

- There is only one property, plant and equipment in the company, whose closing balance as at 31st March, 2020 is as follows:

Asset description	As per Books	As per Income tax
Property, plant and equipment	₹ 1,00,000	₹ 80,000

- Pre incorporation expenses are deductible on straight line basis over the period of five years as per Income tax. However, the same are immediately expensed off in the books.
- Current tax is calculated at 30% on PBT - ₹ 3,55,000 without doing any adjustments related to Income tax. The correct current tax after doing necessary adjustments of allowances / disallowances related to Income tax comes to ₹ 1,25,700.
- After the reporting period, the directors have recommended dividend of ₹ 15,000 for the year ending 31st March, 2020 which has been deducted from reserves and surplus. Dividend payable of ₹ 15,000 has been grouped under 'other current liabilities' alongwith other financial liabilities.
- There are 'Government statutory dues' amounting to ₹ 15,000 which are grouped under 'other current liabilities'.
- The capital advances amounting to ₹ 50,000 are grouped under 'Other non-current assets'.
- Other current assets of ₹ 51,000 comprise Interest receivable from trade receivables.
- Current investment of ₹ 30,000 is in shares of a company which was done with the purpose of trading; current investment has been carried at cost in the financial statements. The fair value of current investment in this case is ₹ 50,000 as at 31st March, 2020.
- Actuarial gain on employee benefit measurements of ₹ 1,000 has been omitted in the financials of Softbharti private limited for the year ending 31st March, 2020.

The financial statements for financial year 2019-2020 have not been yet approved.

You are required to ascertain that whether the financial statements of Softbharti Pvt. Ltd. are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti Pvt. Ltd. after the careful analysis of mentioned facts and information.

[RTP-Nov-2020, MTP-Dec-2021]

Ans.

If Ind AS is applicable to any company, then Ind AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of set of standards on such companies.

In the given case it has been mentioned that the financials of Iktara Ltd. are prepared as per Ind AS. Accordingly the results of its subsidiary Softbharti Pvt. Ltd. should also have been prepared as per Ind AS. However, the financials of Softbharti Pvt. Ltd. have been presented as per accounting standards (AS). Hence, it is necessary to revise the financial statements of Softbharti Pvt. Ltd. as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

The revised financial statements of Softbharti Pvt. Ltd. as per Ind AS and Division II to Schedule III of the Companies Act, 2013 are as follows:

STATEMENT OF PROFIT AND LOSS
For the year ended 31st March, 2020

Particulars	Amount (₹)
Revenue from operations	10,00,000
Other Income (1,00,000 + 20,000) (refer note -1)	<u>1,20,000</u>
Total Revenue	<u>11,20,000</u>
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	<u>90,000</u>
Total Expenses	<u>7,45,000</u>

Profit before tax	3,75,000
Current tax	1,25,700
Deferred tax (W.N.1)	<u>4,800</u>
Total tax expense	<u>1,30,500</u>
Profit for the year (A)	2,44,500
OTHER COMPREHENSIVE INCOME	
Items that will not be reclassified to Profit or Loss :	
Remeasurements of net defined benefit plans	1,000
Tax liabilities relating to items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans (tax) [1000 x 30%]	<u>(300)</u>
Other Comprehensive Income for the period (B)	<u>700</u>
Total Comprehensive Income for the period (A+B)	<u>2,45,200</u>

BALANCE SHEET
as at 31st March, 2020

Particulars	(₹)
ASSETS	
Non-current assets	
Property, plant and equipment	
Financial assets	1,00,000
Other financial assets (Long-term loans and advances)	40,000
Other non-current assets (capital advances) (refer note -2)	50,000
Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -1)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable from trade receivables)	51,000
TOTAL ASSETS	5,41,000
EQUITY AND LIABILITIES	
Equity	
Equity share capital	1,00,000
Other equity	2,45,200
Non-current liabilities	
Provision (25,000 – 1,000)	24,000
Deferred tax liabilities (4800 + 300)	5,100
Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 5)	15,000
Other current liabilities (Govt. statutory dues) (Refer note 3)	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	5,41,000

STATEMENT OF CHANGES IN EQUITY
For the year ended 31st March, 2020

A. EQUITY SHARE CAPITAL

	Balance (₹)
As at 31st March, 2019	-
Changes in equity share capital during the year	<u>1,00,000</u>
As at 31st March, 2020	<u>1,00,000</u>

B. OTHER EQUITY

	Reserves & Surplus
	Retained Earnings (₹)
As at 31st March, 2019	-
Profit for the year	2,44,500
Other comprehensive income for the year	700
Total comprehensive income for the year	2,45,200
Less: Dividend on equity shares (refer note – 4)	<u>-</u>
As at 31st March, 2020	<u>2,45,200</u>

DISCLOSURE FORMING PART OF FINANCIAL STATEMENTS:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance Sheet date. (refer note -4)

Notes:

- Current investment are held for the purpose of trading. Hence, it is a financial asset classified as FVTPL. Any gain in its fair value will be recognised through profit or loss. Hence, ₹ 20,000 (50,000 – 30,000) increase in fair value of financial asset will be recognised in profit and loss. However, it will attract deferred tax liability on increased value (Refer W.N).
- Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
- Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.
- As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.
- Other current financial liabilities:

	(₹)
Balance of other current liabilities as per financial statements	45,000
Less: Dividend declared for FY 20 19 - 2020 (Note – 4)	(15,000)
Reclassification of government statutory dues payable to 'other current liabilities'	<u>(15,000)</u>
Closing balance	<u>15,000</u>

Working Note:

Calculation of deferred tax on temporary differences as per Ind AS 12 for financial year 2019 - 2020

Item	Carrying amount (₹)	Tax base (₹)	Difference (₹)	DTA / DTL @ 30% (₹)
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
Current Investment	50,000	30,000	20,000	6,000-DTL
			NET DTL	4,800 DTL

MT 60.



COMPREHENSIVE (ATTEMPT AFTER STUDYING ALL IND AS)

Master Creator Private Limited (a subsidiary of listed company) is an Indian company to whom Ind AS are applicable. Following draft balance sheet is prepared by the accountant for year ending 31st March 20X2.

Balance Sheet of Master Creator Private Limited as at 31st March, 20X2

Particulars	₹
ASSETS	
Non-current assets	
Property, plant and equipment	85,37,500
Financial assets	
Other financial assets (Security deposits)	4,62,500
Other non-current assets (capital advances)	17,33,480
Deferred tax assets	2,54,150
Current assets	
Trade receivables	7,25,000
Inventories	5,98,050
Financial assets	
Investments	55,000
Other financial assets	2,17,370
Cash and cash equivalents	1,16,950
TOTAL ASSETS	1,27,00,000
EQUITY AND LIABILITIES	
Equity share capital	10,00,000
Non-current liabilities	
Other Equity	25,00,150
Deferred tax liability	4,74,850
Borrowings	64,00,000
Long term provisions	5,24,436
Current liabilities	
Financial liabilities	
Other financial liabilities	2,00,564
Trade payables	6,69,180
Current tax liabilities	9,30,820
TOTAL EQUITY AND LIABILITIES	1,27,00,000

Additional Information:

- On 1st April 20X1, 8% convertible loan with a nominal value of ₹ 64,00,000 was issued by the entity. It is redeemable on 31st March 20X5 also at par. Alternatively, it may be converted into equity shares on the basis of 100 new shares for each ₹ 200 worth of loan.
An equivalent loan without the conversion option would have carried interest at 10%. Interest of ₹ 5,12,000 has already been paid and included as a finance cost.

Present Value (PV) rates are as follows:

Year End	@ 8%	@ 10%
1	0.93	0.91
2	0.86	0.83
3	0.79	0.75
4	0.73	0.68

2. After the reporting period, the board of directors have recommended dividend of ₹ 50,000 for the year ending 31st March, 20X1. However, the same has not been yet accounted by the company in its financials.

3. 'Other current financial liabilities' consists of the following:

Particulars	Amount (₹)
Wages payable	21,890
Salary payable	61,845
TDS payable	81,265
Interest accrued on trade payables	35,564

4. Property, Plant and Equipment consists following items:

Particulars	Amount (₹)	Remarks
Building	37,50,250	It is held for administration purposes
Land	15,48,150	It is held for capital appreciation
Vehicles	12,37,500	These are used as the conveyance for employees
Factory premises	20,01,600	The construction was started on 31st March 20X2 and consequently no depreciation has been charged on it. The construction activities will continue to happen, and it will take 2 years to complete and be available for use.

5. The composition of 'other current financial assets' is as follows:

Particulars	Amount (₹)
Interest accrued on bank deposits	57,720
Prepaid expenses	90,000
Royalty receivable from dealers	69,650

6. Current Investments consist of securities held for trading which are carried at fair value through profit & loss. Investments were purchased on 1st January, 20X2 at ₹ 55,000 and accordingly are shown at cost as at 31st March 20X2. The fair value of said investments as on 31st March 20X2 is ₹ 60,000.
7. Trade payables and Trade receivables are due within 12 months.
8. There has been no changes in equity share capital during the year.
9. Entity has the intention to set off a deferred tax asset against a deferred tax liability as they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off taxes.
10. Other Equity consists retained earnings only. The opening balance of retained earnings was ₹ 21,25,975 as at 1st April 20X1.
11. No dividend has been actually paid by company during the year.
12. Assume that the deferred tax impact, if any on account of above adjustments is correctly calculated in financials.

Being Finance & Accounts manager, you are required to identify the errors and misstatements if any in the balance sheet of Master Creator Private Limited and prepare corrected balance sheet with details on the face of the balance sheet i.e. no need to prepare notes to accounts, after considering the additional information. Provide necessary explanations/workings for the treated items, wherever necessary.

[MTP-May-2021]

Ans.

Balance Sheet of Master Creator Private Limited as at 31st March, 20X2

Particulars	Working/ Note reference	(₹)
ASSETS		
Non-current assets		
Property, plant and equipment	1	49,87,750
Capital work-in-progress	2	20,01,600
Investment Property	3	15,48,150
Financial assets		
Other financial assets (Security deposits)		4,62,500
Other non-current assets (capital advances)	4	17,33,480
Current assets		
Inventories		
Financial assets		5,98,050
Investments (55,000 + 5,000)	5	60,000
Trade receivables	6	7,25,000
Cash and cash equivalents	7	1,16,950
Other financial assets	8	1,27,370
Other current assets (Prepaid expenses)	8	90,000
TOTAL ASSETS		1,24,50,850
EQUITY AND LIABILITIES		
Equity		
Equity share capital	A	10,00,000
Other equity	B	28,44,606
Non-current liabilities		
Financial liabilities		
8% Convertible loan	11	60,60,544
Long term provisions		5,24,436
Deferred tax liability	12	2,20,700
Current liabilities		
Financial liabilities		
Trade payables	13	6,69,180
Other financial liabilities	14	1,19,299
Other current liabilities (TDS payable)	15	81,265
Current tax liabilities		9,30,820
TOTAL EQUITY AND LIABILITIES		1,24,50,850

Statement of changes in equity
For the year ended 31st March, 20X2

i. Equity Share Capital

	Balance (Rs.)
As at 31st March, 20X1	10,00,000
Changes in equity share capital during the year	—
As at 31st March, 20X2	<u>10,00,000</u>

ii. Other Equity

	Retained Earnings (₹)	Equity component of Compound Financial Instrument (₹)	Total (₹)
As at 31st March, 20X1	21,25,975	-	21,25,975
Total comprehensive income for the year (25,00,150 + 5,000 - 85,504 - 21,25,975)	2,93,671	-	2,93,671
Issue of compound financial instrument during the year	—	<u>4,24,960</u>	<u>4,24,960</u>
As at 31st March, 20X2	<u>24,19,646</u>	<u>4,24,960</u>	<u>28,44,606</u>

Disclosure forming part of Financial Statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance Sheet date. (Note 9)

Notes/ Workings: (for adjustments/ explanations)

- a. 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. Therefore, the items of PPE are Buildings (₹ 37,50,250) and Vehicles (₹ 12,37,500), since those assets are held for administrative purposes.
- b. Property, plant and equipment which are not ready for intended use as on the date of Balance Sheet are disclosed as "Capital work-in-progress". It would be classified from PPE to Capital work-in-progress.
- c. 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.

Therefore, Land held for capital appreciation should be classified as Investment property rather than PPE.
- d. Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
- e. Current investments here are held for the purpose of trading. Hence, it is a financial asset classified as FVTPL. Any gain in its fair value will be recognised through profit or loss. Hence, ₹ 5,000 (60,000 – 55,000) increase in fair value of financial asset will be recognised in profit and loss.

- f. A contractual right to receive cash or another financial asset from another entity is a financial asset. Trade receivables is a financial asset in this case and hence should be reclassified.
- g. Cash is a financial asset. Hence it should be reclassified.
- h. Other current financial assets:

Particulars	Amount (₹)
Interest accrued on bank deposits	57,720
Royalty receivable from dealers	69,650
Total	1,27,370

Prepaid expenses does not result into receipt of any cash or financial asset. However, it results into future goods or services. Hence, it is not a financial asset.

- i. As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1 , Presentation of Financial Statements.
- j. 'Other Equity' cannot be shown under 'Non-current liabilities'. Accordingly, it is reclassified under 'Equity'.
- k. There are both 'equity' and 'debt' features in the instrument. An obligation to pay cash i.e. interest at 8% per annum and a redemption amount will be treated as 'financial liability' while option to convert the loan into equity shares is the equity element in the instrument. Therefore, convertible loan is a compound financial instrument.

Calculation of debt and equity component and amount to be recognised in the books:

S. No	Year	Interest amount @8%	Discounting factor @ 10%	Amount
Year 1	20X2	5,12,000	0.91	4,65,920
Year 2	20X3	5,12,000	0.83	4,24,960
Year 3	20X4	5,12,000	0.75	3,84,000
Year 4	20X5	69,12,000	0.68	<u>47,00,160</u>
Amount to be recognised as a liability				59,75,040
Initial proceeds				<u>(64,00,000)</u>
Amount to be recognised as equity				<u>4,24,960</u>

* In year 4, the loan note will be redeemed; therefore, the cash outflow would be ₹ 69,12,000 (₹ 64,00,000 + ₹ 5,12,000).

Presentation in the Financial Statements:

In Statement of Profit and Loss for the year ended on 31 March 20 X2

Finance cost to be recognised in the Statement of Profit and Loss (59,75,040 x 10%)	₹ 5,97,504
Less: Already charged to the Statement of Profit and Loss	<u>(₹ 5,12,000)</u>
Additional finance charge required to be recognised in the Statement of Profit and Loss	<u>₹ 85,504</u>

In Balance Sheet as at 31 March 20X2

Equity and Liabilities	
Equity	
Other Equity (8% convertible loan)	4,24,960
Non-current liability	
Financial liability [8% convertible loan – [(59,75,040 + 5,97,504 – 5,12,000)]]	60,60,544

- l. Since entity has the intention to set off deferred tax asset against deferred tax liability and the entity has a legally enforceable right to set off taxes, hence their balance on net basis should be shown as:

Particulars	Amount (₹)
Deferred tax liability	4,74,850
Deferred tax asset	(2,54,150)
Deferred tax liability (net)	2,20,700

- m. A liability that is a contractual obligation to deliver cash or another financial asset to another entity is a financial liability. Trade payables is a financial liability in this case.

- n. 'Other current financial liabilities':

Particulars	Amount (₹)
Wages payable	21,890
Salary payable	61,845
Interest accrued on trade payables	35,564
Total	1,19,299

- o. Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities. Hence, TDS payable should be reclassified from 'Other current financial liabilities' to 'Other current liabilities' since it is not a contractual obligation.

NOTES

**CHAPTER
2**

**IND AS ON PRESENTATION OF ITEMS IN THE
FINANCIAL STATEMENTS**

**UNIT
2**

**Ind AS 34
INTERIM FINANCIAL REPORTING**

Measurement

SM 1.

MEASUREMENT



ABC Limited manufactures automobile parts. ABC Limited has shown a net profit of ₹ 20,00,000 for the third quarter of 20X1.

Following adjustments are made while computing the net profit:

- (i) Bad debts of ₹ 1,00,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.
- (ii) Additional depreciation of ₹ 4,50,000 resulting from the change in the method of depreciation.
- (iii) Exceptional loss of ₹ 28,000 incurred during the third quarter. 50% of exceptional loss have been deferred to next quarter.
- (iv) ₹ 5,00,000 expenditure on account of administrative expenses pertaining to the third quarter is deferred on the argument that the fourth quarter will have more sales; therefore fourth quarter should be debited by higher expenditure. The expenditures are uniform throughout all quarters.

Ascertain the correct net profit to be shown in the Interim Financial Report of third quarter to be presented to the Board of Directors. [MTP-May-2021]

Ans.

In the instant case, the quarterly net profit has not been correctly stated. As per Ind AS 34, Interim Financial Reporting, the quarterly net profit should be adjusted and restated as follows:

- (i) The treatment of bad debts is not correct as the expenses incurred during an inter reporting period should be recognised in the same period. Accordingly, ₹ 50,000 should be deducted from ₹ 20,00,000.
- (ii) Recognising additional depreciation of ₹ 4,50,000 in the same quarter is correct and is in tune with Ind AS 34.
- (iii) Treatment of exceptional loss is not as per the principles of Ind AS 34, as the entire amount of ₹ 28,000 incurred during the third quarter should be recognized in the same quarter. Hence ₹ 14,000 which was deferred should be deducted from the profits of third quarter only.
- (iv) As per Ind AS 34 the income and expense should be recognised when they are earned and incurred respectively. As per para 39 of Ind AS 34, the costs should be anticipated or deferred only when:
 - (i) it is appropriate to anticipate or defer that type of cost at the end of the financial year, and
 - (ii) costs are incurred unevenly during the financial year of an enterprise.
 Therefore, the treatment done relating to deferment of ₹ 5,00,000 is not correct as expenditures are uniform throughout all quarters.

Thus considering the above, the correct net profits to be shown in Interim Financial Report of the third quarter shall be ₹ 14,36,000 (₹ 20,00,000 - ₹ 50,000 - ₹ 14,000 - ₹ 5,00,000).

SM 2.

MEASUREMENT



Innovative Corporation Private Limited (or "ICPL") is dealing in seasonal product and the sales pattern of the product, quarter wise is as under during the financial year 20X1-20X2:

Qtr. I ending 30 June 10%	Qtr. II ending 30 September 10%	Qtr. III ending 31 December 60%	Qtr. IV ending 31 March 20%
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For the first quarter ending on 30 June, 20X1, ICPL has provided the following information :

Particulars	Amounts (in crore)
Sales	70
Employees benefits expenses	25
Administrative and other expenses	12
Finance cost	4

ICPL while preparing interim financial report for first quarter wants to defer ₹ 16 crores expenditure to third quarter on the argument that third quarter is having more sales therefore third quarter should be debited by more expenditure. Considering the seasonal nature of business and that the expenditures are uniform throughout all quarters

Calculate the result of first quarter as per Ind AS 34 and comment on the company's view.

Ans.

Result of the first quarter ending 30 June

Particulars	Amounts (in crore)
Sales	70
Total Revenue (A)	70
Less: Employees benefits expenses	(25)
Administrative and other expenses	(12)
Finance cost	(4)
Total Expense (B)	(41)
Profit (A-B)	29

Note- As per Ind AS 34, the income and expense should be recognized when they are earned and incurred respectively. Seasonal incomes will be recognized when they occur. Therefore, the argument of ICPL is not correct considering the principles of Ind AS 34.

SM 3.

MEASUREMENT - OVERHEADS ALLOCATION (Change in Estimate)

Fixed production overheads for the financial year is ₹ 10,000. Normal expected production for the year, after considering planned maintenance and normal breakdown, also considering the future demand of the product is 2,000 MT. It is considered that there are no quarterly / seasonal variations. Therefore, the normal expected production for each quarter is 500 MT and the fixed production overheads for the quarter are ₹ 2,500.

Actual production achieved	Quantity (In MT)
First quarter	400
Second quarter	600
Third quarter	500
Fourth quarter	400
Total	1,900

Presuming that there are no quarterly / seasonal variation, calculate the allocation of fixed production overheads for all the four quarters as per Ind AS 34 read with Ind AS 2.

Ans.

If it is considered that there is no quarterly / seasonal variation, therefore normal expected production for each quarter is 500 MT and fixed production overheads for the quarter are ₹ 2,500 .

Fixed production overhead to be allocated per unit of production in every quarter will be ₹ 5 per MT (Fixed overheads / Normal production).

Quarters	Quarters
First Quarter	<ul style="list-style-type: none"> Actual fixed production overheads = ₹ 2,500 Fixed production overheads based on the allocation rate of ₹ 5 per unit

	<p>allocated to actual production = ₹ 5 x 400 = ₹ 2,000</p> <ul style="list-style-type: none"> Unallocated fixed production overheads to be charged as expense as per Ind AS 2 and consequently as per Ind AS 34 = ₹ 500
Second Quarter	<ul style="list-style-type: none"> Actual fixed production overheads on year-to-date basis = ₹ 5,000 Fixed production overheads to be absorbed on year -to-date basis = 1,000 x ₹ 5 = ₹ 5,000 Earlier, ₹ 500 was not allocated to production in the 1st quarter. To give effect to the entire ₹ 5,000 to be allocated in the second quarter, as per Ind AS 34, ₹ 500 are reversed by way of a credit to the statement of profit and loss of the 2nd quarter.
Third Quarter	<ul style="list-style-type: none"> Actual production overheads on year-to-date basis = ₹ 7,500 Fixed production overheads to be allocated on year -to-date basis = 1,500 x 5 = ₹ 7,500 There is no under or over recovery of allocated overheads. Hence, no further action is required.
Fourth Quarter	<ul style="list-style-type: none"> Actual fixed production overheads on year-to-date basis = ₹ 10,000 Fixed production overheads to be allocated on year-to-date basis 1,900 x 5 = ₹ 9,500 ₹ 500, i.e., [₹ 2,500 – (₹ 5 x 400)] unallocated fixed production overheads in the 4th quarter, are to be expensed off as per the principles of Ind AS 2 and Ind AS 34 by way of a charge to the statement of profit and loss. Unallocated production overheads for the year ₹ 500 (i.e ₹ 10,000 – ₹ 9,500) are expensed in the Statement of profit and loss as per Ind AS 2.

The cumulative result of all the quarters would also result in unallocated overheads of ₹ 500, thus, meeting the requirements of Ind AS 34 that the quarterly results should not affect the measurement of the annual results.

PE 4.

CHANGE IN ESTIMATE : OVERHEAD ALLOCATION



Heavy Limited has a plant with normal capacity to produce 90,000 units of a product per annum and expected fixed production overhead for the year is ₹ 18,00,000. There are no quarterly/seasonal variations. Hence, normal expected production of each quarter is uniform. The actual production of the year is 87,000 Units. The production details of each quarter are as under:

- Quarter I : 20,000 units
- Quarter II : 24,000 units
- Quarter III : 23,500 units
- Quarter IV : 19,500 units

Calculate the allocation of fixed production overhead for all the four quarters. Will the quarterly results affect annual result?

Given your answer as per Ind AS 34 read with Ind AS 2.

[July-2021]

Ans.

Since it is considered that there is no quarterly / seasonal variation, then normal expected production for each quarter is 22,500 units (90,000 units / 4 quarters) and fixed production overheads for the quarter are ₹ 4,50,000 (₹ 18,00,000 / 4 quarters).

Fixed production overhead to be allocated per unit of production in every quarter will be ₹ 20 per unit. (Fixed overheads / Normal production i.e. ₹ 4,50,000 / 22,500 units)

Particulars	Quarters			
	I	II	III	IV
Actual fixed production overheads on year to date basis (₹)	4,50,000	9,00,000	13,50,000	18,00,000
Actual production (Units)	20,000	24,000	23,500	19,500
Actual production year to date basis (Units)	20,000	44,000	67,500	87,000
Fixed overheads to be absorbed on year to date basis (₹)	4,00,000	8,80,000	13,50,000	17,40,000
Under recovery year to date (₹)	50,000	20,000	NIL	60,000

Quarter I:

Unallocated fixed production overheads ₹ 50,000 (i.e. ₹ 4,50,000 – ₹ 4,00,000) to be charged as expense as per Ind AS 2 and consequently as per Ind AS 34 .

Quarter II:

Since production increased in second quarter by 1,500 units (24,000 – 22,500) i.e. more than the normal expected production, hence ₹ 30,000 (1,500 units x ₹ 20 per unit) will be reversed by way of a credit to the statement of profit and loss of the 2 nd quarter and debit to cost of production / inventory cost.

Quarter III:

Earlier, ₹ 50,000 was not allocated to production / inventory cost in the 1 st quarter. Out of it, ₹ 30,000 was reversed in the 2nd quarter. To allocate entire ₹ 13,50,000 till third quarter to the production, as per Ind AS 34, remaining ₹ 20,000 (₹ 50,000 – ₹ 30,000) will be reversed by way of a credit to the statement of profit and loss of the 3 rd quarter and debit to the cost of production / inventory cost.

Quarter IV:

Unallocated fixed production overheads ₹ 60,000 {i.e. ₹ 4,50,000 – (₹ 20 x 19,500)} in the 4th quarter will be expensed off as per the principles of Ind AS 2 and Ind AS 34 by way of a charge to the statement of profit and loss.

For the year:

The cumulative result of all the quarters would also result in unallocated overheads of ₹ 60,000, thus, meeting the requirements of Ind AS 34 that the quarterly results should not affect the measurement of the annual result.

Income Taxes

RT 5.**INCOME TAXES - DIFFERENT ACCOUNTING YEAR**

An entity's accounting year ends is 31st December, but its tax year end is 31st March. The entity publishes an interim financial report for each quarter of the year ended 31st December, 2019. The entity's profit before tax is steady at ₹10,000 each quarter, and the estimated effective tax rate is 25% for the year ended 31st March, 2019 and 30% for the year ended 31st March, 2020.

How the related tax charge would be calculated for the year 2019 and its quarters. [SM, RTP-Nov-2020]

Ans.**Table showing computation of tax charge:**

	Quarter ending 31st March, 2019 ₹	Quarter ending 30th June, 2019 ₹	Quarter ending 30th September, 2019 ₹	Quarter ending 31st December, 2019 ₹	Year ending 31st December, 2019 ₹
Profit before tax	10,000	10,000	10,000	10,000	40,000
Tax charge	(2,500)	(3,000)	(3,000)	(3,000)	(11,500)
	7,500	7,000	7,000	7,000	28,500

Since an entity's accounting year is not same as the tax year, more than one tax rate might apply during the accounting year. Accordingly, the entity should apply the effective tax rate for each interim period to the pre-tax result for that period.

PE 6.

INCOME TAXES - SLAB RATES (Tax computation for Interim FS)

Lal Ltd. provides you the following information for financial year 2019 – 20:

Estimated Income for the year ended March 31, 2020 :



Gross Annual Income (inclusive of Estimated Capital Gains of 4,00,000)	₹ 16,50,000
Quarter I	₹ 3,50,000
Quarter II	₹ 4,00,000
Quarter III (including Estimated Capital Gains of ₹ 4,00,00)	₹ 6,00,000
Quarter IV	₹ 3,00,000

Tax Rates	On Other Income	First ₹ 2,50,000	20%
		Balance Income	30%
	On Capital Gains		12%

Calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income. **[Nov-2020]**

Ans.

As per Ind AS 34 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

If different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries) to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income

	₹
Estimated annual income exclusive of estimated capital gain (16,50,000 – 4,00,000) (A)	<u>12,50,000</u>
Tax expense on other income: 20% on ₹ 2,50,000	50,000
30% on remaining ₹ 10,00,000 (B)	<u>3,00,000</u>
Weighted average annual income tax rate = $\frac{B}{A} = \frac{3,50,000}{12,50,000} = 28\%$	<u>3,50,000</u>

Tax expense to be recognised in each of the quarterly reports :

	₹	₹
Quarter I - ₹ 3,50,000 x 28%		98,000
Quarter II - ₹ 4,00,000 x 28%		1,12,000
Quarter III - ₹ (6,00,000 - 4,00,000) x 28%	56,000	
₹ 4,00,000 x 12%	<u>48,000</u>	1,04,000
Quarter IV - ₹ 3,00,000 x 28%		<u>84,000</u>
		<u>3,98,000</u>

SM 7.

INCOME TAXES - ANTICIPATED LOSSES

An entity reports quarterly, earns ₹ 1,50,000 pre-tax profit in the first quarter but expects to incur losses of ₹ 50,000 in each of the three remaining quarters. The entity operates in a jurisdiction in which its estimated average annual income tax rate is 30%. The management believes that since the entity has zero income for the year, its income-tax expense for the year will be zero. State whether the management's views are correct or not? If not, then calculate the tax expense for each quarter as well as for the year as per Ind AS 34.



Ans.

As illustrated in para 30 (c) of Ind AS 34 'Interim financial reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Accordingly, the management's contention that since the net income for the year will be zero no income tax expense shall be charged quarterly in the interim financial report, is not correct. Since the effective tax rate or average annual income tax rate is already given in the question as 30%, the income tax expense will be recognised in each interim quarter based on this rate only. The following table shows the correct income tax expense to be reported each quarter in accordance with Ind AS 34:

Period	Pre-tax earnings (in ₹)	Effective tax rate	Tax expense (in ₹)
First Quarter	1,50,000	30%	45,000
Second Quarter	(50,000)	30%	(15,000)
Third Quarter	(50,000)	30%	(15,000)
Fourth Quarter	(50,000)	30%	(15,000)
Annual	0		0

SM 8.

INCOME TAXES - CARRIED FORWARD LOSSES



ABC Ltd. presents interim financial report quarterly. On 1.4.20X1, ABC Ltd. has carried forward loss of ₹ 600 lakhs for income-tax purpose for which deferred tax asset has not been recognized. ABC Ltd. earns ₹ 900 lakhs in each quarter ending on 30.6.20X1, 30.9.20X1, 31.12.20X1 and 31.3.20X2 excluding the carried forward loss. Income-tax rate is expected to be 40%. Calculate the amount of tax expense to be reported in each quarter.

Ans.

Amount of income tax expense reported in each quarter would be as below:

The estimated payment of the annual tax on earnings for the current year:

₹ 3,000* x 40 / 100 = ₹ 1,200 lakhs.

*(3,600 lakhs - ₹ 600 lakhs) = ₹ 3,000 lakhs

Average annual effective tax rate = $(1,200 / 3,600) \times 100 = 33.33\%$

Tax expense to be shown in each quarter = $900 \times 33.33\% = ₹ 300$ lakhs

SM 9.

INCOME TAXES - SLAB RATES & ANTICIPATED LOSSES



Company A has reported ₹ 60,000 as pre tax profit in first quarter and expects a loss of ₹ 15,000 each in the subsequent quarters. It has a corporate tax slab of 20 percent on the first ₹ 20,000 of annual earnings and 40 per cent on all additional earnings. Calculate the amount of tax to be shown in each quarter.

[MTP-May-2022]

Ans.

Amount of income tax expense reported in each quarter would be as below:

Expected total Income = ₹ 15,000 [60,000- (15,000 x 3)]

Expected tax as per slabs = $15,000 \times 20\% = ₹ 3,000$

Average Annual Income tax rate = $3,000/15,000 = 20\%$

	Q1	Q2	Q3	Q4
Profit before tax	60,000	(15,000)	(15,000)	(15,000)
Tax expense	12,000	(3,000)	(3,000)	(3,000)

ADDITIONAL PRACTICE QUESTIONS

SM 10.

MEASUREMENT



Due to decline in market price in second quarter, Happy India Ltd. incurred an inventory loss. The Market price is expected to return to previous levels by the end of the year. At the end of year, the decline had not reversed. When should the loss be reported in interim statement of profit and loss of Happy India Ltd.?

Ans.

Loss should be recognised in the second quarter of the year.

SM 11. INCOME TAXES - SLAB RATES

Company A expects to earn ₹ 15,000 pre-tax profit each quarter and has a corporate tax slab of 20 percent on the first ₹ 20,000 of annual earnings and 40 per cent on all additional earnings. Actual earnings match expectations. Calculate the amount of income tax to be shown in each quarter.

Ans.



The following table shows the amount of income tax expense that is reported in each quarter:

Expected Total Income = 15,000 × 4 = ₹ 60,000

Expected Tax as per slabs = 20,000 × 20% + 40,000 × 40% = ₹ 20,000

Average Annual Income tax rate = 20,000/60,000 × 100 = 33.33%

	Amt (₹)			
	Q1	Q2	Q3	Q4
Profit before tax	15,000	15,000	15,000	15,000
Tax expense	5,000	5,000	5,000	5,000

SM 12. INCOME TAXES - SLAB RATES



Narayan Ltd. provides you the following information and asks you to calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income:

Estimated Gross Annual Income 33,00,000

(inclusive of Estimated Capital Gains of ₹ 8,00,000)

Estimated Income of Quarter I is ₹ 7,00,000, Quarter II is ₹ 8,00,000, Quarter III (including Estimated Capital Gains of ₹ 8,00,000) is ₹ 12,00,000 and Quarter IV is ₹ 6,00,000.

Tax Rates: On Capital Gains 12%
On Other Income: First ₹ 5,00,000 30%
Balance Income 40%

[MTP-Dec-2021]

Ans.

As per para 29 of AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

If different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries) to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income.

	₹
Estimated annual income exclusive of estimated capital gain (33,00,000 – 8,00,000) (A)	<u>25,00,000</u>
Tax expense on other income: 30% on ₹ 5,00,000	1,50,000
40% on remaining ₹ 20,00,000 (B)	<u>8,00,000</u>
	<u>9,50,000</u>
Weighted average annual income tax rate = $\frac{B}{A} = \frac{9,50,000}{25,00,000} = 30\%$	

Tax expense to be recognised in each of the quarterly reports

	₹
Quarter I – ₹ 7,00,000 × 38%	2,66,000
Quarter II – ₹ 8,00,000 × 38%	3,04,000

Quarter III – ₹ (12,00,000 - 8,00,000) × 38%	1,52,000	
₹ 8,00,000 × 12%	<u>96,000</u>	2,48,000
Quarter IV – ₹ 6,00,000 × 38%		<u>2,28,000</u>
		<u>10,46,000</u>

PE 13.

Pharma Ltd. manufactures surgical items. Pharma Ltd. has shown a net profit of ₹ 50,00,000 for the second quarter of 2020-2021.



Following adjustments are made while computing the net profit:

- (i) Bad debts of ₹ 2,60,000 incurred during the quarter. 40% of the bad debts have been deferred to the next quarter.
- (ii) Additional depreciation of ₹ 5,20,000 resulting from the change in the method of depreciation.
- (iii) Exceptional loss of ₹ 8,16,000 incurred during the second quarter. 60% of exceptional loss has been deferred to next quarter.
- (iv) ₹ 4,70,000 expenditure on account of sales expenses pertaining to the second quarter is deferred on the argument that the third quarter will have more sales, therefore, third quarter should be debited by higher expenditure. The expenditures are uniform throughout all quarters.

Analyse and ascertain the correct net profit to be shown in the interim financial results of the second quarter to be presented to the Board of Directors as per Ind AS 34. **[Dec-2021]**

Ans.

The quarterly net profit has not been correctly stated. As per Ind AS 34, Interim Financial Reporting, the quarterly net profit should be adjusted and restated as follows:

- (i) The treatment of bad debts is not correct as the expenses incurred during an interim reporting period should be recognised in the same period. Accordingly, ₹ 1,04,000 (₹ 2,60,000 × 40%) should be deducted from ₹ 50,00,000 in the second quarter itself.
- (ii) Recognising additional depreciation of ₹ 5,20,000 in the same quarter is correct and is in tune with Ind AS 34.
- (iii) Treatment of exceptional loss is not as per the principles of Ind AS 34, as the entire amount of ₹ 8,16,000 incurred during the second quarter should be recognized in the same quarter. Hence ₹ 4,89,600 (ie. ₹ 8,16,000 × 60%) which was deferred for next quarter should be deducted from the profits of second quarter only.
- (iv)
 - (a) As per Ind AS 34 the income and expense should be recognised when they are earned and incurred respectively. As per para 39 of Ind AS 34, the costs should be anticipated or deferred only when it is appropriate to anticipate or defer that type of cost at the end of the financial year; and
 - (b) Costs are incurred unevenly during the financial year of an enterprise.

Therefore, the treatment done relating to deferment of ₹ 4,70,000 is not correct as expenditures are uniform throughout all quarters.

Thus, considering the above, the correct net profits to be shown in Interim Financial Report of the second quarter shall be

		₹
Net Profit of second quarter		50,00,000
Adjustments		
Less: Bad debts wrongly deferred to third quarter	1,04,000	
Exceptional loss wrongly deferred to third quarter	4,89,600	
Sales expenses wrongly deferred to third quarter	<u>4,70,000</u>	<u>(10,63,600)</u>
Revised Profit		<u>39,36,400</u>

RT 14.

PQR Ltd. is preparing its interim financial statements for quarter 3 of the year. How the following transactions and events should be dealt with while preparing its interim financials:

- (i) It makes employer contributions to government-sponsored insurance funds that are assessed on an annual basis. During Quarter 1 and Quarter 2 larger amount of payments for this contribution

were made, while during the Quarter 3 minor payments were made (since contribution is made upto a certain maximum level of earnings per employee and hence for higher income employees, the maximum income reaches before year end).

- (ii) The entity intends to incur major repair and renovation expense for the office building. For this purpose, it has started seeking quotations from vendors. It also has tentatively identified a vendor and expected costs that will be incurred for this work.
- (iii) The company has a practice of declaring bonus of 10% of its annual operating profits every year. It has a history of doing so. **[RTP-Nov-2022]**

Ans.

Paragraph 28 of Ind AS 34, Interim Financial Reporting states that an entity shall apply the same accounting recognition and measurement principles in its interim financial statements as are applied in its annual financial statements.

Further, paragraphs 32 and 33 of Ind AS 34, Interim Financial Reporting state that for assets, the same tests of future economic benefits apply at interim dates and at the end of an entity's financial year. Costs that, by their nature, would not qualify as assets at financial year-end would not qualify at interim dates either. Similarly, a liability at the end of an interim reporting period must represent an existing obligation at that date, just as it must at the end of an annual reporting period.

An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised otherwise not. The Conceptual Framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

Considering the above guidance, while preparing its interim financials, the transactions and events of the given case should be dealt with as follows:

- (i) If employer contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised using an estimated average annual effective contribution rate in its interim financial statements, even though a large portion of the payments have been made early in the financial year. Accordingly, it should work out an average effective contribution rate and account for the same accordingly, in its interim financials.
- (ii) The cost of a planned overhaul expenditure that is expected to occur in later part of the year is not anticipated for interim reporting purposes unless an event has caused the entity to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.
- (iii) A bonus is anticipated for interim reporting purposes, if and only if,
 - (a) the bonus is a legal obligation or past practice would make the bonus a constructive obligation for which the entity has no realistic alternative but to make the payments, and
 - (b) a reliable estimate of the obligation can be made. Ind AS 19, Employee Benefits provides guidance in this regard.

A liability for bonus may arise out of legal agreement or constructive obligation because of which it has no alternative but to pay the bonus and accordingly, needs to be accrued in the annual financial statements.

Bonus liability is accrued in interim financial statements on the same basis as they are accrued for annual financial statements. In the instant case, bonus liability of 10% of operating profit for the year to date may be accrued.

In the given case, since the company has past record of declaring annual bonus every year, the same may be accrued using a reasonable estimate (applying the principles of Ind AS 19, Employee Benefits) while preparing its interim results.

**CHAPTER
2**
**IND AS ON PRESENTATION OF ITEMS IN THE
FINANCIAL STATEMENTS**
**UNIT
3**
**Ind AS 7
STATEMENT OF CASH FLOWS**
SM 1. CASH AND CASH EQUIVALENTS


Company has provided the following information regarding the various assets held by company on 31st March 2017. Find out, which of the following items will be part of cash and cash equivalents for the purpose of preparation of cash flow statement as per the guidance provided in Ind AS 7:

Sr. No.	Name of the Security	Additional Information
1	Government Bonds	5%, open ended, main purpose was to park the excess funds for temporary period
2	Fixed deposit with SBI	12%, 3 years maturity on 1st Jan 2020
3	Fixed deposit with HDFC	10%, original term was for 2 years, but due for maturity on 30.06.2017
4	Redeemable Preference shares in ABC ltd	The redemption is due on 30th April 2017
5	Cash balances at various banks	All branches of all banks in India
6	Cash balances at various banks	All international branches of Indian banks
7	Cash balances at various banks	Branches of foreign banks outside India
8	Bank overdraft of SBI Fort branch	Temporary O/d, which is payable on demand
9	Overdraft facility for working capital purpose	Maximum permissible limit sanctioned by the bank
10	Treasury Bills	90 days maturity
11	Units in Mutual funds	Open ended scheme. Main purpose was to reap short term gains by leveraging the dip in the capital market

Ans.

Sr. No	Name of the Security	Additional Information	Decision
1	Government Bonds	5%, open ended, main purpose was to park the excess funds for temporary Period	Included as intention is not to hold long term
2	Fixed deposit with SBI	12%, 3years maturity on 1 st Jan 2020	Not to be considered – long term
3	Fixed deposit with HDFC	10%, original term was for 2 years, but due for maturity on 30.06.2017	Include as due in 90 days
4	Redeemable Preference shares in ABC ltd	The redemption is due on 30th April 2017	Include as due in 90 days only if mgt intention to realize whenever needed
5	Cash balances at various banks	All branches of all banks in India	Include

6	Cash balances at various banks	All international branches of Indian banks	Include
7	Cash balances at various banks	Branches of foreign banks outside India	Include
8	Bank overdraft of SBI Fort branch	Temporary O/d, which is payable on demand	Include
9	Overdraft facility for working capital purpose	Maximum permissible limit sanctioned by the bank	Do not include as it is credit facility
10	Treasury Bills	90 days maturity	Include
11	Units in Mutual funds	Open ended scheme. Main purpose was to reap short term gains by leveraging the dip in the capital market	Include as intention is not to hold for long period.

(Answer to 4 and 11 needs reconsideration)

SM 2.

DEEP DISCOUNT BOND : CLASSIFICATION



A firm invests in a five year bond of another company with a face value of ₹ 10,00,000 by paying ₹ 5,00,000. The effective rate is 15%. The firm recognises proportionate interest income in its income statement throughout the period of bond.

Based on the above information answer the following question:

- How the interest income will be treated in cash flow statement during the period of bond?
- On maturity, whether the receipt of ₹ 10,00,000 should be split between interest income and receipts from investment activity.

Ans.

Interest Income will be treated as income over the period of bond in the income statement. However, there will be no cash flow in these years because no cash has been received. On maturity, receipt of ₹ 10,00,000 will be classified as investment activity with a bifurcation of interest income & money received on redemption of bond.

RT 3.

FOREX



Z Ltd. has no foreign currency cash flow for the year 2017. It holds some deposit in a bank in the USA. The balances as on 31.12.2017 and 31.12.2018 were US\$ 100,000 and US\$ 102,000 respectively. The exchange rate on December 31, 2017 was US\$1 = ₹ 45. The same on 31.12.2018 was US\$1 = ₹ 50. The increase in the balance was on account of interest credited on 31.12.2018. Thus, the deposit was reported at ₹ 45,00,000 in the balance sheet as on December 31, 2017. It was reported at ₹ 51,00,000 in the balance sheet as on 31.12.2018. How these transactions should be presented in cash flow for the year ended 31.12.2018 as per Ind AS 7? (assuming interest recognised at closing rate) **[RTP-May-2019]**

Ans.

The profit and loss account was credited by ₹ 1,00,000 (US\$ 2000 × ₹ 50) towards interest income. It was credited by the exchange difference of US\$ 100,000 × (₹ 50 - ₹45) that is, ₹ 500,000. In preparing the cash flow statement, ₹ 500,000, the exchange difference, should be deducted from the 'net profit before taxes, and extraordinary item'. However, in order to reconcile the opening balance of the cash and cash equivalents with its closing balance, the exchange difference ₹ 500,000, should be added to the opening balance in note to cash flow statement.

Cash flows arising from transactions in a foreign currency shall be recorded in Z Ltd.'s functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

PE 4.

FOREX



Z Ltd. (India) has an overseas branch in USA. It has a bank account having balance of USD 7,000 as on 1st April, 2019. During the financial year 2019-20, Z Ltd. acquired computers for its USA office for USD 280 which was paid on same date. There is no other transaction reported in USA or India. Exchange rates between INR and USD during the financial year 2019-20 were :

Date	USD 1 to INR
01 st April, 2019	70.00
30 th November, 2019	71.00 (date of purchase of computer)
31 st March, 2020	71.50
Average for 2019-20	70.50

Please prepare the extract of Cash Flow Statement for the year ended 31st March, 2020 as per the relevant Ind AS and also show the foreign exchange profitability from these transactions for the financial year 2019-20

[Jan-2021]

Ans.

In the books of Z Ltd.

Statement of Cash Flows for the year ended 31st March 2020

	₹	₹
<u>Cash flows from operating activities</u>		
Net Profit (Refer Working Note)	10,360	
Adjustments for non-cash items:		
Foreign Exchange Gain	<u>(10,360)</u>	
Net cash outflow from operating activities		0
<u>Cash flows from investing activities</u>		
Acquisition of Property, Plant and Equipment	<u>(19,880)</u>	
Net cash outflow from Investing activities		(19,880)
<u>Cash flows from financing activities</u>		0
Net change in cash and cash equivalents		(19,880)
Cash and cash equivalents at the beginning of the year i.e. 1st April 2019		4,90,000
Foreign Exchange difference		<u>10,360</u>
Cash and cash equivalents at the end of the year i.e. 31st March 2020		<u>4,80,480</u>

Working Note:

Computation of Foreign Exchange Gain

Bank Account USD	Date	USD	Exchange Rate	₹
Opening balance	1.4.2019	7,000	70.00	4,90,000
Less: Purchase of Computer	30.11.2019	<u>280</u>	71.00	<u>19,880</u>
Closing balance calculated		6,720		4,70,120
Closing balance (at year end spot rate)	31.3.2020	6,720	71.50	<u>4,80,480</u>
Foreign Exchange Gain credited to Profit and Loss account				<u>10,360</u>

RT 5.

TAXATION CASH FLOWS

During the financial year 2019-2020, Akola Limited have paid various taxes & reproduced the below mentioned records for your perusal:

- Capital gain tax of ₹ 20 crore on sale of office premises at a sale consideration of ₹ 100 crore.

- Income Tax of ₹ 3 crore on Business profits amounting ₹ 30 crore (assume entire business profit as cash profit).
- Dividend Distribution Tax of ₹ 2 crore on payment of dividend amounting ₹ 20 crore to its shareholders.
- Income tax Refund of ₹ 1.5 crore (Refund on taxes paid in earlier periods for business profits).

You need to determine the net cash flow from operating activities, investing activities and financing activities of Akola Limited as per relevant Ind AS. [SM, RTP-Nov-2020]

Ans.



Para 36 of Ind AS 7 inter alia states that when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Accordingly, the transactions are analysed as follows:

Particulars	Amount (in crore)	Activity
Sale Consideration	100	Investing Activity
Capital Gain Tax	(20)	Investing Activity
Business profits	30	Operating Activity
Tax on Business profits	(3)	Operating Activity
Dividend Payment	(20)	Financing Activity
Dividend Distribution	(2)	Financing Activity
Tax Income Tax Refund	1.5	Operating Activity
Total Cash flow	<u>86.5</u>	

Activity wise	Amount (in crore)
Operating Activity	28.5
Investing Activity	80
Financing Activity	<u>(22)</u>
Total	<u>86.5</u>

SM 6.

BUSINESS ACQUISITION



Company A acquires 70% of the equity stake in Company B on July 20, 20X1. The consideration paid for this transaction is as below:

- Cash consideration of ₹ 15,00,000
- 200,000 equity shares having face of ₹ 10 and fair value of ₹ 15 per share.

On the date of acquisition, Company B has cash and cash equivalent balance of ₹ 2,50,000 in its books of account. On October 10, 20X2, Company A further acquires 10% stake in Company B for cash consideration of ₹ 8,00,000.

Advise how the above transactions will be disclosed/presented in the statement of cash flows as per Ind AS 7.

Ans.

As per para 39 of Ind AS 7, the aggregate cash flows arising from obtaining control of subsidiary shall be presented separately and classified as investing activities.

As per para 42 of Ind AS 7, the aggregate amount of the cash paid or received as consideration for obtaining subsidiaries is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

Further, investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

As per para 42A of Ind AS 7, cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in Ind AS 110, and is required to be measured at fair value through profit or loss. Such transactions are accounted for as equity transactions and accordingly, the resulting cash flows are classified in the same way as other transactions with owners.

Considering the above, for the financial year ended March 31, 20X2 total consideration of ₹ 15,00,000 less ₹ 250,000 will be shown under investing activities as "Acquisition of the subsidiary (net of cash acquired)".

There will not be any impact of issuance of equity shares as consideration in the cash flow statement however a proper disclosure shall be given elsewhere in the financial statements in a way that provides all the relevant information about the issuance of equity shares for non - cash consideration.

Further, in the statement of cash flows for the year ended March 31, 20X3, cash consideration paid for the acquisition of additional 10% stake in Company B will be shown under financing activities.

PE 7.

CASH FLOW STATEMENT WITH BUSINESS ACQUISITION

Entity A acquired a subsidiary, Entity B, during the year ended March 31st 2020. Summarised information from the Consolidated Statement of Profit and Loss and Balance Sheet is provided together with some supplementary information.



Consolidated Statement of Profit and Loss for the year ended March 31 st , 2020,	Amount (₹)
Revenue	1,90,000
Cost of Sales	(1,10,000)
Gross profit	80,000
Depreciation	(15,000)
Other operating expenses	(28,000)
Interest cost	(2,000)
Profit before taxation	35,000
Taxation	(7,500)
Profit after taxation	27,500

Consolidated balance sheet	March 31 st 2020	March 31 st 2019
Asset	Amount (₹)	Amount (₹)
Cash and cash equivalents	4,000	2,500
Trade receivables	27,000	25,000
Inventories	15,000	17,500
Property, plant and equipment	80,000	40,000
Goodwill	9,000	—
Total assets	1,35,000	85,000
Liabilities		
Trade payables	34,000	30,000
Income tax payable	6,000	5,500
Long term debt	50,000	32,000
Total outside liabilities	90,000	67,500
Shareholders' equity	45,000	17,500
Total liabilities & shareholders' equity	1,35,000	85,000

Other information:

All of the shares of entity B were acquired for ₹ 37,000 in cash. The fair values of assets acquired and liabilities assumed were :

Particulars	Amount (₹)
Inventories	2,000
Trade receivables	4,000
Cash	1,000
Property, plant and equipment	55,000
Trade payables	(16,000)
Long term debt	(18,000)
Goodwill	9,000
Cash consideration paid	37,000

You are required to prepare the Consolidated Statement of Cash Flows for the financial year ended March 31st, 2020 in accordance with Ind AS 7. [Nov-2020]

Ans.

Statement of Cash Flows for the year ended 31 March 2020

	Amount (₹)	Amount (₹)
Cash flows from operating activities		
Profit before taxation	35,000	
Adjustments for non-cash items:		
Depreciation	15,000	
Decrease in inventories (W.N. 1)	4,500	
Decrease in trade receivables (W.N. 2)	2,000	
Decrease in trade payables (W.N. 3)	(12,000)	
Interest paid to be included in financing activities	2,000	
Taxation (5,500 + 7,500 – 6,000)	<u>(7,000)</u>	
<i>Net cash generated from operating activities</i>		39,500
Cash flows from investing activities		
Cash paid to acquire subsidiary (37,000 – 1,000)	<u>(36,000)</u>	
<i>Net cash outflow from investing activities</i>		(36,000)
Cash flows from financing activities		
Interest paid	<u>(2,000)</u>	
<i>Net cash outflow from financing activities</i>		<u>(2,000)</u>
Increase in cash and cash equivalents during the year		1,500
Cash and cash equivalents at the beginning of the year		<u>2,500</u>
Cash and cash equivalents at the end of the year		<u>4,000</u>

Working Notes:

1. Calculation of change in inventory during the year	₹
Total inventories of the Group at the end of the year	15,000
Inventories acquired during the year from subsidiary	<u>(2,000)</u>
	13,000
Opening inventories	<u>(17,500)</u>
Decrease in inventories	<u>(4,500)</u>

2. Calculation of change in Trade Receivables during the year	₹
Total trade receivables of the Group at the end of the year	27,000
Trade receivables acquired during the year from subsidiary	<u>(4,000)</u>
	23,000
Opening trade receivables	<u>(25,000)</u>
Decrease in trade receivables	<u>(2,000)</u>
3. Calculation of change in Trade Payables during the year	₹
Trade payables at the end of the year	34,000
Trade payables of the subsidiary assumed during the year	<u>(16,000)</u>
	18,000
Opening trade payables	<u>(30,000)</u>
Decrease in trade payables	<u>(12,000)</u>
4. Calculation of change in Property, plant and equipment (PPE) during the year	₹
Total PPE balance of the Group at the end of the year	80,000
Less: PPE of the subsidiary acquired during the year	<u>(55,000)</u>
	25,000
Add: Depreciation	<u>15,000</u>
Closing balance of PPE (before depreciation)	40,000
Opening balance of PPE	<u>40,000</u>
Net change in PPE	<u>Nil</u>
5. Calculation of change in Long term debt during the year	₹
Total long-term debt of the Group at the end of the year	50,000
Less: Long term debt of the subsidiary assumed during the year	<u>(18,000)</u>
	32,000
Opening balance of long-term debt	<u>32,000</u>
Net change in long term debt	<u>Nil</u>
6. Calculation of change in Shareholders' equity during the year	₹
Opening balance	17,500
Profit during the year	<u>27,500</u>
	45,000
Closing balance	<u>45,000</u>
Net change in shareholders' equity	<u>Nil</u>

SM 8. COMPREHENSIVE WITH BUSINESS COMBINATION

The relevant extracts of consolidated financial statements of A Ltd. are provided below:

Consolidated Statement of Cash Flows

	For the year ended (₹ in Lac)	
	31st March 20X2	31st March 20X1
Assets		
Non-Current Assets		
Property, Plant and Equipment	4,750	4,650
Investment in Associate	800	-
Financial Assets	2,150	1,800



Current Assets		
Inventories	1,550	1,900
Trade Receivables	1,250	1,800
Cash and Cash Equivalents	4,650	3,550
Liabilities		
Current Liabilities		
Trade Payables	1,550	3,610

**Extracts from Consolidated Statement of Profit and Loss
for the year ended 31st March 20X2**

Particulars	Amount	(₹ in Lac)
Revenue		12,380
Cost of Goods Sold		(9,860)
Gross Profit		2,520
Other Income		300
Operating Expenses		(450)
Other expenses		(540)
Interest expenses		(110)
Share of Profit of Associate		120
Profit before Tax		1,840

The below information is relevant for A Ltd Group.

- A Ltd had spent ₹ 30 Lac on renovation of a building. A Ltd charged the entire renovation cost to profit and loss account.
- On 1st April 20X1, A Ltd acquired 100% shares in S Ltd, for cash of ₹ 300 Lac. Fair value of the assets acquired and liabilities assumed under the acquisition are as under:

Property, Plant and Equipment	140 Lac
Inventories	60 Lac
Trade Receivables	30 Lac
Cash and Cash Equivalents	20 Lac
Total Assets	250 Lac
Less: Trade Payables	(50 Lac)
Net Assets on acquisition	200 Lac
- A Ltd.'s property, plant and equipment comprise the following:

Carrying amount on 1st April 20X1	4,650 Lac
Addition (at cost) including assets in S Ltd.	800 Lac
Revaluation Surplus	80 Lac
Disposal (Sale) of Assets	(490 Lac)
Depreciation for the year	(290 Lac)
Carrying Amount on 31st March 20X2	4,750 Lac

A Ltd constructed a machine that is a qualifying asset and incurred construction costs of ₹ 40 Lac that has been charged to other expenses. Of the interest cost of ₹ 110 Lac charged to profit or loss statement, ₹ 10 Lac includes interest cost on specific borrowings that need to be capitalized. Property, plant and equipment was sold at 630 Lac. Gain on disposal is adjusted against operating expenses.
- A Ltd. purchased 30% interest in an Associate (G Ltd) for cash on 1st April 20X1. The associate reported profit after tax of ₹ 400 Lac and paid a dividend of ₹ 100 Lac for the year.
- Impairment test was conducted on 31st March 20X2. The following were impaired as under:

Goodwill impairment loss:	₹ 265 Lac
Intangible Assets impairment loss	₹ 900 Lac

The goodwill impairment relates to 100% subsidiaries.
Assume that interest cost is all paid in cash.
You are required to determine cash generated from operations for group reporting purposes for the year ended 31st March 20X2.

Ans.

Extracts of Statement of Cash Flows for the year ended 31st March 20X2

Cash Flows from Operating Activities		Amount in ₹ Lacs
Profit before tax (W.N.1)		1,920
Less: Profit on Sale of PPE (630 - 490)		(140)
Add back: Depreciation		290
Impairment of Goodwill		265
Impairment of Intangible Assets		900
Less: Share of Profits of Associate (400 x 30%)		(120)
Add: Interest expense	[110 - 10]	100
Working Capital Changes (W.N.2):		
Add: Decrease in Trade Receivables		580
Add: Decrease in Inventories		410
Less: Decrease in Trade Payables		(2,110)
Cash generated from operations		<u>2,095</u>

Working Notes:

1. Profit before tax	Amount in ₹ Lacs
Reported profit as per Profit or Loss Statement	1,840
Add back: Renovation costs charged as expense	30
Construction costs charged as expense	40
Borrowing costs to be capitalized	10
Revised Profit before tax	<u>1,920</u>
2. Changes in Trade Receivables	Amount in ₹ Lacs
Opening Balance	1,800
Add: Receivables of S Ltd.	30
	<u>1,830</u>
Less: Closing Balance	(1,250)
	<u>580</u>
3. Changes in Inventories	Amount in ₹ Lacs
Opening Balance	1,900
Add: Receivables of S Ltd.	60
	<u>1,960</u>
Less: Closing Balance	(1,550)
	<u>410</u>
4. Changes in Trade Payables	Amount in ₹ Lacs
Opening Balance	3,610
Add: Receivables of S Ltd.	50
	<u>3,660</u>
Less: Closing Balance	(1,550)
	<u>2,110</u>

RT 9.

COMPREHENSIVE

From the following data of Galaxy Ltd., prepare statement of cash flows showing cash generated from Operating Activities using direct method as per Ind AS 7:

	31.3.20X2 (₹)	31.3.20X1 (₹)
Current Assets:		
Inventory	1,20,000	1,65,000
Trade receivables	2,05,000	1,88,000
Cash & cash equivalents	35,000	20,500

Current Liabilities:		
Trade payable	1,95,000	2,15,000
Provision for tax	48,000	65,000
Summary of Statement of Profit and Loss		₹
Sales	85,50,000	
Less: Cost of sales	<u>(56,00,000)</u>	29,50,000
Other Income		
Interest income	20,000	
Fire insurance claim received	<u>1,10,000</u>	<u>1,30,000</u>
		30,80,000
Depreciation	(24,000)	
Administrative and selling expenses	(15,40,000)	
Interest expenses	(36,000)	
Foreign exchange loss	<u>(18,000)</u>	<u>(16,18,000)</u>
Net Profit before tax and extraordinary income		14,62,000
Income Tax		<u>(95,000)</u>
Net Profit		<u>13,67,000</u>

Additional information:

- (i) Trade receivables and Trade payables include amounts relating to credit sale and credit purchase only.
- (ii) Foreign exchange loss represents increment in liability of a long -term borrowing due to exchange rate fluctuation between acquisition date and balance sheet date.

[SM, RTP-Dec-2021]

Ans.

**Statement Cash Flows from operating activities
of Galaxy Ltd. for the year ended 31 March 20X2 (Direct Method)**

Particulars	₹	₹
Operating Activities:		
Cash received from Trade receivables (W.N. 3)		85,33,000
Less: Cash paid to Suppliers (W.N.2)	55,75,000	
Payment for Administration and Selling expenses	15,40,000	
Payment for Income Tax (W.N.4)	1,12,000	(72,27,000)
		13,06,000
Adjustment for exceptional items (fire insurance claim)		1,10,000
Net cash generated from operating activities		14,16,000

Working Notes:

1. Calculation of total purchases

Cost of Sales = Opening stock + Purchases – Closing Stock

₹ 56,00,000 = ₹ 1,65,000 + Purchases – ₹ 1,20,000

Purchases = ₹ 55,55,000

2. Calculation of cash paid to Suppliers

Trade Payables

	₹		₹
To Bank A/c (balancing figure)	55,75,000	By Balance b/d	2,15,000
To Balance c/d	1,95,000	By Purchases (W.N. 1)	55,55,000
	57,70,000		57,70,000

3. Calculation of cash received from Customers

Trade Receivables

	₹		₹
To Balance b/d	1,88,000	By Bank A/c (balancing figure)	85,33,000
To Sales	85,50,000	By Balance c/d	2,05,000
	87,38,000		87,38,000

4. Calculation of tax paid during the year in cash

Provision for tax

	₹		₹
To Bank A/c (balancing figure)	1,12,000	By Balance b/d	65,000
To Balance c/d	48,000	By Profit and Loss A/c	95,000
	1,60,000		1,60,000

ADDITIONAL PRACTICE QUESTIONS

SM 10. FACTORING

An entity has entered into a factoring arrangement and received money from the factor. Examine the said transaction and state how should it be presented in the statement of cash flows?

Ans.



Under factoring arrangement, it needs to be assessed whether the arrangement is recourse or non-recourse.

Recourse factoring:

The cash received is classified as a financing cash inflow as the entity continues to recognize the receivables and the amount received from the factor is indeed a liability. The substance of the arrangement is financing, as the entity retains substantially all of the risk and rewards of the factored receivables.

When the cash is collected by the factor, the liability and the receivables are de-recognized. It is acceptable for this to be disclosed as a non-cash transaction, because the settlement of the liability and the factored receivables does not result in cash flows. The net impact of these transactions on the cash flow statement is to present a cash inflow from financing, but there is no operating cash flow from the original sale to the entity's customers.

Non-recourse factoring:

Where an entity de-recognises the factored receivables and receives cash from the factor, the cash receipt is classified as an operating cash inflow. This is because the entity has received cash in exchange for receivables that arose from its operating activities.

SM 11. TAXATION CASH FLOWS

X Limited has paid an advance tax amounting to ₹ 5,30,000/- during the current year. Out of the above paid tax, ₹ 30,000 is paid for tax on long term capital gains.

Under which activity the above said tax be classified in the cash flow statements of X Limited?

Ans.



Cash flows arising from taxes on income should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. In the case of X Limited, the tax amount of ₹ 30,000 is specifically related with investing activities. ₹ 5,00,000 to be shown under operating activities. ₹ 30,000 to be shown under investing activities.

SM 12.

CLASSIFICATION

X Limited acquires PPE of ₹ 10,00,000 from Y Limited by accepting the liabilities of ₹ 8,00,000 of Y Limited and balance amount it paid in cash. How X Limited will treat all those items in its cash flow statements?

Ans.



Investing and financing transactions that do not require the use of cash and cash equivalents shall be excluded from a statement of cash flows. X Limited should classify cash payment of ₹ 2,00,000 under investing activities. The non-cash transactions – liabilities and asset should be disclosed in the notes to the financial statements.

SM 13.

FOREX

An entity has bank balance in foreign currency aggregating to USD 100 (equivalent to ₹ 4,500). Presuming no other transaction taking place, the entity reported a profit before tax of ₹ 100 on account of exchange gain on the bank balance in foreign currency. What would be the closing cash and cash equivalents as per the balance sheet?

Ans.

For the purpose of statement of cash flows, the entity shall present the following:

	Amount (₹)
Profit before tax	100
Less: unrealised exchange gain	(100)
Cash flow from operating activities	Nil
Cash flow from investing activities	Nil
Cash flow from financing activities	Nil
Net increase in cash and cash equivalents during the year	Nil
Add: Opening balance of cash and cash equivalents	4,500
Cash and cash equivalents as at the year end	4,500

Reconciliation of cash and cash equivalents

Cash and cash equivalents as per statement of cash flows	4,500
Add: Unrealised gain on cash and cash equivalents	100
Cash and cash equivalents as per the balance sheet	4,600

If any changes in the policies take place, that will be dealt with as per the provisions of Ind AS 8

SM 14.

From the following transactions, identify which transactions will be qualified for the calculation of operating cash flows, if company is into the business of trading of mobile phones



Sr. No.	Nature of Transaction
1	Receipt from sale of mobile phones
2	Purchases of mobile phones from various companies
3	Employees expenses paid
4	Advertisement expenses paid
5	Credit sales of mobile
6	Misc. charges received from customers for repairs of mobiles
7	Warranty claims received from the companies
8	Loss due to decrease in market value of the closing stock of old mobile phones
9	Payment to suppliers of mobile phones

10	Depreciation on furniture of sales showrooms
11	Interest paid on cash credit facility of the bank
12	Profit on sale of old computers and printers, in exchange of new laptop and printer
13	Advance received from customers
14	Sales Tax and excise duty paid
15	Proposed dividend for the current financial year

Ans.

Sr. No.	Nature of Transaction	Included / Excluded with reason
1	Receipt from sale of mobile phones	Include – main revenue generating activity
2	Purchases of mobile phones from various companies	Include – expenses related to main operations of business
3	Employees expenses paid	Include – expenses related to main operations of business
4	Advertisement expenses paid	Include – expenses related to main operations of business
5	Credit sales of mobile	Do not include – Credit transaction will not be included in cash flow (receipts from customers will be included)
6	Misc. charges received from customers for repairs of mobiles	Include – supplementary revenue generating activity
7	Warranty claims received from the companies	Include – supplementary revenue generating activity
8	Loss due to decrease in market value of the closing stock of old mobile phones	Do not include - Non cash transaction
9	Payment to suppliers of mobile phones	Include – cash outflow related to main operations of business
10	Depreciation on furniture of sales showrooms	Do not include – non cash item
11	Interest paid on cash credit facility of the bank	Do not include – cost of finance
12	Profit on sale of old computers and printers, in exchange of new laptop and Printer	Do not include – non cash item
13	Advance received from customers	Include – Related to operations of business
14	Sales tax and excise duty paid	Include – related to operations of business
15	Proposed dividend for the current financial year	Do not include – no cash flow

- The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows or not. If the cash flow from operations is positive, it will be treated as positive indicator whereas negative cash flow from operations will denote that company's ability to generate the revenue from its main operations is very weak. The companies in the initial stage of their business or the companies which are facing economic problems will generally have the negative cash flow from operations.

- Cash flow from operations are used to maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Therefore, it is necessary to assess how much cash is generated by the business from operations? Are they sufficient to take care of their future investment plans? Can loans be repaid in time without default from such cash flows? Is there sufficient amount for payment of preference dividend? Is anything left for equity shareholders after making all these payments? Answers to all these questions will depend on whether the entity has generated enough cash or not.

SM 15.

From the following transactions taken from a private sector bank operating in India, identify which transactions will be classified as operating and which would be classified as Investing activity.



S. No.	Nature of transaction paid
1	Interest received on loans
2	Interest paid on Deposits
3	Deposits accepted from RBI
4	Loans given to customers
5	Loans repaid by the customers
6	Deposits repaid to RBI
7	Commission received
8	Lease rentals paid for various branches
9	Service tax paid
10	Furniture purchased for new branches
11	Implementation of upgraded banking software
12	Purchase of shares in 100% subsidiary for opening a branch in Abu Dhabi
13	New cars purchased from Honda dealer, in exchange of old cars and balance amount paid in cash
14	Provident fund paid for the employees
15	Issued employee stock options

Ans.

Sr.No.	Nature of transaction paid	Operating / Investing / Not to be considered
1	Interest received on loans	Operating – Main revenue generating activity
2	Interest paid on Deposits	Operating – Main expenses of operations
3	Deposits accepted	Operating
4	Loans given to customers	Operating – in case of financial institutes
5	Loans repaid by the customers	Operating – in case of financial institutes
6	Deposits repaid	Exclude – Financing activity
7	Commission received	Operating – Main revenue generating activity
8	Lease rentals paid for various branches	Operating – Main expenses of operations
9	Service tax paid	Operating – Main expenses of operations
10	Furniture for new branches	Investing – Assets purchased
11	Implementation of upgraded banking software	Investing – Purchased for long term purpose

12	Purchase of shares in 100% subsidiary for opening a branch in Abu Dhabi	Investing – strategic investment
13	New cars purchased from Honda dealer, in exchange of old cars	Investing
14	Provident fund paid for the employees	Operating
15	Issued employee stock options	Not to be considered. No cash flow

SM 16.

From the following transactions taken from a parent company having multiple businesses and multiple segments, identify which transactions will be classified as operating Investing and Financing:



Sr. No	Nature of transaction
1	Issued preference shares
2	Purchased the shares of 100% subsidiary company
3	Dividend received from shares of subsidiaries
4	Dividend received from other companies
5	Bonus shares issued
6	Purchased license for manufacturing of special drugs
7	Royalty received from the goods patented by the company
8	Rent received from the let out building (letting out is not main business)
9	Interest received from the loans and advances given
10	Dividend paid
11	Interest paid on security deposits
12	Purchased goodwill
13	Acquired the assets of a company by issue of equity shares (not parting any cash)
14	Interim dividends paid
15	Dissolved the 100% subsidiary and received the amount in final settlement

Ans.

Sr. No.	Nature of transaction	Operating / Investing / Financing / Not to be considered
1	Issued preference shares	Financing
2	Purchased the shares of 100% subsidiary company	Investing
3	Dividend received from shares of subsidiaries	Investing
4	Dividend received from other companies	Investing / operating
5	Bonus shares issued	No cash flow
6	Purchased license for manufacturing of special drugs	Investing
7	Royalty received from the goods patented by the company	Operating
8	Rent received from the let out building (letting out is not main business)	Investing
9	Interest received from the loans & advances given	Investing
10	Dividend paid	Financing
11	Interest paid on security deposits	Financing
12	Purchased goodwill	Investing
13	Acquired the assets of a company by issue of equity shares (not parting any cash)	Not to be considered
14	Interim dividends paid	Financing
15	Dissolved the 100% subsidiary and received the amount in final settlement	Investing

SM 17.

Find out the cash from operations by direct method and indirect method from the following information:



Operating statement of ABC Co for the year ended 31.3.2017		
Particulars	₹	
Sales	500,000.00	
Less: Cost of goods sold	350,000.00	
Administration & Selling Overheads	55,000.00	
Depreciation	7,000.00	
Interest Paid	3,000.00	
Los on sale of asset	2,000.00	
Profit before tax	83,000.00	
Tax	30,000.00	
Profit after tax	53,000.00	
Balance Sheet as on 31 st March		
Equity and Liabilities		
Shareholders' Fuds	60,000.00	50,000.00
Non-current Liabilities	33,000.00	35,000.00
<u>Current Liabilities</u>		
Creditors	12,000.00	8,000.00
Payable for Expenses	10,000.00	7,000.00
Total	115,000.00	100,000.00
Assets		
Fixed Assets	75,000.00	65,000.00
Investment	12,000.00	10,000.00
<u>Current Assets</u>		
Inventories	12,000.00	13,000.00
Debtors	10,000.00	7,000.00
Cash	6,000.00	5,000.00
Total	115,000.00	100,000.00

Ans.

1. Cash flow from Operations by Direct Method

Particulars	₹	See Note
Cash Sales	497,000.00	1
Less: Cash Purchases	345,000.00	2
Overheads	52,000.00	3
Interest	-	Financing
Depreciation	-	Non cash item
Loss	-	Non cash item
Cash profit	100,000.00	
Less: Tax	<u>30,000.00</u>	
Cash profit after tax	70,000.00	
Note No 1. Cash Receipts from Sales and debtors		
Particulars	₹	
Sales	500,000.00	
Add: Opening Debtors	7,000.00	
Less: Closing Debtors	(10,000.00)	
Cash Receipts	197,000.00	
Note No2:- Payment to creditors for Purchases		
Particulars	₹	
COGS	350,000.00	
Closing stock	12,000.00	
Less: Opening stock	(13,000.00)	
Purchases	349,000.00	

Add: Opening creditors	8,000.00	
Less: Closing creditors	(12,000.00)	
Payment to creditors	345,000.00	
Note No3:- Payment to creditors for expenses		
Particulars		₹
Overheads	55,000.00	
Add: Opening	7,000.00	
Less: Closing creditors	(10,000.00)	
Payment for O/Ds	52,000.00	

2. Cash flow from Operations by Indirect Method

Indirect Method	₹
Profit After Tax	53,000.00
Add/Less): Depreciation	7,000.00
Loss on Asset	2,000.00
Interest paid	3,000.00
Decrease in Inventory	1,000.00
Increase in Debtors	(3,000.00)
Increase in Creditors	4,000.00
Increase in Creditors for expenses	3,000.00
Total	70,000.00

Note: Cash flow derived from operations ₹ 70,000 is same both from Direct Method and Indirect Method.

SM 18.

Use the following data of ABC Ltd. to construct a statement of cash flows using the direct and indirect methods:



	20X2	20X1
Cash	4,000	14,000
Accounts Receivable	25,000	32,500
Prepaid Insurance	5,000	7,000
Inventory	37,000	34,000
Fixed Assets	3,16,000	2,70,000
Accumulated Depreciation	(45,000)	(30,000)
Total Assets	3,42,000	3,27,500
Accounts Payable	18,000	16,000
Wages Payable	4,000	7,000
Debentures	1,73,000	1,60,000
Equity Shares	88,000	84,000
Retained Earnings	59,000	60,500
Total Liabilities & Equity	3,42,000	3,27,500
	20X2	
Sales	2,00,000	
Cost of Goods Sold	(1,23,000)	
Depreciation	(15,000)	
Insurance Expense	(11,000)	
Wages	(50,000)	
Net Profit	1,000	

During the financial year 20X2 company ABC Ltd. declared and paid dividends of ₹ 2,500.

During 20X2, ABC Ltd. paid ₹ 46,000 in cash to acquire new fixed assets. The accounts payable was used only for inventory. No debt was retired during 20X2.

Ans.

A. DIRECT METHOD

Cash flows from operating activities	20X2	20X2
Cash received from customers	2,07,500	
Cash paid for inventory	(1,24,000)	
Cash paid for insurance	(9,000)	
Cash paid for wages	(53,000)	
Net cash flow from operating activities		21,500
Cash flows from investing activities		
Purchase of fixed assets		(46,000)
Cash flows from financing activities		
Dividend paid	(2,500)	
Proceeds from issuance of debentures	13,000	
Proceeds from issue of equity	4,000	
Net cash flows from financing activities		14,500
Net decrease in cash and cash equivalents		(10,000)
Opening Cash Balance		14,000
Closing Cash Balance		4,000

B. INDIRECT METHOD

Cash flows from operating activities	20X2	20X2
Net Profit	1,000	
Adjustments for Depreciation	<u>15,000</u>	
	16,000	
Decrease in accounts receivable	7,500	
Decrease in prepaid insurance	2,000	
Increase in inventory	(3,000)	
Increase in accounts payable	2,000	
Decrease in wages payable	<u>(3,000)</u>	
Net cash flow from operating activities		21,500
Cash flows from investing activities		
Purchase of fixed assets		(46,000)
Cash flows from financing activities		
Dividend paid	(2,500)	
Proceeds from issue of debentures	13,000	
Proceeds from issue of equity	4,000	
Net cash flows from financing activities		14,500
Net decrease in cash and cash equivalents		(10,000)
Opening Cash Balance		14,000
Closing Cash Balance		4,000

Working notes:

Fixed Assets Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	2,70,000	By balance c/d	3,16,000
To Cash (Purchase of Fixed Assets)	<u>46,000</u>		
	<u>3,16,000</u>		<u>3,16,000</u>

Inventory Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	34,000	By Cost of goods sold	1,23,000
To Creditors account (credit purchase)	2,000	By Balance c/d	37,000
To Purchase (Bal. Figure)	<u>1,24,000</u>		
	<u>1,60,000</u>		<u>1,60,000</u>

Accounts Payable Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	18,000	By Balance b/d	
		By Inventory Account (credit purchase) (Bal.Fig.)	16,000 2,000
	<u>18,000</u>		<u>18,000</u>

Equity Share Capital Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bal. c/d	88,000	By Balance b/d	84,000
		By Bank account (Proceeds from equity share issued)	4,000
	<u>88,000</u>		<u>88,000</u>

SM 19.

From the following summary cash account of XYZ Ltd, prepare cash flow statement for the year ended March 31, 20X1 in accordance with Ind AS 7 using direct method.



Summary of Bank Account for the year ended March 31, 20X1

	₹ '000		₹ '000
Balance on 1.4.20X0	50	Payment to creditors	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from customers	2,800	Overhead Expenses	200
Sale of Fixed Assets	100	Payroll	100
		Tax Payment	250
		Dividend	50
		Repayment of Bank loan	300
		Balance on 31.3.20X1	150
	3,250		3,250

Ans.

XYZ Ltd.

Cash Flow Statement for the year ended March 31, 20X1 (Using the Direct Method)

Cash flows from operating activities	₹ '000	₹ '000
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash from operating activities		250
Cash flow from investing activities		
Payments for purchase of fixed assets	(200)	

RT 20.

Entity A acquired a subsidiary, Entity B, during the year. Summarised information from the Consolidated Statement of Profit and Loss and Balance Sheet is provided, together with some supplementary information.



Consolidated Statement of Profit and Loss	Amount (₹)
Revenue	3,80,000
Cost of sales	<u>(2,20,000)</u>
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	<u>(4,000)</u>
Profit before taxation	70,000
Taxation	<u>(15,000)</u>
Profit after taxation	<u>55,000</u>

Consolidated balance sheet	20X2	20X1
Assets	Amount (₹)	Amount (₹)
Cash and cash equivalents	8,000	5,000
Trade receivables	54,000	50,000
Inventories	30,000	35,000
Property, plant and equipment	1,60,000	80,000
Goodwill	<u>18,000</u>	<u>—</u>
Total assets	<u>2,70,000</u>	<u>1,70,000</u>
Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	<u>1,00,000</u>	<u>64,000</u>
Total liabilities	<u>1,80,000</u>	<u>1,35,000</u>
Shareholders' equity	<u>90,000</u>	<u>35,000</u>
Total liabilities and shareholders'	2,70,000	1,70,000

Other information

All of the shares of entity B were acquired for ₹ 74,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	Amount (₹)
Inventories	4,000
Trade receivables	8,000
Cash	2,000
Property, plant and equipment	1,10,000
Trade payables	(32,000)
Long term debt	(36,000)
Goodwill	18,000
Cash consideration paid	<u>74,000</u>

Prepare the Consolidated Statement of Cash Flows for the year 20X2, as per Ind AS 7.

[May-2020]

Ans.

This information will be incorporated into the Consolidated Statement of Cash Flows as follows:

Statement of Cash Flows for the year ended 20X2 (extract)

	Amount (₹)	Amount (₹)
Cash flows from operating activities		
Profit before taxation	70,000	
Adjustments for non-cash items:		
Depreciation	30,000	
Decrease in inventories (W.N. 1)	9,000	
Decrease in trade receivables (W.N. 2)	4,000	
Decrease in trade payables (W.N. 3)	(24,000)	
Interest paid to be included in financing activities	4,000	
Taxation (11,000 + 15,000 – 12,000)	<u>(14,000)</u>	
<i>Net cash generated from operating activities</i>		79,000
Cash flows from investing activities		
Cash paid to acquire subsidiary (74,000 – 2,000)	<u>(72,000)</u>	
<i>Net cash outflow from investing activities</i>		(72,000)
Cash flows from financing activities		
Interest paid	<u>(4,000)</u>	
<i>Net cash outflow from financing activities</i>		<u>(4,000)</u>
Increase in cash and cash equivalents during the year		3,000
Cash and cash equivalents at the beginning of the year		<u>5,000</u>
Cash and cash equivalents at the end of the year		<u>8,000</u>

Working Notes:

1. Calculation of change in inventory during the year	₹
Total inventories of the Group at the end of the year	30,000
Inventories acquired during the year from subsidiary	<u>(4,000)</u>
	26,000
Opening inventories	<u>35,000</u>
Decrease in inventories	<u>9,000</u>

2. Calculation of change in Trade Receivables during the year	₹
Total trade receivables of the Group at the end of the year	54,000
Trade receivables acquired during the year from subsidiary	<u>(8,000)</u>
	46,000
Opening trade receivables	<u>50,000</u>
Decrease in trade receivables	<u>4,000</u>
3. Calculation of change in Trade Payables during the year	₹
Trade payables at the end of the year	68,000
Trade payables of the subsidiary assumed during the year	<u>(32,000)</u>
	36,000
Opening trade payables	<u>60,000</u>
Decrease in trade payables	<u>24,000</u>

MT 21.

Entity A acquired a subsidiary, entity B, during the year. Summarised information from the consolidated statement of profit and loss and balance sheet is provided, together with some supplementary information.



Consolidated statement of profit and loss	Amount(₹)
Revenue	3,80,000
Cost of sales	<u>(2,20,000)</u>
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	<u>(4,000)</u>
Profit before taxation	70,000
Taxation	<u>(15,000)</u>
Profit after taxation	<u>55,000</u>

Consolidated balance sheet	20X2	20X1
	Amount(₹)	Amount(₹)
Assets		
Cash and cash equivalents	8,000	5,000
Trade receivables	54,000	50,000
Inventories	30,000	35,000
Property, plant and equipment	1,60,000	80,000
Goodwill	<u>18,000</u>	<u>—</u>
Total assets	<u>2,70,000</u>	<u>1,70,000</u>
Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	<u>1,00,000</u>	<u>64,000</u>
Total liabilities	<u>1,80,000</u>	<u>1,35,000</u>
Shareholders' equity	<u>90,000</u>	<u>35,000</u>
Total liabilities and shareholders'	<u>2,70,000</u>	<u>1,70,000</u>

Other information

All of the shares of entity B were acquired for ₹ 74,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	Amount (₹)
Inventories	4,000
Trade receivables	8,000
Cash	2,000
Property, plant and equipment	1,10,000
Trade payables	(32,000)
Long term debt	(36,000)
Goodwill	<u>18,000</u>
Cash consideration paid	<u>74,000</u>

Prepare statement of cash flows of Entity A.

[May-2020]

Ans.

This information will be incorporated into the consolidated statement of cash flows as follows:

Statement of cash flows for 20X2 (extract)	Amount (₹)	Amount (₹)
Cash flows from operating activities		
Profit before taxation		
Adjustments for non-cash items:	70,000	
Depreciation	30,000	
Decrease in inventories (Note 1)	9,000	
Decrease in trade receivables (Note 2)	4,000	
Decrease in trade payables (Note 3)	(24,000)	
Interest paid to be included in financing activities	4,000	
Taxation (11,000 + 15,000 – 12,000)	(14,000)	
<i>Net cash inflow from operating activities</i>		79,000
Cash flows from investing activities		
Cash paid to acquire subsidiary (74,000 – 2,000)	(72,000)	
<i>Net cash outflow from investing activities</i>		(72,000)
Cash flows from financing activities		
Interest paid	(4,000)	
<i>Net cash outflow from financing activities</i>		<u>(4,000)</u>
Increase in cash and cash equivalents		3,000
Cash and cash equivalents at the beginning of the year		<u>5,000</u>
Cash and cash equivalents at the end of the year		<u>8,000</u>

Working Notes:**1. Inventories**

Total inventories of the Group at the end of the year	₹ 30,000
Inventories acquired during the year from subsidiary	<u>(₹ 4,000)</u>
	₹ 26,000
Opening inventory	<u>(₹ 35,000)</u>
Decrease in inventory	<u>₹ 9,000</u>

2. Trade Receivables

Total trade receivables of the Group at the end of the year	₹54,000
Trade receivables acquired during the year from subsidiary	<u>(₹8,000)</u>
	₹46,000
Opening trade receivables	<u>(₹50,000)</u>
Decrease in trade receivables	<u>₹ 4,000</u>

3. Trade Payables

Trade payables at the end of the year	₹ 68,000
Trade payables of the subsidiary assumed during the year	<u>(₹32,000)</u>
	₹ 36,000
Opening Trade payable	<u>(₹ 60,000)</u>
Decrease in Trade payables	<u>₹ 24,000</u>

RT 22.

From the following data, identify the nature of activities as per Ind AS 7.



S.No.	Nature of transaction
1	Cash paid to employees
2	Cash paid for development of property costs
3	Borrowings repaid
4	Cash paid to suppliers
5	Loan to Director
6	Bonus shares issued
7	Dividends paid
8	Cash received from trade receivables
9	Proceeds from sale of PPE
10	Depreciation of PPE
11	Advance received from customers
12	Purchased goodwill
13	Payment of promissory notes

[May-2021]

Ans.

S. No.	Nature of transaction	Activity as per Ind AS 7
1	Cash paid to employees	Operating activity
2	Cash paid for development costs	Investing activity
3	Borrowings repaid	Financing activity
4	Cash paid to suppliers	Operating activity
5	Loan to Director	Investing activity
6	Bonus shares issued	Non-cash item
7	Dividends paid	Financing activity
8	Cash received from trade receivables	Operating activity
9	Proceeds from sale of PPE	Investing activity
10	Depreciation of PPE	Non-cash item
11	Advance received from customers	Operating activity
12	Purchased goodwill	Investing activity
13	Payment of promissory notes	Financing activity

SM 23.

Following is the balance sheet of Kuber Limited for the year ended March 31, 20X2 (₹ in lacs)



	20X2	20X1
ASSETS		
Non-current Assets		
Property, plant and equipment	13,000	12,500
Intangible assets	50	30
Other financial assets	145	170
Deferred Tax Asset (net)	855	750
Other non-current assets	800	770
Total Non-current assets	14,850	14,220
Current Assets		
Financial assets		
Investments	2,300	2,500
Cash and cash equivalents	220	460
Other current assets	195	85
Total Current assets	2,715	3,045
Total Assets	17,565	17,265
EQUITY AND LIABILITIES		
Equity		
Equity share capital	300	300
Other equity	12,000	8,000
Total equity	12,300	8,300
Liabilities		
Non-current liabilities		
Long-term borrowings	2,000	5,000
Other non-current liabilities	2,740	3,615
Total non-current liabilities	4,740	8,615
Current liabilities		
Financial liabilities		
Trade payables	150	90
Bank Overdraft	75	60
Other current liabilities	300	200
Total current liabilities	525	350
Total liabilities	5,265	8,965
Total Equity and Liabilities	17,565	17,265

Additional Information:

- Profit after tax for the year ended March 31, 20X2 – ₹ 4,450 lacs
- Interim Dividend paid during the year – ₹ 450 lacs
- Depreciation and amortisation charged in the statement of profit and loss during the current year are as under
 - Property, Plant and Equipment – ₹ 500 lacs
 - Intangible Assets – ₹ 20 lacs
- During the year ended March 31, 20X2 two machineries were sold for ₹ 70 lacs. The carrying amount of these machineries as on March 31, 20X2 is ₹ 60 lacs.
- Income taxes paid during the year ₹ 105 lacs
- Other non-current/current assets and liabilities are related to operations of Kuber Ltd. and do not contain any element of financing and investing activities.

Using the above information of Kuber Limited, construct a statement of cash flows under indirect method.

Ans.

Statement of Cash Flows

		₹ in lacs
Cash flows from Operating Activities		
Net Profit after Tax	4,450	
Add: Tax Paid	<u>105</u>	
	4,555	
Add: Depreciation & Amortisation (500 + 20)	520	
Less: Gain on Sale of Machine (70-60)	(10)	
Less: Increase in Deferred Tax Asset (855-750)	<u>(105)</u>	
	4,960	
Change in operating assets and liabilities		
Add: Decrease in financial asset (170 - 145)	25	
Less: Increase in other non-current asset (800 - 770)	(30)	
Less: Increase in other current asset (195 - 85)	(110)	
Less: Decrease in other non-current liabilities (3,615 - 2,740)	(875)	
Add: Increase in other current liabilities (300 - 200)	100	
Add: Increase in trade payables (150-90)	<u>60</u>	
	4,130	
Less: Income Tax	<u>(105)</u>	
		4,025
Cash generated from Operating Activities		
Cash flows from Investing Activities		
Sale of Machinery	70	
Purchase of Machinery [13,000-(12,500 - 500-60)]	(1,060)	
Purchase of Intangible Asset [50-(30-20)]	(40)	
Sale of Financial asset - Investment (2,500 - 2,300)	<u>200</u>	
		(830)
Cash outflow from Investing Activities		
Cash flows from Financing Activities		
Dividend Paid	(450)	
Long term borrowings paid (5,000 - 2,000)	(3,000)	
		(3,450)
Cash outflow from Financing Activities		
Net Cash outflow from all the activities		
		(255)
Opening cash and cash equivalents (460 - 60)		400
Closing cash and cash equivalents (220 - 75)		145

SM 24.

Entity A acquired a subsidiary, Entity B, during the year. Summarised information from the Consolidated Statement of Profit and Loss and Balance Sheet is provided, together with some supplementary information.



Consolidated Statement of Profit and Loss

	Amount (₹)
Revenue	3,80,000
Cost of sales	(2,20,000)
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	(4,000)
Profit before taxation	70,000
Taxation	(15,000)
Profit after taxation	55,000

Consolidated balance sheet

Assets	20X2 Amount (₹)	20X1 Amount (₹)
Cash and cash equivalents	8,000	5,000
Trade receivables	54,000	50,000
Inventories	30,000	35,000
Property, plant and equipment	1,60,000	80,000
Goodwill	<u>18,000</u>	<u>—</u>
Total assets	<u>2,70,000</u>	<u>1,70,000</u>
Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	<u>1,00,000</u>	<u>64,000</u>
Total liabilities	<u>1,80,000</u>	<u>1,35,000</u>
Shareholders' equity	<u>90,000</u>	<u>35,000</u>
Total liabilities and shareholders'	<u>2,70,000</u>	<u>1,70,000</u>

Other information

All of the shares of entity B were acquired for ₹ 74,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	Amount (₹)
Inventories	4,000
Trade receivables	8,000
Cash	2,000
Property, plant and equipment	1,10,000
Trade payables	(32,000)
Long term debt	(36,000)
Goodwill	18,000
Cash consideration paid	74,000

Prepare the Consolidated Statement of Cash Flows for the year 20X2, as per Ind AS 7.

Ans.

This information will be incorporated into the Consolidated Statement of Cash Flows as follows:

Statement of Cash Flows for the year ended 20X2 (extract)

	Amount (₹)	Amount (₹)
Cash flows from operating activities		
Profit before taxation	70,000	
Adjustments for non-cash items:		
Depreciation	30,000	
Decrease in inventories (W.N. 1)	9,000	
Decrease in trade receivables (W.N. 2)	4,000	
Decrease in trade payables (W.N. 3)	(24,000)	
Interest paid to be included in financing activities	4,000	
Taxation (11,000 + 15,000 – 12,000)	<u>(14,000)</u>	
Net cash generated from operating activities		79,000
Cash flows from investing activities		
Cash paid to acquire subsidiary (74,000 – 2,000)	<u>(72,000)</u>	
Net cash outflow from investing activities		(72,000)

Cash flows from financing activities		
Interest paid	<u>(4,000)</u>	
Net cash outflow from financing activities		<u>(4,000)</u>
Increase in cash and cash equivalents during the year		3,000
Cash and cash equivalents at the beginning of the year		<u>5,000</u>
Cash and cash equivalents at the end of the year		<u>8,000</u>

Working Notes:

1.	Calculation of change in inventory during the year	₹
	Total inventories of the Group at the end of the year	30,000
	Inventories acquired during the year from subsidiary	<u>(4,000)</u>
		26,000
	Opening inventories	<u>35,000</u>
	Decrease in inventories	<u>9,000</u>
2.	Calculation of change in Trade Receivables during the year	₹
	Total trade receivables of the Group at the end of the year	54,000
	Trade receivables acquired during the year from subsidiary	<u>(8,000)</u>
		46,000
	Opening trade receivables	<u>50,000</u>
	Decrease in trade receivables	<u>4,000</u>
3.	Calculation of change in Trade Payables during the year	₹
	Trade payables at the end of the year	68,000
	Trade payables of the subsidiary assumed during the year	<u>(32,000)</u>
		36,000
	Opening trade payables	<u>60,000</u>
	Decrease in trade payables	<u>24,000</u>

RT 25. What will be the classification for following items in the statement of cash flows of both (i) Banks / Financial institutions and (ii) Other Entities?

S. No.	Particulars
1.	Interest received on loans and advances given
2.	Interest paid on deposits and other borrowings
3.	Interest and dividend received on investments in subsidiaries, associates and in other entities
4.	Dividend paid on preference and equity shares, including tax on dividend paid on preference and equity shares by other entities
5.	Finance charges paid by lessee under finance lease
6.	Payment towards reduction of outstanding finance lease liability
7.	Interest paid to vendor for acquiring fixed asset under deferred payment basis
8.	Principal sum payment under deferred payment basis for acquisition of fixed assets
9.	Penal interest received from customers for late payments
10.	Penal interest paid to suppliers for late payments
11.	Interest paid on delayed tax payments
12.	Interest received on tax refunds

[RTP-Nov-2022]

Ans.

The following are the classification of various activities in the Statement of Cash Flows:

S. No.	Particulars	Classification for reporting cash flows	
		Banks / financial institutions	Other entities
1.	Interest received on loans and advances given	Operating Activities	Investing activities
2.	Interest paid on deposits and other borrowings	Operating Activities	Financing activities
3.	Interest and dividend received on investments in subsidiaries, associates and in other entities	Investing activities	Investing activities
4.	Dividend paid on preference and equity shares, including tax on dividend paid on preference and equity shares by other entities	Financing activities	Financing activities
5.	Finance charges paid by lessee under finance lease	Financing activities	Financing activities
6.	Payment towards reduction of outstanding finance lease liability	Financing activities	Financing activities
7.	Interest paid to vendor for acquiring fixed asset under deferred payment basis	Financing activities	Financing activities
8.	Principal sum payment under deferred payment basis for acquisition of fixed assets	Investing activities	Investing activities
9.	Penal interest received from customers for late payments	Operating Activities	Operating Activities
10.	Penal interest paid to suppliers for late payments	Operating Activities	Operating Activities
11.	Interest paid on delayed tax payments	Operating Activities	Operating Activities
12.	Interest received on tax refunds	Operating Activities	Operating Activities

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NOTES

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**CHAPTER
3**

**Ind AS 115
REVENUE FROM CONTRACTS WITH CUSTOMERS**

CONTRACT, SEGMENTATION & COMBINATION

MT 1.

SCOPE



As a part of its sales promotion activities, MIL distributes office utility articles along with its product catalogues to medical practitioners to familiarize & encourage them to prescribe medicines manufactured by it. No conditions are attached with the items distributed.

Whether the distribution of office utility articles to medical practitioners is covered by Ind AS 115 'Revenue from Contracts with Customers'? If not, how should the same be accounted by MIL? Give reasons. **[MTP-May-2022]**

Ans.

The term 'contract' is defined in Ind AS 115 as an agreement between two or more parties that creates enforceable rights and obligations. In the given case:

- Gifts are distributed by MIL to doctors as a part of its sales promotion activities without there being an agreement between MIL and the doctors creating enforceable rights and obligations.
- The doctors to whom gifts are distributed are not 'customers' of MIL as they have not contracted with it to obtain goods or services in exchange for consideration.
- The items distributed as gifts are not an output of MIL ordinary activities.

In view of the above, the distribution of gifts to doctors does not fall under the scope of Ind AS 115. As per Ind AS 38, sometimes expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In the case of the supply of goods, the entity recognises such expenditure as an expense when it has a right to access those goods.

Examples of expenditure that is recognised as an expense when it is incurred include expenditure on advertising and promotional activities (including mail order catalogues).

Items acquired by MIL to be distributed as gifts as a part of sales promotion activities have no other purpose than to undertake those activities. In other words, the only benefit of those items for MIL is to develop or create brands or customer relationships, which in turn generate revenue. Ind AS 38 requires an entity to recognise expenditure on such items as an expense when the entity has a right to access those goods. Ind AS 38 states that an entity has a right to access goods when it owns them, or otherwise has a right to access them regardless of when it distributes the goods.

In view of the above, MIL should recognise the cost of the items to be distributed as gifts as an expense when it owns those items, or otherwise has a right to access them, regardless of when it distributes the items to doctors

SM 2.

CONTRACT TERM

A gymnasium enters into a contract with a new member to provide access to its gym for a 12 - month period at ₹ 4,500 per month. The member can cancel his or her membership without penalty after three months. Specify the contract term.

Ans.



The enforceable rights and obligations of this contract are for three months, and therefore the contract term is three months.

SM 3. CONTROL

Contractor P enters into a manufacturing contract to produce 100 specialised CCTV Cameras for Customer Q for a fixed price of ₹ 1,000 per sensor. Customer Q can cancel the contract without a penalty after receiving 10 CCTV Cameras. Specify the contract units.

Ans.

P determines that because there is no substantive compensation amount payable by Q on termination of the contract – i.e. no termination penalty in the contract – it is akin to a contract to produce 10 CCTV Cameras that gives Customer Q an option to purchase an additional 90 CCTV Cameras. Hence, contract is for 10 units.

SM 4. CONTROL

Software Company S enters into a contract to license its customer relationship management software to Customer B. Three days later, in a separate contract, S agrees to provide consulting services to significantly customise the licensed software to function in B's IT environment. B is unable to use the software until the customisation services are complete.

Would these contracts be combined?

Ans.

S determines that the two contracts should be combined because they were entered into at nearly the same time with the same customer, and the goods or services in the contracts are a single performance obligation.

SM 5. COMBINATION OF CONTROLS

Manufacturer M enters into a contract to manufacture and sell a cyber security system to Government-related Entity P. One week later, in a separate contract, M enters into a contract to sell the same system to Government-related Entity Q. Both entities are controlled by the same government. During the negotiations, M agrees to sell the systems at a deep discount if both P and Q purchases the security system.

Should these contracts be combined or separately accounted?

Ans.

M concludes that the said two contracts should be combined because, among other things, P is a related party of Q, the contracts were entered into at nearly the same time and the contracts were negotiated as a single commercial package, which is clearly evident from the fact that discount is being offered if both the parties purchases the security system, thereby also making the consideration in one contract dependent on the other contract.

SM 6. CONTRACTS AT SAME TIME

Manufacturer of airplanes for the air force negotiates a contract to design and manufacture new fighter planes for a Kashmir air base. At the same meeting, the manufacturer enters into a separate contract to supply parts for existing planes at other bases.

Would these contracts be combined?

Ans.

Contracts were negotiated at the same time, but they appear to have separate commercial objectives. Manufacturing and supply contracts are not dependent on one another, and the planes and the parts are not a single performance obligation. Therefore, contracts for supply of fighter planes and supply of parts shall not be combined and instead, they shall be accounted separately.

MODIFICATION

SM 7.

MODIFICATION : STANDALONE



An entity promises to sell 120 products to a customer for ₹ 120,000 (₹ 1,000 per product). The products are transferred to the customer over a six-month period. The entity transfers control of each product at a point in time. After the entity has transferred control of 60 products to the customer, the contract is modified to require the delivery of an additional 30 products (a total of 150 identical products) to the customer at a price of ₹ 950 per product which is the standalone selling price for such additional products at the time of placing this additional order. The additional 30 products were not included in the initial contract. It is assumed that additional products are contracted for a price that reflects the standalone selling price.

Determine the accounting for the modified contract?

Ans.

When the contract is modified, the price of the contract modification for the additional 30 products is an additional ₹ 28,500 or ₹ 950 per product. The pricing for the additional products reflects the stand-alone selling price of the products at the time of the contract modification and the additional products are distinct from the original products.

Accordingly, the contract modification for the additional 30 products is, in effect, a new and separate contract for future products that does not affect the accounting for the existing contract and ₹ 950 per product for the 30 products in the new contract.

SM 8.

MODIFICATION : PROSPECTIVE



On 1 April, 20X1, KLC Ltd. enters into a contract with Mr. K to provide

- A machine for ₹ 2.5 million
- One year of maintenance services for ₹ 55,000 per month

On 1 October 20X1, KLC Ltd. and Mr. K agree to modify the contract to reduce the amount of services from ₹ 55,000 per month to ₹ 45,000 per month.

Determine the effect of change in the contract?

Ans.

The next six months of services are distinct from the services provided in the first six months before modification in contract,

Therefore, KLC Ltd. will account for the contract modification as if it were a termination of the existing contract and the creation of a new contract.

The consideration allocated to remaining performance obligation is ₹ 270,000, which is the sum of

- The consideration promised by the customer (including amounts already received from the customer) that was included in the estimate of the transaction price and had not yet been recognized as revenue. This amount is zero.
- The consideration promised as part of the contract modification i.e. ₹ 270,000.

SM 9.

MODIFICATION : RETROACTIVE



Growth Ltd enters into an arrangement with a customer for infrastructure outsourcing deal.

Based on its experience, Growth Ltd determines that customising the infrastructure will take approximately 200 hours in total to complete the project and charges ₹ 150 per hour.

After incurring 100 hours of time, Growth Ltd and the customer agree to change an aspect of the project and increases the estimate of labour hours by 50 hours at the rate of ₹ 100 per hour.

Determine how contract modification will be accounted as per Ind AS 115?

[MTP-Dec-2021]