(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of subrule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and".

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;

(b) companies other than those covered in clause (ii) of sub- rule (1) and subclause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.

(c) holding, subsidiary, joint venture or associate companies of companies covered under sub-clause (a) of clause (iii) of sub- rule (1) and sub-clause (b) of clause (iii) of sub- rule (1), as the case may be:

In accordance with above provisions, it is clear that Ind AS will be applicable to companies (both listed and unlisted) from financial year 2016-17, if net worth is Rs. 500 crore or more. Therefore, if the net worth of the listed or unlisted company is negative, then Ind AS will not be applicable from F.Y. 2016-17. Accordingly, Ind AS will not be applicable to Company A (listed) and Company B (unlisted) from F.Y. 2016-17.

However, as per the roadmap, Ind AS will be applicable from financial year 2017-18 to all listed companies having net worth less Rs. 500 crore and unlisted companies having net worth Rs. 250 crore or more but less than rupees 500 core. Accordingly, Ind AS will be applicable to Company A (listed) from F.Y. 2017-18, whereas Ind AS will not be applicable to Company B (unlisted) unless net worth criteria being met by Company B subsequently or Ind AS becoming applicable as part of the Group (e.g. holding of Company B is covered under Ind AS) or Company B voluntarily decides to apply Ind AS.

FAST Ans: **Company A : From 2017 – 18 since listed company**

Company B : No.

CE 27. **APPLICABILITY : PARTNERSHIP FIRMS**

A Ltd. is a first-time adopter of Ind AS. It had incorporated a partnership firm with B Ltd. namely, M/s A&B Associates. Whether Ind AS will be applicable to M/s A & B Associates by virtue of the fact that Ind AS is applicable to A Ltd?

Also clarify, whether Ind AS will be applicable to non-corporate entities?

Ans.

The applicability of Ind AS has been specified for classes of companies specified in Rule 4 of Companies (Indian Accounting Standards) Rules, 2015. Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, are applicable for the corporates only. Non- corporates are required to follow the accounting standards issued by the Institute of Chartered Accountants of India.. They cannot be applied by non-corporate entities even voluntarily.

However, in case, a relevant regulator specifically provides for implementation of Ind AS, the non-corporate entities shall apply Ind AS, for example, SEBI has mandated implementation of Ind AS for Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs). Similarly, if Central

Government notifies certain body corporate under clause (1)(4)(f) of Companies Act, 2013, such entities will be required to apply Ind AS. For other non-company entities, Accounting Standards issued by the ICAI shall be applicable and there will be no option to follow Ind AS to such entities.

Accordingly, in the given case, Ind AS is not applicable to partnership firms. However, for the purpose of consolidation, the partnership firm will be required to provide financial statements data prepared as per Ind AS to A Ltd provided the partnership qualifies as a subsidiary/joint venture/associate of A Ltd.

FAST Ans: Not Applicable to Partnership Firms

CE 28.

APPLICABILITY : FOREIGN BRANCH

ABC & Company incorporated in US with limited liability, has established a branch office in India, with the permission of the Reserve Bank of India (RBI), to provide consultancy services in India. The branch office remits the amounts earned by it to ABC & Company (i.e. Head office) net of applicable Indian taxes and subject to RBI guidelines.

As on April 1, 2016, it has more than 500 crore balance as "Head office account".

Whether the India branch office of ABC Company will be required to comply with Ind AS?

Ans.

As per the roadmap issued by the MCA, "company" as defined in clause (20) of section 2 of the Companies Act, 2013 is required to comply with Ind AS. Section 2(20) of the Act defines company as follows:

"company" means a company incorporated under this Act or under any previous company law;

The branch office of a foreign company established in India is not incorporated under the A ct. It is only an establishment of a foreign company in India. The Branch office is just an extension of the foreign company in India.

Further, as per Rule 6 of the Companies (Indian Accounting Standards) Rules, 2015, "Indian company which is a subsidiary, associate, joint venture and other similar entities of a foreign company shall prepare its financial statements in accordance with the Indian Accounting Standards (Ind AS) if it meets the criteria as specified in sub-rule (1)."

In accordance with the above, it may be noted that Branch office of a foreign company is not covered under rule 6 as mentioned above. Accordingly, in the given case, the branch office of ABC & Company is not required to comply with Ind AS.

FAST Ans: Branch office not covered under Ind AS

TRANSITION DATE & OTHER PROVISIONS

CE 29.

TRANSITION DATE CHOICE

Company X Ltd. has prepared its financial statements under IFRS for the first time for year ended March 31, 2016. It had adopted its date of transition to IFRS as April 1, 2014. As per the Companies (Indian Accounting Standards) Rules, 2015, Company X Ltd. is mandatorily required to prepare its financial statements as per Ind AS for the year ended March 31, 2017 and hence under Ind AS, the date of transition would be April 1, 2015.

Whether Company X Ltd. can select date of transition under Ind AS as April 1, 2014 instead of April 1, 2015 since it has already carried out exercise of transition on April 1, 2014 for the purposes of IFRS.

Ans.

Appendix A to Ind AS 101, First- time Adoption of Indian Accounting Standards, defines date of transition as follows:

"The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in first Ind AS financial statements"

The definition of date of transition as stated above therefore permits an entity to select its date of transition. However, Rule 4(1)(i) and (ii) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

"The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-

(i) any company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely…".

As per the above rule, the date of transition for X Ltd. will be April 1, 2015 being the beginning of the earliest comparative period presented. To explain it further, X Ltd. is required to mandatorily adopt Ind AS from April 1, 2016, i.e for the period 2016-17, and it will give comparatives as per Ind AS for 2015-16. Accordingly, the beginning of the comparative period will be April 1, 2015 which will be considered as the date of transition as per Ind AS.

Although Company X Ltd. has already carried out exercise of transition on April 1, 2014 for the purposes of IFRS, Company X Ltd. cannot select date of transition under Ind AS as April 1, 2014.

FAST Ans: No. DoT 1-4-15 only

CE 30. DATE OF TRANSITION : 2 YEARS COMPARATIVES

A company covered under Phase I, having net worth of ₹ 600 crores, decides to give comparatives for F.Y. 2015-16 and F.Y. 2014-15. What should be date of transition in this case?

Ans.

Appendix A to Ind AS 101, First- time Adoption of Indian Accounting Standards, defines date of transition as follows:

"The beginning of the earliest period for which an entity presents full comparative information under Ind ASs in first Ind AS financial statements"

The definition of the date of transition as stated above therefore permits an entity to select its date of transition. However, Rule 4(1)(i) and (ii) of the Companies (Indian Accounting Standards) Rules, 2015, state as under:

"The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-

(i) any company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely…".

In the given case, the Company is required to mandatorily adopt Ind AS from April 1, 2016, i.e., for the period 2016-17, and with comparatives as per Ind AS for 2015-16. Accordingly, the beginning of the comparative period will be April 1, 2015, which will be considered as the date of transition as per Ind AS. Therefore, the date of transition to Ind AS shall be April 1, 2015. The company cannot have the date of transition at April 1, 2014.

FAST Ans : DoT : 1-4-15 only

CE 31. ASSOCIATE – S.8 COMPANY

Company X Ltd. is being covered under Phase I of Ind AS and needs to apply Ind AS from financial year 2016-17. Company Y which is an associate company of Company X Ltd. is a charitable organisation and registered under section 8 of the Companies Act, 2013.

Whether Company Y is required to comply with Ind AS from financial year 2016-17?

(Question on this concept was asked in CA Final New Course Exam Paper3 – Audit, Nov. 2019)

Ans.

Rule 4(1)(ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and".

In accordance with the above, it may be noted that holding, subsidiary, joint venture, associate companies of companies falling under any of the thresholds specified in Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17.

Further, it may be noted that the companies covered under Section 8 are required to comply the provisions of the Companies Act, 2013, unless and until any exemption is provided. Section 8 companies are not exempted from the requirements of section 133 and section 129 of the Companies Act, 2013.

In view of the above, in the given case, Company Y will be required to apply Ind AS from financial year 2016-17.

FAST Ans: Applicable for Company Y from 16-17

CE 32. COMPUTATION OF NET WORTH

A company received grant from government which is in the nature of promoter's contribution and the same was included in capital reserve. This grant has been accounted as per AS 12, Accounting for Government Grants. Is such capital reserve required to be included for computation of net worth to assess Ind AS applicability?

Ans.

As per Rule 2(1)(f) of Companies (Indian Accounting Standards) Rules, 2015 "net worth" shall have the meaning assigned to it in clause (57) of section 2 of the Act.

Section 2(57) of Companies Act, 2013, defines 'net worth' as follows:

"net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

From the definition of Section 2(57), it may be noted that all reserves created out of the profits are included in calculation of 'net worth'.

In the given case, the capital reserve has arisen pursuant to grant received from government. which is in the nature of promoter's contribution. On a literal interpretation of the definition, it may be concluded that capital reserve in the nature of promoter's contribution should not be included to calculate net worth as the same is not explicitly mentioned in the definition of net worth. However, in substance, the capital reserve in the nature of promoter's contribution is a capital contribution by promoters and should be included in the calculation of net worth. Further, Accounting Standard (AS) 12 also states that government grants in the nature of promoter's contribution are recognised in shareholders' funds. Therefore, such a capital reserve should be included for computation of 'net worth'.

However, it may be noted that capital reserve in the nature of promoter's contribution should be included in the net worth only for the purpose of Ind AS applicability. This definition should not be applied by analogy for determining net worth under other provisions of the Companies Act, 2013.

FAST Ans: ICAI clarifies, should be included in NW

CE 33. NET WORTH : ESOP RESERVE

Whether ESOP reserve is required to be included while computing net worth of a company to assess applicability of Ind AS on the company?

Ans.

As per Rule 2(1)(f) of Companies (Indian Accounting Standards) Rules, 2015, "net worth" shall have the meaning assigned to it as in clause (57) of section 2 of the Act.

Further, as per Section 2(57) of the Companies Act, 2013, "net worth means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation."

It may be noted that the Guidance Note on Accounting for Employee Share-based Payments, inter alia, provides that an enterprise should recognise as an expense (except where service received qualifies to be included as a part of the cost of an asset) the services received in an equity-settled employee share-based payment plan when it receives the services, with a corresponding credit to an appropriate equity account, say, 'Stock Options Outstanding Account'. This account is transitional in nature as it gets ultimately transferred to another equity account such as share capital, securities premium account and/or general reserve as recommended in the subsequent paragraphs of this Guidance Note.

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In accordance with the above, ESOP reserve is required to be included while calculating the net worth of a company.

FAST Ans: YES

ADDITIONAL PRACTICE QUESTIONS

AD 34. OPERATING CYCLE

X Ltd. has provided the following information for the purpose of implementation of the Revised Schedule III:

Production cycle

Raw material inventories	Holding period in Months	Average raw Material Inventory ₹ in Million
RM1	5	300
RM2	3	200
RM3	2	100
RM4	1	1000
RM5	1	1500

Production cycle	Average production time in Months	Average Work-in-Progress ₹ in Million
P1	0.5	500
P2	0.75	400
P3	0.25	700

Finished Goods	Related WIP	Average holding period in Months	Average Finished Goods Inventories ₹ in Million
FG1	P1	5	1000
FG2	P2	4	1200
FG3	P3	3	1000

Trade Receivables		Collection period in Months	Average Receivables₹ in Million
Wholesalers having net worth > ₹10000 million	TR1	3	1100
Wholesalers having net worth≤ ₹ 10000 million	TR2	4	2000

Find out operating cycle for the purpose of revised Schedule III. Assume that despite of different production cycles for different products, the group of products are considered as same line of business.

Ans.

Summary	Months
Weighted average raw material holding period	1.55
Weighted average production cycle	0.45
Weighted average finished goods holding period	4.00
Weighted average collection period	3.65
Operating cycle	9.65

CLASSIFICATION : BREACH OF LOAN CONVENANT

SM 35.

CLASSIFICATION : BREACH

An entity has a long term loan facility with a bank. As per the loan facility, certain financial ratios are required to be maintained on a quarterly basis failing which the loan becomes repayable on demand. Information regarding such compliance is required to be submitted to the bankers after a period of 1 month from the end of every quarter. Determination of such ratios requires the drawing up of the financial statements of the entity. The entity did not have any breach until the 3rd quarter. With respect to the 4th quarter, the entity realised that there was a breach, only after the financials were drawn up after the end of the reporting period and the bank has not condoned the breach before the financial statements are approved for issue. Reporting of the compliance is required to be made after a period of 1 month from the end of the 4th quarter.

(a) How should the loan be classified, current or non-current, consequent to the breach of the loan covenant?

(b) If there is a cross default clause, whereby breach emanating from one loan gets linked to other borrowings, how should the underlying loans be presented?

(c) If there is a cross default clause by a group company which impacts the reporting entity's loan and there has been a default, how should the same be classified, current or non-current?

(d) How should the loan be classified assuming that the financial covenants have not been temporarily met with [since the testing date did not fall due during such temporary period], but the same have been met on the testing date? For example, on quarterly basis the Company does not meet the required ratios but the bank requires it to meet the same on annual basis. In such a scenario, how the loan should be classified in the interim financial statements.

Ans.

(a) The loan should be classified as current. Circumstances will always arise when a loan covenant can be assessed only after the end of the reporting period, which are based on financial information as at the end of the reporting period. In this case, even though the breach has been identified after the reporting period, the loan should be classified ascurrent since the conditions resulting into breach existed at the reporting date.

(b) There can be cross default clause attached to some borrowings. Under such circumstances, compliance with the loan covenants of the other borrowings is also considered for assessment. Breach of a loan covenant would immediately have an effect on those borrowings that have across default clause attached to it. Accordingly, all the borrowings that are linked through the said clause will be repayable immediately and hence require a current classification.

(c) Same as point (b)above.

(d) Trigger for breach of covenant arises only on a breach that occurs on the testing date. The entity can perform its test for purposes of monitoring compliances, which will be purely an internal matter. If on the testing date, there is no breach of covenant, then there is no requirement for reclassification to current.

In the present case, the bank requires financial ratios to be maintained on annual basis. If the financial ratios are met on annual basis but do not meet on quarterly basis, the liability should be classified as non-current in the annual as well as quarterly financial Statements as on the testing date i.e., at the end of the year, there is no breach

FAST Ans: (a) Current / (b) and (c) All others also current / (d) Non Current

RT 36. CLASSIFICATION : BREACH

Company A has taken a long term loan arrangement from Company B. In the month of December 20X1, there has been a breach of material provision of the arrangement. As a consequence of which the loan becomes payable on demand on March 31, 20X2. In the month of May 20X2, the Company started negotiation with the Company B for not to demand payment as a consequence of the breach. The financial statements were approved for the issue in the month of June 20X2. In the month of July 20X2, both company agreed that the payment will not be demanded immediately as a consequence of breach of material provision.

Advise on the classification of the liability as current / non–current. **[RTP-May-2018]**

Ans.

As per Ind AS 1 "Presentation of Financial Statements" 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 t he 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. In the given case, Company B (the lender) agreed for not to demand payment but only after the financial statements were approved for issuance. The financial statements were approved for issuance in the month of June 20X2 and both companies agreed for not to demand payment in the month of July 20X2 although negotiation started in the month of May 20x2 but could not agree before June 20X2 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement fo r the year ended March 31, 20X2.

CLASSIFICATION

CE 37. CURRENT / NON CURRENT CLASSIFICATION

An entity is in the real estate business. As per the industry under which it operates, the entity constructs residential apartments for customers and the construction normally takes three to four years. How should the entity classify its construction work in progress - **current/ non-current**?

Ans.

As per Ind AS 1, where an entity's normal operating cycle is such that its assets, such as, inventory/trade receivables are not realised in cash within a period of twelve months, these assets would still be current in nature. Since the entity expects to realise the construction work in progress through sale to its customers, in its normal operating cycle, the construction work in progress will be current in nature. Additional information as required by Ind AS 1 will be required to be made by the entity, which provides "Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) No more than twelve months after the reporting period, and

(b) More than twelve months after the reporting period."

FAST Ans: Liquidity based disclosure required

CE 38. CLASSIFICATION : BOND INVESTMENT

On 1 April 20X2 XYZ Ltd invested ₹ 15,00,000 surplus funds in corporate bonds that bear interest at 8 per cent per year. Interest is payable on the corporate bonds on 1 April of each year. The capital is repayable in three annual instalments of ₹ 500,000 starting on 31 March 20X4. How will such stock be classified?

Ans.

In its statement of financial position at 31 March 20X3 the entity must present the ₹ 1,20,000 accrued interest and ₹ 500,000 current portion of the non-current loan (ie the portion repayable on 31 March 20X4) as current assets – they are expected to be realised within twelve months of the end of the reporting period. The instalments of ₹ 10,00,000 due later than twelve months after the end of the reporting period is presented as a non-current asset – it is not cash or a cash equivalent; it is not expected to be realised or consumed in the entity's normal operating cycle; it is not held for the purpose of trading; and it is not expected to be realised within twelve months of the end of the reporting period.

FAST Ans: Bold Above

CE 39. CLASSIFICATION

An entity has placed certain deposits with various parties. How the following deposits should be classified, i.e., current or non-current?

(a) Electricity Deposit

(b) Tender Deposit/Earnest Money Deposit [EMD]

(c) Sales Tax/Excise Deposit paid under dispute.

Ans.

(a) An entity pays electricity deposit for the purposes of receiving an electricity connection. At all points of time, such deposit is recoverable on demand, when the connection is not required. However, practically, such electric connection is required as long as the entity exists. Hence from a commercial reality perspective, an entity does not expect to realise the asset within twelve months from the end of the reporting period. Further, this has no relation to the operating cycle and is not held for the purpose of trading. Hence, electricity deposit should be classified as a non-current asset.

(b) Generally, tender deposit/EMD are paid for participation in various bids. They normally become recoverable if the entity does not win the bid. Bid dates are known at the time of tendering the deposit. But until the date of the actual bid, one is not in a position to know if the entity is winning the bid or otherwise. Accordingly, depending on the terms of the deposit if entity expects to realise the deposit within a period of twelve months, it should be classified as current otherwise non- current.

(c) Classification of sales tax/excise deposits paid to the Government authorities in the event of any legal dispute, which is under protest would depend on the facts of the case and the expectation of the entity to realise the same within a period of twelve months.

FAST Ans: (a) NC, (b) & (c) Depends on expectation of recovery

CE 40. CLASSIFICATION

An entity has the following trial balance line items. How should these items be classified, i.e., current or non-current?

(a) Receivables (viz., receivable under a contract of sale goods in which an entity deals)

(b) Advance to suppliers

(c) Income tax receivables [other than deferred tax]

(d) Insurance spares

Ans.

(a) As per Ind AS 1, an entity shall classify an asset as current when it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle.

Paragraph provides the guidance that current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period.

In accordance with above, **the receivables that are considered a part of the normal operating cycle will be classified as current asset.**

If the operating cycle exceeds twelve months, then additional disclosure as required by Ind AS 1 is required to be given in the notes.

(b) As discussed in point (a)above, **advances to suppliers for goods and services would be classified in accordance with normal operating cycle if it is given in relation to the goods or services in which the entity normally deals.** If the advances are considered a part the normal operating cycle, it would be classified as a current asset. If the operating cycle exceeds twelve months, then additional disclosure as required by Ind AS 1 is required to be given in the notes.

(c) Classification of income tax receivables [other than deferred tax] will be driven by Ind AS 1, i.e., based on the expectation of the entity to realise the asset**. If the receivable is expected to be realised within twelve months after the reporting period, then it will be classified as current else non-current.**

(d) Insurance spares: Ind AS 16 provides "Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory"

In accordance with the above, if insurance spares meet the definition of property, plant and equipment, these should be treated as an item of property, plant and equipment, otherwise inventory. **Accordingly, the insurance spares that are treated as an item of property, plant and equipment would normally be classified as non-current asset whereas insurance spares that are treated as inventory will be classified s current asset if the entity expects to consume it in its normal operating cycle.**

FAST Ans: Bold above

CE 41. CLASSIFICATION : LIABILITY CUSTOMER ADVANCE

Ind AS 1 states "An entity shall classify a liability as current when it expects to settle the liability in its normal operating cycle". An entity develops tools for customers and this normally takes a period of around 2 years for completion. The material is supplied by the customer and hence the entity only renders a service. For this, the entity receives payments upfront and credits the amount so received to "Income Received in Advance". How should this "Income Received in Advance" be classified, i.e. current or non-current?

Ans.

Ind AS 1 provides "Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period."

In accordance with the above, income received in advance would be classified as current liability since it is a part of the working capital, which the entity expects to earn in its normal operating cycle.

FAST Ans: CL

AD 42. CLASSIFICATION : WARRANTY PROVISION

An entity manufactures batteries for the automobile industry. Based on terms of warranty, a provision is made by the entity. How should the warranty provision be presented in the balance sheet, i.e., current or non-current?

Ans.

Terms of the warranty will determine its classification i.e., current or non- current. Warranties that are due for more than twelve months from the reporting date, should be classified as non-current. However, in accordance with Ind AS 1, the entity shall disclose separately the warranty provision expected to be settled/expired no more than twelve months, and more than twelve months after the reporting period.

CE 43. LOAN : BREACH OF COVENANT

An entity enters into a loan arrangement with a banker and is subject to compliance with various covenants — some are financial and some are non- financial covenants. The entity commits a breach of covenant prior to the end of the reporting period. As a result of such breach, as per terms of the arrangement, the loan becomes payable on demand. Assuming that as per the original terms, the loan is payable after a period of 24 months from the reporting date —

(a) How should the liability be classified in the balance sheet — current/non-current, if subsequent to the end of the reporting period but before the approval of financial statements, the banker has agreed not to demand payment?

(b) Will the answer be different, if the banker has condoned the breach prior to the reporting period and provided a time period of more than twelve months after the reporting period to rectify the breach?

(c) What will be the classification, if the banker has condoned the breach prior to the reporting period but provided a time period of only less than twelve months after the reporting period to rectify the breach?

Ans.

(a) The loan should be classified as non-current by virtue of Ind AS 1, which states "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 guidance in a mandatory carve out from International Accounting Standard (IAS) 1. ."

(b) No, the loan can retain its classification as non-current by virtue of Ind AS 1, which, inter alia, states, "An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment."

(c) The loan will require a reclassification to current by virtue of Ind AS 1 as stated above, since the period of grace is less than twelve months after the reporting period.

FAST Ans: (a) Non Current (b) Non Current (c) Current

AD 44. FLEXI DEPOSITS : OFF SETTING

Z Ltd. has flexi deposit linked current account with various banks. Cheques are issued from the current account and as per the requirements of funds, the flexi deposits are encashed and transferred to current accounts. As of 31st March, 2018 certain cheques issued to vendors are not presented for payment resulting in the credit balance in the books of the company. The management wants to present the book overdraft under current liabilities and flexi deposits under cash & bank balances. Comment.

Ans.

Presentation of Book Overdraft as per Schedule III to the Companies Act, 2013:

From the facts of the case it is evident that in substance the position is that the composite bank balance including the balance in flexi deposit accounts are positive, even though physical set-off has not been made as on the balance sheet date. Further the bank has got the right to set off of flexi deposits against the cheques issued and hence **it would be more informative and useful to the readers of the financial statements to disclose the book credit balance as a set-off from the flexi deposit accounts.** The disclosure of the said book credit balance as book overdraft under the head current liabilities as proposed by the **management is not correct.**

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FAST Ans: Bold above

AD 45. CLASSIFICATION & OPERATING CYCLE

KAY Ltd. is in the process of finalizing its accounts for year ended 31st March, 2018 and furnishes the following information:

(i) Finished goods normally are held for 30 days before sale.

(ii) Sales realization from Debtors usually takes 60 days from date of credit invoice.

(iii) Raw materials are held in stock to cover one month's production requirements.

(iv) Packing materials, being specifically made for the company and having lead time of 90 days is held in stock for 90 days.

(v) The holding period in respect of unfinished goods is 30 days.

(vi) Being a monopoly KAY Ltd. enjoys a credit period of 12.5 months from its suppliers who sometimes at the end of their credit period opt for conversion of their dues into long term debt of KAY Ltd.

You are required to compute the operating cycle of KAY Ltd. as per Schedule III of Companies Act, 2013. As the suppliers of the company are paid off after a credit period of 12.5 months should this be part of Current Liability? Would your answer be the same if the creditors are settled in 330 days?

Ans.

Operating cycle of Kay Ltd. will be computed as under:

Raw material stock holding period + Work-in-progress holding period + Packing Materials holding period+ Finished goods holding period + Debtors collection period = 1 + 1 + 3 + 1 + 2 = 8 months

Classification of liability to suppliers: Revised Schedule VI provides that: "A liability shall be classified as current when it satisfies any of the following criteria:

(i) it is expected to be settled in the company's normal operating cycle;

(ii) it is held primarily for the purpose of being traded;

(iii) it is due to be settled within twelve months after the reporting date; or

(iv) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments and do not affect its classification."

There are two situations:

(a) When credit period given by supplier is 12.5 months: The nature of classificationof liability is to be seen with reference to the reporting date. Hence all liabilities except those that arise in the last fortnight of the accounting period will be "Current" as this will have to be settled within 12 months of the reporting date. **Thus, all liabilities except that arise in the last fortnight of the accounting period will be "Current".**

(b) When credit period given by suppliers is 330 days (i.e. 11 months approx.): **If the creditors are settled in 330 days i.e. within 11 months. This satisfies the third condition i.e. it is due to be settled within twelve months after the reporting date and there is no option to defer it. Hence, in the case it will be treated as current liability.**

FAST Ans: See Bold above

SM 46. OPERATING CYCLE & CLASSIFICATION

B Ltd. produces aircrafts. The length of time between first purchasing raw materials to make the aircrafts and the date the company completes the production and delivery is 9 months. The company receives payment for the aircrafts 7 months after the delivery.

(a) What is the length of operating cycle?

(b) How should it treat its inventory and debtors? **[MTP-May-2022]**

Ans.

(a) The length of the operating cycle will be 16 months.

(b) Assuming the inventory and debtors will be realised within normal operating cycle, i.e., 16 months, both the inventory as well as debtors should be classified as current.

SM 47. OPERATING CYCLE

X Ltd provides you the following information:

Raw material stock holding period	:	3 months
Work-in-progress holding period	:	1 month
Finished goods holding period	:	5 months
Debtors collection period	:	5 months

The trade payables of the Company are paid in 12.5 months. Should these be classified as current or non-current?

Ans.

In this case, the operating cycle of X Ltd. is 14 months. Since the trade payables are expected to be settled within the operating cycle i.e. 12.5 months, they should be classified as a current.

CE 48. OPERATING CYCLE : MULTIPLE BUSINESS

Entity A has two different businesses, real estate and manufacture of passenger vehicles. With respect to the real estate business, the entity constructs residential apartments for customers and the normal operating cycle is three to four years. With respect to the business of manufacture of passenger vehicles, normal operating cycle is 15 months. Under such circumstance where an entity has different operating cycles for different types of businesses, how classification into current and non-current be made?

Ans.

In this situation, where businesses have different operating cycles, **classification of asset/liability as current/ non- current would be in relation to the normal operating cycle that is relevant to that particular asset/liability.** It is advisable to disclose the normal operating cycles relevant to different types of businesses for better understanding.

FAST Ans: Bold above

CE 49. DISCLOSURE : FY – 14 MONTHS

In 20X8 entity 'Superb' was acquired by entity 'Happy go lucky'. To align its reporting date with that of its parent. Superb changed the end of its annual reporting period from 31 January to 31 March. Consequently, entity Superb's reporting period for the year ended 31 March 2018 is 14 months. On the basis of those facts, what disclosure will be appropriate.

Ans.

Extract from the notes to entity Superb's 31 March2018 financial statements:

Note:

Basis of preparation and accounting policies

Reporting period

In 2018, to align the entity's reporting period with that of its parent (Happy Go Luck), the entity changed the end of its reporting period from 31 January to 31 March. Amounts presented for the 2018 reporting period are for a 12-month period. Comparative figures are for a 14-month period. Consequently, comparative amounts for the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are not entirely comparable.

FAST Ans: Bold Above

CE 50. CASH & CASH EQUIVALENTS

Does cash and cash equivalent under Ind AS 1 have the same meaning as cash and cash equivalent as per Ind AS 7, Statement of Cash Flows?

Ans. Generally, there should not be a difference in the amount of cash and cash equivalent as per Ind AS 1 and as per Ind AS 7. However, as per Ind AS 7 "where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn." **Although Ind AS 7 permits bank overdrafts to be included as cash and cash equivalent, for the purpose of presentation in the balance sheet, it would not be appropriate to include bank overdraft in the line item cash and cash equivalents unless the netting off conditions as given in Ind AS 32**, Financial Instruments: Presentation, are complied with. Bank overdraft, in the balance sheet, will be included within financial liabilities. Just because the bank overdraft is included in cash and cash equivalents for the purpose of Ind AS 7, does not mean that the same should be netted off against the cash and cash equivalent balance in the balance sheet. Instead of Ind AS 7 requires a disclosure of the components of cash and cash equivalent and a reconciliation of amounts presented in the cash flow statements with the equivalent items reported in the balance sheet.

FAST Ans: There is a difference

AD 51. PRESENTATION : INCOME

C Ltd. is a group engaged in manufacture and sale of industrial and FMCG products. One of their division also deals in Leasing of properties – Mobile Towers. The accountant showed the rent arising from the leasing of such properties as other income in the Statement of Profit and Loss.

Comment whether the classification of the rent income made by the account is correct or not in the light of Schedule III to the Companies Act, 2013.

Ans.

As per the "General Instructions for preparation of Statement of Profit and Loss" given in Division II of Schedule III to the Companies Act, 2013, "Other Income" does not include operating income. The term "Revenue from operations" has not been defined under Schedule III to the Companies Act, 2013. However, as per the Guidance Note on Schedule III to the Companies Act, 2013 this would include revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue-generating activities. Whether a particular income constitutes "Revenue from operations" or "Other income" is to be decided based on the facts of each case and detailed understanding of the company's activities. The classification of income would also depend on the purpose for which the particular asset is acquired or held.

As per the information given in the question, C Ltd. is a group engaged in manufacture and sale of industrial and FMCG products and its one of the division deals in leasing of properties - Mobile Towers. Since its one division is continuously engaged in leasing of properties, it shall be considered as its principal or ancillary revenue-generating activities. Therefore, the rent arising from such leasing shall be shown under the head "Revenue from operations" and not as "other income".

Hence, the presentation of rent arising from the leasing of such properties as "other income" in the Statement of Profit and Loss is not correct. It should be shown under the head "Revenue from operations".

FAST Ans: Bold Above

AD 52. **ACCRUAL**

Entity A sells goods to Mr. X on November, 20X1 and received payments on January 31, 20X2. The entity follows December 31, 20X1 as its annual closing of financial statements. State how this business transaction should be accounted.

Ans.

The goods have been sold off in the month of November, 20X1 and the payment has been received in the year 20X2 whereas the Entity A follows calendar year annual closing. Now, assuming that all recognition criteria (risk and rewards) has been met while selling off the goods in the month of November, 20X1, Entity A will recognize the sale in the Income statement with corresponding effect in accounts receivables for the year ending December 31, 20X1. This is called accrual accounting where the transaction is being recorded in the same year when it meets other recognition criteria and not when actual cash has been received/ paid.

Now, it is clear to understand that had this sale not been shown in the financial statement ending December 31, 20X1, the sale would have been understated by the same amount. Hence it has been recorded in the same period when the transaction has taken place and met recognition criteria as per applicable accounting standards.

MT 53. **COMPREHENSIVE : SPL**

Entity A has undertaken various transactions in the financial year ended March 31, 20 X1.Identify and present the transactions in the financial statements as per Ind AS 1. ***[Certain matter in this question will be covered in later chapters]***

	₹
Remeasurement of defined benefit plans	2,57,000
Current service cost	1,75,000
Changes in revaluation surplus	1,25,000
Gains and losses arising from translating the monetary assets in foreign currency	75,000
Gains and losses arising from translating the financial statements of a foreign operation	65,000

Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	1,00,000
Income tax expense	35,000
Share based payments cost	3,35,000

[MTP-May-2021]

Ans.

Items impacting the Statement of Profit and Loss for the year ended 31st March, 20X1

(₹)

Current service cost	1,75,000
Gains and losses arising from translating the monetary assets in foreign currency	75,000
Income tax expense	35,000
Share based payments cost	3,35,000

Items impacting the other comprehensive income for the year ended 31st March, 20X1

(₹)

Remeasurement of defined benefit plans	2,57,000
Changes in revaluation surplus	1,25,000
Gains and losses arising from translating the financial statements of a foreign operation	65,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	1,00,000

AD 54. **MATERIALITY**

Entity A is having inventory amounting ₹ 100,000 in total with the details as below:

Spare parts	₹ 30,000
Finished goods	₹ 25,000
Work in progress	₹ 40,000
Tools	₹ 5,000
TOTAL	**₹ 1,00,000**

Materiality limit has been assessed ₹ 30,000 based on the management estimation pertaining to annual profit basis. What should be the presentation requirement under the "Materiality" criteria?

Ans.

Entity A has estimated its materiality limit of ₹ 30,000 which suggests that everything which is more than this amount will be required to present separately, subject to its nature (nature means the components of inventory in this example). Hence, Entity needs to show Inventory as below by way of notes to account–

Work in progress	₹ 40,000
Spare parts	₹ 30,000
Finished goods & tools	₹ 30,000
TOTAL	**₹ 1,00,000**

Since, Work in progress and Spare parts are more than materiality limits, hence, they have been shown separately based on its defined separate nature whereas finished goods & tools have amount lower than materiality limits and same has been clubbed together.

PE 55. CLASSIFICATION

Charm Limited (the 'Company') is a manufacturing company, which is into manufacturing of wires and cables and has assessed its operating cycle to be 15 months. The Company has some trade receivables which are receivable within a period of 12 months from the reporting date i.e. 31st March 2021.

With respect to the following transactions, which took place during the financial year 2020- 21, give your opinion based on relevant Ind AS:

- The Company has received a contract of ₹ 10 crores on 31st March 2021. The terms of the contract require the Company to make a security deposit of 20% of the contract value with the customer. The Company made a security deposit of ₹ 2 crores on 31st March 2021. This contract will be completed in about 14 months. 70% of the deposit will be refunded immediately and the balance 30% of the deposit will be refunded after 3 months from the completion of the contract. The Company wants to present the security deposit of ₹ 2 crores as non-current. Is the management's decision correct?
- The Company has some trade receivables that are due after 14 months from the date of the balance sheet; the management of the Company expects to receive the amount within the period of the operating cycle. Despite the fact that these are receivables in 14 months, the management would like to present these as current. Is the management's decision correct?
- In the normal course of business, the Company has given 2 contracts and received a total security deposit of ₹ 4 crores. ₹ 3 crores is received from X Limited and ₹ 1 crore is received from Y Limited on 31st March 2021. These are repayable on completion of the contract. However, if the contract is cancelled with the contract term of 18 months, then the deposit becomes payable immediately The Company is positive about the contract with X Limited but is in doubt about the contract received from Y Limited. The Company wants to present the amount of ₹ 3 crores as non-current and? ₹ 1crore as current in the balance sheet. Is the management's decision correct?
- The Company is planning to replace a machinery. It has given an advance of ₹ 1crores for purchase of new machinery which will be delivered in 6 months from the date of the balance sheet. It has sold the old machinery for ₹ 0.5 crores, the payment of which is due in 10 months from the date of the balance sheet. The Company wants to present both these amounts as current since they will be settled within twelve months from the end of the reporting period. Is the managements decision correct? **[July-2021]**

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Ans.

Operating cycle of Charm Limited = 15 months

(i) The security deposit made by the Company with the customers be classified as current assets to the extent of 70% (₹ 2 crore x 70% = ₹ 1.40 crore) as it will be refunded immediately on completion of 14 months of contract i.e. within the operating cycle of 15 months.

However, 30% of the security deposit will be refunded after 3 months of completion of the contract (14+3 = 17 months) i.e. after 2 months of operating cycle (Operating cycle of the Company is 15 months). Hence, it will be classified as non-current. Therefore, management's decision is not correct. (Refer Para 66 of Ind AS 1)

(ii) Yes, the Company's decision of presenting the trade receivables as Current Assets is correct despite the fact that these are receivables in 14 months' time since the operating cycle of the company is 15 months and any event arising due to trade will be considered as current if its settlement is within the tenure of operating cycle. Additionally, the Company also need to disclose amounts that are receivable within a period of 12 months and after 12 months from the reporting date. (Refer Para 60 and 61 of Ind AS 1)

(iii) Paragraph 69(d) of Ind AS 1 states that an entity shall classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Although it is expected that X Limited will fulfil the contract and the deposit will not be refunded, but in case of cancellation within the contract term, refund of security deposit is a condition that is not within the control of the entity. Hence, Charm Limited does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Accordingly, the deposit will have to be classified as current liability in case of both X and Y Limited.

(iv) Yes, the management decision to classify the payment of ₹ 0.5 crore as a current asset is correct since the payment will be realised in less than twelve months from the end of the reporting period.

Capital advances are advances given for procurement of Property, Plant and Equipment etc. Typically, companies do not expect to realize them in cash. Rather, over the period, these get converted into non-current assets. Hence, capital advances should be treated as other non-current assets irrespective of when the Property, Plant and Equipment is expected to be received.

Under Ind AS Schedule III, Capital Advances are not to be classified under Capital Work in Progress since they are specifically to be disclosed under other non-current assets.

Accordingly, advance of ₹ 1 crore given for purchase of machinery is 'Capital advance' which will be classified as non-current as it relates to acquisition of non-current item i.e., machinery. Hence, management decision to classify it as current is incorrect.

ROADMAP & APPLICABILITY

RT 56. **APPLICABILITY**

Fresh Vegetables Limited (FVL) was incorporated on 2nd April, 20X1 under the provisions of the Companies Act, 2013 to carry on the wholesale trading business in vegetables. As per the audited accounts of the financial year ended 31st March, 20X7 approved in its annual general meeting held on 31st August, 20X7 its net worth, for the first time since incorporation, exceeded ₹ 250 crore. The financial statements since inception till financial year ended 31st March, 20X6 were prepared in accordance with the Companies (Accounting Standards) Rules 2006. It has been advised that henceforth it should prepare its financial statements in accordance with the Companies (Indian Accounting Standards) Rules, 2015.

The following additional information is provided by the Company:

- VL has in the financial year 20X2-20X3 entered into a 60:40 partnership with Logistics Limited and incorporated a partnership firm 'Vegetable Logistics Associates' (VLA) to carry on the logistics business of vegetables from farm to market.
- FVL also has an associate company Social Welfare Limited (SWL) that was incorporated in July, 20X5 as a charitable organization and registered under section 8 of the Companies Act, 2013. Social Welfare Limited has been the associate company of FVL since its incorporation.

Examine the applicability of Ind AS on VLA & SWL. **[RTP-May-2022]**

Ans.

Applicability of Ind AS in general:

- Currently Ind AS is applicable to the following companies except for companies other than banks and Insurance Companies, on mandatory basis:
  - (a) All companies which are listed or in process of listing in or outside India on Stock Exchanges.
  - (b) Unlisted companies having net worth of ₹ 250 crore or more but less than ₹ 500 crore.
  - (c) Holding, Subsidiary, Associate and Joint venture of above.
- Companies listed on SME exchange are not required to apply Ind AS on mandatory basis.

- Once a company starts following Ind AS either voluntarily or mandatorily on the basis of criteria specified, it shall be required to follow Ind AS for all the subsequent financial statements even if any of the criteria specified does not subsequently apply to it.
- Application of Ind AS is for both standalone as well as consolidated financial statements if threshold criteria met or adopted voluntarily.
- Companies meeting the thresholds for the first time at the end of an accounting year shall apply Ind AS from the immediate next accounting year with comparatives.
- Companies not covered by the above roadmap shall continue to apply existing Accounting Standards notified in the Companies (Accounting Standards) Rules, 2006.

Since the net worth of FVL in immediately preceding year exceeded ₹ 250 crore, Ind AS is applicable to it. The entity VLA and SWL have to be examined as they may fall in criteria (c) above.

Applicability of Ind AS on VLA

Joint arrangement can be either joint operation or joint venture. However, for the purpose of identifying the applicability of Ind AS, the Act defines Joint venture (as an explanation to section 2(6) of the Companies Act, 2013), as follows:

“The expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement”.

Accordingly, if an entity is classified as joint operation and not joint venture, then Ind AS would not be applicable to such entity.

In the case of VLA, if partners conclude that they have rights in the assets and obligations for the liabilities relating to the partnership firm then this would be a joint operation. However, Ind AS would not be applicable on VLA in such a case since it is the case of joint operation (and not a joint venture).

Alternatively, if partners conclude that they have joint control of the arrangement and have rights to the net assets of the arrangement relating to the partnership firm, then this would be a joint venture. In such a case, Ind AS would be applicable to them.

Applicability of Ind AS on SWL

Social Welfare Limited (SWL) is the associate company of FVL. Accordingly, Ind AS would be applicable on SWL too irrespective of the fact that SWL has been incorporated as a charitable organisation.

COMPREHENSIVE

MT 57. **COMPRENSIVE**

Following are the Financial Statements of Abraham Ltd.:

Particulars	Note No.	As at 31 March, 2020 (₹ in lakh)
EQUITY AND LIABILITIES:		
Shareholders’ funds		
Share capital (shares of ₹ 10 each)		1,000
Reserves and surplus	1	2,400
Non-current liabilities		
Long term borrowings	2	5,700
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		300
Short-term provisions		300
Other current liabilities	4	200
Total		**10,300**

ASSETS		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	3	700
Current assets		
Inventories		1,500
Trade receivables	5	1,100
Cash and bank balances		2,000
Total		**10,300**

Statement of Profit & Loss

Particulars	**Note No.**	**Year ended 31 March 2020 (₹ in lakh)**
Revenue from operations		6,000
Expenses:		
Employee benefit expense		1,200
Operating costs		3,199
Depreciation		450
Total expenses		4,849
Profit before tax		1,151
Tax expense		201
Profit after tax		950

Notes to Accounts:

Note 1: Reserves and surplus **(₹ in lakh)**

Capital reserve		500
Surplus from P & L		
Opening balance	550	
Additions	950	1,500
Reserve for foreseeable loss		400
Total		**2,400**

Note 2: Long-term borrowings

Term loan from bank	5,700
Total	**5,700**

Note 3: Deferred tax

Deferred tax asset	700
Deferred tax liability	400
Total	**300**

Note 4: Other current liabilities

Unclaimed dividends	10
Billing in advance	150
Other current liabilities	40
Total	**200**

Note 5: Trade Receivables

Considered good (outstanding within 6 months)	1,065
Considered doubtful (due from past 1 year)	40
Provision for doubtful debts	(5)
Total	**1,100**

Additional information:

(i) Share capital comprises of 100 lakh shares of ₹ 10 each.

(ii) Term Loan from bank for ₹ 5,700 lakh also includes interest accrued and due of ₹ 700 lakh as on the reporting date.

(iii) Reserve for foreseeable loss is created against a service contract due within 6 months.

(iv) Inventory should be valued at cost ₹ 1,500 lakh, NRV as on date is ₹ 1,200 lakh.

(v) A dividend of 10% was declared (proposed) by the Board of directors of the company (after year end)

(vi) Accrued Interest income of ₹ 300 lakh is not booked in the books of the company.

(vii) Deferred taxes related to taxes on income are levied by the same governing tax laws.

Identify and report the errors and misstatements in the above extracts and prepare corrected Balance Sheet and Statement of Profit & Loss and where required the relevant notes to the accounts with explanations thereof. **[MTP-Nov-2020]**

Ans.

Following adjustments /rectifications are required to be done

1. Reserve for foreseeable loss for ₹ 400 lakh, due within 6 months, should be a part of provisions. Hence, it needs to be regrouped. If it was also part of previous year's comparatives, a note should be added in the notes to account on the regrouping done this year.
2. Interest accrued and due of ₹ 700 lakh on term loan will be a part of current liabilities. Thus, it should be shown under the heading "Other Current Liabilities".
3. As per Ind AS 2, inventories are measured at the lower of cost and net realisable value. The amount of any write down of inventories to net realisable value is recognised as an expense in the period the write-down occurs. Hence, the inventories should be valued at ₹ 1,200 lakh and write down of ₹ 300 lakh (₹ 1,500 lakh – ₹ 1,200 lakh) will be added to the operating cost of the entity.
4. In the absence of the declaration date of dividend in the question, it is presumed that the dividend is declared after the reporting date. Hence, no adjustment for the same is made in the financial year 2019-2020. However, a note will be given separately in this regard (not forming part of item of financial statements).
5. Accrued income will be shown in the Statement of Profit and Loss as 'Other Income' and as 'Other Current Asset' in the Balance Sheet.
6. Since the deferred tax liabilities and deferred tax assets relate to taxes on income levie d by the same governing taxation laws, these shall be set off, in accordance with Ind AS 12. The net DTA of ₹ 300 lakh will be shown in the balance sheet.
7. As per Division II of Schedule III to the Companies Act, 2013, the Statement of Profit and Loss should present the Earnings per Equity Share.
8. The presentation of the notes to 'Trade Receivables' will be modified as per the requirements of Division II of Schedule III.

Balance Sheet of Abraham Ltd. For the year ended 31 March 2020

	Note No.	*(₹ in lakh)*
ASSETS		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	1	300
Current assets		
Inventories		1,200
Financial assets		
Trade receivables	2	1,100
Cash and cash equivalents		2,000
Others financial asset (accrued interest)		300
TOTAL		**9,900**

EQUITY AND LIABILITIES		
Equity		
Equity share capital	3	1,000
Other equity	4	2,000
Non-current liabilities		
Financial liabilities		
Long-term borrowings	5	5,000
Current liabilities		
Financial liabilities		
Trade payables		300
Others	6	710
Short-term provisions (300 + 400)	7	700
Other current liabilities	8	190
TOTAL		9,900

Statement of Profit and Loss of Abraham Ltd.
For the year ended 31st March, 2020

	Note No.	(₹ in lakh)
Revenue from operations		6,000
Other income		300
Total income		6,300
Expenses		
Operating costs		3,199
Change in inventories cost	9	300
Employee benefits expense		1,200
Depreciation		450
Total expenses		5,149
Profit before tax		1,151
Tax expense		(201)
Profit for the period		950
Earnings per equity share		
Basic		9.5
Diluted		9.5
Number of equity shares (face value of ₹ 10 each)		100 lakh

Statement of Changes in Equity of Abraham Ltd.
For the year ended 31 March 2020

3. Equity Share Capital **(₹ in lakh)**

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
1,000	0	1,000

4. Other Equity **(₹ in lakh)**

Particulars	Reserves & Surplus		Total
	Capital reserve	Retained Earnings	
Balance at the beginning of the year Total comprehensive income for the year	500*	550 950	1,050 950
Balance at the end of the year	500	1,500	2,000

***Note:** Capital reserve given in the Note 1 of the question is assumed to be brought forward from the previous year. However, alternatively, if it may be assumed as created during the year.

1. Deferred Tax **(₹ in lakh)**

Deferred Tax Asset	700
Deferred Tax Liability	400
	300

2. Trade Receivables **(₹ in lakh)**

	0-6m	6m-12m	Total
Trade receivables considered good	1065	–	1,065
Trade receivables which have significant increase in credit risk	–	40	40
			1105
Less: Provision for doubtful debts			(5)
Total			**1,100**

5. Long Term Borrowings **(₹ in lakh)**

Term Loan from Bank (5,700 - 700)	5,000
Total	**5,000**

6. Other Financial Liabilities **(₹ in lakh)**

Unclaimed dividends	10
Interest on term loan	700
Total	**710**

7. Short-term provisions **(₹ in lakh)**

Provisions	300
Foreseeable loss against a service contract	400
Total	**700**

8. Other Current Liabilities **(₹ in lakh)**

Billing in Advance	150
Other	40
Total	**190**

9. Dividends not recognised at the end of the reporting period

At year end, the directors have recommended the payment of dividend of 10% ie ₹ 1 per equity share. This proposed dividend is subject to the approval of shareholders in the ensuing annual general meeting.

SM 58. PREPARATION OF FS [COMPREHENSIVE]

A Limited has prepared the following draft balance sheet as on 31st March 20X1:

	March 31, 20X1	March 31, 20X0
ASSETS		
Cash	250	170
Cash equivalents	70	30
Non-controlling interest's share of profit for the year	160	150
Dividend declared **and paid** by A Limited	90	70
Accounts receivable	2,300	1,800
Inventory at cost	1,500	1,650
Inventory at fair value less cost to complete and sell	180	130
Investment property	3,100	3,100
Property, plant and equipment (PPE) at cost	5,200	4,700
Total	**12,850**	**11,800**

CLAIMS AGAINST ASSETS		
Long term debt (₹ 500 crores due on 1stJanuary each year)	3,300	3,885
Interest accrued on long term debt (due in less than 12 months)	260	290
Share Capital	1,130	1,050
Retained earnings at the beginning of the year	1,875	1,740
Profit for the year	1,200	830
Non-controlling interest	830	540
Accumulated depreciation on PPE	1,610	1,240
Provision for doubtful receivables	200	65
Trade payables	880	790
Accrued expenses	15	30
Warranty provision (for 12 months from the date of sale)	600	445
Environmental restoration provision (restoration expected in 20X6)	765	640
Provision for accrued leave (due within 12 months)	35	25
Dividend payable	150	230
Total	**12,850**	**11,800**

Prepare a balance sheet using current and non-current classification in accordance with Ind AS 1. Assume operating cycle is 12 months. **[MTP-May-2022]**

Ans.

A Limited
Balance Sheet as at 31st March 20X1 **(₹ in crores)**

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Particulars		**March 3120X1**	**March 31 20X0**
ASSETS			
Non-current assets			
(a) Property, plant and equipment	1	3,590	3,460
(b) Investment property		3,100	3,100
Total non-current assets		**6,690**	**6,560**
Current assets			
(a) Inventory	2	1,680	1,780
(b) Financial assets			
(i) Trade and other receivables		2,100	1,735
(ii) Cash and cash equivalents	3	320	200
Total current assets	4	**4,100**	**3,715**
Total assets		**10,790**	**10,275**
EQUITY & LIABILITIES			
Equity attributable to owners of the parent			
Share capital		1,130	1,050
Other Equity	5	2,825	2,350
Non-controlling interests		**830**	**540**
Total equity		**4,785**	**3,940**
LIABILITIES			
Non-current liabilities			
(a) Financial Liabilities			
Borrowings - Long-term debt	6	2,800	3,385
(b) Provisions			
Long-term provisions (environmental restoration)		765	640
Total non-current liabilities		**3,565**	**4,025**

Current liabilities			
(a) Financial Liabilities			
(i) Trade and other payables	7	895	820
(ii) Current portion of long-term debt	8	500	500
(iii) Interest accrued on long-term debt		260	290
(iv) Dividend payable		150	230
(b) Provisions			
(i) Warranty provision		600	445
(ii) Other short-term provisions		35	25
Total current liabilities		**2,440**	**2,310**
Total liabilities		**6,005**	**6,335**
Total equity and liabilities		**10,790**	**10,275**

Working Notes:

Notes	Particulars	Basis	Calculation (₹ crores)	Amount (₹ crores)
1	Property, plant and equipment	Property, plant and equipment (PPE) at cost less Accumulated (depreciation on PPE	5,200 – 1,610 (4,700 – 1,240)	3,590 (3,460)
2	Inventory	Inventory at cost add Inventory at fair value less cost to complete and sell	1,500 + 180 (1,650 + 130)	1,680 (1,780)
3	Trade and other receivables	Accounts receivable less Provision for doubtful receivables	2,300 – 200 (1,800 – 65)	2,100 (1,735)
4	Cash and cash equivalents	Cash and Cash equivalents	250 + 70 (170 + 30)	320 (200)
5	Other Equity	Retained earnings at the beginning of the year add Profit for the year less Non-controlling interest's share of profit for the year less Dividend declared by A Limited	1,875 + 1,200– 160 – 90 (1,740 + 830 – 150 – 70)	2,825 (2,350)
6	Long-term debt	Long-term debt less Due on 1stJanuary each year	3,300 – 500 (3,885 – 500)	2,800 (3,385)
7	Trade & other payables	Trade payables add Accrued expenses	880 + 15 (790 + 30)	895 (820)
8	Current portion of long- term debt	Due on 1st January each year	- -	500 (500)

Note: Figures in brackets represent the figures for comparative year.

RT 59. **COMPREHENSIVE (ATTEMPT AFTER STUDYING ALL IND AS)**

Deepak started a new company Softbharti Pvt. Ltd. with Iktara Ltd. wherein investment of 55% is done by Iktara Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company formed was the subsidiary of Iktara Ltd. with two directors, and Deepak eventually becomes one of the directors of company. A consultant was hired and he charged ₹ 30,000 for the incorporation of company and to do other necessary statuary registrations. ₹ 30,000 is to be charged as an expense in the books after incorporation of company. The company, Softbharti Pvt. Ltd. was incorporated on 1st April 2019.

The financials of Iktara Ltd. are prepared as per Ind AS.

An accountant who was hired at the time of company's incorporation, has prepared the draft financials of Softbharti Pvt. Ltd. for the year ending 31st March, 2020 as follows:

Statement of Profit and Loss

Particulars	Amount (₹)
Revenue from operations	10,00,000
Other Income	1,00,000
Total Revenue (a)	**11,00,000**
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses (b)	**7,45,000**
Profit before tax (c) = (a)-(b)	**3,55,000**
Current tax	1,06,500
Deferred tax	6,000
Total tax expense (d)	**1,12,500**
Profit for the year (e) = (c) – (d)	**2,42,500**

Balance Sheet

Particulars	Amount (₹)
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	1,06,500
TOTAL	**5,21,000**
ASSETS	
(1) Non Current Assets	
(a) Property, plant and equipment (net)	1,00,000
(b) Long-term Loans and Advances	40,000
(c) Other Non Current Assets	50,000
(2) Current Assets	
(a) Current Investment	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	51,000
TOTAL	**5,21,000**

Additional information of Softbharti Pvt Ltd.:

- Deferred tax liability of ₹ 6,000 is created due to following temporary difference: Difference in depreciation amount as per Income tax and Accounting profit