Paper-16: Advanced Financial Accounting & Reporting

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.

Working Notes should form part of the answer.

"Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates."

Part A questions are compulsory. Attempt all of them

Part B has seven question. Attempt any five of them

Part A (25 marks)

1.(a) In each of the cases given below, one out of four alternatives is correct. Indicate the correct answer (= 1 mark)and give workings/reasons briefly in support of your answer (= 1 mark): [10×2=20]

(i) Umbrrella Ltd. reports quarterly and estimates an annual income of ₹ 400 crores. Assume Tax rates on first ₹ 200 crores at 30% and on the balance income at 40%. The estimated quarterly incomes are ₹ 30 crores, ₹ 100 crores, ₹ 150 crores and ₹ 120 crores respectively. The Tax expenses to be recognized in the last quarter as per AS-25 is
A. ₹ 48crores
B. ₹ 42crores
C. ₹ 38 crores
D. Insufficient Information

Answer: — B : ₹42 Crores.

Tax Expenses : 30% on ₹200 Crores = ₹60 Crores. 40% on remaining ₹200 Crores = ₹80 Crores. Total Tax = (60 + 80) = ₹140 Crores. Weighted average Annual Income Tax Rate [140 ÷ 400] = 35% Tax expenses to be recognized in last quarter: 35% on ₹1200 Crores = ₹42 Crores.

(ii) Urvashi Ltd. deals in three products A,B and C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2012-13 the historical cost and net realizable value of the items of closing stock are determined as below:

Items	Historical Cost (₹ in Lakhs)	Net realizable value (₹ in Lakhs)
A	44	32
B	36	36
C	20	28

What will be the value of closing stock?
A. ₹88 Lakhs
B. ₹80 Lakhs
C. ₹96Lakhs
D. None of these

Answer: — A: ₹88 Lakhs.

Computation of value of closing stock

Lower of Historical Cost and Net Realisable Value will be considered	₹
A	32
B	36
C	20
Value of Closing Stock	**88**

(iii) Perfect Ltd. is having a plant (asset), carrying amount of which is ₹ 240 lakh on March 31, 2012. Its balance useful life is 3 years and residual value at the end of 3 years is ₹ 18 lakh. Estimated future cash flow from using the plant will be ₹ 60 lakh per annum for 3 years. If the discount rate is 10% "the Value in Use" for the plant as per AS-28 will be
[Given: PVIFA (10%, 3 yrs) = 2.487 and PVIF (10%, 3 yrs) = 0.7513]
A. ₹ 162.74 lakh
B. ₹ 132.00 lakh
C. ₹ 131.22 lakh
D. Insufficient Information

Answer: — A: ₹ 162.74 Lakh.

Present Value of future cash flows for 3 years: 60 x 2.487 = ₹ 149.22 Lakh.
Present value of residual value on 31.3.2015 =18 x 0.7513 = ₹ 13.52 Lakh.
Value in Use = ₹ 162.74 Lakh.

(iv) Moon Ltd. entered into agreement with Sun Ltd. for sale of goods of ₹ 8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2013. On the same day, Sun Ltd. entered into another agreement with Moon Ltd. to resell the same goods at ₹ 10.80 lakhs on 1st August, 2013. The pre-determined reselling price covers the holding cost of Sun Ltd. Treatment as per AS-9 in the books of Moon Ltd.
A. Sales A/c will be credited with ₹ 9,60,000
B. Advance from Sun Ltd. A/c will be credited with ₹ 9,60,000
C. Financing Charges A/c will be debited with ₹ 1,20,000
D. None of these

Answer: — B: Advance from Sun Ltd. A/c will be credited with ₹ 9,60,000 .

In the given case, Moon Ltd. concurrently agreed to repurchase the same goods from Sun Ltd. on 1st February, 2013. Also the re-selling price is pre-determined and covers purchasing and holding costs of Sun Ltd. Hence, the transaction between Moon Ltd. and Sun Ltd. on 1st February, 2013 should be accounted for as financing rather than sale. The resulting cash flow of ₹ 9.60 lakhs(₹ 8 lakhs + 20% of ₹ 8 lakhs) received by Moon Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition" and hence should be treated as Advance from Sun Ltd.

(v) Rajasthali Ltd. ordered 16,000 kg. of certain material at ₹ 160 per unit. The purchase price includes excise duty ₹ 10 per kg. in respect of which full CENVAT credit admissible. Freight incurred amounted to ₹ 1,40,160. Normal transit loss is 2%. The company actually

received 15,500 kg. and consumed 13,600 kg. of material. The cost of inventory as per AS 2 will be
A. ₹ 3,20,644
B. ₹ 3,01,644
C. ₹ 3,07,800
D. None of these

Answer:— C: ₹ 3,07,800.

Revised cost per kg. = [25,60,000 – 1,60,000 + 1,40,160]/(16,000 kg.× 98%) = 162
Cost of Closing inventory = (15,500 kg – 13,600 kg) × 162 = ₹ 3,07,800

(vi) Nikita Limited wishes to obtain a machine costing ₹ 30 lakhs by way of lease. The effective life of the machine is 15 years, but the company requires it only for the first 5 years. It enters into an agreement with Ashok Ltd., for a lease rental of ₹ 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. Treatment as per AS-19 in the books of Lessee
A. Lease payments should be recognized as an expense in the Statement of Profit and Loss on a straight line basis over the lease term
B. Finance Charges included in Lease payments should be recognized as an expense in the Statement of Profit and Loss
C. Depreciation of ₹ 2,00,000 p.a. should be recognized as an expense in the Statement of Profit and Loss
D. None of these

Answer: — A: Lease payments should be recognized as an expense in the Statement of Profit and Loss on a straight line basis over the lease term.

The given lease agreement is an Operating Lease since :
(a) the present value of minimum lease payment amounts [₹ 10.08 lakhs (i.e. ₹ 3 lakhs × 3.36)] is substantially less than the fair value of leased asset (i.e ₹ 30 lakhs.)
(b) the lease term (5 years) is substantially less than economic life of the asset (15 years)
As per AS 19 'Leases', a lease will be classified as Finance Lease if at the inception of the lease, the present value of minimum lease payment amounts to at least substantially equal to the fair value of leased asset.
Therefore, Lease payments under an Operating Lease should be recognized as an expense 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 of the user's benefit.

(vii) X Ltd. holds 51% of Y Ltd., Y Ltd. holds 51% of W Ltd., Z Ltd. holds 49% of W. Ltd. As per AS 18, Related Parties are :
A. X Ltd., Y Ltd. & W Ltd.
B. X Ltd. & Z Ltd.
C. Y Ltd. & Z Ltd.
D. X Ltd. & Y Ltd. only

Answer:— A : X Ltd., Y Ltd., W Ltd.

X Ltd., Y Ltd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of Associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa.

(viii) On 1-1-2013 Ashwin Ltd. has 188 equity shares outstanding. On 31-5-2013, it issued 600 equity shares for cash (without bonus claim). On 1-11-2013 it bought back 300 equity shares. Calculate the weighted average number of shares as on 31-12-2013?
A. 2100 shares
B. 2700 shares
C. 2400 sahres
D. None of the above

Answer:—A: 2100 shares

Computation of weighted average number of shares as per AS-20 is as follows:
$(1800\times\frac{5}{12})+(2400\times\frac{5}{12})+(2100\times\frac{2}{12})=2100$ shares.

(ix) A&B Ltd. obtained a Loan from a bank for ₹ 240 lakhs on 30.04.2012. It was utilized for : Construction of a shed ₹ 120 lakhs, Purchase of a machinery ₹ 80 lakhs, Working Capital ₹ 40 lakhs, Construction of shed was completed in March 2014. The machinery was installed on the same date. Delivery truck was not received. Total interest charged by the bank for the year ending 31.03.2014 was ₹ 36 lakhs. As per AS 16, Interest to be debited to Profit & Loss Account will be :
A. ₹ 36 lakhs
B. ₹ 18 lakhs
C. ₹ 9 lakhs
D. None of these

Answer: — B: ₹ 18 lakhs

Qualifying Asset as per AS-16 = ₹ 100 lakhs (construction of a shed)
Borrowing cost to be capitalized = 36 × 120/240 = ₹ 18 lakhs
Interest to be debited to Profit or Loss account = ₹ (36 – 18) lakhs = ₹ 18 lakhs

(x) Ding-Dong Construction Ltd. undertook a contract on January 1, 2013 to construct a building for ₹ 140 lakh. The Company found on March 31, 2013 that it had already spent ₹ 104 lakh on the construction. Prudent estimate of additional cost for completion was ₹ 56 lakhs. Contract value to be recognized as Turnover in the final accounts for the year ended March 31, 2013 as per AS-7 (revised) will be
A. ₹ 105 lakh
B. ₹ 100 lakh
C. ₹ 91 lakh
D. None of these

Answer:— C : ₹91 lakh

Contract work-in-progress (104÷ 160) lakh = 65%
Proportion of total contract value to be recognized as Turnover
= 0.65 x ₹140,00,000 = ₹91 lakh.

(b) ANNA Ltd. purchased an oil well for $ 200 million. It estimates that the well contains 500 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 20,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6? [5]

Answer:

As per IFRS 6 "Exploration for and Evaluation of Mineral Resources", depletion rate and depletion expense can be computed as:
Depletion rate = Current period production/Total barrels of production
= 20,000 barrels/500,000,000 barrels
= 0.00004.
Depletion expenses for the first year = Purchase price × Depletion rate
= $200,000,000 × 0.00004 = $ 8,000.

Part B (75 marks)

2. Given below is the Balance Sheet of H Ltd. as on 31.3.2013:

(Figures in ₹ lakhs)

Liabilities	₹	Assets	₹
Equity share capital	4.00	Block assets less depreciation to date	6.00
(in equity shares of ₹ 10 each)		Stock and debtors	5.30
10% preference share capital	3.00	Cash and bank	0.70
General reserve	1.00		
Profit and loss account	1.00		
Creditors	3.00		
	12.00		12.00

M Ltd. another existing company holds 25% of equity share capital of H Ltd. purchased at ₹ 10 per share.
It was agreed that M Ltd. should take over the entire undertaking of H Ltd. on 30.09.2013 on which date the position of current assets (except cash and bank balances) and creditors was as follows:

Stock and debtors	4 lakhs
Creditors	2 lakhs

Profits earned for half year ended 30.09.2013 by H Ltd. was ₹ 70,500 after charging depreciation of ₹ 32,500 on block assets. H Ltd. declared 10% dividend for 2013-14 on 30.08.2013 and the same was paid within a week.

Goodwill of H Ltd. was valued at ₹ 80,000 and block assets were valued at 10% over their book value as on 31.3.2013 for purposes of take over. Preference shareholders of H Ltd. will be allotted 10% preference shares of ₹ 10 each by M Ltd. Equity shareholders of H Ltd. will receive requisite number of equity shares of ₹ 10 each from M Ltd. valued at ₹ 10 per share.

(a) Compute the purchase consideration.

(b) Explain, how the capital reserve or goodwill, if any, will appear in the Balance Sheet of M Ltd. after absorption. [15]

Answer :

(a) Calculation of Purchase Consideration (for net assets of H Ltd. taken over)

Assets taken over:		
	Goodwill as agreed	80,000
	Block Assets at 10% over their book value as on 31.3.2013	6,60,000
	(agreed value for purposes of takeover)	
	Stock and Debtors	4,00,000
	Cash and Bank (See Working Note)	1,33,000
		12,73,000
Less: Liabilities taken over:		
	Creditors	2,00,000
		10,73,000
Calculation of Shares Allotted:		₹
Net Assets taken over		10,73,000
Less: Allotment of 10% preference shares to preference shareholders of H Ltd.		3,00,000
		7,73,000
Less: Belonging to M Ltd. (1/4 × 7,73,000)		1,93,250
Payable to other equity shareholders		5,79,750

Number of equity shares of ₹ 10 each to be issued (valued at ₹ 10 each) = 57,975

Calculation of Capital Reserve:		₹
Net Assets taken over		10,73,000
Less: Preference shares to be allotted	3,00,000	
Equity shares to be allotted	5,79,750	
Cost of investments	1,00,000	9,79,750
Capital Reserve		93,250
Alternatively, Capital Reserve may be computed as follows:		
Value of investments in H Ltd.		1,93,250
Less: Cost of investments		1,00,000
		93,250

(b) Balance Sheet of M Ltd. as at 30th September, 2013

		₹
Capital Reserve	93,250	
Less: Goodwill	80,000	13,250

Working Note:

Ascertainment of Cash and Bank Balances as on 30th September, 2013:

Through Balance Sheet as at 30th September, 2013 (without following Revised Schedule VI format)

Liabilities	₹	**Assets**	₹
Equity Share Capital	4,00,000	Block Assets 6,00,000	
10% Preference Share Capital	3,00,000	Less: Depreciation 32,500	5,67,500
General Reserve	1,00,000	Stock and Debtors	4,00,000
Profit and Loss Account: Balance brought forward 1,00,000		**Cash and Bank (Balancing figure)**	**1,33,000**
Add: Profit for the first half 70,500			
1,70,500			
Less: Dividend on preference share capital paid 30,000			
Dividend on equity share capital paid 40,000 70,000	1,00,500		
Creditors	2,00,000		________
	11,00,500		11,00,500

3. The following are the Balance Sheets of C Ltd. and D Ltd. on 31st March, 2013:

Balance Sheets

Liabilities	**C Ltd.**	**D Ltd.**	**Assets**	**C Ltd.**	**D Ltd.**
	₹	₹		₹	₹
Equity Shares of ₹100 each fully paid	**45,00,000**	**15,00,000**	**Fixed Assets**	**30,00,000**	**1,50,000**
			Investments		
General Reserve	**4,00,000**	**3,00,000**	**3,000 shares in D Ltd.**	**4,50,000**	—
Profit and Loss A/c	**7,34,000**	**30,000**	**9,000 Shares in C Ltd.**	—	**15,00,000**
14% Debentures	—	**9,00,000**	**Debtors**	**8,70,000**	**4,50,000**
Current Liabilities	**6,00,000**	**2,70,000**	**Stock**	**14,40,000**	**6,30,000**
	________	_______	**Bank Balance**	**4,74,000**	**2,70,000**

	62,34,000	30,00,000		62,34,000	30,00,000

Stock of C Ltd. includes goods worth ₹ 3,00,000 purchased from D Ltd., which made a profit of 20% on selling price. As on 31.3.2013, C Ltd. owes to D Ltd. ₹ 1,20,000. C Ltd. absorbs D Ltd. on the basis of the intrinsic value of the shares of both companies as on 31st March, 2013. Before absorption C Ltd. has declared a dividend of 12%. Dividend tax is 10%.

Show the Balance Sheet of C Ltd. after the absorption of D Ltd. and the working for the number of shares issued. [15]

Answer:

(i) Computation of Net Assets excluding Inter-Company Investments.

		C Ltd	D Ltd
		₹	₹
A	Total Assets		
	Tangible Assets	57,84,000	15,00,000
	Dividend Receivable	-	1,08,000
		57,84,000	16,08,000
B.	External Liabilities		
	Current Liabilities	6,00,000	2,70,000
	Proposed Dividend	5,40,000	-
	Dividend Tax	54,000	-
	14% Debentures	-	9,00,000
		11,94,000	11,70,000
C.	Net Assets (A – B)	45,90,000	4,38,000

(ii) Intrinsic value of equity shares.

Assume **'a'** is the intrinsic value (net assets including inter-company investments) of equity shares of C Ltd and **'b'** is the intrinsic value of equity shares of D Ltd.

$$a = ₹45{,}90{,}000 + \frac{1}{5} \times b \qquad (1)$$

$$b = ₹4{,}38{,}000 + \frac{1}{5} \times a \qquad (2)$$

or $b = ₹4{,}38{,}000 + \frac{1}{5}\left(45{,}90{,}000 + \frac{1}{5} \times b\right)$

or $b = ₹4{,}38{,}000 + 9{,}18{,}000 + \frac{b}{25}$

or $\frac{24}{25} \times b = ₹13{,}56{,}000$

or $b = \dfrac{₹13{,}56{,}000}{24} \times 25 = ₹14{,}12{,}500$

Putting the value of b in equation (1) we get,

$a = ₹45{,}90{,}000 + \dfrac{1}{5} \times 14{,}12{,}500$

$= ₹\ 48{,}72{,}500$

Intrinsic value of share of C Ltd. = $\dfrac{₹\ 48{,}72{,}500}{45{,}000}$

= ₹ 108.278 approximately

Intrinsic value of share of D Ltd = $\dfrac{₹14{,}12{,}500}{15{,}000}$ = ₹94.167 approximately.

(iii) Calculation of Purchase consideration

Value of shares held by outside shareholders in D Ltd : $\dfrac{₹14{,}12{,}500 \times 12{,}000}{15{,}000}$

= ₹11,30,000

Shares to be issued by C Ltd on the basis of intrinsic value of shares = ₹11,30,000 x $\dfrac{45{,}000}{48{,}72{,}500}$	10,436.12
Less: Shares held by D Ltd	9,000.00
Number of shares to be issued	1,436.12
Total purchase price for outside shareholders	₹
Additional shares in C Ltd. (1,436 x ₹108.278)	1,55,487*
Cash for fractional shares (0.12 x ₹ 108.278)	13*
Value of 3000 shares held by C Ltd	2,82,500
	4,38,000

(iv) General Reserve (C Ltd)

	₹
As per Balance sheet	4,00,000
Less: Reduction in value of shares held in D Ltd (₹ 4,50,000 - 2,82,500)	1,67,500
	2,32,500

(v) Bank Balance

	C Ltd.	D Ltd.
	₹	₹
As per Balance Sheet	4,74,000	2,70,000
Add: Dividend received —		1,08,000
	4,74,000	3,78,000
Less: Dividend	5,40,000	
Dividend tax	54,000	
Cash for fractional shares	13	5,94,013

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(1,20,013) 3,78,000
= ₹ 2,57,987.

Name of the Company: C Ltd. (after absorption)
Balance Sheet as at 1st April,2013

Ref No.	Particulars		Note No.	As at 1st April, 2013	As at 1st April, 2012
	I.	**EQUITY AND LIABILITIES**		₹	₹
	1.	Shareholders' Funds			
		(a) Share capital	1	46,43,600	
		(b) Reserves and surplus	2	3,84,387	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		(a) Long-term borrowings	3	9,00,000	
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables			
		(c) Other current liabilities	4	7,50,000	
		(d) Short-term provisions			
		Total		66,77,987	
	II.	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	5	31,50,000	
		(ii) Intangible assets	6	60,000	
		(iii) Capital work-in-progress			
		(iv) Intangible assets under			

		development			
		(b) Non-current investments			
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	Current assets			
		(a) Current investments			
		(b) Inventories	7	20,10,000	
		(c) Trade receivables	8	12,00,000	
		(d) Cash and cash equivalents	9	2,57,987	
		(e) Short-term loans and advances			
		(f) Other current assets			
		Total		66,77,987	

Annexure

	₹	₹
Note 1. Share Capital	**As at 1st April, 2013**	**As at 1st April, 2012**
Share Capital 46,436 Equity shares of ₹ 100 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	46,43,600	
Total	46,43,600	

Reconciliation for Equity Share Capital	**As at 1st April, 2013**		**As at 1st April, 2012**	
Opening Balance as on 1.04.2012	**45,000**	**₹45,00,000**	**-**	**-**
Add: Fresh Issue	**1,436**	**₹1,43,600**		
Less: Buy Back	**-**	**-**		
Total	**46,436**	**₹46,43,600**		

Note 2. Reserves and Surplus	**As at 1st April, 2013**	**As at 1st April, 2012**
General reserves	2,32,500	
Securities Premium (₹1,55,487-1,43,600)	11,887	
Profit and Loss A/c (₹7,37,000 - ₹5,40,000 - ₹54,000)	1,40,000	
Total	3,84,387	

Note 3. Long term Borrowings	**As at 1st April, 2013**	**As at 1st April, 2012**
9% Debentures	9,00,000	
Total	9,00,000	

Note 4. Other Current Liabilities	**As at 1st April, 2013**	**As at 1st April, 2012**
Current Liabilities	8,70,000	
Less: Inter Company dues	1,20,000	
Total	7,50,000	

Note 5. Tangible Assets	**As at 1st April, 2013**	**As at 1st April, 2012**
Fixed Assets (30,00,000+1,50,000)	31,50,000	
Total	31,50,000	

Note 6. Intangible Assets	**As at 1st April, 2013**	**As at 1st April, 2012**
Goodwill	60,000	
Total	60,000	

Note 7. Inventories	**As at 1st April, 2013**	**As at 1st April, 2012**
Stock	20,70,000	
Less: Unrealised Profit	60,000	
Total	20,10,000	

Note 8. Trade Receivables	**As at 1st April, 2013**	**As at 1st April, 2012**
Debtors (₹ 14,40,000 + ₹ 6,30,000)	13,20,000	
Less: Inter Company dues	1,20,000	
Total	12,00,000	

Note 9. Cash and Cash Equivalent	**As at 1st April, 2013**	**As at 1st April, 2012**
Cash and Bank	2,57,987	
Total	2,57,987	

* Appropriate figures have been considered

**Alternatively this sum can also be adjusted against the balance in the Profit and Loss Account.

4. Following are the Balance Sheets of Mumbai Limited, Delhi Limited, Amritsar Limited and Kanpur Limited as at 31st December, 2013:

Liabilities	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
Share Capital (₹ 100 face value)	1,00,00,000	80,00,000	40,00,000	1,20,00,000
General Reserve	40,00,000	8,00,000	5,00,000	20,00,000
Profit & Loss Account	20,00,000	8,00,000	5,00,000	6,40,000
Sundry Creditors	6,00,000	2,00,000	1,00,000	1,60,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000
Assets				
Investments :				
30,000 shares in Delhi Ltd.	70,00,000	—	—	—
10,000 shares in Amritsar Ltd	22,00,000	—	—	—
5,000 shares in Amritsar Ltd.	—	10,00,000	—	—
Shares in Kanpur Ltd. @ ₹ 120	72,00,000	36,00,000	12,00,000	—
Fixed Assets	—	40,00,000	30,00,000	1,40,00,000
Current Assets	2,00,000	12,00,000	9,00,000	8,00,000
	1,76,00,000	98,00,000	51,00,000	1,48,00,000

Balance in General Reserve Account and Profit & Loss Account, when shares were purchased in different companies were:

	Mumbai Ltd.	Delhi Ltd.	Amritsar Ltd.	Kanpur Ltd.
General Reserve Account	20,00,000	4,00,000	2,00,000	12,00,000
Profit & Loss Account	12,00,000	4,00,000	1,00,000	1,20,000

Required :

Prepare the consolidated Balance Sheet of the group as at 31st December, 2013 (Calculations may be rounded off to the nearest rupee). [15]

Answer:

Name of the Company: Mumbai Ltd. and its subsidiary Delhi Ltd. , Amritsar Ltd. and Kanpur Ltd.
Consolidated Balance Sheet as at 31st December,2013

Ref No.		Particulars	Note No.	As at 31st December,2013	As at 31st December,2012
				₹	₹
	I.	**EQUITY AND LIABILITIES**			
	1	**Shareholders' funds**		-	
		(a) Share capital	1	1,00,00,000	-

Ref No.		Particulars	Note No.	As at 31st December,2013	As at 31st December,2012
				₹	₹
		(b) Reserves and surplus	2	80,64,375	-
		(c) Money received against share warrants		-	-
				-	-
	2	**Minority Interest**		62,50,625	-
	3	**Non-current liabilities**		-	
		(a) Long-term borrowings (10% debentures)		-	-
		(b) Deferred tax liabilities (net)		-	-
		(c) Other long-term liabilities		-	-
		(d) Long-term provisions		-	-
					-
	4	**Current liabilities**			
		(a) Short-term borrowings		-	-
		(b) Trade payables	3	10,60,000	-
		(c) Other current liabilities			-
		(d) Short-term provisions			-
					-
		TOTAL (1+2+3+4)		2,53,75,000	-
	II.	**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets	4	2,10,00,000	-
		(ii) Intangible assets	5	12,75,000	-
		(iii) Capital work-in-progress			-
		(iv) Intangible assets under development			-
		(v) Fixed assets held for sale			-
		(b) Non-current investments			
		(c) Deferred tax assets (net)			-
		(d) Long-term loans and advances			-
		(e) Other non-current assets			-
					-
	2	**Current assets**			
		(a) Current investments			-

Ref No.		Particulars	Note No.	As at 31st December,2013	As at 31st December,2012
				₹	₹
		(b) Inventories			-
		(c) Trade receivables			-
		(d) Cash and cash equivalents	6	31,00,000	-
		(e) Short-term loans and advances			-
		(f) Other current assets			-
					-
		TOTAL (1+2)		2,53,75,000	-

Annexure

Note 1. Share Capital	**As at 31st December, 2013 (₹)**	**As at 31st December, 2012(₹)**
Authorised,issued, Subscribed and paid –up Share Capital:		
1,00,000 Equity Shares of ₹100 each	1,00,00,000	
Total	1,00,00,000	

Note 2. Reserves and Surplus	**As at 31st December, 2013 (₹)**	**As at 31st December, 2012(₹)**
General Reserves	51,02,083	
Profit & Loss A/c	29,62,292	
Total	80,64,375	

Note 3. Trade Payables	**As at 31st December, 2013 (₹)**	**As at 31st December, 2012(₹)**
Sundry Creditors (6,00,000+2,00,000+1,00,000+1,60,000)	10,60,000	
Total	10,60,000	

Note 4. Tangible Assets	**As at 31st December, 2013 (₹)**	**As at 31st December, 2012(₹)**
Fixed Assets (40,00,000+30,00,000+1,40,00,000)	2,10,00,000	
	2,10,00,000	

Note 5. Intangible Assets	**As at 31st December,**	**As at 31st December,**

	2013 (₹)	2012(₹)
Goodwill (WN iv)	12,75,000	
Total	12,75,000	

Note 6. Cash and Cash Equivalents	As at 31st December, 2013 (₹)	As at 31st December, 2012(₹)
Cash at Bank	31,00,000	
Total	31,00,000	

(i) Analysis of profits of Kanpur Ltd.

	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
General Reserve on the date of purchase of shares	12,00,000		
Profit and Loss A/c on the date of purchase of shares	1,20,000		
Increase in General Reserve		8,00,000	
Increase in profit			5,20,000
	13,20,000	8,00,000	5,20,000
Less : Minority Interest (1/6)	2,20,000	1,33,333	86,667
	11,00,000	6,66,667	4,33,333
Share of Mumbai Ltd. (1/2)	6,60,000	4,00,000	2,60,000
Share of Delhi Ltd. (1/4)	3,30,000	2,00,000	1,30,000
Share of Amritsar Ltd. (1/12)	1,10,000	66,667	43,333

(ii) Analysis of profits of Amritsar Ltd.

	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
General Reserve on the date of purchase of shares	2,00,000		
Profit and Loss A/c on the date of purchase of shares	1,00,000		
Increase in General Reserve		3,00,000	
Increase in Profit and Loss A/c			4,00,000
Share in Kanpur Ltd.		66,667	43,333
	3,00,000	3,66,667	4,43,333
Less : Minority Interest (1/4)	75,000	91,667	1,10,833
	2,25,000	2,75,000	3,32,500

Share of Mumbai Ltd. (1/2)	1,50,000	1,83,333	2,21,667
Share of Delhi Ltd. (1/4)	75,000	91,667	1,10,833

(iii) Analysis of profits of Delhi Ltd.

	Capital Profit ₹	Revenue Reserve ₹	Revenue Profit ₹
General Reserve on the date of purchase of shares	4,00,000		
Profit and Loss A/c on the date of purchase of shares	4,00,000		
Increase in General Reserve		4,00,000	
Increase in Profit and Loss A/c			4,00,000
Share in Kanpur Ltd.		2,00,000	1,30,000
Share in Amritsar Ltd.		91,667	1,10,833
	80,00,000	6,91,667	6,40,833
Less : Minority Interest (1/4)	2,00,000	1,72,917	1,60,208
Share of Mumbai Ltd. (3/4)	6,00,000	5,18,750	4,80,625

(iv) Cost of control

	₹	₹
Investments in		
Delhi Ltd.	70,00,000	
Amritsar Ltd.	32,00,000	
Kanpur Ltd.	1,20,00,000	
	2,22,00,000	
Paid up value of investments in		
Delhi Ltd.	60,00,000	
Amritsar Ltd.	30,00,000	
Kanpur Ltd.	1,00,00,000	
Capital profits in		(1,90,00,000)
Delhi Ltd.	6,00,000	
Amritsar Ltd.	2,25,000	
Kanpur Ltd.	11,00,000	(19,25,000)
Goodwill		12,75,000

(v) Minority interest

	₹	₹
Share Capital:		
Delhi Ltd. (1/4)	20,00,000	
Amritsar Ltd. (1/4)	10,00,000	
Kanpur Ltd (1/6)	20,00,000	50,00,000
Share in profits & reserves (Pre and Post-Acquisitions)		
Delhi Ltd.	5,33,125	

Amritsar Ltd.	2,77,500	
Kanpur Ltd.	4,40,000	12,50,625
		62,50,625

(vi) General Reserve — Mumbai Ltd.

Balance as on 31.12.2013 (given)	40,00,000
Share in	
Delhi Ltd.	5,18,750
Amritsar Ltd.	1,83,335
Kanpur Ltd.	4,00,000
	51,02,083

(vii) Profit and Loss Account — Mumbai Ltd.

Balance as on 31.12.2013 (given)	20,00,000
Share in	
Delhi Ltd.	4,80,625
Amritsar Ltd.	2,21,667
Kanpur Ltd.	2,60,000
	29,62,292

5. A Ltd. and B Ltd. were amalgamated on and from 1st April, 2014. A new company C Ltd. was formed to take over the business of the existing companies. The Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2014 are given below:

	(₹ in lakhs)			(₹ in lakhs)	
Liabilities	**A Ltd.**	**B Ltd.**	**Assets**	**A Ltd.**	**B Ltd.**
Share Capital			**Fixed Assets**		
Equity Shares of ₹ 100 each	**800**	**750**	**Land & Building**	**550**	**400**
12% Preference shares of ₹100 each	**300**	**200**	**Plant & Machinery**	**350**	**250**
Reserves and Surplus			**Investments**	**150**	**50**
Revaluation Reserve **General Reserve**	**150** **170**	**100** **150**	**Current Assets, Loans and Advances**		
Investment Allowance Reserve	**50**	**50**	**Stock**	**350**	**250**
Profit and Loss Account	**50**	**30**	**Sundry Debtors**	**250**	**300**
Secured Loans			**Bills Receivable**	**50**	**50**
10% Debentures (₹ 100 each)	**60**	**30**	**Cash and Bank**	**300**	**200**
Current Liabilities and provisions					
Sundry Creditors	**270**	**120**			
Bills Payable	**150**	**70**			
	2,000	**1,500**		**2,000**	**1,500**

Additional Information:

(1) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹ 150 per share (face value of ₹ 100).

(3) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.

(4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 2014 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. [15]

Answer:

Name of the Company: C Ltd. (after absorption)
Balance Sheet as at 1st April,2014 **(₹ in lakhs)**

Ref No.	Particulars		Note No.	As at 1st April, 2014	As at 1st April, 2013
				₹	₹
	I.	EQUITY AND LIABILITIES			
	1	Shareholders' funds			
		(a) Share capital	1	1,200	
		(b) Reserves and surplus	2	1,750	
		(c) Money received against share warrants			
	2	Share application money pending allotment			
	3	Non-current liabilities			
		(a) Long-term borrowings	3	60	
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	Current Liabilities			
		(a) Short-term borrowings			
		(b) Trade payables	4	390	

		(c) Other current liabilities	5	220	
		(d) Short-term provisions			
		Total		3,620	
	II.	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	1,550	
		(ii) Intangible assets	7	20	
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments	8	200	
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances			
		(e) Other non-current assets			
	2	Current assets			
		(a) Current investments			
		(b) Inventories	9	600	
		(c) Trade receivables	10	550	
		(d) Cash and cash equivalents	11	500	
		(e) Short-term loans and advances			
		(f) Other current assets	12	200	
		Total		3,620	

Annexure

	₹ in lakhs	**₹ in lakhs**
Note 1. Share Capital	**As at 1st April, 2014**	**As at 1st April, 2013**
Share Capital 70,00,000 Equity shares of ₹ 10 each (Issued for consideration other than cash, pursuant to scheme of amalgamation)	700	
15 % Preference Share Capital	500	
Total	1,200	

(₹ in lakhs)

Reconciliation for Equity Share Capital	As at 1st April, 2014		As at 1st April, 2013	
Opening Balance as on 1,04,2013	-	-	-	-
Add: Fresh Issue	70	700		
Less: Buy Back	-	-		
Total	70	700		
Reconciliation for Preference Share Capital	**As at 1st April, 2014**		**As at 1st April, 2013**	
Opening Balance as on 1,04,2013	-	-		
Add: Fresh Issue	50	500		
Less: Buy Back	-	-		
Total	50	500		

Note 2. Reserves and Surplus	As at 1st April, 2014	As at 1st April, 2013
Securities Premium	1,650	
Investment Allowance Reserve	100	
Total	1,750	

Note 3. Long term Borrowings	As at 1st April, 2014	As at 1st April, 2013
15% Debentures	60	
Total	60	

Note 4. Trade Payables	As at 1st April, 2014	As at 1st April, 2013
Sundry Creditors	390	
Total	390	

Note 5. Other Current Liabilities	As at 1st April, 2014	As at 1st April, 2013
Current Liabilities	220	
Total	220	

Note 6. Tangible Assets	As at 1st April, 2014	As at 1st April, 2013
Land and Building	950	
Plant and Machinery	600	
Total	1,550	

Note 7. Intangible Assets	As at 1st April, 2014	As at 1st April, 2013
Goodwill	20	
Total	20	

Note 8. Non current Investments	As at 1st April, 2014	As at 1st April, 2013
Investment	200	
Total	200	

Note 9. Inventories	As at 1st April, 2014	As at 1st April, 2013
Stock	600	
Total	600	

Note 10. Trade Receivables	As at 1st April, 2014	As at 1st April, 2013
Debtors	550	
Total	550	

Note 11. Cash and Cash Equivalent	As at 1st April, 2014	As at 1st April, 2013
Cash and Bank	500	
Total	500	

Note 12. Other Current Assets	As at 1st April, 2014	As at 1st April, 2013
Bills Receivable	100	
Amalgamation Adjustment Account [as the Investment Allowance Reserve is to be maintained for 4 more years]	100	
Total	200	

Working Notes:

	(₹ in lakhs) A Ltd.	B Ltd.
(1) Computation of Purchase consideration		
(a) Preference shareholders:		
$\left(\frac{3,00,00,000}{100} \text{ i.e. } 3,00,000 \text{ shares}\right) \times ₹\,150 \text{ each}$	450	

$\left(\frac{2,00,00,000}{100} \text{ i.e. } 2,00,000 \text{ shares}\right) \times ₹\,150 \text{ each}$			300
(b) Equity shareholders:			
$\left(\frac{8,00,00,000 \times 5}{100} \text{ i.e. } 40,00,000 \text{ shares}\right) \times ₹\,30 \text{ eac}$		1,200	
$\left(\frac{7,50,00,000 \times 4}{100} \text{ i.e. } 30,00,000 \text{ shares}\right) \times ₹\,30 \text{ eac}$		____	900
Amount of Purchase Consideration		1,650	1,200
(2) Net Assets Taken Over			
Assets taken over:			
Land and Building		550	400
Plant and Machinery		350	250
Investments		150	50
Stock		350	250
Sundry Debtors		250	300
Bills receivable		50	50
Cash and bank		300	200
		2,000	1,500
Less: Liabilities taken over:			
Debentures	40		20
Sundry Creditors	270		120
Bills payable	150		70
		460	210
Net assets taken over		1,540	1,290
Purchase consideration		1,650	1,200
Goodwill		110	____
Capital reserve			90

Note:

Since Investment Allowance Reserve is to be maintained for 4 more years, it is carried forward by a corresponding debit to Amalgamation Adjustment Account in accordance with AS-14.

6. (a) The following information is available of a concern; calculate Economic Value Added(E.V.A):

Debt capital 12%	**₹ 2,000 crores**

Equity capital	**₹ 500 crores**
Reserve and surplus	**₹ 7,500 crores**
Capital employed	**₹ 10,000 crores**
Risk-free rate	**9%**
Beta factor	**1.05**
Market rate of return	**19%**
Equity (market) risk premium	**10%**
Net Operating Profit after Tax	**₹2,100 crores**
Tax rate	**30%**

[7]

Answer:

E.V.A. = NOPAT – COCE

NOPAT = Net Operating Profit after Tax

COCE = Cost of Capital Employed

COCE = Weighted Average Cost Of Capital × Average Capital Employed

= WACC × Capital Employed

Debt Capital		₹2,000 crores
Equity capital 500 + 7,500	=	₹8,000 crores
Capital employed	=	2,000+8,000 = ₹10,000 crores
Debt to capital employed	=	$\frac{2,000}{10,000}=0.20$
Equity to Capital employed	=	$\frac{8,000}{10,000}=0.80$
Debt cost before Tax		12%
Less: Tax (30% of 12%)		3.6%
Debt cost after Tax		8.4%

According to Capital Asset Pricing Model (CAPM)

Cost of Equity Capital = Risk Free Rate + Beta × Equity Risk Premium

Or

= Risk Free Rate + Beta (Market Rate – Risk Free Rate)

= 9 + 1.05 × (19-9)

= 9 + 1.05 × 10 = 19.5%

WACC = Equity to CE x Cost of Equity capital + Debt to CE x Cost of debt

= 0.8× 19.5% + 0.20× 8.40%

	=	15.60% + 1.68% = 17.28%
COCE	=	WACC × Capital employed
	=	17.28% × ₹ 10,000 crores = ₹ 1728 crores
E.V.A.	=	NOPAT – COCE
	=	₹ 2,100 – ₹ 1,728 = ₹ 372 crores

(b) A Company has its share capital divided into shares of ₹ 10 each. On 1st April, 2014 it granted 10,000 employees' stock options at ₹ 40, when the market price was ₹130. The options were to be exercised between 16th December, 2014 and 15th March, 2015. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries. [8]

Answer:

Journal Entries

	Particulars		Dr.	Cr.
			₹	₹
2014				
April 1	Employee Compensation Expense	Dr.	9,00,000	
	To Employee Stock Options Outstanding			9,00,000
	(Being grant of 10,000 stock options to employees at ₹ 40 when market price is ₹ 130)			
2015				
16th Dec. to 15th March	Bank A/c	Dr.	3,80,000	
	Employee stock options outstanding	Dr.	8,55,000	
	To Equity share capital A/c			95,000
	To Securities premium A/c			11,40,000
	(Being allotment to employees of 9,500 equity shares of ₹ 10 each at a premium of ₹ 120 per share in exercise of stock options by employees)			
March 16	Employee stock options outstanding	Dr.	45,000	
	To Employee compensation expense			45,000
	(Being entry for lapse of stock options for 500 shares)			
March 31	Profit and Loss A/c	Dr.	8,55,000	
	To Employee compensation expense A/c			8,55,000
	(Being transfer of employee compensation expense to profit and loss account)			

7.(a) On the basis of the following information related to trading in Options, you are required to pass relevant Journal Entries (at the time of inception and at the time of final settlement) in the books of Amit (Buyer) and Sumit (Seller). Assume that the price on expiry is ₹1,050/- and both Amit and Sumit follow the calendar year as an accounting year.

Date of	Option Type	Expiry Date	Premium per unit	Contract Lot	Multiplier
29.03.2012	Equity Index, Call	31.05.2012	₹10	2,000 units	₹950 p.u

[6]

Answer:

In the books of Amit (Buyer)

Sl. No.	Particulars		Debit ₹	Credit ₹
29.03.12	Equity Index Option Premium A/c To Bank A/c (Being premium paid on Equity Stock Options)	Dr.	20,000	 20,000
31.05.12	Profit and Loss A/c To Equity Index Stock Premium A/c (Being premium on option written off on expiry)	Dr.	20,000	 20,000
31.05.12	Bank A/c To Profit and Loss A/c (Being profit on exercise of option received = 2,000 units × (₹1,050 - ₹950)) (Exercise Price - Spot Price)	Dr.	2,00,000	 2,00,000

In the books of Sumit (Seller)

Sl. No.	Particulars		Debit ₹	Credit ₹
29.03.12	Bank A/c To Equity Index Option Premium A/c (Being premium on Option collected)	Dr.	20,000	 20,000
31.05.12	Profit and Loss A/c To Bank A/c (Being loss on Option paid)	Dr.	2,00,000	 2,00,000
31.05.12	Equity Index Option Premium A/c To Profit and Loss A/c (Being premium on option recognized as income)	Dr.	20,000	 20,000

(b) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard-3 (AS-3) revised. [6]

Answer:

As per para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

(a) the direct method whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial enterprise) and other items in the statement of profit and loss for:

(i) changes during the period in inventories and operating receivables and payables:

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes, and unrealized foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

(c) Distinguish between Human capita and Intellectual Capital. [3]

Answer:

Human Capital is People's competencies, capabilities and experience, and their motivations to innovate, including their -

- alignment with and support of an organization's governance framework and risk management approach, and ethical values such as recognition of human rights ,
- ability to understand, develop and implement an organization's strategy ,
- loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

On the other hand, **Intellectual capital is** Organizational, knowledge-based intangibles. It includes -

- intellectual property, such as patents, copyrights, software, rights and licences
- "organizational capital" such as tacit knowledge, systems, procedures and protocols
- intangibles associated with the brand and reputation that an organization has developed.

8. Write short notes on any three of the following: [5x3=15]
(a) Need and significance of Environmental Accounting.
(b) Process of election of Public Accounts Committee:
(c) Cost v/s Fair value with reference to Indian Accounting Standards
(d) Timing and Permanent Differences

Answer:

(a) Environmental accounting can be defined as a system (methodology) for measuring environmental performance and communicating the results of these measurements to users. It helps in presenting the utilization of natural resources by an enterprise, the costs incurred to use them and the income earned there from in a transparent manner. Environmental accounting, entirely a new concept, is a faithful attempt to identify the resources exhausted and the costs rendered reciprocally to the enterprise by a business corporation. Thus environmental accounting stands for recording and documenting environmental performance to facilitate effectiveness of environmental management system with reference to compliance, safety and quality control. It provides a data base for taking corrective steps and future action for developing organisation's environmental strategy and for identifying environmentally based opportunities for gaining an edge over one's competitors. If proper environmental accounting system is established, the enterprise will be able to anticipate environmental damage and therefore can prevent it from happening.

(b) Process of election of Public Accounts Committee:

The Committee on Public Accounts is constituted by Parliament each year for examination of accounts showing the appropriation of sums granted by Parliament for expenditure of Government of India, the annual Finance Accounts of Government of India, and such other Accounts laid before Parliament as the Committee may deem fit such as accounts of autonomous and semi-autonomous bodies (except those of Public Undertakings and Government Companies which come under the purview of the Committee on Public Undertakings).

The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha every year from amongst its members according to the principle of proportional representation by means of single transferable vote and not more than 7 members of Rajya Sabha elected by that House in like manner are associated with the Committee. The Chairman is appointed by the Speaker from amongst its members of Lok Sabha. The Speaker, for the first time, appointed a member of the Opposition as the Chairman of the Committee for 1967-68. This practice has been continued since then. A Minister is not eligible to be elected as a member of the Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment.

(c) Cost vs. Fair value

Cost basis: The term cost refers to cost of purchase, costs of conversion on other costs incurred in bringing the goods to its present condition and location. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances
(for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.
Fair value: Fair value of an asset is the amount at which an enterprise expects to exchange an asset between knowledgeable and willing parties in an arm's length transaction.
Indian Accounting Standards are generally based on historical cost with a very few exceptions:
AS 2 "Valuation of Inventories" – Inventories are valued at net realizable value (NRV) if cost of inventories is more than NRV.
AS 10 "Accounting for Fixed Assets" – Items of fixed assets that have been retired from active use and are held for disposal are stated at net realizable value if their net book value is more than NRV.
AS 13 "Accounting for Investments" – Current investments are carried at lower of cost and fair value. The carrying amount of long term investments is reduced to recognise the permanent decline in value.
AS 15 "Employee Benefits" – The provision for defined benefits is made at fair value of the obligations.
AS 26 "Intangible Assets" – If an intangible asset is acquired in exchange for shares or other securities of the reporting enterprise, the asset is recorded at its fair value, or the fair value of the securities issued, whichever is more clearly evident.
AS 28 "Impairment of Assets"– Provision is made for impairment of assets. On the other hand IFRS and US GAAPs are more towards fair value. Fair value concept requires a lot of estimation and to the extent, it is subjective in nature.

(d) Timing and Permanent Differences

AS 22 states that timing differences are those differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods. Unabsorbed depreciation and carry forward of losses which can be set off against future taxable income are also considered as timing differences and result in deferred tax assets subject to consideration of prudence i.e., deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.
Permanent differences are the differences between taxable income and accounting income for a period that originate in one period and do not reverse subsequently. For instance, if for the purpose of computing taxable income, the tax laws allow only a part of an item of expenditure, the disallowed amount would result in a permanent difference.