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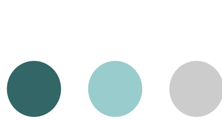

PAPER – 1: ADVANCED ACCOUNTING

ANNOUNCEMENTS STATING APPLICABILITY

FOR January 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;

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(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].

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[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.

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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.

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(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

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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

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(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

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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,

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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

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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

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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.

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QUESTIONS

PART – I: Multiple Choice Questions based on Case Scenarios

1. Gases Ltd. is installing a 2,000 kms long gas pipeline for distribution of gasses (Project is a qualifying asset as per AS 16). For this purpose it borrowed funds for ₹ 700 Lakhs at subsidised rates and has to pay annually an interest of ₹ 70 Lakhs. The Company has also invested unused funds and is earning an income of ₹ 7 Lakhs annually. During the next year the Company used all funds and no income is now being earned.

   During the year 5, the Company has completed 1 stretch of 100 kms which is operational between two points and is capable of intended use.

   a. For the year 1, how much borrowing cost should be capitalised to the project:

      (i) ₹ 70 Lakhs

      (ii) ₹ 77 Lakhs

      (iii) ₹ 63 Lakhs

      (iv) ₹ 60 Lakhs

   b. For the year 2, how much borrowing cost should be capitalised to the project:

      (i) ₹ 70 Lakhs

      (ii) ₹ 77 Lakhs

      (iii) ₹ 63 Lakhs

      (iv) ₹ 60 Lakhs

   c. For the year 5, how much borrowing cost should expensed:

      (i) ₹ 7 Lakhs

      (ii) ₹ 6 Lakhs

      (iii) ₹ 3.5 Lakhs

      (iv) Nil

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d. For the year 5, how much borrowing cost should be capitalised to the project:

(i) ₹ 70 Lakhs

(ii) ₹ 66.5 Lakhs

(iii) ₹ 63 Lakhs

(iv) ₹ 53 Lakhs

2. A dealer in machinery, Shakti Equipments Pvt. Ltd., leased out one of its machines to Delta Tools Ltd. on a 3-year operating lease. The machine was given on equal annual lease rentals, and the dealer intended to earn a 20% profit margin on the cost of the machinery.

The cost of the machinery to the dealer was ₹ 3,00,000. The economic life of the machinery is estimated at 5 years, and the total expected output over its useful life is given below:

Year	Estimated Output (units)
I	50,000
II	60,000
III	40,000
IV	65,000
V	85,000

Under the lease agreement, Delta Tools Ltd. will use the machine for 3 years (Years I–III) and then return it to Shakti Equipments Pvt. Ltd. The dealer recognizes revenue as per AS 9 Revenue Recognition, since the transaction represents revenue from services rendered in the form of lease rentals.

You are required to compute the amount of annual lease rent that will provide the dealer with a 20% profit margin on cost.

Options

(A) ₹ 30,000

(B) ₹ 60,000

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(C) ₹ 50,000

(D) ₹ 36,000

Part II - Descriptive Questions

AS 2 "Valuation of Inventories"

3. A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

   Comment on the valuation of the inventories by the company.

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

4. You are the accountant of Zenith Industries Ltd., a company engaged in the manufacture and sale of consumer products across India. The company has its corporate office in Mumbai and an extensive network of stockists and distributors throughout the country. You are preparing the financial statements for the year ended 31st March, 2025.

   After the close of the financial year, the following significant events and accounting considerations came to light:

   a. Fire Accident: On 10th April, 2025, a major fire broke out at the company's warehouse, resulting in the destruction of uninsured stock worth ₹ 10,00,000. However, the company managed to recover salvage valued at ₹ 2,00,000.

   b. Legal Claim: On 18th April, 2025, a party filed a lawsuit against the company alleging that one of its advertisements was misleading and caused loss to competitors. The suit claims damages of ₹ 20,00,000.

   c. Cheques in Hand and Revenue Recognition: Zenith Industries Ltd. sells its products to stockists all over India. As part of its year-end accounting on 31st March, 2025, the company proposes to recognize all cheques bearing date 31st March, 2025 or earlier, received from stockists, as "Cheques in Hand", by reducing the

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Trade Receivables. These cheques are proposed to be shown under Cash and Cash Equivalents in the Balance Sheet.

However, the following two categories of cheques exist:

(i) Cheques collected by the marketing personnel of the company from stockists on or before 31st March, 2025, which were physically in the company's possession as on that date.

(ii) Cheques sent by stockists through courier on or before 31st March, 2025, but received by the company in April 2025, after the balance sheet date.

All cheques were deposited in the bank and realized in April 2025 in the normal course of business.

AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies"

5. The accountant of Beryl Limited has asked you to identify the following items as – Change in Accounting Policies / Change in Accounting Estimates / Extraordinary Items / Prior period items / Ordinary Activity:

    (i) Non- provision for salary already due in earlier year.

    (ii) Attachment of the property of the enterprise.

    (iii) Introduction of new pension scheme for employees.

    (iv) Change in Reserve for obsolete inventory.

    (v) Settlement of litigation case.

    (vi) Legislative changes having long term retrospective application.

    (vii) Change from Cost Molde to Revaluation Model for measurement of carrying amount of PPE.

    (viii) Government sanctioned grant in current year for expenses incurred in previous accounting year.

6. Best Ltd. is engaged in the business of providing consultancy services. A few days back, it received a notice from GST department raising a demand of GST on consultancy services provided by it for ₹ 2,50,000.

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Recently Best Ltd. paid the demand. In the books, the payment is recorded as an extraordinary expenditure.

Whether payment of tax demand raised by the taxation authority can be recognised as an extraordinary item?

AS7 "Construction Contracts"

7. A construction contractor has entered into a fixed-price contract of ₹ 18,000 lacs to construct a bridge within a three-year time frame. The contract specifies the total contract price and includes provisions for variations in work, which may affect revenue and costs during the contract period. The contractor maintains detailed records of costs incurred and estimates of profit to be recognized each year.

A summary of the financial data for the contract is as follows (amounts in ₹ lacs):

	(Amount ₹ in lacs)		
	Year 1	**Year 2**	**Year 3**
Initial Amount for revenue agreed in contract	18,000	18,000	18,000
Variation in Revenue (+)		400	400
Contracts costs incurred up to the reporting date	4,186	12,336*	16,200**
Estimated profit for whole contract	1,900	2,000	2,000

*includes ₹200 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes ₹200 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Using the provisions of Accounting Standard (AS) 7 Construction Contracts (Revised), compute the following year-wise:

1. Revenue to be recognized in the Statement of Profit and Loss.
2. Expenses to be recognized in the Statement of Profit and Loss.
3. Contract costs to complete the remaining work.
4. Profit or loss to be recognized each year.

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AS 9 "Revenue Recognition"

8. Class Ltd. is a well-established real-estate developer and builder engaged in residential and commercial projects. In the financial year 2025, the company purchased a unit of land situated in a prime location for ₹ 225 crore, intending to develop a high-end residential complex. Within a few months of acquisition, due to a strategic decision to reallocate resources to another project and take advantage of favorable market conditions, Class Ltd. sold the land at a price of ₹ 360 crore. The company maintained proper books of accounts, and all legal formalities for the transfer were duly completed.

   Advise Class Ltd. on the recognition of revenue from this transaction in the final statement of accounts for the year ended 31st March, 2025.

AS 10 "Property, Plant and Equipment"

9 Zenith Ltd., a medium-sized manufacturing company engaged in the production of precision industrial components, has provided the following details of its fixed assets. You are required to calculate depreciation for each asset for the year ended 31st March, 2025, in accordance with the provisions of AS 10 (Revised) – Property, Plant and Equipment.

   (i) Machinery was purchased on 1st April, 2020 for ₹ 10 lakhs. The management estimated its useful life at 5 years, and the residual value at the end of its useful life, based on 2020 prices, is ₹ 10 lakhs.

   (ii) The company owns a piece of land acquired for ₹ 50 lakhs, which is being held for use in its factory operations.

   (iii) Zenith Ltd. constructed a machine for its own use at a total cost of ₹ 5,00,000. The construction was completed on 1st April, 2024. The machine has a useful life of 10 years; however, the company did not commence using the machine until 31st March, 2025.

   (iv) Another machine was purchased on 1st April, 2022, for ₹ 50,000, having a useful life of 5 years and nil residual value. Subsequently, on April 1, 2024, the management decided that the machine would now be used for only two more years.

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AS 12 "Accounting for Government Grants"

10. Mediwell Hospitals Ltd., a reputed healthcare company operating a chain of multi-specialty hospitals across India, had acquired 40 units of Doppler Scan Machines from Holiver Inc., USA, at a cost of US$ 1,65,100 per unit at the beginning of the financial year 2022–23. The prevailing exchange rate at that time was ₹ 50 per US$.

    The acquisition was partly financed through a government grant amounting to ₹ 5 crores, which was sanctioned specifically for the purchase of these machines under a healthcare modernization scheme. The grant was sanctioned with a specific condition that, in the event of a change in management or ownership control of the company, the grant must be refunded to the government.

    In April 2025, 51% of the company's shareholding was acquired by an overseas investor, thereby resulting in a change in management control. Consequently, the company became liable to refund the entire government grant.

    The expected useful life of each Doppler scan machine is 5 years, and the company follows a Straight Line Method (SLM) of depreciation at 20% per annum. Additionally, Mediwell Hospitals Ltd. incurred the following directly attributable costs:

    - Bank charges: US$ 4,000 (for the import transaction as a whole)
    - Sea freight: ₹ 7,500 per unit

    You are further informed that the company has not maintained any Capital Reserve or Deferred Income Account in respect of the government grant received.

    You are required to advise the accounting treatment in the books of Mediwell Hospitals Ltd. as a result of the return of the government grant, in the light of the relevant provisions of Accounting Standard (AS) 12 – Accounting for Government Grants.

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AS 13 "Accounting for Investments"

11. Mr. Rohan acquired 200 equity shares of Zeta Technologies Ltd. on a cum-right basis for ₹ 1,40,000 as a long-term investment. Subsequently, the company announced a right issue offering one fresh share for every share held (i.e., in the ratio of 1:1) at a price of ₹ 214 per share.

    Mr. Rohan, however, decided not to subscribe to the right shares and instead sold his entire rights entitlement for ₹ 24,000 in the open market.

    After the rights issue became ex-rights, the market value of his existing 200 shares fell to ₹ 1,20,000.

    You are required to state the appropriate accounting treatment for the sale of rights entitlement and the fall in market value of the existing shares, in accordance with the provisions of Accounting Standard (AS) 13 – Accounting for Investments.

AS 16 "Borrowing Costs"

12. Can interest be included in the cost of inventories?

AS 17 "Segment Reporting"

13. Garnet Limited has 4 operating segments. The total revenue (internal and external) and assets are set out as below:

Segment	Inter Segment Sales	External Sales	Total Assets
Fan	3,200	10,900	23,700
Light	200	1,400	13,200
Lamp	0	1,500	4,200
Printer	1,100	200	3,400
TOTAL	4,500	14,000	44,500

How many reportable segments does Garnet Limited have as per the Revenue and Assets criteria given in AS 17? State Reasons for your answer.

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AS 18 "Related Party Disclosures"

14. Mr. Rajiv KMP of Raijada Limited received a cheque of ₹ 70,000 towards reimbursement of expenses incurred on stay in hotel, conference expenses etc. visiting some meeting on behalf of the company. You are required to guide whether the above transaction is covered under AS-18?

AS 19 "Leases"

15. On 1st April, 2024, Mansi Ltd. sold a plant for ₹ 8,52,800. The carrying amount of the plant on that date was ₹ 1,80,000. The sale was a part of the package under which Akash Ltd. leased the asset to Mansi Ltd. for eight years term.

    The economic life of the asset is estimated as 8 years. The minimum lease rents payable by the lessee has fixed at ₹ 1,60,000 payable annually beginning from 31st March, 2025.

    The incremental borrowing interest rate of Mansi Ltd. is estimated at 10% p.a.

    Calculate the net effect on the Statement of profit and loss in the books of Mansi Ltd.

AS 20 "Earnings per share"

16. Should appropriation to mandatory reserves be excluded from net profit attributable to equity shareholders? AB Limited is a company engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered into with its debenture holders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the reserve constitutes at least half the value of such debentures. As such appropriations are not available for distribution to the equity shareholders, AB limited has excluded this from the numerator in the computation of Basic EPS. Is this treatment correct?

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AS 26 "Intangible Assets"

17. Swift Limited acquired patent rights to manufacture Solar Roof Top Panels at a cost of ₹ 600 lacs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of future cash flows which are estimated as under:

Year	1	2	3	4	5
Cash Flows (₹ in lacs)	300	300	300	150	150

After 3rd year, it was estimated that the patents would have an estimated balance future life of 3 years and Swift Ltd. expected the estimated cash flow after 5th year to be ₹ 75 Lacs. Determine the amortization cost of the patent for each of the above years as per Accounting Standard 26.

AS 27 "Financial Reporting of Interests in Joint Ventures",

18. Briefly explain scope and forms of Joint Venture as per AS 27.

AS 28 "Impairment of assets"

19. X Ltd. purchased a fixed asset four years ago for ₹ 150 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year, it has revalued the asset at ₹ 75 lakhs and has written off the loss on revaluation to the profit and loss account. However, on the date of revaluation, the market price is ₹ 67.50 lakhs and expected disposal costs are ₹ 3 lakhs. What will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 60 lakhs?

AS 29 'Provisions, Contingent Liabilities and Contingent Assets',

20. An oil company has been contaminating land for several years. It does not clean up because there is no legislation requiring cleaning up. At 31st March 2025, it is virtually certain that a law requiring a clean-up of land already contaminated will be enacted shortly after the year end. Is provisioning presently necessary?

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SUGGESTED ANSWERS/HINTS

Answer to Case Scenario and MCQ

Q. No.		Hints
1.	(a)	iii
	(b)	i
	(c)	iii
	(d)	ii
2.	B	

Descriptive Answers

3. Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. AS 9 on "Revenue Recognition" states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at net realisable value."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing inventory of finished goods (Fancy terry towel) should have been valued at lower of cost and net realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing inventory of inventories of finished goods is not correct.

4. Events occurring after the balance sheet date that represent material changes or commitments affecting the financial position of an enterprise must be disclosed in accordance with paragraph 15 of AS 4 on

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Contingencies and Events Occurring After the Balance Sheet Date. The treatment of each event is explained below:

a. Fire Accident and Loss of Uninsured Stock: The key consideration is whether the impact of the loss is material. The fire occurred after the balance sheet date and does not relate to any condition existing as on 31st March, 2025. Therefore, it is a non-adjusting event.

   However, since the loss is material—not only due to the uninsured nature of the stock but also due to the company's exposure to future risk—the fact of the fire and the uninsured position must be disclosed in the financial statements. The disclosure should include the nature of the event, its estimated financial effect, and information regarding future vulnerabilities, if determinable.

b. Legal Suit Filed Against the Company: The lawsuit was initiated after the balance sheet date and does not provide additional evidence of any condition that existed on 31st March, 2025. Therefore, it is also a non-adjusting event.

   In accordance with paragraph 16 of AS 4, this should be disclosed as a contingent liability. The disclosure should include the nature of the contingency, an estimate of the financial effect, and uncertainties that might affect the outcome of the case in future periods.

c. Cheques in Hand: (i) Cheques collected by marketing personnel: These cheques were physically collected by the company's employees on or before 31st March, 2025. Since marketing personnel act as representatives of the company, the collection of cheques by them constitutes receipt by the company itself. The liability of the stockists is discharged upon handing over the cheques. Hence, such cheques represent an adjusting event as per AS

   (i) Accordingly, the cheques collected by marketing personnel should be adjusted in the books by reducing Trade

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Receivables and recognizing them as Cheques in Hand under Cash and Cash Equivalents. Proper disclosure in Notes to Accounts should also be made regarding the accounting policy followed for recognizing such cheques.

(ii) Cheques sent by stockists through courier: Even if the cheques are dated 31st March or earlier, they were received by the company only after the balance sheet date. Hence, the event of their receipt does not represent any condition existing as on 31st March, 2025. Therefore, this is a non-adjusting event. Such cheques should be accounted for in the period in which they are actually received (i.e., April 2025), irrespective of their date. Further, since the event does not materially affect the company's financial position, no disclosure is necessary in the Director's Report or Notes to Accounts.

5. (i) Prior Period item

(ii) Attachment of property of enterprise is an extraordinary item.

(iii) Introduction of new pension scheme for employes is not a change in accounting policy. It is an ordinary activity.

(iv) Change in provision for obsolete inventory is a change in accounting estimate.

(v) Litigation settlement is an ordinary activity but requires separate disclosure

(vi) Extra ordinary activity requiring separate disclosure

(vii) Change in Accounting policy.

(viii) prior period item .

6. No, payment of tax cannot be recognised as an extraordinary item.

As per AS 5, "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", extraordinary items are income or expenses that arise from events or transactions which are clearly distinct

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from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

In the instant case, providing consultancy services is the ordinary business activity of Best Ltd. The GST liability arises from these ordinary transactions. Payment of GST pursuant to a demand by the taxation authority is part of the normal business operations of the company.

Therefore, recording the payment of GST as an extraordinary expenditure is not correct. Such payments are ordinary expenses and should be recognised as part of the profit or loss from ordinary activities, and cannot be treated as an extraordinary item. Recognising such payments as an extra-ordinary item is contrary to AS 5.

7. Computation of amounts of revenue, expenses & profit recognized in three years :

Year	Particulars	Up to the reporting date	Recognized in previous years	Recognized in current year
1	Revenue (18,000*26%)	4,680		4,680
	Expenses (16,100*26%)	4,186		4,186
	Profit	494		494
2	Revenue (18,400*74%)	13,616	4,680	8,936
	Expenses (16,400*74%)	12,136	4,186	7950
	Profit	1,480	494	986
3	Revenue (18,400*100%)	18,400	13,616	4,784
	Expenses (16,400*100%)	16,400	12,136	4,264
	Profit	2,000	1,480	520

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Working Note:

Particulars	Year 1	Year 2	Year 3
Revenue after consider variations	18,000	18,400	18,400
Less: Estimated profit for whole contract	1,900	2,000	2,000
Estimated total cost of the contract (A)	16,100	16,400	16,400
Actual cost incurred upto the reporting date (B)	4,186	12,136 (12,336-200)	16,400 (16,200+200)
Degree of completion (B/A)	26%	74%	100%

8. AS 9 on 'Revenue Recognition' states that revenue is recognised when it is earned and there is reasonable certainty of its collection, arising from the ordinary activities of an enterprise.

In this case, Class Ltd. is in the business of buying and selling properties. The land purchased and sold forms part of its inventory. The sale of land at ₹ 360 crore is a transaction arising from ordinary activities of the company. Therefore, the revenue is recognised when the sale is completed and collection is reasonably certain.

In the light of AS 5, this transaction will not be treated as an extraordinary item, because it arises from the ordinary course of business. However, if the amount is of such size, nature, or incidence that its disclosure is relevant to explain the performance of the enterprise, the nature and amount of such items should be disclosed separately.

Hence, ₹ 360 crore realised from the sale of land shall be recognised as revenue in the year in which the sale is completed.

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9. (a) Computation of amount of depreciation as per AS 10

		₹
(i)	Machinery purchased on 1/4/20 for ₹ 10 lakhs (having residual value of ₹ 10 lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	Nil
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii)	Machinery constructed for own use (₹ 5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2024. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv)	Machinery having a revised useful life Reason: The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e (50,000/5 years). On 1st April,2024 the asset's net book value is [50,000 – (10,000 x 2)] i.e. ₹ 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at ₹ 15,000 per annum i.e. (30,000 / 2 years).	15,000

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10. The grant is received towards fixed asset. Capital approach is adopted.

Particulars	₹ in lakhs
Cost of asset (Doppler machines) (1,65,100*40 @ 50)	3,302
Add: Freight and other charges (4,000 @ 50+7,500 x 40)	5
	3,307
Less: Grants received	(500)
Cost as per AS-10	2,807
Less: Depreciation for 3 years(2,807 * 20% * 3)	(1684.2)
Carrying amount as on 1/4/2025	1,123
Add: Grant refunded	500
Revised carrying amount	1,623

11. As per AS 13, "Accounting for Investments", when investments are acquired on a cum-right basis, and the market value of investments immediately after becoming ex-rights is lower than their cost, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to their market value.

In this case, Mr. Rohan purchased 200 equity shares of Alpha Ltd. on a cum-right basis at a total cost of 1,40,000. Subsequently, when the right issue was announced in the proportion of 1:1 at a price of 214 per share, he received the right entitlement to acquire 200 shares but decided not to subscribe and instead sold his rights for ₹24,000.

After the shares became ex-rights, their market value declined to 1,20,000. Therefore, the market value of the shares immediately after becoming ex-rights was 20,000 lower than their cost (1,40,000 – 1,20,000).

Accordingly, in line with AS 13, it would be appropriate to apply 20,000 out of the rights sale proceeds towards reducing the carrying amount of investment from 1,40,000 to 1,20,000, so as to reflect its ex-right market value. The balance amount of 4,000 (24,000 – 20,000) shall be credited to the Profit and Loss Account as income.

Therefore, the investment in 200 equity shares will be shown at a carrying amount of ₹1,20,000 in the books of Mr. Rohan.

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12. Paragraph 6 of AS 16 states that "Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset". Paragraph 3 of AS 16 defines a qualifying asset as "an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". Further, "inventories that require a substantial period of time to bring them to a saleable condition" are specifically included as an example of qualifying assets (paragraph 5).

In this context, it may be noted that ICAI has issued Accounting Standards Interpretation **(ASI)** 1, 'Substantial Period of Time', paragraphs 5 and 8 of which state as below:

"5. In case of inventories, substantial period of time is considered to be involved where time is the major factor in bringing about a change in the condition of inventories. For example, liquor is often required to be kept in store for more than twelve months for maturing."

"8. Paragraph 5 of AS 16 provides, inter alia, that "inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets." Paragraph 12 of Accounting Standard (AS) 2, Valuation of Inventories, provides that "Interest and other borrowing costs are usually considered as not relating to bringing the • inventories to their present location and condition and are, therefore, usually not included in the cost of inventories". It is only in exceptional cases, where time is a major factor in bringing about change in the condition of inventories that borrowing costs are included in the valuation of inventories."

Thus, interest costs should be included in the cost of inventories, which meet the definition of qualifying assets, in accordance with the provisions of AS 16.

13. As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

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

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments. This is not applicable in the given case. In the given case 75% of External Revenue is ₹ 10,500 Lakhs (₹ 14,000 × 75%) and the total External Revenue from Reportable segments is ₹ 12,300 Lakhs. So, no need to add Reportable segments.

On the basis of turnover criteria segment Fan is reportable segment as its sales are more than 1,850 lakhs (10% of ₹ 18,500 lakhs). Moreover, total external revenue attributable to reportable segment is also more than 75% of the total enterprise revenue.

On the basis of asset criteria, Fan and Light are reportable segments as their assets are more than 4,450 lakhs (10% of ₹ 44,500 lakhs).

14. As per AS 18 'Related Party Disclosures', enterprises over which KMP & its relatives are able to exercise significant influence are related party transactions (Clause D).

Thus, as per the facts of the case & provisions of AS, KMP is RP of the company.

But, reimbursement is not in the nature of remuneration.

Hence, not to be disclosed in Financial Reporting.

15. Net effect on the Statement of Profit and Loss in the year of sale in the books of Lessee (Mansi Ltd.)

For calculation of net effect on the statement of profit and loss on sale of equipment, it has to be judged whether lease is an operating lease or finance lease.

The lease term is for 8 years which covers the entire economic life of the equipment. At the inception of the lease, the present value of the minimum lease payments (MLP) is ₹ 8,53,600 [₹ 1,60,000 x 5.335 (Annuity factor of ₹ 1 @10% for 8 years)] and amounts to at least substantially all of the fair value (sale price i.e. ₹ 8,52,800) of the leased equipment. Thus, lease is a finance lease.

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As per para 48 of AS 19 "Leases", if a sale and leaseback transaction results in a finance lease, profit of ₹ 6,72,800 (Sale value ₹ 8,52,800 less carrying amount ₹ 1,80,000) will not be recognized as income in the year of sale in the books of lessee i.e. Mansi Ltd. It should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

Therefore, assuming that depreciation is charged on straight line basis, Mansi Ltd. will recognize depreciation of ₹ 1,06,600 per annum for 8 years (₹ 8,52,800/8) and amortise profit of ₹ 6,72,800 over the lease term of 8 years, i.e. ₹ 84,100 p.a.

The net effect is a debit of (₹ 1,06,600-84,100) ₹ 22,500 p.a. to the Statement of Profit and Loss, for 8 years as covered under the lease term.

16 The appropriation made to such a mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS

Paragraph 11 of the Statement states that "For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period" With an emphasis on the phrase attributable to equity shareholders, it may be construed that such amounts appropriated to mandatory reserves, though not available for distribution as dividend, are still attributable to equity shareholders. Accordingly, these amounts should be included in the computation of Basic EPS. In view of this, the treatment made by the company is not correct.

17. Amortization of cost of patent as per AS 26

Year	Estimated future cash flow (₹ in lakhs)	Amortization Ratio	Amortized Amount (₹ in lakhs)
1	300	.25	150
2	300	.25	150

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3	300	.25	150
4	150	.10	60
5	150	.10	60
6	75	.05	30
		1.00	600

In the first three years, the patent cost will be amortized in the ratio of estimated future cash flows i.e. (300: 300: 300: 150: 150).The unamortized amount of the patent after third year will be ₹ 150 lakh (600-450) which will be amortized in the ratio of revised estimated future cash flows (150:150:75 or 2:2:1) in the fourth, fifth and sixth year.

18. **Scope of AS 27:** As per AS 27 'Financial Reporting of Interests in Joint Ventures', this Standard should be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. The provisions of this AS need to be referred to for consolidated financial statements only when CFS is prepared and presented by the venturer.

Forms of Joint Venture as per AS 27: Joint ventures take many different forms and structures. This Standard identifies three broad types–

(i) **Jointly controlled operations:** Under this set up, venturers do not create a separate entity for their joint venture business but they use their own resources for the purpose. They raise any funds required for joint venture on their own, they incur any expenses and sales are also realised individually, they use same set of fixed and employees for joint venture business and their own business. They do not maintain a separate set of books for joint venture.

(ii) **Jointly controlled assets:** Separate legal entity is not created in this form of joint venture but venturer owns the assets jointly, which are used by them for the purpose of generating economic

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benefit to each of them. They take up any expenses and liabilities related to the joint assets as per the contract.

(iii) **Jointly controlled entities:** This is the format where venturer creates a new entity for their joint venture business. All the venturers pool their resources under new banner and this entity purchases its own assets, create its own liabilities, expenses are incurred by the entity itself and sales are also made by this entity. The net result of the entity is shared by the venturers in the ratio agreed upon in the contractual agreement. This contractual agreement also determines the joint control of the venturer. Being a separate entity, separate set of books is maintained for the joint venture.

19. Treatment of Impairment Loss

As per para 57 of AS 28 "Impairment of assets", if the recoverable amount (higher of net selling price and its value in use) of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. In the given case, net selling price is ₹ 64.50 lakhs (₹ 67.50 lakhs – ₹ 3 lakhs) and value in use is ₹ 60 lakhs. Therefore, recoverable amount will be ₹ 64.50 lakhs. Impairment loss will be calculated as ₹ 10.50 lakhs [₹ 75 lakhs (Carrying Amount after revaluation - Refer Working Note) less ₹ 64.50 lakhs (Recoverable Amount)].

Thus impairment loss of ₹ 10.50 lakhs should be recognised as an expense in the Statement of Profit and Loss immediately since there was downward revaluation of asset which was already charged to Statement of Profit and Loss.

Working Note:

Calculation of carrying amount of the fixed asset at the end of the fourth year on revaluation

	(₹ in lakhs)
Purchase price of a fixed asset	150.00
Less: Depreciation for four years [(150 lakhs / 10 years) x 4 years]	(60.00)

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Carrying value at the end of fourth year	90.00
Less: Downward revaluation charged to profit and loss account	(15.00)
Revalued carrying amount	75.00

20. As per para 29 of AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a past event will lead to present obligation when the enterprise has no realistic alternative to settle the obligation created by the past event.

However, when environmental damage is caused there may be no obligation to remedy the consequences. The causing of the damage will become an obligating event when a new law requires the existing damage to be rectified. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted.

In the given case it is virtually certain that law will be enacted requiring clean-up of a land already contaminated. Therefore, an oil company has to provide for such clean-up cost in the year in which the law is virtually certain to be enacted.

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