

[ICAI] CA-Final

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PREVIOUS EXAMS SOLVED PAPERS

Financial Reporting

Key Highlights

- ▶ Strictly as per Latest Syllabus of ICAI
- ▶ **Coverage of Past Exam Questions including Nov. 2023 Exam (Solved)**
- ▶ Chapter-wise Marks Distribution & Trend Analysis of Past Exams
- ▶ Coverage of Selected Questions from RTPs and MTPs of ICAI
- ▶ Questions in each chapter arranged sub-topic wise based on Para No. of each Ind AS
- ▶ Chapter-wise Comparison with Study Material of ICAI

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9th Edition



AS PER
NEW SCHEME OF ICAI
APPLICABLE FOR
MAY 2024
ONWARD EXAMS
Group-1 Paper-1

Contents

| | PAGE |
|---|------|
| ◆ <i>Chapter-wise Marks Distribution</i> | I-5 |
| ◆ <i>Previous Exams Trend Analysis</i> | I-9 |
| ◆ <i>Chapter-wise Comparison with Study Material</i> | I-13 |
| CHAPTER 1 | |
| ◆ Framework for Financial Reporting under Ind AS | 1.1 |
| CHAPTER 2 | |
| ◆ Ind AS 1 : Presentation of Financial Statements | 2.1 |
| CHAPTER 3 | |
| ◆ Ind AS 34 : Interim Financial Reporting | 3.1 |
| CHAPTER 4 | |
| ◆ Ind AS 7 : Cash Flow Statement | 4.1 |
| CHAPTER 5 | |
| ◆ Ind AS 8 : Accounting Policies, Changes in Accounting Estimates and Errors | 5.1 |
| CHAPTER 6 | |
| ◆ Ind AS 10 : Events after Reporting Period | 6.1 |
| CHAPTER 7 | |
| ◆ Ind AS 113 : Fair Value Measurements | 7.1 |
| CHAPTER 8 | |
| ◆ Ind AS 115 : Revenue from Contracts with Customers | 8.1 |

| | PAGE |
|---|------|
| CHAPTER 9 | |
| ◆ Ind AS 2 : Inventories | 9.1 |
| CHAPTER 10 | |
| ◆ Ind AS 16 : Property, Plant and Equipment | 10.1 |
| CHAPTER 11 | |
| ◆ Ind AS 23 : Borrowing Costs | 11.1 |
| CHAPTER 12 | |
| ◆ Ind AS 36 : Impairment of Assets | 12.1 |
| CHAPTER 13 | |
| ◆ Ind AS 38 : Intangible Assets | 13.1 |
| CHAPTER 14 | |
| ◆ Ind AS 40 : Investment Property | 14.1 |
| CHAPTER 15 | |
| ◆ Ind AS 105 : Non-Current Assets (NCA) held for Sale & Discontinued Operations (DO) | 15.1 |
| CHAPTER 16 | |
| ◆ Ind AS 116 : Leases | 16.1 |
| CHAPTER 17 | |
| ◆ Ind AS 41 : Agriculture | 17.1 |
| CHAPTER 18 | |
| ◆ Ind AS 20 : Accounting for Government Grants and Disclo- sure of Government Assistance | 18.1 |
| CHAPTER 19 | |
| ◆ Ind AS 102 : Share Based Payment | 19.1 |
| CHAPTER 20 | |
| ◆ Ind AS 19 : Employee Benefits | 20.1 |
| CHAPTER 21 | |
| ◆ Ind AS 37 : Provision, Contingent Liability and Contingent Assets | 21.1 |
| CHAPTER 22 | |
| ◆ Ind AS 12 : Income Taxes | 22.1 |
| CHAPTER 23 | |
| ◆ Ind AS 21 : The effects of changes in foreign exchange rates | 23.1 |

| | PAGE |
|---|------|
| CHAPTER 24 | |
| ◆ Ind AS 24 : Related Party Disclosures | 24.1 |
| CHAPTER 25 | |
| ◆ Ind AS 33 : Earnings per Share | 25.1 |
| CHAPTER 26 | |
| ◆ Ind AS 108 : Operating Segments | 26.1 |
| CHAPTER 27 | |
| ◆ Ind AS 32 : Financial Instruments (FI) - Presentation | 27.1 |
| CHAPTER 28 | |
| ◆ Ind AS 109 : Financial Instruments (FI) – Recognition and Measurement | 28.1 |
| CHAPTER 29 | |
| ◆ Ind AS 103 : Business Combination | 29.1 |
| CHAPTER 30 | |
| ◆ Ind AS 110 : Consolidated Financial Statements | 30.1 |
| CHAPTER 31 | |
| ◆ Ind AS 111 : Joint Arrangements | 31.1 |
| CHAPTER 32 | |
| ◆ Ind AS 28 : Investment in Associates and Joint Ventures | 32.1 |
| CHAPTER 33 | |
| ◆ Ind AS 27 : Separate Financial Statements | 33.1 |
| CHAPTER 34 | |
| ◆ Ind AS 101: First-Time Adoption of Ind AS | 34.1 |
| CHAPTER 35 | |
| ◆ Professional and Ethical duty of a Chartered Accountant | 35.1 |
| CHAPTER 36 | |
| ◆ Accounting and Technology | 36.1 |
| MULTIPLE CHOICE QUESTIONS | M.1 |

1

CHAPTER

FRAMEWORK FOR FINANCIAL REPORTING UNDER IND AS

Que. 1. Discuss the following in the context of 'Conceptual Framework for Financial Reporting under Indian Accounting Standards':

- (i) The cost constraint on useful financial information
[Nov. 2023 Examination - 6 Marks]
- (ii) Executory contracts. *[May 2022 Examination - 6 Marks]*

Ans. :

(i) The cost constraint on useful financial information:

Role of Cost:

Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that these costs are justified by the benefits of reporting that information.

Basis of Assessment of Cost:

Both the providers and users of financial information incur costs in reporting and analyzing financial information. In applying the cost constraint, ICAI assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in formulating a proposed Ind AS, the ICAI seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that Ind AS. In most situations, assessments are based on a combination of quantitative and qualitative information.

Cost Perspective:

Due to the inherent subjectivity, assessments of different individuals about the costs and benefits of reporting particular items of financial information will vary. Therefore, ICAI seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities.

(ii) Executory Contracts:**Definition:**

An executory contract is a contract, or a portion of a contract, that is equally unperformed — neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.

Outcome of Executory Contract:

An executory contract establishes a combined right and obligation to exchange economic resources. The rights and obligations are inter-dependent and cannot be separated. Hence, the combined rights and obligations constitute a single asset or liability.

The entity has an asset if the terms of the exchange are currently favourable; it has a liability if the terms of the exchange are currently unfavorable.

Basis of Disclosure:

Whether such an asset or liability is included in the financial statements depends on both the recognition criteria and the measurement basis selected for the asset or liability, including, if applicable, any test for whether the contract is onerous.

Que. 2. Explain the criteria in the Conceptual Framework for Financial Reporting for the recognition of an asset and discuss whether there are inconsistencies with the criteria in Ind AS 38.

[Nov. 2022 Examination - 6 Marks]

Ans. The Conceptual Framework defines:

| | |
|-------------------|--|
| Asset | An asset as a present economic resource controlled by the entity as a result of past events. |
| Economic resource | An economic resource is a right that has the potential to produce economic benefits. |

Assets should be recognized if they meet the Conceptual Framework definition of an asset and such recognition provides users of financial statements with information that is useful (*i.e.*, it is relevant as well as results in faithful representation). However, the criteria of a cost-benefit analysis always exists *i.e.*, the benefits of the information must be sufficient to justify the costs of providing such information. The recognition criteria outlined in the Conceptual Framework allows for flexibility in the application in amending or developing the standards.

Ind AS 38:

Para 8 of Ind AS 38, defines an **intangible asset** as an identifiable non-monetary asset without physical substance.

Further, Ind AS 38 defines an asset:

| | |
|-------|--|
| Asset | An asset as a resource : <ol style="list-style-type: none"> 1. controlled by an entity as a result of past events; and 2. from which future economic benefits are expected to flow to the entity. |
|-------|--|

Furthermore, Para 21 of Ind AS 38 states that an intangible asset shall be recognised if, and only if:

- (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- (b) the cost of the asset can be measured reliably.

This requirement is applicable both in case of an externally acquired intangible asset or an internally generated intangible asset. The probability of expected future economic benefits must be based on reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. Further, as per Para 33 of Ind AS 38, the probability recognition criterion is always considered to be satisfied for intangible assets acquired in business combinations. If the recognition criteria are not satisfied, Ind AS 38 requires the expenditure to be expensed as and when it is incurred.

Analysis:

It is notable that the Conceptual Framework **does not prescribe** a 'probability criterion'. As long as there is a potential to produce economic benefits, even with a low probability, an item can be recognized as an asset according to the Conceptual Framework.

However, in terms of intangible assets, it could be argued that recognizing an intangible asset having low probability of generating economic benefits would not be useful to the users of financial statements given that the asset has no physical substance.

The recognition criteria and definition of an asset under Ind AS 38 are different as compared to those outlined in the Conceptual Framework.

To put in simple words, the criteria in Ind AS 38 are more specific, but definitely do provide information that is relevant and a faithful representation. When viewed from the prism of relevance and faithful representation, the requirements of Ind AS 38 in terms of recognition *appear to be consistent with the Conceptual Framework.*

Que. 3. Discuss with respect to 'Conceptual Framework for Financial Reporting under Indian Accounting Standards', 'faithful representation', one of the qualitative characteristic of financial information.
[May 2023 Examination - 6 Marks]

Ans.:

To be useful, financial information must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

To be a perfectly faithful representation, a depiction would have following three characteristics:

1. **Complete:** A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.
2. **Neutral:** A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised, or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users.

Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses.

3. **Free from error:** Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

Que. 4. Discuss the characteristics of good financial statements.

[Nov. 2023 Examination - 6 Marks]

Ans.: The two fundamental qualitative characteristics of financial statements are:

1. Relevance; and
2. Faithful representation.

The four enhancing qualitative characteristics are:

1. Comparability;
2. Verifiability;
3. Timeliness; and
4. Understandability.

Fundamental qualitative characteristics:

1. **Relevance:**

The characteristic of relevance implies that the information should have predictive and confirmatory value for users in making and evaluating economic decisions. The relevance of Information is affected by its

nature and materiality. Information is material if omitting it or misstating it could influence decision making. A financial statement should include all information which is material to a particular entity.

2. Faithful representation:

The characteristic of faithful representation implies that financial information faithfully represents the phenomena it purports to represent. This depiction implies that the financial information is complete, neutral and free from error.

Enhancing qualitative characteristics:

1. Comparability:

The characteristic of comparability implies that users of financial statements must be able to compare aspects of an entity at one time and over time, and between entities at one time and over time.

2. Verifiability:

The characteristic of Verifiability provides assurance that the information faithfully represents what it purports to be representing.

3. Timeliness:

The characteristic of timeliness means that the accounting information is available to all stakeholders in time for decision-making purposes.

4. Understandability:

The characteristic of understandability implies that preparers of information have classified, characterised and presented the information clearly and concisely. The financial statements are prepared with the assumption that its users have a 'reasonable knowledge' of the business and its economic activities.

2

CHAPTER

IND AS 1 : PRESENTATION OF FINANCIAL STATEMENTS

OPERATING CYCLE: [BASED ON PARA NO. 68]

Que. 1. B Ltd. produces aircrafts. The length of time between first purchasing raw materials to make the aircrafts and the date the company completes the production and delivery is 9 months. The company receives payment for the aircrafts 7 months after the delivery.

- (a) What is the length of operating cycle?
- (b) How should it treat its inventory and debtors?

[MTP March 2022]

Ans.

- (a) The length of the operating cycle will be 16 (9 + 7) months.
- (b) Assuming the inventory and debtors will be realized within normal operating cycle, i.e., 16 months, both the inventory as well as debtors should be classified as current.

CURRENT AND NON-CURRENT DISTINCTION – ASSETS: [BASED ON PARA NOS. 66 + 61]

Que. 2. [Based on Para Nos. 66(a) and 61 + 68]

An entity manufactures passenger vehicles. The time between purchasing of underlying raw materials to manufacture the passenger vehicles and the date the entity completes the production and delivers to its customers is 11 months. Customers settle the dues after a period of 8 months from the date of sale.

- (a) Will the inventory and the trade receivables be current in nature?
- (b) Assuming that the production time was say 15 months and the time lag between the date of sale and collection from customers is 13 months, will the answer be different?

[RTP May 2022; Educational Material]

Ans.:

Answer to Part (a) : In this case, time lag between the purchase of inventory and its realization into cash is 19 months [11 months + 8 months].

Both inventory and the debtors would be classified as current if the entity expects to realize these assets in its normal operating cycle.

Answer to Part (b) :

Conclusion: No, the answer will be the same as the classification of debtors and inventory depends on the expectation of the entity to realize the same in the normal operating cycle. In this case, time lag between the purchase of inventory and its realization into cash is 28 months [15 months + 13 months].

Both inventory and debtors would be classified as current if the entity expects to realize these assets in the normal operating cycle.

Note: Additional information as required by paragraph 61 of Ind AS 1 will be required to be made by the entity for both part (a) and (b).

SPECIAL ISSUES ON FINANCIAL LIABILITY [BASED ON PARA NOS. 72 TO 75]

Que. 3. [Based on Para Nos. 72 and 73] :

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

- (a) How should such loan be classified in the balance sheet of the entity?
- (b) Will the answer be different if the new facility is agreed upon after the end of the reporting period?
- (c) Will the answer to (a) be different if the existing facility is from one bank and the new facility is from another bank?
- (d) Will the answer to (a) be different if the new facility is not yet tied up with the existing bank, but the entity has the potential to refinance the obligation?

[RTP November 2019; Educational Material]

Ans.: Evaluation Chart

| Part | Para No. | Analysis and Conclusion |
|------|--|---|
| (a) | 69(d) [Para 72 is not applicable] | The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over prior to the end of the reporting period for a period of 5 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current. |

| Part | Para No. | Analysis and Conclusion |
|------|--------------------------------------|--|
| (b) | 72 | <p>Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period because of paragraph 72.</p> <p>As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Hence the loan is to be classified as current.</p> |
| (c) | 69(c) [Para 72 is not applicable] | <p>Yes, loan facility arranged with new bank cannot be treated as refinancing, as the loan with the earlier bank would have to be settled which may coincide with loan facility arranged with a new bank.</p> <p>In this case, loan has to be repaid within a period of 9 months from the end of the reporting period, therefore, it will be classified as current liability.</p> |
| (d) | 73 | <p>Yes, the answer will be different and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.</p> |

Que. 4. [Based on Para Nos. 75 and 74]

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

- (a) How should the liability be classified in the balance sheet — current/non-current, if subsequent to the end of the reporting period but before the approval of financial statements, the banker has agreed not to demand payment?
- (b) Will the answer be different, if the banker has condoned the breach prior to the reporting period and provided a time period of more than twelve months after the reporting period to rectify the breach?
- (c) What will be the classification, if the banker has condoned the breach prior to the reporting period but provided a time period of only less than twelve months after the reporting period to rectify the breach?

[Educational Material]

Ans. : Evaluation Chart:

| Part | Para No. | Analysis and Conclusion: |
|------|-----------------------------|---|
| (a) | 74 | The loan should be classified as non-current by virtue of paragraph 74 of Ind AS 1. |
| (b) | 75 | No, the loan can retain its classification as non-current by virtue of paragraph 75 of Ind AS 1. |
| (c) | [Para 75 is not applicable] | The loan will require a reclassification to current by virtue of paragraph 75 of Ind AS 1 as stated above, since the period of grace is less than twelve months after the reporting period. |

Que. 5. X Limited has a loan facility from a bank which is to be repaid within a period of six months from the end of the reporting period. Before the end of the reporting period, X Limited and the bank enters into an arrangement as per which the existing outstanding loan will, unconditionally, roll into the new facility which will expire after a period of 3 years:

- (i) How should the loan be classified in the balance sheet of X Limited as at the reporting date? Give reasons.
- (ii) Will the answer be different if the new facility is agreed upon after the end of the reporting period? Why? What will be the answer?
- (iii) Will the answer to (i) be different if the new facility is not yet tied up with the existing bank, but X Limited has the potential to refinance the obligation. Give reasons.

[May 2023 Examination - 5 Marks]

Ans. : Evaluation Chart:

| Part | Para No. | Analysis and Conclusion: |
|-------|--------------------------------------|---|
| (i) | 69(d) [Para 72 is not applicable] | The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over prior to the end of the reporting period for a period of 3 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current. |
| (ii) | 72 | Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period because of paragraph 72. As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Hence the loan is to be classified as current. |
| (iii) | 73 | Yes, the answer will be different and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current. |

Que. 6. In November 2021, an Ind AS compliant Company entered into a loan agreement with a bank. The loan is repayable in 6 equal annual instalments starting from November 2026. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by the promoters of the Company by 4th March, 2022, failing which the loan becomes payable on demand.

As on 4th March, 2022, the Company has not been able to get the promoter's contribution. On 5th March, 2022, the Company approached the Bank and immediately obtained a grace period up to 30th June, 2022 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period. The annual reporting period of the Company ends on 31st March, 2022.

You are required to respond to the following:

- (i) As at 31st March, 2022, how should the Company classify the loan?
- (ii) Assume that it may not be able to get the promoter's contribution by the due date, the Company approached the Bank in January 2022 and got the compliance date extended up to 30th June, 2022 for getting promoter's contribution. Will the loan classification as at 31st March, 2022 be different from (i) above?

[May 2022 Examination - 5 Marks]

Ans. :

- (i) **What Ind AS 1 states:**

Paragraph 75 of Ind AS 1, inter alia, provides that an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

Analysis and Conclusion:

In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on 31st March, 2022, the loan will be classified as current.

- (ii) *Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach.*

In this case, whether actual breach has taken place or not is to be assessed on 30th June, 2022, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on 31st March, 2022, the loan will retain its classification as non-current.

Que. 7. [Based on Para No. 74]

Entity A had obtained a long-term bank loan during January 2019, which is subject to certain financial covenants. One of such covenants states that during the tenure of the loan, debt equity ratio of 65:35 is to be maintained at all time. In case of breach of this covenant, the loan will be repayable immediately. The loan agreement also states that these covenants will be assessed at the end of each quarter and reported to the bank within a month from the end of each quarter. If the covenants are breached at this time, the loan will be repayable immediately. The entity closes its annual accounts as on 31st March every year.

You are required to show how the loan will be classified as on 31st March 2020, if:

- (i) At the financial year end, Entity A determines that it is not in breach of any of the covenants;
- (ii) At the quarter ending 31st December 2019, Entity A's debt equity ratio became 75:25 and thus breaches the covenant, however it obtains a waiver from the bank. The terms of the waiver specify that if Entity A rectifies the breach within a period of 12 months from the reporting date then the bank cannot demand repayment immediately on account of the breach during this period. Entity A expects to rectify the breach by raising additional equity capital by means of a rights issue to the existing shareholders and expects that the issue will be fully subscribed;
- (iii) Considering the same facts as in (ii) above, except obtaining the waiver clause, what would be your answer?

[January 2021 Examination - 5 Marks]

Ans. : Evaluation Chart:

| Part | Para No. | Analysis and Conclusion: |
|------|----------------------|---|
| (i) | 74 is not applicable | <p>The entity has obtained a long-term loan during January, 2019. Further, the entity has not breached the covenants specified in the loan; therefore, as at 31st March, 2020, the loan will be classified as 'non-current liability.</p> <p>Assumption:</p> <p>Since repayment period of the loan is not mentioned in the question, it is assumed that on 31st March 2020, the repayment period of the loan is more than 12 months.</p> |
| (ii) | 74 is applicable | <p>Though there is a breach of covenant on 31st December, 2019 i.e. before reporting date of 31st March, 2020, yet the bank had agreed to provide a period of grace for twelve months from the reporting period, within which the entity A can rectify the breach and during this period bank cannot demand immediate repayment.</p> <p>Also, entity A has intention to rectify the breach. Thus, entity A will classify the liability of bank loan as non-current liability in its books as at 31st March, 2020.</p> |

| Part | Para No. | Analysis and Conclusion: |
|-------|----------------------|---|
| (iii) | 74 is not applicable | <p>Since the covenant for the bank loan has been breached during the quarter ended 31st December, 2019 and reported to the bank within one month from the end of the quarter <i>i.e.</i> by 31st January, 2020, the bank loan becomes repayable immediately.</p> <p>Therefore, it will be presented as current liability in the books of entity A as on 31st March, 2020.</p> |

PRESENTATION — STATEMENT OF PROFIT & LOSS (P&L AND OCI SECTION) [BASED ON PARA NOS. 7 (DEFINITION) + (82 TO 96)]

Que. 8. Mike Ltd. has undertaken following various transactions in the financial year ended 31.03.2018:

| Sl. No. | Particulars | (₹) |
|---------|---|----------|
| (a) | Remeasurement of defined benefit plans | 1,54,200 |
| (b) | Current service cost | 1,05,000 |
| (c) | Changes in revaluation surplus | 75,000 |
| (d) | Gains and losses arising from translating the monetary assets in foreign currency | 45,000 |
| (e) | Gains and losses arising from translating the financial statements of a foreign operation | 39,000 |
| (f) | Gains and losses arising from investments in equity instruments designated at fair value through other comprehensive income | 60,000 |
| (g) | Income tax expenses | 21,000 |
| (h) | Share bases payments cost | 2,01,000 |

Identify and present the transactions in the financial statements as per Ind AS 1. [June 2019 Examination - 4 Marks]

Ans. :

**Items impacting the Statement of Profit and Loss
for the year ended 31st March, 2018**

| Particulars | (₹) |
|---|----------|
| Current service cost | 1,05,000 |
| Gains and losses arising from translating the monetary assets in foreign currency | 45,000 |
| Income tax expenses | 21,000 |
| Share based payments cost | 2,01,000 |

**Items impacting the other comprehensive income
for the year ended 31st March, 2018**

| Particulars | (₹) |
|---|----------|
| Remeasurement of defined benefit plans | 1,54,200 |
| Changes in revaluation surplus | 75,000 |
| Gains and losses arising from translating the financial statements of a foreign operation | 39,000 |
| Gains and losses from investments in equity instruments designated at fair value through other comprehensive income | 60,000 |

COMPREHENSIVE PRACTICAL QUESTION

Que. 9. Following are the Financial statements of Abraham Ltd.:

Balance Sheet

| Particulars | Note | As at March 31, 2019 (₹ in lakhs) |
|-------------------------------------|------|---|
| EQUITY AND LIABILITIES | | |
| Shareholders' funds | | |
| Share capital (shares of ₹ 10 each) | | 1,000 |
| Reserves and surplus | 1 | 2,400 |
| Non-current liabilities | | |
| Long-term borrowings | 2 | 5,700 |
| Deferred tax liabilities | 3 | 400 |
| Current liabilities | | |
| Trade payables | | 300 |
| Short-term provisions | | 300 |
| Other current liabilities | 4 | 200 |
| TOTAL | | 10,300 |
| ASSETS | | |
| Non-current assets | | |
| Fixed Assets | | 5,000 |
| Deferred tax Assets | 3 | 700 |
| Current assets | | |
| Inventories | | 1,500 |
| Trade receivables | 5 | 1,100 |
| Cash and bank balances | | 2,000 |
| TOTAL | | 10,300 |

Statement of Profit & Loss:

| Particulars | Note | Year ended March 31, 2019 (₹ in lakhs) |
|--------------------------|------|--|
| Revenue from operations | | 6,000 |
| Expenses: | | |
| Employee Benefit Expense | | 1,200 |
| Operating Costs | | 3,199 |
| Depreciation | | 450 |
| Total Expenses | | 4,849 |
| Profit before tax | | 1,151 |
| Tax Expense | | 201 |
| Profit after tax | | 950 |

Notes to Accounts:**Note 1: Reserve and surplus**

(₹ in lakhs)

| | | |
|------------------------------|------------|--------------|
| Capital Reserve | | 500 |
| Surplus from P&L | | |
| Opening Balance | 550 | |
| Additions | <u>950</u> | 1,500 |
| Reserve for foreseeable loss | | 400 |
| Total | | <u>2,400</u> |

Note 2: Long Term Borrowings

| | |
|---------------------|--------------|
| Term Loan from Bank | 5,700 |
| Total | <u>5,700</u> |

Note 3: Deferred Tax

| | |
|------------------------|------------|
| Deferred Tax Asset | 700 |
| Deferred Tax Liability | 400 |
| Total | <u>300</u> |

Note 4: Other Current Liabilities

| | |
|---------------------------|------------|
| Unclaimed dividends | 10 |
| Billing in Advance | 150 |
| Other Current Liabilities | 40 |
| Total | <u>200</u> |

Note 5: Trade Receivables

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

Additional Information:

- Share capital comprises of 100 Lakh shares of ₹ 10 each.
- Term Loan from bank for ₹ 5,700 Lakhs also includes interest accrued and due of ₹ 700 Lakhs as on the reporting date.
- Reserve for foreseeable loss is created against a service contract due within 6 months.
- Inventory should be valued at cost ₹ 1,500 Lakhs, NRV as on date is ₹ 1,200 Lakhs.
- A dividend of 10% was declared by the Board of directors of the company.
- Accrued Interest income of ₹ 300 Lakhs is not booked in the books of the company.
- Deferred taxes related to taxes on income levied by the same governing tax laws.

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

[November 2019 Examination - 12 Marks]

Ans. :

- Reserve for foreseeable loss for ₹ 400 lakh, due within 6 months, should be a part of provisions. Hence it needs to be regrouped. If it was also part of previous year's comparatives, a note should be added in the notes to account on the regrouping done this year.
- Interest accrued and due of ₹ 700 lakh on term loan will be a part of current liabilities. Thus, it should be shown under the heading "Other Current Liabilities".
- As per Ind AS 2, inventories are measured at the lower of cost and net realizable value. The amount of any write down of inventories to net realizable value is recognized as an expense in the period the write-down occurs. Hence, the inventories should be valued at ₹ 1,200 lakh and write down of ₹ 300 lakh (₹ 1,500 lakh - ₹ 1,200 lakh) will be added to the operating cost of the entity.

4. In the absence of the declaration date of dividend in the question, it is presumed that the dividend is declared after the reporting date. Hence, no adjustment for the same is made in the financial year 2018-2019. However, a note will be given separately in this regard (not forming part of item of financial statements).
5. Accrued income will be shown in the Statement of Profit and Loss as 'Other Income' and as 'Other Current Asset' in the Balance Sheet.
6. Since the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws, these shall be set off, in accordance with Ind AS 12. The net DTA of ₹ 300 lakh will be shown in the balance sheet.
7. As per Division II of Schedule III to the Companies Act, 2013, the Statement of Profit and Loss should present the Earnings per Equity Share.
8. In Ind AS, Assets are not presented in the Balance sheet as 'Fixed Asset', rather they are classified under various categories of Non-current assets. Here, it is assumed as 'Property, Plant and Equipment'.
9. The presentation of the notes to 'Trade Receivables' will be modified as per the requirements of Division II of Schedule III.

Balance Sheet
For the year ended 31st March, 2019

| Particulars | Note No. | (₹ in lakh) |
|---|----------|--------------|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | | 5,000 |
| Deferred tax assets | 1 | 300 |
| Current assets | | |
| Inventories | | 1,200 |
| Financial assets | | |
| Trade receivables | 2 | 1,100 |
| Cash and cash equivalents | | 2,000 |
| Others financial asset (accrued interest) | | 300 |
| TOTAL | | 9,900 |
| EQUITY AND LIABILITIES | | |
| Equity | | |
| Equity share capital | 3 | 1,000 |
| Other equity | 4 | 2,000 |
| Non-current liabilities | | |
| Financial liabilities | | |
| Long-term borrowings | 5 | 5,000 |