CA-FINAL
FINANCIAL REPORTING

Module-2:
(As per Latest Amendments Made by ICAI & MCA)

BY:
CA. PARVEEN JINDAL
B.COM (H), F.C.A, M.B.A.(FINANCE)
C.A. RANK HOLDER
(DIPLOMA IN IFRS:ACCA LONDON)
MEMBER OF ACCOUNTING STANDARD BOARD OF ICAI 2004-05 & 2012-13

PUBLISHED BY:
PARVEEN JINDAL’S CLASSES PVT. LTD.

HEAD OFFICE
238 U.G.F. GAGAN VIHAR
DELHI-110051

BRANCH OFFICE
1/34, GROUND FLOOR, LALITA PARK,
VIKAS MARG, BEHIND GURUDWARA,
METRO PILLAR NO. 23, LAXMI NAGAR, DELHI - 92

PH. : 9871272725, 9312281275
WEBSITE: caparveenjindal.com EMAIL: caparveenjindal@gmail.com
Dedicated to
BABA VISHAN PURI JI MAHARAJ
BABA LAKSHMAN PURI JI MAHARAJ
<table>
<thead>
<tr>
<th>TOPICS</th>
<th>PAGE NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. CORPORATE SOCIAL RESPONSIBILITY</td>
<td>1 - 22</td>
</tr>
<tr>
<td>2. IND AS-108 OPERATING SEGMENT</td>
<td>23 - 44</td>
</tr>
<tr>
<td>3. INDIAN ACCOUNTING STANDARD 20</td>
<td>45 - 58</td>
</tr>
<tr>
<td>4. IND AS-24 RELATED PARTY DISCLOSURES</td>
<td>59 - 72</td>
</tr>
<tr>
<td>5. INTEGRATED REPORTING</td>
<td>73 - 86</td>
</tr>
<tr>
<td>6. IND AS-41 AGRICULTURE</td>
<td>87 - 102</td>
</tr>
<tr>
<td>7. IND AS-33 EARNING PER SHARE</td>
<td>103 - 124</td>
</tr>
<tr>
<td>8. SCHEDULE III (Division -II)</td>
<td>125 - 152</td>
</tr>
<tr>
<td>9. QUESTIONS ON SCHEDULE 3 (Division -II)</td>
<td>153 - 166</td>
</tr>
</tbody>
</table>
CONCEPT 1: CORPORATE SOCIAL RESPONSIBILITY (CSR)

"Corporate Social Responsibility (CSR)" means and includes but is not limited to:
1. Projects or programs relating to activities specified in Schedule VII or
2. Projects or programs relating to activities undertaken by the board of directors of a company (Board) in pursuance of recommendations of the CSR Committee of the Board as per declared CSR Policy of the company.

WHICH COMPANY TO PERFORM CORPORATE SOCIAL RESPONSIBILITY?

Every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India which fulfills the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules:

Provided that net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act.

QUESTION 1 (SELF READING) (LAW ASPECT)

ABC Ltd. is a company which is formed with charitable objects under Section 8 of the Companies Act, 2013. As a result, the management of the company believes that as all the activities of the company will be with the intent of charity, the CSR provisions are not applicable to ABC Ltd. as these activities are activities in normal course of business.

Whether the provisions of CSR are applicable to ABC Ltd, provided it fulfils the criteria of Section 135 of the Act?

SOLUTION

Section 135 of the Companies Act is applicable to every company meeting the specified criteria. As per section 2(20) of the Companies Act, ‘company’ means a company incorporated under the Companies Act or under any other previous company law. This would imply that companies set up for the purposes of CSR/public welfare are also required to comply with the provisions of CSR.
CONCEPT 2: STATUTORY PROVISIONS

In India, the Companies Act, 2013 has statutorily recognised the concept of CSR. Section 135 of the Companies Act, 2013 read with Schedule VII thereto and Companies (Corporate Social Responsibility Policy) Rules, 2014 are the special provisions under the new company law regime imposing mandatory CSR obligations.

Important Definitions

a) Any financial year: “Any financial year” referred under sub-section (1) of Section 135 of the Act read with Rule 3(2) of Companies CSR Rule, 2014, implies ‘Immediately preceding financial year’.

b) Average Net Profit: “Average Net Profit” is the amount as calculated in accordance with the provisions of Section 198 of the Companies Act, 2013.

c) Financial Year: “Financial Year”, in relation to any company or body corporate, means the period ending on the 31st day of March every year, and where it has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up.

If a holding company or a subsidiary of a company incorporated outside India follows a different financial year for consolidation of its accounts outside India, the Tribunal may allow (on application) any period as its financial year, whether or not that period is a year, provided it align its financial year as per the Act, within a period of two years.

d) Net Profit: “Net Profit” means the net profit of a company as per its financial statement prepared in accordance with the applicable provisions of the Act, but shall not include the following, namely:

   (i) any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise; and

   (ii) any dividend received from other companies in India, which are covered under and complying with the provisions of section 135 of the Act:

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

f) Turnover: “Turnover” means the aggregate value of the realisation of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year;
g) Spend: The term ‘spend’ in accounting parlance generally means the liabilities incurred during the relevant accounting period.

The Companies Act, 2013

A. As per section 135 of the Companies Act 2013

Every company having either

- net worth of ₹ 500 crore or more, or
- turnover of ₹ 1,000 crore or more or
- a net profit of ₹ 5 crore or more

during any financial year shall constitute a Corporate Social Responsibility (CSR) Committee of the Board consisting of three or more directors (including at least one independent director).

**QUESTION 2 (SELF READING) (LAW ASPECT)**

ABC Ltd. is a company which has a net worth of INR 200 crores, it manufactures rubber parts for automobiles. The sales of the company are affected due to low demand of its products.

The previous year’s financials state:

<table>
<thead>
<tr>
<th></th>
<th>March 31, 20X4 (current year)</th>
<th>March 31, 20X3</th>
<th>March 31, 20X2</th>
<th>March 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>3.00</td>
<td>8.50</td>
<td>4.00</td>
<td>3.00</td>
</tr>
<tr>
<td>Sales (turnover)</td>
<td>850</td>
<td>950</td>
<td>900</td>
<td>800</td>
</tr>
</tbody>
</table>

**Required**

Does the Company have an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year?

**SOLUTION**

It has been clarified that ‘any financial year’ referred to under sub-section (1) of section 135 of the Act read with Rule 3(2) of Companies CSR Rule, 2014, implies 'any of the three preceding financial years'.

A company which meets the net worth, turnover or net profits criteria in immediately preceding financial year, will need to constitute a CSR Committee and comply with provisions of sections 135 (2) to (5) read with the CSR Rules.

As per the criteria to constitute CSR committee -
1) Net worth greater than or equal to INR 500 Crores: This criterion is not satisfied.
2) Sales greater than or equal to INR 1000 Crores: This criterion is not satisfied.
3) Net Profit greater than or equal to INR 5 Crores: This criterion is satisfied in financial year ended March 31, 20X3.

Hence, the Company will be required to form a CSR committee.

**Role of Corporate Social Responsibility (CSR) Committee**

The CSR Committee shall—

(a) formulate and recommend to Board-
   a. a CSR Policy indicating the activities to be undertaken by the company as specified in Schedule VII;
   b. the amount of expenditure to be incurred on the above activities and

(b) monitor the CSR Policy of the company from time to time.

**C. Role of Board**

Board shall disclose-

(a) The composition of CSR Committee in its report
(b) Approve the recommended CSR Policy for the company
(c) Disclose the contents of such Policy in its report and place it on the company's website
(d) Ensure that the activities included in CSR Policy of the company are duly executed by the company
(e) Ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years by giving preference to the local area and areas around it where it operates
(f) In case the company fails to spend such amount, the Board shall specify the reasons for not spending the amount [ and unless the unspent amount relates to any ongoing project, transfer such unspent amount to a fund specified in Schedule VII, within a period of six months of the expiry of the financial year]

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

Such an amount shall be spent by the company in pursuance of its obligations towards the corporate social responsibility policy within 3 years from the date of such
transfer, failing which, the company shall transfer the same to a fund specified in schedule VII within thirty days from the date of completion to third financial year.

Special Note: if a company contravenes the above provisions, the company shall be punishable with fine which shall not be less than 50,000 but which may be extended to 25,00,000 and every defaulting officer of such company shall be punishable with imprisonment for a term upto 3 years or with fine which shall not be less than 50,000 but which may be extend to 5,00,000 or with both.

**QUESTION 3 (SELF READING) (LAW ASPECT)**

ABC Ltd. manufactures consumable goods like bath soap, tooth brushes, soap cases etc. As part of its CSR policy, it has decided to that for every pack of these goods sold, INR 0.80 will go towards the 'Save trees foundation' which will qualify as a CSR spend as per Schedule VII. Consequently, at the year end, the company sold 25,000 such packs and a total of INR 20,000 was recognised as CSR expenditure. However, this amount was not paid to the foundation at the end of the financial year.

**Required**

Will the amount of INR 20,000 qualify to be a CSR expenditure?

**SOLUTION**

By earmarking the amount from such sale for CSR expenditure, the company cannot show it as CSR expenditure. To qualify the amount to be CSR expenditure, it has to be spent. Hence, INR 20,000 will not be automatically considered as CSR expenditure until and unless it is spending on CSR activities.
Section 135

During any financial year

Net worth ≥ ₹ 500 Crore

Turnover ≥ ₹ 1000 Crore

Net profit ≥ ₹ 5 Crore

Yes → Form a CSR Committee and Report to Board

No → Do not form a CSR Committee

Role of Board

Formulate & Recommend CSR Policy to Board

Yes → Approve & Disclose CSR Policy

No → Ensure undertaking of CSR activities and spending of amount

Recommend amount of expenditure for CSR activities

Monitor CSR Policy
CONCEPT 3: IMPORTANT POINTS ON CSR ACTIVITIES

1. The CSR activities undertaken by the company shall exclude activities undertaken in pursuance of its normal course of business.

2. A company may collaborate with other companies for undertaking projects or programs or CSR activities in such a manner that the CSR committees of respective companies are in a position to report separately on such projects or programs in accordance with these rules.

QUESTION 4 (SELF READING) (LAW ASPECT)

How can companies with small CSR funds take up CSR activities in a project/program mode?

SOLUTION

It has been clarified that companies can combine their CSR programs with other similar companies by pooling their CSR resources.

As per Rule 4 of the CSR Rules, a company may collaborate with other companies for undertaking projects or for CSR activities in such a manner that the CSR committees of the relevant companies are in a position to report separately on such projects in accordance with the prescribed Rules.

3. The CSR projects or programs or activities undertaken in India only shall amount to CSR expenditure.

QUESTION 5 (SELF READING) (LAW ASPECT)

Due to immense loss to Nepal in the recent earthquake, one FMCG Company undertakes various commercial activities with considerable discounts and concessions at the related affected areas of Nepal for a continuous period of 3 months after earthquake. In the Financial Statements for the year 20X1-X2, the Management has shown the expenditure incurred on such activity as expenditure incurred to discharge Corporate Social Responsibility.

Required

State whether the treatment done by the management of management is correct. Explain with reasons.

SOLUTION

The Companies Act, 2013 mandated the corporate entities that the expenditure incurred for Corporate Social Responsibility (CSR) should not be the expenditure incurred for the activities in the ordinary course of business. If expenditure incurred is for the activities in the ordinary course of business, then it will not be qualified as expenditure incurred on CSR activities.
The statutory guidelines relating to CSR also require the deployment of funds for the benefit of the local area of the Company. Since Nepal is another country the expenditure done there i.e. in Nepal shall not qualify to be accounted as CSR expenditure.

Further, it is presumed that the commercial activities performed at concessional rates are the activities done in the ordinary course of business of the company. Therefore, the treatment done by the Management by showing the expenditure incurred on such commercial activities in its financial statements as the expenditure incurred on activities undertaken to discharge CSR, is not correct.

4. The CSR projects or programs or activities that benefit only the employees of the company and their Families shall not be considered as CSR activities in accordance with section 135 of the Act.

5. Companies may build CSR capacities of their own personnel as well as those of their Implementing agencies through Institutions with established track records of at least three financial years but such expenditure (including expenditure on administrative overheads) shall not exceed five percent of total CSR expenditure of the company in one financial year.

6. Contribution of any amount directly or indirectly to any political party, shall not be considered as CSR activity.

7. The surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of a company.

8. CSR expenditure shall include all expenditure including contribution to corpus, for projects or programs relating to CSR activities approved by the Board on the recommendation of its CSR Committee, but does not include any expenditure on an item not in conformity or not in line with activities which fall within the purview of Schedule VII of the Act.

The Board’s Report of a company shall include an annual report on CSR containing particulars as specified.

**QUESTION 6 (SELF READING) (LAW ASPECT)**

ABC Ltd. is a company which comes under the ambit of Section 135 and CSR Rules. The Board of ABC Ltd did not appropriate the CSR funds and as a result there was no annual report on CSR in the Board’s report for financial year ended March 31, 20X1.

Required

Is this a non-compliance as per the Act?
It has been clarified that as per Rule 9 of the CSR Rules, the Board’s Report of a company qualifying under section 135 shall include an annual report on CSR, containing particulars specified in Annexure to CSR Rules. Reporting of CSR policy of the company in the Board’s Report is a mandatory requirement. If the disclosure requirements are not fulfilled, penal consequences may be attracted under section 134(8) of the Companies Act.

As per Schedule VII of Companies Act 2013, following activities may be included by companies in their Corporate Social Responsibility Policies Activities relating to:

1. eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.

2. promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.

3. promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;

4. ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga;

5. protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;

6. measures for the benefit of armed forces veteran, war widows and their dependents;

7. training to promote rural sports nationally recognized sports and Olympic sports;

8. contribution to the Prime Minister’s National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and
9. contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;

10. rural development projects.

11. slum area development.

**Note:** Additional items included in Schedule VII or clarified as already being covered under Schedule VII of the Act is given as Appendix II of the chapter.

### CONCEPT 5: ACCOUNTING FOR CSR TRANSACTIONS

**Revenue Expenditure made in the Current Financial Year**

<table>
<thead>
<tr>
<th></th>
<th>Debit (INR)</th>
<th>Credit (INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR Expenditure (profit and loss statement)</td>
<td>XXX</td>
<td></td>
</tr>
<tr>
<td>To Cash/Vendor</td>
<td></td>
<td>XXX</td>
</tr>
</tbody>
</table>

CSR Expenditure is an item of profit and loss statement.

Item 5 (A)(k) of the General Instructions for Preparation of Statement of Profit and Loss under Schedule III to the Companies Act, 2013, requires that in case of companies covered under Section 135, the amount of expenditure incurred on ‘Corporate Social Responsibility Activities’ shall be disclosed by way of a note to the statement of profit and loss.

The treatment of revenue expenditure will be the same under AS and Ind AS.

**CSR Expenditure made towards a Capital Asset**

In case the expenditure incurred by the company is of such a nature that give rise to an 'asset', it should be recognised by the company in its balance sheet, provided the control over the asset is with the Company and future economic benefits are expected to flow to the company.

**Example**

A school building is transferred to a Gram Panchayat for running and maintaining the school, it should not be recognised as 'an asset' in its books and such expenditure would need to be charged to the statement of profit and loss as and when incurred.

1. **Accounting treatment as per AS**

Where any CSR asset is recognized in its balance sheet, the same may be classified under natural head (e.g. Tangible assets or Intangible assets) with specific subhead of 'CSR Asset' if the expenditure satisfies the recognition criteria of 'asset'.
2. Accounting treatment as per Ind AS

The accounting entry as given above remains the same. However, there is a difference in the classification of Non-current asset under Ind AS.

Where any CSR asset is recognized in its balance sheet, the same may be classified under natural head (e.g. Property plant and equipment, Intangible assets or Investment property) with specific sub-head of 'CSR Asset' if the expenditure satisfies the recognition criteria of 'asset'.

The recognition criteria for asset under Ind AS i.e.,
- Ind AS 16 : Property, plant and equipment,
- Ind AS 40 : Investment Property
- Ind AS 38 : Intangible assets

is to be satisfied.

QUESTION 7

A building is used for CSR activities of the company. The same is capitalised as 'an asset' in the books and depreciation is charged on the same as per the Companies Act, 2013. The Company claims the cost of the building as 'CSR expenditure' and also the depreciation thereon.

Required

Is this the correct treatment as per the Act?

SOLUTION

In case the expenditure incurred by the company is of such nature which may give rise to an 'Asset', it should be recognised by the company in its balance sheet, provided the control over the asset is with the Company and future economic benefits are expected to flow to the company. Where any CSR asset is recognized in its balance sheet, the same may be classified under natural head (e.g. Building, Plant & Machinery etc.) with specific sub-head of 'CSR Asset' if the expenditure satisfies the definition of 'asset'.

For example, a building used for CSR activities where the beneficial interest has not been relinquished for lifetime by a company and from which any economic benefits flow to a company, may be recognised as 'CSR Building' for the purpose of reflecting the same in the balance sheet.
If an amount spent on an asset has been shown as CSR spend, then the depreciation on such asset cannot be claimed as CSR spend again. Once cost of the asset is included for CSR spend, then the depreciation on such asset will not be included for CSR spend even if the asset is capitalized in the books of accounts and depreciation charged thereon.

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

Facts

- **Section 135 (5) of the Companies Act, 2013**, requires that the Board of every eligible company, "shall ensure that the company spends, in every financial year, at least 2% of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy". A proviso to this Section states that "if the company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount".

- Further, **Rule 8(1) of the Companies (Corporate Social Responsibility Policy) Rules, 2014**, prescribes that the Board Report of a company under these Rules shall include an Annual Report on CSR, in the prescribed format.

Analysis

- The above provisions of the Act/Rules clearly lay down that the expenditure on CSR activities is to be disclosed only in the Board’s Report in accordance with the Rules made thereunder.

- In view of this, **no provision for the amount which is not spent**, (i.e., any shortfall in the amount that was expected to be spent as per the provisions of the Act on CSR activities and the amount actually spent at the end of a reporting period) may be made in the financial statements.

- The proviso to section 135 (5) of the Act, makes it clear that if the specified amount is not spent by the company during the year, the Directors’ Report should disclose the reasons for not spending the amount.

- However, if a company has already undertaken certain CSR activity for which a liability has been incurred by entering into a contractual obligation, then in accordance with the generally accepted principles of accounting, a provision for the amount representing the extent to which the CSR activity was completed during the year, needs to be recognised in the financial statements.

Whether the Excess Amount can be Carry Forward to set off against Future CSR Expenditure?

Where a company spends more than that required under law, a question arises as to whether the excess amount ‘spent’ can be carried forward to be adjusted against amounts to be spent on CSR activities in future period.
**Facts**

As per Section 135 (5) of the Companies Act, the Board shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

**Analysis**

Since 2% of average net profits of immediately preceding three years is the minimum amount which is required to be spent under section 135 (5) of the Act, the excess amount cannot be carried forward for set off against the CSR expenditure required to be spent in future.

**Conclusion under various Indian GAAP**

1. **Accounting treatment as per AS**

It has been clarified that the Board is free to decide whether any unspent amount is to be carried forward to the next year, and the same shall be over and above the next year’s CSR allocation equivalent to at least 2% of average net profits of the company. Any shortfall in spending in CSR shall be explained in the directors’ report and the Board of Directors shall state the amount unspent and reasons for not spending that amount. Any shortfall is not required to be provided for in the books of accounts.

2. **Accounting treatment as per Ind AS**

The query raised to the ITFG was to clarify whether a provision for unspent CSR expenditure is required to be made under Ind AS. The ITFG considered the principles mentioned in Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets. Under Ind AS 37, a provision would be recognised when all of the following conditions are satisfied:

- An entity has a present obligation (legal or constructive) as a result of a past event
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- A reliable estimate can be made of the amount of the obligation.
- No provision is required to be made in case the above mentioned conditions are not met.

Considering the requirements of the Companies Act, 2013 (Section 135(5)) and Ind AS 37, the ITFG clarified that the provision for any shortfall in the amount that was expected to be spent on the CSR activities as per the Companies Act, 2013 on CSR activities and the amount actually spent at the end of a reporting period, may not be required in the Ind AS financial statements.

However, if a company has already undertaken certain CSR activity for which an obligation has been created, for example, by entering into a contractual obligation, or either a constructive obligation has arisen during the year, then in accordance with Ind AS 37, a provision for the amount of such CSR obligation, should be recognised in the Ind AS financial statements.
QUESTION 8

ABC Ltd is a Company which is covered under the ambit of CSR rules. As part of its CSR contribution an amount of INR 15,00,000 was spent as CSR expense towards the education of girl child. The average net profit of the company for the past three years was INR 70,00,000. As the Company incurred a CSR expense in excess of what is required by the rules, it decided to utilise this expense as a carry forward to the next year and reduce next year’s CSR spend by INR 1,00,000.

Required

Can the excess expenditure towards CSR be carried forward to next financial year?

SOLUTION

There is no provision for carrying forward the excess CSR expenditure spent in a particular year. Any expenditure over 2% could be considered as voluntary higher CSR spend for that year.

Supply of Manufactured Goods/ Services by an Entity

In some cases, a company may supply goods manufactured by it or render services as CSR activities. In such cases, the expenditure incurred should be recognised when the control on the goods manufactured by it is transferred or the allowable services are rendered by the employees.

- The goods manufactured by the company should be valued in accordance with the principles prescribed in Accounting Standard (AS) 2, Valuation of Inventories.
- The services rendered should be measured at cost. Indirect taxes (like excise duty, service tax, VAT or other applicable taxes) on the goods and services so contributed will also form part of the CSR expenditure.
- Where a company receives a grant from others for carrying out CSR activities, the CSR expenditure should be measured net of the grant.

QUESTION 9

After the havoc caused by flood in Jammu and Kashmir, a group of companies undertakes during the period from October, 20X1 to December, 20X1 various commercial activities, with considerable concessions/discounts, along the related affected areas. The management intends to highlight the expenditure incurred on such activities as expenditure incurred on activities undertaken to discharge corporate social responsibility, while publishing its financial statements for the year 20X1-20X2.

Required

State whether the management’s intention is correct or not and why?
SOLUTION

Corporate Social Responsibility (CSR) Reporting is an information communiqué with respect to discharge of social responsibilities of corporate entity. Through 'CSR Report' the corporate enterprises disclose the manner in which they are discharging their social responsibilities. More specifically, it is addressed to the public or society at large, although it can be squarely used by other user groups also.

Section 135 of the Companies Act, 2013 mandated the companies fulfilling the criteria mentioned in the said section to spend certain amount of their profit on activities as specified in the Schedule VII to the Act. Companies not falling within that criteria can also spend on CSR activities voluntarily. However, besides the requirements of constitution of a CSR committee and a CSR policy, the corporate entities should also take care that expenditure incurred for CSR should not be the expenditure incurred for the activities in the ordinary course of business. If expenditure incurred is for the activities in the ordinary course of business, then it will not be qualified as expenditure incurred on CSR activities.

Here, it is assumed that the commercial activities performed at concessional rates are the activities done in the ordinary course of business of the companies. Therefore, the intention of the management to highlight the expenditure incurred on such commercial activities in its financial statements as the expenditure incurred on activities undertaken to discharge CSR, is not correct.

CONCEPT 6 : CSR EXPENDITURE IN THE INCOME TAX SCENARIO

1. CSR expenditure, being an application of income, is not incurred wholly and exclusively for the purposes of carrying on business. As the application of income is not allowed as deduction for the purposes of computing taxable income of a company, amount spent on CSR cannot be allowed as deduction for computing the taxable income of the company.

2. Based on the Explanatory Memorandum to the Bill, the CSR expenditure which is of the nature described in section 30 to section 36 of the Income-tax Act shall be allowed as deduction under those sections subject to fulfilment of conditions, if any, specified therein. If the nature of CSR expenditure incurred is not covered under the aforesaid sections of the Act and is covered under section 37(1) of the Act, being a general deduction, the same is proposed to be disallowed by the Bill.

QUESTION 10

ABC Ltd. carries out CSR activities from rented premises in Pune. The rent paid for such premises is disclosed as CSR expenditure and subsequently ABC Ltd. also claimed deduction of the same under the Income-tax Act. Is this permissible?
Based on the Explanatory Memorandum to the Bill, CSR expenditure which is of the nature described under the section 30 to 36 of the Income-tax Act shall be allowed as a deduction. Rent expenses can be claimed under section 30 of the Act and hence it can be claimed as a deduction.

**CONCEPT 7: CESSATION FROM COMPLIANCE OF CSR**

Every company which ceases to be a company covered under sub-section (1) of section 135 of the Act for three consecutive financial years shall not be required to -

a) constitute a CSR Committee; and

b) comply with the provisions contained in sub-section (2) to (5) of the said section till such time it meets the criteria specified in sub-section (1) of section 135.

**Analysis**

Four year lock-in period for a company fulfilling a CSR criterion in one year. It may be noted that once a company has fulfilled the net worth / turnover / net profit criterion for one year it has to fulfil its CSR obligations for the subsequent three financial years, even if it does not fulfil any of these criteria in those years.

For example, if ABC Ltd. fulfils the turnover criterion under section 135(1) in the financial year 20X1-X2, it would continue to be within the scope of section 135(1) for the three financial years from 20X2-X3 to 20X3-X4, irrespective of fulfilment or otherwise of any criterion in those years. If it has not fulfilled any of the three criteria in the three subsequent financial years, it would be outside the scope of CSR in the financial year 20X5-X6. If in any of the three intermittent years, its average net profit figure is negative, it need not comply with the CSR requirement for that year.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>F.Y.20X1-X2</th>
<th>F.Y.20X2-X3</th>
<th>F.Y.20X3-X4</th>
<th>F.Y.20X4-X5</th>
<th>F.Y.20X5-X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net worth/turnover/Net Profit Criterion</td>
<td>√</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Situation I Average Net Profits</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>CSR Obligation</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>X</td>
</tr>
<tr>
<td>Situation II Average Net Profits</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
<td>Negative</td>
<td>Positive</td>
</tr>
<tr>
<td>CSR Obligation</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
TEST YOUR KNOWLEDGE

QUESTIONS

1. A property is being constructed to operate CSR activities by a company. At the balance sheet date, the cost of construction is treated as revenue expenditure. Are there any additional disclosures required in the financials regarding this?

2. In the year 20X1, XYZ Ltd. falls within the purview of CSR provisions as per the Companies Act, 2013 since its net profit for the financial year exceeded ` 5 crore. The company discharged CSR obligations in the year 20X2. However, the net profit of the year 20X2 was less than ` 5 crores. Also, it was also not satisfying the other two criteria of the section 135 for CSR compliance. Therefore, the company stopped performing CSR activities from the year 20X3 onwards. Comment on the company's accountability for CSR.

ANSWERS

1. Item 5 (a) of the General Instructions for Preparation of Statement of Profit and Loss under Schedule III to the Companies Act, 2013, requires that in case of companies covered under Section 135, the amount of expenditure incurred on 'Corporate Social Responsibility Activities' shall be disclosed by way of a note to the statement of profit and loss. The note should also disclose the details with regard to the expenditure incurred in construction of a capital asset under a CSR project.

2. Once a company has fulfilled the net worth / turnover / net profit criterion for one year it has to fulfil its CSR obligations for the subsequent three financial years, even if it does not fulfil any of these criteria in those years.

In the given case XYZ Ltd. falls in the ambit of CSR obligations by fulfilling the criteria of net profit exceeding ` 5 crores in the year 20X1. So it has to discharge its CSR obligations by spending two percent of its average profit every year starting from 20X2 till 20X4. It cannot stop spending on CSR activities as per the Act after 20X2.
Appendix 1

FORMAT FOR THE ANNUAL REPORT ON CSR ACTIVITIES TO BE INCLUDED IN THE BOARD’S REPORT

1. A brief outline of the company’s CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.

2. The Composition of the CSR Committee.

3. Average net profit of the company for last three financial years.

4. Prescribed CSR Expenditure (two per cent. of the amount as in item 3 above)

5. Details of CSR spent during the financial year.
   (a) Total amount to be spent for the financial year.
   (b) Amount unspent, if any:
   (c) Manner in which the amount spent during the financial year is detailed below.

| (1) S. No | (2) CSR Project or activity identified | (3) Sector in which the Project is covered | (4) Projects for programs (1) Local area or other (2) Specify the State and district where projects or programs was undertaken | (5) Amount outlay (budget) project or programs wise | (6) Amount spent on the projects or programs Sub-heads: (1) Direct expenditure on projects or programs (2) Overheads: | (7) Cumulative expenditure upto to the reporting period | (8) Amount spent: Direct or through implementing agency |
|-----------|--------------------------------------|------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| Total | | | | | | |

* Give details of implementing agency:

6. In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.
7. A responsibility statement of the CSR Committee that the implementation and monitoring of CSR policy, is in compliance with CSR objectives and Policy of the company.

<table>
<thead>
<tr>
<th>Sd/-</th>
<th>Sd/-</th>
<th>Sd/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Chief Executive Officer or Managing Director or Director)</td>
<td>(Chairman CSR Committee)</td>
<td>(Person specified under clause (d) of sub-section (1) of section 380 of the Act)</td>
</tr>
</tbody>
</table>

(Wherever applicable)
QUESTION 1 NEW EXAMINATION MAY-2018

What are the provisions of section 135 of the Companies Act, 2013 regarding constitution of a Corporate Social Responsibility (CSR) Committee. Also explain the role of Corporate Social Responsibility (CSR) Committee and Board.

XYZ Limited is a company which has net worth of ₹ 250 crore. It manufactures parts for automobiles. The sales of the company are affected due to low demand of the products. The previous year’s financial state of company are as below:

(R in crore)

<table>
<thead>
<tr>
<th></th>
<th>31st March 2018 (Current Year)</th>
<th>31st March 2017</th>
<th>31st March 2016</th>
<th>31st March 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>4.25</td>
<td>8.00</td>
<td>3.50</td>
<td>3.25</td>
</tr>
<tr>
<td>Turnover</td>
<td>500.00</td>
<td>900.00</td>
<td>400.00</td>
<td>350.00</td>
</tr>
</tbody>
</table>

Examine, whether the company has an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year.

SOLUTION

A. **As per section 135 of the Companies Act 2013**

   Every company having either

   - Net worth of ₹ 500 crore or more, or
   - turnover of ₹ 1,000 crore or more or
   - a net profit or ₹ 5 crore or more

   **during any financial year** shall constitute a Corporate Social Responsibility (CSR) Committee of Board consisting of three or more directors (including at least one independent director)

B. **Role of Corporate Social Responsibility (CSR) Committee**

   The CSR Committee shall-

   (a) Formulate and recommend to Board-

      a. a CSR Policy indicating the activities to be undertaken by the company as specified in Schedule VII;

      b. the amount of expenditure to be incurred on the above activities and

   (b) Monitor the CSR Policy of the company from time to time.
C. **Role of Board**

Board shall disclose-

(a) The composition of CSR Committee in its report
(b) Approve the recommended CSR policy for the company
(c) Disclose the contents of such policy in report and place it on the company’s website
(d) Ensure that the activities included in CSR policy of the company are duly executed by the company
(e) Ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years by giving preference to the local area and areas around it where it operates
(f) In case the company fails to spend such amount, the Board shall specify the reasons for not spending the amount.

D. **In the given scenario**

The MCA has clarified that ‘any financial year’s referred to under sub-section (1) of Section 135 of the Act read with Rule 3 (2) of Companies CSR Rules, 2014, implies “immediately preceding financial year”

A company which meets the 'net worth', 'turnover' or 'net profits' criteria in immediately preceding financial year, but which does not meet the criteria in the relevant financial year, is still required to constitute a CSR Committee and comply with provisions of section 135 of the Companies Act, 2013.

As per the criteria to constitute CSR committee-

1) **Net worth greater than or equal to ₹ 500 Crore**: This criterion is not satisfied.
2) **Sales greater than or equal to ₹ 1000 Core**: This criterion is not satisfied.
3) **Net Profit greater than or equal to ₹ 5 Crore**: This criteria is satisfied in financial year ended March 31, 2017 when the net profit was ₹ 8 crore.

---

**QUESTION 2 NEW EXAMINATION NOV-2018**

Baby Limited manufactures consumable goods for infants like bath soap, cream, powder, oil etc. As part of its CSR policy, it has decided that for every pack of these goods sold, ₹ 0.75 will go towards the “Swachh Bharat Foundation” which will qualify as a CSR spend as per Schedule VII. Consequently, at the year end, the company sold 40,000 such packs and a total of 30,000 was recognized as CSR expenditure. However, this amount was not paid
to the Foundation at the end of the financial year. Will the amount of ₹ 30,000 qualify to be CSR expenditure?

**SOLUTION**

Baby Ltd. has earmarked 75 paise per pack to spend as CSR activities. However, only by earmarking the amount from such sale for CSR expenditure, the company cannot show it as CSR expenditure. To qualify the amount as CSR expenditure, it has to be spent. Hence, ₹ 30,000 will not be automatically considered as CSR expenditure till the time it is spent on CSR activities. i.e it is deposited to Swachh Bharat Foundation.'
**IND AS-108 OPERATING SEGMENT**

**CORE PRINCIPLE**

An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Accordingly, the objective of segment reporting is to provide financial information on the different business activities that an entity engages in and the different economic environments under which it operates to help users of financial statements to:

(a) better understand the entity's performance;
(b) better assess its prospects for future net cash flows;
(c) make more informed judgments about the entity as a whole.

**SCOPE**

This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind AS) notified under the Companies Act apply.

If an entity that is not required to apply this Ind AS chooses to disclose information about segments that does not comply with this Ind AS, it shall not describe the information as segment information.

If a financial report contains both the consolidated financial statements of a parent that is within the scope of this Indian Accounting Standard as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements.

**Operating Segments**

An operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses
(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues. Not every part of an entity is necessarily an operating segment or part of an operating segment.
For example: A corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of this Ind AS, an entity’s post-employment benefit plans are not operating segments.

Reportable Segments
An entity shall report separately information about each operating segment that:

(a) has been identified or results from aggregating two or more of segments, and

(b) exceeds the quantitative thresholds as specified in the standard.

Aggregation Criteria
Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics.

Quantitative Thresholds
An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.

(b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of

   (i) the combined reported profit of all operating segments that did not report a loss and
   
   (ii) the combined reported loss of all operating segments that reported a loss.

(c) Its assets are 10 per cent or more of the combined assets of all operating segments.
Note:

1. Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

2. An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 12.

3. If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity’s revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 13) until at least 75 per cent of the entity’s revenue is included in reportable segments.

General Information

The Standard requires an entity to report a measure of operating segment profit or loss and of segment assets. It also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the chief operating decision maker. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity’s financial statements.

The Standard requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions. However, the Standard does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive.

The Standard also requires an entity to give descriptive information about the way the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity’s financial statements, and changes in the measurement of segment amounts from period to period.
**Major Changes in Ind AS 108 vis a vis Notified AS 17**

(i) **Identification of Segments:** Identification of segments under Ind AS 108 is based on 'management approach' i.e. operating segments are identified based on the internal reports regularly reviewed by the entity's chief operating decision maker. Existing AS 17 requires identification of two sets of segments; one based on related products and services, and the other on geographical areas based on the risks and returns approach. One set is regarded as primary segments and the other as secondary segments.

(ii) **Basis of Measurement for Amounts to be Reported in Segments:** Ind AS 108 requires that the amounts reported for each operating segment shall be measured on the same basis as that used by the chief operating decision maker for the purposes of allocating resources to the segments and assessing its performance. Existing AS 17 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements. Accordingly, existing AS 17 also defines segment revenue, segment expense, segment result, segment assets and segment liabilities.

(iii) **Aggregation Criteria:** Ind AS 108 specifies aggregation criteria for aggregation of two or more segments and also requires the related disclosures in this regard. Existing AS 17 does not deal specifically with this aspect.

(iv) **Single Reportable Segment:** An explanation has been given in the existing AS 17 that in case there is neither more than one business segment nor more than one geographical segment, segment information as per this standard is not required to be disclosed. However, this fact shall be disclosed by way of footnote. Ind AS 108 requires certain disclosures even in case of entities having single reportable segment.

(v) **Interest Expense:** An explanation has been given in the existing AS 17 that interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense. It also provides that in case interest is included as a part of the cost of inventories and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. These aspects are specifically dealt with keeping in view that the definition of 'segment expense' given in AS 17 excludes interest. Ind AS 108 requires the separate disclosures about interest revenue and interest expense of each reportable segment, therefore, these aspects have not been specifically dealt with.

(vi) **Disclosures:** Ind AS 108 requires disclosures of revenues from external customers for each product and service. With regard to geographical information, it requires the disclosure of revenues from customers in the country of domicile.
and in all foreign countries, non-current assets in the country of domicile and all foreign countries. It also requires disclosure of information about major customers. Disclosures in existing AS 17 are based on the classification of the segments as primary or secondary segments. Disclosure requirements for primary segments are more detailed as compared to secondary segments.

**QUESTION NO 1**

Rajesh Ltd. has ten segments. The share of revenue, profit/loss and assets of each of these ten segments is given below. The company has identified segments H,I and J for reporting. Comment on the adequacy of reporting, assuming there are no inter segment revenues.

<table>
<thead>
<tr>
<th>Segments</th>
<th>Revenues</th>
<th>Profit (Loss)</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>A,B,C,D,E,F,G,</td>
<td>5% each=35%</td>
<td>5% each=35%</td>
<td>8%each=56%</td>
</tr>
<tr>
<td>H,I,</td>
<td>20% each=40%</td>
<td>25% each=50%</td>
<td>20% each=40%</td>
</tr>
<tr>
<td>J</td>
<td>25%</td>
<td>15%</td>
<td>4%</td>
</tr>
</tbody>
</table>

**QUESTION NO 2**

Information relating to five segments of Sharma Ltd. is as under: (Rs. in lakhs)

<table>
<thead>
<tr>
<th>Segment</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment revenue</td>
<td>150</td>
<td>200</td>
<td>200</td>
<td>50</td>
<td>300</td>
<td>900</td>
</tr>
<tr>
<td>Segment results</td>
<td>50</td>
<td>(70)</td>
<td>80</td>
<td>10</td>
<td>(25)</td>
<td>45</td>
</tr>
<tr>
<td>Segment assets</td>
<td>40</td>
<td>65</td>
<td>140</td>
<td>20</td>
<td>35</td>
<td>200</td>
</tr>
</tbody>
</table>

The company wishes to know which of the segments need to be reported. Advise.

**QUESTION NO 3**

ICS Ltd. has the following business / geographical segments. Examine which of these are reportable Segments under IND AS-108. (information in Rs.'000)

<table>
<thead>
<tr>
<th>Segments</th>
<th>Revenue</th>
<th>Profit and Loss</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>9,600</td>
<td>1,750</td>
<td>4,100</td>
</tr>
<tr>
<td>B</td>
<td>300</td>
<td>180</td>
<td>450</td>
</tr>
<tr>
<td>C</td>
<td>100</td>
<td>70</td>
<td>450</td>
</tr>
</tbody>
</table>
QUESTION NO 4
Larson Ltd. has eight Segments A, B, C, D, E, F, G and H. The following information is available in relation to these Segments. (information in Rs. lakhs)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment Revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Nil</td>
<td>510</td>
<td>30</td>
<td>20</td>
<td>30</td>
<td>100</td>
<td>40</td>
<td>70</td>
<td>800</td>
</tr>
<tr>
<td>Internal</td>
<td>200</td>
<td>120</td>
<td>60</td>
<td>10</td>
<td>nil</td>
<td>nil</td>
<td>10</td>
<td>nil</td>
<td>400</td>
</tr>
<tr>
<td>Total revenue</td>
<td>200</td>
<td>630</td>
<td>90</td>
<td>30</td>
<td>30</td>
<td>100</td>
<td>50</td>
<td>70</td>
<td>1200</td>
</tr>
<tr>
<td>Segment result:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>profit(Loss)</td>
<td>10</td>
<td>(180)</td>
<td>30</td>
<td>(10)</td>
<td>16</td>
<td>(10)</td>
<td>10</td>
<td>14</td>
<td>(120)</td>
</tr>
<tr>
<td>Segment Assets</td>
<td>45</td>
<td>141</td>
<td>15</td>
<td>33</td>
<td>9</td>
<td>15</td>
<td>15</td>
<td>27</td>
<td>300</td>
</tr>
</tbody>
</table>

Identify which of the above constitute reportable Segment if you were informed that A, B, C and E were the reported Segments in the last financial year.

QUESTION NO 5
Following is the data regarding six Segments of Garg Ltd. (Rs in lakhs)

<table>
<thead>
<tr>
<th>Segment</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment revenue</td>
<td>150</td>
<td>310</td>
<td>40</td>
<td>30</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>Segment results</td>
<td>25</td>
<td>(95)</td>
<td>5</td>
<td>5</td>
<td>(5)</td>
<td>15</td>
</tr>
<tr>
<td>Segment assets</td>
<td>20</td>
<td>40</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>

The finance director is of the view that it is sufficient that Segments A and B alone are reported. Advice.

QUESTION NO 6
From the following information of Kristen Ltd. having two primary Segments, prepare a statement classifying the same under appropriate heads: (Rs. in lakhs)
IND AS-108 OPERATING SEGMENT

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Segment Alpha</th>
<th>Segment Beta</th>
<th>Unallocated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment revenue</td>
<td>27,100</td>
<td>3,280</td>
<td></td>
</tr>
<tr>
<td>(See note)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment profit</td>
<td>4,640</td>
<td>(197)</td>
<td></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>1,300</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Non cash expense excluding</td>
<td>114</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>depreciation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td>3,430</td>
<td>770</td>
<td>2,200</td>
</tr>
<tr>
<td>Assets</td>
<td>19,450</td>
<td>2,700</td>
<td>6,550</td>
</tr>
<tr>
<td>Depreciation</td>
<td>110</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

Dividend income 285
Interest expenses 35
Tax provision 1675

Note: Segment revenue for Alpha includes inter Segment revenue of 50.

**QUESTION NO 7**

V Ltd. group has three divisions A, B and C. Details of their turnover, results and net assets are given below (in Rs.'000) prepare a Segmental report.

**Division A:**

(a) Sales to division B Rs.3050
(b) Local sales Rs.60
(c) Export sales Rs.4090

**Division B:**

(a) sales to division C Rs.30
(b) export sales to Europe Rs.200

**Division C:**

(a) Export sales to USA Rs.180
Other information:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Head office</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit or loss before tax</td>
<td></td>
<td>160</td>
<td>20</td>
<td>(8)</td>
</tr>
<tr>
<td>Re allocated cost from Head office</td>
<td></td>
<td>48</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Interest costs</td>
<td></td>
<td>4</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>50</td>
<td>200</td>
<td>40</td>
<td>120</td>
</tr>
<tr>
<td>Net current assets</td>
<td>48</td>
<td>120</td>
<td>40</td>
<td>90</td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>38</td>
<td>20</td>
<td>10</td>
<td>120</td>
</tr>
</tbody>
</table>

**QUESTION NO 8**

Prepare a Segmental report for publication in Diversifiers Ltd. from the following details of the company’s Segment three divisions and the head office.

### Forging shop division

- Sales to Bright Bar division 4,575
- Other domestic sales 90
- Export sales 6,135
  
### Bright Bar division:

- Sales to fitting division 45
- Export sales to Rwanda 300

### Fitting division:

- Export sales to Maldives 270

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Head office</th>
<th>Forging shop division Rs.’000</th>
<th>Bright bar division Rs.’000</th>
<th>Fitting division Rs.’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre tax operating results</td>
<td></td>
<td>240</td>
<td>30</td>
<td>(12)</td>
</tr>
<tr>
<td>Head office cost reallocated</td>
<td></td>
<td>72</td>
<td>36</td>
<td>36</td>
</tr>
</tbody>
</table>
QUESTION NO 9

Following details are given for Cheer Ltd. for the year ended 31.3.2003:

<table>
<thead>
<tr>
<th>Sales:</th>
<th>Rs. '000</th>
<th>Rs. '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food products</td>
<td>5650</td>
<td></td>
</tr>
<tr>
<td>Plastic and packaging</td>
<td>625</td>
<td></td>
</tr>
<tr>
<td>Health and scientific</td>
<td>345</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>162</td>
<td>6782</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food products</td>
<td>3335</td>
<td></td>
</tr>
<tr>
<td>Plastic and packaging</td>
<td>425</td>
<td></td>
</tr>
<tr>
<td>Health and scientific</td>
<td>222</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>200</td>
<td>4182</td>
</tr>
</tbody>
</table>

General corporate expenses  | 562      |          |
Income from investments     | 132      |          |
Interest expenses           | 65       |          |

<table>
<thead>
<tr>
<th>Identifiable Assets:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food products</td>
<td>7320</td>
<td></td>
</tr>
<tr>
<td>Plastic and packaging</td>
<td>1320</td>
<td></td>
</tr>
<tr>
<td>Health and scientific</td>
<td>1050</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>665</td>
<td>10355</td>
</tr>
</tbody>
</table>

General corporate Assets    | 722      |          |

Other information:
(a) Inter Segment sales are as below:
   a. Food products 55000
(b) Plastic and packaging   72000
(c) Health and scientific   21000
(d) Others     7000

(b) Operating profit included Rs.33000 on inter Segment sales.
(c) Information about inter Segment expenses are not available.

You are required to prepare a statement showing financial information about Cheer Ltd. operations in different industry segments.

**QUESTION NO 10**

Rekfor Fontry Ltd. has 2 products making servers and making other software. Most of the risk and reward factors are common. But the CODM wants to classify them as segment. Comment as per IND AS-108 and Ind AS-108.

**SOLUTION:**

Ind AS-108: Ind AS-108 requires identification of ‘operating segments’ based on internal management reports that are regularly reviewed by the entity’s “chief operating decision maker” for the purposes of allocating resources to the segments and assessing their performance. If as per the CODM the 2 products are 2 segments then yes the entity should follow Segment reporting. Also one should check the 10% criteria.

**QUESTION NO 11**

Microtech Ltd. produces batteries for scooters, cars, trucks and specialized batteries for invertors and UPS. Are these products different business segments or a part of the same business segment.

**SOLUTION**

We can not aggregate the given products because all the given products are different by nature. The production process and class of customers is totally different of each product from other product.

**QUESTION NO 12**

Superb Ltd. is a multinational company having registered office in Mumbai. The following details are available from the books and other records of the company for the year ended 31st March, 2014:
### Sales:

<table>
<thead>
<tr>
<th>Region</th>
<th>Rs. ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>7,625</td>
</tr>
<tr>
<td>Europe</td>
<td>1,676</td>
</tr>
<tr>
<td>America</td>
<td>2,325</td>
</tr>
<tr>
<td>Australia</td>
<td>766</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,392</strong></td>
</tr>
</tbody>
</table>

**Inter-unit sales between geographic areas (not included above):**

<table>
<thead>
<tr>
<th>Region</th>
<th>Rs. ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>523</td>
</tr>
<tr>
<td>Europe</td>
<td></td>
</tr>
</tbody>
</table>

### Operating Profit:

<table>
<thead>
<tr>
<th>Region</th>
<th>Rs. ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td></td>
</tr>
<tr>
<td>America</td>
<td>1,262</td>
</tr>
<tr>
<td>Australia</td>
<td>344</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,943</strong></td>
</tr>
</tbody>
</table>

### Other Items:

<table>
<thead>
<tr>
<th>Item</th>
<th>Rs. ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General corporate expenses</td>
<td>362</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>274</td>
</tr>
<tr>
<td>Income from Investment</td>
<td>166</td>
</tr>
</tbody>
</table>

### Identifiable assets:

<table>
<thead>
<tr>
<th>Region</th>
<th>Rs. ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>10,620</td>
</tr>
<tr>
<td>Europe</td>
<td>5,635</td>
</tr>
<tr>
<td>America</td>
<td>3,205</td>
</tr>
<tr>
<td>Australia</td>
<td>1,560</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21,020</strong></td>
</tr>
</tbody>
</table>

| General corporate assets     | 750        |
| Investments                  | 675        |

Prepare a statement showing financial information about the operations of Superb Ltd. in different geographical segments.
**SOLUTION:**

Information about Superb Ltd.'s Operations in Different Geographical Segments.

**Geographical Segments**

(Fig. in Rs.'000)

<table>
<thead>
<tr>
<th>Item</th>
<th>Domestic</th>
<th>Europe</th>
<th>America</th>
<th>Australia</th>
<th>Inter-Area Eliminations</th>
<th>Consolidated figs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales to unaffiliated Customers</td>
<td>7,625</td>
<td>1,676</td>
<td>2,325</td>
<td>766</td>
<td>(1,283)</td>
<td>12,392</td>
</tr>
<tr>
<td>Inter Unit Sales between geographic areas</td>
<td>523</td>
<td>760</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>8,148</td>
<td>2,436</td>
<td>2,325</td>
<td>766</td>
<td>(1,283)</td>
<td>12,392</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Item</th>
<th>Domestic</th>
<th>Europe</th>
<th>America</th>
<th>Australia</th>
<th>Inter-Area Eliminations</th>
<th>Consolidated figs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit</td>
<td>3,575</td>
<td>762</td>
<td>1,262</td>
<td>344</td>
<td></td>
<td>5,943</td>
</tr>
<tr>
<td>Other Items:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(362)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(274)</td>
</tr>
<tr>
<td>Income from Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>165</td>
</tr>
<tr>
<td>Net Profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5,472</td>
</tr>
</tbody>
</table>
A multinational enterprise by the name of Torrential International has business activities located in three segments. The relevant details are as follows:

**Allocation of net income and net assets**

<table>
<thead>
<tr>
<th>Location</th>
<th>Revenue &amp; Costs</th>
<th>Assets &amp; Liabilities (See note 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>North America</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Asia</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

The allocation percentage to be applied to revenue and cost for net of inter-group revenue (see note 3).

1. **Details relating to head office**
   
   The head office procures all necessary finance for the enterprise's activities and allocates this finance to operating units through current accounts. Some costs, assets and liabilities relate solely to head office and cannot be allocated to segments on a rational basis. These amounts are as follows:

   - Operating costs of Rs. 80 Lakhs at 31st March 2015
   - Non current financial assets
- Bank balance of Head Office is Rs. 140 Lakhs at 31st March 2015.
- All liabilities except trade payables.

2. Inter group revenues – year to 31st March 2015

<table>
<thead>
<tr>
<th>Selling Segment</th>
<th>Inter Group Sales</th>
<th>Inter-Group Sales made to</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs. ‘000</td>
<td>Europe</td>
</tr>
<tr>
<td>Europe</td>
<td>16,000</td>
<td>11,200</td>
</tr>
<tr>
<td>North America</td>
<td>12,800</td>
<td>8,800</td>
</tr>
<tr>
<td>Asia</td>
<td>10,400</td>
<td>5,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,400</strong></td>
<td><strong>16,000</strong></td>
</tr>
</tbody>
</table>

Extracts from the consolidated financial statements of Torrential International for the year ended 31st March 2015:

Statement of Comprehensive Income – year ended 31st March 2015

<table>
<thead>
<tr>
<th></th>
<th>Rs. ‘000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>532,000</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(249,600)</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>282,400</td>
</tr>
<tr>
<td>Distribution Costs</td>
<td>(79,200)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(94,400)</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>1,08,800</td>
</tr>
<tr>
<td>Income from Investments</td>
<td>4,800</td>
</tr>
<tr>
<td>Finance Costs</td>
<td>(20,000)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>93,600</td>
</tr>
<tr>
<td>Income tax expenses</td>
<td>(22,400)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>71,200</td>
</tr>
<tr>
<td>Non Controlling interest</td>
<td>(64,00)</td>
</tr>
<tr>
<td>Net Profit for the period</td>
<td>64,800</td>
</tr>
<tr>
<td><strong>Statement of Financial position as at 31st March 2015</strong></td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Non-Current Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Property, Plant &amp; Equipment</td>
<td>272,000</td>
</tr>
<tr>
<td>Financial Assets</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>60,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>83,200</td>
</tr>
<tr>
<td>Bank Balances</td>
<td>19,200</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity and Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Capital and Reserves</strong></td>
<td></td>
</tr>
<tr>
<td>Issued Capital</td>
<td>120,000</td>
</tr>
<tr>
<td>Accumulated profits</td>
<td>144,000</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
</tr>
<tr>
<td>Interest bearing borrowings</td>
<td>112,000</td>
</tr>
<tr>
<td>Deferred Tax</td>
<td>28,800</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>56,000</td>
</tr>
<tr>
<td>Short term borrowings</td>
<td>13,600</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Required:** Prepare a segment report for Torrential International for the year ended 31st March, 2015 that complies with IND AS-108.
### SOLUTION:

**Segment report for Torrential International**

*Amount in Rs.’000*

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>North America</th>
<th>Asia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Sales (60:20:20)</td>
<td>319,200</td>
<td>106,400</td>
<td>106,400</td>
<td>532,000</td>
</tr>
<tr>
<td>Inter-Segment Sales</td>
<td>16,000</td>
<td>12,800</td>
<td>10,400</td>
<td>39,200</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>335,200</td>
<td>119,200</td>
<td>116,800</td>
<td>571,200</td>
</tr>
</tbody>
</table>

|                |         |               |        |         |
| **RESULT**     |         |               |        |         |
| Segment Result (W1)  | 71,680  | 20,160        | 24,960 | 116,800 |

|                |         |               |        |         |
| Unallocated corporate expenses (H O Operating Cost) |         |               |        | (8,000) |
| Profit from operations |         |               |        | 1,08,800 |
| Investment income |         |               |        | 4,800   |
| Finance cost |         |               |        | (20,000) |
| Income taxes |         |               |        | (22,400) |
| Non controlling interest |         |               |        | (6,400) |
| Net Profit | 64,800  |               |        |         |

|                |         |               |        |         |
| **OTHER INFORMATION** |         |               |        |         |
| Segment assets (WZ) | 168,160 | 168,160       | 84,080 | 420,400 |
| Unallocated corporate assets | (40,000 + 14,000) |               |        | 54,000  |
| Consolidated assets |         |               |        | 474,400 |
| Segment liabilities (W3) | 22,400  | 22,400        | 11,200 | 56,000  |
| Unallocated corporate Liabilities (140,800+13,600*) |         |               |        | 154,400 |
| Consolidated liabilities |         |               |        | 210,400 |
* Total bank balance – amount allocated to segments =Rs. 19,200 – Rs. 5,2000 = Rs.14,000 (000)

**Working (all figures in Rs.’000)**

### W 1 Segment result

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>North America</th>
<th>Asia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment Revenue</td>
<td>335,200</td>
<td>118,200</td>
<td>116,800</td>
<td>571,200</td>
</tr>
<tr>
<td>Segment Cost</td>
<td>(249,120)</td>
<td>(83,040)</td>
<td>(83,040)</td>
<td>(415,200)</td>
</tr>
<tr>
<td>External*</td>
<td>(14,400)</td>
<td>(16,000)</td>
<td>(8,800)</td>
<td>(39,200)</td>
</tr>
<tr>
<td>Inter-Group (Note 2 to question)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment Result</td>
<td>71,680</td>
<td>20,160</td>
<td>24,960</td>
<td>116,800</td>
</tr>
</tbody>
</table>

* Total operating costs (excluding Inter-group items) are 423,200 (249,600 + 79,200 + 94,400)

Head Office costs are 8,000

So costs to be allocated are 415,200 in the ratio (60:20:20)

### W2: Segment Assets all allocated in the ratio 40:40:20

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>North America</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, Plant &amp; equipment (272,000)</td>
<td>108,800</td>
<td>108,800</td>
<td>54,400</td>
</tr>
<tr>
<td>Inventories (60,000)</td>
<td>24,000</td>
<td>24,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Trade receivables (83,2000)</td>
<td>33,280</td>
<td>33,280</td>
<td>16,640</td>
</tr>
<tr>
<td>Bank Balance (5,200)</td>
<td>2,080</td>
<td>2,080</td>
<td>1,040</td>
</tr>
<tr>
<td></td>
<td>168,160</td>
<td>168,160</td>
<td>84,080</td>
</tr>
</tbody>
</table>

### W3: Segment liabilities all allocated in the ratio 40:40:20

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>North America</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Payable (56,000)</td>
<td>22,400</td>
<td>22,400</td>
<td>11,200</td>
</tr>
</tbody>
</table>
QUESTION NO 14 (STUDY MATERIAL)

X Ltd. is operating in coating industry. Its business segment comprises coating and others consisting of chemicals, polymers and related activities. Certain information for financial year 20X1-20X2 is given below.

(₹ in lakhs)

<table>
<thead>
<tr>
<th>Segments</th>
<th>External sale</th>
<th>Tax</th>
<th>Other operating Liabilities</th>
<th>Result</th>
<th>Asset Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coating</td>
<td>2,00,000</td>
<td>5,000</td>
<td>40,000</td>
<td>10,000</td>
<td>50,000 30,000</td>
</tr>
<tr>
<td>Others</td>
<td>70,000</td>
<td>3,000</td>
<td>15,000</td>
<td>4,000</td>
<td>30,000 10,000</td>
</tr>
</tbody>
</table>

Additional information:

1. Unallocated revenue net of expenses is ₹ 30,00,00,000
2. Interest and bank charges is ₹ 20,00,00,000
3. Income tax expenses is ₹ 20,00,00,000 (current tax ₹ 19,50,00,000 and deferred tax ₹ 50,00,000)
4. Investments ₹ 1,00,00,00,000 and unallocated assets ₹ 1,00,00,00,000.
5. Unallocated liabilities, Reserve & surplus and share capital are ₹ 2,00,00,00,000, ₹ 3,00,00,00,000 & ₹ 1,00,00,00,000 respectively.
6. Depreciation amounts for coating and others are ₹ 10,00,00,000 and ₹ 3,00,00,00,000 respectively
7. Capital expenditure for coating and others are ₹ 50,00,00,000 and ₹ 20,00,00,000 respectively.
8. Revenue from outside India is ₹ 3,00,00,00,000 and segment asset outside India ₹ 1,00,00,00,000

Based on the above information, how X Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 20X1-20X2?
Seeds Ltd. is operating in oil industry. Its business segments comprise crushing and refining. Certain information for financial year 2017-18 is given below:

(₹ in lakh)

<table>
<thead>
<tr>
<th>Segments</th>
<th>External Sale</th>
<th>Tax</th>
<th>Operating Income</th>
<th>Results</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crushing</td>
<td>1,00,000</td>
<td>2,500</td>
<td>20,000</td>
<td>5,000</td>
<td>25,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Refining</td>
<td>35,000</td>
<td>1,500</td>
<td>7,500</td>
<td>2,500</td>
<td>15,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Additional information: (₹ in lakh)
- Unallocated revenue net of expenses is ₹ 1,500.
- Interest and bank charges is ₹ 1,000
- Income-tax expense is 1,000 (current tax ₹ 975 and deferred tax ₹ 25)
- Investments ₹ 5,000 and unallocated assets ₹ 5,000
- Unallocated liabilities, Reserves & Surplus and Share capital are ₹ 10,000; ₹ 15,000 and ₹ 5,000 respectively.
- Depreciation amounts for crushing and refining are ₹ 500 and ₹ 150 respectively.
- Capital expenditure for crushing and refining are ₹ 2,500 and ₹ 1,000 respectively.
- Revenue from outside India is ₹ 15,000 and segment assets outside India ₹ 5,000.

Based on the above information, how Seeds Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 2017-18?

SOLUTION

Segment revenues, results and other information

(₹ in lakh)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Coating</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>External sales (gross)</td>
<td>1,00,000</td>
<td>35,000</td>
<td>1,35,000</td>
</tr>
<tr>
<td>Tax</td>
<td>-2,500</td>
<td>-1,500</td>
<td>-4,000</td>
</tr>
<tr>
<td>External sales (net)</td>
<td>97,500</td>
<td>33,500</td>
<td>1,31,000</td>
</tr>
<tr>
<td>Other operating income</td>
<td>20,000</td>
<td>7,500</td>
<td>27,500</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>117,500</td>
<td>41,000</td>
<td>158,500</td>
</tr>
</tbody>
</table>

2 Results

<table>
<thead>
<tr>
<th>Segment results</th>
<th>5,000</th>
<th>2,000</th>
<th>7,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unallocated income (net of unallocated expenses)</td>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit from operation before interest, taxation and exceptional items</td>
<td>8,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and bank charges</td>
<td>-1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before exceptional items</td>
<td>7,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exceptional items</td>
<td>Nil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>7,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Income Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current taxes</td>
<td>-975</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>-25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit after taxation</td>
<td>6,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other information

3 Assets

<table>
<thead>
<tr>
<th>Segment Assets</th>
<th>25,000</th>
<th>15,000</th>
<th>40,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unallocated assets</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b) Liabilities/Shareholder's funds

<table>
<thead>
<tr>
<th>Segment liabilities</th>
<th>15,000</th>
<th>5,000</th>
<th>20,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unallocated liabilities</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Ind AS-108 Operating Segment

<table>
<thead>
<tr>
<th>Reserves and surplus</th>
<th>15,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total liabilities/ shareholder's funds</td>
<td>50,000</td>
</tr>
</tbody>
</table>

(c) **Other**

<table>
<thead>
<tr>
<th>Capital Expenditure</th>
<th>2,500</th>
<th>1,000</th>
<th>3,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>500</td>
<td>150</td>
<td>650</td>
</tr>
</tbody>
</table>

(2) **Geographical Information**

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>Outside India</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1,43,500</td>
<td>15,000</td>
<td>1,58,500</td>
</tr>
<tr>
<td><strong>Segment assets</strong></td>
<td>35,000</td>
<td>5,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>3,500</td>
<td>-</td>
<td>3,500</td>
</tr>
</tbody>
</table>

**Note:** Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments.
INDIAN ACCOUNTING STANDARD 20

GOVERNMENT GRANTS AND DISCLOSURE
OF GOVERNMENT ASSISTANCE

QUESTION NO 1

Government gives a grant of ₹10,00,000 for research and development of H1N1 vaccine to A Pharmaceuticals Limited. There is no condition attached to the grant. Examine how the Government grant be realized.

SOLUTION

The entire grant should be recognized immediately in profit or loss.

QUESTION NO 2

Government gives a grant of ₹10,00,000 for research and development of H1N1 vaccine to A Pharmaceuticals Limited even though similar vaccines are available in the market but are expensive. The entity has to ensure by developing a manufacturing process over a period of 2 year that the costs come down by at least 40% Examine how the Government grant be realized.

SOLUTION

The entire grant should be recognized immediately as deferred income and charged to profit or loss over a period of two years.

QUESTION NO 3

A Village of artisans in a district got devastated because of an earthquake. A Limited was operating in that district and was providing employment to the artisans. The government gave a grant of ₹10,00,000/- to A Limited so that 100 artisans are rehabilitated over a period of 3 years. Government grant be realized.

SOLUTION

A limited will recognize ₹10,00,000 as government grant and set it up as a deferred income and will recognize it in its profit or loss over the period of three years as per the principles enunciated in Ind AS 20.
Once a government grant is recognized, any related contingent liability or contingent
asset is treated in accordance with Ind AS 37, Provisions, Contingent Liabilities and
Contingent Assets.

The manner in which a grant is received does not affect the accounting method to
be adopted in regard to the grant. Thus a grant is accounted for in the same manner
whether it is received in cash or as a reduction of a liability to the government or in
the form of non monetary asset.

**QUESTION NO 4**

A Limited received from the government a loan of ₹50,00,000 @ 5% payable after 5 years
in a bulleted payment. The prevailing market rate of interest is 12%. Interest is payable
regularly at the end of each year. Calculate the amount of government grant and Pass
necessary journal entry. Also examine how the Government grant be realized.

**SOLUTION**

The fair value of the loan is calculated at ₹ 37,38,328

<table>
<thead>
<tr>
<th>Year</th>
<th>Opening Balance</th>
<th>Interest Calculated @ 12%</th>
<th>Interest paid @ 5% on ₹ 50,00,000 principal paid</th>
<th>Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c) = (b) × 12%</td>
<td>(d)</td>
<td>(e) = (b) + (c) - (d)</td>
</tr>
<tr>
<td>1</td>
<td>37,38,328</td>
<td>4,48,600</td>
<td>2,50,000</td>
<td>39,36,928</td>
</tr>
<tr>
<td>2</td>
<td>39,36,928</td>
<td>4,72,431</td>
<td>2,50,000</td>
<td>41,59,359</td>
</tr>
<tr>
<td>3</td>
<td>41,59,359</td>
<td>4,99,123</td>
<td>2,50,000</td>
<td>44,08,482</td>
</tr>
<tr>
<td>4</td>
<td>44,08,482</td>
<td>5,29,018</td>
<td>2,50,000</td>
<td>46,87,500</td>
</tr>
<tr>
<td>5</td>
<td>46,87,500</td>
<td>5,62,500</td>
<td>52,50,000</td>
<td>Nil</td>
</tr>
</tbody>
</table>

A Limited will recognize ₹ 12,61,672 (₹ 50,00,000 - ₹ 37,38,328) as the government grant
and will make the following entry on receipt of loan

Bank Account: Dr. 50,00,000
To Deferred Income: 12,61,672
To Loan Account: 37,38,328

₹ 12,61,672 is to be recognized in profit or loss on a systematic basis over the periods in
which A Limited recognized as expenses the related costs for which the grant is intended
to compensate (see QUESTION NO 5 in this regard)
**QUESTION NO 5**

Continuing with the facts given in the Question 4, state how the grant will be recognized in the statement of profit or loss assuming.

a) The loan is an immediate relief measure to rescue the enterprise

b) The loan is a subsidy for staff training expenses, incurred equally, for a period of 4 years

c) The loan is to finance a depreciable asset.

**SOLUTION**

₹ 12,61,672 is to be recognized in profit or loss on a systematic basis over the periods in which A Limited recognized as expenses the related costs for which the grant is intended to compensate.

Assuming (a) the Loan is an immediate relief measure to rescue the enterprise. ₹ 12,61,672 will be recognized in profit or loss immediately.

Assuming (b) the loan is a subsidy for staff training expenses, incurred equally, for a period of 4 years ₹ 12,61,672 will be recognized in profit or loss over a period of 4 years.

Assuming (c), the loan is to finance a depreciable asset. ₹12,61,672 will be recognized in profit or loss on the same basis as depreciation.

**QUESTION NO 6**

A Limited wants to establish a manufacturing unit in a backward area and requires 5 acres of land. The government provides the land on a leasehold basis at a nominal value of ₹ 10,000 per acre. The fair value of the land is ₹ 100,000 per acre. Calculate the amount of the Government grant to be recognized by an entity.

**SOLUTION**

A limited will recognize ₹ 450,000 (₹ 100,000 — ₹ 10,000) x 5) as government grant.

**QUESTION NO 7**

A Limited establishes solar panels to supply solar electricity to its manufacturing plant. The cost of solar panels is ₹ 1,00,00,000 with a useful life of 10 years. The depreciation is provided on straight line method basis. The government gives ₹ 50,00,000 as a subsidy. Examine how the Government grant be realized.
SOLUTION

A Limited will set up ₹ 50,00,000 as deferred income and will credit ₹ 5,00,000 equally to its statement of profit and loss over next 10 years.

QUESTION NO 8

Continuing with the facts given in the Illustration 7 above, state how the same will be disclosed in the Statement of cash flows.

SOLUTION

A Limited will show ₹ 1,00,00,000 being acquisition of solar panels as outflow in investing activities. The receipt of ₹ 50,00,000 from government will be shown as inflow under financing activities.
**TEST YOUR KNOWLEDGE**

**QUESTION NO 1**

ABC Ltd. has received the following grants from the Government of Delhi for its newly started pharmaceutical business:

- ₹ 20 Lakhs received for immediate start-up of business without any condition
- ₹ 50 Lakhs received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:
  - That drugs
  - the drugs should be in accordance with quality prescribed by the World Health Organization [WHO].
- Two acres of land (fair Value: ₹ 10 Lakhs) received for set up plant.
- ₹ 2 lakhs received for purchase of machinery of ₹ 10 lakhs. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis.

How should ABC Ltd. recognise the government grants in its books of accounts?

**QUESTION NO 2**

A Limited received from the government a loan of ₹ 1,00,00,000 @5% payable after 5 years in a bulleted payment. The prevailing market rate of interest is 12%. Interest is payable regularly at the end of each year. Calculate the amount of government grant and Pass necessary journal entry. Also examine how the Government grant be realized.

Also state how the grant will be recognized in the statement of profit or loss assuming that the loan is to finance a depreciable asset.
### Major Changes in Ind AS 20 vis-à-vis Notified AS 12

(i) **Government Assistance which does not fall within the Definition of Government Grants:**
Ind AS 20 deals with the other forms of government assistance which do not fall within the definition of government grants. It requires that an indication of other forms of government assistance from which the entity has directly benefited should be disclosed in the financial statements. However, AS 12 does not deal with such government assistance.

(ii) **Grant in respect of Non Depreciable Assets:**
AS 12 requires that in case the grant is in respect of non-depreciable assets, the amount of the grant should be shown as capital reserve which is a part of shareholders’ funds. It further requires that if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. AS 12 also gives an alternative to treat such grants as a deduction from the cost of such asset.

As compared to the above, Ind AS 20, is based on the principle that all government grants would normally have certain obligations attached to them and these grants should be recognised as income over the periods which bear the cost of meeting the obligation. It, therefore, specifically prohibits recognition of grants directly in the shareholders’ funds.

(iii) **Government Grants in the Nature of Promoters Contribution:**
AS 12 recognises that some government grants have the characteristics similar to those of promoters’ contribution. It requires that such grants should be credited directly to capital reserve and treated as a part of shareholders’ funds. Ind AS 20 does not recognise government grants of the nature of promoters’ contribution. As stated at (ii) above, Ind AS 20 is based on the principle that all government grants would normally have certain obligations attached to them and it, accordingly, requires all grants to be recognised as income over the periods which bear the cost of meeting the obligation.

(iv) **Valuation of Non-monetary Grants given Free or at a Concessional Rate:**
AS 12 requires that government grants in the form of non-monetary assets, given at a concessional rate, should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value. Ind AS 20 requires to value non-monetary grants at their fair value, since it results into presentation of more relevant information and is conceptually superior as compared to valuation at a nominal amount.

(v) **Accounting for Grant Related to Assets including Non-monetary Grant:**
Existing AS 12 gives an option to present the grants related to assets, including non-monetary grants at fair value in the balance sheet either by setting up the grant as deferred income or by deducting the grant from the gross value of asset concerned in arriving at its book value. Ind AS 20 requires presentation of such grants in balance sheet only by setting up the
grant as deferred income. Thus, the option to present such grants by deduction of the
grant in arriving at its book value is not available under Ind AS 20.

(vi) **Government Assistance**: Ind AS 20 includes Appendix A which deals with Government Assistance—No Specific Relation to Operating Activities.

(vii) **Loans at Concessional Rate**: Ind AS 20 requires that loans received from a government that have a below-market rate of interest should be recognised and measured in accordance with Ind AS 109 (which requires all loans to be recognised at fair value, thus requiring interest to be imputed to loans with a below-market rate of interest) whereas AS 12 does not require so.
EXTRA QUESTIONS TO BE COVERED

QUESTION NO 1

Ram Ltd. purchased a Machinery for Rs.1.00 Crore. The State Government granted the Company a subsidy of Rs.40 Lakhs to meet partial cost of Machinery. The Company credited the Subsidy received from the State Government to its Profit and Loss Account for the year ended 31st March. Comment on the above.

SOLUTION

1. Principle: Where a Government Grant is received towards a specific depreciable Fixed Asset, it should be accounted for either under Cost Reduction Method or Deferred Income Method.

2. Conclusion: The accounting treatment of the Company, i.e. crediting P&L A/c. is incorrect.

QUESTION NO 2

Haribhakti Ltd. acquired the Fixed Asset of Rs. 100 Lakhs on which it received a Grant of Rs. 10 Lakhs. What will be the cost of the Fixed Assets as per IND AS 20 and how it will be disclosed in the Financial Statements?

SOLUTION

Principle: Where a Government Grant is received towards a specific depreciable Fixed Assets, it should be accounted for either under Cost Reduction Method or Deferred Income Method. The accounting will be as under:-

1. Asset Reduction Method: Cost Rs. 100 Lakhs Less Grant Rs. 10 Lakhs = Rs. 90 Lakhs will be the Carrying Amount, and written off over its useful life.

2. Deferred Income Method: Rs. 10 Lakhs in Deferred Income Account shall be shown in Balance Sheet separately under an appropriate head. A portion of this Rs. 10 Lakhs will be credited to P&L A/c. every year, over the useful life of the asset.

QUESTION NO 3

Gowri Shankar Ltd. purchased a special machinery on 1st April of a Financial year, for Rs. 25 Lakhs. It received a Government Grant for 20% of the Price. The machine has an effective life of 10 years. Advise the Company of the accounting treatment under both methods.
QUESTION NO 4

Kripanidhi Ltd. purchased a Fixed Asset for Rs. 75 Lakhs, which has an estimated useful life of 5 years, with the Salvage Value of Rs. 7,50,000. On Purchase of the Asset, the Government have the Company a grant of Rs. 15 Lakhs. Pass the necessary journal entries in the books of the Company for the first two years under both methods which are specified in ind as 20.

QUESTION NO 5

Supriya Ltd. received a grant of Rs. 2,500 Lakhs from the Government during the last accounting year for welfare activities to be carried on by the Company for its Employees. The Grant prescribed conditions for its utilization. However, during the current year, it was found that the conditions of Grants were not complied with and the Grant had to be refunded to the Government in full. Explain the accounting treatment, under ind as 20.

SOLUTION

1. The above Grant is in the nature of Revenue Grant, since it is for welfare activities for its Employees. Therefore, when received, it should have been credited to P&L Account.
2. Therefore, in the event of refund, the amount refunded should be debited to P&L account.

QUESTION NO 6

Neelakanta Ltd. purchased a Machinery for Rs. 40 Lakhs (Useful Life 4 years and Residual value Rs. 8 Lakhs). Government Grant received is Rs. 16 Lakhs. Due to non-compliance of certain condition, the Grant become refundable in 3rd year to the extent of Rs. 12 Lakhs. Show the Journal Entry to be passed at the time of refund of Grant and the value of the Fixed Assets, if (a) the Grant is credited to Fixed Assets (b) the Grant is credited to Deferred Grant A/c.

QUESTION NO 7

Srikanta Ltd. received a specific grant of Rs. 30 Lakhs for acquiring the Plant of Rs.150 Lakhs during 2010-11 having useful life of 10 years. The Grant received was credited to Deferred Income in the Balance Sheet. During 2013-14, due to non-compliance of conditions laid down, for the grant, the Company had to refund the whole grant to the Government Balance in the Deferred Income on that date was Rs. 21 Lakhs and Written Down Value of Plant was Rs. 105 Lakhs.
SOLUTION

If Grant is credited to Deferred Grant A/c. (i.e. Deferred Income Method)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Dr. (Rs.)</th>
<th>Cr. (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Government Grant A/c.</td>
<td>Dr. (given)</td>
<td>21,00,000</td>
</tr>
<tr>
<td>Profit and Loss A/c.</td>
<td>Dr. (balancing figure)</td>
<td>9,00,000</td>
</tr>
<tr>
<td>To Bank A/c.</td>
<td></td>
<td>30,00,000</td>
</tr>
</tbody>
</table>

(Being Grant refunded to Government, and excess provided from Profit & Loss A/c).

Note: There will not be any change in the carrying amount of the Asset. Depreciation will be charged on the same basis as charged in the earlier years.

QUESTION NO 8

Markandeya Ltd. applied for a Government Grant for purchase of a special machinery. The machinery costs Rs. 80 Lakhs and the Grant was Rs. 30 Lakhs. The Machinery has a useful life of 10 years and the Company follows SLM Depreciation. The Grant was promptly received but certain conditions regarding production were attached to it. Four years later, an amount of Rs. 4 Lakhs become refundable to the Government since the Company did not adhere to the conditions imposed earlier. Explain the accounting treatment.

QUESTION NO 9

On 1st April 2010, Sundaram Ltd. received a Government Grant of Rs. 300 Lakhs for acquisition of a Machinery costing Rs. 1,500 Lakhs. The Grant was credited to the cost of the Asset. The life of the Machinery is 5 years. The Machinery is depreciated at 20% on WDV basis. The Company had to refund the Grant in May 2013 due to non-fulfillment of certain conditions. How you would deal with the refund of Grant?

QUESTION NO 10

A Ltd. has set up its business in a designated backward area with an investment of Rs.200 Lakhs. The Company is eligible for 25% subsidy and has received Rs.50 Lakhs from the Government. Explain the treatment of the Capital Subsidy received from the Government in the books of the Company.
SOLUTION

The Government Grants may be in the nature of Promoters’ Contribution i.e. -
(a) they are given with reference to the Total Investment in an undertaking, or
(b) by way of contribution towards its Total Capital Outlay, (e.g. Central Investment Subsidy Scheme).

The correct treatment is to credit the Subsidy to Profit & Loss Statement immediately.
Ind AS 20: Recognition and Presentation of Grants Received from the Government

**QUESTION 1 NEW EXAMINATION NOV-2018**

How will you recognize and present the grants received from the Government in the following cases as per Ind AS 20?

(i) A Ltd. received one acre of land to setup a plant in backward area (fair value of land ₹12 lakh and acquired value by Government in ₹8 lakhs.)

(ii) B. Ltd. received an amount of loan for setting up a plant at concessional rate of interest from the Government.

(iii) D. Ltd. received an amount of ₹25 lakh for immediate start-up a business without any condition.

(iv) S Ltd. received ₹10 lakh for purchase of machinery costing ₹80 lakh. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis.

(v) Government gives a of grant ₹25 lakh to U Limited for research and development of medicine for breast cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%

**SOLUTION**

(i) The land and government grant should be recognized by A Ltd. at fair value of ₹12,00,000 and this government grant should be presented in the books as deferred income. (Refer footnote 1)

(ii) As per para 10A of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', loan at concessional rates of interest is to be measured at fair value and recognised as per Ind AS 109. Value of concession is the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for as Government grant.

(iii) ₹25 lakh has been received by D Ltd. for immediate start-up business. Since this grant is given to provide immediate financial support to entity, it should be recognised in the Statement of Profit and Loss immediately with disclosure to ensure that its effect is clearly understood, as per para 21 of Ind AS 20.

(iv) ₹10 lakh should be recognized by S Ltd. as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹1,00,000 [₹10 lakh/
10 years] should be credited to profit and loss each year over period of 10 years. Alternatively, Asset Reduction method can also be followed.

(v) As per para 12 of Ind AS 20, the entire grant of ₹ 25 lakh should be recognized immediately as deferred income and charged to profit and loss over a period of two years based on the related costs for which the grants are intended to compensate provided that there is reasonable assurance that U Ltd. will comply with the conditions attached to the grant.

QUESTION 2 NEW EXAMINATION MAY-2019

Mediquick Ltd. has received the following grants from the Central Government for its newly started pharmaceutical business:

- ₹ 50 lakh received for immediate start-up of business without any condition.
- ₹ 70 lakh received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:
  (i) That drugs should be available to the public at 20% cheaper from current market price and
  (ii) The drugs should be in accordance with quality prescribed by the Govt. Drug Control department.
- Three acres of land (fair value; ₹ 20 lakh) received for set up of plant.
- ₹ 4 lakh received for purchase of machinery of ₹ 10 lakh. Useful life of machinery is 4 years. Depreciation on this machinery is to be charged on straight-line basis.

How should Mediquick Ltd. recognize the government grants in its books of accounts as per relevant Ind AS?

SOLUTION

Mediquick Ltd. should recognise the grants in the following manner:

- ₹ 50 lakhs have been received for immediate start-up of business. This should be recognised in the Statement of Profit and Loss immediately as there are no conditions attached to the grant.
- ₹ 70 lakhs should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. However, for this compliance, there should be reasonable assurance that Mediquick Ltd. complies with the conditions attached to the grant.
- Land should be recognised at fair value of ₹ 20 lakhs and government grants should be presented in the balance sheet by setting up the grant as deferred income.

  *Alternatively*, since the land is granted at no cost, it may be presented in the books at nominal value.

- ₹ 4 lakhs should be recognised as deferred income and will be transferred to profit and loss account over the useful life of the asset. In this cases, ₹ 1,00,000 [₹ 4 lakhs/4 years] should be credited to profit and loss account each year over the period of 4 years.

  *Alternatively*, ₹ 4,00,000 will be deducted from the cost of the asset and depreciation will be charged at reduced amount of ₹ 6,00,000 (₹ 10,00,000 - ₹ 4,00,000) i.e. ₹ 1,50,000 each year.
QUESTION NO 1

Entity P limited has a controlling interest in subsidiaries SA limited and SB limited and SC limited. SC limited is a subsidiary of SB limited. P limited also has significant influence over associates A1 and A2. Subsidiary SC limited has significant influence over associate A3 limited.

Examine related party relationship of various entities.

QUESTION 2

Mr. X has a 100% investment in A limited. He is also a member of the key management personnel (KMP) of C limited. B limited has a 100% investment in C limited.

Required:

(a) Examine related party relationship from the perspective of C limited for A limited
(b) Examine related party relationship from the perspective of C limited for A limited if Mr. X is a KMP of B limited and not C limited.
(c) Will outcome in (a) & (b) would be different if Mr. has joint control over A limited
(d) Will the outcome in (a) & (b) would be different if Mr. X has significant influence over A limited.

QUESTION NO 3

Mr. X has an investment in A limited and B limited

Required:

(1) Examine when can related party relationship be established
   a. From the perspective of A limited financial statement
   b. From the perspective of B limited financial statement
(2) Will A limited and B limited be related parties if Mr. has only significant influence over both A limited and B limited
QUESTION NO 4

Government G directly controls entity 1 and entity A. It indirectly controls Entity A and Entity B through Entity 1, and Entity C and Entity D through Entity 2. Person X is a member of the key management personnel in Entity 1.

Required

Examine the entity to whom the exemption for disclosure to be given and for transaction with whom.

QUESTION NO 5

Power limited is a producer of electricity. Transmission limited regularly purchases electricity from Power limited. Power limited whose financial year ends on March 31, 20X2, acquired 100% shareholding of Transmission Limited on July 15, 20X1, However, the entire shareholding is disposed of on March 21, 20X2 power Limited and Transmission Limited has transactions when Transmission Limited was a subsidiary of power Limited and also in the period when it was not a subsidiary or power Limited.

Required:

For which period related party disclosure should power Limited make in its financial Statements for the year ended March 31, 20X2 with respect to transactions with transmission Limited

QUESTION 6

A Limited has both (i) Joint control over B Limited and (ii) Joint control or significant influence over C Limited

Required

(a) Examine related party relationship from the perspective of C Limited’s financial Statements:

(b) Examine related party relationship from the perspective of B Limited’s financial Statements:
QUESTION NO 1

Will transactions with Related Parties, for services provided/received free of cost, be required to be disclosed?

Adhiram Ltd. has a Corporate Communications Department, which centralizes the Public Relations functions for the whole group of Adhiram Ltd. and its Subsidiaries. No charges are however, levied by Adhiram Ltd. on its Subsidiaries and accordingly, these transactions are not given accounting recognition. Would these constitute Related Party Transactions requiring disclosure under IND AS 24 in the Separate Financial Statements of Adhiram Ltd.?

SOLUTION

1. Principle: As per IND AS 24, a Related Party Transaction is ‘a transfer of resources or obligations between related parties, regardless of whether or not a price is charged”.

2. Conclusion: In the given example, there is a transfer of resources from Adhiram Ltd. to its Subsidiaries even though no price is charged for the same. These transactions would require disclosure under IND AS 24 in the Separate Financial Statements of Adhiram Ltd.

QUESTION NO 2

Bhima Ltd. sold to Arjun Ltd. goods having a Sale Value of rs. 25 Lakhs during a Financial Year. Mr. Strength, the Managing Director and Chief Executive of Bhima Ltd. owns nearly 100% of the Capital of Arjun Ltd. The Sales were made to Arjun Ltd at the normal Selling Price of Bhima Ltd. The Chief Accountant of Bhima Ltd. does not consider that these Sales should be treated any differently from any other sale made by the Company despite being made to a Controlled Company, because the sales were made at normal and, that too, at arms length price. Comment.

SOLUTION

It should be treated a related party transaction because Bhima and Arjun limited are related parties because they a common person Mr. Strength.

QUESTION NO 3

A husband and wife are controlling 34% of voting power in Mathura Limited. They have a separate Partnership Firm, which supplies the main Material to the Company. The
Management says that the above transaction need not be disclosed. How will you deal with the above situation?

**SOLUTION**

In the given case, Partnership firm and Mathura limited should be considered as related parties because these entities have common person. So these transactions should be reported in related party report.

**QUESTION NO 4**

Strong Ltd. holding 60% of the Equity Shares in Weak Ltd. purchased goods worth Rs. 60 Lakhs from Weak Ltd. during the Financial year. The Managing Director of Strong Ltd. is of the opinion that it is normal business activity and there is no need to disclose the same in the final accounts of the Company. Give your views of the above.

**SOLUTION**

1. Strong Ltd. is the Holding Company of Weak Ltd., as is holds more than 50% of the voting power of Weak Ltd. and thus should be treated as Related Parties as per IND AS 24.
2. As per IND AS 24, in the case of Related Party Transactions following facts should be disclosed -
   (a) Related Party Relationship, Name and Nature of Relationship.
   (b) If there is transaction between the Related Parties then a description of the Nature of Transaction, Volume of the Transaction outstanding at the Balance Sheet date etc.
3. In the instant case, since there is Related Party Transaction, the contention of the Managing Director of Strong Ltd is not correct. The Auditor should insist to make proper disclosure as required by IND AS 24 and if the Management refuses, the Auditor should express a qualified opinion.

**QUESTION NO 5**

A Firm of a Father and Son received Rs. 2 Lakhs towards job work done for Rama Ltd. during the year ended 31st March. The total Job Work Charges paid by Rama Ltd. during the year are over Rs. 50 Lakhs. The father is a Managing Director of Rama Ltd. having substantial holding. The Managing Director told the Auditor that since he is not involved in the activities of the Firm, and since the amount paid to it is insignificant there is no need to disclose the transaction He further contended that such a payment made in the last year was not disclosed. Is the M.D. right in his approach?
**Analysis and Conclusion:** In the above case, the Managing Director of Rama Ltd. is a Partner in the Firm with his son, and the Firm has been paid Rs. 2Lakhs as Job Work Charges. The Managing Director has a substantial holding in the Firm. The Managing Director is also a Key Management Personnel of Rama Ltd. Hence, there is a Related Party relationship & transaction requiring disclosure under IND AS 24.

**QUESTION NO 6**

Is a Non-Executive Director on the Board of Directors of a Company, a Key Management Person?

Can a Non-Executive Director be considered as a Related Party, when he participates in the financial and/or operating policy decisions of the Reporting Enterprise?

Vamana Ltd. has two Non-Executive Directors in its Board. State whether IND AS 24 is applicable if - (1) A, a Non-Executive Director is in a position to exercise significant influence by virtue of owning an interest in the voting power in the Company. (2) B, a Non-Executive Director does not enjoy the authority and responsibility for planning, directing and controlling the activities of the Company.

**SOLUTION**

1. **Principles:** IND AS 24 applies to Non-Executive Director as under:

<table>
<thead>
<tr>
<th>IND AS 24 not applicable</th>
<th>IND AS 24 applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) A Non-Executive Director of a Company should not be considered as Key Management Person under IND AS 24 by virtue of his merely being a Director, directing and controlling the activities of the Reporting Enterprise.</td>
<td>A Non-Executive Director would be covered by IND AS 24 if he is a Key Management Person when -</td>
</tr>
<tr>
<td>(b) IND AS 24 should not be applied in respect of a Non-Executive Director even if he participates in the financial and/or operating policy decision, of the Enterprise (Note: Mere participation is different from authority to plan/direct/control).</td>
<td>(a) he has the authority and responsibility for planning, directing and controlling the activities of the Reporting Enterprise, or</td>
</tr>
<tr>
<td></td>
<td>(b) he is in a position to exercise or significant influence by virtue of owning an interest in the voting power.</td>
</tr>
</tbody>
</table>

2. **Conclusion for Vamana Ltd.’s case:** Disclosure under IND AS 24 will be required only for Director A, and not for Director B.
QUESTION NO 7

Is Remuneration paid to Key Management Personnel or Non-Executive Director on the Board of Directors, a Related Party Transaction?

SOLUTION

1. As per IND AS 24, Key Management Personnel are “Related Parties”. Hence, remuneration paid to Key Management Personnel will be a related Party transaction requiring disclosure under IND AS 24.

2. Non-Executive Directors on the Board of Directors of a Company are not “related parties” (See Question above) Hence, remuneration paid to Non-Executive Directors will not be considered as a Related Party Transaction.

QUESTION NO 8

Arun Ltd. owns 60% of the voting power of Baskar Ltd. which in turn owns 60% voting interest in Chandru Ltd. Karuna Ltd. owns the remaining voting share in Chandru Ltd. and is considered to exercise significant influence over Chandru Ltd. During the reporting period, Karuna Ltd. enters into transactions in the ordinary course of business with Arun Ltd. Would Karuna Ltd. be a Related Party of Arun Ltd.?

SOLUTION

1. Analysis: Karuna Ltd. is not related to Arun Ltd. as co-investors/co-venturers are not considered related parties.

2. Conclusion: Hence, Arun Ltd. and Karuna Ltd. are not considered as related party for the purpose of IND AS 24.

QUESTION NO 9

A Ltd. owns 30% of the Equity Capital of B Ltd. B Ltd. in turn owns 35% of the Equity Capital of C Ltd. and 40% of Equity Capital in D Ltd. Answer the following questions -

(1) is B Ltd. a Related Party to A Ltd.? (2) Is C Ltd. a Related Party to A Ltd.?

(3) Are C Ltd. and D Ltd. are Related Parties?

SOLUTION

1. Associates and Joint Ventures of the Reporting Enterprise are Related Parties. Since A Ltd. holds more than 20% of the voting power in B Ltd. by virtue of this, it has substantial interest and significant influence in B Ltd. So B Ltd. is an Associate, and hence is Related Party to A Ltd.
2. An Associate of an Associate is not a Related Party.

3. C Ltd. and D Ltd. are Co-Associates. The case of Co-Associates, this common control is missing, and therefore, they are not Related Parties.

**QUESTION NO 10**

Two Companies A and B have a common Executive Chairman. As per IND AS 24, would these Companies be considered to be Related parties on this account?

**SOLUTION**

1. **Role:** The Executive Chairman is one of the Key Management Personnel of both the Companies as he is one of “those persons who have the authority and the responsibility for planning, directing and controlling the activities of the Reporting Enterprise”.

2. **Requirement:** In the context of significant influence, mere existence of relationship is not sufficient to classify enterprises as Related Parties. The ability to exercise significant influence should exist during the reporting period.

3. **Conclusion:** Just because two Companies have a common Executive Director, they shall not be regarded as Related Parties. There must be exercise of significant influence of one of the other.

**QUESTION NO 11**

Is an Associate of an Associate a Related Party?

Anand Ltd. owns 30% of Share Capital of Bhanu Ltd. while Bhanu Ltd. own 25% of Share Capital of Chandni Ltd. Would Chandni Ltd. be considered a Related Party in the Financial Statements of Anand Ltd.?

**SOLUTION**

1. **Principle:** IND AS 24 refers to “Associates and Joint Ventures of the Reporting Enterprise and the investing party or Venturer of which the Reporting Enterprise is an Associate or a Joint Ventrue” as a Related Party relationship.

2. **Conclusion:** In the above case, Chandni Ltd. is not a Related Party of Anand Ltd. An Associate of an Associate cannot be regarded as a Related Party only by virtue of this relationship.
**QUESTION NO 12**

Would Co-Associates be considered to be Related parties?

Asha Ltd. has two Associates Basu Ltd. and Charan Ltd. and owns 25% of the voting power of Basu Ltd. and 30% of the voting power of Charan Ltd. Would Basu Ltd be considered a Related Party in the Financial Statements of Charan Ltd.?

**SOLUTION**

1. **Analysis:** Both Basu Ltd. and Charan Ltd. are ‘Associates’ of Asha Ltd. However, as Basu Ltd is not an associate of Charan Ltd. nor is it being controlled directly, by Charan Ltd. or is not so controlling Charan Ltd. it is not a Related Party of C Limited.

2. **Conclusion:** Co-Associates cannot be regarded as Related Parties only by virtue of this relationship.

**QUESTION NO 13**

In respect of a Key Supplier who is dependent on the Company for its existence and the Company enjoys influence over the prices of the Supplier (which may not be formally demonstrable), can the Supplier and the Company be considered to be Related Parties?

**SOLUTION**

1. **Principle:** IND AS 24 states that “a single customer, Supplier, Franchiser, Distributor or General Agent with whom an enterprise transacts or significant volume of business merely by virtue of the resulting economic dependence” would not be deemed to be Related Parties.

2. **Conclusion:** As the conditions for being classified as a Related Party are not satisfied in the above case, the Supplier cannot be said to be related to the Company.
Format for disclosure under IND AS 24

List any 5 Related Party transactions which require disclosure under IND AS 24.

<table>
<thead>
<tr>
<th>Particulars of Related Party Transactions</th>
<th>Holding Co.</th>
<th>Subsidiaries</th>
<th>Fellow Subsidiaries</th>
<th>Associates</th>
<th>Key Mgt Personnel</th>
<th>Relatives of Key Mgt. Personnel</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of Goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of Goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of Fixed assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of Fixed Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rendering of Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receiving of Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agency Arrangements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasing or Hire Purchase arrangements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Particulars of Related Party Transactions</th>
<th>Holding Co.</th>
<th>Subsidiaries</th>
<th>Fellow Subsidiaries</th>
<th>Associates</th>
<th>Key Mgt Personnel</th>
<th>Relatives of Key Mgt. Personnel</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tender of R&amp;D</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licence Agreements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance (including Loans &amp; Equity Contributions in cash or in kind)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Names of Related Parties and description of relationship:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Holding Company | A Ltd. |
2. Subsidiaries | B Ltd. and C (P) Ltd. |
3. Fellow Subsidiaries | D Ltd. and Q Ltd. |
4. Associates | X Ltd. Y Ltd and Z (P) Ltd. |
5. Key Management Personnel | Mr. Y and Mr. Z |
6. Relatives of Key Management Personnel | Mrs. Y (wife of Mr. Y), Mr. F (Father of Mr. Z) |
Major Changes in Ind AS 24 vis-à-vis IAS 24 Not Resulting in Carve Outs

1. Confidentially: In Ind AS 24, disclosures which conflict with confidentiality requirements of statute/regulations are not required to be made since Accounting Standards cannot override legal/regulatory requirements.

2. Additional Clarificatory Guidance Regarding Aggregation of Transactions: Paragraph 24A (reproduced below) has been included in the Ind AS 24. It provides additional clarificatory guidance regarding aggregation of transactions for disclosure.

   24A Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor is a material related party transaction with an individual party is clubbed in an aggregated disclosure.

3. Modification of Paragraph 14: Paragraph 14 of Ind AS 24 has been modified to explain the rationale for disclosing related party relationship when control exists.

4. Management Contracts Including for Deputation or Employees: In Ind AS 24, ‘(k) management contracts including for deputation or employees’ has been added in the example of transactions that are disclosed if they are with related party.

5. Definition of Close Members of the Family of a Person: ‘Definition of close members of the family of a person’ has been amended to include brother, sister, father and mother in the category of family members who may be expected to influence, or be influenced.
TEST YOUR KNOWLEDGE

QUESTION 1

Mr. X is a domestic partner of Ms. Y. Mr. X has an investment in A Limited and Ms. Y has an investment in B Limited.

Required

Examine when can a related party relationship is established, from the perspective of A Limited’s financial statements:

Examine when can related party relationship is established, from the perspective of B Limited’s financial statements:

Will A Limited and B Limited be related parties if Mr. X has only significant influence over A Limited and Ms. Y also significant influence over B Limited:

QUESTION 2

A Limited has both (i) joint control over B Limited and (ii) joint control or significant influence over C Limited

Required

Examine related party relationship from the perspective of C Limited’s financial statements.

Examine related party relationship from the perspective of B Limited’s financial statements.

QUESTION 3

ABC Ltd. is a long-standing customer of XYZ Ltd. Mrs. P whose husband is a director in XYZ Ltd. purchased a controlling interest in entity ABC Ltd. on 1st June, 20X1. Sales of products from XYZ Ltd. to ABC Ltd. in the two-month period from 1st April 20X1 to 31st May 20X1 totalled ₹ 8,00,000. Following the share purchase by Mrs. P, XYZ Ltd. began to supply the products at a discount of 20% to their normal selling price and allowed ABC Ltd. three month’s credit (previously ABC Ltd. was only allowed one month’s credit, XYZ Ltd.’s normal credit policy). Sales of products from XYZ Ltd. to ABC Ltd. in the ten month period from 1st June 20X1 to 31st March 20X1 totalled ₹ 60,00,000. On 31st March 20X2, the trade receivables of XYZ Ltd. included ₹ 18,00,000 in respect of amounts owing by ABC Ltd.

Analyse and show (where possible by quantifying amounts) how the above event would be reported in the financial statements of XYZ Ltd. for the year ended 31st March 20X2 as per Ind AS. You are required to mention the disclosure requirements as well.
QUESTION 4

Mr. Atul is an independent director of a company X Ltd. He plays a vital role in the Management of X Ltd. and contributes in major decision making process of the organisation. X Ltd. pays sitting fee of ₹ 2,00,000 to him for every Board of Directors’ (BOD) meeting he attends. Throughout the year, X Ltd. had 5 such meetings which was attended by Mr. Atul.

Similarly, a non-executive director, Mr. Naveen also attended 5 BOC meetings and charged ₹ 1,50,000 per meeting. The Accountant of X Ltd. believes that they being not the employees of the organisation, their fee should not be disclosed as per related party transaction in accordance with Ind AS 24.

Examine whether the sitting fee paid to independent director and non-executive director is required to be disclosed in the financial statements prepared as per Ind AS?
INTEGRATED REPORTING

CONCEPT 1: ORGANISATIONAL STRUCTURE/ ISSUING AUTHORITY

Integrated Reporting (IR) is a concept first introduced in South Africa. Later on, this concept travelled to many countries like Germany, France, Spain, Brazil and UK and integrated reporting was made along with their financial statements in one or the other manner. In 2010, the International Integrated Reporting Council (IIRC) was set up which aims to create the globally accepted integrated reporting framework.

The International Integrated Reporting Council (IIRC) is a global coalition of:

- Regulators
- Investors
- Companies
- Standard setters
- The accounting profession and NGOs

Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. With this purpose they issued the International Integrated Reporting (IR) Framework. The framework has been developed keeping in mind the greater flexibility to be given to the entity and the management in the reporting but at the same time should target to report the value created by the organisation through various capital.

Integrated Reporting as the name suggest will integrate both financial and non-financial information. In future, it will become the only report to be issued by the organisation.

CONCEPT 2: INTEGRATED REPORTING <IR>?

Integrated reporting is a concept that has been created to better articulate the broader range of measures that contribute to long-term value and the role organizations play in society. Integrated Reporting is enhancing the way organizations think, plan and report the story of their business. Central to this is the proposition that value is increasingly shaped by factors additional to financial performance, such as reliance on the environment, social reputation, human capital skills and others.

This value creation concept is the backbone of integrated reporting and is the direction for the future of corporate reporting. In addition to financial capital, integrated reporting examines five additional capitals that should guide an organization’s decision-making and long-term success — its value creation in the broadest sense.
"Integrated Reporting reflects how our company thinks and does business. This approach allows us to discuss material issues facing our business and communities and show how we create value, for shareholders and for society as a whole." Dimitris Lois, CEO, Coca-Cola HBC

Organizations are using Integrated Reporting (IR) to communicate a clear, concise, integrated story that explains how all of their resources are creating value. IR is helping businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance.

Integrated Reporting (IR) promotes a more cohesive and efficient approach to corporate reporting and aims to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

Integrated Reporting (IR) is shaped by a diverse coalition including business leaders and investors to drive a global evolution in corporate reporting.

An integrated report is a concise communication about how an organization's:

- Strategy
- Governance
- Performance And
- Prospects

in the context of its external environment

It leads to the creation of value over:

- Short
- Medium And
- Long term

It's a portal by which the organisation communicates a holistic view of:

- Its Current position
- Where it's going And
- How it intends to get there

The report enables readers to make an assessment of the organisation's ability to create value in the future, with value creation referring to the value created for both the organisation and for others.
**PURPOSE OF INTEGRATED REPORTING**

The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time.

An integrated report benefits all stakeholders interested in an organization’s ability to create value over time, including:

- Employees
- Customers
- Suppliers
- Business partners
- Local communities
- Legislators
- Regulators and
- Policy-makers

**CONCEPT 3: THE CAPITALS**

The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization.

This is interrelated with the value the organization creates for stakeholders and society at large through a wide range of activities, interactions and relationships. When these are material to the organization’s ability to create value for itself, they are included in the integrated report.

The concept of capitals seeks to assist an organisation in identifying all the resources and relationships it uses and affects to report in a comprehensive manner.

The Framework has categorise the capital into 6 main forms. However, at the same time, it stresses upon that not necessary the same categorisation of capital be followed by the entities in their integrated reporting.
Financial Capital
The pool of funds

- available to an organization for use in the production of goods or the provision of services
- obtained through financing, such as:
  - Debt, equity or grants; or
  - Generated through operations or investments

Manufactured Capital
Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including:

- Buildings
- Equipment
- Infrastructure (such as roads, ports, bridges, and waste and water treatment plants)

Note: Manufactured capital is often created by other organizations, but includes assets manufactured by the reporting organization for sale or when they are retained for its own use.

Intellectual Capital
Organizational, knowledge-based intangibles, including:

- Intellectual property, such as patents, copyrights, software, rights and licences
- “Organizational capital” such as tacit knowledge, systems, procedures and protocols

Human Capital
People’s competencies, capabilities and experience, and their motivations to innovate, including their:

- Alignment with and support for an organization’s governance framework, risk management approach, and ethical values
- Ability to understand, develop and implement an organization’s strategy
- Loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate
Social and Relationship Capital
The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being.

Social and relationship capital includes:

- Shared norms, and common values and behavior
- Key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders
- Intangibles associated with the brand and reputation that an organization has developed
- An organization’s social licence to operate

Natural Capital
All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization.

It includes:

- Air, water, land, minerals and forests
- Biodiversity and eco-system health

Note: Not all capitals are equally relevant or applicable to all organizations. While most organizations interact with all capitals to some extent, these interactions might be relatively minor or so indirect that they are not sufficiently important to include in the integrated report.

CONCEPT 4: CONTENTS OF INTEGRATED REPORTING

An integrated report includes the eight Content Elements.
The Content Elements are fundamentally linked to each other and are not mutually exclusive. The order of the Content Elements is not the only way they could be sequenced.

The Content Elements are not intended to serve as a standard structure for an integrated report with information about them appearing in a set sequence or as isolated, standalone sections. Rather, information in an integrated report is presented in a way that makes the connections between the Content Elements apparent.

The content of an organization’s integrated report will depend on the individual circumstances of the organization. The Content Elements are therefore stated in the form of questions rather than as checklists of specific disclosures. Accordingly, judgement needs to be
exercised in applying the Guiding Principles to determine what information is reported, as well as how it is reported.

The eight content elements suggested by the Framework are:

**Organizational Overview and External Environment**

Question to be answered through this element in the integrated reporting is

“*What does the organisation do and what are the circumstances under which it operates?*”

**Organisational Overview**

An integrated report identifies the organization’s mission and vision, and provides essential context by identifying matters such as:

**A. The organization’s:**

- Culture, ethics and values
- Ownership and operating structure
- Principal activities and markets
- Competitive landscape and market positioning (considering factors such as the threat of new competition and substitute products or services, the bargaining power of customers and suppliers, and the intensity of competitive rivalry)
- Position within the value chain

**B. KQI: Key quantitative information**

*Example:*

- Number of employees
- Revenue
- Number of countries in which the organization operates
- Highlighting, in particular, significant changes from prior periods

**C. Significant factors**

- Significant factors affecting the external environment and the organization’s response

**External Environment**

Significant factors affecting the external environment include aspects of:

- Legal
- Commercial
• Social
• Environmental
• Political context

That affects the organization’s ability to create value in the short, medium or long term

**Governance**

Question to be answered through this element in the integrated reporting is

“How does the organisation’s governance structure support its ability to create value in the short, medium and long term?”

An integrated report provides insight about how such matters as the following are linked to its ability to create value:

- The **organization’s leadership structure**, including the skills and diversity (e.g., range of backgrounds, gender, competence and experience) of those charged with governance and whether regulatory requirements influence the design of the governance structure.

- **Specific processes** used to make strategic decisions and to establish and monitor the culture of the organization, including its attitude to risk and mechanisms for addressing integrity and ethical issues.

- **Particular actions** those charged with governance have taken to influence and monitor the strategic direction of the organization and its approach to risk management.

- How the **organization’s culture, ethics and values** are reflected in its use of and effects on the capitals, including its relationships with key stakeholders.
• Whether the organization is implementing governance practices that exceed legal requirements
• The responsibility those charged with governance take for promoting and enabling innovation
• How remuneration and incentives are linked to value creation in the short, medium and long term, including how they are linked to the organization’s use of and effects on the capitals.

**Business Model**

Question to be answered through this element in the integrated reporting is

“What is the organisation’s business model?”

An integrated report describes the business model, including key:

• Inputs
• Business activities
• Outputs
• Outcomes

Business Model

Inputs

An integrated report shows how key inputs relate to the capitals on which the organization depends, or that provide a source of differentiation for the organization, to the extent they are material to understanding the robustness and resilience of the business model.

Business Activities

An integrated report describes key business activities. This can include:

• How the organization differentiates itself in the market place?

Example
Through product differentiation, market segmentation, delivery channels and marketing

- The extent to which the business model relies on revenue generation after the initial point of sale

**Example**

Extended warranty arrangements or network usage charges

- How the organization approaches the need to innovate?
- How the business model has been designed to adapt to change?

**Outputs**

An integrated report identifies an organization's key products and services. There might be other outputs, such as by-products and waste (including emissions), that need to be discussed within the business model disclosure depending on their materiality.

**Outcomes**

An integrated report describes key outcomes, including:

- Both internal outcomes (e.g., employee morale, organizational reputation, revenue and cash flows) and external outcomes (e.g., customer satisfaction, tax payments, brand loyalty, and social and environmental effects)
- Both positive outcomes (i.e., those that result in a net increase in the capitals and thereby create value) and negative outcomes (i.e., those that result in a net decrease in the capitals and thereby diminish value).

**Risks and Opportunities**

Question to be answered through this element in the integrated reporting is

> “What are the specific risks and opportunities that affect the organisation’s ability to create value over the short, medium and long-term, and how is the organisation dealing with them?”

An integrated report identifies the key risks and opportunities that are specific to the organization, including those that relate to the organization’s effects on, and the continued availability, quality and affordability of, relevant capitals in the short, medium and long term.

**Strategy and Resource Allocation**

Question to be answered through this element in the integrated reporting is

> “Where does the organisation want to go and
how does it intend to get there?"

An integrated report ordinarily identifies:

- The organization's short, medium and long term strategic objectives
- The strategies it has in place, or intends to implement, to achieve those strategic objectives
- The resource allocation plans it has to implement its strategy
- How it will measure achievements and target outcomes for the short, medium and long term.

**Performance**

Question to be answered through this element in the integrated reporting is

“To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?”

An integrated report contains qualitative and quantitative information about performance that may include matters such as:

- **Quantitative indicators** with respect to targets and risks and opportunities, explaining their significance, their implications, and the methods and assumptions used in compiling them
- The **organization’s effects (both positive and negative) on the capitals**, including material effects on capitals up and down the value chain
- The **state of key stakeholder relationships** and how the organization has responded to key stakeholders’ legitimate needs and interests
- The **linkages between past and current performance**, and between current performance and the organization’s outlook

**Outlook**

Question to be answered through this element in the integrated reporting is

“What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?”

An integrated report ordinarily highlights anticipated changes over time and provides information, built on sound and transparent analysis, about:

- The **organization’s expectations** about the external environment the organization is likely to face in the short, medium and long term
- How that will **affect** the organization
- How the **organization is currently equipped** to respond to the critical challenges and
uncertainties that are likely to arise.

**Basis of Preparation and Presentation**

Question to be answered through this element in the integrated reporting is

“How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?”

An integrated report describes its basis of preparation and presentation, including:

- A summary of the organization’s
  - Materiality determination process
- A description of:
  - Reporting boundary and how it has been determined
- A summary of
  - Significant frameworks and methods used to quantify or evaluate material matters

**General Reporting Guidance**

The following general reporting matters are relevant to various Content Elements:

- Disclosure of Material matters
- Disclosures about Capitals
- Time frames for short, medium and long term
- Aggregation and disaggregation
SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

SEBI vide its circular no. SEBI/HO/CFD/CMD/CIR/P/2017/10 February 6, 2017 has advised top 500 companies [to whom Business Responsibility Report (‘BRR’) have been mandated under Regulation 34(2)(f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (“SEBI LODR”)], to adopt Integrated Reporting on a voluntary basis from the financial year 2017-18.

The objective behind recommending voluntary adoption of Integrated Reporting is to improve disclosure standards. An integrated report aims to provide a concise communication about how an organisation’s strategy, governance, performance and prospects create value over time so that interested stakeholders may make investment decisions accordingly. Today an investor seeks both financial as well as non-financial information to take a well-informed investment decision.

Therefore, towards the objective of improving disclosure standards, in consultation with industry bodies and stock exchanges, the listed entities are advised to adhere to the following:

(a) The information related to Integrated Reporting may be provided in the annual report separately or by incorporating in Management Discussion & Analysis or by preparing a separate report (annual report prepared as per IR framework).

(b) In case the company has already provided the relevant information in any other report prepared in accordance with national/international requirement / framework, it may provide appropriate reference to the same in its Integrated Report so as to avoid duplication of information.

(c) As a green initiative, the companies may host the Integrated Report on their website and provide appropriate reference to the same in their Annual Report.
Theoretical Questions
1. State the categories defined in the International IR Framework for capitals. Comment whether an organisation has to follow these categories rigidly.
2. Can a Not-for Profit organisation do the Integrated Reporting as per the Framework?
3. Can an integrated reporting be done in compliance to the requirements of the local laws to prepare a management commentary or other reports?

Answer to Theoretical Questions
1. Various categories of capital are:
   - Financial
   - Manufactured
   - Intellectual
   - Human
   - Social and Relationship
   - Natural

   Organizations preparing an integrated report are not required to adopt this categorization or to structure their report along the above lines of the capitals.

2. The Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

3. An integrated report may be prepared in response to existing compliance requirements. For example, an organization may be required by local law to prepare a management commentary or other report that provides context for its financial statements. If that report is also prepared in accordance with this Framework it can be considered an integrated report. If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.
Ind AS 41 addresses following key issues:

(a) When should a biological asset or agricultural produce be recognised on the Balance sheet?
(b) At what value should a recognised biological asset or agricultural produce be measured?
(c) How should the differences in value of a recognised biological asset or agricultural produce be measured?
(d) What should be the key disclosures?

CONCEPT 1: COVERAGE OF IND AS 41

This standard shall be applied to account for the following when they relate to agricultural activity:

(a) Biological assets;
(b) Agricultural produce at the point of harvest: and
(c) Government grants

CONCEPT 2: OUT OF SCOPE OF IND AS 41

(a) Land related to agricultural activity: for example, the land on which the biological assets grow, regenerate and/or degenerate (Ind AS 16 property, plant and Equipment and Ind As 40 investment property);
(b) Bearer plants relate to agricultural activity. Such bearer plants covered within the scope of Ind AS 16, property, plant and Equipment as accounted as per the provisions of that standard. However, this standard applies to the produce on those bearer plants.
(c) Intangible assets associated with the agricultural activity. For licenses and rights are covered under Ind AS 38 intangible assets and provisions of this standard will be applicable.

This standard is applied to agricultural produce. Which is the harvested product of the entity’s biological assets, only at the POINT of harvest. Thereafter, Ind AS 2 or another applicable standard is applied.
Example:
Processing of grapes into wine by a vintner who has grown the grapes while such processing may be a logical and natural extension of agricultural activity. And the events place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this standard.

Example:
Agriculture produce after the point of harvest, for example wool, eat, frit rubber, logs that are processed subsequently are not covered within Proview of this standard and Ind as 2 inventories will apply.

The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

<table>
<thead>
<tr>
<th>Biological assets</th>
<th>Agricultural produce</th>
<th>Products that the result of processing after harvest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheep</td>
<td>Wool</td>
<td>Yarn, carpet</td>
</tr>
<tr>
<td>Trees in a timber plantation</td>
<td>Felled Trees</td>
<td>Logs, lumber</td>
</tr>
<tr>
<td>Dairy cattle</td>
<td>Milk</td>
<td>Cheese</td>
</tr>
<tr>
<td>Pigs</td>
<td>Carcass</td>
<td>Sausages, cured hams</td>
</tr>
<tr>
<td>Cotton plants</td>
<td>Harvested cotton</td>
<td>Thread, clothing</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>Harvested cane</td>
<td>Sugar</td>
</tr>
<tr>
<td>Tobacco plants</td>
<td>Picked leaves</td>
<td>Cured tobacco</td>
</tr>
<tr>
<td>Tea bushes</td>
<td>Picked leaves</td>
<td>Tea</td>
</tr>
<tr>
<td>Grape vines</td>
<td>Picked grapes</td>
<td>Wine</td>
</tr>
</tbody>
</table>

**CONCEPT 3: DEFINITIONS**

The following are the key agriculture-related definitions:

(a) **Agricultural activity** refers to the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional assets.

(b) **Biological Asset** is defined as a living animal or plant.

(c) **Biological transformation** comprises the processes of growth, degeneration, production, and procreation that cause qualitative or qualitative changes in biological asset.
(d) **Agricultural produce** is the harvested product of the entity’s biological assets.
(e) **Harvest** is the detachment of produce form a biological asset or the cessation of a biological asset’s life processes.
(f) **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.(the definition of Fair is as given in Ind AS 113, Fair value measurement)
(g) **Costs to sell** are the incremental costs directly attributable to the disposal of an asset. excluding finance costs and income taxes.
(h) **Bearer plant** may be defined as a living plant that:
   I. is used in the production of supply of agricultural produce:
   II. is expected to bear produce for more than one period; and
   III. has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

For example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are outside the scope Ind AS 41 and covered under Ind AS 16.

**EXAMPLE**

ABC Ltd grows vines, harvests the grapes and produces wine. Which of these activities are in the scope of Ind AS 41?
**SOLUTION**

The grape vines are bearer plants that continually generate corps of grapes which are covered by Ind AS 16, property, plant and Equipment.

When the entity harvests the grapes, their biological transformation ceases and they become agricultural produce covered by Ind AS 41, Agriculture.

Vine involves a lengthy maturation period. This process is similar to the conversion of raw materials to a finished product rather than biological transformation hence treated as inventory in accordance with Ind As 2, inventories.

---

**CONCEPT 4: RECOGNITION OF BIOLOGICAL ASSETS**

Entities are required to recognise a biological asset or agricultural produce when, and only when, all of the following conditions are met:

a) the entity controls the asset as a result of past events; (Control over biological assets or agricultural produce may be evidenced by legal ownership or rights to control, for example legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning)

b) it is probable that future economic benefits associated with the asset will to the entity and

Future economic benefits are expected to flow is its ownership or control of the asset. The future benefits are normally assessed by measuring the significant physical attributes.

c) The fair value or cost of the asset can be measured reliably.

---

**CONCEPT 5: MEASUREMENT OF BIOLOGICAL ASSETS**

**Biological Asset** should be measured on initial recognition and at the end of each reporting period at its value less costs to sell, except for the case where the fair value cannot be measured reliably.

There is a presumption that fair value can be measured reliably for a biological asset. In the following cases biological asset should be measured at its cost less any accumulated depreciation. And any accumulated impairment losses in accordance with Ind AS 16 AS 36:

- quoted market prices are not available for the biological assets unreliable
- alternative fair value measurements are determined to be clearly unreliable.
Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value costs to sell.

The presumption can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value costs to sell until disposal.

In all cases, an entity measures agricultural produce at the point of harvest at its fair value less costs to sell. This standard reflects the view that the value of agricultural produce at the point of harvest can always be measured reliably.

CONCEPT 6: MEASUREMENT OF AGRICULTURAL PRODUCE

Agricultural produce harvested from an entity's biological assets should be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying Ind AS 2 or another applicable Standard.

The fair value measurement of a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing.

The fair value less cost to sell of a biological asset can change due to both physical changes and price changes in the market.

Entities often enter into contacts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which market participants would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract.

Cost may sometimes approximate fair value, particularly when:

(a) little biological transformation has taken place since initial cost incurrence (for example, for fruit tree seedlings planted immediately prior to the end of a reporting period or newly acquired livestock): or

(b) the impact of the biological transformation on price is not expected to be material (for example, for initial growth in a 30-year pine plantation cycle)

Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, the biological assets, raw land, and land improvements, as a package. An entity may use information
regarding the combined assets to measure the fair value of the biological assets. For example, the fair value of raw land and land improvement may be deducted from the fair of the combined assets to arrive at the fair value of biological assets.

**QUESTION NO 1**

A farmer owned a dairy herd, of three years old cattle as at April 1, 20X1 With a fair value of ₹ 13,750 and the number of cattle in the herd was 250.

The fair value of three year cattle as at March 31, 20X2 was ₹60 per cattle. The fair of four year cattle as at March 31, 20X2 is ₹ 75 per cattle.

Calculate the measurement of group of cattle as at March 31, 20X2 Stating price and physical change separately.

**QUESTION NO 2**

XYZ ltd, on 1 December 20X3, purchased 100 sheep’s from a market for ₹ 500,000 with a transaction cost of 2% on market price of sheep was incurred which was paid by the seller. sheep’s fair value increased from ₹ 500,000 to ₹ 600,000 on 31 March 20X4. Transaction cost would have to be incurred by the seller to get sheep to the relevant market.

Determine the fair value on the date of purchase and reporting date and pass journal entries thereon.

**CONCEPT 7: GAINS AND LOSSES**

1) **Biological Asset:**

A gain or loss arising on initial recognition of a Biological Asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or Loss for the period in which it arises.

A loss may arise on initial recognition of a biological asset, because cost to sell are deducted in determining fair value less cost to sell of a biological asset. A gain may arise on initial recognition of a biological asset, such as when a calf is born,

**EXAMPLE:**

During the reporting period 20X1-20X2, an entity is having a cow which has given birth to a calf. The fair value less estimated cost to sell for a calf is ₹ 5,000. The amount of ₹ 5,000 is, therefore, immediately recognised in Statement of profit or Loss,

2) **Agriculture produce:**

A gain or loss arising on initial recognition of Agricultural produce at Fair value less costs
to sell shall be included in profit of Loss for the period in which it arises.
A gain or loss may arise on initial recognition of agricultural produce as result of harvesting.

**CONCEPT 8: GOVERNMENT GRANTS**

1) Biological Asset measured at fair value less cost to sell.
   a) Unconditional Grant
      An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised in profit or Loss when, and only when, the government grant becomes receivable.
   b) Conditional Grant:
      If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage to in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.

Terms and conditions of government grants vary. For example, a grant may require an entity to farm in a particular location for five years. And require the entity to return the entire grant if it farms for a period shorter than five years. In this case, the grant is not recognised in profit or Loss until the five years have passed. However, If the terms of the grant allow part of it to be retained according to the time elapse, the entity recognises that part in profit or loss as time passes.

**EXAMPLE:**

Sun Ltd cultivated huge plot of land. The government offers a grant of ₹ 10 crore under the condition that the land is being cultivated for 5 years. If the land will be cultivated for a shorter period, the entity is required to return the entire grant.

Therefore, the government grant will be recognised as income only after 5 years of cultivation. The situation would be different if the returning obligation referred to the years of not cultivating the land is with respect to retention of grant for the period tell which the entity has cultivated the land. In this case, the amount of ₹ 10 crore would be recognised as income, proportionately with the time period, meaning ₹ 2 crore per annum.

2) Biological Asset measured at its cost:
   If a government grant relates to a Biological asset measured at its cost less any accumulated depreciation and accumulated impairment losses, i.e (i.e inability to measure fair value reliably), Ind AS 20 is applied.
**Biological Asset**

Measured at fair value less cost to sell  
Measured at Cost

- **Conditional Grant**  
  Condition attaching to the government grant are Met

- **Unconditional Grant**  
  Government Grant Becomes Receivable

- **Ind AS 20**

---

**CONCEPT 8: DISCLOSURE**

1) **Description of biological assets and activates.**

The entity is required to a description of each group of biological asset. This disclosure may take the form of a narrative or quantified description. An entity is encouraged to provide a quantified description of each group of biological asset, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate.

2) **Gains and losses recognised during the period**

An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.

3) **Reconciliation of changes in biological assets.**

A detailed reconciliation is required of changes in the carrying amount of biological assets between the beginning and the end of the current period, which includes:

a) gain or loss arising from changes in fair value less costs to sell;

b) Increases arising from purchases;

c) Decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105;

d) Decreases due to harvest;

e) Increases resulting from business combinations;

f) net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of foreign operation into the presentation currency to the reporting entity; and

g) Other changes.
4) **Restricted assets, commitments and risk management strategies.**

The entity should disclose:

a) The existence and carrying amounts of biological assets whose title is restricted, and the carrying amount of biological assets pledged as security for liabilities;

b) The amount of commitments for the development or acquisition of biological assets; and

c) Financial risk management strategies related to agricultural activity.

5) **Additional disclosures when fair value cannot be measured reliably.**

If biological assets within the scope of Ind AS 41 are measured at cost less any accumulated depreciation and any accumulated impairment losses at the end of the period, the following disclosures are required:

a) A description of the biological assets;

b) An explanation of why fair value cannot be measured reliably;

c) The range of estimates within which fair value is highly likely to lie;

d) The depreciation method use;

e) The useful lives or the depreciation rates used; and

f) The gross carrying amount and the accumulated depreciation and impairment losses at the beginning and end of the period.

6) **Government grants**

The following disclosures are required for government grants relating to agricultural activity:

a) The nature and extent of government grants recognised;

b) Unfulfilled conditions and other contingencies attaching to government grants; and

c) Significant decreases expected in the level of government grants.

---

**QUESTION NO 3**

Moon Ltd prepares financial statements to 31 March each year. On 1 April 20X1 the company carried out the following transactions:

- Purchased a land for ₹50 Lakhs.
- Purchased 200 dairy cows (average age at 1 April 20X1 two years) for ₹10 Lakhs.
- Received a grant of ₹1 million towards the acquisition of the cows. This grant was nonrefundable.
For the year ending 31 March 20X2, the company has incurred following costs:

- ₹ 6 Lakh to maintain the condition of the animals (food and protection).
- ₹ 4 lakh as breeding fee to a local farmer.

On 1 October 20X1, 100 calves were born. There were no changes in the number of animals during the year ended 31 March 20X2, Moon Ltd had 3,000 liters of unsold milk in inventory.

<table>
<thead>
<tr>
<th>Item</th>
<th>1 April 20X1</th>
<th>1 October 20X1</th>
<th>31 March 20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>50 Lakhs</td>
<td>60 Lakhs</td>
<td>70 Lakhs</td>
</tr>
<tr>
<td>New born calves (per calf)</td>
<td>1,000</td>
<td>1,100</td>
<td>1,200</td>
</tr>
<tr>
<td>Six month old cows (per calf)</td>
<td>1,100</td>
<td>1,200</td>
<td>1,300</td>
</tr>
<tr>
<td>Two year old cows (per cow)</td>
<td>5,000</td>
<td>5,100</td>
<td>5,200</td>
</tr>
<tr>
<td>Three year old cow (per cow)</td>
<td>5,200</td>
<td>5,300</td>
<td>5,500</td>
</tr>
<tr>
<td>Milk (per litre)</td>
<td>20</td>
<td>22</td>
<td>24</td>
</tr>
</tbody>
</table>

Prepare extracts from the balance sheet and statement of profit & loss that would be reflected in the financial statements of the entity for the year ended 31 March 20X2.

**Question No 4**

An entity on adoption of Ind AS-41 has reclassified certain assets as biological assets. The total value of the group’s forest assets is ₹ 2,000 lakhs comprising:

<table>
<thead>
<tr>
<th>Amt. (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freestanding trees</td>
</tr>
<tr>
<td>Land under trees</td>
</tr>
<tr>
<td>Roads in forests</td>
</tr>
</tbody>
</table>

Show how the forests would be classified in the financial statements.
**QUESTION NO 5**

An entity is considering the valuation of its harvested coffee beans. Industry Practice is to value the coffee beans at market value the national accounting body has always used this practice and uses as its source of reference “Accounting for successful Farms” a local publication. The entity wishes to adopt Ind AS- 41 but does not know what the impact will be on its inventory of coffee beans.

**SOLUTION**

AS PER THE PROVISIONS OF IND AS 41, VALUATION OF INVENTORIES SHOULD BE MADE AT FAIR VALUE LESS COST TO SELL AT THE POINT OF HARVEST. THEREAFTER, VALUATION WILL BE DONE AS PER IND AS 2

**QUESTION NO 6**

Company X purchased 100 sheep at an auction for ₹ 60,000 on 31st December 2015. The transportation cost amounting to be ₹ 1500 and the auctioneer’s fees amounted to be 1% of purchase price. The same expenses are expected at the time of sale of sheep. Fair value at balance sheet date 65,000.

At what value biological assets shall be recognized at the time of initial recognition and also find out balance sheet measurement?

**QUESTION NO 7**

A herd of 15, 4-year old animals valued at ₹ 250 thousands were held in Marigold farms as at 1st January 2016. The following transactions took place during the year. On 1st July 2016:

- One animal aged 4.5 year was purchased for ₹ 260 thousand
- One animal was born.
- No animal was sold or disposed of

The per-unit fair values less cost of sell were as follows:

<table>
<thead>
<tr>
<th>In Thousand</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-year old animal on 1st January 2016</td>
<td>250</td>
</tr>
<tr>
<td>New born animal on 1st July 2016</td>
<td>200</td>
</tr>
<tr>
<td>4.5 year old animal on 1st July 2016</td>
<td>260</td>
</tr>
<tr>
<td>New born animal on 31st December 2016</td>
<td>205</td>
</tr>
</tbody>
</table>
0.5 year old animal on 31st December 2016 220
4 year old animal on December 2016 258
4.5 year old animal on 31st December 2016 270
5 year animal on 31st December 2016 280
EXTRA QUESTIONS ON IND AS - 41

QUESTION 1

ABC Ltd grows vines, harvests the grapes and produces wine. Which of these activities are in the scope of Ind AS 41?

SOLUTION

The grape vines are bearer plants that continually generate crops of grapes which are covered by Ind AS 16, Property, Plant and Equipment.

When the entity harvests the grapes, their biological transformation ceases and they become agricultural produce covered by Ind AS 41, Agriculture.

Wine involves a lengthy maturation period. This process is similar to the conversion of raw materials to a finished product rather than biological transformation hence treated as inventory in accordance with Ind AS 2, Inventories.

QUESTION 2

As at 31st March, 20X1, a plantation consists of 100 Pines trees that were planted 10 years earlier. The tree takes 30 years to mature, and will ultimately be processed into building material for houses or furniture. The enterprise’s weighted average cost of capital is 6% p.a.

Only mature trees have established fair values by reference to a quoted price in an active market. The fair value (inclusive of current transport costs to get 100 logs to market) for a mature tree of the same grade as in the plantation is:

As at 31st March, 20X1: 171
As at 31st March, 20X2: 165

Assume that there would be immaterial cash flow between now and point of harvest. The present value factor of ₹ 1 @ 6% for

19th year = 0.331 20th year = 0.312

State the value of such plantation as on 31st March, 20X1 and 20X2 and the gain or loss to be recognised as per Ind AS.

SOLUTION

As at 31st March, 20X1, the mature plantation would have been valued at 17,100 (171 x 100). As at 31st March, 20X2, the mature plantation would have been valued at 16,500 (165 x 100).
Assuming immaterial cash flow between now and the point of harvest, the fair value (and therefore the amount reported as an asset on the statement of financial position) of the plantation is estimated as follows:

As at 31st March, 20X1: 17,100 x 0.312 = 5,335.20.
As at 31st March, 20X2: 16,500 x 0.331 = 5,461.50.

**Gain or loss**

The difference in fair value of the plantation between the two year end dates is 126.30 (5,461.50 - 5,335.20), which will be reported as a gain in the statement or profit or loss (regardless of the fact that it has not yet been realised).
Arun Ltd. is an entity engaged in plantation and farming on a large scale and diversified across India. On 1st April, 2018, the company has received a government grant for ₹ 20 lakh subject to a condition that it will continue to engage in plantation of eucalypts tree for a coming period of five years.

The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus trees for specified period of five years and accordingly it recognizes proportionate grant for ₹ 4 lakh in Statement of Profit and Loss as income following the principles laid down under Ind AS 20


**Required:**

Evaluate whether the above accounting treatment made by the management is in compliance with the applicable Ind AS. If not, advise the correct treatment.

**SOLUTION**

Arun Ltd. is engaged in plantation and farming on a large scale. This implies that it has agriculture business. Hence, Ind AS 41 will be applicable.

Further, the government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. This implies that it is conditional grant.

In the absence of the measurement base of biological asset, it is assumed that “Arun Ltd measures its Biological Asset at fair value less cost to sell”

(i) As per Ind AS 41, the government grant should be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met ie continuous plantation of eucalyptus tree for coming period of 5 years. In this case the grant shall not be recognised in profit or loss until the five years have passed. The entity has recognised the grant in profit and loss on proportionate basis, which is incorrect.

(ii) However, if the terms of the grant allow of it to be retained according to the time elapsed, the entity recognises that part in profit or loss as time passes. Accordingly, the entity can recognise the proportionate grate for 4 lakh in the statement of profit and Loss based on the terms of the grant.
Objective

The objective of this Standard is to prescribe principles for the determination and presentation of Earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity.

Even though earnings per share data have limitations because of different accounting policies that may be used for determining “earnings”, a consistently determined denominator enhances financial reporting.

The focus of this Standard is on the denominator of the earnings per share calculation.

Scope

This Indian Accounting Standard shall apply to companies that have issued ordinary shares to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply.

An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.

When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS 110, “Consolidated Financial Statements”, and Ind AS 27, “Separate Financial Statements”, respectively, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements.

1. In consolidated financial statements such disclosures shall be based on consolidated information and in separate financial statements such disclosures shall be based on information given in separate financial statements.

2. An entity shall not present in consolidated financial statements, earnings per share based on the information given in separate financial statements and shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements.
Measurement

Basic Earnings Per Share

An ordinary share is an equity instrument that is subordinate to all other classes of equity instruments.

A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares.

Examples of potential ordinary shares are:

a. financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;
b. options and warrants;
c. shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.

An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

Basic earnings per share shall be calculated by:

Profit or loss attributable to ordinary equity holders of the parent entity
Weighted average number of ordinary shares outstanding during the period

For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the parent entity in respect of:

a. profit or loss from continuing operations attributable to the parent entity; and
b. profit or loss attributable to the parent entity

adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

Where any item of income or expense which is otherwise required to be recognised in profit or loss in accordance with Indian Accounting Standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share.

For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.
The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential ordinary shares that have changed the number of ordinary shares outstanding without a corresponding change in resources.

Ordinary shares may be issued, or the number of ordinary shares outstanding may be reduced, without a corresponding change in resources. Examples include:

- Capitalisation or bonus issue (sometimes referred to as)
- Bonus element in any other issue (For example a bonus element in a rights issue to existing shareholders)
- A share
- A reverse share split (consolidation of shares)

**Diluted Earnings Per Share**

An entity shall calculate diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

For the purpose of calculating diluted earnings per share, an entity shall **ADJUST** profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

**Diluted EPS shall be calculated by:**

Adjusted Profit/loss attributable to ordinary Equity holders of the parent entity Adjusted Weighted average number of ordinary shares outstanding during the period

For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, as calculated in accordance with Basic EPS, by the after-tax effect of:

a. any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity;

b. any interest recognized in the period related to dilutive potential ordinary shares; and

c. Any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.
For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

Presentation
An entity shall present in the statement of profit and loss basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period.

An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.

An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes.

(a) An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes.

(b) An entity shall present basic and diluted earnings per share, even if the amounts are negative (i.e. a loss per share).

Retrospective Adjustments
If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are approved for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

Major Changes in Ind AS 33 vis-à-vis IAS 33 Not Resulting in Carve Outs
1. **Consolidated Financial Statements and Separate Financial Statements**: IAS 33 provides that when an entity presents both consolidated financial statements and separate financial statements, it may give EPS related information in consolidated
financial statements only, whereas, Ind AS 33 requires EPS related information to be disclosed both in consolidated financial statements and separate financial statements.

2. **Applicability of the Standard:** Paragraph 2 of IAS 33 requires that the entire standard applies to:

   (1) the separate or individual financial statements of an entity:

   (i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

   (ii) that files, or is in the process of filing, its financial statements with a Securities Regulator or other regulatory organisation for the purpose of issuing ordinary shares in a public market; and

   (2) the consolidated financial statements of a group with a parent:

   (i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

   (ii) that files, or is in the process of filing, its financial statements with a Securities Regulator or other regulatory organisation for the purpose of issuing ordinary shares in a public market.

It also requires that an entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.

The above requirements have been deleted in the Ind AS as the applicability or exemptions to the Ind ASs are governed by the Companies Act and the Rules made there under.

3. **Usage of Information:** Paragraph 4 has been modified in Ind AS 33 to clarify that an entity shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements, besides requiring as in IAS 33, that earnings per share based on the information given in separate financial statements shall not be presented in the consolidated financial statements.

4. **Adjustment of Securities Premium:** In Ind AS 33, a paragraph has been added after paragraph 12 on the following lines -

"Where any item of income or expense which is otherwise required to be recognized in profit or loss in accordance with Indian Accounting Standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share."
5. **Amortisation of Discount or Premium**: In Ind AS 33 paragraph 15 has been amended by adding the phrase, „irrespective of whether such discount or premium is debited or credited to securities premium account” to further clarify that such discount or premium shall also be amortised to retained earnings.

6. **Disclosure of Amounts of per Share using a Reported Component**: IAS 33 requires disclosure of amounts of per share using a reported component, basic and diluted earnings per share and basic and diluted earnings per share for discontinued operations in the separate income statement, where separate income statement is presented. This requirement is not provided in Ind AS 33 consequential to the removal of option regarding two statement approach in Ind AS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

**Major Changes in Ind AS 33 vis a vis Notified AS 20**

(i) **Options held by the Entity on its Shares**: Existing AS 20 does not specifically deal with options held by the entity on its shares, e.g., purchased options, written put option etc. Ind AS 33 deals with the same.

(ii) **Presentation of Basic and Diluted EPS from Continuing and Discontinued Operations**: Ind AS 33 requires presentation of basic and diluted EPS from continuing and discontinued operations separately. However, existing AS 20 does not require any such disclosure.

(iii) **Disclosure of EPS with and without Extraordinary Items**: Existing AS 20 requires the disclosure of EPS with and without extraordinary items. Since as per Ind AS 1, „Presentation of Financial Statements“, no item can be presented as extraordinary item, Ind AS 33 does not require the aforesaid disclosure.
PRACTICAL QUESTIONS ON BASIC EPS

CONCEPT RELATED WITH PREFERENCE SHARES

QUESTION NO 1 (CONCEPT OF PREFERENCE DIVIDEND)
Genistar Tubes Inc had issued 10% Preference shares of face value $ 10. Premium on redemption will be 20% on the date of redemption (after 5 years). Net Profits after Tax $ 750 million and $ 790 million for 20-16 and 2017 respectively. Number of equity shares 16 million and preference shares 3 million. Compute Basic EPS. (hit IRR for Cash flows = 11.59%).

QUESTION 2 (EARLY BUY BACK/REDEMPTION OF PSC)
ABC Ltd. issues 9% preference shares of fair value of ₹ 10 each on 1.4.20X1. Total value of the issue is 10,00,000. The shares are issued for a period of 5 years and would be redeemed at the end of 5th year. The shares are to be redeemed at ₹ 11 each.

At the end of the year 3, i.e. on 31.3.20X4, company finds that it has earned good returns than expected over last three years and can make the redemption of preference shares early. To compensate the shareholders for two years of dividend which they need to forego, company decided to redeem the shares at ₹ 12 each instead of original agreement of ₹ 11. Comment on the impact of early conversion of preference shares at a premium on earnings for the year 20X3-20X4 attributable to ordinary equity holders of ABC Ltd. for basic EPS. Ignore the EIR impact in the solution and answer on the basis of Ind AS 33 only.

QUESTION 3 (DIFFERENT CASES RELATED WITH PREFERENCE SHARES)
An entity has following preference shares in issue at the end of 20X4:

- **5% redeemable, non-cumulative preference shares**: These shares are classified as liabilities. During the year, a dividend was paid on the 5% preference shares- ₹ 100,000.

- **Increasing-rate, cumulative, non-redeemable preference shares issued at a discount in 20X0, with a cumulative dividend rate from 20X5 of 10%**: The shares were issued at a discount to compensate the holders, because dividend payments will no commence until 20X5. The accrual for the discount in the current year, calculated using the effective interest method amounted to, say, ₹ 18,000. These shares are classified as equity - ₹ 200,000.

- **8% non-redeemable, non- cumulative preference shares**: At the beginning of the year, the entity had ₹ 100,000 8% preference shares outstanding but, at 30 June 20X4, it repurchased ₹ 50,000 of these at a discount of ₹ 1,000 - ₹ 50,000.
7% cumulative, convertible preference shares (converted in the year): These shares were classified as equity, until their conversion into ordinary shares at the beginning of the year. No dividend was accrued in respect of the year, although the previous year’s dividend was paid immediately prior to conversion. To induce conversion, the terms of conversion of the 7% convertible preference shares were also amended, and the revised terms entitled the preference shareholders to an additional 100 ordinary shares on conversion with a fair value of ₹300 - Nil.

The profit after tax for the year 20X4 is ₹150,000.
Determine the adjustments for the purpose of calculating EPS.

QUESTION NO 4 (ITEMS ROUTED THROUGH SECURITIES PREMIUM)

X Ltd. earns net profit post tax for 2015-16 Rs. 33,000. During the year underwriting commission is incurred Rs. 2,000 on issue of preference shares. The same is adjusted in securities premium a/. WANES = 1000 shares. Compute EPS for 2015-16.

CALCULATION OF WANS

QUESTION NO 5

Calculate the weighted average number of shares on the basis of following table:-

<table>
<thead>
<tr>
<th>Date</th>
<th>No of shares issued</th>
<th>No of shares bought back</th>
<th>No of shares outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st January 99</td>
<td>Opening balance</td>
<td>1800</td>
<td>-</td>
</tr>
<tr>
<td>31.5.99</td>
<td>Issue of shares for cash</td>
<td>-</td>
<td>2400</td>
</tr>
<tr>
<td>1.11.99</td>
<td>Buy back of shares</td>
<td>300</td>
<td>2100</td>
</tr>
<tr>
<td>31.12.99</td>
<td>Balance at the end of year</td>
<td>-</td>
<td>2100</td>
</tr>
</tbody>
</table>

SOLUTION

Computation of weighted average as per para 17 of IND AS 33 (refer point 20.2-1).

\[
(1800 \times 5/12) + (2400 \times 5/12) + (2100 \times 2/12) = 2100 \text{ shares.}
\]

The weighted average number of shares can alternatively be computed as follows:

\[
(1800 \times 12/12) + (600 \times 7/12) - (300 \times 2/12) = 2100 \text{ shares.}
\]
QUESTION NO 6

Following is the data for company XYZ in respect of number of equity shares during the financial year 20X1-20X2. Find out the number of shares for the purpose of calculation of basic EPS as per Ind AS 33.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Date</th>
<th>Particulars</th>
<th>No of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1-Apr-20X1</td>
<td>Opening balance of outstanding equity shares</td>
<td>100,000</td>
</tr>
<tr>
<td>2</td>
<td>15- Jun-20X1</td>
<td>Issue of equity shares</td>
<td>75,000</td>
</tr>
<tr>
<td>3</td>
<td>8- Nov- 20X1</td>
<td>Conversion of convertible preference shares in Equity</td>
<td>50,000</td>
</tr>
<tr>
<td>4</td>
<td>22- Feb- 20X2</td>
<td>Buy back of shares</td>
<td>(20,000)</td>
</tr>
<tr>
<td>5</td>
<td>31-Mar-20X2</td>
<td>Closing balance of outstanding equity shares</td>
<td>205,000</td>
</tr>
</tbody>
</table>

(ASSUME 365 DAYS IN A YEAR)

QUESTION NO 7

Given below are the details of equity share capital of ABC Limited for the year 2001:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>No of shares in lacs</th>
<th>Face value: amount (Rs. in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance if fully paid up equity as on 1.1.2001</td>
<td>100</td>
<td>1000</td>
</tr>
<tr>
<td>Convertible debentures converted into fully paid up equity shares on 1.7.2001</td>
<td>50</td>
<td>500</td>
</tr>
<tr>
<td>Equity shares bought back on 1.11.2001</td>
<td>30</td>
<td>300</td>
</tr>
</tbody>
</table>

Net profit after tax Rs.240 Lacs.

ADJUSTMENT OF BONUS SHARES

QUESTION 8

On 31 March, 20X2 the issued share capital of a company consisted of ₹ 100,000,000 in ordinary shares of ₹ 25 each and ₹ 500,000 in 10% cumulative non-redeemable preference shares (classified as equity) of Re 1 each. On 1 October, 20X2, the company issued 1,000,000
ordinary shares fully paid by way of capitalisation of reserves in the proportion 1:4 for the year ended 31 March, 20X3.

Profit for 20X1-20X2 and 20X2-20X3 is ₹ 450,000 and ₹ 550,000 respectively.

Calculate the basic EPS for 20X1-20X2 and 20X2-20X3.

**QUESTION 9**

X Ltd.

1 January 1,000,000 shares in issue

28 February Issued 200,000 shares at fair value

31 August Bonus issue 1 share for 3 shares held

30 November Issued 250,000 shares at fair value

Calculate the number of shares which would be used in the basic EPS calculation. Consider reporting date as December end.

**QUESTION NO 10 (BONUS ISSUE)**

<table>
<thead>
<tr>
<th>Details</th>
<th>No of shares</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit for the year 2000</td>
<td></td>
<td>₹18,00,000</td>
</tr>
<tr>
<td>Net profit for the year 2001</td>
<td></td>
<td>₹60,00,000</td>
</tr>
<tr>
<td>No of equity shares outstanding until 30.9.2001</td>
<td></td>
<td>20,00,000</td>
</tr>
<tr>
<td>Bonus issue 1.10.2001</td>
<td></td>
<td>2 equity shares for each equity share outstanding at 30.9.2001</td>
</tr>
</tbody>
</table>

(ANSWER: BASIC EPS 2001:1, BASIC EPS RESTATED 2000: .3 PAISE)

**QUESTION NO 11 (BONUS ISSUE)**

Given below equity shares capital details of XYZ Limited for the year 2000 and 2001:

<table>
<thead>
<tr>
<th>Details</th>
<th>No of shares</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity shares of Rs.10 each fully paid up on 1.1.2001</td>
<td>10,00,000</td>
<td>₹1,00,00,000</td>
</tr>
<tr>
<td>Bonus issue on 1.6.2001</td>
<td>10,00,000</td>
<td>₹1,00,00,000</td>
</tr>
</tbody>
</table>

Net profit 2000- ₹45,00,000, Net profit 2001-₹60,00,000.

QUESTION NO 12 (BONUS ISSUE)

As a statutory auditor for the year ended 31.3.2020 how would you deal with the following: As on 31.3.2019 the equity share capital of Q Ltd. is Rs.10crores divided into shares of Rs.10 each. During the financial year 2019-20, it has issued bonus shares in the ratio of 1:1. The net profit after tax for the years 31.3.2019 and 31.3.2020 is Rs.8.50crores and Rs.11.50crores respectively. The EPS disclosed in the accounts for two years is Rs.8.50 and 5.75 respectively.

QUESTION NO 13

Calculate from the following information basic earning per share.

* Net Profit Rs. 50 Lakhs
* 10% preference share of Rs. 100 Lakhs
* Number of equity shares in the beginning of the year 10 Lakhs
* No. of Bonus shares issued in the middle of the year 5 Lakhs

ANS. RS. 2.67

ADJUSTMENT OF RIGHT SHARES

QUESTION 14

At 31 December 20X1, the issued share capital of a company consisted of 1.8 million ordinary shares of ₹ 10 each, fully paid. The profits for the year ended 31 December 20X1 and 20X2 amounted to ₹ 630,000 and ₹ 875,000 respectively. On 31 March 20X2, the company made a rights issue on a 1 for 4 basis at ₹ 30. The market price of the shares immediately before the rights issue was ₹ 60.

Calculate BASIC EPS.
QUESTION NO 15 (RIGHT ISSUE)

Accounting Year is Calendar year

| Net profit | Year 2000: Rs.11,00,000  
|            | Year 2001: Rs.15,00,000 |
| No of shares outstanding prior to right issue | 5,00,000 shares |
| Right issue | One new share for each five outstanding 
|             | (i.e., 1,00,000 new shares) |
|             | Right issue price: Rs.15 last date to 
|             | exercise rights: 1st March 2001 |
| Fair value of one equity share immediately prior to exercise of rights on 1st March 2001 | Rs.21 |

QUESTION NO 16 (RIGHT ISSUE)

Given below are the details of equity shares of MN Limited during 2000 and 2001:

<table>
<thead>
<tr>
<th>Details</th>
<th>No of shares (in lacs)</th>
<th>Amount (Rs. in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity shares fully paid up on 1.1.2000</td>
<td>1,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Right issue on 1.7.2001</td>
<td>1,000</td>
<td>2,000</td>
</tr>
</tbody>
</table>

- Closing market price on 30.6.2001 : Rs.35
- Price of right : Rs.20
- Net profit after tax (Rs. in lacs) for the year ended 31.12.2000 : 2200
- Reported basic EPS for the year ended 31.12.2000 : Rs.2.20
- Net profit after tax (Rs.in lacs ) for the year ended 31.12.2001 : 2400

ADJUSTMENT OF PARTLY PAID UP SHARES

QUESTION 17

An entity issues 100,000 ordinary shares of Re 1 each for a consideration of 2.50 per share. Cash of ₹ 1.75 per share was received by the balance sheet date. The party paid shares are entitled to participate in dividends for the period in proportion to the amount paid.

Calculate number of shares for calculation of Basis EPS.
QUESTION NO 18

<table>
<thead>
<tr>
<th>Particulars</th>
<th>No.</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity shares of Rs.10 each fully paid up on 1.4.2020</td>
<td>10,00,000</td>
<td>99,00,000</td>
</tr>
<tr>
<td>Calls in arrears on 1.4.2020</td>
<td></td>
<td>1,00,000</td>
</tr>
<tr>
<td>Calls in arrears received on 1.6.2020</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>New issue (10 each) amount paid up on 1.10.2020 Rs.7.5</td>
<td>10,00,000</td>
<td>75,00,000</td>
</tr>
<tr>
<td>Calls in arrears received on 1.3.2021</td>
<td></td>
<td>50,000</td>
</tr>
</tbody>
</table>

PBT for the year ended on 31.3.2021: Rs.2,62,00,000, Tax provision: Rs.30,00,000. 10% preference share capital issued on 1.7.2000: Rs.20,00,000.

QUESTION NO 19 (DIFFERENT DIVIDEND RIGHTS)

XYZ Limited has the following different classes of equity shares of Rs.10 each, outstanding as at March 31, 2020 having disproportionate rights with respect to voting and dividends:

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>Rights as to share in net profit to the extent of capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,00,000 “A” class equity shares</td>
<td>Proportionate to capital</td>
</tr>
<tr>
<td>30,000 “B” class equity shares</td>
<td>In the proportion of 3:2 with respect to “A” class shares</td>
</tr>
<tr>
<td>30,000 “C” class equity shares</td>
<td>In the proportion of 5:2 with respect to “A” class share.</td>
</tr>
<tr>
<td>40,000 “D.” class equity shares</td>
<td>In the proportion of 3:1 with respect to “A” class shares.</td>
</tr>
</tbody>
</table>

Profit for the year ended March 31, 2020 was Rs.8,00,000. Calculate basic eps for each class of shares.

ADJUSTMENT OF SHARE SPLIT/SHARE CONSOLIDATION

QUESTION NO 20 (SHARE SPLIT/SHARE CONSOLIDATION)

COSY COMFORTS Limited earns a Net Profit for the year 2006-2007 Rs. 20, 00,000 after tax. The corresponding figure for the last year was Rs. 16,00,000. Its Capital Structure contains 80,000 Shares of Rs. 10 each. On 07.11.2006 it has decided to consolidate the shares from Rs. 10 each to Rs. 100 each. Calculate Basic EPS and Restated EPS.
**ADJUSTMENT OF SHARES ISSUED IN BUSINESS COMBINATION**

**QUESTION NO 21 (ACQUISITION OF BUSINESS)**

Given below information relating to equity shares of A Limited and B Limited. Two companies amalgamated w.e.f. 1-10-2020. A Limited issued the required No. of shares on the basis of the agreed valuation.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>A Limited</th>
<th>B Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of outstanding equity shares as on 1.4.2020 (No. in lakhs)</td>
<td>500</td>
<td>200</td>
</tr>
<tr>
<td>Agreed value per share for acquisition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date of acquisition 1-10-2020</td>
<td>120</td>
<td>30</td>
</tr>
<tr>
<td>Profit after tax (Rs. In lakhs)</td>
<td>500</td>
<td>200</td>
</tr>
</tbody>
</table>

Profit after tax during 1-10-2020—31-3-2021 (Rs. In lakhs) 1200

**QUESTION NO 22 (ACQUISITION OF BUSINESS)**

On June 30, 2020, A limited acquired B limited

The following is the relevant information for the year ended 31st March 2021:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>A Limited</th>
<th>B Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit (Rs.)</td>
<td>5,00,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Until Acquisition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>After Acquisition to year end (March 31, 2021)</td>
<td>8,00,000</td>
<td></td>
</tr>
<tr>
<td>Number of shares (Rs.10 each)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At the start of the year</td>
<td>6,000</td>
<td>4,000</td>
</tr>
<tr>
<td>On the date of Acquisition</td>
<td>6,000</td>
<td>4,000</td>
</tr>
<tr>
<td>At year end (March 31, 2021)</td>
<td>10,000</td>
<td></td>
</tr>
</tbody>
</table>

*Compute the E.P.S of A Limited at the year end, i.e., March 31, 2021*
Entity A has in issue 25,000 4% debentures with a nominal value of Re 1. The debentures are convertible to ordinary shares at a rate of 1:1 at any time until 20X9. The entity’s management receives a bonus based on 1% of profit before tax.

Entity A’s results for 20X2 showed a profit before tax of ₹ 80,000 and a profit after tax of ₹ 64,000 (for simplicity, a tax rate of 20% is assumed in this example).

Calculate Earnings for the purpose of diluted EPS.

(Note: The given debentures are not mandatory convertible)

**QUESTION 24**

ABC Ltd. has 1,000,000 ₹ 1 ordinary shares and 1,000 ₹ 100 10% convertible bonds (issued at par), each convertible into 20 ordinary shares on demand, all of which have been in issue for the whole of the reporting period.

ABC Ltd.’s share price is ₹ 4.50 per share and earnings for the period are ₹ 500,000. The tax rate applicable to the entity is 21%

Calculate basis EPS, earnings per incremental share for the convertible bonds and diluted EPS.

**QUESTION 25**

At 30 June 20X1, the issued share capital of an entity consisted of 1,500,000 ordinary shares of ₹ 1 each. On 1 October 20X1, the entity issued ₹ 1,250,000 of 8% convertible loan stock for cash at par. Each ₹ 100 nominal of the loan stock may be converted, at any time during the years ended 20X6 to 20X9, into the number of ordinary shares set out below:

- 30 June 20X6: 135 ordinary shares;
- 30 June 20X7: 130 ordinary shares;
- 30 June 20X8: 125 ordinary shares; and
- 30 June 20X9: 120 ordinary shares.

If the loan stocks are not converted by 20X9, they would be redeemed at par.

This illustration assumes that written equity conversion option is accounted for as a derivative liability and marked to market through profit or loss. The change in the option ‘fair value reported in 20X2 and 20X3 amounted to losses of ₹ 2,500 and ₹ 2,650 respectively. It is assumed that there are no tax consequences arising from these losses.

The profit before interest, fair value movements and taxation for year ended 30 June 20X2 and 20X3 amounted to ₹ 825,000 and ₹ 895,000 respectively and relate wholly to
continuing operations. The rate of tax both periods is 33%

Calculate Basic and Diluted EPS.

**QUESTION 26**

An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term, and are issued at par with a face value of ₹ 1,000 per bond, giving total proceeds of ₹ 2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 per cent. At the issue date, the market price of one ordinary share is ₹ 3. Income tax is ignored.

Calculate basic and diluted EPS when

<table>
<thead>
<tr>
<th>Profit attributable to ordinary equity holders of the parent entity Year1</th>
<th>₹ 1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares outstanding</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Convertible bonds outstanding</td>
<td>2,000</td>
</tr>
</tbody>
</table>

**ADJUSTMENT OF PARTICIPATING EQUITY INSTRUMENTS**

**QUESTION 27**

An entity has two classes of shares in issue:

- 5,000 non-convertible preference shares
- 10,000 ordinary shares

The preference shares are entitled to a fixed dividend of ₹ 5 per share before any dividends are paid on the ordinary shares. Ordinary dividends are then paid in which the preference Shareholders do not participate. Each preference share then participates in any additional ordinary dividend above ₹ 2 at a rate of 50% of any additional dividend payable on an ordinary share.

The entity’s profit for the year is ₹ 100,000, and dividends or ₹ 2 per share are declared on the ordinary shares.

Compute the allocation of earnings for the purpose of calculation of Basic EPS when an entity has ordinary shares & participating equity instruments that are not convertible into ordinary shares.
**QUESTION 28**

(This illustration does not illustrate the classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by Ind AS 32).

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to equity holders of the parent entity</td>
<td>₹ 100,000</td>
</tr>
<tr>
<td>Ordinary shares outstanding</td>
<td>10,000</td>
</tr>
<tr>
<td>Non-convertible preference shares</td>
<td>6,000</td>
</tr>
<tr>
<td>Non-cumulative annual dividend on preference shares (before any dividend is paid on ordinary shares)</td>
<td>₹ 5.50 per share</td>
</tr>
<tr>
<td>After ordinary shares have been paid a dividend or ₹ 2.10 per share, the preference shares participate in any additional dividends on a 20:80 ratio ordinary shares.</td>
<td></td>
</tr>
</tbody>
</table>

Compute the allocation of earnings for the purpose of calculation of Basic EPS when an entity has ordinary shares & participating instruments that are not convertible into ordinary shares.

**ADJUSTMENT OF CONTINGENTLY ISSUABLE SHARES**

**QUESTION 29**

**Contingently issuable shares**

Ordinary shares outstanding during 20X1 1,000,000 (there were no options, warrants or Convertible instruments outstanding during period)

An agreement related to a recent business combination provides for the issue of additional ordinary shares based on the following conditions:

- 5,000 additional ordinary shares for each new retail site opened during 20X1
- 1,000, additional ordinary shares for each ₹ 1,000 of Consolidated profit in excess of ₹ 2,000,000 for the year ended 31 December 20X1

Retail sites opened during the year: One on 1 May 20X1
One on 1 September 20X1

Consolidated year-to-date profit ₹ 1,100,000 as of 31 March 20X1 attributable to ordinary equityholders of the parent entity:

- ₹ 2,300,000 at of 30 June 20X1
- ₹ 1,900,000 as of 30 September 20X1 (including a
₹ 450,000 loss from a discontinued operation

₹ 2,900,000 as of 31 December 20X1

Calculate basic and diluted EPS.

**QUESTION NO 30**

ABC Company has issued contingently issuable on 1st January 20X1. The condition to be satisfied is the average turnover of the company for last three quarters must exceed ₹ 100 million. If the condition is satisfied the company will issue the shares within a period of 6 months. The conditions will be effective from the quarter ending 31st March 20X1. Company achieves the said target on ending 31st December 20X1.

**ADJUSTMENT OF EMPLOYEE STOCK OPTION PLAN**

**QUESTION 31**

Effects of share options on diluted earnings per share

<table>
<thead>
<tr>
<th>Profit attributable to ordinary equity holders of the parent entity for year 20X1</th>
<th>₹ 1,200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average number of ordinary shares outstanding during year 20X1</td>
<td>500,000 shares</td>
</tr>
<tr>
<td>Average market price of one ordinary share during year 20X1</td>
<td>₹ 20.00</td>
</tr>
<tr>
<td>Weighted average number of shares under option during year 20X1</td>
<td>100,000 shares</td>
</tr>
<tr>
<td>Exercise price for shares under option during year 20X1</td>
<td>₹ 15.00</td>
</tr>
</tbody>
</table>

Calculate basic and diluted EPS.

**ADJUSTMENT OF WRITTEN OPTION CONTRACTS**

**QUESTION 32**

At 31 December 20X7 and 20X8, the issued share capital of an entity consisted of 4,000,000 ordinary shares of ₹ 25 each. The entity has granted options that give holders the right to subscribe for ordinary shares between 20Y6 and 20Y9 at ₹ 70 per share. Options outstanding at 31 December 20X7 and 20X8 were 630,000. There were no grants, exercises or lapses of options during the year. The profit after tax, attributable to ordinary
equity holders for the years ended 31 December 20X7 and 20X8, amounted to ₹ 500,000 and ₹ 600,000 respectively (wholly relating to continuing operations).

**Average market price of share:**
- Year ended 31 December 20X7 = ₹ 120
- Year ended 31 December 20X8 = ₹ 160

Calculate basic and diluted EPS.

**QUESTION NO 33 (CALL OPTIONS)**

K Limited has 4,00,000 ordinary shares outstanding of face value Rs. 2 each. The company has written call options on own shares 6,000. Premium is already received on all option Rs. 12. The strike price was Rs. 100. The average market price Rs. 120. Total maturity of the option is 3 months. Net profit to ordinary shareholder is Rs. 20,00,000. The option will be settled gross delivery based. Compute EPS.

**QUESTION NO 34 (PUT OPTIONS)**

Cherry Berry Corp. has written put options on own shares 20,000 options. Premium is already received on option Rs. 75. The strike price was Rs. 400. The average market price Rs. 250. Net Profit for the year 2015-16 for ordinary shareholder is Rs. 76,42,000. On 1/4/2015 7,00,000 ordinary shares outstanding of face value Rs. 100 each. The options will be settled gross delivery based. Compute EPS.

**QUESTION NO 35 (PUT OPTIONS)**

Global Paints Ltd. has purchased 60000 put options on own equity shares @ Rs. 600. The Fair Value of the shares Rs. 450. Net Profit attributable to the equity shareholders Rs. 36 crores. WANE 9,00,000.

**ANSWER:**

No need to calculate diluted EPS because it would be Anti - dilutive. It’s a case of purchased options.

**EPS CALCULATION IN CONSOLIDATED FINANCIAL STATEMENT**

**QUESTION NO 36 (CFS & SFS)**

M Limited is a parent company of subsidiary H Limited wit 80% stake. For the year 2015-16 M Limited earns net profit for equity Rs. 7,00,000 and H earns profits of Rs. 2,00,000. M Limited has 25,000 equity shares and H Ltd. has 10,000 equity shares. Compute EPS in the books of 1) M Limited both as per SFS and CFS 2) H Limited only as per SFS.
## QUESTION 37

Calculate Subsidiary's and Group's Basic EPS and Diluted EPS, when

<table>
<thead>
<tr>
<th><strong>Parent:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to ordinary equity holders of the parent entity</td>
<td>₹ 12,000 (excluding any earnings of, or dividends paid by, the subsidiary)</td>
</tr>
<tr>
<td>Ordinary shares outstanding</td>
<td>10,000</td>
</tr>
<tr>
<td>Instruments of subsidiary owned by the parent</td>
<td></td>
</tr>
<tr>
<td>30 warrants exercisable to purchase ordinary shares of subsidiary</td>
<td></td>
</tr>
<tr>
<td>300 convertible preference shares</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Subsidiary:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>₹ 5,400</td>
</tr>
<tr>
<td>Ordinary shares outstanding</td>
<td>1,000</td>
</tr>
<tr>
<td>Warrants</td>
<td>150, exercisable to purchase ordinary shares of the subsidiary</td>
</tr>
<tr>
<td>Exercise price</td>
<td>₹ 10</td>
</tr>
<tr>
<td>Average market price of one ordinary share</td>
<td>₹ 20</td>
</tr>
<tr>
<td>Convertible preference shares</td>
<td>400, each convertible into one ordinary share</td>
</tr>
<tr>
<td>Dividend on preference shares</td>
<td>Re 1 per share</td>
</tr>
</tbody>
</table>

No inter-company elimination or adjustments were necessary except for dividends.

Ignore income taxes. Also, ignore classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by Ind AS 32.
TEST YOUR KNOWLEDGE

**QUESTION 1**

ABC 1 January 20X1 Shares in issue 1,000,000  
31 March 20X1 (a) Rights issue 1 for 5 at 90 paise  
(b) Fair value of shares Re 1 (cum-rights price)  
Calculate the number of shares of use in the EPS calculation for the calendar year.

**QUESTION 2**

1 January Shares in issue 1,000,000  
5% Convertible bonds ₹ 100,000  
(terms of conversion 120 ordinary shares for ₹ 100)  
31 March Holders of ₹ 25,000 bonds converted to ordinary shares.  
Profit for the year ended 31 December ₹ 200,000  
Tax rate 30%  
Calculate basic and diluted EPS. Ignore the need to split the convertible bonds into liability and equity elements.

**QUESTION 3**

1 January Shares in issue 1,000,000  
Profit for the year ended 31 December ₹ 100,000  
Average fair value during period ₹ 8  
The company has in issue 200,000 options to purchase equity ordinary shares  
Exercise price ₹ 6  
Calculate the diluted EPS for the period.

**QUESTION 4**

Calculate Basic EPS for period ending 20X0, 20X1 and 20X2, when

<table>
<thead>
<tr>
<th></th>
<th>20X0</th>
<th>20X1</th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to ordinary equity holders of the parent entity</td>
<td>₹ 1,100</td>
<td>₹ 1,500</td>
<td>₹ 1,800</td>
</tr>
<tr>
<td>Shares outstanding before rights issue</td>
<td>500 shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rights issue</td>
<td>One new share for each five outstanding shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercise price</td>
<td>₹ 5.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date of rights issue</td>
<td>1 January 20X1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Last date to exercise rights</td>
<td>1 March 20X1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market price of one ordinary share immediately before exercise on 1 March 20X1:</td>
<td>₹ 11.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reporting date</td>
<td>31 December</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**QUESTION NO 5 (DILUTED EPS IN LOSS MAKING COMPANY)**

How would Diluted EPS be calculated for a loss making enterprise? To illustrate, at December 31, 20X2, a company has 2,000 shares of face value of Rs.10 each. The stock options outstanding at December 31, 20X2 were for 400 shares of face value Rs.10 each. The net loss for the year 20X2 was Rs.1,200,000. The fair value of the shares on the date of grant and the exercise price were Rs.100 and Rs.60 per share, respectively.

**QUESTION NO 6**

Undivided Ltd. having a net profit of Rs.40,000 from continuing operations and net loss of Rs. 30,000 from discontinuing operations. The company has 20,000 equity shares and 500 potential equity shares.

Compute Basic EPS & Dilutive EPS of Undivided Ltd.
Financial Statements for a company whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

GENERAL INSTRUCTIONS FOR PREPARATION OF FINANCIAL STATEMENT OF A COMPANY

REQUIRED TO COMPLY WITH Ind AS

1. Every company to which Indian Accounting Standards apply, shall prepare its financial statements in accordance with this Schedule or with such modification as may be required under certain circumstances.

2. Where compliance with the requirements of the Act including Indian Accounting Standards (except the option of presenting assets and liabilities in the order of liquidity as provided by the relevant Ind AS) as applicable to the companies require any change in treatment or disclosure including addition, amendment substitution or deletion in the head or sub-head or any changes inter se, in the financial statements or statements forming part thereof, the same shall be made and the requirements under this Schedule shall stand modified accordingly.

3. The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Indian Accounting Standards. Additional disclosures specified in the Indian Accounting Standards shall be made in the Notes or by way of additional statement or statements unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act, 2013 shall be made in the Notes in addition to the requirements set out in this Schedule.

4. (i) Notes shall contain information in addition to that presented in the Financial Statements and shall provide where required-

   (a) narrative description or disaggregation of items recognised in those statements; and

   (b) information about items that do not qualify for recognition in those statements.

Each item on the face of the Balance Sheet, Statement of Changes in Equity and Statement of Profit and Loss shall be cross-referenced to any related information in the Notes. In preparing the Financial Statements including the Notes, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.
5. Depending upon the turnover of the company, the figures appearing in the Financial Statements shall be rounded off as below:

<table>
<thead>
<tr>
<th>Turnover</th>
<th>Rounding off</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) less than one hundred crore rupees</td>
<td>To the nearest hundreds, thousands, lakhs or millions, or decimals thereof</td>
</tr>
<tr>
<td>(ii) one hundred crore rupees or more</td>
<td>To the nearest, lakhs, millions or crores, or decimals thereof.</td>
</tr>
</tbody>
</table>

Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

6. Financial Statements shall contain the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statement including Notes except in the case of first Financial Statements laid before the company after incorporation.

7. Financial Statements shall disclose all ‘material’ items, i.e., the items if they could. individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size or nature of the item or a combination of both, to be judged in the particular circumstances.

8. For the purpose of this Schedule, the terms used herein shall have the same meanings assigned to them in Indian Accounting Standards.

9. Where any Act or Regulation requires specific disclosure to be made in the standalone financial statement of a company, the said disclosure shall be made in addition to those required under this Schedule.

**Note:** This Schedule sets out the minimum requirements for disclosure on the face of the Financial Statements, i.e., Balance Sheet, Statement of Changes in Equity for the period, the Statement of profit and Loss for the period (The term ‘Statement of Profit and Loss’ has the same meaning as Profit and Loss Account) and Notes. Cash flow statement shall be prepared, where applicable, in accordance with the requirement of the relevant Indian Accounting Standard.

Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company’s financial position or performance to cater to industry or sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act, 2013 or under the Indian Accounting Standards.
PART I - BALANCE SHEET

Name of the Company...........................
Balance Sheet as at ...........................

(Rupees in.........)

<table>
<thead>
<tr>
<th>Particular</th>
<th>Note No.</th>
<th>Figures as at the end of current reporting period</th>
<th>Figures as at the end of the previous reporting period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Property, Plant and Equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Capital work-in-progress</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Investment Property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Goodwill</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) Other Intangible assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(f) Intangible assets under development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(g) Biological Assets other than bearer plants</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(h) Financial Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(j) Trade receivables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(k) Loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Deferred tax assets (net)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Other non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(2) Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Inventories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Financial Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Trade receivables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Cash and cash equivalents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>(iv)</td>
<td>Bank balances other than (iii) above</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(v)</td>
<td>Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(vi)</td>
<td>Others (to be specified)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c)</td>
<td>Current Tax Assets (Net)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d)</td>
<td>Other current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Equity and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Equity Share capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Other Equity</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Financial Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(i) Borrowings</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) Trade payables</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other financial liabilities (other than those specified in item (b), to be specified)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Provision</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(c) Deferred tax liabilities (Net)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(d) Other non-current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(2)</td>
<td>Current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Financial Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(a) Borrowings</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(a) Trade payables</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(a) Other financial liabilities (other than those specified in item (C))</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Other current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(c) Provision</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(d) Current Tax Liabilities (Net)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Equity and Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
see accompanying notes to the financial statements

STATEMENT OF CHANGES IN EQUITY

Name of the Company .............
Statement of Changes in Equity for the period ended ..........

A. Equity Share Capital

<table>
<thead>
<tr>
<th>Balance at the beginning of the reporting period</th>
<th>Changes in equity share capital during the year</th>
<th>Balance at the end of the reporting period</th>
</tr>
</thead>
</table>
### A. Other Equity

<table>
<thead>
<tr>
<th>Balance at the beginning of the reporting period</th>
<th>Share application on money pending allotment</th>
<th>Equity component of compound financial instrument</th>
<th>Capital Reserve</th>
<th>Securities Premium Reserve</th>
<th>Other Reserve (Specify nature)</th>
<th>Retained Earning</th>
<th>Reserve and Surplus</th>
<th>Debt instrument through other comprehensive income</th>
<th>Equity Instrument through other comprehensive income</th>
<th>Effective portion of cash flow hedges</th>
<th>Revaluation Surplus</th>
<th>Exchange difference on translating the financial statement</th>
<th>Other items of other comprehensive income (Specify nature)</th>
<th>Money received against share capital</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in accounting policy or prior period errors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restated balance at the beginning of the reporting period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total comprehensive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income for the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to retained earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other change (to be specified)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of the reporting period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Note: Re-measurement of defined benefit plans and fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss shall be recognised as a part of retained earning with separate disclosure of such items alongwith the relevant amounts in the Notes.
GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

1. An entity shall classify an asset as current when-
   (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
   (b) it holds the asset primarily for the purpose of trading;
   (c) it expects to realise the asset within twelve months after the reporting period;
   or
   (d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

2. The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents, when the entity’s normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

3. An entity shall classify a liability as current when-
   (a) it expects to settle the liability in its normal operating cycle;
   (b) it holds the liability primarily for the purpose of trading;
   (c) the liability is due to be settled within twelve months after the reporting period;
   or
   (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

4. A receivable shall be classified as a ‘trade receivable’ if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.

5. A payable shall be classified as a ‘trade payable’ if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

6. A company shall disclose the following in the Notes:

A. Non-Current Assets

1. Property, Plant and Equipment:
   (i) Classification shall be given as:
      (a) Land
(b) Buildings
(c) Plant and Equipment
(d) Furniture and Fixtures
(e) Vehicles
(f) Office equipment
(g) Bearer Plants
(h) Others (specify nature)

(ii) Assets under lease shall be separately specified under each class of assets

(iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

al. Investment Property:
A reconciliation of the gross and net carrying amounts of each class of property at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

BI. Goodwill:
A reconciliation of the gross and net carrying amount of goodwill at the beginning and end of the reporting period showing additions, impairments, disposals and other adjustments.

IV. Other Intangible assets
(i) Classification shall be given as:
   (a) Brands or trademarks
   (b) Computer software
   (c) Mastheads and publishing titles
   (d) Mining rights
   (e) Copyright, patents, other intellectual property rights, services and operating rights
   (f) Recipes, formulae, models, designs and prototypes
   (g) Licenses and franchises
   (h) Others (specify nature)
(ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses or reversals shall be disclosed separately.

V. Biological Assets other than bearer plants:
A reconciliation of the carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments shall be disclosed separately.

VI. Investment
(i) Investments shall be classified as:
   (a) Investments in Equity Instruments;
   (b) Investments in Preference Shares;
   (c) Investments in Government or trust securities;
   (d) Investments in debentures or bonds;
   (e) Investments in Mutual Funds;
   (f) Investments in partnership firms; or
   (g) Other investments (specify nature)
Under each classification, details shall be given of names of the bodies corporate that are:
   (i) subsidiaries,
   (ii) associates,
   (iii) joint ventures, or
   (iv) structured entities, in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). Investment in partnership firms along with names of the firms, their partners, total capital and the shares of each partner shall be disclosed separately.

(ii) The following shall also be disclosed:
   (a) Aggregate amount of quoted investment and market value thereof:
   (b) Aggregate amount of unquoted investment: and
Aggregate amount of impairment in value of investment
SCHEDULE III

VII. Trade Receivables:

(i) Trade receivables shall be sub-classified as;
   (a) Secured, considered good;
   (b) Unsecured considered good; and
   (c) Doubtful.

(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

VIII. Loans:

(i) Loans shall be classified as-
   (a) Security Deposits;
   (b) Loans to related parties (giving details thereof); and
   (c) Other loans (specify nature).

The above shall also be separately sub-classified as-

(a) Secured, considered good;
(b) Unsecured, considered good; and
(c) Doubtful. Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.

(iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

IX. Bank deposits with more than 12 months maturity shall be disclosed under 'Other financial assets';

X. Other non-current asset: Other non-current assets shall be classified as-

(i) Capital Advances; and
(ii) Advances other than capital advances;
Advances other than capital advances shall be classified as

(a) Security Deposits;
(b) Advances to related parties (giving details thereof); and
(c) Other advances (specify nature).

(2) Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated, in case advances are of the nature of a financial asset as per relevant Ind AS, these are to be disclosed under other financial assets separately.

(bi) Others (specify nature).

B. Current Assets

I. Inventories:

(i) Inventories shall be classified as-

(a) Raw materials;
(b) Work in-progress;
(c) Finished goods;
(d) Stock-in-trade (in respect of goods acquired for trading);
(e) stores and spares;
(f) Loose tools; and
(g) Others (specify nature).

(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.

(iii) Mode of valuation shall be stated.

II. Investment:

(i) Investments shall be classified as-

(a) Investments in Equity Instruments;
(b) Investment in Preference Shares;
(c) Investment in government or trust securities;
(d) Investments in debentures or bonds;
(e) Investments in Mutual Funds;
(f) Investment in partnership firms; and
(g) Other investments (specify nature).
Under each classification, details shall be given of names of the bodies corporate that are-
(i) subsidiaries,
(ii) associates,
(iii) joint ventures, or
(iv) structured entities,
in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid)

(a) The following shall also be disclosed
(a) Aggregate amount of quoted investments and market value thereof;
(b) Aggregate amount of unquoted investments;
(c) Aggregate amount of impairment in value of investments,

III. Trade Receivables

(i) Trade receivables shall be sub-classified as:
   (a) Secured, considered good;
   (b) Unsecured considered good; and
   (c) Doubtful:
(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
(iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

IV. Cash and cash equivalents:
Cash and cash equivalents shall be classified as-
   a. Balances with Banks (of the nature of cash and cash equivalents);
   b. Cheques, drafts on hand;
   c. Cash on hand; and
   d. Others (specify nature).

V. Loans:
(i) Loans shall be classified as:
(a) Security deposits;
(b) Loans to related parties (giving details thereof); and
(c) others (specify nature).

(ii) The above shall also be sub-classified as-
(a) Secured, considered good;
(b) Unsecured, considered good; and
(c) Doubtful.

(iii) Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.

(iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

VI. Other current assets (specify nature): This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories. Other current assets shall be classified as-

(i) Advances other than capital advances

(1) Advances other than capital advances shall be classified as:
   (a) Security Deposits;
   (b) Advances to related parties (giving details thereof);
   (c) Other advances (specify nature)

(2) Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.
   (a) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.
   (b) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

D. Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated Equity
I. Equity Share Capital: For each class of equity share capital:

(a) the number and amount of shares authorised;
(b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;
(c) par value per Share;
(d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
(e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;
(f) shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;
(g) shares in the company held by each shareholder holding more than five per cent. shares specifying the number of shares held;
(h) shares reserved for issue under options and contracts or commitments for the sale of shares or disinvestment, including the terms and amounts;
(i) for the period of five years immediately preceding the date at which the Balance Sheet is prepared aggregate number and class of shares allotted as fully paid up pursuant to contract without payment being received in cash:
  • aggregate number and class of shares allotted as fully paid up by way of bonus shares; and
  • aggregate number and class of shares bought back;
(j) terms of any securities convertible into equity shares issued along with the earliest date of conversion in descending order starting from the farthest such date;
(k) calls unpaid (showing aggregate value of calls unpaid by directors and officers);
(l) forfeited shares (amount originally paid up).

II. Other Equity:

(i) Other Reserves' shall be classified in the notes as-
   (a) Capital Redemption Reserve;
   (b) Debenture Redemption Reserve;
   (c) Share Options Outstanding Account; and
   (d) others- (specify the nature and purpose of each reserve and the amount in respect thereof);
(Additions and deductions since last balance sheet to be shown under each of the specified heads)

(ii) Retained Earnings represents surplus i.e. balance of the relevant column in the Statement of Changes in Equity;

(iii) A reserve specifically represented by earmarked investments shall disclose the fact that it is so represented;

(iv) Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'retained earnings'. Similarly, the balance of 'Other Equity', after adjusting negative balance of retained earnings, if any, shall be shown under the head 'Other Equity' even if the resulting figure is in the negative; and

(v) Under the sub-head 'Other Equity', disclosure shall be made for the nature and amount of each item.

E. Non-Current Liabilities

I. Borrowings:

(i) borrowings shall be classified as-
   
   (a) Bonds or debentures
   
   (b) Term loans
       (I) from banks
       (II) from other Parties
   
   (c) Deferred payment liabilities
   
   (d) Deposits.
   
   (e) Loans from related parties
   
   (f) Long term maturities of finance lease obligations
   
   (g) Liability component of compound financial instruments
   
   (h) Other loans (specify nature);

(ii) borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed;

(iv) bonds or debentures (along with the rate of interest, and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be, where bonds/debentures are redeemable by installments, the date of maturity for this purpose must be reckoned as the date on which the first installment becomes due;
(v) particulars of any redeemed bonds or debentures which the company has power to reissue shall be disclosed;
(vi) terms of repayment of term loans and other loans shall be stated; and
(vii) period and amount of default as on the balance sheet date in repayment of borrowings and interest shall be specified separately in each case.

III. Provisions: The amounts shall be classified as-

(a) Provision for employee benefits; and
(b) Others (specify nature).

IV. Other non-current liabilities:

(a) Advances; and
(b) Others (specify nature).

F. Current Liabilities

I. Borrowings:

(i) Borrowings shall be classified as-
   (a) Loans repayable on demand
      (I) from banks
      (II) from other parties
   (b) Loans from related parties
   (c) Deposits
   (d) Other loans (specify nature);

(ii) borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case;

(iii) where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed; period and amount of default as on the balance sheet date in repayment of borrowings and interest, shall be specified separately in each case.

II. Other Financial Liabilities: Other Financial liabilities shall be classified as-

(a) Current maturities of long-term debt;
(b) Current maturities of finance lease obligations;
(c) Interest accrued;
(d) Unpaid dividends;
(e) Application money received for allotment of securities to the extent refundable and interest accrued thereon;
(f) Unpaid matured deposits and interest accrued thereon;
(g) Unpaid matured debentures and interest accrued thereon; and
(h) Others (specify nature).

'Long term debt is a borrowing having a period of more than twelve months at the time of origination.

III. Other current liabilities:
The amounts shall be classified as-
(a) revenue received in advance;
(b) other advances (specify nature); and
(c) others (specify nature);

IV. Provisions: The amounts shall be classified as-
(i) provision for employee benefits; and
(ii) others (specify nature)

G. The presentation of liabilities associated with group of assets classified as sold for sale and non-current assets classified as sold for sale shall be in accordance with the relevant Indian Accounting Standards (Ind ASs)

H. Contingent Liabilities and Commitments: (to the extent not provided for)
(i) Contingent Liabilities shall be classified as-
   (a) claims against the company not acknowledged as debt;
   (b) guarantees excluding financial guarantees; and
   (c) other money for which the company is contingently liable.

Commitments shall be classified as
(a) estimated amount of contracts remaining to be executed on capital account and not provided for;
(b) uncalled liability on shares and other investments partly paid; and
(c) other commitments (specify nature).
I. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and title related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on irredeemable preference shares shall also be disclosed separately.

J. Where in respect of an issue of securities made for a specific purpose the whole or part of amount has not been used for the specific purpose at the Balance sheet date, there shall be indicated by way of note how such unutilised amounts have been used or invested.

7. When a company applies an accounting policy retrospectively or makes a restatement of items in the financial statements or when it reclassifies items in its financial statements, the company shall attach to the Balance Sheet, a “Balance Sheet” as at the beginning of the earliest comparative period presented.

8. Share application money pending allotment shall be classified into equity or liability in accordance with relevant Indian Accounting Standards. Share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable shall be separately shown under ‘Other financial liabilities’.

9. Preference shares including premium received on issue, shall be classified and presented as ‘Equity’ or ‘Liability’ in accordance with the requirements of the relevant Indian Accounting Standards. Accordingly, the disclosure and presentation requirements in that regard applicable to the relevant class of equity or liability shall be applicable mutatis mutandis to the preference shares. For instance, redeemable preference shares shall be classified and presented under ‘non-current liabilities’ as ‘borrowings’ and the disclosure requirements in this regard applicable to such borrowings shall be applicable mutatis mutandis to redeemable preference shares.

10. Compound financial instruments such as convertible debentures, where split into equity and liability components, as per the requirements of the relevant Indian Accounting Standards, shall be classified and presented under the relevant heads in ‘Equity’ and ‘Liabilities’

11. Regulatory Deferral Account Balances shall be presented in the Balance Sheet in accordance with the relevant Indian Accounting Standards.
PART II - STATEMENT OF PROFIT AND LOSS

Name of the Company..............................

Statement of Profit and Loss for the period ended......................

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Note No.</th>
<th>Figures as at the end of current reporting period</th>
<th>Figures for the Previous reporting Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Revenue from operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>Other Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>Total Income (I + II)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>EXPENSES</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost of materials consumed</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Purchases of Stock-in-Trade</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Changes in inventories of finished goods, Stock-in-Trade and work-in-progress</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employee benefits expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finance costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>And amortization expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total expenses (IV)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V</td>
<td>Profit/(loss) before exceptional items and tax (I-IV)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VI</td>
<td>Exceptional Items</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII</td>
<td>Profit/ (loss) before exceptions items and tax(V-VI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VIII</td>
<td>Tax expense:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1) Current tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2) Deferred tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-----------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IX</td>
<td>Profit (Loss) for the period from continuing operations (VII - VIII)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>Profit/(loss) from discontinued operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XI</td>
<td>Tax expenses of discontinued operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XII</td>
<td>Profit /(loss) from Discontinued operations (after tax) (X-XI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XIII</td>
<td>Profit (loss) for the period (IX-XII)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XIV</td>
<td>Other Comprehensive Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. (i) Items that will not be reclassified to profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(ii) Income tax relating to items that will not be reclassified to profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>B (i) Item that will be reclassified to profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(ii) Income tax relating to items that will be reclassified to profit or</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XV</td>
<td>Total Comprehensive Income for the period (XIII+XIV)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Comprising Profit (Loss) and other comprehensive Income for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>XVI</td>
<td>Earnings per equity share (for continuing operation):</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1) Basic</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2) Diluted</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Earnings per equity share (for discontinued operation)

<table>
<thead>
<tr>
<th>XVII</th>
<th>Basic</th>
<th>Diluted</th>
</tr>
</thead>
</table>

### Earning per equity share for discontinued & continuing operation)

<table>
<thead>
<tr>
<th>XVIII</th>
<th>Basic</th>
<th>Diluted</th>
</tr>
</thead>
</table>

### GENERAL INSTRUCTIONS FOR PREPARING OF STATEMENT OF PROFIT AND LOSS

1. The provisions of this Part shall apply to the income and expenditure account, in like manner as they apply to a Statement of Profit and Loss.

2. The Statement of Profit and Loss shall include:
   
   (1) Profit of loss for the Period;
   
   (2) Other Comprehensive Income for the period.
   
   The sum of (1) and (2) above is “Total Comprehensive Income”

3. Revenue from operations shall disclose separately in the notes
   
   (a) sale of products (including Excise Duty);
   
   (b) sale of services; and
   
   (c) other operating revenues.

4. Finance Costs: Finance costs shall be classified as-
   
   (a) interest;
   
   (b) dividend on redeemable preference shares;
   
   (c) exchange differences regarded as an adjustment to borrowing costs; and
   
   (d) other borrowing costs (specify nature).

5. Other income: other income shall be classified as-
   
   (a) interest Income;
   
   (b) dividend Income; and
   
   (c) other non-operating income (net of expenses directly attributable to such income)
6. Other Comprehensive Income shall be classified into-

(A) Items that will not be reclassified to profit or loss

1. Changes in revaluation surplus;
2. Re-measurements of the defined benefit plans;
3. Equity Instruments through Other Comprehensive Income;
4. Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss;
5. Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and
6. Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and
7. Others (specify nature).

(B) Items that will be reclassified to profit or loss:

1. Exchange differences in translating the financial statements of a foreign operation;
2. Debt instruments through Other Comprehensive Income;
3. The effective portion of gains and loss on hedging instruments in a cash flow hedge;
4. Share of other comprehensive income in Associates and Joint Ventures, to the extent to be classified into profit or loss; and
5. Others (specify nature)

7. Additional Information: A Company shall disclose by way of notes, additional information regarding aggregate expenditure and income on the following items:

(a) employee Benefits expense (showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) share based payments to employees, (iv) staff welfare expenses).
(b) depreciation and amortisation expense;
(c) any item of income or expenditure which exceeds one per cent of the revenue from operations or ₹ 10,00,000, whichever is higher, in addition to the consideration of 'materiality' as specified in clause 7 of the General Instructions for Preparation of Financial Statements of a Company;
(d) interest Income;
(e) interest Expense
(f) dividend income;
(g) net gain or loss on sale of investments;
(h) net gain or loss on foreign currency transaction and translation (other than considered as finance cost);
(i) payments to the auditor as (a) auditor, (b) for taxation matters, (c) for company law matters, (d) for other services, (e) for reimbursement of expenses;
(j) in case of companies covered under section 135, amount of expenditure incurred on corporate social responsibility activities; and
(k) details of items of exceptional nature;

8. Changes in Regulatory Deferral Account Balances shall be presented in the Statement of Profit and Loss in accordance with the relevant Indian Accounting Standards

PART III - GENERAL INSTRUCTIONS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Where a company is required to prepare Consolidated Financial Statements, i.e., consolidated balance sheet, consolidated statement of changes in equity and consolidated statement of profit and loss, the company shall mutatis mutandis follow the requirements of this Schedule as applicable to a company in the preparation of balance sheet, statement of changes in equity and statement of profit and loss. In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, including the following, namely:

(i) Profit or loss attributable to ‘non-controlling interest’ and to ‘owners of the parent’ in the statement of profit and loss shall be presented as allocation for the period. Further, ‘total comprehensive income for the period attributable to ‘non-controlling interest’ and to ‘owners of the parent’ shall be presented in the statement of profit and loss as allocation for the period. The aforesaid disclosures for ‘total comprehensive income shall also be made in the statement of changes in equity. In addition to the disclosure requirements in the Indian Accounting Standards, the aforesaid disclosures shall also be made in respect of ‘other comprehensive Income

(ii) ‘Non-controlling interests’ in the Balance Sheet and in the Statement of Changes in Equity, within equity, shall be presented separately from the equity of the ‘owners of the parent’.

(iii) Investments accounted for using the equity method.
2. In Consolidated Financial Statement, the following shall be disclosed by the way of additional information

<table>
<thead>
<tr>
<th>Name of the entity in the Group</th>
<th>Net Asset i.e. total assets minus total liabilities</th>
<th>Share in profit or loss</th>
<th>Share in other comprehensive income</th>
<th>Share in total comprehensive income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As % of consolidated net assets</td>
<td>Amount</td>
<td>As % of consolidated profit or loss</td>
<td>Amount</td>
</tr>
<tr>
<td>Parent subsidiaries Indian</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Controlling Interest in all subsidiaries Associates (Investmentas per the equity method) Indian</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Name of the entity in the Group</td>
<td>Net Asset i.e. total assets minus total liabilities</td>
<td>Share in profit or loss</td>
<td>Share in other comprehensive income</td>
<td>Share in total comprehensive income</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>--------------------------------------------------</td>
<td>------------------------</td>
<td>-------------------------------------</td>
<td>-------------------------------------</td>
</tr>
<tr>
<td>Indian</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint Venture (Investment as per the equity method) Indian</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. All subsidiaries, associates and joint venture (whether Indian or Foreign) will be covered under consolidated financial statement.

4. An entity shall disclose the list of subsidiaries or associates or joint venture which have been consolidated in the consolidated financial statement along with the reason of not consolidating.
QUESTION 1

What happens when requirements of schedule 3 contradicts with the Provisions of IND AS?

SOLUTION:

Where compliance with the requirements of the Act including IND AS applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head or sub-head or any changes, in the financial statements or statements forming part thereof, the same shall be made and the requirements of this Schedule shall stand modified accordingly. The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the prescribed under the Companies Act, 2013. Additional disclosures specified in the IND AS shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements.

NOTE: This part of Schedule sets out the minimum requirements for on the face of the Balance Sheet, and the Statement of Profit and Loss (hereinafter referred to as —Financial Statements || for the purpose of this Schedule) and Notes. Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company’s financial position or performance or to cater to industry/sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act or under the Accounting Standards.

QUESTION 2

ICAI Ltd provides you the following information:

1. Raw material stock holding period : 3 months
2. Work-in-progress holding period : 1 month
3. Finished goods holding period : 4 months
4. Debtors collection period : 6 months

You are required to compute the operating cycle.
SOLUTION

According to Schedule III “an operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents”.

Operating Cycle = Raw material stock holding period+work-in-progress holding period + Finished goods holding period+Debtors Collection period = 3+1+4+6=14 months.

QUESTION 3

State giving reason whether the Trade Receivables are Current Assets or Non-Current Assets as per Schedule III in the following cases.

<table>
<thead>
<tr>
<th>Case</th>
<th>Operating Cycle Period</th>
<th>Expected Realization period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>11 months</td>
<td>10 months</td>
</tr>
<tr>
<td>2</td>
<td>11 months</td>
<td>12 months</td>
</tr>
<tr>
<td>3</td>
<td>11 months</td>
<td>13 months</td>
</tr>
<tr>
<td>4</td>
<td>14 months</td>
<td>13 months</td>
</tr>
<tr>
<td>5</td>
<td>14 months</td>
<td>15 months</td>
</tr>
</tbody>
</table>

SOLUTION

<table>
<thead>
<tr>
<th>Case</th>
<th>Current Assets or Non-Current Assets</th>
<th>Reason</th>
</tr>
</thead>
</table>
| 1    | Current Assets                      | Expected Realization period  
- Is less than the Operating Cycle period and  
- Is within 12 months |
| 2    | Current Assets                      | Expected Realization Period within 12 months although it is more than the Operating Cycle period |
| 3    | Non-Current Assets                  | Expected Realization period is more than the Operating Cycle Period and 12 months Period. |
| 4    | Current Assets                      | Expected Realization period is less than the Operating Cycle period although it is more than the 12 months period. |
| 5    | Non-Current Assets                  | Expected Realization period is more than the operating cycle period and the 12 months period. |
**QUESTION 4**

State giving reason whether the Trade payables are Current Liabilities or Non-Current Liabilities as per schedule III in the following cases:

<table>
<thead>
<tr>
<th>Case</th>
<th>Operating Cycle Period</th>
<th>Expected Payment Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>11 months</td>
<td>10 months</td>
</tr>
<tr>
<td>2</td>
<td>11 months</td>
<td>12 months</td>
</tr>
<tr>
<td>3</td>
<td>11 months</td>
<td>13 months</td>
</tr>
<tr>
<td>4</td>
<td>11 months</td>
<td>15 months</td>
</tr>
</tbody>
</table>

**SOLUTION:**

<table>
<thead>
<tr>
<th>Case</th>
<th>Operating Cycle Period</th>
<th>Expected Payment Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Current Liabilities</td>
<td>Expected Payment Period</td>
</tr>
<tr>
<td></td>
<td>- Is less than the Operating Cycle period and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Is within 12 months</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Current Liabilities</td>
<td>Expected Payment period is within 12 months although it is more than the Operating Cycle period.</td>
</tr>
<tr>
<td>3</td>
<td>Non-Current Liabilities</td>
<td>Expected Payment period is more than the operating Cycle period and 12 months period.</td>
</tr>
<tr>
<td>4</td>
<td>Non-Current Liabilities</td>
<td>Expected Payment period is more than the Operating Cycle Period and the 12 months period.</td>
</tr>
</tbody>
</table>

**QUESTION 5 (MAY 14 8MARKS)**

ICAI Ltd. Is in the process of finalizing its accounts for year ended 31st March, 2015 and furnishes the following information:

i) Finished goods normally are held for 1 month before sale.

ii) Sales realization from Debtors usually takes 2 months from date of credit invoice.

iii) Raw materials are held in stock to cover 1 month's production requirements.

iv) Packing materials, being specifically made for the company and having lead time of 3 months is held in stock for 3 months.
v) Being a monopoly KAY Ltd. enjoys a credit period of 12.5 months from its suppliers, who sometimes at the end of their credit opt for conversion of their dues into long-term debt of KAY Ltd.

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

**SOLUTION:**

Operating Cycle: 1+1+3+2=7 months
(Credit Period given by Suppliers should not be deducted while computing operating cycle as per Schedule 3)

a) When Credit period is 12.5 months: It will be treated as non-current liability since it is not due to be settled within 12 months after the reporting date.

b) When credit period is 330 days (i.e. 11 months approx.): It will be treated as current liability since it is due to be settled within 12 months after the reporting date.

---

**QUESTION 6**

X Ltd. Provides you the following Information.

1. Raw material stock holding period: 4 months.
2. Work-in-progress holding period: 2 months.
3. Finished goods holding period: 3 months.
4. Debtors collection period: 4 months

You are required to compute the operating Cycle.

**SOLUTION:**

As per Schedule III "An operating Cycle is the time between the acquisition of Assets for processing and their realization in cash or cash equivalents".

**Statement showing calculation of Operating Cycle**

Raw material stock holding period = 4 months  
+ work-in-progress holding period = 2 months  
+ Finished goods holding period = 3 months  
+ Debtors collection period = 4 months  
-----------------------  
13 months  
-----------------------
QUESTION 7

H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset. Comment on the accuracy of the decision and the treatment of asset by H Ltd. As per Schedule III.

SOLUTION

- As per Schedule III, one of the criteria for classification of an asset as a current asset is that the asset is expected to be realised in the company's operating cycle or is intended for sale or consumption in the company's normal operating cycle.
- Further, Schedule III defines that an operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents.
- However, when the normal operating cycle cannot be identified, it is assumed to have duration of 12 months. As per the facts given in the question, the process of manufacturing of lotus wine takes around 18 months; therefore, its realisation into cash and cash equivalents will be done only when it is ready for sale i.e. after 18 months.
- This means that normal operating cycle of the product is 18 months. Therefore, the contention of the company's management that the operating cycle of the product lotus wine is 18 months and not 12 months is correct. H. Ltd. will classify the raw material purchased held in stock as current asset.

QUESTION 8

How can a liability be classified as a current liability?

SOLUTION:

(a) It is expected to be settled in the company normal operating cycle; or
(b) It is held primarily for the purpose of being traded; or
(c) It is due to be settled within twelve months after the reporting date; or
(d) The company does not have an unconditional right to defer settlement of the liability for least twelve months after the reporting date. Terms of a liability that could, at the option the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
**QUESTION 9**

How can a liability be classified as a non current liability?

**SOLUTION**

The liability other than Current liability shall be classified as Non-Current.

**QUESTION 10**

Explain the meaning of share warrants?

**SOLUTION**

_Meaning:_ A share warrant is a bearer document of title to shares and can be issued only by public limited companies and that to against fully paid up shares only.

A share warrant cannot be issued by a private company, because the share warrant states that its bearer is entitled to a number of shares mentioned there in. It is a negotiable document and is easily transferable by mere delivery to another person. The holder of the share warrant is entitled to receive dividend as decided by the company.

A share warrant is accompanied by attached coupons for the payment of future dividends.

There are three parts of a share warrant:

1. The counter foil.
2. Share Warrant proper.
3. The dividend coupons.

_Conditions for the issue of a share warrant:_

1. **Only public limited companies:** Share warrant can be issued by the public limited companies. It cannot be issued by private companies.
2. **Against share certificate of fully paid up shares:** A share warrant is only issued against share certificate of fully paid up shares.
3. **Provision in the Articles:** There must be a provision in the Articles of Association regarding the issue of share warrant. If there is a provision, the company can issue a share warrant. If there is no provision in the Articles, the company cannot issue a share warrant.
4. **Permission of the Central Government:** Prior permission from the Central Government is necessary for the issue of share warrant.
5. **Share warrant not issued originally:** Share warrant are not issued originally at the time of initial issue.
(6) **AT the request of the share holder:** A share warrant is issued at the request of the Shareholders / member and not by the company at its own initiative.

In simple terms, a warrant is like an option issued by a company that gives the holder the right to buy stock from the company at a specified price within a certain designated time period. Generally speaking, warrants are issued by the company whose stock underlies the warrant and when an investor exercises a warrant, he or she buys stock from the company. A stock warrant is a way for a company to raise money through equity (stocks). A stock warrant is a smart way to own shares of a company because a warrant usually is offered at a price lower than that of a stock option. ^1

Like an option, a warrant does not represent actual ownership in the stock of the company and it is simply the right (but not the obligation) to buy shares at a certain price in the future.

The main difference between warrants and call options is that warrants are issued and guaranteed by the company, whereas options are exchange instruments and are not issued by the company. Also, the lifetime of a warrant is often measured in years, while the lifetime of a typical option is measured in months.

1. A share warrant can be issued only when the shares are fully paid up whereas a share certificate can be issued at any stage without the shares being fully paid up.
2. A share warrant is a negotiable instrument but a share certificate is not.
3. A share certificate is a document showing prima facie title to the shares represented thereby but a share warrant is the share security itself capable of easy transfer.
4. A holder of a share certificate is a member of the company but the holder of a share warrant is not, unless the articles otherwise provide.
5. A share certificate can be issued both by a public and a private company but a share warrant is issued only by a public company.

---

**QUESTION 11**

The following trial balance has been extracted from the books of A Ltd as at 31 March 2017:

<table>
<thead>
<tr>
<th></th>
<th>₹ 000</th>
<th>₹ 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration expenses</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>Distribution costs</td>
<td>295</td>
<td></td>
</tr>
<tr>
<td>Share capital (all ordinary shares of 1 each)</td>
<td>270</td>
<td></td>
</tr>
<tr>
<td>Share Premium</td>
<td>80</td>
<td></td>
</tr>
</tbody>
</table>
Revaluation surplus 20  
Dividend paid 27  
Cash at bank and in hand 3  
Receivables 233  
Interest paid 25  
Dividends received 15  
Interest received 1  
Land and buildings at cost (land 380, buildings 100) 480  
Land and buildings: accumulated depreciation 30  
Plant and machinery at cost 400  
Plant and machinery accumulated depreciation 170  
Retained earnings account (at 1 April, 2016) 235  
Purchases 1,260  
Sales 2,165  
Inventrouy at 1 April, 2016 140  
Trade payables 27  
Bank loan 100  
3,113 3,113

Additional Information

(1) Inventory at 31 March, 2017 was valued at a cost of ₹ 95,000. Included in this balance were goods that had cost ₹ 15,000. These goods had become damaged during the year and it is considered that following remedial work the goods could be sold for ₹ 5,000.

(2) Depreciation for the year to 31 March, 2017 is to be charged against cost of sales as follows:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Depreciation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>5% on cost (straight line)</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>30% on carrying amount (reducing balance)</td>
</tr>
</tbody>
</table>

(3) Income tax of ₹ 165,000 is to be provided for the year to 31 March, 2017.

(4) Land is be revalued upwards by ₹ 100,000.

Prepare the statement of profit or loss and other comprehensive income,
Statement of changes in equity and Balance sheet for year ended 31 March 2017
**QUESTION 12**

The following trial balance related to B at 31 March 2017:

<table>
<thead>
<tr>
<th></th>
<th>Dr.</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>₹ 000</td>
<td>₹ 000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td></td>
<td>5,300</td>
</tr>
<tr>
<td>Dividends received</td>
<td>1,350</td>
<td></td>
</tr>
<tr>
<td>Administration expenses</td>
<td></td>
<td>210</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>490</td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>370</td>
<td></td>
</tr>
<tr>
<td>Prepayments</td>
<td>190</td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Property, Plant and equipment</td>
<td>390</td>
<td></td>
</tr>
<tr>
<td>Short-term investments</td>
<td></td>
<td>4,250</td>
</tr>
<tr>
<td>Inventory at 31 March 2017</td>
<td></td>
<td>2,700</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>114</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td>418</td>
</tr>
<tr>
<td>Trade payables</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Lon-team loans (repayable 2025)</td>
<td></td>
<td>136</td>
</tr>
<tr>
<td>Share capital</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>Share premium</td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>Retained earnings at 31 March, 2016</td>
<td></td>
<td>800</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,163</td>
</tr>
<tr>
<td></td>
<td>10,309</td>
<td>10,309</td>
</tr>
</tbody>
</table>

The following information should also taken into account:

1. The tax charger for the year has been estimated at ₹ 4,70,000.
2. The directors declared a final dividend of ₹ 2,70,000 on 3 April, 2017.

**Required:**

Prepare, the statement of profit or loss and other comprehensive income Balance Sheet and statement of changes in equity for the year ended 31 March, 2017.
QUESTION 13 (MISTAKE IN FINAL ACCOUNTS)

Following are the Financial statements of SL Parvati Industries Ltd:

**Balance Sheet**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Note</th>
<th>As at March 31, 20X1 (INR in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity And Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholder’s funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Capital</td>
<td>1</td>
<td>1,000</td>
</tr>
<tr>
<td>Reserves and Surplus</td>
<td>2</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Non- current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>3</td>
<td>5,555</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>4</td>
<td>200</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>5</td>
<td>300</td>
</tr>
<tr>
<td>Short-term provisions</td>
<td>6</td>
<td>250</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>7</td>
<td>150</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>9,455</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>8</td>
<td>5,655</td>
</tr>
<tr>
<td>Deferred Tax Assets</td>
<td>9</td>
<td>500</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>10</td>
<td>1,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>11</td>
<td>1,100</td>
</tr>
<tr>
<td>Cash and bank balances</td>
<td>12</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>9,455</td>
</tr>
</tbody>
</table>
### Statement of Profit & Loss

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Note</th>
<th>Year ended March 31, 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from operations</td>
<td></td>
<td>5,500</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Benefit Expense</td>
<td></td>
<td>1,200</td>
</tr>
<tr>
<td>Operating Costs</td>
<td></td>
<td>2,200</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>999</td>
</tr>
<tr>
<td>Total Expenses</td>
<td></td>
<td>4,399</td>
</tr>
<tr>
<td>Profit before Tax</td>
<td></td>
<td>1,101</td>
</tr>
<tr>
<td>Tax Expense</td>
<td></td>
<td>(150)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td></td>
<td>951</td>
</tr>
</tbody>
</table>

**Notes to Accounts:**

<table>
<thead>
<tr>
<th>Note: Reserves and surplus</th>
<th>(INR in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Reserves</td>
<td>500</td>
</tr>
<tr>
<td>Surplus from P &amp; L</td>
<td></td>
</tr>
<tr>
<td>Opening Balance</td>
<td>49</td>
</tr>
<tr>
<td>Additions</td>
<td>951</td>
</tr>
<tr>
<td>Reserve for foreseeable loss</td>
<td>500</td>
</tr>
<tr>
<td>Total</td>
<td>2,000</td>
</tr>
</tbody>
</table>

**Note 1: Long Term Borrowings**

<table>
<thead>
<tr>
<th>Term loan from Bank</th>
<th>5,555</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5,555</td>
</tr>
</tbody>
</table>

**Note 2: Deferred Tax**

| Deferred Tax asset     | 500   |
| Deferred Tax Liability | (200) |
| Total                 | 300   |
Note 3: Trade payables

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MSME vendors</td>
<td>5</td>
</tr>
<tr>
<td>Other vendors</td>
<td>295</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>300</strong></td>
</tr>
</tbody>
</table>

Note 4: Other Current liabilities

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unclaimed Dividends</td>
<td>3</td>
</tr>
<tr>
<td>Billing in Advance</td>
<td>147</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>150</strong></td>
</tr>
</tbody>
</table>

Note 5: Trade Receivables

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

Note 6: Cash and Cash Equivalents

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance with Banks</td>
<td>1,065</td>
</tr>
<tr>
<td>Cash on Hand</td>
<td>5</td>
</tr>
<tr>
<td>Earmarked balances with Banks</td>
<td><strong>130</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,200</strong></td>
</tr>
</tbody>
</table>

Additional Information:

(a) Share capital comprises of 100 million shares of INR 10 each
(b) Term Loan from bank for INR 5555 million also includes interest accrued and due of INR 555 million as on the reporting date.
(c) Reserve for forseeable loss is created against a service contract due within 6 months.

Required:
1. Identify and report the errors and misstatements in the above extract, if any: and
2. Prepare the corrected Balance Sheet & Statement of Profit and Loss
**QUESTION NO 14**

Inventory or trade receivables of X Ltd. are normally realized in 15 months. How should X Ltd. classify such inventory/trade receivables: current or non-current or non-current if these are expected to be realized within 15 months?

**SOLUTION:**

These should be classified as current.

**QUESTION NO 15**

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

(a) What is the length of operating cycle?

(b) How should it treat its inventory and debtors?

**SOLUTION:**

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

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

**QUESTION NO 16**

X Ltd provides you the following information:

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

You are requested to compute the operating cycle of X Ltd.

**SOLUTION:**

The operating cycle of X Ltd. will be computed as under:

Raw material stock holding period ÷ Work-in-progress holding period ÷ Finished goods holding period ÷ Debtors Collection period = 3 + 1 + 5 + 5 = 14 months.