i.e. 31.03.24	10.00
	50.00
Add: Government Grand Refunded	25.00
Depreciation for second year (75-10) /4 i.e. 31.03.25	75.00
	16.25

12. Calculation of shares and debentures to be issued

	A Ltd. (₹ in Lakhs)	**B Ltd. (₹ in Lakhs)**
(i) Equity shares 8,64,000 × 4 = 34,56,000 equity shares × ₹ 25	864.00	

8,10,000 × 5 = 40,50,000 equity shares × ₹ 25		1012.50
(ii) Preference shares		
3,24,000 × 1 = 3,24,000 Preference shares × 200	648.00	
2,16,000 × 1 = 2,16,000 Preference shares × 200		432.00
Purchase Consideration (i + ii)	1512.00	1444.50

Balance Sheet of AB Limited as at 31st March 2025

Particulars	Note No.	₹ in Lakhs
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share capital	1	1,382.60
(b) Reserves & Surplus	2	1,809.50
(2) Non- Current Liabilities		
(3) Current Liabilities		
Trade Payables	3	618.00
Total		3,810.10
II. Assets		
(1) Non-Current Assets		
(a) Properly Plant & Equipment	4	1,674.00
(b) Intangible Assets (Goodwill)		92.10
(c) Non-Current Investments	5	216.00
(2) Current Assets		
(a) Inventories	6	600.00
(b) Trade Receivables	7	703.00
(c) Cash & Cash equivalents	8	525.00
Total		3,810.10

Notes to Accounts

	Particulars		₹ in Lakhs
1	**Share Capital**		
	Authorized share capital		
	100,00,000 Equity shares of ₹ 10 each		1,000.00
	7,50,000 9% Redeemable Preference share of ₹ 100 each		750.00
	Issued, subscribed and Paid- up Share Capital		
	75,06,000 Lakhs Equity shares of ₹ 10 each		750.60
	(Out of the above 75,06,000 shares have been issued for Consideration other than cash)		
	6,32,000 9% Redeemable Preference shares of ₹ 100 each		632.00
	(Out of the above 6,32,000 shares have been issued for consideration other than cash)		
2	**Reserves & Surplus**		
	Securities Premium Account	1711.90	
	Investment Allowance Reserve	54.00	
	Amalgamation Adjustment Reserve	(54.00)	
	Capital Reserve	97.60	1,809.50
3	Trade payable (428.40 + 189.60)		618.00
4	Property, Plant & Equipment (972 + 702)		1,674.00
5	Non-Current Investments (162 + 54)		216.00
6	Inventories (336 + 264)		600.00
7	Trade Receivables (342 + 361)		703.00
8	Cash & Cash Equivalents (316 + 209)		525.00

Working Notes:

1. **Calculation of 9% Redeemable Preference Shares to be issued to existing 8% debenture holders of A Ltd. and B Ltd.**

	A Ltd. (₹ in Lakhs)	B Ltd. (₹ in Lakhs)
90,000 debentures / 3 × 2 =60,000 9% Redeemable Preference share @ ₹ 150 each	90.00	-
48,000 debentures / 3 × 2 = 32,000 9% Redeemable Preference shares @ ₹ 150 each	-	48.00
	90.00	48.00

2. **Computation of Net Assets as on 31.03.2025**

Particulars	**A Ltd. (₹ in Lakhs)**	**B Ltd. (₹ in Lakhs)**
Assets taken over		
Property, Plant & Equipment	972.00	702.00
Non-current Investments	162.00	54.00
Inventory less Provision	336.00	264.00
Trade Receivables less Provision	342.00	361.00
Cash at Bank	316.00	209.00
Total (a)	2,128.00	1,590.00
Liabilities		
8% Debentures	90.00	48.00
Trade Payables	428.40	189.60
Total (b)	518.40	237.60
Net Assets (a – b)	1,609.60	1,352.40

3. **Calculation of Goodwill / Capital Reserve**

Particulars	**A Ltd (₹ in Lakhs)**	**B Ltd (₹ in Lakhs)**
Purchase Consideration paid	1,512.00	1,444.50
Less: Net Assets	1,609.60	1,352.40
Goodwill / (Capital Reserve)	(97.60)	92.10

13. The interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories.

14. The accounting treatment for an asset given under Operating Lease in the books of the Lessor is given as under

(i) The Lessor should present an asset given under Operating Lease as PPE in its balance sheet.

(ii) Lease income from operating leases should be recognized in the Statement of Profit and Loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the use of the leased asset is diminished.

(iii) Depreciation should be recognized in the books of the lessor. The depreciation of leased assets should be on a basis consistent with the normal accounting policy of the lessor for similar assets, and the depreciation charge should be calculated on the basis set out in AS 10.

(iv) The impairment loss on assets given on operating leases are determined and treated as per AS 28.

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

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

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

(2) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;

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

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

In view of the above the answers are:

(i) No, the companies' strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Above all, the new segment i.e. commercial vehicle production line in a new factory has not started.

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

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

16. It is likely that the recoverable amount of an individual magazine title can be assessed. Even though the level of advertising income for a title is influenced, to a certain extent, by the other titles in the customer segment, cash inflows from direct sales and advertising are identifiable for each title. In addition, although titles are managed by customer segments, decisions to abandon titles are made on an individual title basis.

Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent one from another and that each magazine title is a separate cash-generating unit.

17. (i) Since the understanding results in an enforceable agreement, the reimbursement of ₹ 10,00,000 (40% of ₹ 25,00,000) shall be recognized as a reimbursement right and provision will be recognized for the full amount of the liability of ₹ 25,00,000.

The reimbursement right shall be treated as a separate asset and shall not be offset with the provision.

In the Statement of Profit and Loss, the expense may be presented as ₹ 15,00,000 after offsetting the reimbursement right.

As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e. More likely than not. Liability is a present obligation of the enterprise arising from the past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

In the given case, there are 70% chances that the penalty may not be levied. Accordingly, Galaxy Limited should not make the provision for liability. The matter is disclosed as a contingent liability unless the probability of any outflow is considered as remote.

However, a provision should be made for the remaining 40% fees of the law firm amounting to ₹ 2,00,000 in the financial statements for 2024-25.

18. Balance Sheet of Anmol Ltd. as at 31st March, 2025

Particulars			Note No.	₹
Equity and Liabilities				
1	Shareholders' funds			
	a	Share capital	1	10,00,000
	b	Reserves and Surplus	2	24,76,462

			Notes	Amount
2	Non-current liabilities			
	a	Long-term borrowings	3	85,00,000
3	Current liabilities			
	a	Short term borrowings (Installment of term loan falling due in one year)		17,00,000
	b	Trade Payables	4	56,33,875*
	c	Other current liabilities	5	1,76,500
	d	Short term provisions (provision for tax)		1,16,988
		Total		1,96,03,825
ASSETS				
1	Non-current assets			
	a	PPE	6	1,11,70,700
2	Current assets			
	a	Inventories		11,37,500
	b	Trade receivables	7	61,51,250
	c	Cash and bank balances	8	11,06,875
	d	Short term loans & advances (Advance tax paid)		37,500
				1,96,03,825

Statement of Profit and Loss of Anmol Ltd.
for the year ended 31st March, 2025

	Particulars	Notes	Amount
I.	Revenue from operations		1,25,87,000
II.	Other income (Commission income)		72,500
III.	Total Income (I + II)		1,26,59,500
IV.	Expenses:		
	Purchases of Inventory-in-Trade		82,95,000
	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	9	(2,12,500)

	Employee benefits expense	10	14,28,500
	Finance costs (interest on term loan)		8,05,000
	Depreciation		7,80,300
	Other operating expenses	11	10,95,250
	Total expenses		1,21,91,550
V.	Profit (Loss) for the period (III - IV)		4,67,950
VI.	(-) Tax (25%)		(1,16,988)
VII.	PAT		3,50,962

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Authorized		
	2,00,000 equity shares of ₹ 10 each		20,00,000
	Issued & subscribed		
	1,00,000 equity shares of ₹ 10 each		10,00,000
2	Reserves and Surplus		
	General Reserve	10,00,000	
	Add: current year transfer	1,00,000	11,00,000
	Profit & Loss balance		
	Opening balance: Surplus P & L A/c	8,75,500	
	Profit for the year	3,50,962	
	Less: Appropriations:		
	Transfer to General reserve	(1,00,000)	11,26,462
	Securities premium		2,50,000
			24,76,462
3	Long-term borrowings		
	Term loan from public sector bank (Secured by hypothecation)		1,02,00,000

	Less: Installment of Term loan falling due within one year		(17,00,000)
	Total		85,00,000
4	Trade payables		
	Trade payables*	55,08,875	
	Bills payable	1,25,000	56,33,875
5	Other current liabilities		
	Rent outstanding	20,000	
	Wages and Salaries Outstanding	1,56,500	1,76,500
6	PPE (W.N 2)		
	Land		24,00,000
	Factory Buildings		33,21,200
	Plant & Machinery		47,81,250
	Furniture & Fittings		6,68,250
	Total		1,11,70,700
7	Trade receivables		
	Debtors Outstanding for period exceeding 6 months	85,600	
	Other debts	63,89,400	
	Less: Provision for doubtful debt	(3,23,750)	61,51,250
8	Cash and bank balances		
	Cash and cash equivalents		
	Bank balance	9,75,000	
	Cash on hand	1,31,875	11,06,875
9	Changes in Inventories		
	Opening Inventory	9,25,000	
	Less: Closing Inventory	(11,37,500)	
	Change		(2,12,500)

10	Employee benefit expense		
	Wages and Salaries	12,72,000	
	Add: Wages and Salaries Outstanding	1,56,500	14,28,500
11	Other operating expenses		
	Rent	2,20,000	
	Add: outstanding	20,000	2,40,000
	Rates and Taxes		50,000
	Selling & Distribution expenses		4,36,000
	Bad debts		38,500
	Provision for Doubtful Debts (3,23,750 -25,000)		2,98,750
	Director's fee		32,000
	Total		10,95,250

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 2025. Such dividends will be disclosed in notes only.

Calculation of depreciation

	Book value	Accumulated depreciation	WDV	Current year Depreciation	Current year WDV
Land	24,00,000	-	24,00,000	-	24,00,000
Factory building	36,80,000	1,84,000	34,96,000	1,74,800	33,21,200
Plant & Machinery	62,50,000	9,37,500	53,12,500	5,31,250	47,81,250
Furniture & Fittings	8,25,000	82,500	7,42,500	74,250	6,68,250
			Total	7,80,300	1,11,70,700

19. **Journal Entries in the Books of Ellora Limited**

		Amount (Dr) (₹)	Amount (Cr) (₹)
1	Equity Share Capital A/c (₹ 10) Dr. To Equity Share Capital A/c (₹ 2) To Capital Reduction A/c (Reduction of Share Capital of ₹ 10 each to Shares of ₹ 2 each as per the Scheme of Reconstruction)	30,00,000	 6,00,000 24,00,000
2	6 % Cumulative Preference Share Capital A/c (₹ 100) Dr. To 6% Cumulative Preference Share Capital A/c (₹ 75) To Capital Reduction A/c (Reduction of Preference Shares of ₹ 100/- each to shares of ₹ 75 each as per the Scheme of Reconstruction)	16,00,000	 12,00,000 4,00,000
3	Capital Reduction A/c Dr. To Equity Share Capital A/c (₹ 2) (Arrears of Preference Dividend satisfied by the issue of equity shares, 25 % of the amount due ₹ 3,84,000)	96,000	 96,000
4	Freehold Property A/c Dr. To Capital Reduction A/c (Appreciation in the value of Property Book Value ₹ 4,00,000 Revalued figure ₹ 4,80,000 Book Value ₹ 13,00,000 Revalued figure ₹15,50,000, Total ₹ 17,00,000 Revalued figure ₹ 20,30,000)	3,30,000	 3,30,000

5	6 % Debentures A/c Dr. To Freehold Property A/c (Claims of Debenture holders, in part, in respect of principal, discharged by transfer of freehold property vide Scheme of Reconstruction)	4,80,000	 4,80,000
6	Interest Payable A/c Dr. To Bank A/c (Debenture Interest paid)	90,000	 90,000
7	Bank A/c Dr. To 9 % Debentures A/c (9 % Debentures issued for cash)	5,20,000	 5,20,0000
8	Bank A/c Dr. To Investment A/c To Capital Reduction A/c (Sale of Investment for ₹ 5,60,000/, cost being ₹ 2,20,000 Profit ₹ 3,40,000 credited to Capital Reduction A/c)	5,60,000	 2,20,000 3,40,000
9	Loan from Directors A/c Dr. To Provision for Contingent Liability A/c (Being provision for contingent liability as it is payable, and the same is adjusted against loan from Directors)	1,00,000	 1,00,000
10	Loan from Directors A/c Dr. To Equity Share Capital A/c (₹ 2) To Bank A/c To Capital Reduction A/c (Remaining loan from Directors discharged by issue of Equity Shares of ₹ 2,60,000, and cash of ₹ 20,000 in full settlement)	3,00,000	 2,60,000 20,000 20,000

11	Capital Reduction Dr. To Bank A/c (Penalty charges for cancellation of contract (5% of ₹ 10,00,000) paid in cash)	50,000	 50,000
12	Bank A/c Dr. To Equity Share Application A/c (Issue of 2,00,000 equity Shares of ₹ 2·each fully paid up)	4,00,000	 4,00,000
13	Equity Share Application A/c Dr. To Equity Share Capital A/c (₹ 2/-) (Share Application Money transferred to Share Capital A/c)	4,00,000	 4,00,000
14	Capital Reduction A/c Dr. To Bank A/c (Underwriting commission on fresh issue of equity share capital paid)	20,000	 20,000
15	Provision for Taxation A/c Dr. To Bank A/c To Capital Reduction A/c (Tax liability settled at ₹ 3,00,000 and the balance credited to Capital reduction A/c)	4,00,000	 3,00,000 1,00,000
16	Capital Reduction A/c Dr. To Bank A/c (Expenses on Scheme of reconstruction paid)	15,000	 15,000
17	Capital Reduction A/c Dr. To Inventory A/c To Provision for Bad and Doubtful Debts A/c To Goodwill A/c To Patents and Trademarks, A/c To Profit and Loss A/c	34,09,000	 2,60,000 2,74,000 5,20,000 1,50,000 21,40,000

	To Capital reserve A/c (balancing figure) (Writing off Inventory, Goodwill, Patents and Trademarks, Debit balance of Profit and Loss Account, making provision for Bad and doubtful debts and transferring the balance to Capital reserve A/c)		65,000

Capital Reduction A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Equity Share Capital	96,000	By Equity Share Capital A/c (₹ 10)	24,00,000
To Bank A/c	50,000		
To Bank A/c	20,000	By 6% Cumulative Preference Share Capital A/c (₹ 100)	4,00,000
To Bank A/c	15,000		
To Inventory A/c	2,60,000		
To Provision for Bad and Doubtful Debts A/c	2,74,000	By Freehold Property A/c	3,30,000
		By Investments or Bank A/c	3,40,000
To Goodwill A/c	5,20,000	By Loan from Directors A/c	20,000
To Patents and Trademarks, A/c	1,50,000	By Provision for Taxation A/c	1,00,000
To Profit and Loss A/c	21,40,000		
To Capital Reserve A/c (balancing figure)	65,000		
Total	35,90,000	Total	35,90,000

20. In the books of Head Office Harry Limited

Cambridge Branch Trading and Profit & Loss Account for the year ended 31st December, 2025

Particulars	€	Particulars	€
To Opening Stock	36,000	By Sales	2,80,000
To Goods sent from H.O.	2,25,000	By Closing Stock	37,000
To Gross Profit c/d	56,000		
	3,17,000		3,17,000
To Expenses	12,000	By Gross Profit b/d	56,000

To Depreciation	8,000		
To Manager's Commission	3,600		
To Net Profit c/d	32,400		
	56,000		56,000

Converted Trial Balance (into Indian Currency) of Cambridge Branch

Particulars	Rate per €	Dr. (₹ in Lakhs)	Cr. (₹ in Lakhs)
Furniture	84	67.20	
Stock as on 1st January 2024	91	32.76	
Debtors	89	14.24	
Cash at Bank	89	2.67	
Head Office A/c	Actual		61.00
Creditors	89		10.68
Sales	86		240.80
Expenses	86	10.32	
Goods from Head Office	Actual	180.00	
Exchange Difference in rate		5.29	
Total		312.48	312.48

Closing Stock € 37,000 @ 89	32.93

Working Notes:

1. Calculation of Closing Stock and COGS

Particulars	€
Opening Stock	36,000
Add: Goods from Head Office	2,25,000
	2,61,000
Less: Cost of Goods sold (at invoice price) € 2,80,000 x 100/125 = € 2,24,000	2,24,000
Closing Stock	37,000

2. Calculation of Manager's Commission @ 10% of Profit

10% of (Euro 56,000 - Euro 12,000 - Euro 8,000)

= 10% of Euro 36,000 = Euro 3,600