CA FINAL

FINANCIAL REPORTING COMPILER

PROF.RAHUL MALKAN

+91 8369095160
contact@rahulmalkan.com
rahulmalkan
www.rahulmalkan.com
www.indasprep.com

INDEX

IND AS 1 - PRESENTATION OF FINANCIAL STATEMENTS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	NO	NO
2019	NO	NO	YES	NO
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

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

Solution :

As per para AS 1 "Presentation of Financial Statements" where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.
In the given case, Company B (the lender) agreed for not to demand payment but only after the financial statements were approved for issuance. The financial statements were approved for issuance in the month of June 20X2 and both companies agreed for not to demand payment in the month of July 20X2 although negotiation started in the month of May 20x2 but could not agree before June 20X2 when financial statements were approved for issuance.
Hence, the liability should be classified as current in the financial statement for the year ended March 31, 20X2.

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

An entity has taken a loan facility from a bank that is to be repaid within a period of 9 months from the end of the reporting period. Prior to the end of the reporting period, the entity and the bank enter into an arrangement, whereby the existing outstanding loan will, unconditionally, roll into the new facility which expires after a period of 5 years.

(a) Should the loan be classified as current or non-current in the balance sheet of the entity?

(b) Will the answer be different if the new facility is agreed upon after the end of the reporting period?

(c) Will the answer to (a) be different if the existing facility is from one bank and the new facility is from another bank?

(d) Will the answer to (a) be different if the new facility is not yet tied up with the existing bank, but the entity has the potential to refinance the obligation?

Solution :

Ind AS 1 defines current liabilities as follows:

An entity shall classify a liability as current when:

(i) it expects to settle the liability in its normal operating cycle;

(ii) it holds the liability primarily for the purpose of trading;

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

(iv) 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.

Accordingly, following will be the classification of loan in the given scenarios:

(a) The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over prior to the end of the reporting period for a period of 5 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current.

(b) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period because as per Ind AS 1, "an entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period.

(c) Yes, loan facility arranged with new bank cannot be treated as refinancing, as the loan with the earlier bank would have to be settled which may coincide with loan facility arranged with a new bank. In this case, loan has to be repaid within a period of 9 months from the end of the reporting period, therefore, it will be classified as current liability.

(d) Yes, the answer will be different and the loan should be classified as current. This is because, as per Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

No Question

IND AS 2 - INVENTORIES

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	NO	NO
2019	NO	NO	NO	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

On 31 March 20X1, the inventory of ABC includes spare parts which it had been supplying to a number of different customers for some years. The cost of the spare parts was Rs.10 million and based on retail prices at 31 March 20X1, the expected selling price of the spare parts is Rs.12 million. On 15 April 20X1, due to market fluctuations, expected selling price of the spare parts in stock reduced to Rs.8 million. The estimated selling expense required to make the sales would Rs.0.5 million. Financial statements were authorised by Board of Directors on 20th April 20X1.

As at 31st March 20X2, Directors noted that such inventory is still unsold and lying in the warehouse of the company. Directors believe that inventory is in a saleable condition and active marketing would result in an immediate sale. Since the market conditions have improved, estimated selling price of inventory is Rs.11 million and estimated selling expenses are same Rs.0.5 million.

What will be the value inventory at the following dates:

(a) 31st March 20X1

(b) 31st March 20X2

Solution :

As per Ind AS 2 'Inventories', inventory is measured at lower of 'cost' or 'net realisable value'. Further, as per Ind AS 10: 'Events after Balance Sheet Date', decline in net realisable value below cost provides additional evidence of events occurring at the balance sheet date and hence shall be considered as 'adjusting events'.

(a) In the given case, for valuation of inventory as on 31 March 20X1, cost of inventory would be Rs.10 million and net realisable value would be Rs.7.5 million (i.e. Expected selling price Rs.8 million- estimated selling expenses Rs.0.5 million). Accordingly, inventory shall be measured at Rs.7.5 million i.e. lower of cost and net realisable value. Therefore, inventory write down of Rs.2.5 million would be recorded in income statement of that year.

(b) As per para 33 of Ind AS 2, a new assessment is made of net realizable value in each subsequent period. It Inter alia states that if there is increase in net realizable value because of changed economic circumstances, the amount of write down is reversed so that new carrying amount is the lower of the cost and the revised net realizable value. Accordingly, as at 31 March 20X2, again inventory would be valued at cost or net realisable value whichever is lower. In the present case, cost is Rs.10 million and net realisable value would be Rs.10. 5 million (i.e. expected selling price

Rs.11 million – estimated selling expense Rs.0.5 million). Accordingly, inventory would be recorded at Rs.10 million and inventory write down carried out in previous year for Rs.2.5 million shall be reversed.

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

The following is relevant information for an entity :

- Full capacity is 10,000 labour hours in a year.
- Normal capacity is 7,500 labour hours in a year.
- Actual labour hours for current period are 6,500 hours.
- Total fixed production overhead is Rs.1,500.
- Total variable production overhead is Rs.2,600.
- Total opening inventory is 2,500 units.
- Total units produced in a year are 6,500 units.
- Total units sold in a year are 6,700 units.
- The cost of inventories is assigned by using FIFO cost formula.

How overhead costs are to be allocated to cost of goods sold and closing inventory?

Solution :

Hours taken to produce 1 unit = 6,500 hours / 6,500 units = 1 hour per unit.

Fixed production overhead absorption rate:

= Fixed production overhead / labour hours for normal capacity

= Rs.1,500 / 7,500

= Rs.0.2 per hour

Management should allocate fixed overhead costs to units produced at a rate of Rs.0.2 per hour.

Therefore, fixed production overhead allocated to 6,500 units produced during the year (one unit per hour) = 6,500 units × 1 hour × Rs.0.2 = Rs.1,300.

The remaining fixed overhead incurred during the year of Rs.200 (Rs.1500 – Rs.1300) that remains unallocated is recognised as an expense.

The amount of fixed overhead allocated to inventory is not increased as a result of low production by using normal capacity to allocate fixed overhead.

Variable production overhead absorption rate:

= Variable production overhead/actual hours for current period

= Rs.2,600 / 6,500 hours = Rs.0.4 per hour

Management should allocate variable overhead costs to units produced at a rate of Rs.0.4 per hour.

The above rate results in the allocation of all variable overheads to units produced during the year.

Closing inventory = Opening inventory + Units produced during year – Units sold during year

= 2,500 + 6,500 – 6,700 = 2,300 units

As each unit has taken one hour to produce (6,500 hours / 6,500 units produced), total fixed and variable production overhead recognised as part of cost of inventory:

= Number of units of closing inventory × Number of hours to produce each unit × (Fixed production overhead absorption rate + Variable production overhead absorption rate) = 2,300 units × 1 hour × (Rs.0.2 + Rs.0.4) = Rs.1,380

The remaining Rs.2,720 [(Rs.1,500 + Rs.2,600) – Rs.1,380] is recognised as an expense in the income statement as follows:

	Rs.
Absorbed in cost of goods sold (FIFO basis) (6,500 – 2,300) = 4,200 × Rs.0.6	2,520
Unabsorbed fixed overheads, not included in the cost of goods sold	200
Total	2,720

IND AS 16 - PROPERTY, PLANT & EQUIPMENT

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	YES	YES	YES
2019	YES	NO	NO	YES
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

A Ltd. purchased some Property, Plant and Equipment on 1st April, 2011, and estimated their useful lives for the purpose of financial statements prepared on the basis of Ind AS: Following were the original cost, and useful life of the various components of property, plant, and equipment assessed on 1st April, 2011

Property, Plant and Equipment	Original Cost	Estimated useful life
Building	1,50,00,000	15 years
Plant and Machinery	1,00,00,000	10 years
Furniture and Fixture	35,00,000	7 years

A Ltd. uses the straight-line method of depreciation. On 1st April, 2014, the entity reviewed the following useful lives of the property, plant, and equipment through an external valuation expert

Buildings	10 years
Plant and Machinery	7 years
Furniture and Fixture	5 years

There were no salvage values for the three components of the property, plant, and equipment either initially or at the time the useful lives were revised.

Compute the impact of revaluation of useful life on the Statement of Profit and Loss for the year ending 31st March, 2014.

Solution :

1. Depreciation for year ended 2012, 2013 and 2014

PPE	Original Cost	Estimated life	Depreciation PA
Building	1,50,00,000	15 years	10,00,000
Plant and Machinery	1,00,00,000	10 years	10,00,000
Furniture and Fixture	35,00,000	7 years	5,00,000
Total Depreciation			25,00,000

2. Depreciation for year ended 2015

PPE	Original Cost	Depre (3 years)	Carrying amount (1/4/14)	Revised Life	Depre

Building	1,50,00,000	30,00,000	1,20,00,000	10 years	12,00,000
Plant	1,00,00,000	30,00,000	70,00,000	7 years	10,00,000
Furniture	35,00,000	15,00,000	20,00,000	5 years	4,00,000
Total					**26,00,000**

Depreciation charge to Profit and Loss shall increase by Rs.1,00,000. As per IND AS 16, Property, Plant and Equipment entity shall review the estimated useful life estimated residual value atleast at the end each financial year. Any changes should be accounted for as change in estimate as per IND AS 8, Accounting Policy, changes in accounting estimates and errors.

Question 2 **May 2018 - PAPER**

Stars Ltd. is a multinational entity that owns three properties. All the three properties were purchased on 1st April 2016. The details of purchase price and the market values of the properties are given as follows:

Particular	Property 1	Property 2	Property 3
	Factory	Factory	Let-out Building
Purchase Price	30,000	20,000	24,000
Market Value (31-03-2017)	32,000	22,000	27,000
Life	10 years	10 years	10 years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

Property 1 and 2 are occupied by Stars Ltd, whilst property 3 is let out to a non-related party at a market rent. The management presents all three properties in balance sheet as' 'Property, plant and equipment'. The company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Evaluate whether the accounting policies adopted by the Stars Ltd. in relation to these properties is in accordance of relevant Indian Accounting Standards (Ind AS). If not, advise the correct treatment along with workings.

Solution :

(i) For classification of assets

As per Ind AS 16 'Property, Plant and Equipment' states that Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

As per Ind AS 40 'Investment property', investment property is a property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

According, to the facts given in the questions, since Property 1 and 2 are used as factory buildings, their classification as PPE is correct. However, Property 3 is held to earn rentals; hence, it should be classified as Investment Property. Thus, its classification as PPE is not correct. Property 3 shall be presented as separate line item as Investment Property as per Ind AS 1.

(ii) For valuation of assets

Ind AS 16 states that an entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. Also, Ind AS 16 states that If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

However, for investment property, Ind AS 40 states that an entity shall adopt as its accounting policy the cost model to all of its investment property. Ind AS 40 also requires that an entity shall disclose the fair value of investment property.

Since property 1 and 2 is used as factory building, they should be classified under same category or class ie. 'factory building'. Therefore, both the properties should be valued either at cost model or revaluation model. Hence, the valuation model adopted by Stars Ltd. is not consistent and correct as per Ind AS 16.

In respect to property 3 being classified as Investment Property, there is no alternative of revaluation model i.e. only cost model is permitted for subsequent measurement. However, Stars Ltd. is required to disclose the fair value of the investment property in the Notes to Accounts.

(iii) For changes in value on account of revaluation and treatment thereof

Ind AS 16 states that if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading 'revaluation surplus'. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Accordingly, the revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

(iv) For treatment of depreciation

Ind AS 16 states that depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Accordingly, Stars Ltd. is required to depreciate these properties irrespective of that their fair value exceeds the carrying amount.

(v) Rectified presentation in the balance sheet

As per the provisions of Ind AS 1, Ind AS 16 and Ind AS 40, the presentation of these three properties in the balance sheet should be as follows:

Case 1: If Stars Ltd. has applied the Cost Model to an entire class of property, plant and equipment.

Balance Sheet extracts as at 31st March 2017

Assets		**Rs.**
Non-Current Assets		
Property, Plant and Equipment		
Property 1 (30,000-3,000)	27,000	
Property 2 (20,000 – 2,000)	18,000	45,000
Investment Property		
Property 3 (Fair value being Rs.27,000) (Cost = 24,000-2,400)		21,600

Case 2: If Stars Ltd. has applied the Revaluation Model to an entire class of property, plant and equipment.

Balance Sheet extracts as at 31st March 2017

Assets		**Rs.**
Non-current Assets		
Property, Plant and Equipment		
Property 1	32,000	
Property 2	22,000	54,000
Investment Properties		

Property 3 (Fair value being 27,000) (Cost = 24,000-2,400)		21,600
Equity and Liabilities		
Other Equity		
Revaluation Reserve *		
Property 1 (32,000 – 27,000)	5,000	
Property 2 (22,000 –18,000)	4,000	9,000

* Revaluation reserve should be routed through Other Comprehensive Income (OCI) (subsequently not reclassified to Profit and Loss) in the Statement of Profit and Loss and shown as a separate column in the Statement of Changes in Equity.

Question 3 **Nov 2018 - RTP**

On 1st October, 2017, A Ltd. completed the construction of a power generating facility. The total construction cost was Rs.2,00,00,000. The facility was capable of being used from 1st October, 2017 but A Ltd. did not bring the facility into use until 1st January, 2018. The estimated useful life of the facility at 1st October, 2017 was 40 years. Under legal regulations in the jurisdiction in which A Ltd. operates, there are no requirements to restore the land on which power generating facilities stand to its original state at the end of the useful life of the facility. However, A Ltd. has a reputation for conducting its business in an environmentally friendly way and has previously chosen to restore similar land even in the absence of such legal requirements. The directors of A Ltd. estimated that the cost of restoring the land in 40 years' time (based on prices prevailing at that time) would be Rs.1,00,00,000. A relevant annual discount rate to use in any discounting calculations is 5%. When the annual discount rate is 5%, the present value of Rs.1 receivable in 40 years' time is approximately 0.142.
Analyse and present how the above events would be reported in the financial statements of A Ltd. for the year ended 31st March, 2018 as per Ind AS.

Solution :

1) As per Ind AS 16 PPE should be depreciated from when it ready for use and not from when it is put to use. i.e. Dep. Should start from 1/10/17.
2) As per Ind AS 37, provision should be made over if company has constructive obligation so A Ltd. should provide for site restoration.
3) Cost of PPE on 1/10/17

Construction Cost	2,00,00,000
Site Restoration	14,20,000
	2,14,20,000

4) Dep. For 17-18 to be charged to P&L

$$\frac{2{,}14{,}20{,}000}{40} \times \frac{6}{12} = \text{Rs.}2{,}67{,}750$$

5) Closing PPE =

	2,14,20,000
– Dep.	2,67,750
	2,11,52,250

6) Finance cost on provision to be charged to P&L

$$14{,}20{,}000 \times 5\% \times \frac{6}{12} = 35{,}500$$

7) Provision at end of year
= 14,20,000 + 35,500 = 14,55,500
8) Extracts of Balance Sheet

Asset		**Liability**	
NCA		NCL	
PPE	2,11,52,250	Provision	14,55,500

Question 4 **Nov 2018 - RTP**

ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether ABC Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the financial statements of ABC Ltd. as per Ind AS?

Solution :

Ind AS 16 states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalised as a part of overall cost of the project. From this, it can be concluded that, in the extant case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalised as part of the items of property, plant and equipment of the refinery.

Question 5 **Nov 2018 - PAPER**

On 1st April, 2017 Good Time Limited purchased some land for Rs.1.5 crore (including legal cost of Rs.10 lakhs) for the purpose of constructing a new factory. Construction work commenced on 1st May, 2017. Good Time Limited incurred the following costs in relation to its construction.

	Rs.
Preparation and levelling of the land	4,40,000
Purchase of materials for the construction	92,00,000
Employment costs of the construction workers (per month)	1,45,000
Overhead costs incurred directly on the construction of the factory (per month)	1,25,000
Ongoing overhead costs allocated to the construction project (using the company's normal overhead allocation model) per month	75,000
Costs of relocating employees to work at new factory	3,25,000
Costs of the opening ceremony on 1st January, 2018	2,50,000

Income received during the temporary use of the factory premises as a store during the construction period.	60,000

The construction of the factory was completed on 31st December, 2017 and production began on 1st February, 2018. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

At the end of the 40 years period, Good Time Limited has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The company estimates that the cost of demolition in 40 year's time (based on price prevailing at that time) will be Rs.3 crore. The annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of Rs.1 payable in 40 years time at an annual discount rate of 8% is 0.046.

The construction of the factory was partly financed. by a loan of Rs.1.4 crore taken out on 1st April, 2017. The loan was at an annual rate of interest of 9%. During the period 1st April, 2017 to 30th September, 2017 (when the loan proceeds had been fully utilized to finance the construction), Good Time Limited received investment income of Rs.1,25,000 on the temporary investment of the proceeds.

You are required to compute the cost of the factory and the carrying amount of the factory in the Balance Sheet of Good Time Limited as at 31st March, 2018. (8 Marks)

Solution :

Computation of the cost of the factory

	Rs.
Purchase of land	1,50,00,000
Preparation and levelling	4,40,000
Materials	92,00,000
Employment costs of construction workers (1,45,000 x 8 months)	11,60,000
Direct overhead costs (1,25,000 x 8 months)	10,00,000
Allocated overhead costs	Nil
Income from use of a factory as a store	Nil
Relocation costs	Nil
Cost of the opening ceremony	Nil
Finance costs (1,40,00,000 $\times$ 9% $\times \frac{9}{12}$)	9,45,000
Investment income on temporary investment of the loan proceeds	(1,25,000)
Demolition cost recognised as a provision (3,00,00,000 x 0.046)	13,80,000
Total	**2,90,00,000**

Computation of carrying amount of the factory as at 31st March, 2018

Rs.

		Land (Non-depreciable asset)	**Factory (Depreciable asset)**
Cost of the asset (Total cost 2,90,00,000)		1,50,00,000	1,40,00,000

Less: Depreciation			
On Land		Nil	
On Factory			
Depreciation on roof component (1,40,00,000 × 25% × 1/20 x 3/12)	43,750		
Depreciation on remaining factory (1,40,00,000 × 75% × 1/40 × 3/12)	65,625		(1,09,375)
Carrying amount of depreciable asset ie factory		1,50,00,000	1,38,90,625
Total cost			2,88,90,625

Note:

1. Interest cost has been capitalised based on nine month period. This is because, purchase of land would trigger off capitalisation.
2. All of the net finance cost of Rs.8,20,000 (Rs.9,45,000 – Rs.1,25,000) has been allocated to the depreciable asset i.e Factory. Alternatively, it can be allocated proportionately between land and factory.

2019

Question 6 **May 2019 - RTP**

Company X performed a revaluation of all of its plant and machinery at the beginning of 2018-2019. The following information relates to one of the machinery:

	Amount ('000)
Gross carrying amount	Rs.200
Accumulated depreciation (straight-line method)	Rs.80
Net carrying amount	Rs.120
Fair value	Rs.150

The useful life of the machinery is 10 years and the company uses Straight line method of depreciation. The revaluation was performed at the end of the 4th year.

How should the Company account for revaluation of plant and machinery and depreciation subsequent to revaluation?

Solution :

As per Ind AS 16 PPE can be revalued by using any one of the following 2 methods.

1) Adjust the gross carrying amount.

	Current	Revised
Gross	200	250
– Dep.	80	100
Net	120	150

JE PPE 50
To PFD 20
To Revaluation Res. 30

2) Adjust the Net Carrying Amount

JE PFD 80

To Asset 80

Asset 30

To Revaluation Res. 30

Note : 1) Revaluation Reserve will be routed through OCI.

2) Dep. For shall be 25 i.e. $\frac{250}{10}$ or $\frac{150}{6}$

Question 7 **May 2019 - PAPER**

No Questions

Question 8 **Nov 2019 - RTP**

No Questions

Question 9 **Nov 2019 - PAPER**

M Ltd. is setting up a new factory outside the Delhi city limits. In order to facilitate the construction of the factory and its operations, M Ltd. is required to incur expenditure on the construction / development of electric-substation. Though M ltd. incurs (or contributes to) the expenditure on the construction / development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether M Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the financial statements of M Ltd. as per Ind AS ?

Solution :

Similar to - Question 4 : Nov 2018 RTP

2020

Question 10 **May 2020 - RTP**

Company X performed a revaluation of all of its plant and machinery at the beginning of 20X1. The following information relates to one of the machinery :

	Amount ('000)
Gross carrying amount	Rs.200
Accumulated depreciation (straight-line method)	(Rs.80)
Net carrying amount	Rs.120
Fair value	Rs.150

The useful life of the machinery is 10 years and the company uses Straight line method of depreciation. The revaluation was performed at the end of 4 years.

How should the Company account for revaluation of plant and machinery and depreciation subsequent to revaluation? Support your answer with journal entries.

Solution :

According to paragraph 35 of Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

In such a situation, the revised carrying amount of the machinery will be as follows:

Gross carrying amount	Rs.250	[(200/120) × 150]
Net carrying amount	Rs.150	
Accumulated depreciation	Rs.100	(Rs.250 – Rs.150)

Journal Entry

Plant and Machinery (Gross Block)	Dr.	Rs.50	
To Accumulated Depreciation			Rs.20
To Revaluation Reserve			Rs.30

Depreciation subsequent to revaluation

Since the Gross Block has been restated, the depreciation charge will be ` 25 per annum (` 250/10 years).

Journal entry

Accumulated Depreciation	Dr.	Rs.25 p.a.	
To Plant and Machinery (Gross Block)			Rs.28 p.a.

(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with the paragraphs 39 and 40 of Ind AS 16.

In this case, the gross carrying amount is restated to ` 150 to reflect the fair value and accumulated depreciation is set at zero.

Journal entry

Accumulated Depreciation	Dr.	Rs.80	
To Plant and Machinery (Gross block)			Rs.80
Plant and Machinery (Gross block)	Dr.	Rs.30	
To Revaluation Reserve			Rs.30

Depreciation subsequent to revaluation

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of Rs.25 per annum as per Option A (Rs.150 / 6 years).

Accumulated Depreciation	Dr.	Rs.25 p.a.	
To Plant and Machinery (Gross block)			Rs.25 p.a.

IND AS 40 - INVESTMENT PROPERTY

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	YES	NO
2019	NO	NO	NO	NO
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

X Ltd. is engaged in the construction industry and prepares its financial statements up to 31st March each year. On 1st April, 2013, X Ltd. purchased a large property (consisting of land) for Rs.2,00,00,000 and immediately began to lease the property to Y Ltd. on an operating lease. Annual rentals were Rs.20,00,000. On 31st March, 2017, the fair value of the property was Rs.2,60,00,000. Under the terms of the lease, Y Ltd. was able to cancel the lease by giving six months' notice in writing to X Ltd. Y Ltd. gave this notice on 31st March, 2017 and vacated the property on 30th September, 2017. On 30th September, 2017, the fair value of the property was Rs.2,90,00,000. On 1st October, 2017, X Ltd. immediately began to convert the property into ten separate flats of equal size which X Ltd. intended to sell in the ordinary course of its business. X Ltd. spent a total of Rs.60,00,000 on this conversion project between 30th September, 2017 to 31st March, 2018. The project was incomplete at 31st March, 2018 and the directors of X Ltd. estimate that they need to spend a further Rs.40,00,000 to complete the project, after which each flat could be sold for Rs.50,00,000.

Examine and show how the three events would be reported in the financial statements of X Ltd. for the year ended 31st March, 2018. as per Ind AS

Solution :

1) From 1st April, 2013, the property would be regarded as an investment property since it is being held for its investment potential rather than being owner occupied or developed for sale.

The property would be measured under the cost model. This means it will be measured at Rs.2,00,00,000 at each year end.

2) On 30th September, 2017, the property ceases to be an investment property. X Ltd. begins to develop it for sale as flats. The increase in the fair value of the property from 31st March, 2017 to 30th September, 2017 of Rs.30,00,000 (Rs.29,00,000 –Rs.26,00,000) would be recognised in P/L for the year ended 31st March, 2018.

Since the lease of the property is an operating lease, rental income of Rs.10,00,000 (Rs.20,00,000 x 6/12) would be recognised in P/L for the year ended 31st March, 2018.

When the property ceases to be an investment property, it is transferred into inventory at its then fair value of Rs.2,90,00,000. This becomes the initial 'cost' of the inventory.

3) The additional costs of Rs.60,00,000 for developing the flats which were incurred up to and including 31st March, 2018 would be added to the 'cost' of inventory to give a closing cost of Rs.3,50,00,000.

The total selling price of the flats is expected to be Rs.5,00,00,000 (10 x Rs.50,00,000). Since the further costs to develop the flats total Rs.40,00,000, their net realisable value is Rs.4,60,00,000 (Rs.5,00,00,000 – Rs.40,00,000), so the flats will be measured at a cost of Rs.3,50,00,000.

The flats will be shown in inventory as a current asset

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

No Question

IND AS 38 - INTANGIBLE ASSETS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	YES	NO
2019	YES	NO	NO	YES
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

A Ltd. intends to open a new retail store in a new location in the next few weeks. It has spent a substantial sum on a series of television advertisements to promote this new store. It has paid for advertisements costing Rs.8,00,000 before 31st March, 2018. Rs.7,00,000 of this sum relates to advertisements shown before 31st March, 2018 and Rs.1,00,000 to advertisements shown in April, 2018. Since 31st March, 2018, A Ltd. has paid for further advertisements costing Rs.4,00,000. The accountant charged all these costs as expenses in the year to 31 March 2018. However, CFO of A Ltd. does not want to charge Rs.12,00,000 against 2017-2018 profits. He believes that these costs can be carried forward as intangible assets because the company's market research indicates that this new store is likely to be highly successful.

Examine and justify the treatment of these costs of Rs.12,00,000 in the financial statements for the year ended 31st March, 2018 as per Ind AS.

Solution :

Ind AS 38 specifically prohibits recognising advertising expenditure as an intangible asset. Irrespective of success probability in future, such expenses have to be recognized in profit or loss. Therefore, the treatment given by the accountant is correct since such costs should be recognised as expenses.

However, the costs should be recognised on an accruals basis.

(a) For Year 17 - 18

Total Amt. paid = Rs.8,00,000 out of which Rs.7,00,000 should be charged to P&L for year 17-18 and Rs.1,00,000 should be show as prepaid expenses.

(b) For year 18-19

Further Amt. paid was Rs.4,00,000. Total Rs.5,00,000 should be charged to P&L for year 18-19.

Question 4 — Nov 2018 - PAPER

No Question

2019

Question 5 — May 2019 - RTP

As part of its business expansion strategy, KK Ltd. is in process of setting up a pharma intermediates business which is at very initial stage. For this purpose, KK Ltd. has acquired on 1st April, 2018, 100% shares of ABR Ltd. that manufactures pharma intermediates. The purchase consideration for the same was by way of a share exchange valued at Rs.35 crores. The fair value of ABR Ltd.'s net assets was Rs.15 crores, but does not include:

(i) A patent owned by ABR Ltd. for an established successful intermediate drug that has a remaining life of 8 years. A consultant has estimated the value of this patent to be Rs.10 crores. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated Rs.15 crores.

(ii) ABR Ltd. has developed and patented a new drug which has been approved for clinical use. The cost of developing the drug was Rs.12 crores. Based on early assessment of its sales success, the valuer has estimated its market value at Rs.20 crores.

(iii) ABR Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the Company has been granted an exclusive five-year license to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valuable asset which assures guaranteed sales and the value for the same is estimated at Rs.10 crores.

KK Ltd. has requested you to suggest the accounting treatment of the above transaction under applicable Ind AS.

Solution :

As per para 13 of Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.

Based on the above, the company can recognise following Intangible assets while determining Goodwill / Bargain Purchase for the transaction:

(i) **Patent owned by ABR Ltd.:** The patent owned will be recognised at fair value by KK Ltd. even though it was not recognised by ABR Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 8 years. Since the company is awaiting the outcome of the trials, the value of the patent cannot be estimated at Rs.15 crore and the extra Rs.5 crore should only be disclosed as a Contingent Asset and not recognised.

(ii) Patent internally developed by ABR Ltd.: Ind AS 38 'Intangible Assets', after initial recognition, an intangible asset shall be carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market.

From the information given in the question, it appears that there is no active market for patents since the fair value is based on early assessment of its sale success. Hence it is suggested to use the cost model and recognise the patent at the actual development cost of Rs.12 crore.

(iii) Grant of Licence to ABR Ltd. by the Government: As regards to the five-year license, Ind AS 38 requires to recognize grant asset at fair value. KK Ltd. can recognize both the asset (license) and the grant at Rs.10 crore to be amortised over 5 years.

Hence the revised working would be as follows:

Fair value of net assets of ABR Ltd.	Rs.15 crore
Add: Patent (10 + 12)	Rs.22 crore
Add: License	Rs.10 crore
Less: Grant for License	(Rs.10 crore)
	Rs.37 crores
Purchase Consideration	Rs.35 crores
Bargain purchase	Rs.2 crore

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

MNC Ltd. is in process of setting up a medicine manufacturing business which is at very initial stage. For this purpose, MNC Ltd. as part of its business expansion strategy acquired on 1st April, 2019, 100% shares of Akash Ltd., a company that manufactures pharmacy products. The purpose consideration for the same was by way of a share exchange valued at Rs.38 crores. The fair value of Akash Ltd.'s assets and liabilities were Rs.68 crores and Rs.50 crores respectively, but the same does not include the following :

(i) A parent owned by Akash Ltd. for an established successful new drug that has a remaining life of 6 years. A consultant has estimated the value of this patent to bee Rs.8 crores. However, the outcome of clinical trials for the same are awaited. If the trails are successful, the value of the drug would fetch the estimated Rs.12 crores.

(ii) Akash Ltd. has developed and patented another new drug which has been approved for clinical use. The cost of developing the drug was Rs.13 crores. Based on early assessment of its sales success, a reputed values has estimated is market value at Rs.19 crores. However, there is no active market for the patent.

(iii) Akash Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the company has been granted an exclusive five-year license on 1st April, 2018 to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valuable asset which assures guaranteed sales and the cost to acquire the license is estimated at Rs.7 crores for remaining period of life. It is expected to generate at least equivalent revenue.

Suggest the accounting treatment of the above transactions with reasoning under applicable Ind AS in e books of MNC Ltd.

Solution :

Similar to - Question 4 : May 2019 RTP

Purchase Consideration		38 Crore
Less : Fair value of Net Assets		
Already Included (68.50)	18	
Add : Patent (8 + 13)	21	
Add : Licence	7	
Less : Grant	(7)	39 Crore
Bargain Purchase		1 Crore

2020

Question 9 **May 2020 - RTP**

One of the senior engineers at XYZ has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. This is a major project and has the full support of XYZ's board of directors. The senior engineer believes that the cost reductions will exceed the project costs within twenty four months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 20X5. This removed uncertainties concerning the project, which was finally completed on 20 April 20X6. Costs of Rs.18,00,000, incurred during the year till 31st March 20X6, have been recognized as an intangible asset. An offer of Rs.7,80,000 for the new developed technology has been received by potential buyer but it has been rejected by XYZ. Utkarsh believes that the project will be a major success and has the potential to save the company Rs.12,00,000 in perpetuity. Director of research at XYZ, Neha, who is a qualified electronic engineer, is seriously concerned about the long term prospects of the new process and she is of the opinion that competitors would have developed new technology at some time which would require to replace the new process within four years. She estimates that the present value of future cost savings will be Rs.9,60,000 over this period. After that, she thinks that there is no certainty about its future. What would be the appropriate accounting treatment of aforesaid issue?

Solution :

Ind AS 38 'Intangible Assets' requires an intangible asset to be recognised if, and only if, certain criteria are met. Regulatory approval on 1 June 20X5 was the last criterion to be met, the other criteria have been met as follows:

- Intention to complete the asset is apparent as it is a major project with full support from board
- Finance is available as resources are focused on project
- Costs can be reliably measured
- Benefits are expected to exceed costs – (in 2 years)

Amount of Rs.15,00,000 (rs.18,00,000 x 10/12) should be capitalised in the Balance sheet of year ending 20X5-20X6 representing expenditure since 1 June 20X5.

The expenditure incurred prior to 1 June 20X5 which is Rs.3,00,000 (2/12 x Rs.18,00,000) should be recognised as an expense, retrospective recognition of expense as an asset is not allowed.

Ind AS 36 'Impairment of assets' requires an intangible asset not yet available for use to be tested for impairment annually.

Cash flow of Rs.12,00,000 in perpetuity would clearly have a present value in excess of Rs.12,00,000 and hence there would be no impairment. However, the research director is technically qualified, so impairment tests should be based on her estimate of a four-year remaining life and so present value of the future cost savings of Rs.9,60,000 should be considered in that case.

Rs.9,60,000 is greater than the offer received (fair value less costs to sell) of Rs.7,80,000 and so Rs.9,60,000 should be used as the recoverable amount.

So, the carrying amount should be consequently reduced to Rs.9,60,000.

Calculation of Impairment loss:

Particulars	**Amount Rs.**
Carrying amount (Restated)	15,00,000
Less: Recoverable amount	9,60,000
Impairment loss	5,40,000

Impairment loss of Rs.5,40,000 is to be recognised in the profit and loss for the year 20X5-20X6.

Necessary adjusting entry to correct books of account will be:

		Rs.	**Rs.**
Operating expenses- Development expenditure	Dr.	3,00,000	
Operating expenses–Impairment loss of intangible assets	Dr.	5,40,000	
To Intangible assets – Development expenditure			8,40,000

IND AS 105 - NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUING OPERATIONS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	NO	YES
2019	YES	NO	NO	YES
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

Following is the extract of the consolidated financial statements of A Ltd. for the year ended on:

Asset / Liability	Carry amount as on 31st March, 20X1
	(In Rs.000)
Attributed goodwill	200
Intangible assets	950
Financial asset measured at fair value through other comprehensive income	300
Property, plant & equipment	1100
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	600
Current liabilities	(850)
Non-current liabilities – provisions	(300)
Total	**2,250**

On 15th September 20X1, Entity A decided to sell the business. It noted that the business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with that standard.

The disposal group is stated at the following amounts immediately prior to reclassification as held for sale.

Asset / Liability	Carry amount as on 15th September 20X1
	(In Rs.000)
Attributed goodwill	200
Intangible assets	930
Financial asset measured at fair value through other comprehensive income	360
Property, plant & equipment	1020
Deferred tax asset	250

Current assets – inventory, receivables and cash balances	520
Current liabilities	(870)
Non-current liabilities – provisions	(250)
Total	**2,160**

Entity A proposed to sell the disposal group at Rs 19,00,000. It estimates that the costs to sell will be Rs 70,000. This cost consists of professional fee to be paid to external lawyers and accountants.
As at 31st March 20X2, there has been no change to the plan to sell the disposal group and entity A still expects to sell it within one year of initial classification. Mr. X, an accountant of Entity A remeasured the following assets/ liabilities in accordance with respective standards as on 31st March 20X2:

Available for sale	**(in Rs.000's)**
Financial assets	410
Deferred tax assets	230
Current assets- Inventory, receivables and cash balances	400
Current liabilities	900
Non- current liabilities- provisions	250

The disposal group has not been trading well and its fair value less costs to sell has fallen to Rs.16,50,000.

Required:

What would be the value of all assets/ labilities within the disposal group as on the following dates in accordance with Ind AS 105?

(a) 15th September, 20X1 and

(b) 31st March, 20X2

Solution :

(a) As at 15th September, 20X1

The disposal group should be measured at Rs.18,30,000 (19,00,000 – 70,000). The impairment write down of Rs.3,30,000 (Rs.21,60,000 – Rs.18,30,000) should be recorded within profit from continuing operations.

The impairment of Rs.3,30,000 should be allocated to the carrying values of the appropriate non-current assets.

Asset/ (liability)	**Carrying value as at 15 June 2004**	**Impairment**	**Revised carrying value as per IND AS 105**
Attributed goodwill	200	(200)	-
Intangible assets	930	(62)	868
Financial asset measured at fair value through other comprehensive income	360	-	360
Property, plant & equipment	1,020	(68)	952
Deferred tax asset	250	-	250
Current assets – inventory, receivables and cash balances	520	-	520
Current liabilities	(870)	-	(870)
Non-current liabilities – provisions	(250	-	(250)

Total	2,160	(330)	1,830

The impairment loss is allocated first to goodwill and then pro rata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of the standard- financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

(b) As on 31st March. 20X2:

All of the assets and liabilities, outside the scope of measurement under IFRS 5, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the Financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset/ (liability)	Carrying amount as on 15 September, 20X1	Change in value to 31st March 20X2 Impairment	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	-	-	-	-
Intangible assets	868	-	-29	839
Financial asset measured at fair value through other comprehensive income	360	50	-	410
Property, plant & equipment	952	-	-31	921
Deferred tax asset	250	(20)	-	230
Current assets – inventory, receivables and cash balances	520	(120)	-	400
Current liabilities	(870)	(30)	-	(900)
Non-current liabilities – provisions	(250)	-	-	(250)
Total	**1,830**	**(120)**	**(60)**	**1,650**

Question 2 **May 2018 - PAPER**

No Questions

Question 3 **Nov 2018 - RTP**

No Questions

Question 4 **Nov 2018 - PAPER**

PB Limited purchased a plastic bottle manufacturing plant for Rs.24 lakh on 1st April, 2015. The useful life of the plant is 8 years. On 30th September, 2017, PB Limited temporarily stops using the manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.

The accountant of PB Limited decided to treat the plant as held for sale until the demand picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell. The accountant has also stopped charging depreciation for rest of the period considering the plant as held for sale. The fair value less cost to sell on 30th September, 2017 and 31st March, 2018 was Rs.13.5 lakh and Rs.12 lakh respectively.
The accountant has made the following working:

Carrying amount on initial classification as held for sale	**Rs.**	**Rs.**
Purchase price of Plant	24,00,000	
Less: Accumulated Depreciation [(Rs.24,00,000/8)x2.5 years]	7,50,000	16,50,000
Fair value less cost to sell as on 31st March, 2017		12,00,000
The value lower of the above two		12,00,000

Balance Sheet extracts as on 31st March, 2018

Particulars	**Rs.**
Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	12,00,000

Required:
Analyze whether the above accounting treatment is in compliance with the Ind AS. If not, advise the correct treatment showing necessary workings. (8 Marks)

Solution :
As per Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations', an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
For an Asset to be classified as held for sale it should be
1) Available for immediate sale in present condition and
2) Sale must be highly probable.
The Asset should be available for sale in present condition. The terms that are usual and customary for sale does not disqualify the Asset from being classified as held for sale. Its cannot be classified as held for sale if entity intends to sell it in distant future.
Sale is highly probable if :
1) The appropriate level of management is committed to plan to sell.
2) An Active Programme to trade a buyer is in Place.
3) The Asset is marketed for sale at a price that is reasonable in relation to its current fair value.
4) The sale if expected to be completed within 1 year.
5) Significant charges or withdrawal from plan to sale the Asset are unlikely.
Ind AS 105 also states that entity shall not classify an Asset as held for sale if the Asset is abandoned.
The Accountant of PB has treated the plant as held for which is not correct and not in accordance to Ind AS 105. It should not have stopped charging depreciation.
Instead entity should have impaired the Asset as per Ind AS 36.

Working :

Purchase Price	24,00,000
Accumulated dep. $\left(\frac{24,00,000}{8}\right) \times 3$	9,00,000

Carrying Amount	15,00,000
Recoverable Amount	12,00,000
Impairment Loss	3,00,000

Recoverable Amount is higher of
Value in use = Nil (since it is not in use)
Fair value less cost to sale = 12,00,000

2019

Question 5 **May 2019 - RTP**

CK Ltd. prepares the financial statement under Ind AS for the quarter year ended 30th June, 2018. During the 3 months ended 30th June, 2018 following events occurred:

On 1st April, 2018, the Company has decided to sell one of its divisions as a going concern following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with the Company collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1st April, 2018, the carrying amount of the assets of the division were as follows:

- Purchased Goodwill – Rs.60,000
- Property, Plant & Equipment (average remaining estimated useful life two years) – Rs.20,00,000
- Inventories – Rs.10,00,000

From 1st April, 2018, the Company has started to actively market the division and has received number of serious enquiries. On 1st April, 2018 the directors estimated that they would receive Rs.32,00,000 from the sale of the division. Since 1st April, 2018, market condition has improved and as on 1st August, 2018 the Company received and accepted a firm offer to purchase the division for Rs.33,00,000.

The sale is expected to be completed on 30th September, 2018 and Rs.33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30th June, 2018. During the period from 1st April to 30th June inventories of the division costing Rs.8,00,000 were sold for Rs.12,00,000. At 30th June, 2018, the total cost of the inventories of the division was Rs.9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

The Company has approached you to suggest how the proposed sale will be reported in the interim financial statements for the quarter ended 30th June, 2018 giving relevant explanations.

Solution :

The decision to offer the division for sale on 1st April, 2018 means that from that date the division has been classified as held for sale. The division available for immediate sale, is being actively marketed at a reasonable price and the sale is expected to be completed within one year.

The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts and their fair value less cost to sell. Here the division shall be measured at their existing carrying amount ie Rs.30,60,000 since it is less than the fair value less cost to sell Rs.32,00,000.

The increase in expected selling price will not be accounted for since earlier there was no impairment to division held for sale.

The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes should be separately disclosed either on the face of the balance sheet or in the notes.

The Property, Plant and Equipment shall not be depreciated after 1st April, 2018 so its carrying value at 30th June, 2018 will be Rs.20,00,000 only. The inventories of the division will be shown at Rs.9,00,000.
The division will be regarded as discontinued operation for the quarter ended 30th June, 2018. It represents a separate line of business and is held for sale at the year end.
The Statement of Profit and Loss should disclose, as a single amount, the post-tax profit or loss of the division on classification as held for sale.
Further, as per Ind AS 33, EPS will also be disclosed separately for the discontinued operation.

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

On June 1, 2018 entity D Limited plans to sell a group of assets and liabilities, which is classified as a disposal group. On July 31, 2018, the Board of Directors approved and committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity G Limited.
However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by November 30, 2018 and the sale is expected to be completed by March 31, 2019. Entity D Limited follows December year end. The assets and liabilities attributable to this manufacturing unit are as under :

(Rs. in lakhs)

Particular	**Carrying value as on December 31, 2017**	**Carrying value as on July 31, 2018**
Goodwill	1,000	1,000
Plant and Machinery	2,000	1,800
Building	4,000	3,700
Debtors	1,700	2,100
Inventory	1,400	800
Creditors	(600)	(500)
Loans	(4,000)	(3,700)
Net	**5,500**	**5,200**

The fair value of the manufacturing unit as on December 31, 2017 is Rs.4,000 and as on July 31, 2018 is Rs.3,700. The cost to sell is 200 on both these dates. The disposal group is not sold at the period end i.e., December 31, 2018. The fair value as on December 31, 2018 is lower then the carrying value of the disposal group as on that date.

Required :

(i) Assets whether the manufacturing unit can be classified a held for sale and reasons thereof. If yes, then at which date?

(ii) The measurement of the manufacturing unit as on the date of classification as held for sale.

(iii) The measurement of the manufacturing unit as at the end of the year.

Solution :

1. The property cannot be classified as held for sale at the balance sheet date as it is not available for sale immediately in its present condition. Although the renovations are expected to be completed within a short span 2 months, this fact is not relevant for classification.
   However, if the PPE meets the criteria for held for sale by 31st January, 20X2 (i.e., 2 months from November 30, 20X1) and the accounts are not authorised by that date, then necessary disclosures need to be given in the financial statements.
2. In this example, the factory ceases to meet the definition of held for sale post the balance sheet date but before the financial statements are authorised for issue, as it is not actively marketed at a reasonable price. But, since the market conditions deteriorated post the balance sheet date, the asset will be classified as held for sale as at 31st March, 20X1.
3. **Assessing whether the manufacturing unit can be classified as held for sale**
   The manufacturing unit can be classified as held for sale due to the following reasons:
   (a) The disposal group is available for immediate sale and in its present condition. The regulatory approval is customary and it is expected to be received in one year. The date at which the disposal group must be classified as held for sale is 31st July, 20X1, i.e., the date at which management becomes committed to the plan.
   (b) The sale is highly probable as the appropriate level of management i.e., board of directors in this case have approved the plan.
   (c) A firm purchase agreement has been entered with the buyer.
   (d) The sale is expected to be complete by 31st March, 20X2, i.e., within one year from the date of classification.

Measurement of the manufacturing unit as on the date of classification as held for sale

Following steps need to be followed:

Step 1: Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Ind AS.

This has been done and the carrying value of the disposal group as on 31st July, 20X1 is determined at Rs.5,600. The difference between the carrying value as on 31st December, 20X0 and 31st July, 20X1 is accounted for as per the relevant Ind AS.

Step 2: An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

The fair value less cost to sell of the disposal group as on 31st July, 20X1 is Rs.3,500 (i.e.3,700 – 200). This is lower than the carrying value of Rs.5,200. Thus an impairment loss needs to be recognised and allocated first towards goodwill and thereafter pro-rata between assets of the disposal group which are within the scope of Ind AS 105 based on their carrying value. Thus, the assets will be measured as under:

Particulars	Carrying value	Impairment	Carrying value
			as per Ind AS 105
	31st July, 20X1		31st July, 20X1
Goodwill	1,000	(1,000)	-
Plant and Machinery	1,800	(230)	1,570
Building	3,700	(470)	3,230
Debtors	2,100	-	2,100
Inventory	800	-	800
Creditors	(500)	-	(500)
Loans	(3,700)	-	(3,700)
	5,200	(1,700)	3,500

Measurement of the manufacturing unit as on the date of classification as at the year end

The measurement as at the year-end shall be on similar lines as done above.
The assets and liabilities in the disposal group not within the scope of this Standard are measured as per the respective Standards.
The fair value less cost to sell of the disposal group as a whole is calculated. This fair value less cost to sell as at the year-end shall be compared with the carrying value as at the date of classification as held for sale. It is provided that the fair value as on the year end is less than the carrying amount as on that date – thus the impairment loss shall be allocated in the same way between the assets of the disposal group falling within the scope of this standard as shown above.

2020

Question 9 **May 2020 - RTP**

No Question

IND AS 23 - BORRWING COST

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	YES	NO
2019	NO	NO	YES	YES
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

An entity constructs a new head office building commencing on 1st September 20X1, which continues till 31st December 20X1. Directly attributable expenditure at the beginning of the month on this asset are Rs.100,000 in September 20X1 and Rs.250,000 in each of the months of October to December 20X1. The entity has not taken any specific borrowings to finance the construction of the asset, but has incurred finance costs on its general borrowings during the construction period. During the year, the entity had issued 10% debentures with a face value of Rs.20 lacs and had an overdraft of Rs.500,000, which increased to Rs.750,000 in December 20X1. Interest was paid on the overdraft at 15% until 1 October 20X1, then the rate was increased to 16%.

Calculate the capitalization rate for computation of borrowing cost in accordance with Ind AS 23 'Borrowing Costs'.

Solution :

Since the entity has only general borrowing hence first step will be to compute the capitalisation rate. The capitalisation rate of the general borrowings of the entity during the period of construction is calculated as follows:

Finance cost on Rs.20 lacs 10% debentures during September – December 20X1	Rs.66,667
Interest @ 15% on overdraft of Rs.5,00,000 in September 20X1	Rs.6,250
Interest @ 16% on overdraft of Rs.5,00,000 in October and November 20X1	Rs.13,333
Interest @ 16% on overdraft of Rs.750,000 in December 20X1	Rs.10,000
Total finance costs in September – December 20X1	Rs.96,250

Weighted average borrowings during period

$$= \frac{(20,00,000 \times 4) + (500,000 \times 3) + (750,000 \times 1)}{4} = \text{Rs.}25,62,500$$

Capitalisation rate = Total finance costs during the construction period / Weighted average borrowings during the construction period

= 96,250 / 25,62,500 = 3.756%

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

K Ltd. began construction of a new building at an estimated cost of Rs.7 lakh on 1st April, 2017. To finance construction of the building it obtained a specific loan of Rs.2 lakh from a financial institution at an interest rate of 9% per annum.

The company's other outstanding loans were:

Amount	Rate of Interest per annum
Rs.7,00,000	12%
Rs.9,00,000	11%

The expenditure incurred on the construction was:

April, 2017	Rs.1,50,000
August, 2017	Rs.2,00,000
October, 2017	Rs.3,50,000
January, 2018	Rs.1,00,000

The construction of building was completed by 31st January, 2018. Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 2018.

Solution :

(i) Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (Rs.)	Rate of interest		Amount of interest (Rs.)
7,00,000	12%	=	84,000
9,00,000	11%	=	99,000
16,00,000		=	1,83,000
Weighted average rate of interest (1,83,000/16,00,000) x 100			11.4375%

(ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	Amount spent	Financed through	Calculation	Rs.
1st April, 2017	1,50,000	Specific borrowing	1,50,000 x 9% x 10/12	11,250
1st August, 2017	2,00,000	Specific borrowing	50,000 x 9% x 10/12	3,750
		General borrowing	1,50,000 x 11.4375% x 6/12	8,578.125
1st October, 2017	3,50,000	General borrowing	3,50,000 x 11.4375% x 4/12	13,343.75
1st January, 2018	1,00,000	General borrowing	1,00,000 x 11.4375% x 1/12	953.125
				37,875

Note : Since construction of building started on 1st April, 2017, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

(iii) Total expenses to be capitalized for building

	Rs.
Cost of building Rs.(1,50,000 + 2,00,000 + 3,50,000 + 1,00,000)	8,00,000
Add : Amount of interest to be capitalized	37,875
	8,37,875

(iv) Journal Entry

Date	Particulars		Rs.	Rs.
31.1.2018	Building account	Dr.	8,37,875	
	To Bank account			8,00,0000
	To Interest payable (borrowing cost)			37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Note : In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2018.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		Rs.	Rs.
31.1.2018	Building account	Dr.	8,37,875	
	To Bank account			8,37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

On 1st April, 20X1, entity A contracted for the construction of a building for Rs.22,00,000. The land under the building is regarded as a separate asset and is not part of the qualifying assets. The building was completed at the end of March, 20X2, and during the period the following were made to the contractor.

Payment date	Amount (Rs.'000)
1st April, 20X1	200
30th June, 20X1	600
31st December, 20X1	1,200

31st March, 20X2	200
Total	**2,200**

Entity A's borrowings at its year end of 31st March, 20X2 were as follows:

a. 10%, 4-year note with simple interest payable annually, which relates specifically to the project; debt outstanding on 31st March, 20X2 amounted to Rs.7,00,000. Interest of Rs.65,000 was incurred on these borrowings during the year, and interest income of ` 20,000 was earned on these funds while they were held in anticipation of payments.

b. 12.5% 10-year note with simple interest payable annually; debt outstanding at 1st April, 20X1 amounted to Rs.1,000,000 and remained unchanged during the year; and

c. 10% 10-year note with simple interest payable annually; debt outstanding at 1st April, 20X1 amounted to Rs.1,500,000 and remained unchanged during the year.

What amount of the borrowing costs can be capitalized at year end as per relevant Ind AS?

Solution :

As per Ind AS 23, when an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity should determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

The amount of borrowing costs eligible for capitalization, in cases where the funds are borrowed generally, should be determined based on the expenditure incurred in obtaining a qualifying asset. The costs incurred should first be allocated to the specific borrowings.

Analysis of expenditure:

Date	Expenditure (Rs.'000)	Amount allocated in general borrowings (Rs.'000)	Weighted for period outstanding (Rs.'000)	
1st April 20X1	200	0		0
30th June 20X1	600	100*	100 × 9/12 =	75
31st Dec 20X1	1,200	1,200	1,200 × 3/12 =	300
31st March 20X2	200	200	200 × 0/12 =	0
Total	2,200			375

*Specific borrowings of Rs.7,00,000 fully utilized on 1st April & on 30th June to the extent of Rs.5,00,000 hence remaining expenditure of Rs.1,00,000 allocated to general borrowings.

The expenditure rate relating to general borrowings should be the weighted average of the borrowing costs applicable to the entity's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Capitalisation rate = $\frac{(10{,}00{,}000 \times 12.5\%) + (15{,}00{,}000 \times 10\%)}{10{,}00{,}000 + 15{,}00{,}000}$ = 11%

Borrowing cost to be capitalized:	**Amount**
	(Rs.)
On specific loan	65,000
On General borrowing (3,75,000 × 11%)	41,250
Total	1,06,250
Less interest income on specific borrowings	(20,000)
Amount eligible for capitalization	86,250
Therefore, the borrowing costs to be capitalized are ` 86,250.	

Question 8 **Nov 2019 - PAPER**

An entity constructs a new office building commencing on 1st September, 2018, which continues till 31st December, 2018 (and is expected to go beyond a year). Directly attributable expenditure at the beginning of the month on this asset are Rs.2 Lakhs in September 2018 and Rs.4 Lakhs in each of the months of October to December 2018.

The entity has not taken any specific borrowings to finance the construction of the building but has incurred finance costs on its general borrowings during the construction period. During the year, the entity had issued 9% debentures with a face value of Rs.30 Lakhs and had an overdraft of Rs.4 Lakhs, which increased to Rs.8 Lakhs in December 2018. Interest was paid on the overdraft at 12% until 1st October, 2018 and then the rate was increased to 15%.

Calculate the Capitalization rate for computation of borrowing cost in accordance with Ind AS 'Borrowing Cost'.

Solution :

Since Entity has only general borrowing hence first step will be to compute the capitalisation rate.

1) Finance Cost :

9% on 30,00,000 from 1/9/2018 to 31/12/2018	90,000
12% on 4,00,000 in September	4,000
15% on 4,00,000 in October and November	10,000
15% on 8,00,000 in December	10,000
Total Finance Cost	1,14,000

2) Weighted Average Borrowing :

$$= 30,00,000 + 4,00,000 \times \frac{3}{4} + 8,00,000 \times \frac{1}{4}$$

$$= 35,00,000$$

3) Capitalisation Rate :

$$= \frac{1,14,000}{35,00,000} \times 100 = 3.257\% \text{ for 4 months.}$$

2020

Question 9 **May 2020 - RTP**

No Question

IND AS 36 - IMPAIRMENT OF ASSETS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	YES	YES
2019	YES	NO	YES	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

Himalaya Ltd. which is in a business of manufacturing and export of its product. Sometimes, back in 20X4, the Government put restriction on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth of Rs.4,000 lakhs for Rs.6,000 lakh at the end of the year 20X0. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on straight line basis. When Government put the restriction at the end of 20X4, the company recognised the impairment loss by determining the recoverable amount of assets for Rs.2,720 lakh. In 20X6 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at Rs.3,420 lakh.

Required:

(i) Calculation and allocation of impairment loss in 20X4.

(ii) Reversal of impairment loss and its allocation as per Ind AS 36 in 20X6

Solution :

1. (i) Calculation and allocation of impairment loss in 20X4

(Amount in Rs.lakhs)

	Asset	Goodwill	Total
20X0	4,000	2,000	6,000
–Dep. (4 yrs.)	1,067	–	1,067
20X4 – Carrying amount	2,933	2,000	4,933
Recoverable Amt.			
Impairment Loss	213	2,000	2,213
Carrying amount after impairment	2,720	–	2,720

Note: As per Ind AS 36 impairment loss should be first charged to goodwill.

(ii) Reversal of impairment at end of 2006

(a) Carrying amount asset before Reversal :

	Asset
20X4	2,720

	–Dep.(2 yrs.)	495
	Carrying before Reversal	2,225
(b)	Carrying amount before Reversal	2,225
	+ Reversal	175
	Carrying amount after Reversal	2,400

Note : As per Ind AS 36 carrying amount after reversal should be lower of :

(a) Recoverable amount 3,420

(b) Carrying after depreciation without impairment

= 4,000 – Depreciation for 6 yrs. (15 yrs. of life)

= 4,000 – 1,600 = 2,400

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

M Ltd. has three cash-generating units: A, B and C. Due to adverse changes in the technological environment, M Ltd. conducted impairment tests of each of its cash-generating units. On 31st March, 2018, the carrying amounts of A, B and C are Rs.100 lakhs, Rs.150 lakhs and Rs.200 lakhs respectively. The operations are conducted from a headquarter. The carrying amount of the headquarter assets is Rs.200 lakhs: a headquarter building of Rs.150 lakhs and a research centre of Rs.50 lakhs. The relative carrying amounts of the cash-generating units are a reasonable indication of the proportion of the head-quarter building devoted to each cash-generating unit. The carrying amount of the research centre cannot be allocated on a reasonable basis to the individual cash-generating units.

Following is the remaining estimated useful life of:

	A	B	C	Head quarter assets
Remaining estimated useful life	10	20	20	20

The headquarter assets are depreciated on a straight-line basis.

The recoverable amount of each cash generating unit is based on its value in use since net selling price for each CGU cannot be calculated. Therefore, Value in use is equal to

	A	B	C	M Ltd. as a whole
Recoverable amount	199	164	271	720*

*The research centre generates additional future cash flows for the enterprise as a whole. Therefore, the sum of the value in use of each individual CGU is less than the value in use of the business as a whole. The additional cash flows are not attributable to the headquarter building.

Solution :

1. **Allocation of building to CGU A, B and C.**

   It should be done on the basis of carrying amount × life.

   A = Life (10) × Carrying amount (100) = 1,000

   B = Life (20) × Carrying amount (150) = 3,000

   C = Life (20) × Carrying amount (200) = 4,000

   i.e. 1 : 3 : 4

   i.e. $150 \times \frac{1}{8}$ = 18.75 to A

$$150 \times \frac{3}{8} = 56.25 \text{ to B}$$

$$150 \times \frac{4}{8} = 75 \text{ to C}$$

2. Check for impairment loss for CGU after allocation of building.

	A	B	C
Carrying Amount	100	150	200
+Building	18.75	56.25	75
	118.75	206.25	275
Recoverable amount	199	164	271
Impairment loss	–	42.25	4

Impairment loss should be apply to building and CGU in rate of its carrying amount.

i.e. $42.25 \times \frac{150}{206.25}$ = 30.73 to CGU B

$42.25 \times \frac{56.25}{206.25}$ = 11.52 to Building

$4 \times \frac{200}{275}$ = 2.91 to CGU C

$4 \times \frac{75}{275}$ = 1.09 to Building

3. Carrying amount after impairment :

	A	B	C	Total
Carrying amount before	100	150	200	150
– Impairment loss	–	30.73	2.91	12.61
	100	119.27	197.09	137.39

4. Check of impairment of larger CGU (Including A, B, C, Building and Research Centre) :

	A	B	C	Building	Research Centre	Total
Carrying amount	100	119.27	197.09	137.39	50	603.75
Recoverable Amount	–	–	–	–	–	720
Impairment loss						Nil

Question 4 **Nov 2018 - PAPER**

A machine was acquired by ABC Ltd. 15 years ago at a cost of Rs.20 crore. Its accumulated depreciation as at 31st March, 2018 was Rs.16.60 crore. Depreciation estimated for the financial year 2018-19 is Rs.1 crore. Estimated Net Selling Price of the machine as on 31st March, 2018 was Rs.1.20 crore, which is expected to decline by 20 per cent by the end of the next financial year.

Its value in use has been computed at Rs.1.40 crore as on 1st April, 2018, which is expected to decrease by 30 per cent by the end of the financial year. Assuming that other conditions of relevant Accounting Standard for applicability of the impairment are satisfied:

(i) What should be the carrying amount of this machine as at 31st March, 2019?

(ii) How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019?

(iii) If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be Rs.48 lakh, how would you answer to questions (i) and (ii) above?

(iv) If the value in use was zero and the company was required to incur a cost of Rs.8 lakh to dispose of the plant, what would be your response to questions (i) and (ii) above?

Solution :

As per the requirement of the question, the following solution has been drawn on the basis of AS 28

		Rs.in crore
(i)	Carrying amount of plant (before impairment) as on 31st March, 2019	2.4
	Carrying amount of plant (after impairment) as on 31st March, 2019	0.98
(ii)	Amount of impairment loss for the financial year ended 31st March, 2019 (2.4 Cr.- 0.98 Cr)	1.42
(iii)	If the plant had been revalued ten years ago	
	Debit to revaluation reserve	0.48
	Amount charged to profit and loss (1.42 - 0.48)	0.94
(iv)	If Value in use was zero	
	Value in use (a)	Nil
	Net selling price (b)	-0.08
	Recoverable amount [higher of (a) and (b)]	Nil
	Carrying amount (closing book value)	Nil
	Amount of write off (impairment loss) (Rs.2.4 Cr – Nil)	2.4
	Entire book value of plant will be written off and charged to profit and loss account.	

Working Notes:

(1) Calculation of Closing Book Value, as at 31st March, 2019

	Rs. in crore
Opening book value as on 1.4.2018 (Rs.20 crore -16.60 crore)	3.40
Less: Depreciation for financial year 2018–2019	(1.00)
Closing book value as on 31.3.2019 (before impairment)	2.40

(2) Calculation of Estimated Net Selling Price on 31st March, 2019

	Rs. in crore
Estimated net selling price as on 1.4.2018	1.20
Less: Estimated decrease during the year (20% of Rs.1.20 Cr.)	(0.24)
Estimated net selling price as on 31.3.2019	0.96

(3) Calculation of Estimated Value in Use of Plant on 31st March, 2019

	Rs.in crore
Estimated value in use as on 1.4.2018	1.40
Less: Estimated decrease during the year (30% of Rs.1.40 Cr.)	(0.42)
Estimated value in use as on 31.3.2019	0.98

(4) Recoverable amount as on 31.3.2019 is equal to higher of Net selling price and value in use

	Rs.in crore
Net selling price	0.96
Value in use	0.98
Recoverable amount	0.98
Impairment Loss [Carrying amount – Recoverable amount ie. (2.40 Cr. – 0.98 Cr)]	1.42
Revised carrying amount on 31.3.2019 is equal to Recoverable amount (after impairment)	0.98 Cr.

Note : Since question requires computation of Impairment Loss on 31.3.2019, hence impairment probability on 31.3.2018 has been ignored. However, since there is impairment probability at the beginning of the year as well, one may calculate the carrying amount at the beginning of the year after impairment and then calculate the impairment possibilities at the end of the year. Accordingly the solution will be as follows:

	Rs.in crore
Carrying amount before impairment on 1.4.2018 (20 - 16.60)	3.40
Recoverable amount ie. higher of NSP (1.20 cr) and Value in use (1.40 cr)	1.40
Impairment loss	2.00
Revised carrying amount after impairment as on 1.4.2018	1.40
Less: Depreciation for 2018-2019 (as given in the question)	(1.00)
Carrying amount as on 31.3.2019	0.40
Recoverable amount as on 31.3.2019 (Refer W.N. 2, 3 and 4 above)	0.98
Impairment Loss as on 31.3.2019 (since carrying amount is less than recoverable amount)	NIL

Question 5 **Nov 2018 - PAPER**

XYZ Limited has three cash-generating units - X, Y and Z, the carrying amounts of which as on 31st March, 2018 are as follows:

Cash Generating Units	Carrying Amount (Rs.in lakh)	Remaining useful life in years
X	800	20
Y	1000	10
Z	1200	20

XYZ Limited also has corporate assets having a remaining useful life of 20 years as given below:

Corporate Assets	Carrying amount (Rs.in lakh)	Remarks
AU	800	The carrying amount of AU can be allocated on a reasonable basis to the individual cash generating units.

BU	400	The carrying amount of BU cannot be allocated on a reasonable basis to the individual cash-generating units.

Recoverable amounts as on 31st March, 2018 are as follows:

Cash-generating units	Recoverable amount (Rs.in lakh)
X	1000
Y	1200
Z	1400
XYZ Limited	3900

Calculate the impairment loss if any of XYZ Ltd. Ignore decimals.

Solution :

(i) Allocation of corporate assets to CGU

The carrying amount of AU is allocated to the carrying amount of each individual cash- generating unit. A weighted allocation basis is used because the estimated remaining useful life of Y's cash-generating unit is 10 years, whereas the estimated remaining useful lives of X and Z's cash-generating units are 20 years.

(Rs. in lakh)

	Particulars	**X**	**Y**	**Z**	**Total**
(a)	Carrying amount	800	1,000	1,200	3,000
(b)	Useful life	20 years	10 years	20 years	
(c)	Weight based on useful life	2	1	2	
(d)	Carrying amount after assigning weight) (a x c)	1,600	1,000	2,400	5,000
(e)	Pro-rata allocation of AU	32% (1,600/5,000)	20% (1,000/5,000)	48% (2,400/5,000)	100%
(f)	Allocation of carrying amount of AU (32: 20: 48)	256	160	384	800
(g)	Carrying amount after allocation of AU) (a+f)	1,056	1,160	1,584	3,800

(ii) Calculation of impairment loss

Step 1: Impairment losses for individual cash-generating units and its allocation

(a) Impairment loss of each cash-generating units

(Rs. in lakh)

Particulars	**X**	**Y**	**Z**
Carrying amount (after allocation of AU)	1,056	1,160	1,584
Recoverable amount	1,000	1,200	1,400
Impairment loss	56	Nil	184

(b) Allocation of the impairment loss (after rounding off)

(Rs. in lakh)

Allocation to	**X**		**Z**	
AU	14	(56x256/1,056)	45	(184x384/1,584)

Other assets in cash- generating units	42	(56x800/1056)	139	(184x1,200/ 1,584)
Impairment loss	56		184	

Step 2: Impairment loss for the larger cash-generating unit, i.e., XYZ Ltd. as a whole

Particulars	X	Y	Z	AU	BU	XYZ Ltd.
Carrying amount	800	1,000	1,200	800	400	4,200
Impairment loss (Step I)	(420	-	(139)	(59)*	-	(240)
Carrying amount (after Step I)	758	1,000	1,061	741	400	3,960
Recoverable amount						3,900
Impairment loss for the 'larger' cash-generating unit						60

*Rs.14 lakh + Rs.45 lakh = Rs.59 lakh.

2019

Question 6 **May 2019 - RTP**

Elia limited is a manufacturing company which deals in to manufacturing of cold drinks and beverages. It is having various plants across India. There is a Machinery A in the Baroda plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with Machine A it cannot produce output as well. The Company considers this group of assets as a Cash Generating Unit and an Inventory amounting to Rs.2 Lakh and Goodwill amounting to Rs.1.50 Lakhs is included in such CGU.

Machinery A was purchased on 1st April 2013 for Rs.10 Lakhs and residual value is Rs.50 thousands. Machinery B was purchased on 1st April, 2015 for Rs.5 Lakhs with no residual value. The useful life of both Machine A and B is 10 years. The Company expects following cash flows in the next 5 years pertaining to Machinery A. The incremental borrowing rate of the company is 10%.

Year	Cash Flows from Machinery A
1	1,50,000
2	1,00,000
3	1,00,000
4	1,50,000
5	1,00,000 (excluding Residual Value)
Total	**6,00,000**

On 31st March, 2018, the professional valuers have estimated that the current market value of Machinery A is Rs.7 lakhs. The valuation fee was Rs.1 lakh. There is a need to dismantle the machinery before delivering it to the buyer. Dismantling cost is Rs.1.50 lakhs. Specialised packaging cost would be Rs.25 thousand and legal fees would be Rs.75 thousand.

The Inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is Rs.10 Lakh as on 31st March, 2018. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is Rs.11 Lakhs ie on 31st March, 2019. The Recoverable value of Machine A is Rs.4,50,000 and combined Machine A and B is Rs.7,60,000 as on 31st March, 2019.

Required:

a) Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2018 by providing all the relevant working notes to arrive at such calculation.

b) Compute the prospective depreciation for the year 2018-2019 on the above assets.
c) Compute the carrying value of CGU as at 31st March, 2019.

Solution :

(a) Computation of impairment loss and carrying value of each of the asset in CGU after impairment loss

(i) Calculation of carrying value of Machinery A and B before impairment

Machinery A		
Cost	(A)	Rs.10,00,000
Residual Value		Rs.50,000
Useful life		10 years
Useful life already elapsed		5 years
Yearly depreciation	(B)	Rs.95,000
WDV as at 31st March, 2018 [A- (B x 5)]		**Rs.5,25,000**
Machinery B		
Cost	(C)	Rs.5,00,000
Residual Value		-
Useful life		10 years
Useful life already elapsed		3 years
Yearly depreciation	(D)	Rs.50,000
WDV as at 31st March, 2018 [C- (D x 3)]		**Rs.3,50,000**

(ii) Calculation of Value-in-use of Machinery A

Period	Cash Flows (Rs.)	PVF	PV
1	1,50,000	0.91	1,36,350
2	1,00,000	0.83	82,600
3	1,00,000	0.75	75,100
4	1,50,000	0.68	1,02,450
5	1,00,000	0.62	62,100
5	50,000	0.62	31,050
Value in use			**4,89,650**

(iii) Calculation of Fair Value less cost of disposal of Machinery A

	Rs.
Fair Value	7,00,000
Less: Dismantling cost	(1,50,000)
Packaging cost	(25,000)
Legal Fees	(75,000)
Fair value less cost of disposal	**4,50,000**

(iv) Calculation of Impairment loss on Machinery A

	Rs.
Carrying Value	5,25,000

Less: Recoverable Value ie higher of Value-in-use and Fair value less cost of disposal	4,89,650
Impairment Loss	**35,350**

(v) Calculation of Impairment loss of CGU

1. First goodwill will be impaired fully and then the remaining impairment loss of Rs.75,000 will be allocated to Machinery A and B.
2. If we allocate remaining impairment loss to Machinery A and B on pro-rata basis, it would come to Rs.45,000 on Machinery A. However, the impairment loss of Machinery A cannot exceed Rs.35,350. Hence, impairment to CGU will be as follows:

	Carrying value before impairment loss	Impairment loss	Carrying value after impairment loss
	Rs.	**Rs.**	**Rs.**
Machinery A	5,25,000	35,350	4,89,650
Machinery B	3,50,000	39,650*	3,10,350
Inventory	2,00,000	-	2,00,000
Goodwill	1,50,000	1,50,000	-
Total	**12,25,000**	**2,25,000**	**10,00,000**

* Balancing figure.

(b) Carrying value after adjustment of depreciation

	Rs.
Machinery A [4,89,650 – {(4,89,650 – 50,000)/5}]	4,01,720
Machinery B [3,10,350 – (3,10,350/7)]	2,66,014
Inventory	2,00,000
Goodwill	-
Total	**8,67,734**

(c) Calculation of carrying value of CGU as on 31st March, 2019

The revised value of CGU is Rs.11 Lakh. However, impaired goodwill cannot be reversed. Further, the individual assets cannot be increased by lower of recoverable value or Carrying Value as if the assets were never impaired.

Accordingly, the carrying value as on 31st March, 2019 assuming that the impairment loss had never incurred, will be:

	Carrying Value	Recoverable Value	Final CV as at 31st Mar 2019
Machinery A	4,30,000	4,50,000	4,30,000
Machinery B	3,00,000	(7,60,000 – 4,50,000) 3,10,000	3,00,000
Inventory	2,00,000	2,00,000	2,00,000
Goodwill	-		
Total	**9,30,000**	**9,60,000**	**9,30,000**

Hence the impairment loss to be reversed will be limited to Rs.62,266 only (Rs.9,30,000 – Rs.8,67,734).

Question 7 **May 2019 - PAPER**

No Question

Question 8 **Nov 2019 - RTP**

East Ltd. (East) owns a machine used in the manufacture of steering wheels, which are sold directly to major car manufacturers.

- The machine was purchased on 1st April, 20X1 at a cost of Rs.5,00,000 through a vendor financing arrangement on which interest is being charged at the rate of 10 per cent per annum.
- During the year ended 31st March, 20X3, East sold 10,000 steering wheels at a selling price of Rs.190 per wheel.
- The most recent financial budget approved by East's management, covering the period 1st April, 20X3 – 31st March, 20X8, including that the company expects to sell each steering wheel for Rs.200 during 20X3-X4, the price rising in later years in line with a forecast inflation of 3 per cent per annum.
- During the year ended 31st March, 20X4, East expects to sell 10,000 steering wheels. The number is forecast to increase by 5 per cent each year until 31st March, 20X8.
- East estimates that each steering wheel costs Rs.160 to manufacture, which includes Rs.110 variable costs, Rs.30 share of fixed overheads and Rs.20 transport costs.
- Costs are expected to rise by 1 per cent during 20X4-X5, and then by 2 per cent per annum until 31st March, 20X8.
- During 20X5-X6, the machine will be subject to regular maintenance costing Rs.50,000.
- In 20X3-X4, East expects to invest in new technology costing Rs.1,00,000. This technology will reduce the variable costs of manufacturing each steering wheel from Rs.110 to Rs.100 and the share of fixed overheads from Rs.30 to Rs.15 (subject to the availability of technology, which is still under development).
- East is depreciating the machine using the straight line method over the machine's 10 year estimated useful life. The current estimate (based on similar assets that have reached the end of their useful lives) of the disposal proceeds from selling the machine is Rs.80,000 net of disposal costs. East expects to dispose of the machine at the end of March, 20X8.
- East has determined a pre-tax discount rate of 8 per cent, which reflects the market's assessment of the time value of money and the risks associated with this asset.

Assume a tax rate of 30%. What is the value in use of the machine in accordance with Ind AS 36?

Solution :

Calculation of the value in use of the machine owned by East Ltd. (East) includes the projected cash inflow (i.e. sales income) from the continued use of the machine and projected cash outflows that are necessarily incurred to generate those cash inflows (i.e cost of goods sold). Additionally, projected cash inflows include Rs.80,000 from the disposal of the asset in March, 20X8. Cash outflows include routing capital expenditures of Rs.50,000 in 20X5-X6

As per Ind AS 36, estimates of future cash flows shall not include:

- Cash inflows from receivables
- Cash outflows from payables
- Cash inflows or outflows expected to arise from future restructuring to which an entity is not yet committed
- Cash inflows or outflows expected to arise from improving or enhancing the asset's performance
- Cash inflows or outflows from financing activities

• Income tax receipts or payments.

Hence in this case, cash flows do not include financing interest (i.e. 10%), tax (i.e. 30%) and capital expenditures to which East has not yet committed (i.e. Rs.1,00,000). They also do not include any savings in cash outflows from these capital expenditure, as required by Ind AS 36.

The cash flows (inflows and outflows) are presented below in nominal terms. They include an increase of 3% per annum to the forecast price per unit (B), in line with forecast inflation. The cash flows are discounted by applying a discount rate (8%) that is also adjusted for inflation.

Note: Figures are calculated on full scale and then rounded off to the nearest absolute value.

Year ended	20X3-X4	20X4-X5	20X5-20X6	20X6-X7	20X7-X8	Value in use
Quantity (A)	10,000	10,500	11,025	11,576	12,155	
Price per unit(B)	Rs.200	Rs.206	Rs.212	Rs.219	Rs.225	
Estimated cash inflows (C = A x B)	Rs.20,00,000	Rs.21,63,000	Rs.23,37,300	Rs.25,35,144	Rs.27,34,875	
Misc. cash inflow disposal proceeds (D)					Rs.80,000	
Total estimated cash inflows (E=C+D)	Rs.20,00,000	Rs.21,63,000	Rs.23,37,300	Rs.25,35,144	Rs.28,14,875	
Cost per unit (F)	Rs.160	Rs.162	Rs.165	Rs.168	Rs.171	
Estimated cash outflows (G = A x F)	(Rs.16,00,000)	(Rs.17,01,000)	(Rs.18,19,125)	(Rs.19,44,768)	(Rs.20,78,505)	
Misc. cash outflow: maintenance costs (H)			(Rs.50,000)			
Total estimated cash outflows (I = G + H)	(Rs.16,00,000)	(Rs.17,01,000)	(Rs.18,69,125)	(Rs.19,44,768)	(Rs.20,78,505)	
Net cash flows (J = E - I)	Rs.4,00,000	Rs.4,62,000	Rs.4,68,175	Rs.5,90,376	Rs.7,36,370	
Discount factor 8% (K)	0.9259	0.8573	0.7938	0.7350	0.6806	
Discounted future cash flows (L = J x K)	Rs.3,70,360	Rs.3,96,073	Rs.3,71,637	Rs.4,33,926	Rs.5,01,173	Rs.20,73,169

Question 9 **Nov 2019 - PAPER**

No Question

2020

Question 10 **May 2020 - RTP**

PQR Ltd. is the company which has performed well in the past but one of its major assets, an item of equipment, suffered a significant and unexpected deterioration in performance. Management expects to use the machine for a further four years after 31st March 20X6, but at a reduced level. The equipment will be scrapped after four years. The financial accountant for PQR Ltd. has produced a set of cash-flow projections for the equipment for the next four years, ranging from optimistic to pessimistic. CFO thought that the projections were too conservative, and he intended to use the highest figures each year. These were as follows :

	Rs. '000
Year ended 31st March 20X7	276
Year ended 31st March 20X8	192
Year ended 31st March 20X9	120

Year ended 31st March 20Y0	114

The above cash inflows should be assumed to occur on the last day of each financial year. The pre-tax discount rate is 9%. The machine could have been sold at 31st March 20X6 for Rs.6,00,000 and related selling expenses in this regard could have been Rs.96,000. The machine had been re valued previously, and at 31st March 20X6 an amount of Rs.36,000 was held in revaluation surplus in respect of the asset. The carrying value of the asset at 31st March 20X6 was Rs.6,60,000. The Indian government has indicated that it may compensate the company for any loss in value of the assets up to its recoverable amount. Calculate impairment loss, if any and revised depreciation of asset. Also suggest how Impairment loss, if any would be set off and how compensation from government be accounted for?

Solution :

Carrying amount of asset on 31st March 20X6 = Rs.6,60,000

Calculation of Value in Use :

Year ended	Cash flow Rs.	Discount factor @ 9%	Amount Rs.
31st March, 20X7	2,76,000	0.9174	2,53,202
31st March, 20X8	1,92,000	0.8417	1,61,606
31st March, 20X9	1,20,000	0.7722	92,664
31st March, 20Y0	1,14,000	0.7084	80,758
		Total (Value in Use)	5,88,230

Calculation of Recoverable amount :

Particulars	Amount (Rs.)
Value in use	5,88,230
Fair value less costs of disposal (6,00,000 – 96,000)	5,04,000
Recoverable amount (Higher of value in use and fair value less costs of disposal)	5,88,230

Calculation of Impairment loss:

Particulars	Amount (Rs.)
Carrying amount	6,60,000
Less: Recoverable amount	(5,88,230)
Impairment loss	71,770

Calculation of Revised carrying amount:

Particulars	Amount (Rs.)
Carrying amount	6,60,000
Less: Impairment loss	(71,770)
Revised carrying amount	5,88,230

Calculation of Revised Depreciation:

Revised carrying amount – Residual value

Remaining life = (5,88,230 - 0) / 4 = Rs.1,47,058 per annum

Set off of Impairment loss:

The impairment loss of Rs.71,770 must first be set off against any revaluation surplus in relation to the same asset. Therefore, the revaluation surplus of rs.36,000 is eliminated against impairment loss, and the remainder of the impairment loss Rs.35,770 (Rs.71,770 – Rs.36,000) is charged to profit and loss.

Treatment of Government compensation:

Any compensation by government would be accounted for as such when it becomes receivable. At this time, the government has only stated that it may reimburse the company and therefore credit should not be taken for any potential government receipt.

IND AS 41 - AGRICULTURE

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	YES	NO
2019	NO	NO	NO	NO
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

As at 31st March, 2017, a plantation consists of 100 Pinus Radiata 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, 2017: 171

As at 31st March, 2018: 165

Assume that there would be immaterial cash flow between now and point of harvest.

The present value factor of Rs.1 @ 6% for

19th year = 0.331

20th year = 0.312

State the value of such plantation as on 31st March, 2017 and 2018 and the gain or loss to be recognised as per Ind AS.

Solution :

As at 31st March, 2017, the mature plantation would have been valued at 17,100 (171 x 100).

As at 31st March, 2018, 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, 2017: 17,100 x 0.312 = 5,335.20.

As at 31st March, 2018: 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).

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

No Question

IND AS 21 - THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATE

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	YES	NO
2019	YES	NO	YES	YES
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

On 30th January, 20X1, A Ltd. purchased a machinery for $5,000 from USA supplier on credit basis. A's Ltd. functional currency is the Rupee. The exchange rate on the date of transaction is 1$= Rs.60. The fair value of the machinery determined on 31st March, 20X1 is $ 5,500. The exchange rate on 31st March, 20X1 is 1$= Rs.65. The payment to overseas supplier done on 31st March 20X2 and the exchange rate on 31st March 20X2 is 1$= Rs.67. The fair value of the machinery remain unchanged for the year ended on 31st March 20X2. Prepare the Journal entries for the year ended on 31st March 20X1 and year 20X2 according to Ind AS 21.

Solution :

Journal Entries

Purchase of Machinery on credit basis on 30th January 20X1:

		Rs.	Rs.
Machinery A/c (5,000 x $ 60)	Dr.	3,00,000	
To Creditors			3,00,000
(Initial transaction will be recorded at exchange rate on the date of transaction)			

Exchange difference arising on translating monetary item on 31st March 20X1:

		Rs.	Rs.
Machinery A/c [(5,500 x $ 65) – (5,000 x $ 60)]	Dr.	57,500	
To Profit & loss a/c (Exchange Profit & Loss)			57,500
Profit & Loss A/c [(5,000 x $ 65) – (5,000 x $ 60)]	Dr.	25,000	
To Creditors			20,000

Exchange difference arising on translating monetary item and settlement of creditors on 31st March 20X2:

		Rs.	Rs.
Creditors A/c (5,000 x $65)	Dr.	3,25,000	
Profit & loss A/c [(5,000 x ($ 67 -$ 65)]	Dr.	10,000	
To Bank A/c			3,35,000
Machinery A/c [(5,500*($ 67-$ 65))	Dr.	11,000	
To Profit & loss A/c			11,000

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

On 1st January, 2018, P Ltd. purchased a machine for $ 2 lakhs. The functional currency of P Ltd. is Rupees. At that date the exchange rate was $1= Rs.68. P Ltd. is not required to pay for this purchase until 30th June, 2018. Rupees strengthened against the $ in the three months following purchase and by 31st March, 2018 the exchange rate was $1 = Rs.65. CFO of P Ltd. feels that these exchange fluctuations wouldn't affect the financial statements because P Ltd. has an asset and a liability denominated in rupees. Which was initially the same amount. He also feels that P Ltd. depreciates this machine over four years so the future year-end amounts won't be the same.

Examine the impact of this transaction on the financial statements of P Ltd. for the year ended 31st March, 2018 as per Ind AS.

Solution :

As per Ind AS 21

01/01/2018	Asset A/c To Creditor A/c ($2,00,000 × 68)	Dr.	1,36,00,000	1,36,00,000
31/03/2018	Asset – Non Monetary Item – Carried at Cost Creditor – Monetary Item Creditor A/c To FC gain (P/L) ($2,00,000 × (68 – 65)	Dr.	6,00,000	6,00,000
31/03/2018	Depreciation A/c To Asset $(1,36,00,000 \times \frac{1}{4} \times \frac{3}{12})$	Dr.	8,50,000	8,50,000

The closing Balance of PPE on 31/03/2018 1,27,50,000.

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

Supplier, A Ltd., enters into a contract with a customer, B Ltd., on 1st January, 2018 to deliver goods in exchange for total consideration of USD 50 million and receives an upfront payment of USD 20 million on this date. The functional currency of the supplier is INR. The goods are delivered and revenue is recognised on 31st March, 2018. USD 30 million is received on 1st April, 2018 in full and final settlement of the purchase consideration.

State the date of transaction for advance consideration and recognition of revenue. Also state the amount of revenue in INR to be recognized on the date of recognition of revenue. The exchange rates on 1st January, 2018 and 31st March, 2018 are Rs.72 per USD and Rs.75 per USD respectively.

Solution :

01/01/2018	Bank A/c To Advance from Customer (20 × 72) Note : Revenue will be recognised on 31/3/2018 as goods will be delivered on 31/3/2018	Dr.	1,440	1,440
31/03/2018	Advance from Customer (20 × 72) Customer A/c (30 × 75) To Sales A/c Note : balance 30 USD will be booked at exchange rate existing as 31/3/2018.	Dr. Dr.	1,440 2,250	3,690
01/04/2018	Bank A/c To Customer A/c	Dr.	2,250	2,250

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

Global Limited, an Indian company acquired on 30th September, 20X1 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Global Limited is Rupees and its financial year end is 31st March, 20X2.

(i) The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid is 17.5 million EURO on 30th September, 20X1.
The exchange rates as at 30th September, 20X1 was Rs.82 / EURO and at 31st March, 20X2 was Rs.84 / EURO.
What is the value at which the goodwill has to be recognised in the financial statements of Global Limited as on 31st March, 20X2?

(ii) Mark Limited sold goods costing 2.4 million EURO to Global Limited for 4.2 million EURO during the year ended 31st March, 20X2. The exchange rate on the date of purchase by Global Limited was Rs.83 / EURO and on 31st March, 20X2 was Rs.84 / EURO. The entire goods purchased from Mark Limited are unsold as on 31st March, 20X2. Determine the unrealised profit to be eliminated in the preparation of consolidated financial statements.

Solution :

(i) Ind AS 21 requires that goodwill arose on business combination shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate. In this case the amount of goodwill will be as follows:

Net identifiable asset	Dr.	23 million	
Goodwill(bal. fig.)	Dr.	1.4 million	
To Bank			17.5 million
To NCI (23 x 30%)			6.9 million

Thus, goodwill on reporting date would be 1.4 million EURO × Rs.84
= Rs.117.6 million

(ii)

Particulars	EURO in million
Sale price of Inventory	4.20
Unrealised Profit [a]	1.80

Exchange rate as on date of purchase of Inventory [b]	Rs.83 / Euro
Unrealized profit to be eliminated [a x b]	Rs.149.40 million

As per Ind AS 21 "income and expenses for each statement of profit and loss presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions".
In the given case, purchase of inventory is an expense item shown in the statement profit and loss account. Hence, the exchange rate on the date of purchase of inventory is taken for calculation of unrealized profit which is to be eliminated on the event of consolidation.

Question 8 **Nov 2019 - PAPER**

What is the functional currency of an entity?
What are the primary and secondary factors that influence determination of functional currency?

Solution :

- An entity measures its assets, liabilities, equity, income and expenses in its functional currency.
- All transactions in currencies other than the functional currency are foreign currency transactions.

  Ind AS 21 requires each entity to determine its functional currency.
- In determining its functional currency, an entity emphasises the currency that determines the pricing of the transactions that it undertakes, rather than focusing on the currency in which those transactions are denominated.
- The following are the factors that may be considered in determining an appropriate functional currency:
  (a) the currency that mainly influences sales prices for goods and services; this often will be the currency in which sales prices are denominated and settled;
  (b) the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services; and

(c) the currency that mainly influences labour, material and other costs of providing goods and services; often this will be the currency in which these costs are denominated and settled.

- Other factors that may provide supporting evidence to determine an entity's functional currency are:
  (a) the currency in which funds from financing activities i.e., issuing debt and equity instruments) are generated;
  (b) the currency in which receipts from operating activities are usually retained.

2020

Question 9 **May 2020 - RTP**

On 1st April, 20X1, Makers Ltd. raised a long term loan from foreign investors. The investors subscribed for 6 million Foreign Currency (FCY) loan notes at par. It incurred incremental issue costs of FCY 2,00,000. Interest of FCY 6,00,000 is payable annually on 31st March, starting from 31st March, 20X2. The loan is repayable in FCY on 31st March, 20X7 at a premium and the effective annual interest rate implicit in the loan is 12%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:

– 1st April, 20X1 - FCY 1 = Rs.2.50.
– 31st March, 20X2 – FCY 1 = Rs.2.75.
– Average rate for the year ended 31st Match, 20X2 – FCY 1 = Rs.2.42. The functional currency of the group is Indian Rupee.

What would be the appropriate accounting treatment for the foreign currency loan in the books of Makers Ltd. for the FY 20X1-20X2? Calculate the initial measurement amount for the loan, finance cost for the year, closing balance and exchange gain / loss.

Solution :

Initial carrying amount of loan in books
Loan amount received = 60,00,000 FCY
Less: Incremental issue costs = 2,00,000 FCY
58,00,000 FCY

Ind AS 21, "The Effect of Changes in Foreign Exchange Rates" states that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Loan to be converted in INR = 58,00,000 FCY x Rs.2.50/FCY
= Rs.1,45,00,000

Therefore, the loan would initially be recorded at Rs.1,45,00,000.

Calculation of amortized cost of loan (in FCY) at the year end:

Period	Opening Financial Liability (FCY)	Interest @ 12% (FCY)	Cash Flow (FCY)	Closing Financial Liability (FCY)
	A	B	C	A + B – C
20X1-20X2	58,00,000	6,96,000	6,00,000	58,96,000

The finance cost in FCY is 6,96,000

The finance cost would be recorded at an average rate for the period since it accrues over a period of time.

Hence, the finance cost for FY 20X1-20X2 in INR is Rs.16,84,320 (6,96,000 FCY x Rs.2.42 / FCY)
The actual payment of interest would be recorded at 6,00,000 x 2.75 = INR 16,50,000
The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date.
So the closing loan balance in INR is 58,96,000 FCY x INR 2.75 / FCY = Rs.1,62,14,000
The exchange differences that are created by this treatment are recognized in profit and loss.
In this case, the exchange difference is
Rs.[1,62,14,000 – (1,45,00,000 + 16,84,320 – 16,50,000)] = Rs.16,79,680.
This exchange difference is taken to profit and loss.

IND AS 7 - CASH FLOW STATEMENT

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	NO	NO
2019	YES	NO	YES	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

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

(a) Cash consideration of Rs.15,00,000

(b) 200,000 equity shares having face of Rs.10 and fair value of Rs.15 per share.

On the date of acquisition, Company B has cash and cash equivalent balance of Rs.2,50,000 in its books of account.

On October 10, 20X2, Company A further acquires 10% stake in Company B for cash consideration of Rs.8,00,000.

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

Solution :

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

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

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

3) As per Ind AS 7, cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in Ind AS 110, and is required to be measured at fair value through profit or loss.

4) Considering the above, for the financial year ended March 31, 20X2 total consideration of Rs.15,00,000 less Rs.2,50,000 will be shown under investing activities as “Acquisition of the subsidiary (net of cash acquired)”.

5) There will not be any impact of issuance of equity shares as consideration in the cash flow statement however a proper disclosure shall be given elsewhere in the financial statements in a way that provides all the relevant information about the issuance of equity shares for non-cash consideration.
6) Further, in the statement of cash flows for the year ended March 31, 20X3, cash consideration paid for the acquisition of additional 10% stake in Company B will be shown under financing activities.

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

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

Solution :

The profit and loss account was credited by Rs.1,00,000 (US$ 2000 × Rs.50) towards interest income. It was credited by the exchange difference of US$ 100,000 × (Rs.50 – Rs.45) that is, Rs.500,000. In preparing the cash flow statement, Rs.500,000, the exchange difference, should be deducted from the 'net profit before taxes, and extraordinary item'. However, in order to reconcile the opening balance of the cash and cash equivalents with its closing balance, the exchange difference Rs.500,000, should be added to the opening balance in note to cash flow statement.
Cash flows arising from transactions in a foreign currency shall be recorded in Z Ltd.'s functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

Following is the balance sheet of Kuber Limited for the year ended 31st March, 20X2

(Rs.in lacs)

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

Additional Information :

(1) Profit after tax for the year ended 31st March, 20X2- Rs.4,450 lacs

(2) Interim Dividend paid during the year – Rs.450 lacs

(3) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under

(a) Property, Plant and Equipment – Rs.500 lacs

(b) Intangible Assets – Rs.20 lacs

(4) During the year ended 31st March, 20X2 two machineries were sold for Rs.10 lacs. The carrying amount of these machineries as on 31st March, 20X2 is Rs.60 lacs.

(5) Income taxes paid during the year Rs.105 lacs

Using the above information of Kuber Limited, construct a statement of cash flows under indirect method. Other non-current / current assets and liabilities are related to operations of Kuber Ltd. and do not contain any element of financing and investing activities.

Solution :

Statement of Cash Flows

		Rs. in lacs
Cash flows from Operating Activities		
Net Profit after Tax	4,450	
Add: Tax Paid	105	
	4,555	
Add: Depreciation & Amortisation (500 + 20)	520	
Less: Gain on Sale of Machine (70-60)	(10)	
Less: Increase in Deferred Tax Asset (855-750)	(105)	
	4,960	
Change in operating assets and liabilities		
Add: Decrease in financial asset (170 - 145)	25	
Less: Increase in other non-current asset (800 - 770)	(30)	
Less: Increase in other current asset (195 - 85)	(110)	
Less: Decrease in other non-current liabilities (3,615 – 2,740)	(875)	
Add: Increase in other current liabilities (300 - 200)	100	
Add: Increase in trade payables (150-90)	60	
	4,130	
Less: Income Tax	(105)	
Cash generated from Operating Activities		**4,025**
Cash flows from Investing Activities		
Sale of Machinery	70	
Purchase of Machinery [13,000-(12,500 – 500-60)]	(1,060)	
Purchase of Intangible Asset [50-(30-20)]	(40)	

Sale of Financial asset - Investment (2,500 – 2,300)	200	
Cash outflow from Investing Activities		**(830)**
Cash flows from Financing Activities		
Dividend Paid	(450)	
Long term borrowings paid (5,000 – 2,000)	(3,000)	
Cash outflow from Financing Activities		**(3,450)**
Net Cash outflow from all the activities		**(255)**
Opening cash and cash equivalents (460 – 60)		**400**
Closing cash and cash equivalents (220 – 75)		**145**

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

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

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

Consolidated balance sheet	**20X2**	**20X1**
Assets	**Amount (Rs.)**	**Amount (Rs.)**
Cash and cash equivalents	8,000	5,000
Trade receivables	54,000	50,000
Inventories	30,000	35,000
Property, plant and equipment	1,60,000	80,000
Goodwill	18,000	–
Total assets	**2,70,000**	**1,70,000**

Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	1,00,000	64,000
Total liabilities	**1,80,000**	**1,35,000**
Shareholders' equity	**90,000**	**35,000**
Total liabilities and shareholders'	**2,70,000**	**1,70,000**

Other information :

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

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

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

Solution :

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

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

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

Increase in cash and cash equivalents during the year		**3,000**
Cash and cash equivalents at the beginning of the year		**5,000**
Cash and cash equivalents at the end of the year		**8,000**

Working Notes:

1. Calculation of change in inventory during the year

	Rs.
Total inventories of the Group at the end of the year	30,000
Inventories acquired during the year from subsidiary	(4,000)
	26,000
Opening inventories	35,000
Decrease in inventories	9,000

2. Calculation of change in Trade Receivables during the year

	Rs.
Total trade receivables of the Group at the end of the year	54,000
Trade receivables acquired during the year from subsidiary	(8,000)
	46,000
Opening trade receivables	50,000
Decrease in trade receivables	4,000

3. Calculation of change in Trade Payables during the year

	Rs.
Trade payables at the end of the year	68,000
Trade payables of the subsidiary assumed during the year	(32,000)
	36,000
Opening trade payables	60,000
Decrease in trade payables	24,000

IND AS 108 - OPERATING SEGMENTS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	YES	NO	NO
2019	YES	NO	NO	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

Seeds Ltd. is operating in oil industry. Its business segments comprise crushing and refining. Certain information for financial year 2017-18 is given below:

(Rs.in lakh)

Segments	External Sale	Tax	Other Operating Income	Result	Assets	Liabilities
Crushing	1,00,000	2,500	20,000	5,000	25,000	15,000
Refining	35,000	1,500	7,500	2,000	15,000	5,000

Additional Information: (Rs.in lakh)

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

(1) **Segment revenues, results and other information**

(Rs.in lakh)

	Revenue	Coating	Others	Total
1	**External sales (gross)**	1,00,000	35,000	1,35,000

	Tax	(2,500)	(1,500)	(4,000)
	External sales (net)	97,500	33,500	1,31,000
	Other operating income	20,000	7,500	27,500
	Total Revenue	1,17,500	41,000	1,58,500
2	**Results**			
	Segment results	5,000	2,000	7,000
	Unallocated income (net of unallocated expenses)			1,500
	Profit from operation before interest, taxation and exceptional items			8,500
	Interest and bank charges			(1,000)
	Profit before exceptional items			7,500
	Exceptional items			Nil
	Profit before taxation			7,500
	Less: Income Taxes			
	Current taxes			(975)
	Deferred taxes			(25)
	Profit after taxation			6,500
3	**Other Information**			
(a)	**Assets**			
	Segment Assets	25,000	15,000	40,000
	Investments			5,000
	Unallocated assets			5,000
	Total Assets			50,000
(b)	**Liabilities/Shareholder's funds**			
	Segment liabilities	15,000	5,000	20,000
	Unallocated liabilities			10,000
	Share capital			5,000
	Reserves and surplus			15,000
	Total liabilities / shareholder's funds			50,000
(c)	**Others**			
	Capital Expenditure	2,500	1,000	3,500
	Depreciation	500	150	650

(2) Geographical Information

			(Rs.in lakh)
	India	**Outside India**	**Total**
Revenue	1,43,500	15,000	1,58,500
Segment assets	35,000	5,000	40,000
Capital expenditure	3,500	-	3,500

Note: Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments.

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations. Which cost formula should be used for Ind AS 108 disclosure purposes?

Solution :

The entity should use First-In, First-Out (FIFO) method for its Ind AS 108 disclosures, even though it uses the weighted average cost formula for measuring inventories for inclusion in its financial statements. Where chief operating decision maker uses only one measure of segment asset, same measure should be used to report segment information. Accordingly, in the given case, the method used in preparing the financial information for the chief operating decision maker should be used for reporting under Ind AS 108.

However, reconciliation between the segment results and results as per financial statements needs to be given by the entity in its segment report.

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

ABC Limited has 5 operating segments namely A, B, C, D and E. The profit/ loss of respective segments for the year ended March 31, 20X1 are as follows :

Segment	Profit/(Loss) (Rs.in crore)
A	780
B	1,500

C	(2,300)
D	(4,500)
E	6,000
Total	**1,480**

Based on the quantitative thresholds, which of the above segments A to E would be considered as reportable segments for the year ending March 31, 20X1?

Solution :

With regard to quantitative thresholds to determine reportable segment relevant in context of instant case, paragraph 13(b) of Ind AS 108 may be noted which provides as follows:

"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."

In compliance with Ind AS 108, the segment profit/loss of respective segment will be compared with the greater of the following:

(i) All segments in profit, i.e., A, B and E – Total profit Rs.8,280 crores.

(ii) All segments in loss, i.e., C and D – Total loss Rs.6,800 crores.

Greater of the above – Rs.8,280 crores.

Based on the above, reportable segments will be determined as follows:

Segment	Profit/(Loss) (Rs.in crore)	As absolute % of Rs.8,280 crore	Reportable segment
A	780	9%	No
B	1,500	18%	Yes
C	(2,300)	28%	Yes
D	(4,500)	54%	Yes
E	6,000	72%	Yes
Total	**1,480**		

Hence B, C, D, E are reportable segments.

IND AS 34 - INTERIM FINANCIAL REPORTING

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	NO	YES
2019	NO	NO	YES	NO
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

Navya Limited manufacturer of ceramic tiles has shown a net profit of Rs.15,00,000 for the first quarter of 2018-2019. Following adjustments were made while computing the net profit:

(i) Bad debts of Rs.1,64,000 incurred during the quarter. 75% of the bad debts have been deferred for the next three quarters (25% for each quarter).

(ii) Sales promotion expenses of Rs.5,00,000 incurred in the first quarter and 90% expenses deferred to the next three quarters (30% for each quarter) on the basis that the sales in these quarters will be high in comparison to first quarter.

(iii) Additional depreciation of Rs.3,50,000 resulting from the change in the method of depreciation has been taken into consideration.

(iv) Extra-ordinary loss of Rs.1,36,000 incurred during the quarter has been fully recognized in this quarter.

Discuss the treatment required under Ind AS 34 and ascertain the correct net profit to be shown in the Interim Financial report of first quarter to be presented to the Board of Directors.

Solution :

As per Ind AS 34, Interim Financial Reporting, the quarterly net profit should be adjusted and restated as follows:

(i) Bad debts of Rs.1,64,000 have been incurred during current quarter. Out of this, the company has deferred 75% i.e. Rs.1,23,000 to the next 3 quarters. This treatment is not correct as the expenses incurred during an interim reporting period should be recognised in the same period unless conditions mentioned in Ind AS 34 are fulfilled. Accordingly, Rs.1,23,000 should be deducted from the net profit of the current quarter Rs.15,00,000.

(ii) Deferment of sales promotion expenses of Rs.4,50,000 is not correct. It should be charged in the quarter in which the expenses have been incurred. Hence, it should be charged in the first quarter only.

(iii) Recognising additional depreciation of Rs.3,50,000 in the same quarter is correct and is in tune with Ind AS 34.

(iv) The treatment of extra-ordinary loss of Rs.1,36,000 being recognised in the same quarter is correct.

Accordingly,

Net Profit	Rs.15,00,000
Bad Debts	Rs.1,23,000
Sales Promotion Expenses	Rs.4,50,000
	Rs.9,27,000

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

An entity reports quarterly, earns Rs.1,50,000 pre-tax profit in the first quarter but expects to incur losses of Rs.50,000 in each of the three remaining quarters. The entity operates in a jurisdiction in which its estimated average annual income tax rate is 30%.

The management believes that since the entity has zero income for the year, its income-tax expense for the year will be zero. State whether the management's views are correct. If not, then calculate the tax expense for each quarter as well as for the year as per Ind AS 34.

Solution :

As per para 30 (c) of Ind AS 34 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

Accordingly, the management's contention that since the net income for the year will be zero no income tax expense shall be charged quarterly in the interim financial report, is not correct.

The following table shows the correct income tax expense to be reported each quarter in accordance with Ind AS 34:

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

Question 8 **Nov 2019 - PAPER**

No Questions

2020

Question 9 **May 2019 - RTP**

No Question

IND AS 8 - ACCOUNTING POLICIES, CHANGES IN ACCOUNING ESTIMATES & ERORS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	NO	NO
2019	YES	NO	YES	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

ABC Ltd. changed its method adopted for inventory valuation in the year 2018-2019. Prior to the change, inventory was valued using the first in first out method (FIFO). However, it was felt that in order to match current practice and to make the financial statements more relevant and reliable, a weighted average valuation model would be more appropriate.

The effect of the change in the method of valuation of inventory was as follows:

- 31st March, 2017 - Increase of Rs.10 million
- 31st March, 2018 - Increase of Rs.15 million
- 31st March, 2019 - Increase of Rs.20 million

Profit or loss under the FIFO valuation model are as follows:

	2018-2019	2017-2018

Revenue	324	296
Cost of goods	(173)	(164)
Gross profit	**151**	**132**
Expenses	(83)	(74)
Profit	**68**	**58**

Retained earnings at 31st March, 2017 were Rs.423 million

Present the change in accounting policy in the profit or loss and produce an extract of the statement of changes in equity in accordance with Ind AS 8.

Solution :

Profit or loss under weighted average valuation method is as follows :

	2018-2019	**2017-2018 (Restated)**
Revenue	324	296
Cost of goods	(168)	(159)
Gross profit	**156**	**137**
Expenses	(83)	(74)
Profit	**73**	**63**

Statement of changes in Equity (extract)

	Retained earnings	**Retained earnings (Original)**
At 1st April, 2017	423	423
Change in inventory valuation policy	10	-
At 1st April, 2017 (Restated)	**433**	**-**
Profit for the year 2017-2018	63	58
At 31st March, 2018	**496**	**481**
Profit for the 2018-2019	73	68
At 31st March, 2019	**569**	**549**

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

During 20X4-X5, Cheery Limited discovered that some products that had been sold during 20X3-X4 were incorrectly included in inventory at 31st March, 20X4 at Rs.6,500.

Cheery Limited's accounting records for 20X4-X5 show sales of Rs.104,000, cost of goods sold of Rs.86,500 including Rs.6,500 for the error in opening inventory), and income taxes of Rs.5,250.

In 20X3-X4, Cheery Limited reported:

	Rs.
Sales	73,500

Cost of goods sold	(53,500)
Profit before income taxes	20,000
Income taxes	(6,000)
Profit	14,000
Basic and diluted EPS	2.8

The 20X3-X4 opening retained earnings was Rs.20,000 and closing retained earnings was Rs.34,000. Cheery Limited's income tax rate was 30% for 20X4-X5 and 20X3-X4. It had no other income or expenses. Cheery Limited had Rs.50,000 (5,000 shares of Rs.10 each) of share capital throughout, and no other components of equity except for retained earnings.

State how the above will be treated /accounted in Cheery Limited's Statement of profit and loss, statement of changes in equity and in notes wherever required for current period and earlier period(s) as per relevant Ind AS.

Solution :

Cheery Limited
Extract from the Statement of profit and loss

		(Restated)
	20X4-X5	**20X3-X4**
	Rs.	**Rs.**
Sales	1,04,000	73,500
Cost of goods sold	(80,000)	(60,000)
Profit before income taxes	**24,000**	**13,500**
Income taxes	(7,200)	(4,050)
Profit	**16,800**	**9,450**
Basic and diluted EPS	3.36	1.89

Cheery Limited
Statement of Changes in Equity

	Share capital	**Retained earnings**	**Total**
Balance at 31st March, 20X3	50,000	20,000	70,000
Profit for the year ended 31st March, 20X4 as restated	_______	9,450	9,450
Balance at 31st March, 20X4	**50,000**	**29,450**	**79,450**
Profit for the year ended 31st March, 20X5	_______	16,800	16,800
Balance at 31st March, 20X5	**50,000**	**46,250**	**96,250**

Extract from the Notes

Some products that had been sold in 20X3-X4 were incorrectly included in inventory at 31st March, 20X4 at Rs.6,500. The financial statements of 20X3-X4 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below:

	Effect on 20X3-X4
(Increase) in cost of goods sold	(6,500)

Decrease in income tax expenses	1,950
(Decrease) in profit	(4,550)
(Decrease) in basic and diluted EPS	(0.91)
(Decrease) in inventory	(6,500)
Decrease in income tax payable	1,950
(Decrease) in equity	(4,550)

There is no effect on the balance sheet at the beginning of the preceding period i.e. 1st April, 20X3.

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

While preparing the financial statements for the year ended 31st March, 20X3, Alpha Limited has observed two issues in the previous year Ind AS financial statements (i.e. 31st March, 20X2) which are as follows:

Issue 1:

The company had presented certain material liabilities as non-current in its financial statements for periods as on 31st March, 20X2. While preparing annual financial statements for the year ended 31st March, 20X3, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period presented (i.e., as at 31st March, 20X2).

Issue 2:

The company had charged off certain expenses as finance costs in the year ended 31st March, 20X2. While preparing annual financial statements for the year ended 31st March, 20X3, it was discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The entity intends to restate the comparative amounts for the prior period presented in which the error occurred (i.e., year ended 31st March, 20X2).

What is your analysis and recommendation in respect of the issues noted with the previously presented set of financial statements for the year ended 31st March, 20X2?

Solution :

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

Accordingly, the stated issues in question are to dealt as under:

Issue 1

In accordance with para 41, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended March 31, 20X3, the comparative amounts as at 31 March 20X2 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements, if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period. Accordingly, the entity should present a third balance sheet as at the beginning of the preceding period, i.e., as at 1 April 20X1 in addition to the comparatives for the financial year 20X1-20X2.

Issue 2

In accordance with para 41, the reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31 March, 20X3, the comparative amounts for the year ended 31 March 20X2 would be restated to reflect the correct classification.

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

In the given case, the retrospective restatement of relevant items in statement of profit and loss has no effect on the information in the balance sheet at the beginning of the preceding period (1 April 20X1). Therefore, the entity is not required to present a third balance sheet.

IND AS 37 - PROVISIONS, CONTIGENT LIABILITIES AND CONTINGENT ASSETS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	YES	YES
2019	NO	NO	YES	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Questions

Question 2 **May 2018 - PAPER**

No Questions

Question 3 **Nov 2018 - RTP**

U Ltd. is a large conglomerate with a number of subsidiaries. It is preparing consolidated financial statements as on 31st March 2018 as per the notified Ind AS. The financial statements are due to be authorised for issue on 15th May 2018. It is seeking your assistance for some transactions that have taken place in some of its subsidiaries during the year.

1) G Ltd. is a wholly owned subsidiary of U Ltd. engaged in management consultancy services. On 31st January 2018, the board of directors of U Ltd. decided to discontinue the business of G Ltd. from 30th April 2018. They made a public announcement of their decision on 15th February 2018.

2) G Ltd. does not have many assets or liabilities and it is estimated that the outstanding trade receivables and payables would be settled by 31st May 2018. U Ltd. would collect any amounts still owed by G Ltd's customers after 31st May 2018. They have offered the employees of G Ltd. termination payments or alternative employment opportunities.

3) Following are some of the details relating to G Ltd.:
   - On the date of public announcement, it is estimated by G Ltd. that it would have to pay 540 lakhs as termination payments to employees and the costs for relocation of employees who would remain with the Group would be Rs.60 lakhs. The actual termination payments totalling to Rs.520 lakhs were made in full on 15th May 2018. As per latest estimates made on 15th May 2018, the total relocation cost is Rs.63 lakhs.
   - G Ltd. had taken a property on operating lease, which was expiring on 31st March 2022. The present value of the future lease rentals (using an appropriate discount rate) is Rs.430 lakhs. On 15th May 2018, G Ltd. made a payment to the lessor of Rs.410 lakhs in return for early termination of the lease.

4) The loss after tax of G Ltd. for the year ended 31st March 2018 was Rs.400 lakhs. G Ltd. made further operating losses totalling Rs.60 lakhs till 30th April 2018.

How should U Ltd. present the decision to discontinue the business of G Ltd. in its consolidated statement of comprehensive income as per Ind AS?
What are the provisions that the Company is required to make as per Ind AS 37?

Solution :

A discontinued operation is one that is discontinued in the period or classified as held for sale at the year end. The operations of G Ltd were discontinued on 30th April 2018 and therefore, would be treated as discontinued operation for the year ending 31st March 2019. It does not meet the criteria for held for sale since the company is terminating its business and does not hold these for sale.
Accordingly, the results of G Ltd will be included on a line-by-line basis in the consolidated statement of comprehensive income as part of the profit from continuing operations of U Ltd for the year ending 31st March 2018.
As per para Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', restructuring includes sale or termination of a line of business. A constructive obligation to restructure arises when:
(a) an entity has a detailed formal plan for the restructuring
(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The Board of directors of U Ltd have decided to terminate the operations of G Ltd. from 30th April 2018. They have made a formal announcement on 15th February 2018, thus creating a valid expectation that the termination will be implemented. This creates a constructive obligation on the company and requires provisions for restructuring.
A restructuring provision includes only the direct expenditures arising from the restructuring that are necessarily entailed by the restructuring and are not associated with the ongoing activities of the entity. The termination payments fulfil the above condition. As per Ind AS 10 'Events after Reporting Date', events that provide additional evidence of conditions existing at the reporting date should be reflected in the financial statements. Therefore, the company should make a provision for ` 520 lakhs in this respect.
The relocation costs relate to the future conduct of the business and are not liabilities for restructuring at the end of the reporting period. Hence, these would be recognised on the same basis as if they arose independently of a restructuring.
The operating lease would be regarded as an onerous contract. A provision would be made at the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Hence, a provision shall be made for ` 410 lakhs.
Further operating losses relate to future events and do not form a part of the closure provision.
Therefore, the total provision required = Rs.520 lakhs + Rs.410 lakhs = Rs.930 lakhs

Question 4 **Nov 2018 - PAPER**

Sun Limited has entered into a binding agreement with Moon Limited to buy a custom-made machine for Rs.4,00,000. At the end of 2017-18, before delivery of the machine, Sun Limited had to change its method of production. The new method will not require the machine ordered which is to be scrapped after delivery. The expected scrap value is nil. Given that the asset is yet to be delivered, should any liability be recognized for the potential loss? If so, give reasons for the same, the amount of liability as well as the accounting entry.

Solution :

As per Ind AS 37, Executory contracts are contracts under which

❖ neither party has performed any of its obligations; or

❖ both parties have partially performed their obligations to an equal extent.

The contract entered by Sun Ltd. is an executory contract, since the delivery has not yet taken place.

Ind AS 37 is applied to executory contracts only if they are onerous.

Ind AS 37 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

As per the facts given in the question, Sun Ltd. will not require the machine ordered. However, since it is a binding agreement, the entity cannot exit / cancel the agreement. Further, Sun Ltd. has to scrap the machine after delivery at nil scrap value.

These circumstances do indicate that the agreement/contract is an onerous contract. Therefore, a provision should be made for the onerous element of Rs.4,00,000 ie the full cost of the machine.

		Rs.	**Rs.**
Onerous Contract Provision Expense A/c	Dr.	4,00,000	
To Provision for Onerous Contract Liability A/c			4,00,000
(Being asset to be received due to binding agreement recognized)			
Profit and Loss Account (Loss due to onerous contract)	Dr.	4,00,000	
To Onerous Contract Provision Expense A/c			4,00,000
(Being loss due to onerous contract recognized and asset derecognsied)			

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Questions

Question 7 **Nov 2019 - RTP**

(a) A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale, the manufacturer undertakes to remedy, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. As this is the first year that the warranty has been available, there is no data from the firm to indicate whether there will be claim under the warranties. However, industry research suggests that it is likely that such claims will be forthcoming.

Should the manufacturer recognize a provision in accordance with the requirements of Ind AS 37. Why or why not?

(b) Assume that the firm has not been operating its warranty for five years, and reliable data exists to suggest the following:

- If minor defects occur in all products sold, repair costs of Rs.20,00,000 would result.
- If major defects are detected in all products, costs of Rs.50,00,000 would result.

- The manufacturer's past experience and future expectations indicate that each year 80% of the goods sold will have no defects. 15% of the goods sold will have minor defects, and 5% of the goods sold will have major defects.

Calculate the expected value of the cost of repairs in accordance with the requirements of Ind AS 37, if any. Ignore both income tax and the effect of discounting.

Solution :

(a) For a provision to be recognized, Para 14 of Ind AS 37 requires that:

a) an entity has a present obligation (legal or constructive) as a result of a past event;

b) it is probable that an outflow of resources embodying economic benefits will required to settle the obligation, and

c) a reliable estimate can be made of the amount of the obligation.

Here, the manufacturer has a present legal obligation. The obligation event is the sale of the product with a warranty.

Ind AS 37 outlines that the future sacrifice of economic benefits is probable when it is more likely than less likely that the future sacrifice of economic benefits will required. The probability that settlement will be required will be determined by considering the class of obligation (warranties) as a whole. In accordance with para 24 of Ind AS 37, it is more likely than less likely that a future sacrifice of economic benefits will be required to settle the class of obligations as a whole.

If a reliable estimate can be made the provision can be measured reliably. Past data can provide reliable measures, even if the data is not firm specific but rather industry based. Ind AS 37 notes that only in extremely rare cases, a reliable measure of a provision cannot be obtained. Difficulty in estimating the amount of a provision under conditions of significant uncertainty does not justify non-recognition of the provision.

Here, the manufacturer should recognize a provision based on the best estimate of the consideration required to settle the present obligation as at the reporting date.

(b) The expected value of cost of repairs in accordance with Ind AS 37 is:

(80% × nil) + (15% × Rs.20,00,000) + (5% × Rs.50,00,000) = 3,00,000 + 2,50,000 = 5,50,000

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

Entity XYZ entered into a contract to supply 1000 television sets for Rs.2 million. An increase in the cost of inputs has resulted into an increase in the cost of sales to Rs.2.5 million. The penalty for non-performance of the contract is expected to be Rs.0.25 million. Is the contract onerous and how much provision in this regard is required?

Solution :

Ind AS 37 "Provisions, Contingent Liabilities and Contingent Assets" defines an onerous contract as "a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it". Paragraph 68 of Ind AS 37 states that "the unavoidable costs under a co ntract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it". In the instant case, cost of fulfilling the contract is Rs.0.5 million (Rs.2.5 million – Rs.2 million) and cost of exiting from the contract by paying penalty is rs.0.25 million. In accordance with the above reproduced paragraph, it is an onerous contract as cost of meeting the contract exceeds the economic benefits. Therefore, the provision should be recognised at the best estimate of the unavoidable cost, which is lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, i.e., at Rs.0.25 million (lower of Rs.0.25 million and Rs.0.5 million).

IND AS 103 - BUSINESS COMBINATION

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	YES	YES	YES
2019	YES	NO	YES	YES
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

On 1 April 20X1, Alpha Ltd. acquires 80 percent of the equity interest of Beta Pvt. Ltd. in exchange for cash of Rs 300. Due to legal compulsion, Beta Pvt. Ltd. had to dispose of their investments by a specified date. Therefore, they did not have sufficient time to market Beta Pvt. Ltd. to multiple potential buyers. The management of Alpha Ltd. initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirement of Ind AS 103. The identifiable assets are measured at Rs 500 and the liabilities assumed are measured at Rs 100. Alpha Ltd. engages on independent consultant, who determined that the fair value of 20 per cent non-controlling interest in Beta Pvt. Ltd. is Rs 84.

Alpha Ltd. reviewed the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non controlling interest in Beta Pvt. Ltd. and the consideration transferred. After the review, it decided that the procedures and resulting measures were appropriate.

Calculate the gain or loss on acquisition of Beta Pvt. Ltd. and also show the journal entries for accounting of its acquisition. Also calculate the value of the non-controlling interest in Beta Pvt. Ltd. on the basis of proportionate interest method, if alternatively applied?

Solution :

1. Calculation of goodwill / gain on bargain purchase :

Consideration paid	300
+ NCI at fair value	84
	384
– FV of net asset (500 – 100)	400
Gain from bargain purchase	16

2. Journal Entry :

		Dr.	Cr.
Assets A/c	Dr.	500	
To Liability			100

To Bank		300
To NCI		84
To Gain on bargain purchase (CR)		16

Question 2 **May 2018 - PAPER**

Notorola Limited has two divisions A and B. Division A has been making constant profits while Division B has been invariably suffering losses.

On 31st March 2018, the division-wise draft extract of the Balance Sheet was as follows:

(Rs.in crore)

	A	**B**	**Total**
Fixed Assets Cost	500	1000	1500
Depreciation	(450)	(800)	(1250)
Net Fixed Assets (A)	50	200	250
Current Assets	400	1000	1400
Less: Current Liabilities	(50)	(800)	(850)
Net Current Assets (B)	350	200	550
Total (A) + (B)	**400**	**400**	**800**
Financed by :			
Loan Funds	-	600	60
Capital : Equity Rs.10 each	50	-	50
Surplus	350	-200	150
Total	**400**	**400**	**800**

Division B along with its assets and liabilities was sold for Rs.50 crore to Senovo Limited a new company, who allotted 2 crore equity shares of Rs.10 each at a premium of Rs.15 per share to the members of Notorola Limited in full settlement of the consideration, in proportion to their shareholding in the company. One of the members of the Notorola Limited was holding 52% shares of the company.

Assuming that, there are no other transactions, you are required to:

(i) Pass journal entries in the books of Notorola Limited.

(ii) Prepare the Balance Sheet of Notorola Limited after the entries in (i).

(iii) Prepare the Balance Sheet of Senovo Limited.

Balance Sheet prepared for (ii) and (iii) above should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013. Provide Notes to Accounts, for 'Other Equity' in case of (ii) and 'Share Capital' in case of (iii), only.

Solution :

(i) **Journal of Notorola Ltd.**

(Rs. In crore)

		Dr.	**Cr.**
Loan Funds	Dr.	600	
Current Liabilities	Dr.	800	
Provision for Depreciation	Dr.	800	
To Fixed Assets			1,000
To Current Assets			1,000
To Capital Reserve			200

(Being division B along with its assets and liabilities sold to Senovo Ltd. for Rs.50 crore)		

In the given scenario, this demerger will meet the definition of common control transaction. Accordingly, the transfer of assets and liabilities will be derecognized and recognized as per book value and the resultant loss or gain will be recorded as capital reserve in the books of demerged entity (Notorola Ltd).

Notes : Any other alternative set of entries, with the same net effect on various accounts, may also be given.

(ii) **Notorola Ltd.**

Balance Sheet after demerger

(Rs.in crore)

ASSETS	**Note No.**	**Amount**
Non-current assets		
Property, Plant and Equipment		50
Current assets		400
		450
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs.10 each)	1	50
Other equity	2	350
Liabilities		
Current liabilities		
Current liabilities		50
		450

Notes to Accounts

		Rs. in crore
1	**Equity Share Capital**	
	5 crore equity shares of face value of Rs.10 each	50
	Consequent to transfer of Division B to newly incorporated company Senovo Ltd., the members of the company have been allotted 2 crore equity shares of Rs.10 each at a premium of Rs.15 per share of Senovo Ltd., in full settlement of the consideration in proportion to their shareholding in the company	
2	**Other Equity**	
	Surplus (350 - 200)	150
	Add: Capital Reserve on reconstruction	200
		350

(iii) **Balance Sheet of Senovo Ltd.**

(Rs.in crore)

	Note No.	**Amount**
ASSETS		
Non-current assets		
Property, Plant and Equipment		200
Current assets		1,000

		1,200
EQUITY AND LIABILITIES		
Equity	1	20
Equity share capital (of face value of INR 10 each)	2	(220)
Other equity		
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings		600
Current liabilities		
Current liabilities		800
		1,200

Notes to Accounts

		(Rs. In crore)
1.	**Share Capital**	
	Issued and Paid-up capital	
	2 crore Equity shares of Rs.10 each fully paid up	20
	(All the above shares have been allotted to the members of Notorola Ltd. on takeover of Division B from Notorola Ltd. as fully paid-up pursuant to contract without payment being received in cash)	
2.	**Other Equity**	
	Securities Premium	30
	Capital reserve [50 - (1,200 – 1,400)]	(250)
		(220)

Question 3 **Nov 2018 - RTP**

ABC Ltd. prepares consolidated financial statements upto 31st March each year. On 1st July 2017, ABC Ltd. acquired 75% of the equity shares of JKL Ltd. and gained control of JKL Ltd. the issued shares of JKL Ltd. is 1,20,00,000 equity shares. Details of the purchase consideration are as follows:

– On 1st July, 2017, ABC Ltd. issued two shares for every three shares acquired in JKL Ltd. On 1st July, 2017, the market value of an equity share in ABC Ltd. was Rs.6.50 and the market value of an equity share in JKL Ltd. was Rs.6.

– On 30th June, 2018, ABC Ltd. will make a cash payment of Rs.71,50,000 to the former shareholders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 2017. On 1st July, 2017, ABC Ltd. would have to pay interest at an annual rate of 10% on borrowings.

– On 30th June, 2019, ABC Ltd. may make a cash payment of Rs.3,00,00,000 to the former shareholders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 2017. This payment is contingent upon the revenues of ABC Ltd. growing by 15% over the two-year period from 1st July, 2017 to 30th June, 2019. On 1st July, 2017, the fair value of this contingent consideration was Rs.2,50,00,000. On 31st March, 2018, the fair value of the contingent consideration was Rs.2,20,00,000.

On 1st July, 2017, the carrying values of the identifiable net assets of JKL Ltd. in the books of that company was Rs.6,00,00,000. On 1st July, 2017, the fair values of these net assets was Rs.7,00,00,000. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31st March, 2018, JKL Ltd. had a poorer than expected operating performance. Therefore, on 31st March, 2018 it was necessary for ABC Ltd. to recognise an impairment of the goodwill arising on acquisition of JKL Ltd., amounting to 10% of its total computed value.
Compute the impairment of goodwill in the consolidated financial statements of ABC Ltd. under both the methods permitted by Ind AS 103 for the initial computation of the non-controlling interest in JKL Ltd. at the acquisition date.

Solution :

Computation of goodwill impairment

	NCI at fair value	NCI at of net assets
	Rs. in '000	**Rs. in '000**
Cost of investment		
Share exchange (12,000 x 75% x 2/3 x Rs.6.50)	39,000	39,000
Deferred consideration (7,150 / 1.10)	6,500	6,500
Contingent consideration	25,000	25,000
Non-controlling interest at date of acquisition:		
Fair value – 3000 x Rs.6		18,000
% of net assets – 68,000 (Refer W.N.) x 25%		17,000
Net assets on the acquisition date (Refer W.N.)	(68,000)	(68,000)
Goodwill on acquisition	20,500	19,500
Impairment @ 10%	2,050	1,950

Working Note:

Net assets on the acquisition date	Rs. '000
Fair value at acquisition date	70,000
Deferred tax on fair value adjustments [20% x (70,000 – 60,000)]	(2,000)
	68,000

Question 4 **Nov 2018 - RTP**

Smart Technologies Inc. is a Company incorporated in India in 1998 having business in the field of development and installation of softwares, trading of computer peripherals and other IT related equipment and provision of cloud computing services along with other services incidental thereto. It is one of the leading brands in India.
After witnessing immense popularity and support in its niche market, Smart Technologies further grew by bringing its subsidiaries namely:

Company Name	Principle Activity
Cloudustries India Private Limited	Provision of cloud computing services.
Micro Fly India Private Limited	Trading of computer peripherals like mouse, keyboard, printer etc.

Smart Technologies started preparing its financial statements based on Ind AS from 1st April, 2015 on voluntary basis. The Microfly India Pvt. Ltd. is planning to merge the business of Cloudstries India Pvt. Ltd. with its own for which it presented before the members in the meeting the below extract of latest audited Balance Sheet of Cloudustries (prepared on the basis of Ind AS) for the year ended 31st March, 2017:

Balance Sheet as at March 31, 2017 **(Rs. in Crores)**

Assets	
Non-current assets	
Property, plant and Equipment	15.00
	15.00
Current Assets	
(a) Financial assets	
Trade Receivables	10.00
Cash and cash equivalents	10.00
Other current assets	8.00
	28.00
Total	**43.00**
Equity and Liabilities	
Equity	
Equity Share Capital	45.00
Other Equity	
Reserves and Surplus (Accumulated Losses)*	(24.80)
	20.20
Liabilities	
Non-current Liabilities	
Financial liabilities	
Borrowings	2.80
Current Liabilities	20.00
	22.80
Total	**43.00**

*The Tax Loss carried forward of the company is Rs.27.20 crores

On September 5, 2017, the merger got approved by the Directors. The purchase consideration payable by MicroFly to Cloudustries was fixed at Rs.18.00 crores payable in cash and that MicroFly take over all the assets and liabilities of Cloudustries.

Present the statement showing the calculation of assets/liabilities taken over as per Ind AS. Also mention the accounting of difference between consideration and assets/liabilities taken over.

Solution :

Before the merger, Cloudustries and MicroFly are the subsidiary of Smart Technologies Inc. As the control is not transitory, the proposed merger will fall under the category of Business combination of entities under common control, it will be accounted as per Appendix C of Ind AS 103 "Business Combination" and Pooling of Interest Method would be applied.

Statement showing the calculation of assets/liabilities taken over and treatment of difference between consideration and assets/liabilities taken over:

(a) Net asset taken over: **(Rs.in crore)**

Assets taken over:	
Property, Plant and Equipment	15.00
Cash and cash equivalents	10.00
Other current assets	8.00
Trade Receivables	10.00
Total - A	**43.00**

Less: Liabilities taken over:	
Borrowings	2.80
Current Liabilities	20.00
Total - B	**22.80**
Net Asset taken over (A-B)	**20.20**

(b) Treatment of difference between consideration and assets/liabilities taken over:

(Rs.in crore)

Net Asset taken over - A	20.20
Less: Purchase Consideration - B	18.00
Difference (A – B)	**1.80**

The difference between consideration and assets/liabilities taken over of ` 1.80 crore shall be transferred to capital reserve.

Question 5 **Nov 2018 - PAPER**

Moon Ltd. acquires 75% of Star Limited on 1st April, 2017 for consideration transferred rs.60 lakh. Moon Limited intends to recognize the Non-Controlling Interest (NCI) at proportionate share of fair value of identifiable assets. With the assistance of a suitably qualified valuation professional, Moon Limited measures the identifiable net assets of Star Limited at Rs.90 lakh. Moon Limited performs a review and determines that the business combination did not include any transactions that should be accounted for separately from the business combination.

State whether the procedures followed by Moon Limited and the resulting measurements are appropriate or not. Also calculate the bargain purchase gain in the process.

Solution :

The amount of Star Ltd.'s identifiable net assets exceeds the fair value of the consideration transferred plus the fair value of the NCI in Star Ltd.'s, resulting in an initial indication of a gain on a bargain purchase. Accordingly, Moon Ltd. reviews the procedures it used to identify and measure the identifiable net assets acquired, to measure the fair value of both the NCI and the consideration transferred, and to identify transactions that were not part of the business combination.

Following that review, Moon Ltd. can conclude that the procedures followed and the resulting measurements were appropriate.

	Rs.
Identifiable net assets	90,00,000
Less: Consideration transferred	(60,00,000)
NCI (90,00,000 × 25%)	(22,50,000)
Gain on bargain purchase	7,50,000

2019

Question 6 **May 2019 - RTP**

How should contingent consideration payable in relation to a business combination be accounted for on initial recognition and at the subsequent measurement as per Ind AS in the following cases:

(i) On 1 April 2016, A Ltd. acquires 100% interest in B Ltd. As per the terms of agreement the purchase consideration is payable in the following 2 tranches:

a. an immediate issuance of 10 lakhs shares of A Ltd. having face value of INR 10 per share;

b. a further issuance of 2 lakhs shares after one year if the profit before interest and tax of B Ltd. for the first year following acquisition exceeds INR 1 crore.

i. The fair value of the shares of A Ltd. on the date of acquisition is INR 20 per share. Further, the management has estimated that on the date of acquisition, the fair value of contingent consideration is Rs.25 lakhs.

ii. During the year ended 31 March 2017, the profit before interest and tax of B Ltd. exceeded Rs.1 crore. As on 31 March 2017, the fair value of shares of A Ltd. is Rs.25 per share.

(ii) Continuing with the fact pattern in (a) above except for:

c. The number of shares to be issued after one year is not fixed.

d. Rather, A Ltd. agreed to issue variable number of shares having a fair value equal to Rs.40 lakhs after one year, if the profit before interest and tax for the first year following acquisition exceeds Rs.1 crore. A Ltd. issued shares with Rs.40 lakhs after a year.

Solution :

Paragraph 37 of Ind AS 103, inter alia, provides that the consideration transferred in a business combination should be measured at fair value, which should be calculated as the sum of (a) the acquisition-date fair values of the assets transferred by the acquirer, (b) the liabilities incurred by the acquirer to former owners of the acquiree and (c) the equity interests issued by the acquirer.

Further, paragraph 39 of Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32 or other applicable Ind AS, i.e., for the rare case of non-financial contingent consideration. Paragraph 40 provides that the acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of Ind AS 32, Financial Instruments: Presentation. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.

(i) In the given case the amount of purchase consideration to be recognized **on initial recognition** shall be as follows:

Fair value of shares issued (10,00,000 x Rs.20)	Rs.2,00,00,000
Fair value of contingent consideration	Rs.25,00,000
Total purchase consideration	Rs.2,25,00,000

Subsequent measurement of contingent consideration payable for business combination

In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:

(a) There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavorable conditions (for the issuer of the instrument).

(b) If the instrument will or may be settled in the issuer's own equity instruments, then it is:

(i) a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or

(ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfilment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.

Here, the obligation to pay contingent consideration amounting to `25,00,000 is recognized as a part of equity and therefore not re-measured subsequently or on issuance of shares.

(ii) The amount of purchase consideration to be recognized **<u>on initial recognition</u>** is shall be as follows:

Fair value shares issued (10,00,000 × Rs.20)	Rs.2,00,00,000
Fair value of contingent consideration	Rs.25,00,000
Total purchase consideration	Rs.2,25,00,000

<u>Subsequent measurement of contingent consideration payable for business combination</u>

The contingent consideration will be classified as liability as per Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration not classified as equity should be measured at fair value at each reporting date and changes in fair value should be recognized in profit or loss.

As at 31 March 2017, (being the date of settlement of contingent consideration), the liability would be measured at its fair value and the resulting loss of Rs.15,00,000 (Rs.40,00,000 – Rs.25,00,000) should be recognized in the profit or loss for the period. A Ltd. would recognize issuance of 160,000 (Rs.40,00,000/25) shares at a premium of Rs.15 per share.

Question 7 **May 2019 - PAPER**

No Question

Question 8 **Nov 2019 - RTP**

H Ltd. acquired equity shares of S Ltd., a listed company, in two tranches as mentioned in the below table:

Date	Equity stake purchased	Remarks
1st November, 20X6	15%	The shares were purchased based on the quoted price on the stock exchange on the relevant dates.
1st January, 20X7	45%	

Both the above-mentioned companies have Rupees as their functional currency. Consequently, H Ltd. acquired control over S Ltd. on 1st January, 20X7. Following is the Balance Sheet of S Ltd. as on that date:

	(Rs.in crore)	(Rs.in crore)
ASSETS:		
<u>Non-current assets</u>		
(a) Property, plant and equipment	40.0	90.0
(b) Intangible assets	20.0	30.0

(c) Financial assets		
- Investments	100.0	350.0
Current assets		
(a) Inventories		
(b) Financial assets	20.0	20.0
- Trade receivables		
- Cash held in functional	20.0	20.0
Currency	4.0	4.5
(c) Other current assets		
Non-current asset held for sale	4.0	4.5
TOTAL ASSETS	208	
EQUITY AND LIABILITIES:		
Equity		
(a) Share capital (face value Rs.100)	12.0	50.4
(b) Other equity	141.0	Not applicable
Non-current liabilities		
(a) Financial liabilities		
- Borrowings	20.0	20.0
Current liabilities		
(a) Financial liabilities		
- Trade payables	28.0	28.0
(b) Provision for warranties	3.0	3.0
(c) Current tax liabilities	4.0	4.0
TOTAL EQUITY AND LIABILITIES	208.0	

Other information :

Property, plant and equipment in the above Balance Sheet include leasehold motor vehicles having carrying value of Rs.1 crore and fair value of Rs.1.2 crore. The date of inception of the lease was 1st April, 20X0. On the inception of the lease, S Ltd. had correctly classified the lease as a finance lease. However, if facts and circumstances as on 1st April, 20X7 are considered, the lease would be classified as an operating lease.

Following is the statement of contingent liabilities of S Ltd. as on 1st January, 20X7:

Particulars	Fair value (Rs. in crore)	Remarks
Law suit filed by a customer for a claim of Rs.2 crore	0.5	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. Any amount which would be paid in respect of law suit will be tax deductible.
Income tax demand of Rs.7 crore raised by tax authorities; S Ltd. has challenged the demand in the court.	2.0	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

In relation to the above-mentioned contingent liabilities, S Ltd. has given an indemnification undertaking to H Ltd. up to a maximum of Rs.1 crore.

Rs.1 crore represents the acquisition date fair value of the indemnification undertaking.

Any amount which would be received in respect of the above undertaking shall not be taxable.

The tax bases of the assets and liabilities of S Ltd. is equal to their respective carrying values being recognised in its Balance Sheet.

Carrying value of non-current asset held for sale of Rs.4 crore represents its fair value less cost to sell in accordance with the relevant Ind AS.

In consideration of the additional stake purchased by H Ltd. on 1st January, 20X7, it has issued to the selling shareholders of S Ltd. 1 equity share of H Ltd. for every 2 shares held in S Ltd. Fair value of equity shares of H Ltd. as on 1st January, 20X7 is Rs.10,000 per share.

On 1st January, 20X7, H Ltd. has paid Rs.50 crore in cash to the selling shareholders of S Ltd. Additionally, on 31st March, 20X9, H Ltd. will pay Rs.30 crore to the selling shareholders of S Ltd. if return on equity of S Ltd. for the year ended 31st March, 20X9 is more than 25% per annum. H Ltd. has estimated the fair value of this obligation as on 1st January, 20X7 and 31st March, 20X7 as Rs.22 crore and Rs.23 crore respectively. The change in fair value of the obligation is attributable to the change in facts and circumstances after the acquisition date.

Quoted price of equity shares of S Ltd. as on various dates is as follows:

As on November, 20X6	Rs.350 per share
As on 1st January, 20X7	Rs.395 per share
As on 31st March, 20X7	Rs.420 per share

On 31st May, 20X7, H Ltd. learned that certain customer relationships existing as on 1st January, 20X7, which met the recognition criteria of an intangible asset as on that date, were not considered during the accounting of business combination for the year ended 31st March, 20X7. The fair value of such customer relationships as on 1st January, 20X7 was Rs.3.5 crore (assume that there are no temporary differences associated with customer relations; consequently, there is no impact of income taxes on customer relations).

On 31st May, 20X7 itself, H Ltd. further learned that due to additional customer relationships being developed during the period 1st January, 20X7 to 31st March, 20X7, the fair value of such customer relationships has increased to Rs.4 crore as on 31st March, 20X7.

On 31st December, 20X7, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and that more information is not obtainable.

H Ltd. and S Ltd. are not related parties and follow Ind AS for financial reporting. Income tax rate applicable is 30%.

You are required to provide your detailed responses to the following, along with reasoning and computation notes:

(a) What should be the goodwill or bargain purchase gain to be recognised by H Ltd. in its financial statements for the year ended 31st March, 20X7. For this purpose, measure non-controlling interest using proportionate share of the fair value of the identifiable net assets of S Ltd.

(b) Will the amount of non-controlling interest, goodwill, or bargain purchase gain so recognised in (a) above change subsequent to 31st March, 20X7? If yes, provide relevant journal entries.

(c) What should be the accounting treatment of the contingent consideration as on 31st March, 20X7?

Solution :

(i) As an only exception to the principle of classification or designation of assets as they exist at the acquisition date is that for lease contract and insurance contracts classification which will be based on the basis of the conditions existing at inception and not on acquisition date.

Therefore, H Ltd. would be required to retain the original lease classification of the lease arrangements and thereby recognise the lease arrangements as finance lease.

(ii) The requirements in Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', do not apply in determining which contingent liabilities to recognise as of the acquisition date as per Ind AS 103 'Business Combination'. Instead, the acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to Ind AS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Hence H Ltd. will recognize contingent liability of Rs.2.5 cr.

Since S Ltd. has indemnified for Rs.1 cr., H Ltd. shall recognise an indemnification asset at the same time for Rs.1 cr.

As per the information given in the question, this indemnified asset is not taxable. Hence, its tax base will be equal to its carrying amount. No deferred tax will arise on it.

(iii) As per Ind AS 103, non-current assets held for sale should be measured at fair value less cost to sell in accordance with Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'. Therefore, its carrying value as per balance sheet has been considered in the calculation of net assets.

(iv) Any equity interest in S Ltd. held by H Ltd. immediately before obtaining control over S Ltd. is adjusted to acquisition-date fair value. Any resulting gain or loss is recognised in the profit or loss of H Ltd.

Calculation of purchase consideration as per Ind AS 103

Rs. in lakh

Investment in S Ltd.			
On 1st Nov. 20X6	15%	[(12/100) × 395 × 15%]	7.11
On 1st Jan. 20X7	45%		
Own equity given		10,000 × 12% × 45% × ½	270
Cash			50
Contingent consideration			22
			349.11

(v) Calculation of deferred tax on assets and liabilities acquired as part of the business combination, including current tax and goodwill.

Item	**Rs. in crore**				
	Book value	**Fair value**	**Tax base**	**Taxable (deductible) temporary difference**	**Deferred tax assets (liability) @ 30%**
Property, plant and equipment	40	90	40	50	(15)
Intangible assets	20	30	20	10	(3)
Investments	100	350	100	250	(75)
Inventories	20	20	20	-	-
Trade receivables	20	20	20	-	-
Cash held in functional currency	4	4	4	-	-
Non-current asset held for sale	4	4	4	-	-

Indemnified asset	-	1	1	-	-
Borrowings	20	20	20	-	-
Trade payables	28	28	28	-	-
Provision for warranties	3	3	3	-	-
Current tax liabilities	4	4	4	-	-
Contingent liability		0.5	-	(0.5)	0.15
Deferred tax Liability					(92.85)

(vi) Calculation of identifiable net assets acquired

	Rs.in crore	Rs.in crore
Property, plant and equipment	90	519
Intangible assets	30	-150.35
Investments	350	368.65
Inventories	20	
Trade receivables	20	
Cash held in functional currency	4	
Non-current asset held for sale	4	
Indemnified asset	1	
Total asset		519
Less: Borrowings	20	
Trade payables	28	
Provision for warranties	3	
Current tax liabilities	4	
Contingent liability (2 + 0.5)	2.50	
Deferred tax liability (W.N.2)	92.85	(150.35)
Net identifiable assets		368.65

(a) **Calculation of NCI by proportionate share of net assets**

Net identifiable assets of S Ltd. on 1.1.20X7 (Refer W.N.3) = 372.85 crore

NCI on 1.1.20X7 = 368.65 crore × 40% = 147.46 crore

Calculation of Goodwill as per Ind AS 103

Goodwill on 1.1.20X7 = Purchase consideration + NCI – Net assets

= 349.11 + 147.46 – 368.65

= 127.92 crore

(b) As per para 45 of Ind AS 103 'Business Combination', if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Further, as per para 46 of Ind AS 103, the measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Ind AS:

(a) the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;

(b) .....

(c) ……; and

(d) the resulting goodwill or gain on a bargain purchase.

Para 48 states that the acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by means of a decrease (increase) in goodwill.

Para 49 states that during the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date.

Para 50 states that after the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

On 31st December, 20X7, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and the more information is not obtainable. Therefore, the measurement period for acquisition of S Ltd. ends on 31st December, 20X7.

On 31st May, 20X7 (ie within the measurement period), H Ltd. learned that certain customer relationships existing as on 1st January, 20X7 which met the recognition criteria of an intangible asset as on that date were not considered during the accounting of business combination for the year ended 31st March, 20X7. Therefore, H Ltd. shall account for the acquisition date fair value of customer relations existing on 1st January, 20X7 as an identifiable intangible asset. The corresponding adjustment shall be made in the amount of goodwill.

Accordingly, the amount of goodwill will be changed due to identification of new asset from retrospective date for changes in fair value of assets and liabilities earlier recognised on provisional amount (subject to meeting the condition above for measurement period). NCI changes would impact the consolidated retained earnings (parent's share). Also NCI will be increased or decreased based on the profit during the post-acquisition period.

Journal entry

Customer relationship	Dr.	3.5 crore	
To NCI			1.4 crore
To Goodwill			2.1 crore

However, the increase in the value of customer relations after the acquisition date shall not be accounted by H Ltd., as the customer relations developed after 1st January, 20X7 represents internally generated intangible assets which are not eligible for recognition on the balance sheet.

(c) Since the contingent considerations payable by H Ltd is not classified as equity and is within the scope of Ind AS 109 'Financial Instruments', the changes in the fair value shall be recognised in profit or loss. Change in Fair value of contingent consideration (23-22) ` 1 crore will be recognized in the Statement of Profit and Loss.

Question 9 **Nov 2019 - PAPER**

The Balance sheet of David Ltd. and Parker ltd as on 31st march, 2019 is given below :

(Rs. in lakhs)

Assets	**David Ltd.**	**Parker Ltd.**
Non-Current Assets :		
Property, plant and equipment	400	600
Investment	300	200
Current assets :		
Inventories	300	100
Financial Assets		
Traders receivables	400	200
Cash and cash equivalent	150	200
Others	300	300
Total	**1,850**	**1,600**
Equity and Liabilities		
Equity		
Share capital-Equity shares of Rs.100 each for Parker Ltd & Rs.10 each for David Limited	500	400
Other Equity	700	275
Non-Current liabilities :		
Long term borrowings	200	300
Long term provisions	100	80
Deferred Tax	20	55
Current Liabilities :		
Short term borrowings	130	170
Trade payables	200	320
Total	**1,820**	**1,600**

Other information :

(i) David Ltd. acquired 70% shares of Parker Ltd. on 1st April, 2019 by issuing its own shares in the ratio of 1 share of David Ltd. for every 2 shares of Parker Ltd. The fair value of the shares of David Ltd. was Rs.50 per share.

(ii) The fair value exercise resulted in the following :

(1) Fair value of property, plant and equipment (PPE) on 1st April, 2019 was Rs.450 lakhs.

(2) David Ltd. agreed to pay an additional payment as consideration that is higher of Rs.30 lakh and 255 of any excess profits in the first year after acquisition, over its profits in the preceding 12 months made by Parker Ltd. This additional amount will be due after 3 years.

Parker Ltd. has earned Rs.20 lakh profit in the preceding year and expects to earn another Rs.10 Lakh.

(3) In addition to above, David Ltd. also has agreed to pay one of the founder shareholder-Director a payment of Rs.25 lakhs provided he says with the Company for two years after the acquisition.

(4) Parker Ltd. had certain equity settled share-based payment award (original award) which got replaced by the new awards issued by David Ltd. As per the original term the vesting period was 4 years and as of the acquisition date the employees of Parker Ltd. have already served 2 years of service. As per the replaced awards, the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows

Original award – Rs.6 lakhs

Replacement award – Rs.9 lakhs

(5) Parker Ltd. had a lawsuit pending with a customer who had made a claim of Rs.35 lakhs. Management reliably estimated the fair value of the liability to be Rs.lakhs

(6) The applicable tax rate for both entities is 40%.

You are required to prepare opening consolidated balance sheet of David Ltd. as on 1st April, 2019 along with workings. Assume discount rate of 8%.

2020

Question 10 **May 2020 - RTP**

No Question

IND AS 110 - CONSOLIDATION OF FINANCIAL STATEMENTS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	YES	YES	YES
2019	YES	NO	YES	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

Hold Limited acquired 100% ordinary shares of Rs.100 each of Sub Limited on 1st October, 2017. On 31st March, 2018 the summarized Balance Sheets of the two companies were as given below:

	Particulars	Hold Limited (Rs.)	Sub Limited (Rs.)
I.	**Assets**		
	(1) Non-current Assets		
	(i) Property, Plant & Equipment		
	(a) Land & Building	30,00,000	36,00,000
	(b) Plant & machinery	48,00,000	27,00,000
	(ii) Investment in Sub Limited	68,00,000	
	(2) Current Assets		
	(i) Inventory	24,00,000	7,28,000
	(ii) Financial Assets		
	(a) Trade Receivables	11,96,000	8,00,000
	(b) Cash & Cash Equivalents	2,90,000	1,60,000
	Total	**1,84,86,000**	**79,8,000**
II.	**Equity and Liabilities**		
	(1) Equity		
	(i) Equity Share Capital (Shares of Rs.100 each fully paid)	1,00,00,000	40,00,000
	(ii) Other Equity		
	(a) Other Reserves	48,00,000	20,00,000
	(b) Retained Earnings	11,44,000	16,40,000

	(2) Current Liabilities		
	Financial Liabilities		
	(a) Bank Overdraft	16,00,000	-
	(b) Trade Payable	9,42,000	3,48,000
		1,84,86,000	**79,88,000**

The retained earnings of Sub Limited showed a credit balance of Rs.6,00,000 on 1st April, 2017 out of which a dividend of 10% was paid on 1st November 2017. Hold Limited has credited the dividend received to retained earnings account. There was no fresh addition to other reserves in case of both companies during the current financial year. There was no opening balance in the retained earnings in the books of Hold Limited.

Following are the changes in fair value as per respective Ind AS from the book value as on 1st October, 2017 in the books of Sub Limited which is to be considered while consolidating the Balance Sheets.

(i) Fair value of Plant and Machinery was Rs.40,00,000. (Rate of depreciation on Plant and Machinery is 10% p.a.)

(ii) Land and Building appreciated by Rs.20,00,000.

(iii) Inventories increased by Rs.3,00,000.

(iv) Trade payable increased by Rs.2,00,000.

Prepare Consolidated Balance Sheet as on 31st March, 2018. The Balance Sheet should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013.

Solution :

Consolidated Balance Sheet of Hold Ltd. and its subsidiary, Sub Ltd.
As on 31st March, 2018

Particulars	Rs.
Assets	
(1) Non-current assets	
Property, Plant & Equipment	1,72,00,000
Goodwill	
(2) Current Assets	
Inventories	34,28,000
Financial Assets	
Trade Receivables	19,96,000
Cash & Cash equivalents	4,50,000
Total	**2,30,74,000**
Equity and Liabilities	
Equity	
Share Capital	1,00,00,000
Other Equity	99,84,000
Liability	
(1) Non Current Liabilities	
(2) Current Liabilities	
Financial Liabilities	
Short term borrowings	16,00,000

Trade Payables	14,90,000
Total	**2,30,74,000**

Working Notes :

1. Calculation of goodwill

	Rs.
Consideration Paid	68,00,000
Fair value of Net Assets (40,00,000 + 4,00,000 + 61,70,000)	1,05,70,000
Goodwill gain from bargain purchase	37,70,000

2. Statement for changes in equity

	Sh.Cap	**Other Equity**	**Total**
OP.	1,00,00,000	59,44,000	1,59,44,000
-Div.	-	(4,00,000)	(2,00,000)
+ Gain	-	37,70,000	37,70,000
+ Reserves of Subsidiary	-	6,70,000	6,70,000
	1,00,00,000	**99,84,000**	**1,99,84,000**

3. Reserves of Subsidiary

Res.	20,00,000	Pre	RF	16,40,000		
		1/4	6,00,000		14,40,000	
		–Div.	4,00,000			
		Pre.	2,00,000	7,20,000		7,20,000
				Pre		Post

Pre	29,20,000	Post	7,20,000
+ Plant	11,50,000	-Dep.	50,000
+ L & B	20,00,000		6,70,000
+ Inventory	3,00,000		
– TP	(2,00,000)		
	61,70,000		

4. PPE

L &B	Hold	30,00,000
	Sub. (36,00,000 + 20,00,000)	56,00,000
P & M	Hold	48,00,000
	Sub. (27,00,000 + 11,50,000 – 50,000)	38,00,000
		1,72,00,000

	CP	**RP**
1/4/17	30,00,000	
–Dep.	1,50,000	

30/9/17	28,50,000	40,00,000
–Dep.	1,50,000	2,00,000
31/3/18	27,00,000	38,00,000

5. Inventory

Hold	24,00,000
Sub. (7,28,000 + 3,00,000)	10,28,000
	34,28,000

6. Trade Payable

Hold	9,42,000
Sub. (3,48,000 + 2,00,000)	5,48,000
	14,90,000

Question 3 **May 2018 - PAPER**

XYZ Limited acquired 70% of equity shares of TUV Limited on 1st April, 2010 at cost of Rs.20,00,000 when TUV Limited had an equity share capital of Rs.20,00,000 and reserve and surplus of Rs.1,60,000. In the four consecutive years, TUV Limited, fared badly and suffered losses of Rs.5,00,000, Rs.8,00,000, Rs.10,00,000 and Rs.2,40,000 respectively. Thereafter in 2014-15, TUV Limited, experienced turnaround and registered an annual profit of Rs.1,00,000. In the next two years i.e. 2015-16 and 2016-17, TUV Limited recorded annual profits of Rs.2,00,000 and Rs.3,00,000 respectively. Calculate the Non controlling interests and cost of control at the end of each year for the purpose of consolidation, as per Ind AS 110 "Consolidated Financial Statements".

Solution :

1) Date of Acquisition 1/4/2010

Acquirer – XYZ Ltd.
Acquiree – TUV Ltd.
% Acquired = 705
NCI = 30%

2) Calculation of cost of control on 1/1/2010

Consideration paid (70%)	20,00,000
+ NCI (At Proportional share) (30%)	6,48,000
	26,48,000
– FV of NA (20,00,000 + 1,60,000) (100%)	21,60,000
Goodwill	4,88,000

3) NCI and Cost of Control at end of each year as per Ind AS 110.

Details	P/L	NCI	Holding	Goodwill
01/04/2010	-	6,48,000	-	4,88,000
2010-11	(5,00,000)	(1,50,000)	(3,50,000)	-
31/3/2011	-	4,98,000	-	4,88,000

2011-12	(8,00,000)	(2,40,000)	(5,60,000)	-
31/3/2012	-	2,58,000	-	4,88,000
2012-13	(10,00,000)	(3,00,000)	(7,00,000)	-
31/3/2013	-	(42,000)	-	4,88,000
2013-14	(2,40,000)	(72,000)	(1,68,000)	-
3/3/2014	-	(1,14,000)	-	4,88,000
2014-15	1,00,000	30,000	70,000	-
31/3/2015	-	(84,000)	-	4,88,000
2015-16	2,00,000	60,000	1,40,000	-
31/3/2016	-	(24,000)	-	4,88,000
2016-17	3,00,000	90,000	2,10,000	-
31/3/2017	-	66,000	-	4,88,000

Note :

1) P/L in subsequent yrs after acquisition does not have any impact on goodwill. Goodwill should be checked for impairment every year.
2) As per Ind AS 21 loss of subsidiary should be born by holding and minority interest will not be shown negative.

Question 4 **Nov 2018 - RTP**

Sumati Ltd. acquired 100% (50,00,000) equity shares of Rs.10 each in Sheetal Ltd. on 1st April, 2014. Sheetal Ltd. was incorporated on 1st April, 2014.

Sumati Ltd. acquired 80% (24,00,000) equity shares in Dharam Ltd. for Rs.600 lakh on 1st April, 2014 when Dharam Ltd. had share capital of Rs.300 lakh and Reserves and Surplus of Rs.300 lakh.

The company amortizes goodwill on consolidation on a SLM basis over a period of 5 years. A full year's amortization is considered if the goodwill exists for more than 6 months.

On 1st April, 2017, Sumati Ltd. sold 12,00,000 equity shares of Dharam Ltd. for cash consideration of Rs.360 lakh with recognition of profit arising out of this sale.

The net assets of Dharam Ltd. on 31st March, 2017 were Rs.700 lakh. The amount of Reserves and Surplus was Rs.880 lakh, Rs.720 lakh and Rs.480 lakh respectively of Sumati Ltd., Sheetal Ltd. and Dharam Ltd. on 31st March, 2017.

The Balance Sheet extracts of the companies as on 31st March, 2018 were as follows:

(Rs.in lakh)

	Sumati Ltd.	**Sheetal Ltd.**	**Dharam Ltd.**
Share Capital (Rs.10 each)	1000	500	300
Reserves and Surplus	1240	910	640
Current Liabilities	460	490	560
	2700	**1900**	**1500**
Fixed Assets	640	420	380
50,00,000 equity shares in Sheetal Ltd.	500		
12,00,000 equity shares in Dharam Ltd.	300		

Current Assets	1260	1480	1120
	2700	**1900**	**1500**

You are required to prepare for Sumati Ltd. Group Balance Sheet as on 31st March, 2018 following Ind AS 110 and Ind AS 111. Notes to Accounts and working notes should form part of your answer.

Solution :

Consolidated Balance Sheet as on 31.3.2018

Particulars	**Note No.**	**(Rs. in lakh)**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,000
(b) Reserves and Surplus	2	2,206
(2) Current Liabilities	3	950
Total		**4,156**
II. Assets		
(1) Non-current assets		
Fixed Assets	4	1,060
Non-current investment (Investment in Associate Dharam Ltd.)	5	356
(2) Current assets	6	2,740
Total		**4,156**

Notes to Accounts

		Rs. In lakhs	
1	Share Capital		
	100 lakh Equity shares of Rs.10 each fully paid up		1,000
2	Consolidated Reserves and Surplus as on 31.3.2018		
	Balance of Reserves and surplus of Sumati Ltd. as on 31.3.2018	1,240	
	Add: Post-acquisition reserves and surplus of Sheetal Ltd. (subsidiary)	910	
	Profit accumulated over the years on investment of Sumati Ltd. (304-300)	4	
	Post-acquisition reserves and surplus of Dharam Ltd. (640-480) x 40%	64	
	Less: Goodwill amortised for the period (24/2)	12	2,206
3	Current Liabilities		
	Sumati Ltd.	460	
	Sheetal Ltd.	490	950
4	Fixed Assets		
	Sumati Ltd.	640	
	Sheetal Ltd.	420	1,060
5	Non-current investment (Investment in Associate Dharam Ltd.)		
	Carrying amount of Investment in Associate. [W.N.2]	304	
	(Identified goodwill included in the above ` 24 lakh) [W.N.3]		

	Add: Increase in reserves and surplus during the year (640-480) x 40%	64	
	Less: Goodwill written off in the fourth year (` 24 lakh x ½)	(12)	356
6	Current assets		
	Sumati Ltd.	1,260	
	Sheetal Ltd.	1,480	2,740

Working Notes:

1. Cost of Control on acquisition of shares in Dharam Ltd. and amortization of goodwill

	Rs. In lakhs
Investment by Sumati Ltd.	600
Less: Share capital (300 x 80%)	(240)
Capital profit (pre-acquisition) (300 x 80%)	(240)
Goodwill	120
Less: Amortization for 3 years [(120/5) x3]	(72)
Carrying value of goodwill after 3 years	48

2. Ascertainment of carrying value of investment in Dharam Ltd. disposed off and retained

	Rs. In lakh
Net Assets of Dharam Ltd. on the date of disposal	700
Less: Minority's interest in Dharam Ltd. on the date of disposal (700 x 20%)	(140)
Share of Sumati Ltd. in Net Assets	560
Add: Carrying value of Goodwill (Refer W.N.1)	48
Total value of investment in Dharam Ltd. as on 1.4.2017	608
Less: Carrying Value of investment disposed off [Rs.608 lakh x (12 lakh /24 lakh)]	(304)
Carrying Value of investment retained by Sumati Ltd.	304

3. Goodwill arising on the Carrying Value of Unsold Portion of the Investment

	Rs. In lakh
Carrying value of retained 40% holdings in Dharam Ltd. as on 1st April, 2017	304
Less: Share in value of equity of Dharam Ltd., as at date of investment when its subsidiary relationship is transformed to an associate (700 x 40%)	(280)
Goodwill arising on such investment under Equity method as per AS 23	(24)

Question 5 — **Nov 2018 - PAPER**

Prepare the Consolidated Balance Sheet as on 31st March, 2018 of a group of companies comprising Usha Limited, Nisha Limited and Sandhya Limited. Their summarized balance sheets on that date are given below:

Amounts Rs.in lakh

	Usha Ltd.	Nisha Ltd.	Sandhya Ltd.
Equity and Liabilities			
Shareholder's Equity			

Share capital (Rs.10 per share)	300	200	160
Reserves	90	50	40
Retained earnings	80	25	30
Current Liabilities			
Trade Payables	235	115	90
Bills Payable			
Usha Ltd.	-	35	-
Sandhya Ltd.	15	-	-
	720	**425**	**320**
Assets			
Non-Current Assets			
Tangible assets	160	180	150
Investment:			
16 lakh shares in Nisha Ltd.	170	-	-
12 lakh shares in Sandhya Ltd.	-	140	-
Current Assets			
Cash in hand and at Bank	114	20	20
Bills Receivable	36	-	15
Trade Receivables	130	50	110
Inventories	110	35	25
	720	**425**	**320**

The following additional information is available:

(i) Usha Ltd. holds 80% shares in Nisha Ltd. and Nisha Ltd. holds 75% shares in Sandhya Ltd. Their holdings were acquired on 30th September, 2017.

(ii) The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

(iii) On 1st April, 2017, the following balances stood in the books of Nisha Limited and Sandhya Limited.

Rs.in lakh

	Nisha Ltd.	**Sandhya Ltd.**
Reserves	40	30
Retained Earnings	10	15

(iv) Rs.5 Lakh included in the inventory figure of Nisha Limited, is inventory which has been purchased from Sandhya Limited at cost plus 25%.

(v) The parent company has adopted an accounting policy to measure Non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of Nisha Limited and Sandhya Limited are the same as respective face values.

(vi) The capital profit preferably is to be adjusted against cost of control.

Note: Analysis of profits and notes to accounts must be a part of your answer.

Solution :

1) Usha in Nisha = 80%

Nisha in Sandhya = 75% NCI = 25%

Usha in Sandhya = 80 × 75% = 60% NCI = 40%

2) Consolidated Balance Sheet as on 31/3/2018.

Particulars	Rs.
Assets	
1) **NCA**	
PPE	490
Goodwill	
2) **CA**	
Inventory (170 – 1)	169
FA	
Trade Receivable (290 + 1)	291
Cash and Cash Equivalent	154
Total	**1,104**
Equity and Liabilities	
Equity	
Share Capital	300
Other Equity	280.9
NCI	83.1
Liabilities	
1) NCC	–
2) CL	
FL – Trade payable	440
Total	**1,104**

Working Notes :

1) Calculation of goodwill

	Nisha	Sandhya
Consideration paid	170	112
+ NCI		
Nisha (200 × 20%)	40	64
Sandjya (160 × 40%)	210	176
Fair value of Net Assets		
Nisha (200 + 62.5)	262.5	–
Sandhya (160 + 57.5)		217.5
Goodwill / Capital Reserve	52.5	41.5
Total	**94**	

2) State for Charge in Equity

Detail	Share Capital	Other Equity	Total	NCI	NCI	Total

OP.	300	170	470	40	64	574
+ Capital Reserve	–	94	94	–	–	94
+ Reserve in Nisha	–	10	10	2.5	–	12.5
+ Reserve in Sandhya	–	6.9	6.9	–	4.6	11.5
– NCI	–	–	–	(28)	–	(28)
	300	280.9		14.5	68.6	

3) Reserves of subsidiary

Nisha Ltd. Reserves 50

Pre 40 10

Pre 5 5 Post

Retained Earnings 25

Pre 10 15

Pre 7.5 7.5 Post

Total Pre 62.5 Post 12.5

↓

W.N.1

10 2.5

Holding NCI

Sandhya Ltd. Reserves 40

Pre 30 10

Pre 5 5 Post

Retained Earnings 30

Pre 15 15

Pre 7.5 7.5 Post

Total Pre 57.5 Post 12.5

↓ – Inventory (1)

W.N.1 11.5

10 2.5

Holding NCI

2019

Question 6 **May 2019 - RTP**

Angel Ltd. has adopted Ind AS with a transition date of 1st April, 2017. Prior to Ind AS adoption, it followed Accounting Standards notified under Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as "IGAAP").

It has made investments in equity shares of Pharma Ltd., a listed company engaged in the business of pharmaceuticals. The shareholding pattern of Pharma Ltd. is given below:

Shareholders (refer Note 1)	Percentage shareholding as on 1st April, 2017
Angel Ltd.	21%
Little Angel Ltd. (refer Note 2)	24%
Wealth Master Mutual Fund (refer Note 3)	3%
Individual public shareholders (refer Note 4)	52%

Notes:

(1) None of the shareholders have entered into any shareholders' agreement.

(2) Little Angel Ltd. is a subsidiary of Angel Ltd. (under Ind AS) in which Angel Ltd. holds 51% voting power.

(3) Wealth Master Mutual Fund is not related party of either Little Angel Ltd. or Pharma Ltd.

(4) Individual public shareholders represent 17,455 individuals. None of the individual shareholders hold more than 1% of voting power in Pharma Ltd.

All commercial decisions of Pharma Ltd. are taken by its directors who are appointed by a simple majority vote of the shareholders in the annual general meetings ("AGM"). The following table shows the voting pattern of past AGMs of Pharma Ltd.:

Shareholders	AGM for the financial year		
	2013-14	2014-15	2015-16
Angel Ltd.	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions

Little Angel Ltd.	Attended and voted as per directions of Angel Ltd.	Attended and voted as per directions of Angel Ltd	Attended and voted as per directions of Angel Ltd
Wealth Master Mutual Fund	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors
Individuals	7% of the individual shareholders attended the AGM. All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors.	8% of the individual shareholders attended the AGM. All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors.	6% of the individual shareholders attended the AGM. All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors.

Pharma Ltd. has obtained substantial long term borrowings from a bank. The loan is payable in 20 years from 1st April, 2017. As per the terms of the borrowing, following actions by Pharma Ltd. will require prior approval of the bank :

- Payment of dividends to the shareholders in cash or kind;
- Buyback of its own equity shares;
- Issue of bonus equity shares;
- Amalgamation of Pharma Ltd. with any other entity; and
- Obtaining additional loans from any entity.

Recently, the Board of Directors of Pharma Ltd. proposed a dividend of ` 5 per share. However, when the CFO of Pharma Ltd. approached the bank for obtaining their approval, the bank rejected the proposal citing concerns over the short-term cash liquidity of Pharma Ltd. Having learned about the developments, the Directors of Angel Ltd. along with the Directors of Little Angel Ltd. approached the bank with a request to re-consider its decision. The Directors of Angel Ltd. and Little Angel Ltd. urged the bank to approve a reduced dividend of at least ` 2 per share. However, the bank categorically refused to approve any payout of dividend.

Under IGAAP, Angel Ltd. has classified Pharma Ltd. as its associate. As the CFO of Angel Ltd., you are required to comment on the correct classification of Pharma Ltd. on transition to Ind AS.

Solution :

To determine whether Pharma Limited can be continued to be classified as an associate on transition to Ind AS, we will have to determine whether Angel Limited controls Pharma Limited as defined under Ind AS 110.

An investor controls an investee if and only if the investor has all the following:

(a) Power over investee

(b) Exposure, or rights, to variable returns from its involvement with the investee

(c) Ability to use power over the investee to affect the amount of the investor's returns.

Since Angel Ltd. does not have majority voting rights in Pharma Ltd. we will have to determine whether the existing voting rights of Angel Ltd. are sufficient to provide it power over Pharma Ltd.

Analysis of each of the three elements of the definition of control:

Elements / conditions	**Analysis**
Power over investee	Angel Limited along with its subsidiary Little Angel Limited (hereinafter referred to as "the Angel group") does not have majority voting rights in Pharma Limited. Therefore, in order to determine whether Angel group have power over Pharma Limited. we will need to analyse whether Angel group, by virtue of its non-majority voting power, have practical ability to unilaterally direct the relevant activities of Pharma Limited. In other words, we will need to analyse whether Angel group has **de facto power** over Pharma Limited. Following is the analysis of de facto power of Angel over Pharma Limited: - The public shareholding of Pharma Limited (that is, 52% represents thousands of shareholders none individually holding material shareholding, - The actual participation of Individual public shareholders in the general meetings is minimal (that is, in the range of 6% to 8%). - Even the public shareholders who attend the meeting do not consult with each other to vote. - Therefore, as per guidance of Ind AS 110, the public shareholders will not be able to outvote Angel group (who is the largest shareholder group) in any general meeting. Based on the above-mentioned analysis, we can conclude that Angel group has de facto power over Pharma Limited.
Exposure, or rights, to variable returns from its involvement with the investee	Angel group has exposure to variable returns from its involvement with Pharma Limited by virtue of its equity stake.
Ability to use power over the investee to affect the amount of the investor's returns	Angel group has ability to use its power (in the capacity of a principal and not an agent) to affect the amount of returns from Pharma Limited because it is in the position to appoint directors of Pharma Limited who would take all the decisions regarding relevant activities of Pharma Limited. Here, it is worthwhile to evaluate whether certain rights held by the bank would prevent Angel Limited's ability to use the power over Pharma Limited to affect its returns. It is to be noted that, all the rights held by the bank in relation to Pharma Limited are protective in nature as

	they do not relate to the relevant activities (that is, activities that significantly affect he Pharma Limited's returns) of Pharma Limited. As per Ind AS 110, protective rights are the rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate. Therefore, the protective rights held by the bank should not be considered while evaluating whether or not Angel Group has control over Pharma Limited.
Conclusion : Since all the three elements of definition of control is present, it can be concluded that Angel Limited has control over Pharma Limited.	

Since it has been established that Angel Limited has control over Pharma Limited, upon transition to Ind AS, Angel Limited shall classify Pharma Limited as its subsidiary.

Question 7 **May 2019 - PAPER**

No Question

Question 8 **Nov 2019 - RTP**

What will be the accounting treatment of dividend distribution tax in the consolidated financial statements in case of partly-owned subsidiary in the following scenarios:

Scenario 1: H Limited (holding company) holds 12,000 equity shares in S Limited (Subsidiary of H Limited) with 60% holding. Accordingly, S Limited is a partly-owned subsidiary of H Limited. During the year 20X1, S Limited paid a dividend @ Rs.10 per share and DDT @ 20% on it.

Should the share of H Limited in DDT paid by S Limited amounting to Rs.24,000 (60% x Rs.40,000) be charged as expense in the consolidated profit and loss of H Limited?

Scenario 2 (A): Extending the situation given in scenario 1, H Limited also pays dividend of Rs.300,000 to its shareholders and DDT liability @ 20% thereon amounts to Rs.60,000. As per the tax laws, DDT paid by S Ltd. of Rs.24,000 is allowed as set off against the DDT liability of H Ltd., resulting in H Ltd. paying Rs.36,000 (Rs.60,000 – Rs.24,000) as DDT to tax authorities.

Scenario 2(B)

If in (A) above, H Limited pays dividend amounting to Rs.100,000 with DDT liability @ 20% amounting to Rs.20,000.

Scenario (3):

Will the answer be different for the treatment of dividend distribution tax paid by associate in the consolidated financial statement of investor, if as per tax laws the DDT paid by associate is not allowed set-off against the DDT liability of the investor?

Solution :

Scenario 1: Since H Limited is holding 12,000 shares it has received Rs.1,20,000 as dividend from S Limited. In the consolidated financial statements of H Ltd., dividend income earned by H Ltd. and dividend recorded by S Ltd. in its equity will both get eliminated as a result of consolidation adjustments. Dividend paid by S Ltd. to the 40% non-controlling interest (NCI) shareholders will be recorded in the Statement of Changes in Equity as reduction of NCI balance (as shares are classified as equity as per Ind AS 32).

DDT of Rs.40,000 paid to tax authorities has two components- One Rs.24,000 (related to H Limited's shareholding and other Rs.16,000 (40,000 × 40%) belong to non controlling interest (NCI) shareholders of S Limited). DDT of Rs.16,000 (pertaining to non-controlling interest (NCI) shareholders) will be recorded in the Statement of Changes in Equity along with dividend. DDT of Rs.24,000 paid outside the consolidated Group shall be charged as tax expense in the consolidated statement of profit and loss of H Ltd.

In accordance with the above, in the given case, CFS of H limited will be as under:

Transactions	**H Ltd.**	**S Ltd.**	**Consol Adjustments**	**CFS H Ltd.**
Dividend Income (P&L)	1,20,000	-	(1,20,000)	-
Dividend (in Statement of Changes in Equity by way of reduction of NCI)	-	(2,00,000)	1,20,000	(80,000)
DDT (in Statement of Changes in Equity by way of reduction of NCI)	-	(40,000)	24,000	(16,000)
DDT (in Statement of P&L)	-	-	(24,000)	(24,000)

Scenario 2 (A) : If DDT paid by the subsidiary S Ltd. is allowed as a set off against the DDT liability of its parent H Ltd. (as per the tax laws), then the amount of such DDT should be recognised in the consolidated statement of changes in equity of parent H Ltd.

In the given case, share of H Limited in DDT paid by S Limited is Rs.24,000 and entire Rs.24,000 was utilised by H Limited while paying dividend to its own shareholders.

Accordingly, DDT of Rs.76,000 (Rs.40,000 of DDT paid by S Ltd. (of which Rs.16,000 is attributable to NCI) and Rs.36,000 of DDT paid by H Ltd.) should be recognised in the consolidated statement of changes in equity of parent H Ltd. No amount will be charged to consolidated statement of profit and loss. The basis for such accounting would be that due to Parent H Ltd's transaction of distributing dividend to its shareholders (a transaction recorded in Parent H Ltd's equity) and the related DDT set-off, this DDT paid by the subsidiary is effectively a tax on distribution of dividend to the shareholders of the parent company.

In accordance with the above, in the given case, CFS of H limited will be as under:

Transactions	**H Ltd.**	**S Ltd.**	**Consol Adjustments**	**CFS H Ltd.**
Dividend Income (P&L)	1,20,000	-	(1,20,000)	-
Dividend (in Statement of Changes in Equity)	(3,00,000)	(2,00,000)	1,20,000	(3,80,000)*
DDT (in Statement of Changes in Equity)	(36,000)	(40,000)	-	(76,000)*

*Dividend of Rs.80,000 and DDT of Rs.16,000 will be reflected as reduction from non-controlling interest.

Scenario 2(B): In the given case, share of H Limited in DDT paid by S Limited is Rs.24,000 out of which only Rs.20,000 was utilised by H Limited while paying dividend by its own. Therefore, balance Rs.4,000 should be charged in the consolidated statement of profit and loss.

In accordance with the above, in the given case, CFS of H limited will be as under:

Transactions	H Ltd.	S Ltd.	Consol Adjustments	CFS H Ltd.
Dividend Income (P&L)	1,20,000	-	(1,20,000)	-
Dividend (in Statement of Changes in Equity)	(1,00,000)	(2,00,000)	1,20,000	(1,80,000)*
DDT (in Statement of Changes in Equity)	-	(40,000)	4,000	(36,000)*
DDT (in Statement of P&L)	-	-	(4,000)	(4,000)

*Dividend of Rs.80,000 and DDT of Rs.16,000 will be reflected as reduction from non- controlling interest.

Scenario (3): Considering that as per tax laws, DDT paid by associate is not allowed set off against the DDT liability of the investor, the investor's share of DDT would be accounted by the investor company by crediting its investment account in the associate and recording a corresponding debit adjustment towards its share of profit or loss of the associate.

Question 9 **Nov 2019 - PAPER**

No Question

2020

Question 10 **May 2020 - RTP**

Gamma Limited, a parent company, is engaged in manufacturing and retail activities. The group holds investments in different entities as follows:

- Gamma Limited holds 100% Investment in G Limited and D Limited;
- G Limited and D Limited hold 60% and 40% in GD Limited respectively;
- Delta Limited is a 100% subsidiary of GD Limited

Firstly, Gamma Limited wants you to suggest whether GD Limited can avail the exemption from the preparation and presentation of consolidated financial statements as per applicable Ind AS?

Secondly, if all other facts remain the same as above except that G Limited and D Limited are both owned by an Individual (say, Mr. X) instead of Gamma Limited, then explain whether GD Limited can avail the exemption from the preparation and presentation of consolidated financial statements.

Solution :

As per paragraph 4(a) of Ind AS 110, an entity that is a parent shall present consolidated financial statements. This Ind AS applies to all entities, except as follows:

A parent need not present consolidated financial statements if it meets all the following conditions:

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

(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind ASs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this Ind AS.

In accordance with the above, it may be noted that as per paragraph 4(a)(i) above, a parent need not present consolidated financial statements if it is a:

— wholly-owned subsidiary; or

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

Although GD Limited is a partly-owned subsidiary of G Limited, it is the wholly-owned subsidiary of Gamma Limited (and therefore satisfies the condition 4(a)(i) of Ind AS 110 without regard to the relationship with its immediate owners, i.e. G Limited and D Limited). Thus, GD Limited being the wholly owned subsidiary fulfils the conditions as mentioned under paragraph 4(a)(i) and is not required to inform its other owner D Limited of its intention not to prepare the consolidated financial statements.

Thus, in accordance with the above, GD Limited may take the exemption given under paragraph 4(a) of Ind AS 110 from presentation of consolidated financial statements.

In Alternative Scenario, where both G Limited and D Limited are owned by an individual Mr. X, then GD Limited is ultimately wholly in control of Mr. X (i.e., an individual) and hence it cannot be considered as a wholly owned subsidiary of an entity.

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

Therefore, in the given case, GD Limited is a partially-owned subsidiary of another entity. Accordingly, in order to avail the exemption under paragraph 4(a), its other owner, D Limited should be informed about and do not object to GD Limited not presenting consolidated financial statements. Further, for the purpose of consolidation of G Limited and D Limited, GD Limited will be required to provide relevant financial information as per Ind AS.

IND AS 32, 107, 109 - FINANCIAL INSTRUMENTS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	YES	NO	YES
2019	YES	NO	YES	YES
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

On 1st April, 20X4, Shelter Ltd. issued 5,000, 8% convertible debentures with a face value of Rs.100 each maturing on 31st March, 20X9. The debentures are convertible into equity shares of Shelter Ltd. at a conversion price of Rs.105 per share. Interest is payable annually in cash. At the date of issue, Shelter Ltd. could have issued non-convertible debt with a 5 year term bearing a coupon interest rate of 12%. On 1st April, 20X7, the convertible debentures have a fair value of Rs.5,25,000. Shelter Ltd. makes a tender offer to debenture holders to repurchase the debentures for Rs.5,25,000, which the holders accepted. At the date of repurchase, Shelter Ltd. could have issued non-convertible debt with a 2 year term bearing a coupon interest rate of 9%.

Show accounting entries in the books of Shelter Ltd. for recording of equity and liability component:

(i) At the time of initial recognition and

(ii) At the time of repurchase of the convertible debentures.

The following present values of ` 1 at 8%, 9% & 12% are supplied to you:

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5
8%	0.926	0.857	0.794	0.735	0.681
9%	0.917	0.842	0.772	0.708	0.65
10%	0.893	0.797	0.712	0.636	0.567

Solution :

(i) At the time of initial recognition

	Rs.
Liability component	
Present value of 5 yearly interest payments of Rs.40,000, discounted at 12% annuity (40,000 x 3.605)	1,44,200
Present value of Rs.5,00,000 due at the end of 5 years, discounted at 12%, compounded yearly (5,00,000 x 0.567)	2,83,500
	4,27,700
Equity component	
(Rs.5,00,000 – Rs.4,27,700)	72,300
Total proceeds	5,00,000

Note:

1) Since rs.105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ Rs.100 each only.

Journal Entry

		Rs.	Rs.
Bank	Dr.	5,00,000	
To 8% Debentures (Liability component)			4,27,700
To 8% Debentures (Equity component)			72,300
(Being Debentures are initially recorded a fair value)			

2) Conversion is assumed at option of investor.

(ii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 12%	Fair Value @ 9%	Difference
	Rs.	Rs.	Rs.
Liability component			
Present value of 2 remaining yearly interest payments of Rs.40,000, discounted at 12% and 9%, respectively	67,600	70,360	
Present value of Rs.5,00,000 due in 2 years, discounted at 12% and 9%, compounded yearly, respectively	3,98,500	4,21,000	
Liability component	4,66,100	4,91,360	(25,260)
Equity component			
(5,25,000 - 4,91,360)	72,300	33,640*	38,660
Total	**5,38,400**	**5,25,000**	**13,400**

*(5,25,000 – 4,91,360) = 33,640

Journal Entries

		Rs.	Rs.
8% Debentures (Liability component)	Dr.	4,66,100	
Profit and loss A/c (Debt settlement expense)	Dr.	25,260	
To Bank A/c			4,91,360
(Being the repurchase of the liability component recognised)			
8% Debentures (Equity component)	Dr.	72,300	
To Bank A/c		33,640	
To Reserves and Surplus A/c			38,660
(Being the cash paid for the equity component recognised)			

Question 2 **May 2018 - PAPER**

S Limited issued redeemable preference shares to its Holding Company -H Limited. The terms of the instrument have been summarized below. Analyse the given situation, applying the guidance in Ind AS 109 'Financial Instruments', and account for this in the books of H Limited.

Nature	**Non-cumulative redeemable preference shares**

Repayment	Redeemable after 3 years
Date of Allotment	1st April 2015
Date of Repayment	31st March 2018
Total Period	3 Years
Value of Preference Shares issued	5,00,00,000
Dividend Rate	0.0001% Per Annum
Market rate of interest	12% Per Annum
Present value factor	0.7118

Solution :

Applying Ind AS 109 a financial asset shall be recorded a fair value upon initial recognition.
According fair value of investment in S Ltd. shall be.
50,00,000 × 0.7118 = 3,55,90,000
Note : Divided is ignored as the amount is small making it insignificant.
∴ Balance 5,00,000 = 3,55,90,000 = 1,44,10,000 shall be treated as equity

1.4.2015	Preference shares (FA)	3,55,90,000	
	Investment (Equity)	1,44,10,000	
	To Bank		5,00,00,000

Subsequently preference shares shall be carried over at amortised cost.

Year	Opening Balance	Interest (12%)	CF	C/O.
1	3,55,90,000	42,70,800	-	3,98,60,800
2	3,98,60,800	47,83,296	-	4,46,44,096
3	4,46,44,096	53,55,904	5,00,00,000	-

31.3.16	Preference shares (FA)	42,70,800	
	To Interest		42,70,800
31.3.17	Preference shares (FA)	47,83,296	
	To Interest		47,83,296
31.3.18	Preference shares (FA)	53,55,904	
	To Interest		53,55,904
31.3.18	Bank	5,00,00,000	
	To Preference shares		5,00,00,000

Question 3 **May 2018 - PAPER**

On 1st January 2017, Expo Limited agreed to purchase USD ($) 40,000 from E&I Bank in future on 31st December 2017 for a rate equal to ` 65 per USD. Expo Limited did not pay any amount upon entering into the contract. Expo Limited is a listed company in India and prepares its financial statements on a quarterly basis.

Using the definition of derivative included in Ind AS 109 and following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for each quarter ended till the date of actual purchases of USD.

For the purpose of accounting, use the following information representing marked to market fair value of forward contracts at each reporting date:

As at 31st March, 2017 Rs.(50,000)

As at 30th June, 2017	Rs.(30,000)
As at 30th September, 2017	Rs.24,000
Spot rate of USD on 31st December, 2017	Rs.62 per USD

Solution :

1) Assessment of the arrangement using the definition of derivative included under Ind AS 109.

Derivative is a financial instrument or other contract within the scope of this Standard with all three of the following **characteristics**:

(a) its value changes in response to the change in foreign exchange rate (emphasis laid)

(b) it requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts with similar response to changes in market factors.

(c) it is settled at a future date.

Upon evaluation of contract in question, on the basis of the definition of derivative, it is noted that the contract meets the definition of a derivative as follows:

(a) the value of the contract to purchase USD at a fixed price changes in response to changes in foreign exchange rate.

(b) the initial amount paid to enter into the contract is zero. A contract which would give the holder a similar response to foreign exchange rate changes would have required an investment of USD 40,000 on inception.

(c) the contract is settled in future

The derivative is a forward exchange contract.

As per Ind AS 109, derivatives are measured at fair value upon initial recognition and are subsequently measured at fair value through profit and loss.

2) Accounting in each Quarter

(i)	1.1.2017	No Entry	Fair Value is Nil	
(ii)	31.3.2017	Loss (P & L)	50,000	
		To FC (FL)		50,000
(iii)	30.6.2017	FC (FL)	20,000	
		To gain (P & L)		20,000
(iv)	30.9.2017	FC (FL)	30,000	
		FC (FA)	24,000	
		To gain (P & L)		54,000
(v)	31.12.2017	Bank (USD) (40,000 × 62)	24,80,000	
		Loss (P & L)	1,44,000	
		To FC(FA)		24,000
		To Bank (40,000 × 65)		26,00,000

Question 4 **Nov 2018 - RTP**

No Question

Question 5 **Nov 2018 - PAPER**

NAV Limited granted a loan of Rs.120 lakh to OLD Limited for 5 years @ 10% p.a. which is Treasury bond yield of equivalent maturity. But the incremental borrowing rate of OLD Limited is 12%. In this case, the loan is granted to OLD Limited at below market rate of interest. Ind AS 109 requires that a financial asset or financial liability is to be measured at fair value at the initial recognition. Should the transaction price be treated as fair value? If not, find out the fair value. What is the accounting treatment of the difference between the transaction price and the fair value on initial recognition in the book of NAV Ltd.?
Present value factors at 12%:

Year	1	2	3	4	5
PVF	0.892	0.797	0.712	0.636	0.567

Solution :
Since the loan is granted to OLD Ltd at 10% i.e below market rate of 12%. It will be considered as loan given at off market terms. Hence the Fair value of the transaction will be lower from its transaction price & not the transaction price.
Calculation of fair value

Year	Future cash flow (in lakh)	Discounting factor @ 12%	Present value (in lakh)
1	12	0.892	10.704
2	12	0.797	9.564
3	12	0.712	8.544
4	12	0.636	7.632
5	120+12=132	0.567	74.844
			111.288

The fair value of the transaction be Rs.111.288 lakh.
Since fair value is based on level 1 input or valuation technique that uses only data from observable markets, difference between fair value and transaction price will be recognized in Profit and Loss as fair value loss i.e Rs.120 lakh– Rs.111.288 lakh= Rs.8.712 lakh.

Question 6 **Nov 2018 - PAPER**
Veer Limited issues convertible bonds of Rs.75,00,000 on 1st April, 2018. The bonds have a life of five years and a face value of Rs.20 each, and they offer interest payable at the end of each financial year at a rate of 4.5 per cent annum. The bonds are issued at their face value and each bond can be converted into one ordinary share in Veer Ltd at any time in the next five years. Companies of a similar risk profile have recently issued debt at 6 per cent per annum with similar terms but without the option for conversion.
You are required to:
(i) Provide the appropriate accounting entries for initial recognition as per the relevant Ind AS in the books of the company.
(ii) Calculate the stream of interest expenses across the five years of the life of the bonds.
(iii) Provide the accounting entries if the holders of the bonds elect to convert the bonds to ordinary shares at the end of the fourth year.

Solution :
Present value of bonds at the market rate of debt
Present value of principal to be received in 5 years discounted at 6%
(75,00,000 x 0.747) = 56,02,500
Present value of interest stream discounted at 6% for 5 years
(3,37,500 x4.212) = 14,21,550

Total present value	=	70,24,050
Equity component	=	4,75,950
Total face value of convertible bonds	=	75,00,000

(i) **Journal Entries**

		Dr. (Rs.)	Cr. (Rs.)
<u>1st April, 2018</u>	Dr.	75,00,000	
Cash			70,24,050
To Convertible bonds (liability)			4,75,950
To Convertible bonds (equity component)			
(Being entry to record the convertible bonds and the recognition of the liability and equity components)			
<u>31st March, 2019</u>			
Interest expense	Dr.	4,21,443	
To Cash			3,37,500
To Convertible bonds (liability)			83,943
(Being entry to record the interest expense)			

(ii) The stream of interest expense is summarised below, where interest for a given year is calculated by multiplying the present value of the liability at the beginning of the period by the market rate of interest, this is being 6 per cent.

Date	Payment	Interest expense at 6% (e of previous year x 6%)	Increase in bond liability (c-b)	Total bond liability (e of previous year +d)
(a)	(b)	(c)	(d)	(e)
1st April, 2018				70,24,050
31st March, 2019	3,37,500	4,21,443	83,943	71,07,993
31st March, 2020	3,37,500	4,26,480	88,980	71,96,973
31st March, 2021	3,37,500	4,31,818	94,318	72,91,291
31st March, 2022	3,37,500	4,37,477	99,977	73,91,268
31st March, 2023	3,37,500	4,46,232*	1,08,732	75,00,000

* Difference is due to rounding off.

(iii) If the holders of the bond elect to convert the bonds to ordinary shares at the end of the fourth year (after receiving their interest payments), the entries in the fourth year would be:

		Dr.(Rs.)	Cr.(Rs.)
<u>31st March, 2022</u>			
Interest expense A/c	Dr.	4,37,477	
To Cash A/c			3,37,500
To Convertible bonds (liability) A/c			99,977
(Being entry to record interest expense for the period)			
<u>31st March, 2022</u>	-		
Convertible bonds (liability) A/c	Dr.	73,91,268	
Convertible bonds (equity component) A/c	Dr.	4,75,950	

	To Ordinary share capital A/c (Being entry to record the conversion of bonds into ordinary shares of Veer Limited).		78,67,218

Question 7 **Nov 2018 - PAPER**

Growth Limited on 1st April, 2015 issued 50,000, 7% convertible debentures of face value of Rs.100 per debenture at par. The debentures are redeemable at a premium of 10% on 31st March, 2020 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is 1st April, 2017.

Suggest how Growth Limited should account for this compound financial instrument on the date of transition. Also discuss Ind AS on 'Financial Instrument' presentation in the above context.

The present value of Rs.1 receivable at the end of each year based on discount rates of 7% and 10% can be taken as:

End of Year	1	2	3	4	5
7%	0.94	0.87	0.82	0.76	0.71
10%	0.91	0.83	0.75	0.68	0.62

Solution :

Since the liability is outstanding on the date of Ind AS transition, Growth Ltd. is required to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, first the liability component will be measured discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

Calculation of Equity & Liability component on initial recognition

	Rs.
Present Interest payments for 5 years on debentures by applying annuity factor [(50,000 × 7% × 100) × 3.79]	13,26,500
PV of principal repayment (including premium) (50,000 × 110 × 0.62)	34,10,000
Total liability component	47,36,500
Total equity component (Balancing figure)	2,63,500
Total proceeds from issue of Debentures	50,00,000

Thus, on the date of transition, the amount of ` 50,00,000 being the amount of debentures will split as under:

Debt	Rs.47,36,500
Equity	Rs.2,63,500

2019

Question 8 **May 2019 - RTP**

KK Ltd. has granted an interest free loan of Rs.10,00,000 to its wholly owned Indian Subsidiary YK Ltd. There is no transaction cost attached to the said loan. The Company has not finalised any terms and conditions including the applicable interest rates on such loans. The Board of Directors of the Company are evaluating various options and has requested your firm to provide your views under Ind AS in following situations:

(i) The Loan given by KK Ltd. to its wholly owned subsidiary YK Ltd. is interest free and such loan is repayable on demand.

(ii) The said Loan is interest free and will be repayable after 3 years from the date of granting such loan. The current market rate of interest for similar loan is 10%. Considering the same, the fair value of the loan at initial recognition is Rs.8,10,150.

(iii) The said loan is interest free and will be repaid as and when the YK Ltd. has funds to repay the Loan amount.

Based on the same, KK Ltd. has requested you to suggest the accounting treatment of the above loan in the stand-alone financial statements of KK Ltd. and YK Ltd. and also in the consolidated financial statements of the group. Consider interest for only one year for the above loan.

Further the Company is also planning to grant interest free loan from YK Ltd. to KK Ltd. in the subsequent period. What will be the accounting treatment of the same under applicable Ind AS?

Solution :

Scenario (i)

Since the loan is repayable on demand, it has fair value equal to cash consideration given. KK Ltd. and YK Ltd. should recognize financial asset and liability, respectively, at the amount of loan given (assuming that loan is repayable within a year). Upon, repayment, both the entities should reverse the entries that were made at the origination.

Journal entries in the books of KK Ltd.

At origination			
Loan to YK Ltd. A/c	Dr.	Rs.10,00,000	
To Bank A/c			Rs.10,00,000
On repayment			
Bank A/c	Dr.	Rs.10,00,000	
To Loan to YK Ltd. A/c			Rs.10,00,000

Journal entries in the books of YK Ltd.

At origination			
Bank A/c	Dr.	Rs.10,00,000	
To Loan from KK Ltd.			Rs.10,00,000
On repayment			
Loan from KK Ltd. A/c	Dr.	Rs.10,00,000	
To Bank A/c			Rs.10,00,000

In the consolidated financial statements, there will be no entry in this regard since loan receivable and loan payable will get set off.

Scenario (ii)

Applying the guidance in Ind AS 109, a 'financial asset' shall be recorded at its fair value upon initial recognition. Fair value is normally the transaction price. However, sometimes certain type of instruments may be exchanged at off market terms (ie, different from market terms for a similar instrument if exchanged between market participants).

If a long-term loan or receivable that carries no interest while similar instruments if exchanged between market participants carry interest, then fair value for such loan receivable will be lower from its transaction price owing to the loss of interest that the holder bears. In such cases where part of the consideration given or received is for something other than the financial instrument, an entity shall

measure the fair value of the financial instrument. The difference in fair value and transaction cost will treated as investment in Subsidiary YK Ltd.
Both KK Ltd. and YK Ltd. should recognise financial asset and liability, respectively, at fair value on initial recognition, i.e., the present value of ` 10,00,000 payable at the end of 3 years using discounting factor of 10%. Since the question mentions fair value of the loan at initial recognition as ` 8,10,150, the same has been considered. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Journal entries in the books of KK Ltd. (for one year)

At origination			
Loan to YK Ltd. A/c	Dr.	Rs.8,10,150	
Investment in YK Ltd. A/c	Dr.	Rs.1,89,850	
To Bank A/c			Rs.10,00,000
During period to repayment – to recognise interest			

Year 1 – Charging of Interest

At origination			
Loan to YK Ltd. A/c	Dr.	Rs.81,015	
To Interest income A/c			Rs.81,015

Transferring of interest to Profit and Loss

Interest income A/c	Dr.	Rs.81,015	
To Profit and Loss A/c			Rs.81,015
On repayment			
Bank A/c	Dr.	Rs.10,00,000	
To Loan to YK Ltd. A/c			Rs.10,00,000

Note- Interest needs to be recognised in statement of profit and loss. The same cannot be adjusted against capital contribution recognised at origination.

Journal entries in the books of YK Ltd. (for one year)

At origination			
Bank A/c	Dr.	Rs.10,00,000	
To Loan from KK Ltd. A/c			Rs.8,10,150
To Equity Contribution in KK Ltd. A/c			Rs.1,89,850
During period to repayment – to recognise interest			
Year 1			
Interest expense A/c	Dr.	Rs.81,015	
To Loan from KK Ltd. A/c			Rs.81,015
On repayment			
Loan from KK Ltd. A/c	Dr.	Rs.10,00,000	
To Bank A/c			Rs.10,00,000

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

Scenario (iii)

Generally, a loan which is repayable when funds are available, cannot be stated as loan repayable on demand. Rather the entity needs to estimate the repayment date and determine its measurement accordingly by applying the concept prescribed in Scenario (ii).
In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

In case the subsidiary YK Ltd. is planning to grant interest free loan to KK Ltd., then the difference between the fair value of the loan on initial recognition and its nominal value should be treated as dividend distribution by YK Ltd. and dividend income by the parent KK Ltd.

Question 9 **May 2019 - PAPER**

No Question

Question 10 **Nov 2019 - RTP**

An entity purchases a debt instrument with a fair value of Rs.1,000 on 15th March, 20X1 and measures the debt instrument at fair value through other comprehensive income. The instrument has an interest rate of 5% over the contractual term of 10 years, and has a 5% effective interest rate. At initial recognition, the entity determines that the asset is not a purchased or original credit-impaired asset.

On 31st March 20X1 (the reporting date), the fair value of the debt instrument has decreased to Rs.950 as a result of changes in market interest rates. The entity determines that there has not been a significant increase in credit risk since initial recognition and that ECL should be measured at an amount equal to 12 month ECL, which amounts to Rs.30.

On 1st April 20X1, the entity decides to sell the debt instrument for Rs.950, which is its fair value at that date.

Pass journal entries for recognition, impairment and sale of debt instruments as per Ind AS 109. Entries relating to interest income are not to be provided.

Solution :

On initial recognition

		Debit (Rs.)	Credit (Rs.)
Financial asset-FVOCI	Dr.	1,000	
To Cash			1,000

On Impairment of debt instrument

		Debit (Rs.)	Credit (Rs.)
Impairment expense (P & L)	Dr.	30	
Other comprehensive income	Dr.	20	
To Financial asset-FVOCI			50

The cumulative loss in other comprehensive income at the reporting date was ` 20. That amount consists of the total fair value change of Rs.50 (that is, Rs.1,000 – Rs.950) offset by the change in the accumulated impairment amount representing 12-month ECL, that was recognized (Rs.30).

On Sale of debt instrument

	Debit (Rs.)	Credit (Rs.)
Cash	950	
To Financial asset – FVOCI		950
Loss on sale (P & L)	20	
To Other compressive income		20

Question 11 **Nov 2019 - PAPER**

Vedika Ltd. issued 80,000 8% convertible debentures @ Rs.100 each on 1st April, 2015. The debentures are due for redemption on 31st March, 2019 at a premium of 20%, convertible into equity shares to the extent of 50% and balance to be settled in cash to the debenture holders. The interest rate on equivalent debenture without conversion right was 12%. The conversion to equity qualifies as fixed for fixed.

You are required to separate the debt and equity component at the time of use and show the accounting entries in Vedika Ltd.'s books at initial recognition only. The following present values of Rupee 1 at 8% and 12% are provided for a period of 5 years.

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5
8%	0.923	0.853	0.789	0.731	0.677
12%	0.887	0.788	0.701	0.625	0.557

Solution :

In the books of Vedika Ltd.

Convertible debentures issued by Vedika are compound financial instrument. As per Ind AS 109, entity should separate debt from equity and account accordingly.

Debt – FL

Year	CF		PV @ 12%
31/3/16	6,40,000	Int. @ 8%	5,67,680
31/3/17	6,40,000	Int. @ 8%	5,04,320
31/3/18	6,40,000	Int. @ 8%	4,48,640
31/3/19	6,40,000	Int. @ 8%	4,00,000
	40,00,000	50% Municipal	25,00,000
	8,00,000	POR 20%	5,00,000
			49,20,640

Equity = TL – FL

= 80,00,000 – 49,20,640 = 30,79,360

Bank A/c	Dr.	80,00,000	
To Debt (FL)			49,20,640
To Equity			30,79,360

Question 12 **Nov 2019 - PAPER**

Make necessary journal entries for accounting of the security deposit made by Admire Ltd., whose details are described below. Assume market interest rate for a deposit for similar period to be 12% per annum.

Particulars	**Details**
Date of Security Deposit (Starting Date)	1-Apr-2014
Date of Security Deposit (Finishing Date)	31-Mar-2019
Description	Lease
Total Lease Period	5 years
Discount rate	12.00%
Security deposit (A)	20,00,000
Present value factor at the 5th year	0.567427

Solution :

As per Ind AS 108 security deposit is a financial asset and should be recorded at amortised cost. It should be recorded at fair value on initial date of recognition.

FV at 1/4/2014 = 20,00,000 × 0.567427 = 11,34,854

Journal Entry

Security deposit (FA)	11,34,854	
Loss (P & L)	8,65,146	
To Bank		20,00,000

2020

Question 13 **May 2020 - RTP**

XYZ issued RS.4,80,000 4% redeemable preference shares on 1st April 20X5 at par. Interest is paid annually in arrears, the first payment of interest amounting RS.19,200 was made on 31st March 20X6 and it is debited directly to retained earnings by accountant. The preference shares are redeemable for a cash amount of Rs.7,20,000 on 31st March 20X8. The effective rate of interest on the redeemable preference shares is 18% per annum. The proceeds of the issue have been recorded within equity by accountant as this reflects the legal nature of the shares. Board of directors intends to issue new equity shares over the next two years to build up cash resources to redeem the preference shares.

Mukesh, Accounts manager of XYZ has been told to review the accounting of aforesaid issue. CFO has asked from Mukesh the closing balance of preference shares at the year end. If you were Mukesh, then how much balance you would have shown to CFO on analysis of the stated issue. Prepare necessary adjusting journal entry in the books of account, if required.

Solution :

The preference shares provide the holder with the right to receive a predetermined amount of annual dividend out of profits of the company, together with a fixed amount on redemption.

Whilst the legal form is equity, the shares are in substance debt. The fixed level of dividend is interest and the redemption amount is equivalent to the repayment of a loan.

Under Ind AS 32 'Financial Instruments: Presentation' these instruments should be classified as financial liabilities because there is a contractual obligation to deliver cash. The preference shares should be accounted for at amortised cost using the effective interest rate of 18%.

Year	1 April, 20X5 Rs.	Interest @18% Rs.	Paid at 4% Rs.	31 March, 20X6 Rs.
20X5 - 20X6	4,80,000	86,400	(19,200)	5,47,200

Accordingly, the closing balance of Preference shares at year end i.e. 31st March, 20X6 would be Rs.5,47,200.

Accountant has inadvertently debited interest of Rs.19,200 in the profit and loss. However, the interest of Rs.86,400 should have been debited to profit and loss as finance charge.

Similarly, amount of rs.5,47,200 should be included in borrowings (non-current liabilities) and consequently, Equity should be reduced by ` 480,000 proceeds of issue and Rs.67,200 (86,400 – 19,200) i.e. total by 5,47,200.

Necessary adjusting journal entry to rectify the books of accounts will be:

		Rs.	Rs.
Preference share capital (equity) (Balance sheet)	Dr.	4,80,000	
Finance costs (Profit and loss)	Dr.	86,400	
To Equity – Retained earnings (Balance sheet)			19,200
To Preference shares (Long-term Borrowings) (Balance sheet)			5,47,200

IND AS 113 - FAIR VALUE MEASUREMENT

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	NO	YES
2019	NO	NO	YES	YES
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

An asset is sold in 2 different active markets at different prices. An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date.

In Market A:

The price that would be received is Rs.78, transaction costs in that market are Rs.9 and the costs to transport the asset to that market are Rs.6.

In Market B:

The price that would be received is Rs.75, transaction costs in that market are Rs.3 and the costs to transport the asset to that market are Rs.6.

You are required to calculate:

(i) The fair value of the asset, if market A is the principal market, and

(ii) The fair value of the asset, if none of the markets is principal market.

Solution :

(i) If Market A is the principal market

If Market A is the principal market for the asset (i.e., the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs.

Fair Value of the asset will be

	Rs.
Price receivable	78
Less: Transportation cost	(6)
Fair value of the asset	72

(ii) If neither of the market is the principal market

If neither of the market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (i.e., the net amount that would be received in the respective markets).

Determination of most advantageous market:

	Rs.	**Rs.**
	Market A	**Market B**
Price receivable	78	75
Less: Transaction cost	(9)	(3)
Less: Transportation cost	(6)	(6)
Fair value of the asset	63	66

Since the entity would maximise the net amount that would be received for the asset in Market B i.e. Rs.66, the fair value of the asset would be measured using the price in Market B.

Fair value of the asset will be

	Rs.
Price receivable	75
Less: Transportation cost	(6)
Fair value of the asset	69

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

Comment on the following by quoting references from appropriate Ind AS.

(i) DS Limited holds some vacant land for which the use is not yet determined. the land is situated in a prominent area of the city where lot of commercial complexes are coming up and there is no legal restriction to convert the land into a commercial land.

The company is not interested in developing the land to a commercial complex as it is not its business objective. Currently the land has been let out as a parking lot for the commercial complexes around.

The Company has classified the above property as investment property. It has approached you, an expert in valuation, to obtain fair value of the land for the purpose of disclosure under Ind AS. On what basis will the land be fair valued under Ind AS?

(ii) DS Limited holds equity shares of a private company. In order to determine the fair value' of the shares, the company used discounted cash flow method as there were no similar shares available in the market.

Under which level of fair value hierarchy will the above inputs be classified?

What will be your answer if the quoted price of similar companies were available and can be used for fair valuation of the shares?

Solution :

(i) As per Ind AS 113, a fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

(a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (eg the location or size of a property).

(b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property).

(c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

Highest and best use is determined from the perspective of market participants, even if the entity intends a different use.

Therefore, the fair value of the land is the price that would be received when sold to a market participant who is interested in developing a commercial complex.

(ii) As per Ind AS 113, unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

In the given case, DS Limited adopted discounted cash flow method, commonly used technique to value shares, to fair value the shares of the private company as there were no similar shares traded in the market. Hence, it falls under Level 3 of fair value hierarchy.

If an entity can access quoted price in active markets for identical assets or liabilities of similar companies which can be used for fair valuation of the shares without any adjustment, at the measurement date, then it will be considered as observable input and would be considered as Level 2 inputs.

Question 8 **Nov 2019 - PAPER**

An asset is sold in two different active markets at different prices. Manor Ltd. enters into transactions in both markets and can access the price in those markets for the asset at the measurement date.

In Mumbai market, the price that would be received is Rs.290, transactions costs in that market are Rs.40 and the costs to transport the asset to that market are Rs.30. Thus the net amount that would be received is Rs.220.

In Kolkata market the price that would be received is Rs.280, transaction costs in that market are Rs.20 and the costs to transport the asset to that market are Rs.30. Thus, the net amount that would be received in Kolkata market is Rs.230.

(i) What should be the fair value of the asset if Mumbai Market is the principal market? What should be fair value if none of the markets is principle market?

(ii) If the net realisation after expenses is more in export market, say Rs.280 but Government allows only 15% of the production to be exported out of India. Discuss what would be fair value in such case.

Solution :

(i) Fair value :

(a) If Mumbai is the principal market

If Mumbai is the principal market for the asset (i.e., the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs.

Fair Value of the asset will be

	Rs.
Price receivable	290
Less: Transportation cost	(30)
Fair value of the asset	260

(b) If neither of them principal market

If neither of the market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (i.e., the net amount that would be received in the respective markets).

Determination of most advantageous market:

	Rs.	Rs.
	Mumbai	**Kolkata**
Price receivable	290	280
Less: Transaction cost	(40)	(20)
Less: Transportation cost	(30)	(30)
Fair value of the asset	220	230

Since Kolkata has maximum return fair value will be calculated using Kolkata.

Fair value of the asset will be

	Rs.
Price receivable	280
Less: Transportation cost	(30)
Fair value of the asset	250

(ii) As per Ind AS 113 Fair Value should be determined from principal market. Principal market is the one where highest volumes are traded.
So even if export market gives highest Net receivable value i.e. Rs.280 it cannot be considered as fair value because only 15% of production is allowed to be sold in export market.

2020

Question 9 **May 2020 - RTP**

No Question

IND AS 10 - EVENTS AFTER REPORTING PERIOD

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	NO	NO
2019	YES	NO	YES	YES
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

XYZ Ltd. was formed to secure the tenders floated by a telecom company for publication of telephone directories. It bagged the tender for publishing directories for Pune circle for 5 years. It has made a profit in 2013-2014, 2014-2015, 2015-2016 and 2016-2017. It bid in tenders for publication of directories for other circles – Nagpur, Nashik, Mumbai, Hyderabad but as per the results declared on 23rd April, 2017, the company failed to bag any of these. Its only activity till date is publication of Pune directory. The contract for publication of directories for Pune will expire on 31st December 2017. The financial statements for the F.Y. 2016-17 have been approved by the Board of Directors on July 10, 2017.
Whether it is appropriate to prepare financial statements on going concern basis?

Solution :

With regard to going concern basis to be followed for preparation of financial statements, Ind AS 10 provides as follows:

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

2) Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting."

In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the instant case, since contract is expiring on 31st December 2017 and it is confirmed on 23rd April, 2017, i.e., after the end of the reporting period and before the approval of the financial statements, that no further contact is secured, implies that the entity's operations are expected to come to an end. Accordingly, if entity's operations are expected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 2016-17 and thereafter on going concern basis may not be appropriate.

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

ABC Ltd. received a demand notice on 15th June, 2017 for an additional amount of Rs.28,00,000 from the Excise Department on account of higher excise duty levied by the Excise Department compared to the rate at which the company was creating provision and depositing the same. The financial statements for the year 2016-17 are approved on 10th August, 2017. In July, 2017, the company has appealed against the demand of Rs.28,00,000 and the company has expected that the demand would be settled at Rs.15,00,000 only. Show how the above event will have a bearing on the financial statements for the year 2016-17. Whether these events are adjusting or non-adjusting events and explain the treatment accordingly.

Solution :

Ind AS 10 defines 'Events after the Reporting Period' as follows:

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

(b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period)

In the instant case, the demand notice has been received on 15th June, 2017, which is between the end of the reporting period and the date of approval of financial statements. Therefore, it is an event after the reporting period. This demand for additional amount has been raised because of higher rate of excise duty levied by the Excise Department in respect of goods already manufactured during the reporting period. Accordingly, condition exists on 31st March, 2017, as the goods have been manufactured during the reporting period on which additional excise duty has been levied and this event has been confirmed by the receipt of demand notice. Therefore, it is an adjusting event.

In accordance with the principles of Ind AS 37, the company should make a provision in the financial statements for the year 2016-17, at best estimate of the expenditure to be incurred, i.e., Rs.15,00,000.

Question 8 **Nov 2019 - PAPER**

Discuss with reasons whether these events are in nature of adjusting or non-adjusting and the treatment needed in light of accounting standard Ind AS 10.

(i) Moon Ltd. won an arbitration award on 25th April, 2019 for Rs.1 crore. From the arbitration proceeding, it was evident that the Company is most likely to win the arbitration award. The directors approved the financial statements of year ending 31.03.2019 on 1st May 2019. The management did not consider the effect of the above transaction in FY-2018-19, as it was favourable to the company and the award came after the end of the financial year.

(ii) Zoom Ltd. have a trading business of Mobile telephones. The Company has purchased 1000 mobiles phones at Rs.5,000 each on 15th March, 2019. The manufacturers of phone had announced the release of the new version on 1st March, 2019 but not announced the price. Zoom Ltd, has valued inventory at cost of Rs.5,000 each at the year ending 31st March, 2019.

Due to arrival of new advance version of Mobile Phone on 8th April, 2019, the selling prices of the mobile stocks remaining with company was dropped at Rs.4,000 each.

The financial statements of the company valued mobile phones @ Rs.5,000 each and not at the value @ Rs.4,000 less expenses on sales, as the price reduction in selling price was effected after 31.03.2019.

(iii) There was an old due from a debtor amounting to Rs.15 Lakhs against whom insolvency proceedings was instituted prior to the financial year ending 31st March, 2019. The debtor was declared in solvent on 15th April, 2019.

(iv) Assume that subsequence to the year end and before the financial statements are approved, Company's management announces that it will restructure the operations of the company. Management plans to make significant redundancies and to close a few divisions of company's business; however, there is not formal plan yet. Should management recognize a provision in the books if the company decides subsequent to end of the accounting year to restructure its operations?

Solution :

(i) Ind AS 10 defines "Events After Reporting Period" as follows :

Events After the reporting period are those events favourable and unfavourable that occur between the end of the reporting period and the date when financial statements are approved by Board of Directors in case of company and by the corresponding approving authority in case of any other entity for issue.

Two types of event can be identified :

a) those that provide evidence of conditions that existed at the end of the reporting period i.e. Adjusting events.

b) those that are indicative of conditions that arose the reporting period i.e. Non adjusting events.

In this case arbitration award i.e. adjusting event and should be reported. The management argument is wrong. Even favourable event should be reported.

(ii) As per Ind AS 10, the selling price of inventory after reporting period but before approval of financial statements is an adjusting event.

∴ Zoom Ltd. should adjust financial statement to value inventory at Rs.4,000 less expenses to sale i.e. at lower of cost or NRV.

(iii) The debtor was declared solvent and therefore no provising is needed.

(iv) Management should not recognise a provision as no formal plan is in place of restructuring.

2020

Question 9 **May 2020 - RTP**

A company manufacturing and supplying process control equipment is entitled to duty draw back if it exceeds its turnover above a specified limit. To claim duty drawback, the company needs to file application within 15 days of meeting the specified turnover. If application is not filed within stipulated time, the Department has discretionary power of giving duty draw back credit. For the year 20X1-20X2 the company has exceeded the specified limit of turnover by the end of the reporting period. However, duty drawback can be claimed on filing of application within the stipulated time or on discretion of the Department if filing of application is late. The application for duty drawback is filed on April 20, 20X2, which is after the stipulated time of 15 days of meeting the turnover condition. Duty drawback has been credited by the Department on June 28, 20X2 and financial statements have been approved by the Board of Directors of the company on July 26, 20X2. What would be the treatment of duty drawback credit as per the given information?

Solution :

In the instant case, the condition of exceeding the specified turnover was met at the end of the reporting period and the company was entitled for the duty drawback. However, the application for the same has been filed after the stipulated time. Therefore, credit of duty drawback was discretionary in the hands of the Department. Since the claim was to be accrued only after filing of application, its accrual will be considered in the year 20X2-20X3 only.

Accordingly, the duty drawback credit is a contingent asset as at the end of the reporting period 20X1-20X2, which will be realised when the Department credits the same.

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

In accordance with the above, the duty drawback credit which was contingent asset for the F.Y. 20X1 - 20X2 should be recognised as asset and related income should be recognized in the reporting period in which the change occurs. i.e., in the period in which realisation becomes virtually certain, i.e., F.Y. 20X2 - 20X3.

IND AS 20 - ACCOUNTING FOR GOVT. GRANT & DISCLOSURE OF GOVT. ASSISTANCE

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	NO	YES
2019	NO	NO	NO	YES
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

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 Rs.12 lakh and acquired value by Government is Rs.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 Rs.25 lakh for immediate start-up of a business without any condition.

(iv) S Ltd. received Rs.10 lakh for purchase of machinery costing Rs.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 grant of Rs.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 can be recognized at Fair Value or Nominal Value i.e. at either Rs.12,00,000 or Rs.8,00,000.

(ii) As per 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) Rs.25 lakh has been received by D Ltd. for immediate start-up of business. Since this grant is given to provide immediate financial support to an entity, it should be recognised in the Statement of Profit and Loss immediately.

(iv) Rs.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, Rs.1,00,000 [Rs.10 lakh / 10 years] should be credited to profit and loss each year over period of 10 years.

(v) As per Ind AS 20, the entire grant of Rs.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.

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

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 Rs.20 lakhs subject to a condition that it will continue to engaged in plantation of eucalyptus 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 eucalypts tree for specified period of five years and accordingly it recognizes proportionate grant for Rs.4 lakhs in Statement of Profit and Loss as income following the principles laid down under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance.

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 :

As per Ind AS 20 Government grant should be recognised when there is reasonable assurance that

(a) the entity will comply with condition attaching to them and

(b) grant will be received.

The entity is reasonably sure to comply with condition and they are correct to recognise grand in proportionate amount i.e. 1/5 of 20,00,000 = Rs.4,00,000.

2020

Question 9 **May 2020 - RTP**

Rainbow Limited is carrying out various projects for which the company has either received government financial assistance or is in the process of receiving the same. The company has received two grants of Rs.1,00,000 each, relating to the following ongoing research and development projects:

(i) The first grant relates to the "Clean river project" which involves research into the effect of various chemicals waste from the industrial area in Madhya Pradesh. However, no major steps have been completed by Rainbow limited to commence this research as at 31st march, 20X2.

(ii) The second grant relates to the commercial development of a new equipment that can be used to manufacture eco-friendly substitutes for existing plastic products. Rainbow Limited is confident about the technical feasibility and financial viability of this new technology which will be available for sale in the market by April 20X3.

In September 20X1, due to the floods near one of its factories, the entire production was lost and Rainbow Limited had to shut down the factory for a period of 3 months. The State Government announced a compensation package for all the manufacturing entities affected due to the floods. As per the scheme, Rainbow Limited is entitled to a compensation based on the average of previous three months' sales figure prior to the floods, for which the company is required to submit an application form on or before 30th June, 20X2 with necessary figures. The financial statements of Rainbow Limited are to be adopted on 31st May, 20X2, by which date the claim form would not have been filed with the State Government.

Suggest the accounting treatment of, if any, for the two grants received and the flood-related compensation in the books of accounts of Rainbow Limited as on 31st March, 20X2.

Solution :

Accounting treatment for:

1. **First Grant**

   The first grant for 'Clear River Project' involving research into effects of various chemicals waste from the industrial area in Madhya Pradesh, seems to be unconditional as no details regarding its refund has been mentioned. Even though the research has not been started nor any major steps have been completed by Rainbow Limited to commence the research, yet the grant will be recognised immediately in profit or loss for the year ended 31st March, 20X2.

   Alternatively, in case, the grant is conditional as to expenditure on research, the grant will be recognised in the books of Rainbow Limited over the year the expenditure is being incurred.

2. **Second Grant**

   The second grant related to commercial development of a new equipment is a grant related to depreciable asset. As per the information given in the question, the equipment will be available for sale in the market from April, 20X3. Hence, by that time, grant relates to the construction of an asset and should be initially recognised as deferred income.

The deferred income should be recognised as income on a systematic and rational basis over the asset's useful life.

The entity should recognise a liability on the balance sheet for the years ending 31st March, 20X2 and 31st March, 20X3. Once the equipment starts being used in the manufacturing process, the deferred grant income of Rs.100,000 should be recognised over the asset's useful life to compensate for depreciation costs.

Alternatively, as per Ind AS 20, Rainbow Limited would also be permitted to offset the deferred income of Rs.100,000 against the cost of the equipment as on 1st April, 20X3.

3. For flood related compensation

Rainbow Limited will be able to submit an application form only after 31st May, 20X2 i.e. in the year 20X2-20X3. Although flood happened in September, 20X1 and loss was incurred due to flood related to the year 20X1-20X2, the entity should recognise the income from the government grant in the year when the application form related to it is submitted and approved by the government for compensation.

Since, in the year 20X1-20X2, the application form could not be submitted due to adoption of financials with respect to sales figure before flood occurred, Rainbow Limited should not recognise the grant income as it has not become receivable as on 31st March,20X2.

IND AS 12 - INCOME TAXES

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	YES	NO
2019	YES	NO	YES	NO
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

A's Ltd. profit before tax according to Ind AS for Year 20X1-20X2 is Rs.100 thousand and taxable profit for year 20X1-20X2 is Rs.104 thousand. The difference between these amounts arose as follows:
On 1st February, 20X2, it acquired a machine for Rs.120 thousand. Depreciation is charged on the machine on a monthly basis for accounting purpose. Under the tax law, the machine will be depreciated for 6 months. The machine's useful life is 10 years according to Ind AS as well as for tax purposes. In the year 20X1-20X2, expenses of Rs.8 thousand were incurred for charitable donations. These are not deductible for tax purposes.
You are required to prepare necessary entries as at 31st March 20X2, taking current and deferred tax into account. The tax rate is 25%.
Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation.

Solution :

1) Current Tax = Taxable Profit × Tax Rate
= 104 × 25% = 24 thousand

2) Deffered Tax :

			A/c	Tax
a)	Asset - Cost		120	120
	– Depreciation		2	6
		CA	118	114 Tax bare

Taxable temporary difference = 4 × (118 – 114)

b) Charitable Donation
CA Nil
Tax bare Nil
∴ Total taxable difference = 4
Deferred tax liability = 4 × 25% = 1

3) Journal entries

a) Current tax

Profit & Loss A/c	Dr.	25	
To Current Tax			25

b) Deferred tax

Profit & Loss A/c Dr. 1
To Deferred Tax 1

4) Tax reconciliation in absolute No.

Tax Expenses (100 × 25%)	25
Add : Expenses (Donation) of deductible for tax (8 × 25%)	2
Less : Deferred tax (difference of Depreciation)	(1)
Current Tax	26

5) Tax Rate Reconciliation

Application Tax Rate	25%
Expenses not deductible for tax	2%
Effective tax rate	27%

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

X Ltd. prepares consolidated financial statements to 31st March each year. During the year ended 31st March 2018, the following events affected the tax position of the group:

(i) Y Ltd., a wholly owned subsidiary of X Ltd., made a loss adjusted for tax purposes of Rs.30,00,000. Y Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow Y Ltd. to transfer the tax loss to other group companies. However, it allows Y Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of X Ltd. do not consider that Y Ltd. will make taxable profits in the foreseeable future.

(ii) Just before 31st March, 2018, X Ltd. committed itself to closing a division after the year end, making a number of employees redundant. Therefore X Ltd. recognised a provision for closure costs of Rs.20,00,000 in its statement of financial position as at 31st March, 2018. Income-tax Act allows tax deductions for closure costs only when the closure actually takes place. In the year ended 31 March 2019, X Ltd. expects to make taxable profits which are well in excess of Rs.20,00,000. On 31st March, 2018, X Ltd. had taxable temporary differences from other sources which were greater than Rs.20,00,000.

(iii) During the year ended 31 March 2017, X Ltd. capitalised development costs which satisfied the criteria in paragraph 57 of Ind AS 38 'Intangible Assets'. The total amount capitalised was Rs.16,00,000. The development project began to generate economic benefits for X Ltd. from 1st January 2018. The directors of X Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31 March 2018.

(iv) On 1 April 2017, X Ltd. borrowed Rs.1,00,00,000. The cost to X Ltd. of arranging the borrowing was Rs.2,00,000 and this cost qualified for a tax deduction on 1 April 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31 March 2020 will be Rs.1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of Rs.30,43,800 will be claimable when the loan is repaid on 31st March, 2020.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of X Ltd. group at 31 March, 2018 as per Ind AS. Assume the rate of corporate income tax is 20%.

Solution :

(i) The tax loss creates a potential deferred tax asset for the group since its carrying value is nil and its tax base is Rs.30,00,000.
However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.

(ii) The provision creates a potential deferred tax asset for the group since its carrying value is Rs.20,00,000 and its tax base is nil.
This deferred tax asset can be recognised because X Ltd. is expected to generate taxable profits in excess of Rs.20,00,000 in the year to 31st March, 2019.
The amount of the deferred tax asset will be Rs.4,00,000 (Rs.20,00,000 x 20%).
This asset will be presented as a deduction from the deferred tax liabilities caused by the (larger) taxable temporary differences.

(iii) The development costs have a carrying value of Rs.15,20,000 (Rs.16,00,000 – (Rs.16,00,000 x 1/5 x 3/12)).
The tax base of the development costs is nil since the relevant tax deduction has already been claimed.
The deferred tax liability will be Rs.3,04,000 (Rs.15,20,000 x 20%). All deferred tax liabilities are shown as non-current.

(iv) The carrying value of the loan at 31st March, 2018 is Rs.1,07,80,000 (Rs.1,00,00,000 – Rs.2,00,000 + (Rs.98,00,000 x 10%)).
The tax base of the loan is Rs.1,00,00,000.
This creates a deductible temporary difference of Rs.7,80,000 (Rs.1,07,80,000 – Rs.1,00,00,000) and a potential deferred tax asset of Rs.1,56,000 (Rs.7,80,000 x 20%).
Due to the availability of taxable profits next year (see part (ii) above), this asset can be recognised as a deduction from deferred tax liabilities.

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 2018, the following events affected the tax position of the group:

- QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of Rs.30,00,000. QPR Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow QPR Ltd. to transfer the tax loss to other group companies. However, it allows QPR Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of PQR Ltd. do not consider that QPR Ltd. will make taxable profits in the foreseeable future.
- During the year ended 31st March, 2018, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was Rs.16,00,000. The development project began to generate economic benefits for PQR Ltd. from 1st January, 2018. The directors of PQR Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 2018.

- On 1st April, 2017, PQR Ltd. borrowed Rs.1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was Rs.2,00,000 and this cost qualified for a tax deduction on 1st April 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March 2020 will be Rs.1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of Rs.30,43,800 will be claimable when the loan is repaid on 31st March, 2020.

  Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of PQR Ltd. group at 31st March, 2018 as per Ind AS. The rate of corporate income tax is 30%.

Solution :

Impact on consolidated balance sheet of PQR Ltd. group at 31st March, 2018

- The tax loss creates a potential deferred tax asset for the PQR Ltd. group since its carrying value is nil and its tax base is Rs.30,00,000. However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.
- The development costs have a carrying value of Rs.15,20,000 (Rs.16,00,000 – (Rs.16,00,000 × 1/5 × 3/12)). The tax base of the development costs is nil since the relevant tax deduction has already been claimed. The deferred tax liability will be Rs.4,56,000 (Rs.15,20,000 × 30%). All deferred tax liabilities are shown as non-current.
- The carrying value of the loan at 31st March, 2018 is Rs.1,07,80,000 (Rs.1,00,00,000 – Rs.200,000 + (Rs.98,00,000 × 10%)). The tax base of the loan is 1,00,00,000. This creates a deductible temporary difference of Rs.7,80,000 and a potential deferred tax asset of Rs.2,34,000 (Rs.7,80,000 × 30%).

Question 6 — **May 2019 - PAPER**

No Question

Question 7 — **Nov 2019 - RTP**

An entity is finalising its financial statements for the year ended 31st March, 20X2. Before 31st March, 20X2, the government announced that the tax rate was to be amended from 40 per cent to 45 per cent of taxable profit from 30th June, 20X2.

The legislation to amend the tax rate has not yet been approved by the legislature. However, the government has a significant majority and it is usual, in the tax jurisdiction concerned, to regard an announcement of a change in the tax rate as having the substantive effect of actual enactment (i.e. it is substantively enacted).

After performing the income tax calculations at the rate of 40 per cent, the entity has the following deferred tax asset and deferred tax liability balances :

Deferred tax asset	Rs.80,000
Deferred tax liability	Rs.60,000

Of the deferred tax asset balance, Rs. 28,000 related to a temporary difference. This deferred tax asset had previously been recognised in OCI and accumulated in equity as a revaluation surplus.

The entity reviewed the carrying amount of the asset in accordance with para 56 of Ind AS 12 and determined that it was probable that sufficient taxable profit to allow utilisation of the deferred tax asset would be available in the future.

Show the revised amount of Deferred tax asset & Deferred tax liability and present the necessary journal entries.

Solution :

Calculation of Deductible temporary differences :

Deferred tax asset = Rs.80,000
Existing tax rate = 40%
Deductible temporary differences = 80,000/40%
= Rs.2,00,000

Calculation of Taxable temporary differences:

Deferred tax liability = Rs.60,000
Existing tax rate = 40%
Deductible temporary differences = 60,000/40%
= Rs.1,50,000

Of the total deferred tax asset balance of Rs.80,000, Rs.28,000 is recognized in OCI
Hence, Deferred tax asset balance of Profit & Loss is Rs.80,000 – Rs.28,000 = Rs.52,000
Deductible temporary difference recognized in Profit & Loss is Rs.1,30,000 (52,000 / 40%)
Deductible temporary difference recognized in OCI is Rs.70,000 (28,000 / 40%)
The adjusted balances of the deferred tax accounts under the new tax rate are:

Deferred tax asset		**Rs.**
Previously credited to OCI-equity	Rs.70,000 x 0.45	31,500
Previously recognised as Income	Rs.1,30,000 x 0.45	58,500
		90,000
Deferred tax liability		
Previously recognized as expense	Rs.1,50,000 x 0.45	67,500

The net adjustment to deferred tax expense is a reduction of Rs.2,500. Of this amount, Rs.3,500 is recognised in OCI and Rs.1,000 is charged to P&L.

An alternative method of calculation is :		**Rs.**
DTA shown in OCI	Rs.70,000 × (0.45 - 0.40)	3,500
DTA shown in Profit or Loss	Rs.1,30,000 × (0.45-0.40)	6,500
DTL shown in Profit or Loss	Rs.1,50,000 × (0.45 -0.40)	7,500

Journal Entries

	Rs.	**Rs.**
Deferred tax asset	3,500	
OCI –revaluation surplus		3,500
Deferred tax asset	6,500	
Deferred tax expense		6,500

Deferred tax expense	7,500	
Deferred tax liability		7,500

Alternatively, a combined journal entry may be passed as follows:

		Rs.	Rs.
Deferred tax asset	Dr.	10,000	
Deferred tax expense	Dr.	1,000	
To OCI –revaluation surplus			3,500
To Deferred tax liability			7,500

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

IND AS 24 - RELATED PARTY DISCLOSURE

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	YES	NO
2019	NO	NO	YES	NO
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

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 Rs.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 BOD meetings and charged Rs.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?

Solution :

As per Ind AS 24, Related Party Disclosures, "Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."

Accordingly, key management personnel (KMP) includes any director of the entity who are having authority and responsibility for planning, directing and controlling the activities of the entity. Hence, independent director Mr. Atul and non-executive director Mr. Naveen are covered under the definition of KMP in accordance with Ind AS.

Also as per Ind AS 19, 'Employee Benefits', an employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of the Standard, Employees include directors and other management personnel.

Therefore, an entity shall disclose key management personnel compensation in total i.e. disclosure of directors' fee of (Rs.10,00,000 + Rs.7,50,000) Rs.17,50,000 is to be made as employees benefits (under various categories).

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

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, 2017. Sales of products from XYZ Ltd. to ABC Ltd. in the two-month period from 1st April 2017 to 31st May 2017 totalled Rs.8,00,000. Following the shares purchased 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 months' 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 2017 to 31st March 2017 totalled Rs.60,00,000. On 31st March 2018, the trade receivables of XYZ Ltd. included Rs.18,00,000 in respect of amounts owing by ABC Ltd.
Analyse and show how the above event would be reported in the financial statements of XYZ Ltd. for the year ended 31 March 2018 and mention the disclosure requirements also as per Ind AS.

Solution :

XYZ Ltd. would include the total revenue of Rs.68,00,000 (Rs.60,00,000 + Rs.8,00,000) from ABC Ltd. received / receivable in the year ended 31st March 2018 within its revenue and show Rs.18,00,000 within trade receivables at 31st March 2018.
Mrs. P would be regarded as a related party of XYZ Ltd. because she is a close family member of one of the key management personnel of XYZ Ltd.
From 1st June 2017, ABC Ltd. would also be regarded as a related party of XYZ Ltd. because from that date ABC Ltd. is an entity controlled by another related party.
Because ABC Ltd. is a related party with whom XYZ Ltd. has transactions, then XYZ Ltd. should disclose:

– The nature of the related party relationship.
– The revenue of Rs.60,00,000 from ABC Ltd. since 1st June 2017.
– The outstanding balance of rs.18,00,000 at 31st March 2018.

In the current circumstances it may well be necessary for XYZ Ltd. to also disclose the favourable terms under which the transactions are carried out.

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

Uttar Pradesh State Government holds 60% shares in PQR Limited and 55% shares in ABC Limited. PQR Limited has two subsidiaries namely P Limited and Q Limited. ABC Limited has two subsidiaries namely A Limited and B Limited. Mr. KM is one of the Key management personnel in PQR Limited.

(a) Determine the entity to whom exemption from disclosure of related party transactions is to be given. Also examine the transactions and with whom such exemption applies.

(b) What are the disclosure requirements for the entity which has availed the exemption?

Solution :

(a) As per Ind AS 24, 'Related Party Disclosures', if an entity had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

However, as per standard a reporting entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

(i) a government that has control or joint control of, or significant influence over, the reporting entity; and

(ii) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity

According to the above paras, for Entity P's financial statements, the exemption applies to:

(i) transactions with Government Uttar Pradesh State Government; and

(ii) transactions with Entities PQR and ABC and Entities Q, A and B.

Similar exemptions are available to Entities PQR, ABC, Q, A and B, with the transactions with UP State Government and other entities controlled directly or indirectly by UP State Government. However, that exemption does not apply to transactions with Mr. KM. Hence, the transactions with Mr. KM needs to be disclosed under related party transactions.

(b) It shall disclose the following about the transactions and related outstanding balances referred to :

(a) the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);

(b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

(i) the nature and amount of each individually significant transaction; and

(ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

No Question

IND AS 33 - EARNINGS PER SHARE

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	NO	NO
2019	YES	NO	NO	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

P Ltd. is a subsidiary company of ABC Ltd. It preparing both Separate financial statement (SFS) and consolidated financial statements (CFS) for the year ending on 31st March, 20XI. It has net profit after tax of Rs.20,00,000 as per SFS & Rs.16,00,000 as per CFS. Share capital of P Ltd. is 2,00,000 shares of Rs.10 each. ABC Ltd. has acquired 80% shares of P Ltd. Accountant of P Ltd. had calculated following Basic EPS for its SFS:

Calculation of Basic EPS in its SFS	
Net Profit after tax	Rs.16,00,000
Number of equity shares attributable to Parent company ABC Ltd. (2,00,000 x 80%) shares	1,60,000
Basic EPS	Rs.10 per share

Examine the correctness of the above presentation of Basic EPS.

Solution :

As per Ind AS 33 "Earnings per Share", 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. 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.

Hence, the presentation of Basic EPS by the Accountant of P Ltd. on the basis of consolidated financial statements in its separate financial statements is not correct. The correct presentation of Basic EPS would be as follows:

Calculation of Basic EPS of P Ltd. in SFS	
Net Profit after tax	Rs.20,00,000
No. of share issued	2,00,000 shares
Basic EPS	Rs.10 per share

Question 2	May 2018 - PAPER

No Question

Question 3	Nov 2018 - RTP

No Question

Question 4	Nov 2018 - PAPER

No Question

2019

Question 5	May 2019 - RTP

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 Rs.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

Profit attributable to ordinary equity holders of the parent entity Year 1	Rs.1,000,000
Ordinary shares outstanding	1,200,000
Convertible bonds outstanding	2,000

Solution :

Allocation of proceeds of the bond issue:

Liability component (Refer Note 1)	Rs.1,848,122
Equity component	Rs.151,878
	Rs.2,000,000

The liability and equity components would be determined in accordance with Ind AS 32. These amounts are recognised as the initial carrying amounts of the liability and equity components. The amount assigned to the issuer conversion option equity element is an addition to equity and is not adjusted.

Basic earnings per share Year 1:

$\frac{Rs.1,000,000}{1,200,000}$ = Rs.0.83 per ordinary share

Diluted earnings per share Year 1:

It is presumed that the issuer will settle the contract by the issue of ordinary shares. The dilutive effect is therefore calculated in accordance with the Standard.

$$\frac{Rs.1{,}000{,}000 + Rs.166{,}331}{1{,}200{,}000 + 500{,}000}$$ = Rs.0.69 per ordinary share

Notes:

1. This represents the present value of the principal and interest discounted at 9% – Rs.2,000,000 payable at the end of three years; Rs.120,000 payable annually in arrears for three years.
2. Profit is adjusted for the accretion of Rs.166,331 (Rs.1,848,122 × 9%) of the liability because of the passage of time. However, it is assumed that interest @ 6% for the year has already been adjusted.
3. 500,000 ordinary shares = 250 ordinary shares × 2,000 convertible bonds

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

CAB Limited is in the process of preparation of the consolidated financial statements of the group for the year ending 31st March, 20X3 and the extract of the same is as follows:

Particulars	Attributable to CAB Limited	Non-controlling interest	Total (Rs.in '000)
Profit for the year	39,000	3,000	42,000
Other Comprehensive Income	5,000	Nil	5,000
Total Comprehensive Income	44,000	3,000	47,000

The long-term finance of the company comprises of the following:

(i) 20,00,00,000 equity shares at the beginning of the year and the company has issued 5,00,00,000 shares on 1st July, 20X2 at full market value.

(ii) 8,00,00,000 irredeemable preference shares. These shares were in issue for the whole of the year ended 31st March, 20X3. The dividend on these preference shares is discretionary.

(iii) Rs.18 crores of 6% convertible debentures issued on 1st April, 20X1 and repayable on 31st March, 20X5 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 10 crores ordinary shares in the company. On 1st April, 20X1, the prevailing market interest rate for four-year convertible debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of Rs.1 payable in four years is 0.74 and the cumulative present value of Rs.1 payable at the end of years one to four is 3.31.

In the year ended 31st March, 20X3, CAB Limited declared an ordinary dividend of 0.10 paise per share and a dividend of 0.05 paise per share on the irredeemable preference shares.

Compute the following:

- the finance cost of convertible debentures and its closing balance as on 31st March, 20X3 to be presented in the consolidated financial statements.
- the basic and diluted earnings per share for the year ended 31st March, 20X3.

Assume that income tax is applicable to CAB Limited and its subsidiaries at 25%.

Solution :

Calculation of the liability and equity components on 6% Convertible debentures:

Present value of principal payable at the end of 4th year (Rs.1,80,000 thousand x 0.74) = Rs.1,33,200 thousand

Present value of interest payable annually for 4 years (Rs.1,80,000 thousand x 6% x 3.31) = Rs.35,748 thousand

Total liability component = Rs.1,68,948 thousand

Therefore, equity component = Rs.1,80,000 thousand – Rs.1,68,948 thousand = Rs.11,052 thousand

Calculation of finance cost and closing balance of 6% convertible debentures

Year	Opening balance Rs. in '000	Finance cost @ 8% Rs. in '000	Interest paid @ 6% Rs. in '000	Closing balance Rs. in '000
	a	b = a x 8%	c	d = a + b - c
31.3.20X2	1,68,948	13,515.84	10,800	1,71,663.84
31.3.20X3	1,71,663.84	13,733.11	10,800	1,74,596.95

Finance cost of convertible debentures for the year ended 31.3. 20X3 is **Rs.13,733.11** thousand and closing balance as on 31.3. 20X3 is **Rs.1,74,596.95** thousand.

Calculation of Basic EPS

	Rs.in '000
Profit for the year	39,000
Less: Dividend on preference shares (80,000 thousand x Rs.0.05)	(4,000)
Profit attributable to equity shareholders	35,000

Weighted average number of shares = 20,00,00,000 + {5,00,00,000 x (9/12)}

= 23,75,00,000 shares or 2,37,500 thousand shares

Basic EPS = Rs.35,000 thousand / 2,37,500 thousand shares

= Rs.0.147

Calculation of Diluted EPS ` in '000

Profit for the year		39,000
Less: Dividend on preference shares (80,000 x 0.05)		(4,000)
		35,000
Add: Finance cost (as given in the above table)	13,733.11	

Less: Tax @ 25%	(3,433.28)	10,299.83
		45,299.83

Weighted average number of shares = 20,00,00,000 + {5,00,00,000 x (9/12)} + 10,00,00,000
= 33,75,00,000 shares or 3,37,500 thousand shares

Diluted EPS = Rs.45,299.83 thousand / 3,37,500 thousand shares
= Rs.0.134

IND AS 102 - SHARE BASED PAYMENTS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	YES	YES	YES
2019	YES	NO	YES	YES
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Questions

Question 2 **May 2018 - PAPER**

ABC Limited issued 20,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1st April 2015. The SARs will be settled in cash. At that date it is estimated using an option pricing model, that the fair value of a SAR is ` 95. SAR can be exercised any time up to 31st March 2018. At the end of 31st March 2016 it is expected that 95% of total employees will exercise the option, 92% of total employees will exercise the option at the end of next year and finally 89% will be vested only at the end of the 3rd year. Fair values at the end of each period have been given below:

Fair value of SAR	**Rs.**
31st March, 2016	110
31st March, 2017	107
31st March, 2018	112

Discuss the applicability of Cash Settled Share based payments under the relevant Ind AS and pass the journal entries.

Solution :

Applicability of cash settled share-based payment transactions

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability.

1. <u>When vesting conditions are attached to the share based payment plans</u>
   The recognition of such share based payment plans should be done by recognizing fair value of the liability at the time of goods/ services received and not at the date of grant.
2. <u>When no vesting period / condition is attached or to be fulfilled</u>
   Cash settled share based payment can be recognized in full at initial recognition itself.
   Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period date and difference in fair value will be charged to profit or loss for the period as employee benefit expenses.

At the date of settlement, the liability is paid in cash based on the fair value on the date of settlement.

Calculation of expenses recognized during the year on account of change in the fair value of SARs

Period	Fair value	To be vested	Cumulative expenses	Expense / (benefit) for the current year
	a	b	c = a x b x 20,000	d = c-of current period – c of previous period
1st April, 2015	95	100%	19,00,000	19,00,000
31st March, 2016	110	95%	20,90,000	1,90,000
31st March, 2017	107	92%	19,68,800	(1,21,200)
31st March, 2018	112	89%	19,93,600	24,800
				19,93,600

Journal Entries

Date		Dr.(Rs.)	Cr.(Rs.)
1st April, 2015	Employee benefits expenses Dr. To Share based payment liability (Fair value of the SAR recognized initially)	19,00,000	19,00,000
31st March, 2016	Employee benefits expenses Dr. To Share based payment liability (Fair value of the SAR re-measured)	1,90,000	1,90,000
31st March, 2017	Share based payment liability Dr. To Employee benefits expenses (Fair value of the SAR re-measured & reversed)	1,21,200	1,21,200
31st March, 2018	Employee benefits expenses Dr. To Share based payment liability (Fair value of the SAR remeasured & recognized)	24,800	24,800
	Share based payment liability Dr. To Cash (Settlement of SARs in cash)	19,93,600	19,93,600

Question 3 **Nov 2018 - RTP**

P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1st April 2017 with a fair value Rs.200. The terms of the award require the employee to provide service for four years in order to earn the award. The fair value of each SAR at each reporting date is as follows:

31st March 2018 Rs.210

31st March 2019 Rs.220

31st March 2020 Rs.215

31st March 2021 Rs.218

What would be the difference if at the end of the second year of service (i.e. at 31st March 2019), P Ltd. modifies the terms of the award to require only three years of service. Answer on the basis of relevant Ind AS.

Solution :

a) Without modification of service period :

	31/03/2018	31/03/2019	31/03/2020	31/03/2021
Options	400	400	400	400
Employees	75	75	75	75
Fair value	210	220	215	218
Life	4 Years	4 Years	4 Years	4 Years

31/3/18 = $\frac{400 \times 75 \times 210}{4} \times 1$ = 15,75,000

31/3/19 = $\frac{400 \times 75 \times 220}{4} \times 2$ = 33,00,000 – 15,75,000 = 17,25,000

31/3/20 = $\frac{400 \times 75 \times 215}{4} \times 3$ = 48,37,500 – 33,00,000 = 15,37,500

31/3/21 = $\frac{400 \times 75 \times 218}{4} \times 4$ = 65,40,000 – 48,37,500 = 17,02,500

Journal Entries :

31/3/18	Employee Comp. Exp. (P&L)	15,75,000	
	To Liability for SAR		15,75,000
31/3/19	Employee Comp. Exp. (P&L)	17,25,000	
	To Liability for SAR		17,25,000
31/3/20	Employee Comp. Exp. (P&L)	15,37,500	
	To Liability for SAR		15,37,500
31/3/21	Employee Comp. Exp. (P&L)	17,02,500	
	To Liability for SAR		17,02,500

b) Without modification of service period :

	31/03/2018	31/03/2019	31/03/2020
Options	400	400	400
Employees	75	75	75
Fair value	210	220	215
Life	4 Years	3 Years	3 Years

31/3/18 = $\frac{400 \times 75 \times 210}{4} \times 1$ = 15,75,000

31/3/19 = $\frac{400 \times 75 \times 220}{4} \times 2$ = 44,00,000 – 15,75,000 = 28,25,000

$$31/3/20 = \frac{400 \times 75 \times 215}{4} \times 3 = 64,50,000 - 44,00,000 = 20,50,000$$

Journal Entries :

31/3/18	Employee Comp. Exp. (P&L)	15,75,000	
	To Liability for SAR		15,75,000
31/3/19	Employee Comp. Exp. (P&L)	28,25,000	
	To Liability for SAR		28,25,000
31/3/20	Employee Comp. Exp. (P&L)	20,50,000	
	To Liability for SAR		20,50,000

Question 4 **Nov 2018 - PAPER**

Golden Era Limited grants 200 shares to each of its 400 employees on 1st January, 2016. The employee should remain in service during the vesting period so as to be eligible. The shares will vest at the end of the

1st year - If the company's earnings increase by 12%.

2nd year - If the company's earnings increase by more than 20% over the two year period.

3rd year - If the company's earnings increase by more than 20% over the three year period.

The fair value per share (non-market related) at the grant date is ` 61. In 2016, earnings increased by 10% and 22 employees left the company. The company expects that earnings will continue at a similar rate in 2017 and expect that the shares will vest at the end of the year 2017. The company also expects that additional 18 employees will leave the organization in the year 2017 and that 360 employees will receive their shares at the end of the year 2017. At the end of 2017 company's earnings increased by 18% (over the 2 years period). Therefore, the shares did not vest. Only 16 employees left the organization during 2017.

The company believes that additional 14 employees will leave in 2020 and earnings will further increase so that the performance target will be achieved in 2018. At the end of the year 2018, only 9 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

You are required to determine the expense as per Ind AS for each year (assumed as financial year) and pass appropriate journal entries. (8 Marks)

Solution :

Since the earnings of the entity is non-market related, hence it will not be considered in fair value calculation of the shares given. However, the same will be considered while calculating number of shares to be vested.

Calculation of yearly expenses to be charged :

		2016	2017	2018
(a)	Total employees	400	400	400
(b)	Employees left (Actual)	(22)	22+16=38	22+16+9=47
(c)	Employees expected to leave in the next year	(18)	(14)	-
(d)	Year end – No of employees (a-b-c)	360	348	353

(e)	Shares per employee	200	200	200
(f)	Fair value of a share at the grant date	61	61	61
	Conditional increase in earnings	12%	20%	20%
	Actual increase in earnings	10%	18%	20%
(g)	Vesting period	1/2	2/3	3/3
(h)	Expenses (Refer Working Notes)	$\frac{360 \times 200 \times 61}{2} \times 1$ = 21,96,000	$\frac{360 \times 200 \times 61}{3} \times 2$ = 28,30,400 – 21,96,000 6,34,400	$\frac{360 \times 200 \times 61}{3} \times 3$ = 43,06,600 – 28,30,400 14,76,200

Journal Entries

		Rs.	Rs.
31st March, 2016			
Employee benefits expenses A/c	Dr.	5,49,000	
To Share based payment reserve (equity) A/c			5,49,000
(Equity settled shared based payment based on conditional vesting period)			
Profit and Loss A/c	Dr.	5,49,000	
To Employee benefits expenses A/c			5,49,000
(Employee benefits expenses transferred to Profit and Loss A/c)			
31st March, 2017			
Employee benefits expenses	Dr.	18,05,600	
To Share based payment reserve (equity)			18,05,600
(Equity settled shared based payment based on conditional expected vesting period)			
Profit and Loss A/c	Dr.	18,05,600	
To Employee benefits expenses A/c			18,05,600
(Employee benefits expenses transferred to Profit and Loss A/c)			
31st March, 2018			
Employee benefits expenses	Dr.	8,44,850	
To Share based payment reserve (equity)			8,44,850
(Equity settled shared based payment based on conditional expected vesting period)			
Profit and Loss A/c	Dr.	8,44,850	
To Employee benefits expenses A/c			8,44,850
(Employee benefits expenses transferred to Profit and Loss A/c)			
31st March, 2019			
Employee benefits expenses	Dr.	11,07,150	
To Share based payment reserve (equity)			11,07,150
(Equity settled shared based payment based on conditional expected vesting period)			
Profit and Loss A/c	Dr.	11,07,150	
To Employee benefits expenses A/c			11,07,150

(Employee benefits expenses transferred to Profit and Loss A/c)			
Share based payment reserve (equity) (353 x 200 x 61)	Dr.	43,06,600	
To Share Capital			43,06,600
(Share capital Issued)			

2019

Question 5 **May 2019 - RTP**

A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is Rs.30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.
Pass the necessary journal entries for giving effect to the above arrangement.

Solution :

As required by Ind AS 102, over the two-year vesting period, the subsidiary measures the services received from the employees in accordance, the requirements applicable to equity-settled share-based payment transactions. Thus, the subsidiary measures the services received from the employees on the basis of the fair value of the share options at grant date. An increase in equity is recognised as a contribution from the parent in the separate or individual financial statements of the subsidiary.
The journal entries recorded by the subsidiary for each of the two years are as follows:

Year 1		**Rs.**	**Rs.**
Remuneration expense	Dr.	2,40,000	
(200 × 100 employees × Rs.30 × 80% × ½)			
To Equity (Contribution from the parent)			2,40,000
Year 2			
Remuneration expense	Dr.	2,46,000	
[(200 x 81 employees x Rs.30) – 2,40,000]			
To Equity (Contribution from the parent)			2,46,000

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

QA Ltd. had on 1st April, 20X1 granted 1,000 share options each to 2,000 employees. The options are due to vest on 31st March, 20X4 provided the employee remains in employment till 31st March, 20X4.
On 1st April, 20X1, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 20X4. This estimate was amended to 1,850 employees on 31st March, 20X2 and further amended to 1,840 employees on 31st March, 20X3.
On 1st April, 20X1, the fair value of an option was Rs.1.20. The fair value increased to Rs.1.30 as on 31st March, 20X2 but due to challenging business conditions, the fair value declined thereafter. In September, 20X2, when the fair value of an option was Rs.0.90, the Directors repriced the option and this caused the fair value to increase to Rs.1.05. Trading conditions improved in the second half of the year and by 31st

March, 20X3 the fair value of an option was Rs.1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 20X2 should be spread over the remaining vesting period from 30th September, 20X2 to 31st March, 20X4.

The Company has requested you to suggest the suitable accounting treatment for these transaction as on 31st March, 20X3.

Solution :

a) **Year 11 – 12**

$= \frac{1{,}850 \times 1{,}000 \times 1.2}{3} \times 1$ = 7,40,000

b) **Year 12 – 13**

$= \frac{1{,}840 \times 1{,}000 \times (1.05 - 0.9)}{1.5} \times 0.5$ = 92,000

8,24,000

Question 8 **Nov 2019 - PAPER**

ABC Limited granted 500 stock appreciation rights (SAR) each to 80 employees on 1st April, 2017 with a fair value Rs.100 each. The terms of the award require the employee to provide service for four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the option. The fair value of each SAR at each reporting date is as follows.

31st March, 2018	Rs.110
31st March, 2019	Rs.120
31st March, 2020	Rs.115
31st March, 2021	Rs.130

Please present the journal entries in the books of ABC Limited over the entire life of the grants.

What would be the difference if at the end of the second year of service (i.e. at 31st March, 2019), ABC Limited modifies the terms of the award to require only three years of total service? Please present with the revised journal entries. Answer on the basis of relevant Ind AS.

Solution :

Similar to - Question 3 : Nov 2018 RTP

a) **Without modification of service period :**

	31/03/2018	31/03/2019	31/03/2020	31/03/2021
Options	500	500	500	500
Employees	80	80	80	80
Fair value	110	120	115	130
Life	4 Years	4 Years	4 Years	4 Years

31/3/18 = $\frac{500 \times 80 \times 110}{4} \times 1$ = 11,00,000

31/3/19 = $\left(\frac{500 \times 80 \times 120}{4} \times 2\right)$ – 11,00,000 = 13,00,000

31/3/20 = $\left(\frac{500 \times 80 \times 115}{4} \times 3\right)$ – 24,00,000 = 10,50,000

31/3/21 = $\left(\frac{500 \times 80 \times 130}{4} \times 4\right)$ – 34,50,000 = 17,50,000

Journal Entries :

31/3/18	Employee Comp. Exp. (P&L)	11,00,000	
	To Liability for SAR		11,00,000
31/3/19	Employee Comp. Exp. (P&L)	13,00,000	
	To Liability for SAR		13,00,000
31/3/20	Employee Comp. Exp. (P&L)	10,50,000	
	To Liability for SAR		10,50,000
31/3/21	Employee Comp. Exp. (P&L)	17,50,000	
	To Liability for SAR		17,50,000

b) **Without modification of service period :**

	31/03/2018	31/03/2019	31/03/2020
Options	500	500	500
Employees	80	80	80
Fair value	110	120	115
Life	4 Years	3 Years	3 Years

31/3/18 = $\frac{500 \times 80 \times 110}{4} \times 1$ = 11,00,000

31/3/19 = $\left(\frac{500 \times 80 \times 120}{3} \times 2\right)$ – 11,00,000 = 21,00,000

31/3/20 = $\left(\frac{500 \times 80 \times 115}{3} \times 3\right)$ – 32,00,000 = 14,00,000

Journal Entries :

31/3/18	Employee Comp. Exp. (P&L)	11,00,000	
	To Liability for SAR		11,00,000
31/3/19	Employee Comp. Exp. (P&L)	21,00,000	
	To Liability for SAR		21,00,000
31/3/20	Employee Comp. Exp. (P&L)	14,00,000	
	To Liability for SAR		14,00,000

2020

Question 9 **May 2020 - RTP**

An entity which follows its financial year as per the calendar year grants 1,000 share appreciation rights (SARs) to each of its 40 management employees as on 1st January 20X5. The SARs provide the employees with the right to receive (at the date when the rights are exercised) cash equal to the appreciation in the entity's share price since the grant date. All of the rights vest on 31st December 20X6; and they can be exercised during 20X7 and 20X8. Management estimates that, at grant date, the fair value of each SAR is Rs.11; and it estimates that overall 10% of the employees will leave during the two-year period. The fair values of the SARs at each year end are shown below:

Year	Fair value at year end
31 December 20X5	12
31 December 20X6	8
31 December 20X7	13
31 December 20X8	12

10% of employees left before the end of 20X6. On 31st December 20X7 (when the intrinsic value of each SAR was Rs.10), six employees exercised their options; and the remaining 30 employees exercised their options at the end of 20X8 (when the intrinsic value of each SAR was equal to the fair value of Rs.12). How much expense and liability is to be recognized at the end of each year? Pass Journal entries.

Solution :

The amount recognized as an expense in each year and as a liability at each year end) is as follows:

Year	Expense Rs.	Liability Rs.	Calculation of Liability
31 December 20X5	2,16,000	2,16,000	= 36 x 1,000 x 12 x ½
31 December 20X6	72,000	2,88,000	= 36 x 1,000 x 8
31 December 20X7	1,62,000*	3,90,000	= 30 x 1,000 x 13
31 December 20X8	(30,000)**	0	Liability extinguished

* Expense comprises an increase in the liability of Rs.102,000 and cash paid to those exercising their SARs of Rs.60,000 (6 x 1,000 x 10).

** Difference of opening liability (Rs.3,90,000) and actual liability paid [Rs.3,60,000 (30 x 1,000 x 12)] is recognised to Profit and loss i.e. Rs.30,000.

Journal Entries

31 December 20X5			
Employee benefits expenses To Share based payment liability (Fair value of the SAR recognized)	Dr.	2,16,000	2,16,000
31 December 20X6			
Employee benefits expenses To Share based payment liability (Fair value of the SAR re-measured)	Dr.	72,000	72,000
31 December 20X7			
Employee benefits expenses To Share based payment liability (Fair value of the SAR recognized)	Dr.	1,62,000	1,62,000
Share based payment liability To Cash (Settlement of SAR)	Dr.	60,000	60,000

31 December 20X8			
Share based payment liability To Employee benefits expenses (Fair value of the SAR recognized)	Dr.	30,000	30,000
Share based payment liability To Cash (Settlement of SAR)	Dr.	3,60,000	3,60,000

Note: Last two entries can be combined.

IND AS 19 - EMPLOYEES BENEFITS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	YES	YES
2019	YES	NO	YES	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

A Ltd. prepares its financial statements to 31st March each year. It operates a defined benefit retirement benefits plan on behalf of current and former employees. A Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 2017, the actuaries advised that the present value of the defined benefit obligation was Rs.6,00,00,000. On the same date, the fair value of the assets of the defined benefit plan was Rs.5,20,00,000. On 1st April, 2017, the annual market yield on government bonds was 5%. During the year ended 31st March, 2018, A Ltd. made contributions of Rs.70,00,000 into the plan and the plan paid out benefits of Rs.42,00,000 to retired members. Both these payments were made on 31st March, 2018.

The actuaries advised that the current service cost for the year ended 31st March, 2018 was Rs.62,00,000. On 28th February, 2018, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined benefit obligation was increased by Rs.15,00,000 from that date.

During the year ended 31st March, 2018, A Ltd. was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by Rs.80,00,000. Before 31st March, 2018, A Ltd. made payments of Rs.75,00,000 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.

On 31st March, 2018, the actuaries advised that the present value of the defined benefit obligation was Rs.6,80,00,000. On the same date, the fair value of the assets of the defined benefit plan were Rs.5,60,00,000.

Examine and present how the above event would be reported in the financial statements of A Ltd. for the year ended 31st March, 2018 as per Ind AS.

Solution :

All figures are Rs. in '000.

On 31st March, 2018, A Ltd. will report a net pension liability in the statement of financial position. The amount of the liability will be 12,000 (68,000 – 56,000).

For the year ended 31st March, 2018, A Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be 6,200. The same treatment applies to the past service cost of 1,500.

For the year ended 31st March, 2018, A Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of 8,000 (60,000 – 52,000). The amount of the finance cost will be 400 (8,000 x 5%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of 500 (8,000 – 7,500) will be reported in the statement of profit or loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March, 2018, the remeasurement loss will be 3,400 (Refer W. N.).

Working Note:

Remeasurement of gain or loss

Liability at the start of the year (60,000 – 52,000)	8,000
Current service cost	6,200
Past service cost	1,500
Net finance cost	400
Gain on settlement	(500)
Contributions to plan	(7,000)
Remeasurement loss (balancing figure)	3,400
Liability at the end of the year (68,000 – 56,000)	12,000

Question 4 **Nov 2018 - PAPER**

Sun Shine India Limited has a capital base of Rs.150 Lakh and has earned profits to the tune of Rs.17 lakh. The Return on Investment (ROI) of the particular industry to which the company belongs is 14%. If the services of a particular executive are acquired by the company, it is expected that the profit will increase by Rs.3 lakh over and above the target profit.

Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

Solution :

EITHER

Capital Base	=	Rs.1,50,00,000
Actual Profit	=	Rs.17,00,000
Target Profit @ 14%	=	Rs.21,00,000

Expected Profit on employing the particular executive

= Rs.21,00,000 + Rs.3,00,000 = Rs.24,00,000

Additional Profit = Expected Profit – Actual Profit

= Rs.24,00,000 – Rs.17,00,000 = Rs.7,00,000

Maximum bid price = $\frac{\text{Additional Profit}}{\text{Rate of Return on Investment}} = \frac{7,00,000}{14\%} \times 100$ = Rs.50,00,000

Maximum salary that can be offered = 14% of Rs.50,00,000 i.e., Rs.7,00,000

Maximum salary can be offered to that particular executive upto the amount of additional profit i.e., Rs.7,00,000.

2019

Question 5 **May 2019 - RTP**

ABC Limited operates a defined benefit plan which provides to the employees covered under the plan a pension benefit which is equal to 0.75% final salary for each year of completed service. An employee needs to complete minimum of five years' service for becoming eligible to the benefit. On 1st April, 2015, the entity improves the pension benefit to 1% of final salary for each year of service, including prior years. The present value of the defined benefit obligation is therefore, increased by Rs.80 million. Given below is the composition of this amount:

Employees with more than 5 years' of service at 1st April, 2015	Rs.60 million
Employees with less than 5 years' of service at 1st April, 2015	Rs.20 million

The employees in the second category have completed average 2 and half years of service. Hence, they need to complete another two and half year of service until vesting.

Comment on the treatment of Rs.80 million of the defined benefit obligation in the financial statements both as per AS 15 and Ind AS 19.

Solution :

Under AS 15, a past service cost of Rs.60 million needs to be recognized immediately, as those benefits are already vested. The remaining Rs.20 million cost is recognized on a straight line basis over the vesting period, i.e., period to two and half years commencing from 1st April, 2015.

Under Ind AS 19, the entire past service cost of Rs.80 million needs to be recognized and charged in profit or loss immediately. ABC Ltd. cannot defer any part of this cost.

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

(All numbers in Rs. '000 unless otherwise stated)

ABL Ltd. operates a defined retirement benefits plan on behalf of current and former employees. ABL Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 20X1, the actuaries advised that the present value of the defined benefit obligation was Rs.60,000. On the same date, the fair value of the assets of the defined benefit plan was Rs.52,000. On 1st April, 20X1, the annual market yield on high quality corporate bonds was 5%. During the year ended 31st March 20X2, ABL Ltd. made contributions of Rs.7,000 into the plan and the plan paid out benefits of Rs.4200 to retired members. Assume that both these payments were made on 31st March 20X2. The actuaries advised that the current service cost for the year ended 31st March 20X2 was Rs.6,200. On 28th February, 20X2, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined benefit obligation was increased by Rs.1500 from that date. During the year ended 31st March, 20X2, ABL Ltd. was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ` 8000. Before 31st March, 20X2, ABL Ltd. made payments of ` 7500 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan. On 31st March, 20X2, the actuaries advised that the present value of the defined benefit obligation was Rs.68,000. On the same date, the fair value of the assets of the defined benefit plan were Rs.56,000.

Solution :

(All numbers in Rs.'000 unless otherwise stated)

On 31st March 20X2, ABL Ltd. will report a net pension liability in the statement of financial position. The amount of the liability will be Rs.12,000 (68,000 – 56,000).

For the year ended 31st March 20X2, ABL Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be Rs.6,200. The same treatment applies to the past service cost of Rs.1,500.

For the year ended 31st March 20X2, ABL Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of Rs.8,000 (60,000 – 52,000). The amount of the finance cost will be Rs.400 (8,000 x 5%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of Rs.500 (8,000 – 7,500) will be reported in the statement of profit or loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March 20X2, the remeasurement loss will be Rs.3,400 (refer W.N.).

Working Note:

Calculation of remeasurement gain or loss:	**Rs.'000**
Liability at the start of the year (60,000 – 52,000)	8,000
Current service cost	6,200
Past service cost	1,500
Net finance cost	400
Gain on settlement	(500)
Contributions to plan	(7,000)
Remeasurement loss **(balancing figure)**	3,400
Liability at the end of the year (68,000 – 56,000)	12,000

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

On 1 April 20X1, the fair value of the assets of XYZ Ltd's defined benefit plan were valued at Rs.20,40,000 and the present value of the defined obligation was Rs.21,25,000. On 31st March, 20X2 the plan received contributions from XYZ Ltd amounting to Rs.4,25,000 and paid out benefits of Rs.2,55,000. The current service cost for the financial year ending 31 March 20X2 is Rs.5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31 March 20X2 was Rs.23,80,000, and the present value of the defined benefit obligation was Rs.27,20,000. Provide a reconciliation from the opening balance to the closing balance for Plan assets and Defined benefit obligation. Also show how much amount should be recognised in the statement of profit and loss, other comprehensive income and balance sheet?

Solution :

Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets Rs.	**Defined benefit obligation Rs.**
Fair value/present value as at 1st April 20X1	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost		5,10,000
Contributions received	4,25,000	-
Benefits paid	(2,55,000)	(2,55,000)
Return on gain (assets) (balancing figure)	68,000	-
Actuarial Loss (balancing figure)	-	2,33,750
Closing balance as at March 31,20X2	23,80,000	27,20,000

In the Statement of Profit and loss, the following will be recognised:

	Rs.
Current service cost	5,10,000
Net interest on net defined liability (Rs.1,06,250 – Rs.1,02,000)	4,250

Defined benefit re-measurements recognised in Other Comprehensive Income:

	Rs.
Loss on defined benefit obligation	(2,33,750)
Gain on plan assets	68,000
	(1,65,750)

In the Balance sheet, the following will be recognised :

	Rs.
Net defined liability (Rs.27,20,000 – Rs.23,80,000)	3,40,000

IND AS 115 - REVENUE FROM CONTRACT WITH CUSTOMER

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	NO	YES
2019	YES	NO	YES	YES
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

Mac Ltd. purchased goods on credit from Toy Ltd. for Rs.580 lakhs for export. The export order was cancelled. Mac Ltd. decided to sell the same goods in the local market with a price discount. Toy Ltd. was requested to offer a price discount of Rs.10%. Toy Ltd. wants to adjust the sales figure to the extent of the discount requested by Mac Ltd. Discuss whether such a treatment in the books of Toy Ltd. is justified as per the provisions of the relevant Ind AS.

Also, Toy Ltd. entered into a sale deed for its Land on 15th March, 20X1. But registration was done with the registrar on 20th April, 20X1. But before registration, is it possible to recognize the sale and the gain at the balance sheet date? Give reasons in support of your answer.

Solution :

Toy Ltd. had sold goods to Mac Ltd on credit worth for Rs.580 lakhs and the sale was completed in all respects. Mac Ltd.'s decision to sell the same in the domestic market at a discount does not affect the amount recorded as sales by Toy Ltd.

The price discount of 10% offered by Toy Ltd. after request of Mac Ltd. was not in the nature of a discount given during the ordinary course of trade because otherwise the same would have been given at the time of sale itself. However, there appears to be an uncertainty relating to the collectability of the debt, which has arisen subsequent to sale. Therefore, it would be appropriate to make a separate provision to reflect the uncertainty relating to collectability rather than to adjust the amount of revenue originally recorded. Hence such discount should be charged to the Statement of Profit and Loss and not shown as deduction from the sales figure.

With respect to sale of land, both sale and gain on sale of land earned by Toy Ltd. shall be recognized in the books at the balance sheet date. In substance, the land was transferred with significant risk & rewards of ownership to the buyer before the balance sheet date and what was pending was merely a formality to register the deed. The registration post the balance sheet date only confirms the condition of sale at the balance sheet date as per Ind AS 10 “Events after the Reporting Period.”

Question 2 **May 2018 - RTP**

ABC is a construction contract company involved in building commercial properties. Its current policy for determining the percentage of completion of its contracts is based on the proportion of cost incurred to date compared to the total expected cost of the contract.

One of ABC's contracts has an agreed price of Rs.250 crores and estimated total costs of Rs.200 crores. The cumulative progress of this contract is:

Year ended	31st March 20X1	31st March 20X2
Cost incurred	80	145
Work certified and billed	75	160
Amount received against bills	70	150

ABC prepared and published its financial statements for the year ended 31st March 20X1. Relevant extracts are:

	Rs.in Crores
Revenue [(80/200) x 250]	100
Cost of sales	(80)
Profit	20

Balance Sheet (Extracts)

	Rs.Crores
Current assets	
Amount due from customers	
Contract cost to date	80
Profit recognized	20
	100
Progress billing to date	(75)
Billing to be done	25
Contract asset (amount receivable) (75-70)	5

ABC has received some adverse publicity in the financial press for taking its profit too early in the contract process, leading to disappointing profits in the later stages of contracts. Most of ABC's competitors take profit based on the percentage of completion as determined by the work certified compared to the contract price.

Required

(a) Assume that ABC changes its method of determining the percentage of completion of contracts to that used by its competitors, as this would represent a change in an accounting estimate. Prepare equivalent extracts to the above for the year ended 31st March 20X2.

(b) Identify, whether the above change represents a change in accounting estimate or a change in accounting policy and why?

Solution :

(i) ABC's income statement (extracts) for the year ended:

	31 March 20X2
	Rs.Crores
Revenue (based on work certified) (160-100)	60
Cost of sales (balancing figure)	(48)
Profit [(160/250) x (250-200)] - 20	12

Statement of financial position (extracts) as on

	31 March 20X2
	Rs.Crores

Current assets	
Amount due from customers	
Contract cost to date	145
Profit recognized (20+12)	32
	177
Progress billing	(160)
Billing to be done	17
Contract assets (amount receivable) (160-150)	10

(ii) The relevant issue here is what constitutes the accounting policy for construction contracts. Where there is uncertainty in the outcome of a contract, the appropriate accounting policy would be the completed contract basis (i.e. no profit is taken until the contract is completed). Similarly, any expected losses should be recognised immediately.

Where the outcome of a contract is reasonably foreseeable, the appropriate accounting policy is to accrue profits by the percentage of completion method. If this is accepted, it becomes clear that the different methods of determining the percentage of completion of construction contracts are different accounting estimates. Thus the change made by ABC in the year to 31 March 20X2 represents a change of accounting estimate.

Question 3 **May 2018 - PAPER**

No Question

Question 4 **Nov 2018 - RTP**

No Question

Question 5 **Nov 2018 - PAPER**

Deluxe bike manufactured by Zed Limited is sold with an extended warranty of 2 years for Rs.87,300 while an identical Deluxe bike without the extended warranty is sold in the market for Rs.80,000 and equivalent warranty is given in the market for Rs.10,000. How should Zed Limited recognize and measure revenue in the books on the sale of the bikes and warranty?

Solution :

As per Ind As 115 Zed Ltd. has sold two products viz Deluxe bike and the extended warranty. Revenue earned on sale of each product should be recognised separately.

Calculation of Revenue attributable to both the components :

Total fair value of Deluxe bike and extended warranty (80,000+10,000)	Rs.90,000
Less: Sale price of the Deluxe bike with extended warranty	(Rs.87,300)
Discount	Rs.2,700
Discount and revenue attributable to each component of the transaction:	
Proportionate discount attributable to sale of Deluxe bike (2,700 x 80,000 / 90,000)	Rs.2,400
Revenue from sale of Deluxe bike (80,000 – 2,400)	Rs.77,600
Proportionate discount attributable to extended warranty (2,700 x 10,000 / 90,000)	Rs.300

Revenue from extended warranty (10,000 - 300) Rs.9,700

Revenue in respect of sale of Deluxe bike of ` 77,600 should be recognised immediately and revenue from warranty of Rs.9,700 should be recognised over the period of warranty ie. 2 years.

Question 6 **Nov 2018 - PAPER**

Future Limited undertakes a contract for construction of a Bridge on 01.04.2017. The contract was to be completed in two years. The following details are given below:

Contract Price Rs.1250 Lakh

Cost incurred up to 31.03.2018 Rs.780 Lakh

The company estimated that a further cost of Rs.520 lakh would be incurred for completing the project. What amount should be charged to revenue for the financial year 2017-18 as per the provisions of Ind AS 115 "Construction Contracts"?

Show the extracts of Profit and Loss account in the books of Future Limited.

Solution :

Statement showing the amount to be charged to Revenue as per Ind AS 11

	Rs.in lakh
Cost of construction incurred upto 31.03.2018	780
Add: Estimated future cost	520
Total estimated cost of construction	1,300
Degree of completion (780/1,300 x 100)	60%

	Rs.in lakh
Revenue recognized (1,250 x 60%)	750
Total foreseeable loss (1,300 – 1,250)	50
Less: Expense for the current year (780 – 750)	(30)
Loss to be provided for	20

Profit and Loss Account (Extract)

		Rs.in lakh			**Rs.in lakh**
To	Construction Costs	780	By	Contract Price	750
To	Provision for loss	20	By	Net loss	50
		800			**800**

2019

Question 7 **May 2019 - RTP**

KK Ltd. runs a departmental store which awards 10 points for every purchase of Rs.500 which can be discounted by the customers for further shopping with the same merchant. Each point is redeemable on any future purchases of KK Ltd.'s products within 3 years. Value of each point is Rs.0.50. During the accounting period 2017-2018, the entity awarded 1,00,00,000 points to various customers of which 18,00,000 points remained undiscounted (to be redeemed till 31st March, 2020). The management expects only 80% of the remaining will be discounted in future.

The Company has approached your firm with the following queries and has asked you to suggest the accounting treatment (Journal Entries) under the applicable Ind AS for these award points:

(a)	How should the recognition be done for the sale of goods worth Rs.10,00,000 on a particular day?
(b)	How should the redemption transaction be recorded in the year 2017-2018? The Company has requested you to present the sale of goods and redemption as independent transaction. Total sales of the entity is Rs.5,000 lakhs.
(c)	How much of the deferred revenue should be recognised for year 2018-19 / 19-20 because of the estimation that only 80% of the outstanding points will be redeemed?
(d)	In the next year 2018-2019, 60% of the outstanding points were discounted Balance 40% of the outstanding points of 2017-2018 still remained outstanding. How much of the deferred revenue should the merchant recognize in the year 2018-2019 and what will be the amount of balance deferred revenue?
(e)	How much revenue will the merchant recognized in the year 2019-2020, if 3,00,000 points are redeemed in the year 2019-2020?

Solution :

(a) As per Ind AS 115

(i) On sale of Rs.10,00,000, 20,000 points shall be amended

$$\frac{10,00,000}{500} \times 10 = 20,000$$

(ii) Every point cost Rs.05, so 20,000 points shall be converted Rs.10,000.

(iii) So as sale the consideration shall be allocated to sale of goods and points in ratio of its stand alone price.

	Standalone Price	Consideration Allocated
Sale of goods	10,00,000	9,90,099
Points (Rs.)	10,000	9,901
	10,10,000	**10,00,000**

(b) As per Ind AS 115

(i) On sale of Rs.50,00,00,000, 1,00,00,000 points should be awarded.

i.e. $\frac{50,00,00,000}{500} \times 10 = 1,00,00,000$ points

Amount of points = 1,00,00,000 × 0.5 = 50,00,000.

Allocation of Consideration

	Price	Allocated
Goods	50,00,00,000	49,50,49,505
Points	50,00,000	49,50,495
	50,50,00,000	**50,00,00,000**

Bank	50,00,00,000	
To Revenue (Sales)		49,50,49,505
To Points		49,50,495

(ii) Entity awarded 1,00,00,000 o customer out of which 18,00,000 remain undiscounted till march, 2020.

$\therefore$ Undiscounted points estimated to be recognized in next year = 18,00,000 $\times$ 80% = 14,40,000

$\therefore$ Revenue to be recognised i.e. 1,00,00,000 – 18,00,000 + 14,40,000 = 96,40,000.

Revenue to be recognized with respect to point discounted

$$= 49{,}50{,}495 \times \frac{82{,}00{,}000}{96{,}40{,}000} = 42{,}11{,}002$$

i.e.

Points	42,11,002	
To Revenue		42,11,002

Note : Balance = 7,39,493 (49,50,495 – 42,11,002) shall be defined beyond March, 2017.

(c) Revenue Recognised in 18-19/19-2000 should be 42,11,002.

(d) If 60% of outstanding points are discounted

Points discounted = 18,00,000 $\times$ 60% = 10,80,000.

Total points discounted = 82,00,000 + 10,80,000 = 92,80,000

Total Revenue to be recognized = $49{,}50{,}495 \times \frac{92{,}80{,}000}{96{,}40{,}000} = 47{,}65{,}622$

Revenue already recognised = 42,11,002

Revenue to be recognised = 47,65,622 – 42,11,002 = 5,54,620

Points	5,54,620	
To Revenue		5,54,620

Balance Outstanding = 7,39,493 – 5,54,620 = 1,84,873

(e) In the year 2019-2020 the merchant will be recognised the balance of Rs.1,84,873 irrespective of points redeemed became it is last year.

Points	1,84,873	
To Revenue		1,84,873

Question 8 **May 2019 - PAPER**

No question

Question 9 **Nov 2019 - RTP**

An entity G Ltd. enters into a contract with a customer P Ltd. for the sale of a machinery for Rs.20,00,000. P Ltd. intends to use the said machinery to start a food processing unit. The food processing industry is highly competitive and P Ltd. has very little experience in the said industry.

P Ltd. pays a non-refundable deposit of Rs.1,00,000 at inception of the contract and enters into a long-term financing agreement with G Ltd. for the remaining 95 per cent of the agreed consideration which it

intends to pay primarily from income derived from its food processing unit as it lacks any other major source of income. The financing arrangement is provided on a non-recourse basis, which means that if P Ltd. defaults then G Ltd. can repossess the machinery but cannot seek further compensation from P Ltd., even if the full value of the amount owed is not recovered from the machinery. The cost of the machinery for G Ltd. is Rs.12,00,000. P Ltd. obtains control of the machinery at contract inception.
When should G Ltd. recognise revenue from sale of machinery to P Ltd. in accordance with Ind AS 115?

Solution :

As per Ind AS 115, "An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

(a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
(b) the entity can identify each party's rights regarding the goods or services to be transferred;
(c) the entity can identify the payment terms for the goods or services to be transferred;
(d) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
(e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession".

Paragraph (e) above, requires that for revenue to be recognised, it should be probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In the given case, it is not probable that G Ltd. will collect the consideration to which it is entitled in exchange for the transfer of the machinery. P Ltd.'s ability to pay may be uncertain due to the following reasons:

(a) P Ltd. intends to pay the remaining consideration (which has a significant balance) primarily from income derived from its food processing unit (which is a business involving significant risk because of high competition in the said industry and P Ltd.'s little experience);
(b) P Ltd. lacks sources of other income or assets that could be used to repay the balance consideration; and
(c) P Ltd.'s liability is limited because the financing arrangement is provided on a non-recourse basis.

In accordance with the above, the criteria in Ind AS 115 are not met.
Further, it states that when a contract with a customer does not meet the criteria in paragraph 9 and an entity receives consideration from the customer, the entity shall recognise the consideration received as revenue only when either of the following events has occurred:

(a) the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or
(b) the contract has been terminated and the consideration received from the customer is non-refundable.

In accordance with the above, in the given case G Ltd. should account for the non-refundable deposit of Rs.1,00,000 payment as a deposit liability as none of the events described in paragraph 15 have occurred—that is, neither the entity has received substantially all of the consideration nor it has terminated the contract. Consequently, in accordance with paragraph 16, G Ltd. Will continue to account for the initial deposit as well as any future payments of principal and interest as a deposit liability until the criteria in paragraph 9 are met (i.e. the entity is able to conclude that it is probable that the entity will collect the consideration) or one of the events in paragraph 15 has occurred. Further, G Ltd. will continue to assess the contract in accordance with paragraph 14 to determine whether the criteria in paragraph 9 are subsequently met or whether the events in paragraph 15 of Ind AS 115 have occurred.

Question 10 **Nov 2019 - PAPER**

Nivaan Limited commenced work on two long-term contracts during the financial year 31st March, 2019.

The first contract with A & Co. commences on 1st June, 2018 and had a total sales value of Rs.40 lakhs. It was envisaged that the contract would run two years and that the total expected costs would be Rs.32 lakhs. On 31st March, 2019. Navaan Limited revised its estimate of the total expected cost Rs.34 lakhs on the basis of the additional rectification cost of Rs.2 Lakhs incurred on the contract during the current financial year. An independent surveyor has estimated at 31st March, 2019 that the contract is 30% complete. Nivaan Limited has incurred cots up to 31st March, 2019 of Rs.16 lakhs and has received payments on account of Rs.13 lakhs.

The second contract with B & co. commenced on 1st Sept., 2018 and was for 18 months. The total sales value of contract was Rs.30 lakhs ad the total expected costs rs.24 lakhs. Payments on account already received were Rs.9.50 lakhs and total costs incurred to date were Rs.8 lakhs. Navaan Limited had insisted on a large deposit from B and Co. because the companies had not traded together prior to the contract. The independent surveyor estimated that 31st March, 2019 the contract was 20% complete.

The two contracts meet the requirement of Ind AS-115 'Revenue from Contracts with Customers' to recognize revenue over time as the performance obligations are satisfied over time.

The company also has several other contracts of between twelve and eighteen months in duration. Some of these contracts fall into two accounting period and were not completed as at 31st March, 2019. In absence of any financial data relating to the other contracts, you are advised to ignore these other contracts while preparing the financial statements of the company for the year ended 31st March, 2019.

Prepare financial statements extracts for Nivaan Limited in respect of the two construction contracts for the year ending 31st march, 2019.

2020

Question 11 **May 2020 - RTP**

(a) Entity I sells a piece of machinery to the customer for RS.2 million, payable in 90 days. Entity I is aware at contract inception that the customer might not pay the full contract price. Entity I estimates that the customer will pay atleast Rs.1.75 million, which is sufficient to cover entity I's cost of sales (rs.1.5 million) and which entity I is willing to accept because it wants to grow its presence in this market. Entity I has granted similar price concessions in comparable contracts.

Entity I concludes that it is highly probable that it will collect Rs.1.75 million, and such amount is not constrained under the variable consideration guidance.

What is the transaction price in this arrangement?

(b) On 1 January 20x8, entity J enters into a one-year contract with a customer to deliver water treatment chemicals. The contract stipulates that the price per container will be adjusted retroactively once the customer reaches certain sales volume, defined, as follows:

Price per container	Cumulative sales volume
Rs.100	1 - 1,000,000 containers
Rs.90	1,000,001 - 3,000,000 containers
Rs.85	3,000,001 containers and above

Volume is determined based on sales during the calendar year. There are no minimum purchase requirements. Entity J estimates that the total sales volume for the year will be 2.8 million containers, based on its experience with similar contracts and forecasted sales to the customer.

Entity J sells 700,000 containers to the customer during the first quarter ended 31 March 20X8 for a contract price of Rs.100 per container.

How should entity J determine the transaction price?

(c) Entity K sells electric razors to retailers for C 50 per unit. A rebate coupon is included inside the electric razor package that can be redeemed by the end consumers for C 10 per unit.

Entity K estimates that 20% to 25% of eligible rebates will be redeemed, based on its experience with similar programmes and rebate redemption rates available in the market for similar programmes. Entity K concludes that the transaction price should incorporate an assumption of 25% rebate redemption, as this is the amount for which it is highly probable that a significant reversal of cumulative revenue will not occur if estimates of the rebates change.

How should entity K determine the transaction price?

(d) A manufacturer enters into a contract to sell goods to a retailer for Rs.1,000. The manufacturer also offers price protection, whereby it will reimburse the retailer for any difference between the sale price and the lowest price offered to any customer during the following six months. This clause is consistent with other price protection clauses offered in the past, and the manufacturer believes that it has experience which is predictive for this contract.

Management expects that it will offer a price decrease of 5% during the price protection period. Management concludes that it is highly probable that a significant reversal of cumulative revenue will not occur if estimates change.

How should the manufacturer determine the transaction price?

Solution :

(a) Entity I is likely to provide a price concession and accept an amount less than Rs.2 million in exchange for the machinery. The consideration is therefore variable. The transaction price in this arrangement is Rs.1.75 million, as this is the amount which entity I expects to receive after providing the concession and it is not constrained under the variable consideration guidance. Entity I can also conclude that the collectability threshold is met for Rs.1.75 million and therefore contract exists.

(b) The transaction price is Rs.90 per container based on entity J's estimate of total sales volume for the year, since the estimated cumulative sales volume of 2.8 million containers would result in a price per container of Rs.90. Entity J concludes that based on a transaction price of Rs.90 per container, it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty is resolved. Revenue is therefore recognised at a selling price of Rs.90 per container as each container is sold. Entity J will recognise a liability for cash received in excess of the transaction price for the first 1 million containers sold at Rs.100 per container (that is, Rs.10 per container) until the cumulative sales volume is reached for the next pricing tier and the price is retroactively reduced.

For the quarter ended 31st March, 20X8, entity J recognizes revenue of Rs.63 million (700,000 containers x Rs.90) and a liability of Rs.7 million [700,000 containers x (Rs.100 – Rs.90)].

Entity J will update its estimate of the total sales volume at each reporting date until the uncertainty is resolved.

(c) Entity K records sales to the retailer at a transaction price of Rs.47.50 (Rs.50 less 25% of Rs.10). The difference between the per unit cash selling price to the retailers and the transaction price is recorded as a liability for cash consideration expected to be paid to the end customer. Entity K will update its estimate of the rebate and the transaction price at each reporting date if estimates of redemption rates change.

(d) The transaction price is Rs.950, because the expected reimbursement is Rs.50. The expected payment to the retailer is reflected in the transaction price at contract inception, as that is the amount of consideration to which the manufacturer expects to be entitled after the price protection. The manufacturer will recognise a liability for the difference between the invoice price and the transaction price, as this represents the cash that it expects to refund to the retailer. The manufacturer will update its estimate of expected reimbursement at each reporting date until the uncertainty is resolved.

IND AS 101 - FIRST TIME ADOPTION

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	NO	NO
2019	YES	NO	YES	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

ABC Ltd is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Ltd. from the government (which holds 100% shareholding in ABC Ltd.) which is in the nature of promoters' contribution have been recognised in capital reserve and treated as part of shareholders' funds in accordance with the provisions of AS 12, Accounting for Government Grants.

State whether the accounting treatment of the grants in the nature of promoters' contribution as per AS 12 is also permitted under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance. If not, then what will be the accounting treatment of such grants recognised in capital reserve as per previous GAAP on the date of transition to Ind AS.

Solution :

Paragraph 2 of Ind AS 20, "Accounting for Government Grants and Disclosure of Government Assistance" inter alia states that the Standard does not deal with government participation in the ownership of the entity.

Since ABC Ltd. is a Government company, it implies that government has 100% shareholding in the entity. Accordingly, the entity needs to determine whether the payment is provided as a shareholder contribution or as a government. Equity contributions will be recorded in equity while grants will be shown in the Statement of Profit and Loss.

Where it is concluded that the contributions are in the nature of government grant, the entity shall apply the principles of Ind AS 20 retrospectively as specified in Ind AS 101 'First Time Adoption of Ind AS'. Ind AS 20 requires all grants to be recognised as income 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. Unlike AS 12, Ind AS 20 requires the grant to be classified as either a capital or an income grant and does not permit recognition of government grants in the nature of promoter's contribution directly to shareholders' funds.

Where it is concluded that the contributions are in the nature of shareholder contributions and are recognised in capital reserve under previous GAAP, the provisions of paragraph 10 of Ind AS 101 would be applied which states that, which states that except in certain cases, an entity shall in its opening Ind AS Balance Sheet:

(a) recognise all assets and liabilities whose recognition is required by Ind AS;

(b) not recognise items as assets or liabilities if Ind AS do not permit such recognition;

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and

(d) apply Ind AS in measuring all recognised assets and liabilities."

Accordingly, as per the above requirements of paragraph 10(c) in the given case, contributions recognised in the Capital Reserve should be transferred to appropriate category under 'Other Equity' at the date of transition to Ind AS.

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The Company has decided to voluntary adopt Ind AS w.e.f 1st April, 2018 with a transition date of 1st April, 2017.

The Company has one Wholly Owned Subsidiary and one Joint Venture which are into manufacturing of automobile spare parts.

The -consolidated financial statements of the Company under Indian GAAP are as under:

Consolidated Financial Statements

(Rs.in Lakhs)

Particulars	**31.03.2018**	**31.03.2017**
Shareholder's Funds		
Share Capital	7,953	7,953
Reserves & Surplus	16,547	16,597
Non-Current Liabilities		
Long Term Borrowings	1,000	1,000
Long Term Provisions	1,101	691
Other Long-Term Liabilities	5,202	5,904
Current Liabilities		
Trade Payables	9,905	8,455
Short Term Provisions	500	475
Total	**42,208**	**41,075**
Non-Current Assets		
Property Plant & Equipment	21,488	22,288

Goodwill on Consolidation of subsidiary and JV	1,507	1,507
Investment Property	5,245	5,245
Long Term Loans & Advances	6,350	6,350
Current Assets		
Trade Receivables	4,801	1,818
Investments	1,263	3,763
Other Current Assets	1,554	104
Total	**42,208**	**41,075**

Additional Information :

The Company has entered into a joint arrangement by acquiring 50% of the equity shares of ABC Pvt. Ltd. Presently, the same has been accounted as per the proportionate consolidated method. The proportionate share of assets and liabilities of ABC Pvt. Ltd. included in the consolidated financial statement of XYZ Pvt. Ltd. is as under:

Particulars	**Rs.in Lakhs**
Property, Plant & Equipment	1,200
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Trade Payables	75
Short Term Provisions	35

The Investment is in the nature of Joint Venture as per Ind AS 111.

The Company has approached you to advice and suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1st April, 2017.

Solution :

As per paras D31AA and D31AB of Ind AS 101, when changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged. The balance of the investment in joint venture at the date of transition to Ind AS, determined in accordance with paragraph D31AA above is regarded as the deemed cost of the investment at initial recognition.

Accordingly, the deemed cost of the investment will be

Property, Plant & Equipment	1,200
Goodwill (Refer Note below)	119
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Total Assets	2054
Less: Trade Payables	75
Short Term Provisions	35

Deemed cost of the investment in JV	1944

Calculation of proportionate goodwill share of Joint Venture ie ABC Pvt. Ltd.

Property, Plant & Equipment	22,288
Goodwill	1,507
Long Term Loans & Advances	6,350
Trade Receivables	1,818
Other Current Assets	104
Total Assets	32,067
Less: Trade Payables	8,455
Short Term Provisions	475
	23,137

Proportionate Goodwill of Joint Venture

= [(Goodwill on consolidation of subsidiary and JV/Total relative net asset) × Net asset of JV]

= (1507 / 23,137) × 1825 = 119 (approx.)

Accordingly, the proportional share of assets and liabilities of Joint Venture will be removed from the respective values assets and liabilities appearing in the balance sheet on 31.3.2017 and Investment in JV will appear under non-current asset in the transition date balance sheet as on 1.4.2017.

Adjustments made in I GAAP balance sheet to arrive at Transition date Ind AS Balance Sheet

Particulars	31.3.2017	Ind AS Adjustment	Transition date Balance Sheet as per Ind AS
Non-Current Assets			
Property Plant & Equipment	22,288	(1,200)	21,088
Intangible assets - Goodwill on Consolidation	1507	(119)	1,388
Investment Property	5,245	-	5,245
Long Term Loans & Advances	6,350	(405)	5,945
Non- current investment in JV	-	1,944	1,944
Current Assets			
Trade Receivables	1,818	(280)	1,538
Investments	3,763	-	3,763
Other Current Assets	104	(50)	54
Total	**41,075**	**(110)**	**40,965**
Shareholder's Funds			
Share Capital	7,953	-	7,953
Reserves & Surplus	16,597	-	16,597
Non-Current Liabilities			
Long Term Borrowings	1,000		1,000
Long Term Provisions	691		691
Other Long-Term Liabilities	5,904		5,904
Current Liabilities			
Trade Payables	8,455	(75)	8,380
Short Term Provisions	475	(35)	440
Total	**41,075**	**(110)**	**40,965**

Question 6	May 2019 - PAPER

No Question

Question 7	Nov 2019 - RTP

Mathur India Private Limited has to present its first financials under Ind AS for the year ended 31st March, 20X3. The transition date is 1st April, 20X1.

The following adjustments were made upon transition to Ind AS:

(a) The Company opted to fair value its land as on the date on transition.
The fair value of the land as on 1st April, 20X1 was Rs.10 crores. The carrying amount as on 1st April, 20X1 under the existing GAAP was Rs.4.5 crores.

(b) The Company has recognised a provision for proposed dividend of Rs.60 lacs and related dividend distribution tax of Rs.18 lacs during the year ended 31st March, 20X1. It was written back as on opening balance sheet date.

(c) The Company fair values its investments in equity shares on the date of transition. The increase on account of fair valuation of shares is Rs.75 lacs.

(d) The Company has an Equity Share Capital of Rs.80 crores and Redeemable Preference Share Capital of Rs.25 crores.

(e) The reserves and surplus as on 1st April, 20X1 before transition to Ind AS was Rs.95 crores representing Rs.40 crores of general reserve and Rs.5 crores of capital reserve acquired out of business combination and balance is surplus in the Retained Earnings.

(f) The company identified that the preference shares were in nature of financial liabilities.

What is the balance of total equity (Equity and other equity) as on 1st April, 20X1 after transition to Ind AS? Show reconciliation between total equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1st April, 20X1.

Ignore deferred tax impact.

Solution :

Computation of balance total equity as on 1st April, 20X1 after transition to Ind AS

			Rs. in crore
Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95-5-40)	50		
Add: Increase in value of land (10 – 4.5)	5.5		
Add: De recognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	0.75	57.03	102.03
Balance total equity as on 1st April, 20X1 after transition to Ind AS			182.03

Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1st April, 20X1

		Rs. in crore

Equity share capital		80
Redeemable Preference share capital		25
		105
Reserves and Surplus		95
Total Equity as per AS		200
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as		0.78
1st April 20X1		
Adjustment due to remeasurement		
Increase in the value of Land due to remeasurement at fair value	5.5	
Increase in the value of investment due to remeasurement at fair value	0.75	6.25
Equity as on 1st April, 20X1 after transition to Ind AS		182.03

Question 8 — Nov. 2019 - PAPER

No Question

2020

Question 9 — May 2020 - RTP

On April 1, 20X1, Sigma Ltd. issued 30,000 6% convertible debentures of face value of Rs.100 per debenture at par. The debentures are redeemable at a premium of 10% on March 31, 20X5 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is April 1, 20X3.

Suggest how should Sigma Ltd. account for this compound financial instrument on the date of transition.

The present value of Re. 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

End of year	6%	10%
1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

Solution :

Ind AS 32, 'Financial Instruments: Presentation', requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 would involve separating two portions of equity. The first portion is recognised in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with Ind AS 101, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Ind AS.

In the present case, since the liability is outstanding on the date of transition, Sigma Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, we will first measure the liability component by discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

	Rs.
Interest payments p.a. on each debenture	6
Present Value (PV) of interest payment on each debenture for years 1 to 4 (6 x 3.17) (Note 1)	19.02
PV of principal repayment on each debenture (including premium) 110 x 0.68 (Note 2)	74.80
Total liability component on each debenture (A)	93.82
Total equity component per debenture (Balancing figure) (B) = (C) – (A)	6.18
Face value per debenture (C)	100.00
Equity component per debenture	6.18
Total equity component for 30,000 debentures	1,85,400
Total debt amount (30,000 x 93.82)	28,14,600

Thus, on the date of transition, the amount of Rs.30,00,000 being the amount of debentures will be split as under:

Debt Rs.28,14,600

Equity Rs.1,85,400

Notes:

1. 3.17 is annuity factor of present value of Re. 1 at a discount rate of 10% for 4 years.
2. On maturity, Rs.110 will be paid (` 100 as principal payment + Rs.10 as premium)

ANALYSIS OF FINANCIAL STATEMENTS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	YES	NO	YES	NO
2019	NO	NO	NO	YES
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

A Ltd. is an entity who prepares its financial statements based on Accounting Standards. Following is the draft financial statement for the year ended on 31st March, 20X1:

(Note all figures are Rs.in million)

Balance Sheet

Particulars	Note	As at March 31, 20X1
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital (shares of Rs.10 each)		2,000
Reserves and surplus	1	4,000
Non-current liabilities		
Long-term borrowings	2	11,110
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		600
Short-term provisions		500
Other current liabilities	4	300
TOTAL		**18,910**
ASSETS		
Non - Current assets		
Fixed Assets		11,310
Deferred Tax Assets	3	1,000
Current assets		
Inventories		2,000
Trade receivables	5	2,200
Cash and bank balances		2,400
TOTAL		**18,910**

Note 1: The Company has achieved a major breakthrough in its consultancy services in South Asia following which it has entered into a contract of rendering services with Floral Inc. for Rs.12 Billion during the year. The termination clause of the contract is equivalent to Rs.14 Million and is payable in case transition time schedule is missed from 15th December 20X5. The management however is of the view that the liability cannot be treated as onerous.

Note 2 : The Company is not able to assess the final liability for a particular tax assessment pertaining to the assessment year 20X1-20X2 wherein it has received a demand notice of Rs.12 Million. However, the company is contesting the same with CIT (Appeals) as on the reporting date.

Statement of Profit & Loss

Particulars	**Note**	**Year ended March 31, 20X1**
Revenue from operations		11,000
Expenses		
Employee Benefit Expense		2,400
Operating Costs		4,400
Depreciation		1,998
Total Expenses		8,798
Profit before tax		2,202
Tax Expense		(300)
Profit after tax		1,902

Notes to Accounts:

Note 1 : Reserves and Surplus **(INR in millions)**

Capital Reserve		1,000
Surplus from P & L		
Opening Balance	98	
Additions	1,902	2,000
Reserve for foreseeable loss		1,000
Total		**4,000**

Note 2 : Long Term Borrowings

Term Loan from Bank	11,110
Total	11,110

Note 3 : Deferred Tax

Deferred Tax Asset	1,000
Deferred Tax Liability	(400)
Total	600

Note 4 : Other Current Liabilities

Unclaimed dividends	6
Billing in Advance	294
Total	300

Note 5 : Trade Receivables

Considered good (outstanding within 6 months)	2,130
Considered doubtful (due from past 1 year)	80
Provision for doubtful debts	(10)
Total	2,200

Additional Information:

(a) Share capital comprises of 200 million shares of Rs.10 each

(b) Term Loan from bank for Rs.11,110 million also includes interest accrued and due of Rs.11,110 million as on the reporting date.

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

Required :

(i) Evaluate and report the errors and misstatements in the above extracts; and,

(ii) Prepare the corrected Balance Sheet & Statement of Profit and Loss.

Solution :

(a) On evaluation of the financial statements, following was observed:

1. For foreseeable loss provision is made and not reserves. Hence, reserve for foreseeable loss for INR 1000 million, (due within 6 months), should be a part of provision. Therefore, it needs to be regrouped. If it was also a part of previous year's comparatives, then a note should be added in the notes to account for regrouping done this year.
2. Interest accrued and due of INR 1,110 million on term loan will be a part of current liabilities since it is supposed to be paid within 12 months from the reporting date. Hence, it should be shown under the heading "Other Current Liabilities".
3. It can be inferred from Note 3, that the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws. Hence, these shall be set off, in accordance with AS 22. The net DTA of INR 600 million shall be shown in the balance sheet.
4. The note to trade receivables was incorrectly presented. The rectified note would be as follows:

Trade receivables (Unsecured)			**INR in million**
(a)	Over six months from the date they were due for payment		
	i.	Considered good	0
	ii.	Considered doubtful	80
		Less: Provision for doubtful debts	(10)
		(A)	70
(b)	Others		
	i.	Considered good	2,130
	ii.	Considered doubtful	0
		Less: Provision for doubtful debts	0
		(B)	2,130
Total (A + B)			2,200

5. It is common to have a termination clause in service contracts. Just by having a termination clause, a company cannot create a liability. Para 14 of AS 29 inter alia states

that a provision will be recognized when an enterprise has a present obligation as a result of a past event.

Since there is nothing to show that there is a present obligation, no provision will be made. As per para 27 of AS 29, a contingent liability is recognized only where the possibility of an outflow of resources embodying economic benefits is not remote. Since there is no onerous liability as on the reporting date, the possibility of an outflow becomes remote. Therefore, no contingent liability will arise. In fact, the management has wrongly worded it as 'onerous liability' in its notes to accounts. Onerous liability arises only when the unavoidable costs of meeting the obligation under the contract exceeds the economic benefits expected to be received from it. This note should be eliminated.

6. The demand notice from the tax department (that is under litigation) is a clear instance of a 'contingent liability'. Accordingly, the note should be revised as –

   'Contingent Liability:

   There is a demand notice INR 12 Million, which is under CIT (Appeals) as on the reporting date.

7. The Statement to Profit and Loss needs to represent earnings per share, as per AS 20.

(b) Revised extracts of the financial statements

Balance Sheet **(INR in Million)**

	Note No.	As at March 31, 20X1
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital		2,000
Reserves and surplus	1	3,000
Non-current liabilities		
Long-term borrowings	2	10,000
Current liabilities		
Trade payables		600
Short-term provisions		1,500
Other current liabilities	4	1,410
TOTAL		**18,510**
ASSETS		
Non - current assets		
Fixed Assets		11,310
Deferred Tax Assets	3	600
Current assets		
Inventories		2,000
Trade receivables	5	2,200
Cash and Cash Equivalents		2,400
TOTAL		**18,510**

Statement of Profit and Loss
(INR in Million)

	Note No.	Year ended March 31, 20X1

Revenue from operations		11,000
Expenses		
Operating Costs		4,400
Employee Benefit Expense		2,400
Depreciation		1,998
Total Expenses		8,798
Profit Before Tax		2,202
Tax Expense		300
Profit for the period		1,902
Earnings Per Equity Share		
Basic		9.51
Diluted		9.51
Number of equity shares (face value of Rs.10 each)		200 million

Revised Notes (wherever applicable):

Note on Reserves and Surplus **(INR in Million)**

Capital Reserve		1,000
Surplus from P & L		
Opening Balance	98	
Additions	1,902	2,000
Total		**3,000**

Note on Long Term Borrowings

Term Loan from Bank	10,000
Total	10,000

Note on Other Current Liabilities

Unclaimed dividends	6
Interest on Term Loan	1,110
Billing in Advance	294
Total	1,410

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

Mr. X, is the financial controller of ABC Ltd., a listed entity which prepares consolidated financial statements in accordance with Ind AS. Mr. X has recently produced the final draft of the financial statements of ABC Ltd. for the year ended 31st March, 2018 to the managing director for approval. Mr. Y, who is not an accountant, had raised following queries from Mr. X after going through the draft financial statements:

(a) One of the notes to the financial statements gives details of purchases made by ABC Ltd. from PQR Ltd. during the period. Mr. Y own 100% of the shares in PQR Ltd.. However, he feels that there is no requirement for any disclosure to be made in ABC Ltd.'s financial statements since the transaction is carried out on normal commercial terms and is totally insignificant to ABC Ltd., as it represents less than 1% of ABC Ltd.'s purchases.

(b) The notes to the financial statements say that plant and equipment is held under the 'cost model'. However, property which is owner occupied is revalued annually to fair value. Changes in fair value are sometimes reported in profit or loss but usually in 'other comprehensive income'. Also, the amount of depreciation charged on plant and equipment as a percentage of its carrying amount is much higher than for owner occupied property. Another note states that property owned by ABC Ltd. but rent out to others is depreciated annually and not fair valued. Mr. Y is of the opinion that there is no consistent treatment of PPE items in the accounts. Elucidate how all these treatments comply with the relevant Ind AS.

(c) In the year to March, 2018, ABC Ltd. spent considerable amount on designing a new product. ABC Ltd. spent the six months from April, 2017 to September, 2017 researching into the feasibility of the product. Mr. X charged these research costs to profit or loss. From October, 2017, A Ltd. was confident that the product would be commercially successful and A Ltd. is fully committed to finance its future development. A Ltd. spent remaining part of the year in developing the product, which is expected to start from selling in the next few months. These development costs have been recognised as intangible assets in the Balance Sheet. State whether the treatment done by Mr. X is correct when all these research and development costs are design costs. Justify your answer with reference to relevant Ind AS.

Provide answers to the queries raised by the managing director Mr. Y as per Ind AS.

Solution :

Ongoing through the queries raised by the Managing Director Mr. Y, the financial controller Mr. X explained the notes and reasons for their disclosures as follows:

(a) Related parties are generally characterised by the presence of control or influence between the two parties.

Ind AS 24 'Related Party Disclosures' identifies related parties as, inter alia, key management personnel and companies controlled by key management personnel. On this basis, PQR Ltd. is a related party of ABC Ltd.

The transaction is required to be disclosed in the financial statements of ABC Ltd. since Mr. Y is Key Management personnel of ABC Ltd. Also at the same time, it owns 100% shares of PQR Ltd. ie. he controls PQR Ltd. This implies that PQR Ltd. is a related party of ABC Ltd.

Where transactions occur with related parties, Ind AS 24 requires that details of the transactions are disclosed in a note to the financial statements. This is required even if the transactions are carried out on an arm's length basis.

Transactions with related parties are material by their nature, so the fact that the transaction may be numerically insignificant to ABC Ltd. does not affect the need for disclosure.

(b) The accounting treatment of the majority of tangible non-current assets is governed by Ind AS 16 'Property, Plant and Equipment'. Ind AS 16 states that the accounting treatment of PPE is determined on a class by class basis. For this purpose, property and plant would be regarded as separate classes. Ind AS 16 requires that PPE is measured using either the cost model or the revaluation model. This model is applied on a class by class basis and must be applied consistently within a class. Ind AS 16 states that when the revaluation model applies, surpluses are recorded in other comprehensive income, unless they are cancelling out a deficit which has previously been reported in profit or loss, in which case it is reported in profit or loss. Where the revaluation results in a deficit, then such deficits are reported in profit or loss, unless they are cancelling out a surplus which has previously been reported in other comprehensive income, in which case they are reported in other comprehensive income.

According to Ind AS 16, all assets having a finite useful life should be depreciated over that life. Where property is concerned, the only depreciable element of the property is the buildings element, since land normally has an indefinite life. The estimated useful life of a building tends to be much longer than for plant. These two reasons together explain why the depreciation charge of a property as a percentage of its carrying amount tends to be much lower than for plant.

Properties which are held for investment purposes are not accounted for under Ind AS 16, but under Ind AS 40 'Investment Property'. As per Ind AS 40, investment properties should be accounted for under a cost model. ABC Ltd. had applied the cost model and thus our investment properties are treated differently from the owner occupied property which is annually to fair value.

(c) As per Ind AS 38 'Intangible Assets', the treatment of expenditure on intangible items depends on how it arose. Internal expenditure on intangible items incurred during research phase cannot be recognised as an asset. Once it can be demonstrated that a development project is likely to be technically feasible, commercially viable, overall profitable and can be adequately resourced, then future expenditure on the project can be recognised as an intangible asset. The difference in the treatment of expenditure upto 30th September, 2017 and expenditure after that date is due to the recognition phase i.e. research or development phase.

Question 4 **Nov 2018 - RTP**

On 1st April 2017, A Ltd. lent Rs.2 crores to a supplier in order to assist them with their expansion plans. The arrangement of the loan cost the company ` 10 lakhs. The company has agreed not to charge interest on this loan to help the supplier's short-term cash flow but expected the supplier to repay Rs.2.40 crores on 31st March 2019. As calculated by the finance team of the company, the effective annual rate of interest on this loan is 6.9% On 28th February 2018, the company received the information that poor economic climate has caused the supplier significant problems and in order to help them, the company agreed to reduce the amount repayable by them on 31st March 2019 to Rs.2.20 crores. Suggest the accounting entries as per applicable Ind AS.

Solution :

The loan to the supplier would be regarded as a financial asset. The relevant accounting standard Ind AS 109 provides that financial assets are normally measured at fair value.

If the financial asset in which the only expected future cash inflows are the receipts of principal and interest and the investor intends to collect these inflows rather than dispose of the asset to a third party, then Ind AS 109 allows the asset to be measured at amortised cost using the effective interest method.

If this method is adopted, the costs of issuing the loan are included in its initial carrying value rather than being taken to profit or loss as an immediate expense. This makes the initial carrying value Rs.2,10,00,000.

Under the effective interest method, part of the finance income is recognised in the current period rather than all in the following period when repayment is due. The income recognised in the current period is Rs.14,49,000 (Rs.2,10,00,000 x 6.9%)

In the absence of information regarding the financial difficulties of the supplier the financial asset at 31st March, 2018 would have been measured at Rs.2,24,49,000 (Rs.2,10,00,000 + 14,49,000). The information regarding financial difficulty of the supplier is objective evidence that the financial asset suffered impairment at 31st March 2018.

The asset is re-measured at the present value of the revised estimated future cash inflows, using the original effective interest rate. Under the revised estimates the closing carrying amount of the asset would be Rs.2,05,79,981 (Rs.2,20,00,000 / 1.069). The reduction in carrying value of Rs.18,69,019 (Rs.2,24,49,000 – 2,05,79,981) would be charged to profit or loss in the current period as an impairment of a financial asset.

Therefore, the net charge to profit or loss in respect of the current period would be Rs.4,20,019 (18,69,019 – 14,49,000).

Question 5 **Nov 2018 - PAPER**

No Question

2019

Question 6 **May 2019 - RTP**

No Question

Question 7 **May 2019 - PAPER**

No Question

Question 8 **Nov 2019 - RTP**

No Question

Question 9 **Nov 2019 - PAPER**

Following are the Financial statements of Abraham Ltd. :

Balance Sheet

Particulars	**Note**	**As at March 31, 2019 (Rs. in lakhs)**
Equity and Liabilities		
Shareholder's funds		
Share capital (Shares of Rs.10 each)	1	1,000
Reserves and surplus		2,400
Non-current liabilities		
Long-term borrowings	2	5,700
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		300
Short-term provisions		300
Other current liabilities	4	200
Total		10,300
Assets		

Non-current assets		
Fixed Assets		5,000
Deferred Tax Assets	3	700
Current assets		
Inventories		1,500
Trade receivables	5	1,100
Cash and bank balances		2,000
Total		**10,300**

Statement of Profit & Loss :

Particulars	**Note**	**As at March 31, 2019 (Rs. in lakhs)**
Revenue from operations		**6,000**
Expenses :		
Employees Benefit Expense		1,200
Operating Costs		3,199
Depreciation		450
Total Expenses		**4,849**
Profit before tax		1,151
Tax Expense		201
Profit after tax		**950**

Notes to Account :

Note 1 : Reserve and surplus

(Rs. in lakhs)

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

Note 2 : Long Term Borrowings

Term Loan from Bank	5,700
Total	**5,700**

Note 3 : Deferred Tax

Deferred Tax Asset	700
Deferred Tax Liability	400
Total	**300**

Note 4 : Other Current Liabilities

Unclaimed dividends	10

Billing in Advance	150
Other Current Liabilities	40
Total	**200**

Note 5 : Trade Receivables

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

Additional Information :

(i) Share capital comprises of 100 Lakh shares of Rs.10 each.

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

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

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

(v) A dividend of 10% was declared by the Board of directors of the company.

(vi) Accrued Interest income of Rs.300 Lakhs in not booked in the books of the company.

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

Identify and report the errors and misstatements in the above extracts and prepare corrected Balance Sheet and Statement of Profit and Loss and where required the relevant notes to the accounts with explanations thereof.

2020

Question 10 **May 2020 - RTP**

No Question

CORPORATE SOCIAL RESPONSIBILITY

Years	May		Nov	
	RTP	**Paper**	**RTP**	**Paper**
2018	NO	YES	NO	YES
2019	YES	NO	NO	NO
2020	NO	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

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 Rs.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:

(Rs.in crore)

	31st March 2018 (Current Year)	31st March 2017	31st March 2016	31st March 2015
Net Profit	4.25	8.00	3.50	3.25
Turnover	500.00	900.00	400.00	350.00

Examine, whether the company has an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year. (8 Marks)

Solution :

A. As per section 135 of the Companies Act 2013

Every company having either

- ❖ net worth of Rs.500 crore or more, or
- ❖ turnover of Rs.1,000 crore or more or
- ❖ a net profit of Rs.5 crore or more

<u>during any financial year</u> shall constitute a Corporate Social Responsibility (CSR) Committee of the 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 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 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' 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 any of the preceding three financial years, 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 sections 135 of the Companies Act, 2013.

As per the criteria to constitute CSR committee -

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

Hence, the XYZ Ltd. is required to form a CSR committee.

Question 3 — Nov 2018 - RTP

No Question

Question 4 — Nov 2018 - PAPER

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, Rs.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 Rs.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 Rs.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, Rs.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'.

2019

Question 5 **May 2019 - RTP**

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 financial state:

(Rs.in Crore)

	March 31, 2019 (Current year)	March 31, 2018	March 31, 2017	March 31, 2016
Net Profit	3.00	8.50	4.00	3.00
Sales (turnover)	850	950	900	800

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 any of the preceding three financial years, but which does not meet the criteria in the relevant financial year, will still 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, 2018.

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

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

No Question

IND AS 28 - INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	YES	NO
2019	NO	NO	NO	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

As provided in Ind- AS 111 - Joint Arrangements - this is a joint arrangement because two or more parties have joint control of the property under a contractual arrangement. The arrangement will be regarded as a joint operation because Alpha Ltd. and Gama Ltd. have rights to the assets and obligations for the liabilities of this joint arrangement. This means that the company and the other investor will each recognise 50% of the cost of constructing the asset in property, plant and equipment.
The borrowing cost incurred on constructing the property should under the principles of Ind AS 23 'Borrowing Costs', be included as part of the cost of the asset for the period of construction.
In this case, the relevant borrowing cost to be included is Rs.50,00,000 (Rs.10,00,00,000 x 10% x 6/12).
The total cost of the asset is Rs.40,50,00,000 (Rs.40,00,00,000 + Rs.50,00,000) Rs.20,25,00,000 crores is included in the property, plant and equipment of Alpha Ltd. and the same amount in the property, plant and equipment of Gama Ltd.
The depreciation charge for the year ended 31 March 2018 will therefore be Rs.1,01,25,000 (Rs.40,50,00,000 x 1/20 x 6/12) Rs.50,62,500 will be charged in the statement of profit or loss of the company and the same amount in the statement of profit or loss of Gama Ltd.
The other costs relating to the arrangement in the current year totalling Rs.54,00,000 (finance cost for the second half year of Rs.50,00,000 plus maintenance costs of Rs.4,00,000) will be charged to the statement of profit or loss of Alpha Ltd. and Gama Ltd. in equal proportions- Rs.27,00,000 each.

Solution :

As provided in Ind- AS 111 - Joint Arrangements - this is a joint arrangement because two or more parties have joint control of the property under a contractual arrangement. The arrangement will be regarded as a joint operation because Alpha Ltd. and Gama Ltd. have rights to the assets and obligations for the

liabilities of this joint arrangement. This means that the company and the other investor will each recognise 50% of the cost of constructing the asset in property, plant and equipment.
The borrowing cost incurred on constructing the property should under the principles of Ind AS 23 'Borrowing Costs', be included as part of the cost of the asset for the period of construction.
In this case, the relevant borrowing cost to be included is Rs.50,00,000 (Rs.10,00,00,000 x 10% x 6/12).
The total cost of the asset is Rs.40,50,00,000 (Rs.40,00,00,000 + Rs.50,00,000) Rs.20,25,00,000 crores is included in the property, plant and equipment of Alpha Ltd. and the same amount in the property, plant and equipment of Gama Ltd.
The depreciation charge for the year ended 31 March 2018 will therefore be Rs.1,01,25,000 (Rs.40,50,00,000 x 1/20 x 6/12) Rs.50,62,500 will be charged in the statement of profit or loss of the company and the same amount in the statement of profit or loss of Gama Ltd.
The other costs relating to the arrangement in the current year totalling Rs.54,00,000 (finance cost for the second half year of Rs.50,00,000 plus maintenance costs of Rs.4,00,000) will be charged to the statement of profit or loss of Alpha Ltd. and Gama Ltd. in equal proportions- Rs.27,00,000 each.

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

No Question

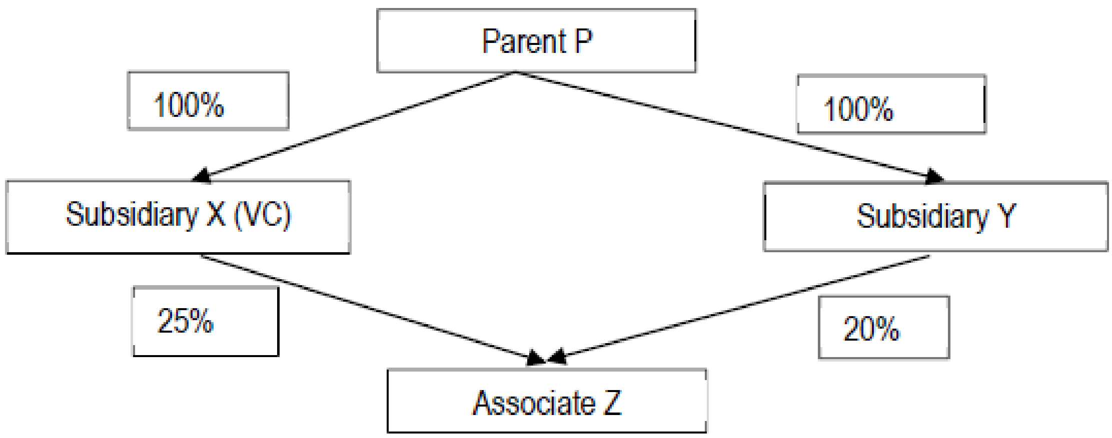
2020

Question 9 **May 2020 - RTP**

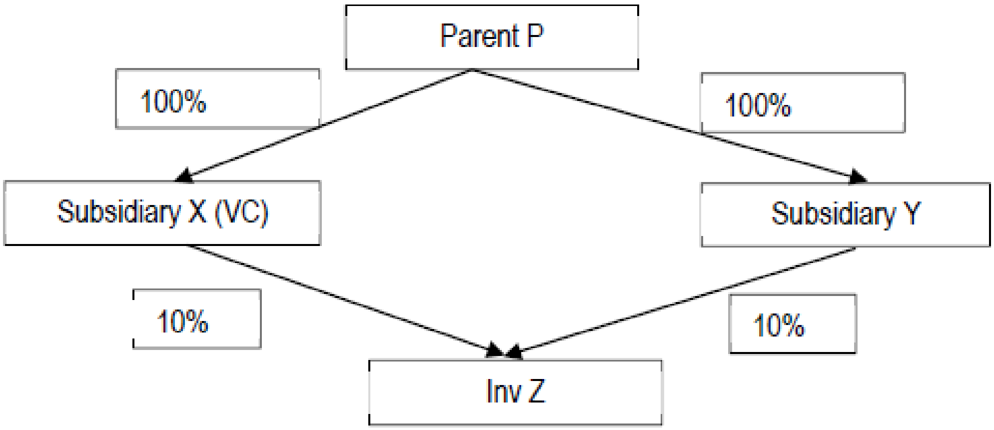
An entity P (parent) has two wholly-owned subsidiaries - X and Y, each of which has an ownership interest in an 'associate', entity Z. Subsidiary X is a venture capital organisation. Neither of the investments held in associate Z by subsidiaries X and Y is held for trading. Subsidiary X and Y account for their investment in associate Z at fair value through profit or loss in accordance with Ind AS 109 and using the equity method in accordance with Ind AS 28 respectively.
How should P account for the investment in associate Z in the following scenarios:

Scenario 1: Where both investments in the associate result in significant influence on a stand-alone basis - Subsidiary X and Y ownership interest in associate Z is 25% and 20% respectively.
Scenario 2: When neither of the investments in the associate results in significant influence on a stand-alone basis, but do provide the parent with significant influence on a combined basis - Subsidiary X and Y ownership interest in associate Z is 10% each.
Scenario 3: When one of the investments in the associate results in significant influence on a stand-alone basis and the other investment in the associate does not result in significant influence on a stand-alone basis - Subsidiary X and Y ownership interest in associate Z is 30% and 10% respectively.
Assume there is significant influence if the entity has 20% or more voting rights.

Solution :
Paragraph 18 of Ind AS 28 states that, "when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with Ind AS 109. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture."
Paragraph 19 of Ind AS 28 provides that, "'when an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS 109 regardless of whether the venture capital organisation has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation". Therefore, fair value exemption can be applied partially in such cases.
Scenario 1: Where both investments in the associate result in significant influence on a stand-alone basis.

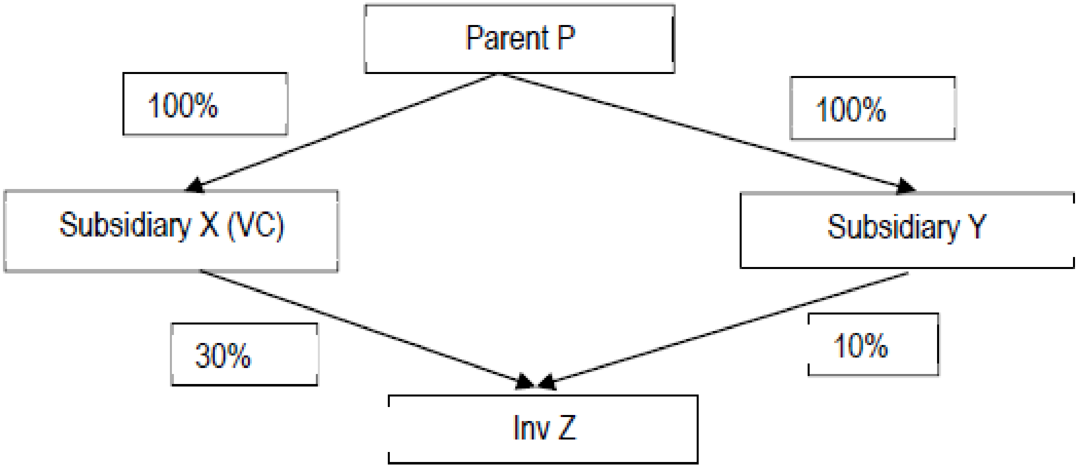


In the present case, in accordance with paragraph 19 of Ind AS 28, P must follow equity method of accounting for its 20% interest held by Y. Under the partial use of fair value exemption, P may elect to measure the 25% interest held by X at fair value through profit or loss.
Scenario 2: When neither of the investments in the associate results in significant influence on a stand-alone basis, but do provide the parent with significant influence on a combined basis.



In the present case in accordance with the paragraph 19 of Ind AS 28, P must follow equity method of accounting for its 10% interest held by Y, even though Y would not have significant influence on a stand-alone basis. Under the partial use of fair value exemption, P may elect to measure the 10% interest held by X at fair value through profit or loss.

Scenario 3: When one of the investments in the associate results in significant influence on a stand-alone basis and the other investment in the associate does not result in significant influence on a stand-alone basis



In the present case, in accordance with paragraph 19 of Ind AS 28, P must follow equity method of accounting for its 10% interest held by Y, even though Y would not have significant influence on a stand-alone basis. Under the partial use of fair value exemption, the P may elect to measure the 30% interest held by X at fair value through profit or loss.

IND AS 111 - JOINT ARRANGEMENTS

Years	May		Nov	
	RTP	Paper	RTP	Paper
2018	NO	NO	NO	NO
2019	NO	NO	NO	NO
2020	YES	NO	NO	NO

2018

Question 1 **May 2018 - RTP**

No Question

Question 2 **May 2018 - PAPER**

No Question

Question 3 **Nov 2018 - RTP**

No Question

Question 4 **Nov 2018 - PAPER**

No Question

2019

Question 5 **May 2019 - RTP**

No Question

Question 6 **May 2019 - PAPER**

No Question

Question 7 **Nov 2019 - RTP**

No Question

Question 8 **Nov 2019 - PAPER**

No Question

2020

Question 9 **May 2020 - RTP**

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

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

PQR's summarized balance sheet is as follows:

(Rs. in crore)

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

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

Solution :

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

(a) its assets, including its share of any assets held jointly;
(b) its liabilities, including its share of any liabilities incurred jointly;
(c) its revenue from the sale of its share of the output arising from the joint operation;
(d) its share of the revenue from the sale of the output by the joint operation; and
(e) its expenses, including its share of any expenses incurred jointly."

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

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

	Rs. in crore
Assets	
Cash	20
Building 1*	240
Building 2	100
Liabilities	
Debt owned to XYZ (third party)**	240
Employees benefit plan obligation	50

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

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