CHIRANJEEV JAIN CLASSES

ADDITIONAL QUESTIONS

CA FINAL

Applicable for

NEW syllabus

ABOUT THE AUTHOR

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

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

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

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

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c) Website: http://www.cachiranjeevjain.com/

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e) Facebook page for Final: https://www.facebook.com/ChiranjeevJainCA/

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Thanks
Chiranjeev Jain TEAM

FEEDBACK ABOUT SIR'S CLASSES

Shalaka Tiwari - Shastri, Hyderabad

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

Amit Jain, Kolkata

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

Navneet Singh, Hyderabad

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

Obaid Khan, Hyderabad

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

Isan Singh, Kolkata

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

Arihant Kothari, Hyderabad

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

Ashutosh Lahoti, Hyderabad

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

Niharika Phalod, Hyderabad

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

Nikita Simran, Hyderabad

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

Shalaka Tiwari - Shastri, Hyderabad

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For more Feedback Visit www.cachiranjeevjain.com

QUESTIONS BANK

VALUE ADDED STATEMENT

Q 1 The following data is given in respect of Samriddhi Ltd. for the year ended 31-3-20X1:

Abstract of Statement of Profit & Loss for the year ended 31-3-20X1

	Rs. in '000	Rs. in '000
Income		
Sale	2,380	
Other Income	370	2,750
Expenditure		
Operating Cost	1,855	
Administrative Expenses	150	
Interest Cost	215	
Depreciation	240	2,460
Profit before tax		290
Provision for tax		87
Profit after tax		203
Credit balance as per last balance sheet		60
		263

Other Information:

	Rs. in '000
1. Operating cost consists of:	
Material cost	1,220
Wages, salaries & other benefits to employees	330
Local taxes including cess	70
Other manufacturing expenses	235
2. Administrative expenses consist of:	
Directors' Remuneration	55
Audit Fee	25
Provision for doubtful debts	8
Others	62
3. Interest cost consists of:	
Interest on 10% debentures	180
Interest on temporary bank overdraft	35
4. The capital structure of the company consists of:	
Equity share capital	1,500
9% Preference share capital	600

You are required to prepare a Gross Value Added (GVA) statement and calculate the following ratios:

(a) GVA to Material Cost Ratio (Industry average 0.80)

(b) GVA to Employee Cost Ratio (Industry average 3.82)

(c) GVA to Sales Ratio (Industry average 0.70)

(d) GVA to Capital Employed Ratio (Industry average 0.30)

Also advise on the utility of the above ratios in comparison to the Industry average.

Ans: Samriddhi Ltd.

Value Added Statement for the year ended 31st March, 20XI

(in Rs. '000)		
Sales		2,380
Cost of Bought in Materials and Services:		
Operational Cost Rs. (1,220 + 235)	1,455	
Administrative Expenses Rs. (25+8+62)	95	
Interest cost	35	(1,585)
Value addition by manufacturing and trading activities		795
Add: Other Income		370
Gross Value Added		1,165

Application of Gross Value Added

	(Rs. in '000)	(Rs. in '000)	%
To Pay Employees:			
Wages/ Salaries to Administrative Staff		330	0.28
To Pay Directors:			
Directors' Remuneration		55	0.05
To Pay Government:			
Local taxes including cess	70		
Provision for tax	87	157	0.14
To Pay Providers of Capital			
Interest on Debentures		180	0.15
To Provide for maintenance			
Depreciation	240		
Retained Profit	203	443	0.38
		1,165	1.00

Ratios

(a) Gross Value Added to Material Cost Ratio

GVA/MC= 1165/1220 = 0.95

Higher GVA ratio of Samriddhi Ltd. in comparison to Industry shows that it has better material utilisation policy than industry's material utilisation policy.

(b) Gross Value Added to Employee Cost Ratio

= GVA/EC=1165/330 = 3.53

Higher GVA ratio of Industry in comparison to Samriddhi Ltd. shows that Industry's labour productivity or policy is better than Samriddhi Ltd.'s labour productivity or policy.

(c) Gross Value Added to Sales Ratio

= GVA/SR= 1165/2380= 0.49

Higher GVA ratio of Industry in comparison to Samriddhi Ltd. shows that Industry's sales policy is better than Samriddhi Ltd.'s sales policy.

(d) Gross Value Added to Capital Employed Ratio

= GVA/ESC+PSC+RE = 1165/1500+600+263= 0.49

Higher GVA ratio of Samriddhi Ltd. in comparison to Industry shows that managerial efficiency of Samriddhi Ltd. is better than Industry. Samriddhi Ltd. is able to efficiently utilise its capital in the generation of profit and in addition of value to its organisation.

Note: Capital Employed may also include Debentures Rs. 18,00,000 as per the concept of Value Added. In such a case, the ratio would = 0.28

Lower GVA ratio of Samriddhi Ltd. in comparison to Industry shows that Samriddhi Ltd. is marginally below the industry average.

Provisions, Contingent Liabilities and Contingent Assets (IND AS 37)

Q 2. 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.

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

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.

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.

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?

Ans: 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 72 of 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 Rs. 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 Rs. 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

Property, Plant and Equipment (IND AS 16)

Q 3 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.

Ans: All figures are Rs. in '000.

The power generating facility should be depreciated from the date it is ready for use, rather than when it would actually start being used. In this case, then, the facility should be depreciated from 1st October, 2017.

Although A Ltd. has no legal obligation to restore the piece of land, it does have a constructive obligation, based on its past practice and policies.

The amount of the obligation will be 1,420, being the present value of the anticipated future restoration expenditure (10,000 x 0.142).

This will be recognised as a provision under non-current liabilities in the Balance Sheet of A Ltd. at 31st March, 2018.

As time passes the discounted amount unwinds. The unwinding of the discount for the year ended 31st March, 2018 will be 35.5 (1,420 x 5% x 6/12).

The unwinding of the discount will be shown as a finance cost in the statement of profit or loss and the closing provision will be 1,455.50 (1,420 + 35.5).

The initial amount of the provision is included in the carrying amount of the non-current asset, which becomes 21,420 (20,000 + 1,420).

The depreciation charge in profit or loss for the year ended 31st March, 2018 is 267.75 (21,420 x 1/40 x 6/12).

The closing balance included in non-current assets will be 21,152.25 (21,420 – 267.75).

Q 4 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? **[RTP Nov 2018]**

Ans: Paragraph 7 of 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.

Further, paragraph 9 provides that the standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances.

Paragraph 16, inter alia, states that the cost of an item of property, plant and equipment comprise any costs 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 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.

Depreciation

As per paragraph 43 and 47 of Ind AS 16, if these assets have a useful life which is different from the useful life of the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge. Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment.

The useful lives of these assets should not exceed that of the asset to which it relates.

Presentation

These assets should be presented within the class of asset to which they relate.

Q 5. A Ltd. purchased some Property, Plant and Equipment on 1st April, 20X1, 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, 20X1:

Property, Plant and Equipment	Original Cost	Estimated useful life
Buildings	Rs. 15,000,000	15 years
Plant and machinery	Rs. 10,000,000	10 years
Furniture and fixtures	Rs. 3,500,000	7 years

A Ltd. uses the straight-line method of depreciation. On 1st April, 20X4, 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 fixtures	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, 20X4.

Ans: The annual depreciation charges prior to the change in useful life were

Buildings	Rs. 1,50,00,000/15 =	Rs. 10,00,000
Plant and machinery	Rs. 1,00,00,000/10 =	Rs. 10,00,000

Furniture and fixtures	Rs. 35,00,000/7 =	Rs. 5,00,000
Total =		Rs. 25,00,000 (A)

The revised annual depreciation for the year ending 31st March, 20X4, would be

Buildings	[Rs.1,50,00,000 – (Rs. 10,00,000 × 3)] / 10	Rs. 12,00,000
Plant and machinery	[Rs. 1,00,00,000 – (Rs. 10,00,000 × 3)] / 7	Rs. 10,00,000
Furniture and fixtures	[Rs. 35,00,000 – (Rs. 5,00,000 × 3)] / 5	Rs. 4,00,000
Total		Rs. 26,00,000 (B)

The impact on Statement of Profit and Loss for the year ending 31st March, 20X4

= Rs. 26,00,000 – Rs. 25,00,000 = Rs. 1,00,000

This is a change in accounting estimate which is adjusted prospectively in the period in which the estimate is amended and, if relevant, to future periods if they are also affected. Accordingly, from 20X4-20X5 onward, excess of Rs. 1,00,000 will be charged in the Statement of Profit and Loss every year till the time there is any further revision.

Intangible Assets (IND AS 38)

Q 6 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. **[RTP Nov 2018]**

Ans: 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.

Therefore, of the advertisements paid for before 31st March, 2018, Rs. 7,00,000 would be recognised as an expense and Rs. 1,00,000 as a pre-payment in the year ended 31st March 2018.

Rs. 4,00,000 cost of advertisements paid for since 31st March, 2018 would be charged as expenses in the year ended 31st March, 2019.

INVESTMENT PROPERTY (IND AS 40)

Q 7. 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. **[RTP Nov 2018]**

Ans: 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.

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.

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

Q 8. UK Ltd. has purchased a new head office property for Rs. 10 crores. The new office building has 10 floors and the organisation structure of UK Ltd. is as follows:

Floor	Use
1^{th}	Waiting Area
2^{th}	Admin
3^{th}	HR
4^{th}	Accounts
5^{th}	Inspection
6^{th}	MD Office
7^{th}	Canteen
8^{th}, 9^{th} and 10^{th}	Vacant

Since UK Ltd. did not need the floors 8, 9 and 10 for its business needs, it has leased out the same to a restaurant on a long-term lease basis. The terms of the lease agreement are as follows:

- Tenure of Lease Agreement - 5 Years
- Non-Cancellable Period - 3 years
- Lease Rental-annual lease rental receivable from these floors are Rs. 10,00,000 per floor with an escalation of 5% every year.

Based on the certificate from its architect, UK Ltd. has estimated the cost of the 3 top floors as approximately Rs. 3 crores. The remaining cost of Rs. 7 crores can be allocated as 25% towards Land and 75% towards Building.

As on 31st March, 2018, UK Ltd. obtained a valuation report from an independent valuer who has estimated the fair value of the property at Rs. 15 crores. UK Ltd. wishes to use the cost model for measuring Property, Plant & Equipment and the fair value model for measuring the Investment Property. UK Ltd. depreciates the building over an estimated useful life of 50 years, with no estimated residual value.

Advise UK Ltd. on the accounting and disclosures for the above as per the applicable Ind AS.

Ans: 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.

Further, as per para 8 of Ind AS 40, the building owned by the entity and leased out under one or more operating leases will be classified as investment property.

Here top three floors have been leased out for 5 years with a non-cancellable period of 3 years. The useful life of the building is 50 years. The lease period is far less that the useful life of the building leased out. Further, the lease rentals of three years altogether do not recover the fair value of the floors leased i.e. 15 crore x 30% = 4.50 crore. Hence the lease is an operating lease. Therefore, the 3 floors leased out as operating lease will be classified as investment property in the books of lessor ie. UK Ltd.

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 such investment property(ies).

	Total	PPE (70%)		Investment property (30%)
		Land (25%)	Building (75%)	
Cost	10	1.75	5.25	3
FV	15	2.625	7.875	4.5
Valuation model followed		Cost	Cost	Cost *
Value recognized in the books		1.75	5.25	3
Less: Depreciation		Nil	(5.25/50) = 0.105 crore	(3/50) = 0.06
Carrying value as on 31st March, 2018		1.75	5.145	2.94
Impairment loss		No impairment loss since fair value is more than the cost		

* (as per para 30 of Ind AS 40)

Leases (IND AS 17)

Q 9 A Ltd. prepares its financial statements for the period ending on 31st March each year. The financial statements for the year ended 2017-2018 is under preparation. The following events are relevant to these financial statements:

On 1st April, 2016, A Ltd. purchased an asset for Rs. 20,00,000. The estimated useful life of the asset was 10 years, with an estimated residual value of zero. A Ltd. immediately leased the asset to B Ltd. The lease term was 10 years and the annual rental, payable in advance by B Ltd., was Rs. 27,87,000. A Ltd. incurred direct costs of Rs. 2,00,000 in arranging the lease. The lease contained no early termination clauses and responsibility for repairs and maintenance of the asset rest with B Ltd. for the duration of the lease. The annual rate of interest implicit in the lease is 8%. At an annual discount rate of 8% the present value of Rs. 1 receivable at the start of years 1–10 is Rs. 7·247.

Examine and show 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. **[RTP Nov 2018]**

Ans: All numbers in Rs. in 000.

The lease of the asset by A Ltd. to B Ltd. would be regarded as a finance lease because the risks and rewards of ownership have been transferred to B Ltd. Evidence of this includes the lease is for the whole of the life of the asset and B Ltd. being responsible for repairs and maintenance.

As per para 36 of Ind AS 17, since the lease is a finance lease and A Ltd. is the lessor, A Ltd. will recognise a financial asset ie. as a receivable at an amount equal to the 'net investment in finance leases'. The amount recognised will be the present value of the minimum lease payments which will be 20,197.39 ie. 2,787 x 7.247.

The impact of the lease on the financial statements for the year ended 31st March, 2018 can best be seen by preparing a profile of the net investment in the lease for the first three years of the lease and shown below:

Year to 31st March	Opening Balance	Finance income	Rental	Closing Balance
2017	20,197.39	1,615.79	(2,787)	19,026.18
2018	18,806	1,522.09	(2,787)	17,761.27
2019	17,301	1,420.90	(2,787)	16,395.17

During the year ended 31st March, 2018, A Ltd. will recognise income from finance leases of 1,522.09.

The net investment on 31st March, 2018 will be 17,761.27.

Of the closing net investment of 17,761.27, current asset will be shown for 2,787 and 14,974.27 as a non-current asset.

Q 10 UK Ltd. has installed Wind Turbine Equipment at Rajasthan to generate electricity for which it has entered into a Power Purchase Agreement (PPA) with the State Government. The terms of the PPA are as follows:

- The PPA is for an initial period of 3 years, renewable at mutual terms and conditions. The Management estimates the useful life of such project around 20 years.
- The price per unit is fixed for a period of one year and is renewed every year as per the State Government policy.
- The Company's Management is of the view that the power generated by the project will be completely sold to the State Government and not to any third party. However, there is no such restriction prescribed in the PPA.
- Currently the Company has classified the Wind Turbine Equipment as part of the Property, Plant & Equipment and is charging depreciation on the same.

For the above PPA, which condition, as per the applicable Ind AS, is not relevant in determining whether an arrangement is or contains a lease?

(A) Use of Specific Assets;

(B) Right to Operate the assets;

(C) Right to control the Physical access;

(D) Price is contractually fixed by the purchaser;

UK Ltd. also wants you to give your suggestion on the accounting of the above arrangement under applicable Ind AS.

Ans: As per paragraph 6 of Appendix C to Ind AS 17, "Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether:

(a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and

(b) the arrangement conveys a right to use the asset."

In the present case, the PPA with the State Government can be fulfilled by the use of the Wind Turbine Equipment which is a specific asset. Accordingly, condition (a) above is satisfied.

With respect to condition (b), paragraph 9 of Appendix C to Ind AS 17 provides as below:

"An arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:

(a) The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.

(b) The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.

(c) Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output."

Accounting of the PPA with the State Government under applicable Ind AS:

Continuing the rationale to the above, in the present case, criteria (c) above is fulfilled since:

- The entire output of Wind Turbine Equipment is estimated to be consumed by the purchaser i.e. the State Government
- The price paid by the State Government includes an element of revision in price every year which makes the price for the output variable.

Accordingly, the PPA with the State Government contains an embedded lease arrangement.

Further to determine whether the lease arrangement is an operating lease or a finance lease, paragraph 10 of Ind AS 17 provides certain examples (that individually or in combination would normally lead to a lease being classified as a finance lease) which can be analysed as below:

(a) the lease transfers ownership of the asset to the lessee by the end of the lease term - Not fulfilled, as the ownership is not transferred to the State Government.

(b) the lessee has the option to purchase the asset after completion of the agreement - Not fulfilled, as the State Government doesn't have an option to purchase the Wind Turbine Equipment after the completion of PPA.

(c) the lease term is for the major part of the economic life of the asset even if title is not transferred - Not fulfilled, as the PPA is for 3 years whereas the useful life of the Wind Turbine Equipment project is 20 years.

(d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset – Cannot be determined since the price per unit is not fixed for the entire tenure of the PPA. Definition of the 'inception of the lease' (given in para 4 of Ind AS 17) inter alia states that in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined. This implies that the given PPA is not a finance lease.

(e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications - Not fulfilled, as the asset is not specialised in nature.

Conclusion:

Based on the evaluation above, PPA with the State Government shall be accounted by UL Ltd. as "Property, plant and equipment under an operating lease arrangement".

Q 11 ABC Ltd. has entered into an operating lease agreement for 5 year, for taking a building on lease for Rs. 5,00,000 p.a. As per the agreement the lessor will charge escalation in the lease @ 20% p.a. However, the general inflation in the country expected for the aforesaid period is around 7% p.a.

Examine whether the lease payment will be straight lined or not as per Ind AS 17 in the book of ABC Ltd.? If yes, should the entire 20% p.a. escalation in lease rent be straight-lined over a period of 5 years or only the difference which exceeds the expected inflation rate will be straight-lined?

Ans: As per paragraph 33 of Ind AS 17, lease payments shall be straight-lined over the period of lease unless

Either

another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis

or

the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then lease payments shall be straight-lined.

Judgement would be required to be made as per the facts and circumstances of each case to determine whether the payments to the lessor are structured to increase in line with expected general inflation. Therefore, it is required to evaluate the lease agreement to ascertain the real intention and attributes of escalation in lease payments, i.e., whether the intention of such escalation is to compensate for expected general inflation or any other factors.

It is not necessary that the rate of the escalation of lease payments should exactly be equal to the expected general inflation. If the actual increase or decrease in the rate of inflation is not materially different as compared to the expected rate of inflation under the lease agreement, it is not required to straight-line the lease payments. However, the purpose of such escalation should only be to compensate the expected general inflation rate.

In the given case, the increase of 20% p.a. in lease rentals does not appear to have any link with general inflation which is expected to be 7%. Accordingly, the entire lease payments should be straight-lined since the increase is not a compensation for inflation.

Impairment of Assets (IND AS 36)

Q12 Great Ltd., acquired a machine on 1st April, 2012 for Rs. 7 crore that had an estimated useful life of 7 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2016, the carrying value of the machine was reassessed at Rs. 5.10 crore and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March 2018, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only Rs. 79 lakhs.

Calculate the loss on impairment of the machine and show how this loss is to be treated in the books of Great Ltd. Great Ltd., had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation. (10 Marks)

Ans: Statement Showing Impairment Loss

	(Rs. in crores)
Carrying amount of the machine as on 1st April, 2012	7.00
Depreciation for 4 years i.e. 2012-2013 to 2015-2016 (7 crores/7 years) ×4 years	(4.00)
Carrying amount as on 31.03.2016	3.00
Add: Upward Revaluation (credited to Revaluation Reserve account)	2.10
Carrying amount of the machine as on 1st April 2016 (revalued)	5.10
Less: Depreciation for 2 years i.e. 2016-2017 & 2017-2018 (5.10 crores/3 years) ×2 years	(3.40)
Carrying amount as on 31.03.2018	1.70
Less: Recoverable amount	(0.79)
Impairment loss	0.91
Less: Balance in revaluation reserve as on 31.03.2018:	
Balance in revaluation reserve as on 31.03.2016 2.10	
Less: Enhanced depreciation met from revaluation reserve	
2016-2017 & 2017-2018 = [(1.70 – 1.00) x 2 years] (1.40)	
Impairment loss set off against revaluation reserve balance as per para 58	(0.70)

of AS 28 "Impairment of Assets"	
Impairment Loss to be debited to profit and loss account	0.21

Accounting For Share Based Payments (IND AS 102)

Q13 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 31 st 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.

Ans

Date	Particulars		Debit	Credit
31.03.2018	Profit and Loss account	Dr.	15.75	
	To Liability against SARs			15.75
	(Being expenses liability for stock appreciation rights recognised)			
31.03.2019	Profit and Loss account	Dr.	17.25	
	To Liability for SARs			17.25
	(Being expenses liability for stock appreciation rights recognised)			
31.03.2020	Profit and Loss account	Dr.	15.38	
	To Liability for SARs			15.38
	(Being expenses liability for stock appreciation rights recognised)			
31.03.2021	Profit and Loss account	Dr.	17.02	
	To Liability for SARs			17.02
	(Being expenses liability for stock appreciation rights recognised)			

Journal entries in the books of P Ltd (with modification of service period of stock appreciation rights) (Rs. in lakhs)

31.03.2018	Profit and Loss account	Dr.	15.75	
	To Liability for SARs			15.75
	(Being expenses liability for stock appreciation rights recognised)			
31.03.2019	Profit and Loss account	Dr.	28.25	
	To Liability for SARs			28.25
	(Being expenses liability for stock appreciation rights recognised)			
31.03.2020	Profit and Loss account	Dr.	20.50	
	To Liability for SARs			20.50
	(Being expenses liability for stock appreciation rights recognised)			

Working Notes:

Calculation of expenses for issue of stock appreciation rights without modification of service period

For the year ended 31st March 2018

= Rs. 210 x 400 awards x 75 employees x 1 year /4 years of service

= Rs. 15,75,000

For the year ended 31st March 2019

= Rs. 220 x 400 awards x 75 employees x 2 years /4 years of service - Rs. 15,75,000 previous recognised

= Rs. 33,00,000 - Rs. 15,75,000 = Rs. 17,25,000

For the year ended 31st March 2020

= Rs. 215 x 400 awards x 75 employees x 3 years/4 years of service - Rs. 33,00,000 previously recognised

= Rs. 48,37,500 - Rs. 33,00,000 = Rs. 15,37,500

For the year ended 31st March 2021

= Rs. 218 x 400 awards x 75 employees x 4 years / 4 years of service – Rs. 48,37,500 previously recognised

= Rs. 65,40,000 – Rs. 48,37,500 = Rs. 17,02,500

Calculation of expenses for issue of stock appreciation rights with modification of service period

For the year ended 31st March 2018

= Rs. 210 x 400 awards x 75 employees x 1 year / 4 years of service = Rs. 15,75,000

For the year ended 31st March 2019

= Rs. 220 x 400 awards x 75 employees x 2 years / 3 years of service - Rs. 15,75,000 previous recognised = Rs. 44,00,000 - Rs. 15,75,000 = Rs. 28,25,000

For the year ended 31st March 2020

= Rs. 215 x 400 awards x 75 employees x 3 years/ 3 years of service - Rs. 44,00,000 previous recognised = Rs. 64,50,000 - Rs. 44,00,000 = Rs. 20,50,000.

AGRICULTURE (IND AS 41)

Q 14 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 ` 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. **[RTP Nov 2018]**

Ans: 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).

Employee Benefits (IND AS 19)

Q 15: 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. **[RTP Nov 2018]**

Ans: 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

	Rs. in '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

Income Taxes (IND AS 12)

Q 16: 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%. **[RTP Nov 2018]**

Ans.

(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.

Q 17: QA Ltd. is in the process of computation of the deferred taxes as per applicable Ind AS. QA Ltd. had acquired 40% shares in GK Ltd. for an aggregate amount of Rs. 45 crores. The shareholding gives QA Ltd. significant influence over GK Ltd. but not control and therefore the said interest in GK Ltd. is accounted using the equity method. Under the equity method, the carrying value of investment in GK Ltd. was Rs. 70 crores on 31st March, 2017 and Rs. 75 crores as on 31st March, 2018. As per the applicable tax laws, profits recognised under the equity method are taxed if and when they are distributed as dividend or the relevant investment is disposed of.

QA Ltd. wants you to compute the deferred tax liability as on 31st March, 2018 and the charge to the Statement of Profit for the same. Consider the tax rate at 20%. **[MTP N 2018]**

Ans. DTL created on accumulation of undistributed profits as on 31.3.2018

	31st March, 2017	31st March, 2018
Carrying value	70 crore	75 crore
Value as per tax records	45 crore	45 crore
Tax base	45 crore	45 crore
Taxable temporary differences	25 crore	30 crore
Total Deferred tax liability @ 20%	5 crore	6 crore
Charged to P&L during the year	5 crore	1 crore
		(6 crore – 5 crore)

Q 18 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.

Ans: Current tax= Taxable profit x Tax rate = Rs.104 thousand x 25% = Rs.26 thousand.

Computation of Taxable Profit:		Rs. in thousand
Accounting profit		100
Add: Donation not deductible		8
Less: Excess Depreciation		(4)
Total Taxable profit		104
Rs. in thousand	Rs. in thousand	
Profit & loss A/c Dr.	26	
To Current Tax		26

Deferred tax:

Machine's carrying amount according to Ind AS is Rs. 118 thousand (Rs. 120 thousand – Rs. 2 thousand)

Machine's carrying amount for taxation purpose = Rs. 114 thousand (Rs. 120 thousand – Rs. 6 thousand)

Deferred Tax Liability = Rs. 4 thousand x 25%

		Rs. in thousand
Profit & loss A/c Dr.	1	
To Deferred Tax Liability		1

Tax reconciliation in absolute numbers:

Rs. in thousand	
Profit before tax according to Ind AS	100
Applicable tax rate	25%
Tax	25
Expenses not deductible for tax purposes (Rs. 8 thousand x 25%)	2
Tax expense (Current and deferred)	27

Tax rate reconciliation

Tax rate reconciliation Applicable tax rate	25%
Expenses not deductible for tax purposes	2%
Average effective tax rate	27%

CONSOLIDATED FINANCIAL STATEMENT AS PER ACCOUNTING STANDARD

Q 19 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. 400 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 AS 21 and AS 23. Notes to Accounts and working notes should form part of your answer.

Answer: 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 lakh

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 Rs. 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 (Rs. 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 lakh
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)

BUSINESS COMBINATION AS PER IND AS 103

Q 20 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.
MicroFly 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)
Liabilities	20.20
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.

Ans: 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 Rs. 1.80 crore shall be transferred to capital reserve.

Q 21 In March 2018, Pharma Ltd. acquires Dorman Ltd. in a business combination for a total cost of Rs. 12,000 lakhs. At that time Dorman Ltd.'s assets and liabilities are as follows:

	Rs. in lakhs
Assets	
Cash	780
Receivables (net)	5,200
Plant and equipment	7,000
Deferred tax asset	360
Liabilities	
Payables	1,050
Borrowings	4,900
Employee entitlement liabilities	900
Deferred tax liability	300

The plant and equipment has a fair value of Rs. 8,000 lakhs and a tax written down value of Rs. 6,000 lakhs. The receivables are short-term trade receivables net of a doubtful debts allowance of Rs. 300 lakhs.

Bad debts are deductible for tax purposes when written off against the allowance account by Dorman Ltd. Employee benefit liabilities are deductible for tax when paid.

Dorman Ltd. owns a popular brand name that meets the recognition criteria for intangible assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of Rs. 4.300 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.

The tax rate of 30% can be considered for all items. Assume that unless otherwise stated, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

You are required to:

(i) Calculate deferred tax assets and liabilities arising from the business combination (do not offset deferred tax assets and liabilities)

(ii) Calculate the goodwill that should be accounted on consolidation. (10 Marks)

Ans: Breakdown of assets and liabilities acquired as part of the business combination, including deferred taxes and goodwill.

					Rs. In lakhs
	Book value	**Fair value**	**Tax base**	**Taxable (deductible) temporary difference**	**Deferred tax asset (liability) @ 30%**
Cash	780	780[1]	780 [1]	-	-
Receivables	5,200	5,200[1]	5,500[3]	(300)	90
Plant and equipment	7,000	8,000[2]	6,000[4]	2,000	(600)
Brands		4,300[2]	-[5]	4,300	(1,290)
Goodwill (Balancing figure)		2,100[9]			
Deferred tax asset	360	3,60[7]			
Total assets		**20,740**			
Payables	(1,050)	(1,050) [1]	(1,050) [1]		
Borrowings	(4,900)	(4,900) [1]	(4,900) [1]		
Employee Entitlement liabilities	(900)	(900) [1]	-[6]	(900)	270
Deferred tax liability	(300)	(1,890) [8]			
Total liabilities		**(8,740)**			
Consideration paid		**12,000**			

Notes

(1) This amount has been derived from Dorman Ltd.'s Balance Sheet as it is stated that 'unless otherwise stated, all items have a fair value and tax base equal to their carrying amounts in Dorman Ltd.'s Balance Sheet at the acquisition date'.

(2) Stated fair value in the fact pattern (different to the carrying amount in Dorman Ltd.'s Balance Sheet at the acquisition date).

(3) Because bad debts are only deductible when written off against the allowance account by Dorman Ltd. the tax base of the receivables is their gross value, i.e., (Rs. 5,200 + Rs. 300) lakhs allowance account.

(4) Tax written down value of the plant and equipment as stated in the fact pattern.

(5) As the brand name does not have a cost for tax purposes and no tax deduction is available in relation to it, its tax base is nil.

(6) As the employee entitlement liabilities are only deductible for tax purposes when paid, their tax base is nil.

(7) The aggregate deferred tax asset is Rs. 360 lakhs, comprised of Rs.90 lakhs in relation to the receivables and Rs.270 lakhs in relation to the employee entitlement liabilities.

(8) The aggregate deferred tax liability is Rs. 1,890 lakhs calculated as follows:

Rs. In lakhs	**DTL amount in Dorman Ltd.'s Balance Sheet**	**Deferred tax impact of fair value adjustments**	**Total DTL in Pharma Ltd's consolidated financial statements**
Plant and equipment	300 ([7,000-6,000] × 30%)	300 ([1,000 × 30%)	600
Brand names	0	1,290 (4,300 × 30%)	1,290
TOTAL	300	1,590	1,890

(9) Goodwill is effectively the 'balancing item' in the equation, applying the requirements of Ind AS 103, para 32. The consideration transferred is Rs. 12,000 lakhs and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with Ind AS 103, including the deferred tax assets and liabilities arising, is Rs. 9,900 lakhs.

Q 22 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

Ans: The amount of Beta Pvt. Ltd. identifiable net assets [Rs. 400, calculated as Rs. 500 - Rs. 100) exceeds the fair value of the consideration transferred plus the fair value of the non controlling interest in Beta Pvt. Ltd. [Rs. 384 calculated as 300 + 84]. Alpha Ltd. measures the gain on its purchase of the 80 per cent interest as follows:

Rs. in lakh		
Amount of the identifiable net assets acquired (Rs. 500 - Rs. 100)		400
Less: Fair value of the consideration transferred for Alpha Ltd. 80 per cent interest in Beta Pvt. Ltd.	300	
Add: Fair value of non controlling interest in Beta Pvt. Ltd.	84	(384)
Gain on bargain purchase of 80 per cent interest		16

Journal Entry

	Rs. in lakhs	
Identifiable assets acquired Dr.	500	
To Cash		300
To Liabilities assumed		100
To OCI/Equity-Gain on the bargain purchase		16
To Equity-non controlling interest in Beta Pvt Ltd.		84

If the acquirer chose to measure the non controlling interest in Beta Pvt. Ltd. on the basis of its proportionate interest in the identifiable net assets of the acquire, the recognized amount of the non controlling interest would be Rs. 80 (Rs. 400 x 0.20). The gain on the bargain purchase then would be Rs. 20 (Rs. 400- (Rs. 300 + Rs. 80)

Accounting and Reporting of Financial Instruments

Q23 On 1 January 2018, Entity X writes a put option for 1,00,000 of its own equity shares for which it receives a premium of Rs. 5,00,000.

Under the terms of the option, Entity X may be obliged to take delivery of 1,00,000 of its own shares in one year's time and to pay the option exercise price of Rs. 22,000,000. The option can only be settled through physical delivery of the shares (gross physical settlement). Examine the nature of the financial instrument and how it will be accounted assuming that the present value of option exercise price is Rs. 20,000,000?

Ans: This derivative involves Entity X taking delivery of a fixed number of equity shares for a fixed amount of cash. Even though the obligation for Entity X to purchase its own equity shares for Rs. 22,000,000 is conditional on the holder of the option exercising the option, Entity X has an obligation to deliver cash which it cannot avoid.

As per para 23 of Ind AS 32 'Financial Instruments: Presentation', the accounting for financial instrument will be as below:

- The financial liability is recognised initially at the present value of the redemption amount, and is reclassified from equity. This would imply that a financial liability for an amount of present value of Rs. 22,000,000, say Rs. 20,000,000 will be recognised through a debit to equity. The initial premium received (Rs. 5,00,000) is credited to equity.
- Subsequently, the financial liability is measured in accordance with Ind AS 109. While a subsequent paragraph will deal with measurement of financial liabilities. The financial

liability of Rs. 20,000,000 will be measured at amortised cost as per Ind AS 109 and finance cost of Rs. 2,000,000 will be recognised over the exercise period.

- If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity ie. an amount of Rs. 22,000,000 will be reclassified from financial liability to equity.

CORPORATE SOCIAL RESPONSIBILITY

Q 24 State whether any unspent amount of CSR expenditure (any shortfall in the amount that was expected to be spent as per the provisions of the Companies Act on CSR activities) at the reporting date shall be provided for? Also state in case the excess amount has been spent (ie more than what is required as per the provisions of the Companies Act on CSR activities), can it be carry forward to set-off against future CSR expenditure. (5 Marks)

Ans: **(i) Treatment of any unspent amount of CSR expenditure**

Since the expenditure on CSR activities is to be disclosed only in the Board's Report, no provision for the amount which is not spent, (i.e., any shortfall in the amount that was expected to be spent as per the provisions of the Act on CSR activities and the amount actually spent at the end of a reporting period) may be made in the financial statements.

The Act requires that if the specified amount is not spent by the company during the year, the Directors' Report should disclose the reasons for not spending the amount.

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

(ii) Treatment of excess amount spent on CSR Activities

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

Accounting Policies, Changes in Accounting Estimates and Errors (IND AS 8)

Q 25 ABC changed its accounting policy for inventory in 2016-2017. Prior to the change, inventory had been 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 should be used.

The effect of the change on the valuation of inventory was as follows:

- 31st March, 2015 - Increase of Rs. 10 million
- 31st March, 2016 - Increase of Rs. 15 million
- 31st March, 2017- Increase of Rs. 20 million

Profit or loss under the FIFO valuation model are as follows: Rs. in million

	2016-2017	2015-2016
Revenue	324	296
Cost of sales	(173)	(164)
Gross profit	151	132
Expenses	(83)	(74)
Profit	68	58

Retained earnings at 31st March, 2015 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.

Profit or loss under weighted average valuation are as follows: Rs. in million

	2017	2016 (Restated)
Revenue	324	296
Cost of sales	(168)	(159)
Gross profit	**156**	**137**
Expenses	(83)	(74)
Profit	**73**	**63**

Statement of changes in equity (extract) Rs. in million

	Retained earnings	Retained earnings (Original)
At 1st April, 2015	423	423
Change in inventory valuation policy	10	-
At 1st April, 2015 (Restated)	433	-
Profit for 2015-2016	63	58
At 31st March, 2016	496	481
Profit for 2016-2017	73	68
At 31st March, 2017	569	549

Borrowing Costs (IND AS 23)

Q26 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'.

Ans: 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

= (20,00,000 x 4) + (500,000 x 4) +(750,000 x 1) /4

= 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%

Valuation of Inventories (IND AS 2)

Q 27 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

Ans: 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. 1 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.

Non-current Assets Held for Sale and Discontinued Operations (Ind AS 105)

Q28 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	1,020
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)**
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

Ans: (a) As at 15 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 31 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	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**

STATEMENT OF CASH FLOWS (IND AS 7)

Q 29 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.

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

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

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

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

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

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

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

The Effects of Changes in Foreign Exchange Rates (Ind AS 21)

Q 30 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.

Ans: 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 Revaluation Surplus a/c (OCI)		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

Q 31 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. **[RTP Nov 2018]**

Ans: As per Ind AS 21 'The Effects of Changes in Foreign Exchange Rates' the asset and liability would initially be recognised at the rate of exchange in force at the transaction date ie 1st January, 2018. Therefore, the amount initially recognised would be Rs. 1,36,00,000 ($ 2,00 000 x Rs. 68).

The liability is a monetary item so it is retranslated using the rate of exchange in force at 31st March, 2018. This makes the closing liability of Rs. 1,30,00,000 ($ 2,00,000 x Rs. 65).

The loss on re-translation of Rs. 6,00,000 (Rs. 1,36,00,000 – Rs. 1,30,00,000) is recognised in the Statement of profit or loss.

The machine is a non-monetary asset carried at historical cost. Therefore, it continues to be translated using the rate of Rs. 68 to $ 1.

Depreciation of Rs. 8,50,000 (Rs. 1,36,00,000 x ¼ x 3/12) would be charged to profit or loss for the year ended 31st March, 2018.

The closing balance in property, plant and equipment would be Rs. 1,27,50,000 (Rs. 1,36,00,000 – Rs. 1,30,00,000). This would be shown as a non-current asset in the statement of financial position.

FIRST-TIME ADOPTION OF IND AS (Ind AS 101)

Q 32. 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.

Ans: (1) 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.

Earnings Per Share (IND AS 33)

Q 33 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%)	1,60,000 shares
Basic EPS	Rs. 10 per share

Examine the correctness of the above presentation of Basic EPS.

Ans: As per paragraph 4 of 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. An entity shall not present in consolidated financial statements, earnings per share based on the information given in separate financial statements and shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements.

Also paragraph 9 of the standard states that an entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

Further, paragraph A1 of Appendix A of Ind AS 33 states that for the purpose of calculating earnings per share based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for non-controlling interests.

Therefore, the requirements of paragraph 9 of Ind AS 33 have been provided in the context of calculating EPS in the consolidated financial statements of an entity.

The accountants of P Ltd. had followed this for calculation of Basic EPS in its SFS. As per ITFG Bulletin 11, for SFS analogy may be drawn from paragraph 9 of Ind AS 33 that in case of separate financial statements, the parent entity mentioned in paragraph 9 will imply the legal entity of which separate financial statements are being prepared and accordingly, when an entity presents EPS in its separate financial statements, then the same shall be calculated based on the profit or loss attributable to its equity shareholders.

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

Related Party Disclosures (IND AS) 24

Q35. 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?

Ans: As per paragraph 9 of 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 paragraph 7 and 9 of 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, contention of the Accountant is wrong that they are not employees of X Ltd.

Paragraph 17 of Ind AS requires disclosure about employee benefits for key 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).

Since short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services, the sitting fee paid to directors will fall under it (as per Ind AS 19) and is required to be disclosed in accordance with the paragraph 17 of Ind AS 24.


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