CHIRANJEEV JAIN CLASSES

CA FINAL

FINANCIAL REPORTING

ADDITIONAL QUESTIONS

ISSUED BY ICAI FOR

MAY 2020 AND ONWARD EXAMS

Applicable for NEW syllabus

ABOUT THE AUTHOR

CA Chiranjeev Jain has qualified Chartered Accountancy Course in 2005 and has completed all the levels of this course in his very first attempt. He is among the top rank holders Delhi University having done his graduation from Sri Ram College of Commerce. He scored more than 90% in accounts at all levels of CA and university examinations. He has done Diploma in Information System Audit conducted by the ICAI. He has also done Masters in Business Administration (MBA) with specialization in Finance.

After completing Academic & Professional Education, he has worked with Deloitte Haskin & Sells as a chartered accountant and developed immense skills in the practical application of various accounting standards. Finally he exposed himself to the practice as chartered accountant and adapted to teaching accounts (the subject he loves the most) as his career.

He possesses a vast experience in teaching accountancy to students of CA CPT, IPCC & Final. He is also into Corporate Training in the industry and has addressed a number of courses and seminars organized by Professional Institutions. He has served as an examiner of accounts at CA IPCC and Final level. He is an expert in both Indian Accounting Standards and IFRS.

He has conducted face to face classes at Hyderabad, Bangalore, Kolkata and Ahmadabad apart from VSAT classes in the Southern region with ETEN CA. His easy way of teaching Accountancy from the very basic and his motivational lectures are very famous among CA students' fraternity.


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Thanks
Chiranjeev Jain TEAM

FEEDBACK ABOUT SIR'S CLASSES

Shalaka Tiwari - Shastri, Hyderabad

I have taken the classes for CA Final FR from Chiranjeev Jain sir and I believe he is an great teacher and a amazing mentor.
His methodology of teaching is unique, while in class there's no concept untaught. He teaches whole heartedly and makes sure that you get your basics right.
I have no other words to express this better.
I will say, just join him and u will see the results !!
CJ sir ROCKS !!!!!

Amit Jain, Kolkata

Hi Students, I am CA Amit Kumar Jain, practicing in Gurgaon. I am one of the old students of CA Chiranjeev Sir, and belong to his first CA final batch in kolkata. Today, on Teacher's Day, I would love to convey my gratitude to him for his wonderful coaching classes. The learnings shared by him both related to course and related to practical life after CA, has been very useful in my journey. He is one of the best CA Final teacher in India and I recommend all students to join him.

Navneet Singh, Hyderabad

When I started my journey to become a Chartered accountant, the only fear I had was will I be able to have that conceptual knowledge which is needed the most in a profession like ours.!!
Now after completing my CA I can tell you that starting from Accounts in CPT then with Accounts in IPCC and to end with Financial reporting in CA Final, the conceptual understanding of the subject which I gained from you helped me become what I am now.. Thank you Sir once again to be available whenever asked for and help me achieve my dream of becoming a CA.

Obaid Khan, Hyderabad

To begin with a quote "It takes a big heart to help shape little minds."
Thank You Sir, for being an Amazing faculty throughout CA journey. Now that I completed my journey, I feel immensely honoured for being your student and learning the concepts precisely in a manner that helps in application too.
Words might fall short to express the gratitude, for you have been an Amazing teacher, mentor and a friend.
Just a small appreciation post from a student, moreover from a Fan of your ideas and teaching.

Isan Singh, Kolkata

i have taken FR classes from CA Chiranjeev Jain Sir….He is best in this subject…. It's because of Sir I get to know so much about accounts especially IND AS,
I have also taken accounts from him in CA IPCC and I scored very good marks in IPCC even though I was average in accounts subject. He teach from base which makes easy for average students to score high in exams. He gives through conceptual knowledge do that students will able to write worst paper in exams with ease.
Thanks sir for ur valuable teaching.

Arihant Kothari, Hyderabad

Thanks to the man with great caps,a perfect guide who has really helped us at every point and gave his helpful hands without any complaints .. You be the best sir ☺☺☺
It is to thankyou for those priceless teachings ☺I m really thankfull for all you good words that kept me motivated and focussed towards my goal . I feel lucky to get a place under your umbrella .. Whatever be the results your imprints will always be there sir .Thanks a lot sir !☺

Ashutosh Lahoti, Hyderabad

Thank you sir for providing us the best lectures with an ease. It was an amazing time spending with you. I'm very lucky to learn the subject of Accountancy that too of IPCC level under your guidance. You made this subject very easy with your experience and teaching quality. Actually your friendly nature towards the students made it more easier to understand the subject. Even your scoldings were like roses without thornes.
Thank you so much sir for helping us get through our targets. Will be missing those class fun but hope to see you soon in CA final classes.
Proud to be CHIRANJEEVIAN

Niharika Phalod, Hyderabad

"A good teacher can inspire hope, ignite the imagination and instill a love of learning"
I would truly like to appreciate the great effort you have put into tutoring and enlightening my way. Because of your guidance and patience, I've come this far in my CA journey. Thankyou for always being there in all my confusions and helping me deal with all the stress during ipcc days!
Accounts couldn't be more easier and all the credit goes to your easy techniques.
Thankyou for being my mentor. I'm truly blessed to be your student! Wish you a very happy teachers day Sir. ☺

Nikita Simran, Hyderabad

I'm so grateful to be your student. Thank you for instilling in me the passion for learning. You've put in selfless efforts in shaping our career! We're truly blessed to have a mentor like you ☺ Lastly I would like to say-Now I see the world in a different light
I can discriminate between wrong and right, I perceive things in a different style, I have learnt to go the extra mile, I have a deeper understanding of things Dear teacher you have truly given me wings
Thank you for everything sir

Shalaka Tiwari - Shastri, Hyderabad

I have taken the classes for CA Final FR from Chiranjeev Jain sir and I believe he is an great teacher and a amazing mentor.
His methodology of teaching is unique, while in class there's no concept untaught. He teaches whole heartedly and makes sure that you get your basics right.
I have no other words to express this better.
I will say,just join him and u will see the results !!
CJ sir ROCKS !!!!

Chinna Poojari , Bangalore
Sir,. It's very glad to have these words to you..u r d person who stands with me not only as my guru but as a family member during my tough times.. The way you teach us makes ourself to Mold towards subject conceptually...Coz of u only I have got AIR's in IPCC and CMA.... Being ur student makes me proud...gives me confidence that I can achieve all thru success.....finally thank you is not enough for ur services...Just will show thanks in the form of results in our exams....
Not only the subject your personality as a Chartered Accountant tis the Perfect Example for all Budding CA's.
One word about my guru ."CA Chiranjeevi sir is the BAADSHAH OF IND AS " in india.

Venkata Sumanth, Vijaywada
Teachers usually make us study... Chiranjeev Jain sir made us enjoy the subject...We stepped out of the class with tonnes of confidence and belief .....
Thank you very much sir....
We never found in your class, a teacher- student relationship...We always felt that we are being taught by a best friend and well-wisher...
We will be grateful forever sir....
With tonnes of love...
One word about Chiranjeevi Jain sir ....
You taught us from your Heart...not from book...

Afsar Shaik, Hyderabad
Sir...trust me...before starting of this batch....I wondered how ur gonna complete this in 70 days...wr as other faculies r taking for 3 or 4 mnths....but finally I got my answer....u gave us the main thing what we want actually i.e, conceptual clarity....thank u soo much sir

Ashish Soni, Hyderabad
Sir you can inspire hope, ignite the imagination, and instill a love of learning..motivating...Thank You Sir ## CJ Sir the Best#

Ankitha Baldwa, Hyderabad
Thank you so much sir u be the best lecturer of my life😍Apka padane ka style baat karne ka style Apki shyaris Kya baat sir, missing all my memorable moments of ur class

Chaitanya, Hyderabad
Your way of teaching is something different that we will be in a thought that you are teaching slow but we'll get to know your fast once we missed your class and seeing the notes the next day. Really loved the class very much sir. Thankuuuuu so much sir.
The real life stories you teaches in class are inspired. Sir, we will go through many teachers in life sir. But only few we can remember lifelong. You're one among them and one you got the position with 70 days time while with everyone I spent not less than 2 years. Once again Thank you sir.
Sir, I may not score 90+ in exam, But I'm sure I'll give my 200% for getting 90+. Because we have only two options. Either 90+ or 90+.

Sakshi Sharma, Hyderabad
I have been taught by so many teachers but amongst them all you made the greatest impact by not only teaching by guiding us too. The loving ways of teachers like you is difference between teaching and educating thanks for teaching us, educating us, and empowering us thanks a lot sir

Khushi Srivastava, Hyderabad
I pursued 61 in accounting just because of Chiranjeev Jain Sir. His notes are not less than a face to face teaching...he covers each and every minute stuff...lucky to be his student.

Soujanya V M, Bangalore
I have attended his classes and he is very knowledgeable..He teaches the complex things in a very simple manner...He is a good guide for a student ...Because of him I got exemption in IPCC accounts...Students who are interested in conceptual learning can join his classes without any second thought...!
The chart prepared by him is simple and easily understandable...Very much useful for the students for last minute revision...
Thank you sir for all the teaching and guidance...!!

Rakhi Jha, Hyderabad
#SIR Ji # THANK YOU, I joined Yeshas just because you were teaching us ACCOUNTS #Your the most coolest & friendly faculty #You always motivated us #You always guided us on right path #Yet I can't believe that today was our last IPCC class # I personally never ever saw a great faculty like YOU # We all gonna miss you so much😣 #You always helped us SIR JI # You were just like our friend's #A BIG BIG THANK YOU SIR JI # See you soon in CA-FINAL #WILL MISS YOU SIR JI #LOVE YOU TONS & TONS ❤️

Shams Afaq, Hyderabad
I have done my schooling from science stream,so at the start of CPT only I was nervous, if I will be able to do accounts. But my whole nervousness was transformed into interest of learning by Chiranjeev Sir. He created a strong foundation for me with conceptual clarity. It was his easy going approach even when the concepts were challenging, I scored 44/60 in CPT and then 76/100 in IPCC. I will always be grateful to you. You are phenomenal. Keep up the good work!

Nithin Mundada, Hyderabad
The way you teach.. The knowledge you share.. The care you take..The love you shower..Makes you.. The world's best sir....It's my pleasure to have such a nice sir with charming smile..and I have never seen such a sir like.....

Jaya Chandra, Visakhapatnam
Sir's notes is very helpful during revision and he teaches from basics on which we generally don't pay much attention. The way he links each topic is good and he has much clarity in how to teach complex topics.

Naveen Pspk , Hyderabad
Scored 75 in Accounts..its just because of Mr.CA chiranjeevjain sir...initially I was bothered about DAT subject as I was from science background... But then I met with sir classes it changed whole scenario ....&d result is dis....tq sir tq so much....

For more Feedback Visit www.cachiranjeevjain.com

QUESTIONS BANK

IND AS 1

Question 1:

A retail chain acquired a competitor in March, 2011 and accounted for the business combination under Ind AS 103 on a provisional basis in its 31st March, 2011 annual financial statements. The business combination accounting was finalised in 2011-2012 and the provisional fair values were updated. As a result, the 2010-2011 comparatives were adjusted in the 2011-12 annual financial statements. Does the restatement require an opening statement of financial position (that is, an additional statement of financial position) as of 1st April, 2010?

Solution: An additional statement of financial position is not required, because the acquisition had no impact on the entity's financial position at 1st April, 2010.

Question 2:

OMN Ltd has a subsidiary MN Ltd. OMN Ltd provides a loan to MN Ltd at 8% interest to be paid annually. The loan is required to be paid whenever demanded back by OMN Ltd.

How should the loan be classified in the financial statements of OMN Ltd? Will it be any different for MN Ltd?

Solution: The demand feature might be primarily a form of protection or a tax-driven feature of the loan. Both parties might expect and intend that the loan will remain outstanding for the foreseeable future. If so, the instrument is, in substance, long-term in nature, and accordingly, OMN Ltd would classify the loan as a non-current asset.

However, OMN Ltd would classify the loan as a current asset if both the parties intend that it will be repaid within 12 months of the reporting period.

MN Ltd would classify the loan as current because it does not have the right to defer repayment for more than 12 months, regardless of the intentions of both the parties.

The classification of the instrument could affect initial recognition and subsequent measurement. This might require the entity's management to exercise judgement , which could require disclosure under judgements and estimates.

IND AS 8

Question 3:

Can an entity voluntarily change one or more of its accounting policies?

Solution: A change in an accounting policy can be made only if the change is required or permitted by Ind AS 8. As per para 14 of Ind AS 8, an entity shall change an accounting policy only if the change:

(a) is required by an Ind AS; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Para 15 of the standard states that the users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the above criteria.

Paragraph 14(b) lays down two requirements that must be complied with in order to make a voluntary change in an accounting policy. First, the information resulting from application of the changed (i.e., the new) accounting policy must be reliable. Second, the changed accounting policy must result in "more relevant" information being presented in the financial statements.

Whether a changed accounting policy results in reliable and more relevant financial information is a matter of assessment in the particular facts and circumstances of each case. In order to ensure that such an assessment is made judiciously (such that a voluntary change in an accounting policy does not effectively become a matter of free choice), paragraph 29 of Ind AS 8 requires an entity making a voluntary change in an accounting policy to disclose, inter alia, "the reasons why applying the new accounting policy provides reliable and more relevant information."

Question 4:

Entity ABC acquired a building for its administrative purposes and presented the same as property, plant and equipment (PPE) in the financial year 2011- 12. During the financial year 2012- 13, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, Entity ABC reclassified it from PPE to investment property in the financial year 2012- 13. Should Entity ABC account for the change as a change in accounting policy?

Solution: Paragraph 16(a) of Ind AS 8 provides that the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies.

As per Ind AS 16, 'property, plant and equipment' are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period."

As per Ind AS 40, 'investment property' is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business."

As per the above definitions, whether a building is an item of property, plant and equipment (PPE) or an investment property for an entity depends on the purpose for which it is held by the entity. It is thus possible that due to a change in the purpose for which it is held, a building that was previously classified as an item of property, plant and equipment may warrant reclassification as an investment property, or vice versa. Whether a building is in the nature of PPE or investment property is determined by applying the definitions of these terms from the perspective of that entity. Thus, the classification of a building as an item of property, plant and equipment or as an investment property is not a matter of an accounting policy choice. Accordingly, a change in classification of a building from property, plant and equipment to investment property due to change in the purpose for which it is held by the entity is not a change in an accounting policy.

Question 5:

Whether change in functional currency of an entity represents a change in accounting policy?

Solution: Paragraph 16(a) of Ind AS 8 provides that the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies.

As per Ind AS 21, 'functional currency' is the currency of the primary economic environment in which the entity operates.

Paragraphs 9-12 of Ind AS 21 list factors to be considered by an entity in determining its functional currency. It is recognised that there may be cases where the functional currency is not obvious. In such cases, Ind AS 21 requires the management to use its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Paragraph 13 of Ind AS 21 specifically notes that an entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions. Thus, functional currency of an entity is not a matter of an accounting policy choice.

In view of the above, a change in functional currency of an entity does not represent a change in accounting policy and Ind AS 8, therefore, does not apply to such a change. Ind AS 21 requires that when there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

Question 6:

An overseas national standard-setting body in due accordance with Ind AS 8. Would it be permissible for the entity to change the said policy to reflect a subsequent amendment in that entity developed one of its accounting policies by considering a pronouncement of an pronouncement?

Solution: In the absence of an Ind AS that specifically applies to a transaction, other event or condition, management may apply an accounting policy from the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy. As such a change is a voluntary change in accounting policy, it can be made only if it results in information that is reliable and more relevant (and does not conflict with the sources in Ind AS 8).

Question 7:

Whether an entity can change its accounting policy of subsequent measurement of property, plant and equipment (PPE) from revaluation model to cost model?

Solution: Paragraph 29 of Ind AS 16 provides that an entity shall choose either the cost model or the revaluation model as its accounting policy for subsequent measurement of an entire class of PPE.

A change from revaluation model to cost model for a class of PPE can be made only if it meets the condition specified in Ind AS 8 paragraph 14(b) i.e. the change results in the financial statements providing reliable and more relevant information to the users of financial statements. For example, an unlisted entity planning IPO may change its accounting policy from revaluation model to cost model for some or all classes of PPE to align the entity's accounting policy with that of listed markets participants within that industry so as to enhance the comparability of its financial statements with those of other listed market participants within the industry. Such a change – from revaluation model to cost model is not expected to be frequent.

Where the change in accounting policy from revaluation model to cost model is considered permissible in accordance with Ind AS 8 paragraph 14(b), it shall be accounted for retrospectively, in accordance with Ind AS 8.

Question 8:

Whether a change in inventory cost formula is a change in accounting policy or a change in accounting estimate?

Solution: As per Ind AS 8, accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. Further, paragraph 36(a) of Ind AS 2, 'Inventories', specifically requires disclosure of 'cost formula used' as a part of disclosure of accounting policies adopted in measurement of inventories.

Accordingly, a change in cost formula is a change in accounting policy.

Question 9:

An entity has presented certain material liabilities as non-current in its financial statements for periods upto 31st March, 2011. While preparing annual financial statements for the year ended 31st March, 2012, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period presented (i.e., as at 31st March, 2011). Would this reclassification of liabilities from non-current to current in the comparative amounts be considered to be correction of an error under Ind AS 8? Would the entity need to present a third balance sheet?

Solution: As per paragraph 41 of Ind AS, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

In accordance with the above, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March, 2012, the comparative amounts as at 31st

March, 2011 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements, if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

Question 10:

An entity charged off certain expenses as finance costs in its financial statements for the year ended 31st March,2011. While preparing annual financial statements for the year ended 31st March, 2012, management discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The entity intends to restate the comparative amounts for the prior period presented in which the error occurred (i.e., year ended 31st March, 2011). Would this reclassification of expenses from finance costs to other expenses in the comparative amounts be considered to be correction of an error under Ind AS 8? Would the entity need to present a third balance sheet ?

Solution: As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

In accordance with the above, the reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March, 2012, the comparative amounts for the year ended 31st March, 2011 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, the retrospective restatement of relevant items in statement of profit and loss has

no effect on the information in the balance sheet at the beginning of the preceding period (1st April, 2010). Therefore, the entity is not required to present a third balance sheet.

Question 11:

While preparing the annual financial statements for the year ended 31st March, 2013, an entity discovers that a provision for constructive obligation for payment of bonus to selected employees in corporate office (material in amount) which was required to be recognised in the annual financial statements for the year ended 31st March, 2011 was not recognised due to oversight of facts. The bonus was paid during the financial year ended 31st March, 2012 and was recognised as an expense in the annual financial statements for the said year. Would this situation require retrospective restatement of comparatives considering that the error was material?

Solution: As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

As per paragraph 40A of Ind AS 1, an entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the retrospective restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, expenses for the year ended 31st March, 2011 and liabilities as at 31st March, 2011 were understated because of non-recognition of bonus expense and related provision.

Expenses for the year ended 31st March, 2012, on the other hand, were overstated to the same extent because of recognition of the aforesaid bonus as expense for the year. To correct the above errors in the annual financial statements for theyear ended 31st March, 2013, the entity should:

(a) restate the comparative amounts (i.e., those for the year ended 31st March, 2012) in the statement of profit and loss; and

(b) present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 2011) wherein it should recognise the provision for bonus and restate the retained earnings.

Question 12:

While preparing interim financial statements for the half-year ended 30th September, 2011, an entity notes that there has been an under-accrual of certain expenses in the interim financial statements for the first quarter ended 30th June, 2011. The amount of under accrual is assessed to be material in the context of interim financial statements. However, it is expected that the amount would be immaterial in the context of the annual financial statements. The management is of the view that there is no need to correct the error in the interim financial statements considering that the amount is expected to be immaterial from the point of view of the annual financial statements. Whether the management's view is acceptable?

Solution: Paragraph 41 of Ind AS 8, inter alia, states that financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

As regards the assessment of materiality of an item in preparing interim financial statements, paragraph 25 of Ind AS 34, Interim Financial Statements, states as follows:

"While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from nondisclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period."

As per the above, while materiality judgements always involve a degree of subjectivity, the overriding goal is to ensure that an interim financial report includes all the information that is relevant to an understanding of the financial position and performance of the entity during the interim period. It is therefore not appropriate to base quantitative assessments of materiality on projected annual figures when evaluating errors in interim financial statements.

Accordingly, the management is required to correct the error in the interim financial statements since it is assessed to be material in relation to interim period data.

Question 13:

ABC Ltd has an investment property with an original cost of ₹ 1,00,000 which it inadvertently omitted to depreciate in previous financial statements. The property was acquired on 1st April, 2011. How should the error be corrected in the financial statements for the year ended 31st March, 2014, assuming the impact of the same is considered material? The property has a useful life of 10 years and is depreciated using straight line method. Estimated residual value at the end of 10 year is Nil. For simplicity, ignore tax effects.

Solution: The error shall be corrected by retrospectively restating the comparatives. A third balance sheet as at the beginning of the earliest period shall also be presented. Relevant extracts of balance sheet, statement of profit and loss and statement of changes in equity are reproduced below:

Balance sheet		Restated	Restated
	31st	31st	1st
	March, 2014	March, 2013	April,2012
Non-current assets			
Property, plant and equipment	60500	64,500	70000
Investment property (refer note 1 below)	70,000	80,000	90,000
Total non-current assets	130,500	144,500	160,000
Current Assets			
Cash	50,000	40,000	60,000
Trade receivables	80,000	100,000	90,000
Total current assets	130,000	140,000	150,000
Total assets	260,500	284,500	310,000

Equity and liabilities			
Equity			
Equity share capital	50,000	50,000	50,000
Other equity			
Reserves and surplus	80,500	60,500	40,000
Total equity	130,500	110,500	90,000
Liabilities			
Current liabilities			
Financial liabilities			
Trade payables	100,000	135,000	122,000
Other financial liabilities	30,000	39,000	98,000
Total liabilities	1,30,000	260500	1,74,000
Total Equity and Liabilities	2,84500	2,20,000	3,10000

Statement of profit and loss

		Restated
	31st March, 2014	31st March, 2013
	Rs.	Rs.
Revenue from operations	48,000	50,000
Other income	2,000	3,000
Total Income	50,000	53,000
Expenses		
Purchases of stock-in-trade	15,500	16,700
(Increase)/Decrease in inventories of Stock- in- Trade	500	300
Depreciation expense (refer note 1 below)	14,000	15,500
Total expenses	30,000	32,500
Profit for the year	20,000	20,500

Statement of changes in equity		Restated
	Equity share Capital	Retained earnings

	Rs.	Rs.
Balance as at 1st April, 2012 as previously reported	50,000	50,000
Impact of the depreciation on investment property		
for FY 2011-12 (Refer note 1)	-	(10,000)
Restated balance as at 1 st April, 2012	50,000	40,000
Profit for the FY 2012-13 (restated)	-	20,500
Balance as at 31st March, 2013	50,000	60,500
Profit for the FY 2013-14	-	20,000
Balance as at 31st March, 2014	50,000	80,500

Note 1:

During the year ended 31st March 2014, the management undertook a detailed review of its accounting policies and observed that investment property had not been depreciated in previous financial statements due to oversight. As a consequence, the investment property had been incorrectly measured at the original historical cost instead of the depreciated carrying value.

Due to this error, the investment property and retained earnings as at 1st April, 2012 were overstated by Rs. 10,000 each. The error also affected the profit for the year ended 31st March, 2013 which was overstated by Rs. 10,000. The investment property and retained earnings as at 31st March, 2013 were overstated by Rs. 20,000 each

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

(All figures in ₹)

Balance sheet	**31st March 2013 (as previously reported)**	**Increase/ (decrease due to correction of error)**	**31st March (2013) (restated)**	**1st April 2012 (as previously**	**Increase/ (decrease) due to correction of error**	**1st April, 2012 (restated)**
Investment property	100,000	(20,000)	80,000	100,000	(10,000)	90,000
Total Non-current assets	164,500	(20,000)	144,500	170,000	(10,000)	160,000
Total assets	304,500	(20,000)	284,500	320,000	(10,000)	310,000
Retained earnings	80,500	(20,000)	60,500	50,000	(10,000)	40,000
Total equity	130,500	(20,000)	110,500	100,000	(10,000)	90,000

Statement of profit and loss	31st March, 2013 (as previously reported)	Increase/(decrease) due to correction of error	31 March, 2013 (restated)
Depreciation	5,500	10,000	15,500
Total expenses	22,500	10,000	32,500
Profit for the year	30,500	(10,000)	20,500

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for both basic and diluted earnings per share was a decrease of Rs. 0.20 per share. The correction of the error had no impact on previously reported cash flows from operating, investing and financing activities.

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Question 14:

What is the date of approval for issue of the financial statements prepared for the reporting period from April 1, 2011 to March 31, 2012, in a situation where following dates are available? Completion of preparation of financial statements May 28, 2012 Board reviews and approves it for issue June 19, 2012

Available to shareholders	July 01, 2012
Annual General Meeting	September 15, 2012
Filed with regulatory authority	October 16, 2012

Will your answer differ if the entity is a partnership firm?

Solution: As per Ind AS 10 the date of approval for issue of financial statements is the date on which the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity. Accordingly, in the instant case, the date of approval is the date on which the financial statements are approved by the Board of Directors of the company, i.e., June 19, 2012.

In the case of an entity is a partnership firm, the date of approval will be the date when the relevant approving authority of such entity approves the financial statements for issue ie. the date when the partner(s) of the firm approve(s) the financial statements.

Question 15:

ABC Ltd. prepared interim financial report for the quarter ending June 30, 2011. The interim financial report was approved for issue by the Board of Directors on July 15, 2011. Whether events occurring between end of the interim financial report and date of approval by Board of Directors, i.e., events between July 1, 2011 and July 15, 2011 that provide evidence of conditions that existed at the end of the interim reporting period shall be adjusted in the interim financial report ending June 30, 2011?

Solution: Paragraph 3 of Ind AS 10, inter alia, defines 'Events after the reporting period' as those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue.

What is reporting period has not been dealt with in Ind AS 10. Absence of any specific guidance regarding reporting period implies that any term for which reporting is done by preparing financial statements is the reporting period for the purpose of Ind AS 10. Accordingly, financial reporting done for interim period by preparing either complete set of financial statements or by preparing condensed financial statements will be treated as reporting period for the purpose of Ind AS 10.

Paragraph 2 of Ind AS 34, inter alia, provides that each financial report, annual or interim, is evaluated on its own for conformity with Ind AS. Further, paragraph 19 of Ind AS 34, provides that an interim financial report shall not be described as complying with Ind AS unless it complies with all of the requirements of Ind AS.

In accordance with the above, an entity describing that its interim financial report is in compliance with Ind AS, has to comply with all the Ind AS including Ind AS 10.

In order to comply with the requirements of Ind AS 10, each interim financial report should be adjusted for the adjusting events occurring between end of the interim financial report and the date of approval by Board Pof Directors. Therefore, in the instant case, events occurring between July 1, 2011 and July 15, 2011 that provide evidence of conditions that existed at the end of the interim reporting period should be adjusted in the interim financial report ending June 30, 2011.

Question 16:

The Board of Directors of ABC Ltd. approved the financial statements for the reporting period 2011-12 for issue on June 15, 2012. The management of ABC Ltd. discovered a major fraud and decided to reopen the books of account. The financial statements were subsequently approved by the Board of Directors on June 30, 2012. What is the date of approval for issue as per Ind AS 10 in the given case?

Solution: Date of approval is the date on which the financial statements are approved by the Board of Directors in case of a company, and by the corresponding approving authority in case of any other entity for issue. In the given case, there are two dates of approval by Board of Directors. The financial statements were reopened for further adjustments subsequent to initial approval. The date of approval should be taken as the date on which financial statements are finally approved by the Board of Directors. Therefore, in the given case, the date of approval for issue as per Ind AS 10 should be considered as June 30, 2012.

Question 17:

While preparing its financial statements for the year ended 31st March, 2011, XYZ Ltd. made a general provision for bad debts @ 5% of its debtors. In the last week of February, 2011 a debtor for Rs. 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. Considering the event of earthquake, XYZ Ltd. made a provision @ 50% of the amount receivable from that debtor apart from the general provision of 5% on remaining debtors. In April, 2011 the debtor became bankrupt. Can XYZ Ltd. provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31st March, 2011?

Would the answer be different if earthquake had taken place after 31st March, 2011, and therefore, XYZ Ltd. did not make any specific provision in context that debtor and made only general provision for bad debts @ 5% on total debtors?

Solution: As per the definition of 'Events after the Reporting Period' and paragraph 8 of Ind AS 10, Events after the Reporting Period, financial statements should be adjusted for events occurring after the reporting period that provide evidence of conditions that existed at the end of the reporting period. In the instant case, the earthquake took place before the end of the reporting period, i.e., in February 2011. Therefore, the condition exists at the end of the reporting date though the debtor is declared insolvent after the reporting period. Accordingly, full provision for bad debt amounting to Rs. 2 lakhs should be made to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended March 31, 2011. Since provision for bad debts on account of amount due from that particular debtor was made @ 50%, XYZ Ltd should provide for the remaining amount as a consequence of declaration of this debtor as bankrupt.

In case, the earthquake had taken place after the end of the reporting period, i.e., after 31st March, 2011, and XYZ Ltd. had not made any specific provision for the debtor who was declared bankrupt later on, since the earthquake occurred after the end of the reporting period no condition existed at the end of the reporting period. The company had made only general provision for bad debts in the ordinary business course and not to recognise the catastrophic situation of an earthquake. Accordingly, bankruptcy of the debtor in this case is a non-adjusting event.

As per para 21 of Ind AS 10, if non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made."

If the amount of bad debt is considered to be material, the nature of this non-adjusting event, i.e., event of bankruptcy of the debtor should be disclosed along with the estimated financial effect of the same in the financial statements.

Question 18:

Company XYZ Ltd. was formed to secure the tenders floated by a telecom company for publication of telephone directories. It bagged the tender for publishing directories for Pune circle for 5 years. It has made a profit in 2011- 2012, 2012-2013, 2013-2014 and 2014-2015. It bid in tenders for publication of directories for other circles – Nagpur, Nashik, Mumbai, Hyderabad but as per the results declared on 23rd April, 2015, the company failed to bag any of these. Its only activity till date is publication of Pune directory. The contract for publication of directories for Pune will expire on 31st December 2015. The financial statements for the F.Y. 2014-15 have been approved by the Board of Directors on July 10, 2015. Whether it is appropriate to prepare financial statements on going concern basis?

Solution: With regard to going concern basis to be followed for preparation of financial statements, paras 14 & 15 of Ind AS 10 states that-

An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting. In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the instant case, since contract is expiring on 31st December 2015 and it is confirmed on 23rd April, 2015, i.e., after the end of the reporting period and before the approval of the financial statements, that no further contact is secured, implies that the entity's operations are expected to come to an end. Accordingly, if entity's operations are expected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 2014-15 and thereafter on going concern basis may not be appropriate.

Question 19:

In the plant of PQR Ltd., there was a fire on 10.05.2011 in which the entire plant was damaged and the loss of Rs. 40,00,000 is estimated. The claim with the insurance company has been filed and a recovery of Rs.27,00,000 is expected.

The financial statements for the year ending 31.03.2011 were approved by the Board of Directors on 12th June 2011. Show how should it be disclosed?

Solution: In the instant case, since fire took place after the end of the reporting period, it is a non-adjusting event. However, in accordance with paragraph 21 of Ind AS 10, disclosures regarding non-adjusting event should be made in the financial statements, i.e., the nature of the event and the expected financial effect of the same.

With regard to going concern basis followed for preparation of financial statements, the company needs to determine whether it is appropriate to prepare the financial statements on going concern basis, since there is only one plant which has been damaged due to fire. If the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, preparation of financial statements for the F.Y.2010-11 on going concern assumption may not be appropriate. In that case, the financial statements may have to be prepared on a basis other than going concern.

However, if the going concern assumption is considered to be appropriate even after the fire, no adjustment is required in the financial statements for the year ending 31.03.2011.

Question 1:

What would be the treatment for dividends declared to redeemable preference shareholders after the reporting period but before the financial statements are approved for issue for the year 2011-12. Whether Ind AS 10 prescribes any accounting treatment for such dividends?

Solution: Paragraph 12 of Ind AS 10 prescribes accounting treatment for dividends declared to holders of equity instruments. If an entity declares dividends to holders of equity instruments (as defined in Ind AS 32, Financial Instruments: Presentations) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

However, Ind AS 10 does not prescribe accounting treatment for dividends declared to redeemable preference shareholders. As per the principles of Ind AS 32, Financial Instruments: Presentation, a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability. Thus, dividend payments to such preference shares are recognised as expense in the same way as interest on a bond. Since interest will be charged on time basis, the requirements of Ind AS 10 regarding date of declaration of dividend not relevant for its recognition.

Question 20:

XY Ltd had taken a large-sized civil construction contract, for a public sector undertaking, valued at Rs. 200 Crores. Execution of the project started during 2011-12, and continued in the next financial year also. During the course of execution of the work on May 29, 2012, the company found while raising the foundation work that it had met a rocky surface and cost of contract would go up by an extra Rs.50 crore, which would not be recoverable from the Contractee as per the terms of the contract. The Company's financial year ended on 31st March, 2012, and the financial statements were considered and approved by the Board of Directors on 15th June, 2012. How will you treat the above in the financial statements for the year ended 31st March, 2012?

Solution: In the instant case, the execution of work started during the F.Y. 2011-12 and the rocky surface was there at the end of the reporting period, though the existence of rocky surface is confirmed after the end of the reporting period as a result of which it became evident that the cost may escalate by Rs. 50 Crores. In accordance with the definition of 'Events after the Reporting Period', since the rocky surface was there, the condition was existing at the end of the reporting period, therefore, it is an adjusting event. The cost of the project and profit should be accounted for accordingly.

Question 21:

A Ltd. was required to pay penalty for a breach in the performance of a contract. A Ltd. believed that the penalty was payable at a lower amount than the amount demanded by the other party. A Ltd. created provision for the penalty but also approached the arbitrator with a submission that the case may be dismissed with costs. A Ltd. prepared the financial statements for the year 2011-12, which were approved in July 2012. The arbitrator, in June 2012, awarded the case in favour of A Ltd. As a result of the award of the arbitrator, the provision earlier made by A Ltd. was required to be reduced. The arbitrator also decided that cost of the case should be borne by the other party.

Now, whether A Ltd. is required to re measure its provision and what would be the accounting treatment of the cost that will be recovered by A Ltd., which has already been charged to the Statement of Profit and Loss as an expense for the year 2011-2012 ?

Solution: In the instant case, A Ltd. approached the arbitrator before the end of the reporting period, who decided the award after the end of the reporting period but before approval of the financial statements for issue. Accordingly, the conditions were existing at the end of the reporting date because A Ltd. had approached the arbitrator before the end of the reporting period whose outcome has been confirmed by the award of the arbitrator. Therefore, it is an adjusting event. Accordingly, the measurement of the provision is required to be adjusted for the event occurring after the reporting period. As far as the recovery of the cost by A Ltd. from the other party is concerned, this right to recover was a contingent asset as at the end of the reporting period.

As per para 35 of Ind AS 37, contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

On the basis of the above, a contingent asset should be recognised in the financial statements of the period in which the realisation of asset and the related income becomes virtually certain. In the instant case, the recovery of cost became certain when the arbitrator decided the award during F.Y. 2012-13.

Accordingly, the recovery of cost should be recognised in the financial year 2012-13.

Question 22:

A company manufacturing and supplying process control equipment is entitled to duty drawback if it exceeds its turnover above a specified limit. To claim duty drawback, the company needs to file application within 15 days of meeting the specified turnover. If application is not filed within stipulated time, the Department has discretionary power of giving duty draw back credit. For the year 2011-12, the company has exceeded the specified limit of turnover by the end of the reporting period but the application for duty drawback is filed on April 20, 2012, which is after the stipulated time of 15 days of meeting the turnover condition.

Duty drawback has been credited by the Department on June 28, 2012 and financial statements have been approved by the Board of Directors of the company on July 26, 2012. Whether duty drawback credit should be treated as an adjusting event?

Solution: In the instant case, the condition of exceeding the specified turnover was met at the end of the reporting period and the company was entitled for the duty draw back but the application for the same has been filed after the stipulated time. Therefore, credit of duty drawback is discretionary in the hands of the Department. Accordingly, the duty drawback credit is a contingent asset as at the end of the reporting period, which may be realised if the Department credits the same.

As per para 35 of Ind AS 37, contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

In accordance with the above, the duty draw back credit which was contingent asset for the

F.Y. 2011-12 should be recognised as asset and related income should be recognized in the reporting period in which the change occurs. i.e., in the period in which realisation becomes virtually certain, i.e., F.Y. 2012-13.

Question 23:

XYZ Ltd. sells goods to its customer with a promise to give discount of 5% on list price of the goods provided that the payments are received from customer within 15 days. XYZ Ltd. sold goods of Rs. 5 lakhs to ABC Ltd. between 17th March, 2012 and 31st March, 2012. ABC Ltd. paid the dues by 15th April, 2012 with respect to sales made between 17th March, 2012 and 31st March, 2012. Financial statements were approved for issue by Board of Directors on 31st May, 2012.

State whether discount will be adjusted from the sales at the end of the reporting period.

Solution: As per Ind AS 115, if the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

In the instant case, the condition that sales have been made exists at the end of the reporting period and the receipt of payment with 15 days time after the end of the reporting period and before the approval of the financial statements confirms that the discount is to be provided on those sales. Therefore, it is an adjusting event. Accordingly, XYZ Ltd. should adjust the sales made to ABC Ltd. with respect to discount of 5% on the list price of the goods.

Question 24:

Whether the fraud related to 2011-12 discovered after the end of the reporting period but before the date of approval of financial statements for 2013-14 is an adjusting event?

Solution: In the instant case, the fraud is discovered after the end of the reporting period of 2013-14, which related to F.Y. 2011-12. Since the fraud has taken place before the end of the reporting period, the condition was existing which has been confirmed by the detection of the same after the end of the reporting period but before the approval of financial statements. Therefore, it is an adjusting event.

Moreover, Ind AS 10 in paragraph 9, specifically provides that the discovery of fraud or error after the end of the reporting period, that shows that financial statements are incorrect, is an adjusting event. Such a discovery of fraud should be accounted for in accordance with Ind AS 8, if it meets the definition of prior period error.

Question 25:

X Ltd. was having investment in form of equity shares in another company as at the end of the reporting period, i.e., 31st March, 2012. After the end of the reporting period but before the approval of the financial statements it has been found that value of investment was fraudulently inflated by committing a computation error. Whether such event should be adjusted in the financial statements for the year 2011-12?

Solution: Since it has been detected that a fraud has been made by committing an intentional error and as a result of the same financial statements present an incorrect picture, which has been detected after the end of the reporting period but before the approval of the financial statements.

The same is an adjusting event. Accordingly, the value of investments in the financial statements should be adjusted for the fraudulent error in computation of value of investments.

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Question 26:

ABC Ltd. acquired 5% equity shares of XYZ Ltd. for Rs. 10 crore in the year 2011-12. The company is in process of preparing the financial statements for the year 2012-13 and is assessing the fair value at subsequent measurement of the investment made in XYZ Ltd. Based on the observable input, the ABC Ltd. identified a similar nature of transaction in which PQR Ltd. acquired 20% equity shares in XYZ Ltd. for Rs. 60 crore. The price of such transaction was determined on the basis of Comparable Companies Method (CCM)- Enterprise Value (EV) / EBITDA which was 8. For the current year, the EBITDA of XYZ Ltd. is Rs. 40 crore. At the time of acquisition, the valuation was determined after considering 5% of liquidity discount and 5% of non-controlling stake discount. What will be the fair value of ABC Ltd.'s investment in XYZ Ltd. as on the balance sheet date?

Solution: Determination of Enterprise Value of XYZ Ltd.

Particulars	Rs. in crore
EBITDA as on the measurement date	40
EV/EBITDA multiple as on the date of valuation	8
Enterprise value of XYZ Ltd.	320

Determination of subsequent measurement of XYZ Ltd.

Particulars	Rs. in crore
Enterprise Value of XYZ Ltd.	320
ABC Ltd.'s share based on percentage of holding (5% of 320)	16
Less: Liquidity discount & Non-controlling stake discount (5%+5%=10%)	(1.6)
Fair value of ABC Ltd.'s investment in XYZ Ltd.	14.4

Question 27:

UK Ltd. is in the process of acquisition of shares of PT Ltd. as part of business reorganization plan. The projected free cash flow of PT Ltd. for the next 5 years are as follows:

(Rs. in crore)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	187.1	187.6	121.8	269	278.8
Terminal Value					3,965

The weightage average cost of capital of PT Ltd. is 11%. The total debt as on measurement date is Rs. 1,465 crore and the surplus cash & cash equivalent is Rs. 106.14 crore.

The total numbers of shares of PT Ltd. as on the measurement date is 8,52,84,223 shares. Determine value per share of PT Ltd. as per Income Approach.

Solution:

Determination of equity value of PT Ltd. (in crore)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	187.1	187.6	121.8	269	278.8
Terminal Value					3,965
Discount rate	0.9009	0.8116	0.7312	0.6587	0.5935
Free Cash Flow					
available to the firm	168.56	152.26	89.06	177.19	2,518.69
Total of all years					3,105.76
Less: Debt					(1,465)
Add: Cash & Cash equivalent					106.14
Equity Value of PT Ltd.					1,746.90
No. of Shares					85,284,223.0
Per Share Value					204.83

Question 28:

You are a senior consultant of your firm and are in process of determining the valuation of KK Ltd. You have determined the valuation of the company by two approaches i.e. Market Approach and Income approach and selected the highest as the final value. However, based upon the discussion with your partner you have been requested to assign equal weights to both the approaches and determine a fair value of shares of KK Ltd. The details of the KK Ltd. are as follows:

Particulars	Rs. in crore
Valuation as per Market Approach	5268.2
Valuation as per Income Approach	3235.2
Debt obligation as on Measurement date	1465.9
Surplus cash & cash equivalent	106.14
Fair value of surplus assets and Liabilities	312.4
Number of shares of KK Ltd.	8,52,84,223 shares

Determine the Equity value of KK Ltd. as on the measurement date on the basis of above details

Solution: Equity Valuation of KK Ltd

Particulars	Weights	(Rs. in crore)
As per Market Approach	50	5268.2
As per Income Approach	50	3235.2
Enterprise Valuation based on weights (5268.2 x 50%) + (3235.2 x 50%)		4,251.7
Less: Debt obligation as on measurement date		(1465.9)
Add: Surplus cash & cash equivalent		106.14
Add: Fair value of surplus assets and liabilities		312.40
Enterprise value of KK Ltd.		3204.33
No. of shares		85,284,223
Value per share		375.72

IND AS 16 PPE

Question 29:

X limited started a construction on a building for it sown use on 1st april 2010 . The following costs are incurred :

	Rs.
Purchase price of land	30,00,000
Stamp duty & legal fee	2,00,000
Architect fee	2,00,000
Site preparation	50,000
Materials	10,00,000
Direct labour cost	4,00,000
General overheads	1,00,000

Other relevant information: Material costing Rs. 1,00,000 had been spoiled and therefore wasted and a further Rs. 1,50,000 was spent on account of faulty design work. As a result of these problems, work on the building was stopped for two weeks during November, 2010 and it is estimated that 22,000 of the labour cost relate to that period. The building was completed on 1st January, 2011 and brought in use 1st April, 2011. X Limited had taken a loan of Rs. 40,00,000 on 1st April, 2010 for construction of the building (which meets the definition of qualifying asset as per Ind AS 23). The loan carried an interest rate of 8% per annum and is repayable on 1st April, 2012.

Calculate the cost of the building that will be included in tangible non-current asset as an addition?

Solution:

Only those costs which are directly attributable to bringing the asset into working condition for its intended use should be included. Administration and general costs cannot be included. Cost of abnormal amount of wasted material/ labour or other resources is not included as per para 22 of

Ind AS 16. Here, the cost of spoilt materials and faulty designs are assumed to be abnormal costs. Also it is assumed that the wastages and labour charges incurred are abnormal in nature. Hence, same are also not included in the cost of PPE.

Amount to be included in Property, Plant and Equipment (PPE):

	Rs.
Purchase price of land	30,00,000
Stamp duty & legal fee	2,00,000
Architect fee	2,00,000
Site preparation	50,000
Material (10,00,000 – 2,50,000)	7,50,000
Direct labour cost (4,00,000 – 22,000)	3,78,000
General overheads	Nil
Interest*	Nil
Total to be capitalized	45,78,000

*Period for Construction of building is not a substantial period (i.e. 9 months), borrowing cost are not eligible for capitalisation.

Question 30:

On 1st April, 2011, Sun ltd purchased some land for Rs. 10 million (including legal costs of Rs. 1 million) in order to construct a new factory. Construction work commenced on 1st May, 2011. Sun ltd incurred the following costs in relation with its construction:

– Preparation and levelling of the land – Rs. 3,00,000.

– Purchase of materials for the construction – Rs. 6·08 million in total.

– Employment costs of the construction workers – Rs. 2,00,000 per month.

– Overhead costs incurred directly on the construction of the factory – Rs. 1,00,000 per month.

– Ongoing overhead costs allocated to the construction project using the company's normal overhead allocation model – Rs. 50,000 per month.

– Income received during the temporary use of the factory premises as a car park during the construction period – Rs. 50,000.

– Costs of relocating employees to work at the new factory –Rs. 300,000.

– Costs of the opening ceremony on 31st January, 2011 – Rs. 150,000.

The factory was completed on 30th November, 2011 and production began on 1st February, 2012. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 30% of the total cost of the building.

At the end of the 40-year period, Sun Ltd has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The directors estimate that the cost of demolition in 40 years' time (based on prices prevailing at that time) will be Rs. 20 million. An annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of Rs. 1 payable in 40 years' time at an annual discount rate of 8% is Rs. 0.046.

The construction of the factory was partly financed by a loan of Rs. 17·5 million taken

out on 1st April, 2011. The loan was at an annual rate of interest of 6%. Sun Ltd received investment income of Rs. 100,000 on the temporary investment of the proceeds.

Required:

Compute the carrying amount of the factory in the Balance Sheet of Sun Ltd at 31st March, 2012. You should explain your treatment of all the amounts referred to in this part in your answer

Solution:

Computation of the cost of the factory

Description	Included in P.P.E.	Explanation
	Rs.'000	
Purchase of land	10,000	Both the purchase of the land and the associated legal costs are direct costs of constructing the factory.
Preparation and levelling	300	A direct cost of constructing the factory
Materials	6,080	A direct cost of constructing the factory
Employment costs of construction workers	1,400	A direct cost of constructing the factory for a seven-month period
Direct overhead costs	700	A direct cost of constructing the factory for a seven-month period
Allocated overhead costs	Nil	Not a direct cost of construction
Income from use as a car park	Nil	Not essential to the construction so recognised directly in profit or loss
Relocation costs	Nil	Not a direct cost of construction
Opening ceremony	Nil	Not a direct cost of construction
Finance costs	612.50	**Capitalise the interest cost incurred in a seven-month period (purchase of land would not trigger off capitalisation since land is not a qualifying asset. Infact, the construction started from 1st May, 2011)**
Investment income on temporary	(100)	offset against the amount capitalised

investment of the loan proceeds		
Demolition cost recognised as a provision	920	Where an obligation must recognise as part of the initial cost
Total	19,912.50	
Computation of accumulated depreciation		
Total depreciable amount	9,912.50	All of the net finance cost of 512.50 (612.50 – 100) has been allocated to the depreciable amount. Also acceptable to reduce by allocating a portion to the non-depreciable land element principle
Depreciation must be in two parts:	49.56	9,912.50 x 30% x 1/20 x 4/12
Depreciation of roof component	57.82	9,912.50 x 70% x 1/40 x 4/12
Total depreciation	107.38	
Computation of carrying amount	19,805.12	19,912.50 – 107.38

IND AS 19 – EMPLOYEE BENEFITS

Question 31:

AJ Ltd is engaged in the business of trading of chemicals having a net worth of Rs. 150 crores. The company's profitability is good and hence the company has introduced various benefits for its employees to keep them motivated and to ensure that they stay with the organization. The company is an associate of RJ Ltd which is listed on Bombay Stock Exchange in India.

The company initially did not have any HR function but over the last 2 years, the management set up that function and now HR department takes care of all the benefits related to the employees and how they can be structured in a manner beneficial to both the employees and the objectives of the company.

One of the employee benefits involves a lump sum payment to employee on termination of service and that is equal to 1 per cent of final salary for each year of service. Consider the salary in year 1 is Rs. 10,000 and is assumed to increase at 7 per cent (compound) each year.

Taking a discount rate at 10 per cent per year, you are required to show

(a) benefits attributed (year on year) and

(b) the obligation in respect of this benefit (year on year)

For and employee who is expected to leave at the end of year 5 Following assumptions may be taken to solve this:

- There are no changes in actuarial assumptions.
- No additional adjustments are needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Solution:

a. Computation of benefit attributed to prior years and current year:

Year	1	2	3	4	5
Benefit attributed to:					
- Prior years	-	131	262	393	524
- Current year (Refer W.N.1)	131	131	131	131	131
Total (i.e. current and prior years)	131	262	393	524	655

a. Computation of the obligation for an employee who is expected to leave at the end of year 5 (taking discount rate of 10% p.a.)

Amount in Rs.

Year	1	2	3	4	5
Opening obligation (A)	-	89	196	324	475
Interest at 10% B = (A X 10%)	-	9	20	32	47
Current service cost (C) (Refer WN 2)	89	98	108	119	131
Closing obligation D = (A+B+C)	89	196	324	475	653

Figures have been rounded off in the table. Working Notes

1. A lump sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in year 1 is Rs. 10,000 and is assumed to increase at 7 per cent (compound) each year.

   The year on year salary would be as follows: Rs.

Year	1	2	3	4	5
Salary	10,000				
(10,000 x 107%)		10,700			
(10,700 x 107%)			11,449		
(11,449 x107%)				12,250	
(12,250 x 107%)					13,108

Accordingly, for the purpose of above mentioned employee benefit, 1% of final salary to be considered for each year of service would be Rs. 131.

2. Computation of current service cost:

Year	1	2	3	4	5
1% salary at the end of year 5	-	-	-	-	131
PV factor at the end of each year					
to be considered at 10% p.a. (E)	0.683	0.751	0.826	0.909	1.000
PV at the end of each year	89	98	108	119	131
	(131 x E)	(131 x E)	(131 x E)	(131 x E)	(131 x E)

Accordingly, for the purpose of above mentioned employee benefit, 1% of final salary to be considered for each year of service would be Rs. 131.

An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Question 32:

AKJ Ltd is a listed company engaged in the business of manufacturing of electronic equipment. The company has various branch offices spread out across India and has 1,000 employees.

As per the statutory requirements, gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years -

(a) on his superannuation, or

(b) on his retirement or resignation, or

(c) on his death or disablement due to accident or disease.

The completion of continuous service of five years shall not be necessary where the termination of the employment of any employee is due to death or disablement.

The amount payable is determined by a formula linked to number of years of service and last drawn salary. The amount payable to an employee shall not exceed Rs. 10,00,000.

Compute the amount of employee benefit, if any, attributed to each year of service.

Solution

The amount of gratuity would be attributed to each year of service and calculated as follows: Number of employees not likely to fulfill the eligibility criteria will be ignored.

Other employees will be grouped according to period of service they are expected to render taking into account:

- mortality rate,
- disablement and
- resignation after 5 years.

Gratuity payable will be calculated in accordance with the formula prescribed in the governing statute based on the period of service and the salary at the time of termination of employment, assuming promotion, salary increases etc.

For those employees for whom the amount payable as per the formula does not exceed Rs. 10,00,000, over the expected period of service, the amount payable will be divided by the expected period of service and the resulting amount will be attributed to each year of the expected period of service, including the period before the stipulated period of 5 years.

In case of the remaining employees, the amount as per the formula exceeds Rs. 10,00,000 over the expected period of service of 10 years, and the amount of the threshold of Rs. 10,00,000 is reached at the end of 8 years i.e. Rs. 1,25,000 (Rs. 10,00,000 divided by 8) is attributed to each of the first 8 years. In this case, no benefit is attributed to subsequent two years. This is because service beyond 8 years will lead to no material amount of further benefits.

Question 33:

RKA Private Ltd is an old company established in 1911. The company started with a very small capital base and today it is one of the leading companies in India in its industry. The company has an annual turnover of Rs. 11,000 crores and planning to get listed in the next year.

The company has a large employee base. The company provided a defined benefit plan to its employees. Following is the information relating to the balances of the fund's assets and liabilities as at 1st April, 2011 and 31st March, 2012.

Rs. in lacs

Particulars	1st April, 2011	31st March, 2012
Present value of benefit obligation	1,400	1,580
Fair value of plan assets	1,140	1,275

For the financial year ended 31st March, 2012, service cost was Rs. 55 lacs. The company made a contribution of an amount of Rs. 111 lacs to the plan. No benefits were paid during the year.

Consider a discount rate of 8%. You are required to -

(a) Compute the balance(s) of the company to be included its balance sheet as on 31st March, 2012 and amounts to be recognized in the statement of profit and loss and other comprehensive income for the year ended 31st March, 2012.

(b) Give the journal entries in respect of amount(s) to be recognized.

Solution

(a) Extract of the Balance Sheet of RKA Private Ltd as at 31st March, 2012

	Rs. in lacs
Closing net defined liability (1,580 – 1,275) lacs	305

Extract of the Statement of Profit or Loss of RKA Private Ltd for the year ended 31st March, 2012

Particulars	Rs. in lacs
Service cost	55
Net interest (Refer W.N.1)	21
Profit or loss	76
Other comprehensive income:	
Remeasurements (Refer W.N.2)	80
Total	156

Particulars		Rs. in lacs	Rs. in lacs
Profit & Loss	Dr.	76	
Other comprehensive income	Dr.	80	
To Cash (Contribution)			111
To Net defined benefit liability			
(Refer WN 3)			45

Working Notes:

a. Computation of Net interest taken to the Statement of Profit or Loss

= Discount rate x Opening net defined benefit liability

= 8% x (1,400 – 1,140) lacs

= 8% x 260 lacs

= 21 lacs (Rounded off to nearest lacs)

b. Computation of Remeasurements

Actuarial gain or loss on defined benefit liability:

Particulars	Rs. in lacs
Opening balance of liability	1,400
Current service cost	55
Interest on opening liability (1,400 x 8%)	112
Actuarial loss (Bal. fig)	13
Closing balance of liability	1,580

Particulars	Rs. in lacs
Opening balance of asset	1,140
Cash contribution	111
Actual return (Bal. fig)	24

Closing balance of asset	1,275

Actuarial loss on liability + Loss on return = Rs. 13 lacs + Rs. 67 lacs = Rs. 80 lacs.

c. Computation of increase/ decrease in net defined benefit liability:

Particulars	Rs. in lacs
Opening net liability (Rs. 1,400 lacs – Rs. 1,140 lacs)	260
Closing net liability (Rs. 1,580 lacs – Rs. 1,275 lacs)	305
Increase in liability	45

Question 34:

An entity has 100 employees, who are each entitled to five working days of paid sick leaves for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (LIFO basis). At 31 March, 2011, the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leaves in 2011-2012 and that the remaining eight employees will take an average of six and a half days each.

The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 2011 (one and a half days each, for eight employees). Would the entity require to recognize any liability in respect of leaves?

Solution: At 31 March, 2011, the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leaves in 2011-2012 and that the remaining eight employees will take an average of six and a half days each.

The entity expects that it will pay an additional twelve days of sick pay as a result of the unused

entitlement that has accumulated at 31st March, 2011 (one and a half days each, for eight employees).

Therefore, the entity would recognize a liability equal to twelve days of sick pay.

Question 35:

OPQ Ltd is a listed company having its corporate office at Nagpur. The company has a branch office at Chennai. The company has been operating in Indian market for the last 10 years.

The company operates a pension plan that provides a pension of 2.5% of the final salary for each year of service. The benefits become vested after seven years of service.

On 1st April, 2018, the company increased the pension to 3% of the final salary for each year of service starting from 1st April, 2011. On the date of the improvement, the present value of the additional benefits for service from 1April, 2011 to 1st April 218 was as follows:

- Employees with more than seven years' service on 1 January 2018 – Rs. 2,75,000
- Employees with less than 7 years of service – Rs. 2,21,000 (average 4 years to go). What would be the accounting treatment in this case?

Solution:

OPQ Ltd increased the pension to 3% of the final salary for each year of service starting from 1st April, 2011 to 1st April, 2018.

The company would recognize the total amount of Rs. 4,96,000 (i.e. Rs. 2,75,000 + Rs. 2,21,000) immediately, as for the purpose of recognition it does not make any difference as to whether the benefits are already vested or not.

Question 36:

SA Pvt Ltd is engaged in the business of retail having 100 retail outlets across Northern and Southern India. The company''s head office is located at Chennai.

SA Pvt Ltd is a subsidiary of SAG Ltd. SAG Ltd is listed on the National Stock Exchange in India. Following information is available for SA Pvt Ltd:

Plan Assets

At 1st April, 2011, the fair value of plan assets was Rs. 10,000.

Contribution to the plan assets done on 31March, 2012 – Rs. 3,000

Amount paid on 31st March, 2012 – Rs. 300

At 31st March, 2012, the fair value of plan assets was Rs. 14,700 Actual return on plan assets – Rs. 2,000

Defined Benefit Obligation

At 1st April, 2011, present value of the defined benefit obligation was Rs. 12,000.

At 31st March, 2012, present value of the defined benefit obligation was Rs. 15,500.

Actuarial losses on the obligation for the year ended 31st March, 2012 were Rs. 100.

Current Service Cost – Rs. 2,500

Benefit paid – Rs. 300

Discount rate used to calculate defined benefit liability - 10%.

As per Ind AS 19, please suggest if there is any amount based on the above mentioned information that would be taken to other comprehensive income (with workings). Also compute net interest on the net defined benefit liability (asset).

Solution:

As per Ind AS 19, net remeasurement of Rs. 900 would be recognized in other comprehensive income.

Computation of Net remeasurement

= Remeasurement – Actuarial loss

= Rs. 1000 (Refer WN - 1) – Rs. 100 (Given in the question)

= Rs. 900.

Computation of net interest expense

Particulars	Amount in Rs.
Defined benefit liability as at 1 April 2011 (A)(Given in the question)	12,000
Fair value of plan asset as at 1 April 2011 (B) (Given in the question)	(10,000)
Net defined benefit liability (A - B)	2,000
Net interest expense (as it is net liability) (Refer note given below)	200

Note:

Net interest expense would be computed on net defined benefit liability using discount rate of 10% given in the question-

= Net defined benefit liability x Discount rate

= 2,000 x 10% = Rs. 200.

Working Note:

Computation of amount of remeasurement

Particulars	Amount in Rs.
Actual return on plan asset for the year ended 31 March 2012 (C)	
(Given in the question)	2,000
Less: Interest income on Rs. 10,000 held for 12 months at 10% (D)	(1,000)
Remeasurement (E = C - D)	1,000

IND AS 21 – THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Question 37:

A is an Oman based company having a foreign operation, B, in India. The foreign operation was primarily set up to execute a construction project in India. The functional currency of A is OMR.

78% of entity B 's finances have been raised in USD by way of contribution from A. B's bank accounts are maintained in USD as well as INR. Cash flows generated by B are transferred to A on a monthly basis in USD in respect of repayment of finance received from A.

Revenues of B are in USD. Its competitors are globally based. Tendering for the construction project happened in USD.

B incurs 70% of the cost in INR and remaining 30% costs in USD.

Since B is located in India can it can presume its functional currency to be INR?

Solution:

No, B cannot presume INR to be its functional currency on the basis of its location. It needs to consider various factors listed in Ind AS for determination of functional currency.

Primary indicators:

1. the currency that mainly influences

   (a) sales prices for its goods and services. This will often be the currency in which sales prices are denominated and settled; and of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

   (b) labour, material and other costs of providing goods and services. This will often be the currency in which these costs are denominated and settled.

2. Other factors that may provide supporting evidence to determine an entity's functional currency are (Secondary indicators):

   (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and

   (b) the currency in which receipts from operating activities are usually retained.

3. If an entity is a foreign operation, additional factors set out in Ind AS 21 should be considered to determine whether its functional currency is the same as that of the reporting entity of which it is a subsidiary, branch, associate or joint venture:

   (a) Whether the activities of foreign operations are carried out as an extension of that reporting entity, rather than being carried out with a significant degree of autonomy;

   (b) Whether the transactions with the reporting entity are a high or a low proportion of the foreign operation's activities;

   (c) Whether cash flows from the activities of the foreign operations directly affect the cash flows of the reporting entity and are readily available for remittance to it

   (d) Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligation without funds being made available by the reporting entity.

On the basis of additional factors mentioned in point 3 above, B cannot be said to have functional currency same as that of A Ltd.

Hence primary and secondary indicators should be used for the determination of functional currency of B giving priority to primary indicators. The analysis is given below:

Its significant revenues and competitive forces are in USD.

Its significant portion of cost is incurred in INR. Only 30% costs are in USD. 78% of its finances have been raised in USD.

It retains its operating cash flows partially in USD and partially in INR.

Keeping these factors in view, USD should be considered as the functional currency of B.

Question 38:

S Ltd is a company based out of India which got listed on Bombay Stock Exchange in the financial year ended 31st March, 2011. Since then the company's operations have increased considerably. The company was engaged in the business of trading of motor cycles. The company only deals in imported Motor cycles. These motor cycles are imported from US.

After importing the motor cycles, these are sold across India through its various distribution channels. The company had only private customers earlier but the company also started corporate tie-up and increased its customer base to corporates also. The purchase of the motor cycles are in USD because the vendor(s) from whom these motor cycles are purchased those are all located in US.

All other operating expenses of the company are incurred in India only because of its location and they generally happen to be in INR

Currently, its customers are both corporate and private in the ratio of 70:30 approximately. The USD denominated prices of motor cycles in India are different from those in other countries.

The company is also expecting that in the coming years, its customers base will increase significantly in India and the current proportion may also change.

Currently, the invoices are raised to the corporate customers in USD for the purpose of hedging. However, private customers don't accept the same arrangement and hence invoices are raised to them in INR.

What would be the functional currency of this company?

Solution:

The functional currency of S Ltd is INR.

Following factors need to be considered for determination of functional currency: Primary indicators

1. the currency that mainly influences

   (a) sales prices for its goods and services. This will often be the currency in which sales prices are denominated and settled; and of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

   (b) labour, material and other costs of providing goods and services. This will often be the currency in which these costs are denominated and settled.

2. Other factors that may provide supporting evidence to determine an entity's functional currency are (Secondary indicators):

   (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and

   (b) the currency in which receipts from operating activities are usually retained.

Primary and secondary indicators should be used for the determination of functional currency of S Ltd. giving priority to primary indicators.

The analysis is given below:

Ind AS 21 gives greater emphasis to the currency of the economy that determines the pricing of transactions, as opposed to the currency in which transactions are denominated.

Sales prices for motor cycles are mainly influenced by the competitive forces and regulations in India. The market for motor cycles depends on the economic situation in India and the company is in competition with importers of other motor cycle brands.

Even though 70% of the revenue of the company is denominated in USD, Indian economic conditions are the main factors affecting the prices. This is evidenced by the fact that USD denominated sales prices in India are different from USD denominated sales prices for the same motor cycles in other countries.

Management is able to determine the functional currency because the revenue is clearly influenced by the Indian economic environment and expenses are mixed.

On the basis of above analysis, INR should be considered as the functional currency of the company.

Question 40:

M Ltd is engaged in the business of manufacturing of bottles for pharmaceutical companies and non-pharmaceutical companies. It has a wholly owned subsidiary, G Ltd, which is engaged in the business of pharmaceuticals. G Ltd purchases the pharmaceutical bottles from its parent company. The demand of G Ltd is very high and the operations of M Ltd are very large and hence to cater to its shortfall, G Ltd also purchases the bottles from other companies. Purchases are made at the competitive prices.

M Ltd sold pharmaceuticals bottles to G Ltd for Euro 12 lacs on 1st February, 2011. The cost of these bottles was Rs. 830 lacs in the books of M Ltd at the time of sale. At the year-end i.e. 31st March, 2011, all these bottles were lying as closing stock with G Ltd. What should be the accounting treatment for the above? Following additional information is available:

Exchange rate on 1st February, 2011	1 Euro = Rs. 83
Exchange rate on 31st March, 2011	1 Euro = Rs. 85

Solution:

Accounting treatment in the books of M Ltd

M Ltd will recognize sales of Rs. 996 lacs (12 lacs Euro X 83) Profit on sale of inventory = 996 lacs – 830 lacs = Rs. 166 lacs. Accounting treatment in the books of G Ltd

G Ltd will recognize inventory on 1February, 2011 of Euro 12 lacs which will also be its closing stock at year end.

Accounting treatment in the consolidated financial statements

Receivable and payable in respect of above mentioned sale / purchase between M Ltd and G Ltd will get eliminated.

The closing stock of G Ltd will be translated at year end resulting in amount of closing stock of Rs. 1,020 lacs (12 lacs Euro X 85).

The restated amount of closing stock includes three components–

- Restated amount of cost of inventory for Rs. 850 lacs
- Profit element of Rs. 166 lacs; and
- Translated amount of profit element of Rs. 4 lacs.

At the time of consolidation, the two elements amounting to Rs. 170 lacs will be eliminated from the closing stock.

Question 41:

Entity A, whose functional currency is Rs., has a foreign operation, Entity B, with a Euro functional currency. Entity B issues to A perpetual debt (i.e. it has no maturity) denominated in euros with an annual interest rate of 6 per cent. The perpetual debt has no issuer call option or holder put option. Thus, contractually it is just an infinite stream of interest payments in Euros.

In A's consolidated financial statements, can the perpetual debt be considered, in accordance with Ind AS 21.15, a monetary item "for which settlement is neither planned nor likely to occur in the foreseeable future" (i.e. part of A's net investment in B), with the exchange gains and losses on the perpetual debt therefore being recorded in equity?

Solution:

Yes, as per Ind AS 21 net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.

As per para 15 of Ind AS 21, an entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

Analysis on the basis of above mentioned guidance

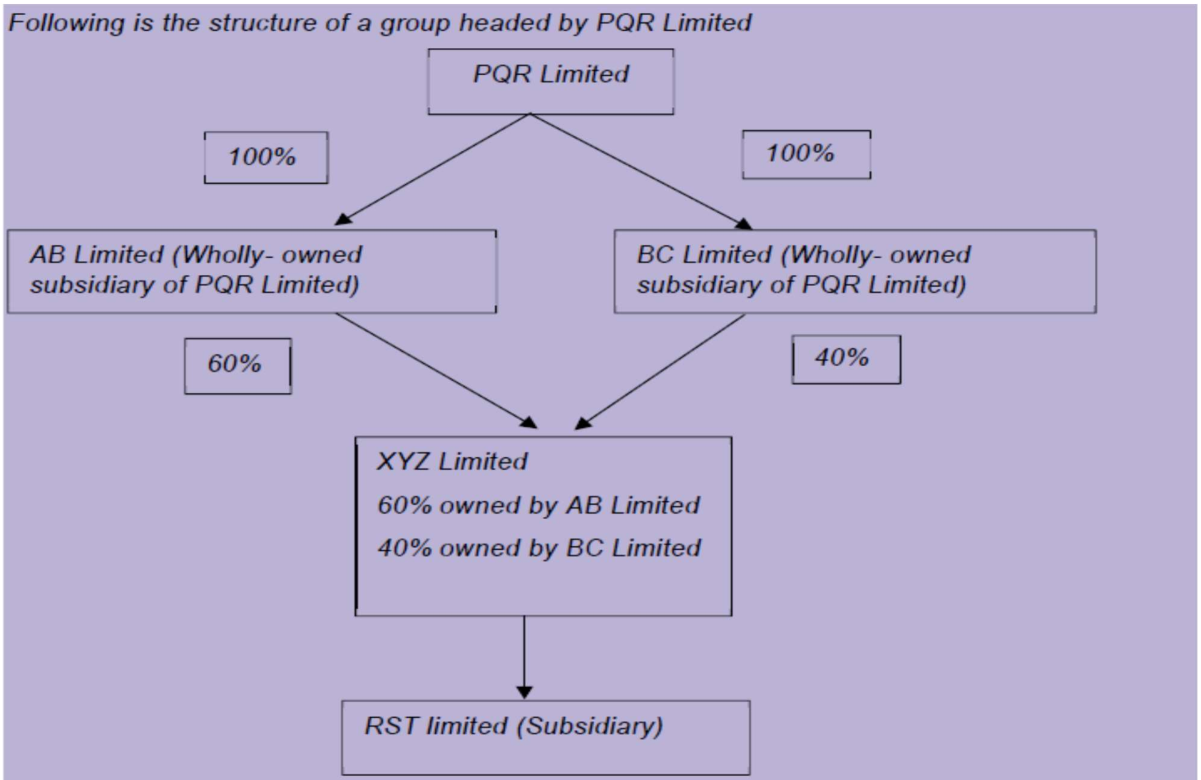
Through the origination of the perpetual debt, A has made a permanent investment in B. The interest payments are treated as interest receivable by A and interest payable by B, not as repayment of the principal debt. Hence, the fact that the interest payments are perpetual does not mean that settlement is planned or likely to occur. The perpetual debt can be considered part of A's net investment in B.

In accordance with para 15 of Ind AS 21, the foreign exchange gains and losses should be recorded in equity at the consolidated level because settlement of that perpetual debt is neither planned nor likely to

CONSOLIDATED FINANCIAL STATEMENTS

Question 42:

Following is the structure of a group headed by PQR Limited



Under both the scenarios, XYZ Limited wishes to avail the exemption provided in Ind AS 110 from the presentation of consolidated financial statements. Assuming other conditions for such exemption are fulfilled, whether XYZ Limited is required to inform its other owner BC Limited (owning 40%) of its intention to not prepare consolidated financial statements?

Solution:

As per paragraph 4(a)(i) of Ind AS 110, a parent need not present consolidated financial statements if it is a:

- wholly-owned subsidiary; or
- is a partially-owned subsidiary of another entity
- and all its other owners, including those not otherwise entitled to vote, have been informed about,
- and do not object to, the parent not presenting consolidated financial statements.

In Scenario I, although XYZ Limited is a partly-owned subsidiary of AB Limited, it is the wholly-owned subsidiary of PQR Limited and therefore satisfies the condition 4(a)(i) of Ind AS 110 without regard to the relationship with its immediate owners, i.e. AB Limited and BC Limited. Thus, XYZ Limited being the wholly owned subsidiary is not required to inform its other owner BC Limited of its intention not to prepare the consolidated financial statements.

Therefore, XYZ Limited may take the exemption given under Ind AS 110 from presentation of consolidated financial statements.

In Scenario II, XYZ Limited is ultimately wholly in control of Mr. X (i.e., an individual) and hence it cannot be considered as a wholly owned subsidiary of an entity.

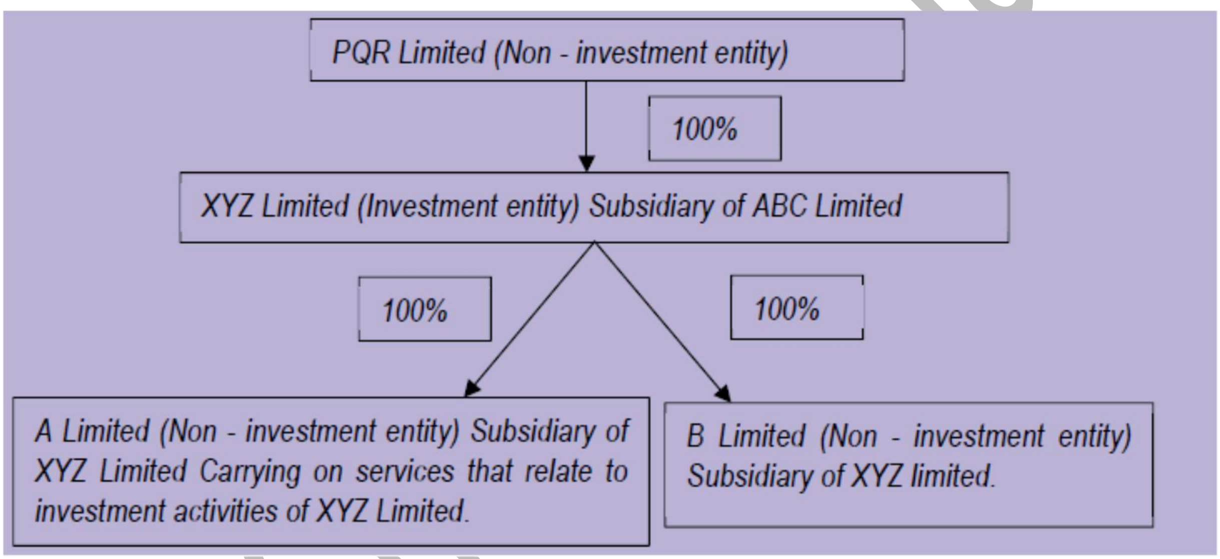
This is because Ind AS 110 makes use of the term 'entity' and the word 'entity' includes a company as well as any other form of entity. Since, Mr. X is an 'individual' and not an 'entity', therefore, XYZ Limited cannot be considered as wholly owned subsidiary of an entity.

Therefore, in the given case, XYZ Limited is a partially-owned subsidiary of another entity. Accordingly, in order to avail the exemption, its other owner, BC Limited should be informed about and do not object to XYZ Limited not presenting consolidated financial statements.

Further, for the purpose of consolidation of AB Limited and BC Limited, XYZ Limited will be required to provide relevant financial information as per Ind AS.

Question 43:

Following is the structure of a group headed by PQR Limited:



State whether PQR Limited and XYZ Limited are required from their respective reporting standpoint to present consolidated financial statements? Assume that the other conditions mentioned under paragraph 4(a)(i) to 4(a)(iii) related to such exceptions are satisfied for above entities.

Solution

As per paragraph 4(a) of Ind AS 110, a parent need not present consolidated financial statements if it meets all the conditions specified therein. One of the condition as mentioned under paragraph 4(a)(iv) for the exemption from the presentation of consolidated financial statements is if ultimate or any intermediate parent of the parent entity produces financial statements that are available for public use and comply with Ind AS, in which subsidiaries are consolidated or are measured at fair value through profit or loss (FVTPL) in accordance with Ind AS 110.

Further, paragraph 4B of Ind AS 110 specifically provides that an investment entity shall not present consolidated financial statements if it is required by the Standard to measure all of its subsidiaries at FVTPL as provided in paragraph 31 of Ind AS 110.

Paragraphs 31 and 32 of Ind AS 110 provide that an investment entity shall measure an investment in a subsidiary at FVTPL in accordance with Ind AS 109. However, if the subsidiary is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities, then the investment entity shall consolidate that subsidiary.

Paragraph 33 further provides that, a parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

Accordingly, PQR Limited is required to present its consolidated financial statements. From the perspective of XYZ Limited

It is an investment entity and has two subsidiaries, A Limited and B Limited. Subsidiary A Limited is a non-investment entity which provides the services that relate to the investment activities undertaken by XYZ Limited.

XYZ Limited is required to:

(i) consolidate A Limited [combining the like items of assets, liabilities and equity etc.]; and

(ii) measure investments in B Limited at FVTPL.

Since the ultimate parent company of XYZ Limited i.e., PQR Limited presents consolidated financial statements under Ind AS, XYZ Limited is eligible for exemption from the presentation of consolidated financial statements as its ultimate parent entity, i.e., PQR Limited produces financial statements that are available for public use and comply with Ind AS, in which subsidiaries are consolidated or are measured at fair value through profit or loss (FVTPL) as appropriate, in accordance with Ind AS 110.

However, for the purpose of internal reporting to parent entity, XYZ Limited will be required to provide financial information data prepared as per Ind AS.

Question 44:

AB Limited owns 50% voting shares in XY Limited. The board of directors of XY Limited consists of six members of which three directors are nominated by AB Limited and three other investors nominate one director each pursuant to a Shareholders' Agreement among them. All decisions concerning 'relevant activities' of XY Limited are taken at its board meeting by a simple majority. As per the articles of association, one of the directors nominated by AB Limited chairs the board meetings and has a casting vote in the event that the directors cannot reach a majority decision. Whether AB Limited has control over XY Limited?

Solution :

Paragraph 11 of Ind AS 110 states that, "power arises from rights. Sometimes assessing power is straight forward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements".

Further, paragraph B40 of Appendix B to Ind AS 110 inter alia states that other decision- making rights, in combination with voting rights, can give an investor the current ability to direct the relevant activities. For example, the rights specified in a contractual arrangement in combination with voting rights may be sufficient to give an investor the current ability to direct the manufacturing processes of an investee or to direct other operating or financing activities of an investee that significantly affect the investee's returns.

In the instant case, AB Limited has (though its nominee director who chairs board meetings) a casting vote at the board meetings which along with its 50% (three out of six) of the normal voting rights gives it power to take decisions concerning relevant activities, even if the nominee directors of other investors do not concur with it on any matter. Thus, AB Limited has the current ability to direct the relevant activities of XY Limited through control over board decisions and hence it controls XY Limited.

Question 45:

An entity, X Limited, is formed by Z Limited to invest in start-up technology companies for capital appreciation. Z Limited holds a 75% interest in X Limited and controls it; the other 25% ownership interest is held by 10 unrelated investors. Z Limited holds options to acquire investments held by X Limited, at their fair value, which would be exercised if the technology developed by the investees would benefit the operations of Z Limited.

Whether X Limited meet the definition of an investment entity as per Ind AS 110?

Solution

Paragraph 27 of Ind AS 110 states that a parent has to determine whether an entity is an investment entity. An investment entity is an entity that:

(a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;

(b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

(c) measures and evaluates the performance of substantially all of its investments on a fair value basis."

Further, paragraph B85I inter-alia states that an entity is not investing solely for capital appreciation, investment income or both, if the entity or another member of the group containing the entity obtains, or has the objective of obtaining, other benefits from the entity's investments that are not available to other parties that are not related to the investee. Such benefits include the acquisition, use, exchange or exploitation of the processes, assets or technology of an investee. This would include the entity or another group member having disproportionate, or exclusive, rights to acquire assets, technology, products or services of any investee; for example, by holding an option to purchase an asset from an investee if the asset's development is deemed successful.

Additionally, paragraph B85F of Ind AS 110 inter-alia states that an entity's investment plans also provide evidence of its business purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Since equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realise capital appreciation from substantially all of its equity investments and non-financial asset investments".

The absence of an exit strategy for investments in subsidiaries also suggests that the investments are made not only for investment returns (capital appreciation, investment income or both) but also other benefits (such as those arising from synergies).

In the instant case, although X's business purpose is investing for capital appreciation and it provides investment management services to its investors, X Limited is not an investment entity since:

— Z Limited, the parent of X Limited, has an option to acquire investments in investees held by X Limited, if assets developed by the investees would benefit the operations of Z Limited. This provides other benefits in addition to capital appreciation and investment income; and

— the investment plans of X Limited do not include exit strategies for its investments, which are equity instruments. The options held by Z Limited are not controlled by X Limited and do not constitute an exit strategy.

Since X Limited is not an investment entity, it will be required to consolidate its subsidiaries.

Question 46:

H Limited has a subsidiary, S Limited and an associate, A Limited. The three companies are engaged in different lines of business.

These companies are using the following cost formulas for their valuation in accordance with Ind AS 2, Inventories:

Name of the Company	Cost formula used
H Limited	FIFO
S Limited, A Limited	Weighted average cost

Whether H Limited is required to value inventories of S Limited and A Limited also using FIFO formula in preparing its consolidated financial statements?

Solution:

Paragraph 19 of Ind AS 110 states that a parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

Paragraph B87 of Ind AS 110 states that if a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

It may be noted that the above mentioned paragraphs requires an entity to apply uniform accounting policies "for like transactions and events in similar circumstances". If any member of the group follows a different accounting policy for like transactions and events in similar circumstances, appropriate adjustments are to be made in preparing consolidated financial statements.

Paragraph 5 of Ind AS 8 defines accounting policies as "the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements."

Ind AS 2 requires inventories to be measured at the lower of cost and net realisable value.

Paragraph 25 of Ind AS 2 states that the cost of inventories shall be assigned by using FIFO or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

Elaborating on the requirements of paragraph 25, paragraph 26 of Ind AS 2 illustrates that inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

Paragraph 36(a) of Ind AS 2 requires disclosure of "the accounting policies adopted in measuring inventories, including the cost formula used". Thus, as per Ind AS 2, the cost formula applied in valuing inventories is also an accounting policy. As mentioned earlier, as per Ind AS 2, different cost formulas may be justified for inventories of a different nature or use. Thus, if inventories of S Limited and A Limited differ in nature or use from inventories of H Limited, then use of cost formula (weighted average cost) different from that applied in respect of inventories of H Limited (FIFO) in consolidated financial statements may be justified. In other words, in such a case, no adjustment needs to be made to align the cost formula applied by S Limited and A Limited to cost formula applied by H Limited.

Question 47:

How should assets and liabilities be classified into current or non-current in consolidated financial statements when parent and subsidiary have different reporting dates?

Solution

Paragraphs B92 and B93 of Ind AS 110 require subsidiaries with reporting period end different from parent, to provide additional information or details of significant transactions or events if it is impracticable to provide additional information to enable the parent entity to consolidate such financial information at group's reporting period end.

The appropriate classification of the assets and liabilities as current or non-current in the consolidated financial statements has to be determined by reference to the reporting period end of the group. Accordingly, when a subsidiary's financial statements are for a different reporting period end, it is necessary to review the subsidiary's balance sheet to ensure that items are correctly classified as current or non-current as at the end of the group's reporting period.

For example, a subsidiary with the financial year end of 31st December, 2011 has a payable outstanding that is due for payment on 1st January, 2013, and has accordingly classified it as non-current in its balance sheet. The financial year end of the parent's consolidated financial statements is 31st March 31, 2013. Due to the time lag, the subsidiary's payable falls due within 12 months from the end of the parent's reporting period.

Accordingly, in this case, the payable should be classified as a current liability in the consolidated financial statements of the parent because the amount is repayable within nine months of the end of the parent's reporting period.

Question 48:

A Limited, an Indian Company has a foreign subsidiary, B Inc. Subsidiary B Inc. has taken a long term loan from a foreign bank, which is repayable after in the year 20X9. However, during the year ended 31st March, 2012, it breached one of the conditions of the loan, as a consequence of which the loan became repayable on demand on the reporting date. Subsequent to year end but before the approval of the financial statements, B Inc. rectified the breach and the bank agreed not to demand repayment and to let the loan run for its remaining period to maturity as per the original loan terms. While preparing its standalone financial statements as per IFRS, B Inc. has classified this loan as a current liability in accordance with IAS 1, Presentation of Financial Statements.

Whether A limited is required to classify such loan as current while preparing its consolidated financial statement under Ind AS?

Solution

As per paragraph 74 of Ind AS 1, where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

The above position under Ind AS 1 differs from the corresponding position under IAS 1. As per paragraph 74 of IAS 1, when an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

Accordingly, the loan liability recognised as current liability by B Inc. in its standalone financial statements prepared as per IFRS, should be aligned as per Ind AS in the consolidated financial statements of A Limited and should be classified as non-current in the consolidated financial statements of A Limited in accordance with Ind AS 1.

Question 49:

Entity A sells a 30% interest in its wholly-owned subsidiary to outside investors in an arm's length transaction for Rs. 500 crore in cash and retains a 70% controlling interest in the subsidiary. At the time of the sale, the carrying value of the subsidiary's net assets in the consolidated financial statements of Entity A is Rs. 1,300 crore, additionally, there is a goodwill of Rs. 200 crore that arose on the subsidiary's acquisition. Entity A initially accounted for NCI representing present ownership interests in the subsidiary at fair value and it recognises subsequent changes in NCI in the subsidiary at NCI's proportionate share in aggregate of net identifiable assets and associated goodwill. How should Entity A account for the transaction?

Solution :

As per paragraph 23 of Ind AS 110, changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). Thus, changes in ownership interest that do not result in loss of control do not impact goodwill associated with the subsidiary or the statement of profit and loss.

Paragraph B96 of Ind AS 110 states that when the proportion of the equity held by non- controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

Question 50:

AB Limited and BC Limited establish a joint arrangement through a separate vehicle PQR, but the legal form of the separate vehicle does not confer separation between the parties and the separate vehicle itself. Thus, both the parties have rights to the assets and obligations for the liabilities of PQR. As neither the contractual terms nor the other facts and circumstances indicate otherwise, it is concluded that the arrangement is a joint operation and not a joint venture.

Both the parties own 50% each of the equity interest in PQR. However, the contractual terms of the joint arrangement state that AB Limited has the rights to all of Building No. 1 owned by PQR and the obligation to pay all of the debt owed by PQR to a lender XYZ. AB Limited and BC Limited have rights to all other assets in PQR, and obligations for all other liabilities of PQR in proportion of their equity interests (i.e. 50% each).

PQR's balance sheet is as follows (all amounts in INR):

Liabilities and equity	Amount	Assets	Amount
Debt owed to XYZ	240	Cash	40
Employee benefit plan obligation	100	Building 1	240
Equity	140	Building 2	200
Total	480	Total	480

How would AB Limited present its interest in PQR in its financial statements?

Solution

Paragraph 20 of Ind AS 111 states that "a joint operator shall recognise in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;

(b) its liabilities, including its share of any liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly."

The rights and obligations, as specified in the contractual arrangement, that an entity has with respect to the assets, liabilities, revenue and expenses relating to a joint operation might differ from its ownership interest in the joint operation. Thus a joint operator needs to recognise its interest in the assets, liabilities, revenue and expenses of the joint operation on the basis (bases) specified in the contractual arrangement, rather than in proportion of its ownership interest in the joint operation.

Thus, AB Limited would record the following in its financial statements, to account for its rights to the assets of PQR and its obligations for the liabilities of PQR.

	Amount
Assets	
Cash	20
Building 1*	240
Building 2	100
Liabilities	
Debt (third party)^	240
Employees benefit plan obligation	50

^AB Limited has obligation for the debt owed by PQR to XYZ in its entirety.

*Since AB Limited has the rights to all of Building No. 1, it records the amount in its entirety

Question 51:

Entity X is owned by three institutional investors – A Limited, B Limited and C Limited – holding 40%, 40% and 20% equity interest respectively. A contractual arrangement between A Limited and B Limited gives them joint control over the relevant activities of Entity X. It is determined that Entity X is a joint operation (and not a joint venture). C Limited is not a party to the arrangement between A Limited and B Limited. However, like A Limited and B Limited, C Limited also has rights to the assets, and obligations for the liabilities, relating to the joint operation in proportion of its equity interest in Entity X.

Would the manner of accounting to be followed by A Limited and B Limited on the one hand and C Limited on the other in respect of their respective interests in Entity X be the same or different?

Solution :

In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:

(a) a joint operation in accordance with paragraph 23;

(b) a joint venture in accordance with Ind AS 109, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 10 of Ind AS 27."

Paragraphs 20 and 21 of Ind AS 111 state that a joint operator shall recognise in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;

(b) its liabilities, including its share of any liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly.

A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Ind ASs applicable to the particular assets, liabilities, revenues and expenses."

Paragraph 23 of Ind AS 111 states that a party that participates in, but does not have joint control of a joint operation shall also account for its interest in the arrangement in accordance with paragraphs 20–22 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation.

If a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the Ind ASs applicable to that interest.

In the given case, all three investors (A Limited, B Limited and C Limited) share in the assets and liabilities of the joint operation in proportion of their respective equity interest. Accordingly, both A Limited and B Limited (which have joint control) and C Limited (which does not have joint control) shall apply paragraphs 20-22 in accounting for their respective interests in Entity X in their respective separate financial statements as well as consolidated financial statements.

Question 52:

Entity A holds a 20% equity interest in Entity B (an associate) that in turn has a 100% equity interest in Entity C. Entity B recognised net assets relating to Entity C of Rs. 1,000 in its consolidated financial statements. Entity B sells 20% of its interest in Entity C to a third party (a non-controlling shareholder) for Rs. 300 and recognises this transaction as an equity transaction in accordance with paragraph 23 of Ind AS 110, resulting in a credit in Entity B's equity of Rs. 100.

The financial statements of Entity A and Entity B are summarised as follows before and after the transaction:

Before

A's consolidated financial statements

Assets	Rs.	Liabilities	Rs.
Investment in B	200	Equity	200
Total	200	Total	200

B’s consolidated financial statements

Assets	Rs.	Liabilities	Rs.
Assets (from C)	1000	Equity	1000
Total	1000	Total	1000

The financial statements of B after the transaction are summarised below:

After

B’s consolidated financial statements

Assets	Rs.	Liabilities	Rs.
Assets (from C)	1000	Equity	1000
Cash	300	Equity transaction with	
		non- controlling interest	100
		Equity attributable to owners	1100
		Non-controlling interest	200
Total	1300	Total	1300

Although Entity A did not participate in the transaction, Entity A’s share of net assets in Entity B increased as a result of the sale of B's 20% interest in C. Effectively, A's share in B's net assets is now Rs. 220 (20% of Rs. 1,100) i.e., Rs. 20 in addition to its previous share.

How is an equity transaction that is recognised in the financial statements of Entity B reflected in the consolidated financial statements of Entity A that uses the equity method to account for its investment in Entity B?

Solution :

Ind AS 28 defines the equity method as “a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor’s share of the investee’s net assets. The investor’s profit or loss includes its share of the investee’s profit or loss and the investor’s other comprehensive income includes its share of the investee’s other comprehensive income.”

Paragraph 27 of Ind AS 28, states, inter alia, that when an associate or joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income, and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies.

The change of interest in the net assets / equity of the associate as a result of the investee's equity transaction is reflected in the investor's financial statements as 'share of other changes in equity of investee' (in the statement of changes in equity) instead of gain in Statement of profit and loss, since it reflects the post-acquisition change in the net assets of the investee as per paragraph 3 of Ind AS 28 and also faithfully reflects the investor's share of the associate's transaction as presented in the associate's consolidated financial statements.

Thus, in the given case, Entity A recognises Rs. 20 as change in other equity instead of in statement of profit and loss and maintains the same classification as of its associate, Entity B, i.e., a direct credit to equity as in its consolidated financial statements.

Question 53:

As at the beginning of its current financial year, AB Limited holds 90% equity interest in BC Limited. During the financial year, AB Limited sells 70% of its equity interest in BC Limited to PQR Limited for a total consideration of Rs. 56 crore and consequently loses control of BC Limited. At the date of disposal, fair value of the 20% interest retained by AB Limited is ` 16 crore and the net assets of BC Limited are fair valued at Rs. 60 crore.

These net assets include the following:

(a) Debt investments classified as fair value through other comprehensive income (FVOCI) of Rs. 12 crore and related FVOCI reserve of Rs. 6 crore.

(b) Net defined benefit liability of Rs. 6 crore that has resulted in a reserve relating to net measurement losses of ` 3 crore.

(c) Equity investments (considered not held for trading) of Rs. 10 crore for which irrevocable option of recognising the changes in fair value in FVOCI has been availed and related FVOCI reserve of ` 4 crore.

(d) Net assets of a foreign operation of ` 20 crore and related foreign currency translation reserve of ` 8 crore.

In consolidated financial statements of AB Limited, 90% of the above reserves were included in equivalent equity reserve balances, with the 10% attributable to the non-controlling interest included as part of the carrying amount of the non-controlling interest.

Solution :

Paragraph 25 of Ind AS 110 states that if a parent loses control of a subsidiary, the parent:

(a) derecognises the assets and liabilities of the former subsidiary from the consolidated balance sheet.

(b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant Ind ASs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with Ind AS 109 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest."

Paragraph B98(c) of Ind AS 110 states that on loss of control over a subsidiary, a parent shall reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind AS, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis specified in paragraph B99.

As per paragraph B99, if a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

In view of the basis in its consolidated financial statements, AB Limited shall:

(a) re-classify the FVOCI reserve in respect of the debt investments of Rs.5.4 crore (90% of ` 6 crore) attributable to the owners of the parent to the statement of profit or loss in accordance with paragraph B5.7.1A of Ind AS 109, Financial Instruments which requires that the cumulative gains or losses previously recognised in OCI shall be recycled to profit and loss upon derecognition of the related financial asset. This is reflected in the gain on disposal. Remaining 10% (i.e., ` 0.6 crore) relating to non-controlling interest (NCI) is included as part of the carrying amount of the non-controlling interest that is derecognised in calculating the gain or loss on loss of control of the subsidiary;

(b) transfer the reserve relating to the net measurement losses on the defined benefit liability of Rs. 2.7 crore (90% of Rs.3 crore) attributable to the owners of the parent within equity to retained earnings. It is not reclassified to profit or loss. The remaining 10% (i.e., ` 0.3 crore) attributable to the NCI is included as part of the carrying amount of NCI that is derecognised in calculating the gain or loss on loss of control over the subsidiary. No amount is reclassified to profit or loss, nor is it transferred within equity, in respect of the 10% attributable to the non- controlling interest.

(c) reclassify the cumulative gain on fair valuation of equity investment of Rs.3.6 crore (90% of ` 4 crore) attributable to the owners of the same parent from OCI to retained earnings under equity as per paragraph B5.7.1 of Ind AS 109, Financial Instruments, which provides that in case an entity has made an irrevocable election to recognise the changes in the fair value of an investment in an equity instrument not held for trading in OCI, it may subsequently transfer the cumulative amount of gains or loss within equity. Remaining

10% (i.e., ` 0.4 crore) related to the NCI are derecognised along with the balance of NCI and not reclassified to profit and loss.

(d) reclassify the foreign currency translation reserve of Rs.7.2 crore (90% × ` 8 crore) attributable to the owners of the parent to statement of profit or loss as per paragraph 48 of Ind AS 21, The Effects of Changes in Foreign Exchange Rates, which specifies that the cumulative amount of exchange differences relating to the foreign operation, recognised in OCI, shall be reclassified from equity to profit or loss on the disposal of foreign operation. This is reflected in the gain on disposal. Remaining 10% (i.e., ` 0.8 crore) relating to the NCI is included as part of the carrying amount of the NCI that is derecognised in calculating the gain or loss on the loss of control of subsidiary, but is not reclassified to profit or loss in pursuance of paragraph 48B of Ind AS 21, which provides that the cumulative exchange differences relating to that foreign operation attributed to NCI shall be derecognised on disposal of the foreign operation, but shall not be reclassified to profit or loss

The impact of loss of control over BC Limited on the consolidated financial statements of AB Limited is summarised below:(Rupees in crore)

Particular	Amount (Dr)	Amount (Cr)	PL Impact	RE Impact
Gain /Loss on Disposal on Investments				
Bank	56			
Non-controlling interest (Derecognised)	6			
Investment at FV (20% Retained)	16			
Gain on Disposal (PL) balancing figure		18	18	
De-recognition of total net assets of subsidiary	60			
Reclassification of FVTOCI reserve on debt instruments to profit or loss				
FVTOCI reserve on debt instruments (6 cr. x 90%)	5.4			
To Profit and loss	5.4	5.4		
Reclassification of net measurement loss reserve to profit or loss				
Reserve and Surplus	2.7			-2.7
To Net measurement loss reserve (FVTOCI) [(3 cr. x 90%)]		2.7		

Reclassification of FVTOCI reserve on equity instruments to retained earnings				
FVTOCI reserve on equity instruments (4 cr.x 90%)	3.6			
To Reserve and Surplus		3.6		3.6
Foreign currency translation reserve reclassified to profit or loss				
Foreign currency translation reserve (FVOCI) [8 cr. x 90%]	7.2			
To Profit and loss		7.2	7.2	
Total			30.6	0.9

CORPORATE SOCIAL RESPONSIBILITY

ROLE OF BOARD

Board shall disclose-

a. The composition of CSR Committee in its report

b. Approve the recommended CSR Policy for the company

c. Disclose the contents of such Policy in its report and place it on the company's website

d. Ensure that the activities included in CSR Policy of the company are duly executed by the company

e. Ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years [or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years], by giving preference to the local area and areas around it where it operates

f. In case the company fails to spend such amount, the Board shall specify the reasons for not spending the amount [and unless the unspent amount relates to any ongoing project, transfer such unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year]

g. Any amount remaining unspent, pursuant to any ongoing project, undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company within thirty days from the end of the financial year to a special account (opened by the company in that behalf for that financial year in any scheduled bank) to be called the Unspent Corporate Social Responsibility Account.

Such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within thirty days from the date of completion of the third financial year.

h. If a company contravenes the above provisions, the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty- five lakh rupees and every defaulting officer of such company shall be punishable with imprisonment for a term upto three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

Question 54:

Whether any Unspent Amount of CSR Expenditure is to be Provided for?

- Section 135 (5) of the Companies Act, 2013, requires that the Board of every eligible company, "shall ensure that the company spends, in every financial year, at least 2% of the average net profits of the company made during the three immediately preceding financial years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy". A proviso to this Section states that "if the company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount and, unless the unspent amount relates to any ongoing project, transfer such unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year".
- Any amount remaining unspent, pursuant to any ongoing project, undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account. Such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.
- If a company contravenes the provisions, the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty- five lakh rupees and every officer of such company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.