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CA Final - GR I – Financial Reporting

Practice Manual

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Chapter – 1

Ind AS on Presentation of Items in the Financial Statements

1.1 Ind AS 34 Interim Financial Reporting

Q. 1

ABC Ltd. presents interim financial report quarterly. On 1.4.2021, ABC Ltd. has carried forward loss of ₹600 lakhs for income-tax purpose for which deferred tax asset has not been recognized. ABC Ltd. earns ₹900 lakhs in each quarter ending on 30.6.2021, 30.9.2021, 31.12.2021 and 31.3.2022 excluding the carried forward loss. Income-tax rate is expected to be 40%. Calculate the amount of tax expense to be reported in each quarter.

Q. 2

Innovative Corporation Private Limited (or "ICPL") is dealing in seasonal product and the sales pattern of the product, quarter wise is as under during the financial year 2021-2022:

Qtr. I	Qtr. II	Qtr. III	Qtr. IV
ending 30 June	ending 30th September	ending 31st December	ending 31st March
10%	10%	60%	20%

For the first quarter ending on 30th June, 2021, ICPL has provided the following information:

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

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

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

Q. 3

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

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

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

Q. 4

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

1.2 Ind AS 7 Statement of Cash Flows

Q. 1

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

Consolidated Statement of Cash Flows		
		(₹ in Lac)
	For the year ended	
	31st March 2022	31st March 2021
Assets		
Non-Current Assets		
Property, Plant and Equipment	4,750	4,650
Investment in Associate	800	-
Financial Assets	2,150	1,800
Current Assets		
Inventories	1,550	1,900
Trade Receivables	1,250	1,800
Cash and Cash Equivalents	4,650	3,550
Liabilities		
Current Liabilities		
Trade Payables	1,550	3,610

Extracts from Consolidated Statement of Profit and Loss for the year ended 31st March 2022	
Particulars	**Amount (₹ in Lac)**
Revenue	12,380
Cost of Goods Sold	(9,860)
Gross Profit	2,520
Other Income	300
Operating Expenses	(450)
Other expenses	(540)
Interest expenses	(110)
Share of Profit of Associate	120
Profit before Tax	1,840

The below information is relevant for A Ltd Group.

1. A Ltd had spent ₹30 Lac on renovation of a building. A Ltd charged the entire renovation cost to profit and loss account.
2. On 1st April 2021, A Ltd acquired 100% shares in S Ltd, for cash of ₹300 Lac. Fair value of the assets acquired and liabilities assumed under the acquisition are as under:

Property, Plant and Equipment	140 Lac
Inventories	60 Lac
Trade Receivables	30 Lac
Cash and Cash Equivalents	20 Lac
Total Assets	250 Lac
Less: Trade Payables	(50 Lac)
Net Assets on acquisition	200 Lac

3. A Ltd.'s property, plant and equipment comprise the following:

Carrying amount on 1st April 2021	4,650 Lac
Addition (at cost) including assets in S Ltd.	800 Lac
Revaluation Surplus	80 Lac
Disposal (Sale) of Assets	(490 Lac)
Depreciation for the year	(290 Lac)
Carrying Amount on 31st March 2022	4,750 Lac

A Ltd constructed a machine that is a qualifying asset and incurred construction costs of ₹40 Lac that has been charged to other expenses. Of the interest cost of ₹110 Lac charged to profit or loss statement, ₹10 Lac includes interest cost on specific borrowings that need to be capitalized.

Property, plant and equipment was sold at 630 Lac. Gain on disposal is adjusted against operating expenses.

4. A Ltd. purchased 30% interest in an Associate (G Ltd) for cash on 1st April 2021. The associate reported profit after tax of ₹400 Lac and paid a dividend of ₹100 Lac for the year.

5. Impairment test was conducted on 31st March 2022. The following were impaired as under:

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

The goodwill impairment relates to 100% subsidiaries.

Assume that interest cost is all paid in cash.

You are required to determine cash generated from operations for group reporting purposes for the year ended 31st March 2022.

Q. 2

Company A acquires 70% of the equity stake in Company B on July 20, 2021. The consideration paid for this transaction is as below:

(a) Cash consideration of ₹15,00,000

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

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

On October 10, 2022, Company A further acquires 10% stake in Company B for cash consideration of ₹8,00,000.

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

Q. 3

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

Q. 4

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

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

Consolidated balance sheet		
	2022	**2021**
Assets	**Amount**	**Amount**
	(₹)	**(₹)**
Cash and cash equivalents	8,000	5,000
Trade receivables	54,000	50,000
Inventories	30,000	35,000
Property, plant and equipment	1,60,000	80,000
Goodwill	18,000	-
Total assets	**2,70,000**	**1,70,000**
Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	1,00,000	64,000
Total liabilities	**1,80,000**	**1,35,000**
Shareholders' equity	**90,000**	**35,000**
Total liabilities and shareholders'	**2,70,000**	**1,70,000**

Other information

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

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

Prepare the Consolidated Statement of Cash Flows for the year 2022, as per Ind AS 7.

Chapter – 2

Ind AS on Measurement based on Accounting Policies

2.1 Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Q. 1

A carpet retail outlet sells and fits carpets to the general public. It recognizes revenue when the carpet is fitted, which on an average is six weeks after the purchase of the carpet.

It then decides to sub-contract the fitting of carpets to self-employed fitters. It now recognizes revenue at the point-of-sale of the carpet.

Whether this change in recognising the revenue is a change in accounting policy as per the provision of Ind AS 8?

Q. 2

When is an entity required to present a third balance sheet as at the beginning of the preceding period?

Q. 3

Is change in the depreciation method for an item of property, plant and equipment a change in accounting policy or a change in accounting estimate?

Q. 4

ABC Ltd. changed its method adopted for inventory valuation in the year 2022-2023. Prior to the change, inventory was valued using the first in first out method (FIFO). However, it was felt that in order to match current practice and to make the financial statements more relevant and reliable, a weighted average valuation model would be more appropriate.

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

- 31st March, 2021 - Increase of ₹10 million
- 31st March, 2022 - Increase of ₹15 million
- 31st March, 2023 - Increase of ₹20 million

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

	2022-2023	**2021-2022**
Revenue	324	296
Cost of goods sold	(173)	(164)
Gross profit	151	132
Expenses	(83)	(74)
Profit	68	58

Retained earnings at 31st March, 2021 were ₹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.

2.2 Ind As 10 Events after the Reporting Period

Q. 1

ABC Ltd. received a demand notice on 15th June, 2022 for an additional amount of ₹28,00,000 from the Excise Department on account of higher excise duty levied by the Excise Department compared to the rate at which the company was creating provision and depositing the same in respect of transactions related to financial year 2021-2022. The financial statements for the year 2021-2022 are approved on 10th August, 2022. In July, 2022, the company has appealed against the demand of ₹28,00,000 and the company has expected that the demand would be settled at ₹15,00,000 only. Show how the above event will have a bearing on the financial statements for the year 2021-2022. Whether these events are adjusting or non-adjusting events and explain the treatment accordingly.

2.3 Ind As 113 Fair Value Measurement

Q. 1

Discount Rate assessment to measure present value:

Investment 1 is a contractual right to receive ₹800 in 1 year. There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

a. Investment 2 is a contractual right to receive ₹1,200 in 1 year and has a market price of ₹1,083.

b. Investment 3 is a contractual right to receive ₹700 in 2 years and has a market price of ₹566.

All three assets are comparable with respect to risk (that is, dispersion of possible payoffs and credit).

You are required to measure the fair value of Asset 1 basis above information.

Q. 2

Comment on the following by quoting references from appropriate Ind AS.

(i) DS Limited holds some vacant land for which the use is not yet determined. The land is situated in a prominent area of the city where lot of commercial complexes are coming up and there is no legal restriction to convert the land into a commercial land.

The company is not interested in developing the land to a commercial complex as it is not its business objective. Currently the land has been let out as a parking lot for the commercial complexes around.

The Company has classified the above property as investment property. It has approached you, an expert in valuation, to obtain fair value of the land for the purpose of disclosure under Ind AS.

On what basis will the land be fair valued under Ind AS?

(ii) DS Limited holds equity shares of a private company. In order to determine the fair value' of the shares, the company used discounted cash flow method as there were no similar shares available in the market.

Under which level of fair value hierarchy will the above inputs be classified?

What will be your answer if the quoted price of similar companies were available and can be used for fair valuation of the shares?

Chapter – 3

Ind As 20 Accounting for Government Grants & Disclosure of Government Assistance

Q. 2

A Ltd. received a government grant of ₹10,00,000 to defray expenses for environmental protection. Expected environmental costs to be incurred is ₹3,00,000 per annum for the next 5 years. How should A Ltd. present such grant related to income in its financial statements?

Q. 2

A Ltd. has received a grant of ₹10,00,00,000 in the year 2021-2022 from local government in the form of subsidy for selling goods at lower price to lower income group population in a particular area for two years. A Ltd. had accounted for the grant as income in the year 2021-2022. While accounting for the grant in the year 2021-2022, A Ltd. was reasonably assured that all the conditions attached to the grant will be complied with. However, in the year 2025-2026, it was found that A Ltd. has not complied with the above condition and therefore notice of refund of grant has been served to it. A Ltd. has contested but lost in court in 2025-2026 and now grant is fully repayable. How should A Ltd. reflect repayable grant in its financial statements ending 2025-2026?

Q. 3

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.

Q. 4

Rainbow Limited is carrying out various projects for which the company has either received government financial assistance or is in the process of receiving the same. The company has received two grants of ₹1,00,000 each, relating to the following ongoing research and development projects:

(i) The first grant relates to the "Clean river project" which involves research into the effect of various chemicals waste from the industrial area in Madhya Pradesh. However, no major steps have been completed by Rainbow limited to commence this research as at 31st March, 2022.

(ii) The second grant relates to the commercial development of a new equipment that can be used to manufacture eco-friendly substitutes for existing plastic products. Rainbow Limited is confident about the technical feasibility and financial viability of this new technology which will be available for sale in the market by April 2023.

In September 2021, due to the floods near one of its factories, the entire production was lost and Rainbow Limited had to shut down the factory for a period of 3 months. The State Government announced a compensation package for all the manufacturing entities affected due to the floods. As per the scheme, Rainbow Limited is entitled to a compensation based on the average of previous three months‟ sales figure prior to the floods, for which the company is required to submit an application form on or before 30th June, 2022 with necessary figures. The financial statements of Rainbow Limited are to be adopted on 31st May, 2022, by which date the claim form would not have been filed with the State Government.

Suggest the accounting treatment of, if any, for the two grants received and the flood-related compensation in the books of accounts of Rainbow Limited as on 31st March, 2022.

Q. 5

An entity opens a new factory and receives a government grant of ₹15,000 in respect of capital equipment costing ₹1,00,000. It depreciates all plant and machinery at 20% per annum on straight-line basis. Show the statement of profit and loss and balance sheet extracts in respect of the grant for first year under both the methods as per Ind AS 20.

Q. 6

A company receives a cash grant of ₹30,000 on 31st March 2021. The grant is towards the cost of training young apprentices. Training programme is expected to last for 18 months starting from 1st April 2021. Actual costs of the training incurred in 2021-2022 was ₹50,000 and in 2022-2023 ₹25,000. State, how this grant should be accounted for?

Chapter – 4

Ind As 101 First time Adoption of Indian Accounting Standards

Q. 1

Shaurya Limited is the company having its registered and corporate office at New Delhi. 60% of Shaurya Limited's shares are held by the Government of India and rest by other investors.

This is the first time that Shaurya limited would be applying Ind AS for the preparation of its financials for the current financial year 2019-2020. Following balance sheet is prepared as per earlier GAAP as at the beginning of the preceding period along with the additional information:

Balance Sheet as at 31 March 2018		
		(All figures are in '000, unless otherwise specified)
	Particulars	**Amount**
	EQUITY AND LIABILITIES	
(1)	Shareholders' Funds	
	(a) Share Capital	10,00,000
	(b) Reserves & Surplus	25,00,000
(2)	Non-Current Liabilities	
	(a) Long Term Borrowings	4,50,000
	(b) Long Term Provisions	3,50,000
	(c) Deferred tax liabilities	3,50,000
(3)	Current Liabilities	
	(a) Trade Payables	22,00,000
	(b) Other Current Liabilities	4,50,000
	(c) Short Term Provisions	12,00,000
	TOTAL	85,00,000
	ASSETS	
(1)	Non-Current Assets	
	(a) Property, Plant & Equipment (net)	20,00,000
	(b) Intangible assets	2,00,000
	(c) Goodwill	1,00,000
	(d) Non-current Investments	5,00,000
	(e) Long Term Loans and Advances	1,50,000
	(f) Other Non-Current Assets	2,00,000
(2)	Current Assets	
	(a) Current Investments	18,00,000
	(b) Inventories	12,50,000
	(c) Trade Receivables	9,00,000
	(d) Cash and Bank Balances	10,00,000
	(e) Other Current Assets	4,00,000
	TOTAL	85,00,000

Additional Information (All figures are in '000):

1. Other current liabilities include ₹3,90,000 liabilities to be paid in cash such as expense payable, salary payable etc. and ₹60,000 are statutory government dues.

2. Long term loans and advances include ₹40,000 loan and the remaining amount consists Advance to staff of ₹1,10,000.
3. Other non-current assets of ₹2,00,000 consists Capital advances to suppliers.
4. Other current assets include ₹3,50,000 current assets receivable in cash and Prepaid expenses of ₹50,000.
5. Short term provisions include Dividend payable of ₹2,00,000. The dividend payable had been as a result of board meeting wherein the declaration of dividend for financial year 2017-2018 was made. However, it is subject to approval of shareholders in the annual general meeting.

Chief financial officer of Shaurya Limited has also presented the following information against corresponding relevant items in the balance sheet:

a) Property, Plant & Equipment consists a class of assets as office buildings whose carrying amount is ₹10,00,000. However, the fair value of said office building as on the date of transition is estimated to be ₹15,00,000. Company wants to follow revaluation model as its accounting policy in respect of its property, plant and equipment for the first annual Ind AS financial statements.

b) The fair value of Intangible assets as on the date of transition is estimated to be ₹2,50,000. However, the management is reluctant to incorporate the fair value changes in books of account.

c) Shaurya Ltd. had acquired 80% shares in a company, Excel private limited few years ago thereby acquiring the control upon it at that time. Shaurya Ltd. recognised goodwill as per erstwhile accounting standards by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition.

d) Trade receivables include an amount of ₹20,000 as provision for doubtful debts measured in accordance with previous GAAP. Now as per latest estimates using hindsights, the provision needs to be revised to ₹25,000.

e) Company had given a loan of ₹1,00,000 to an entity for the term of 10 years six years ago. Transaction costs were incurred separately for this loan. The loan carries an interest rate of 7%. The principal amount is to be repaid in equal installments over the period of ten years at the year end. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹50,000 as against the carrying amount of loan which at present amounts to ₹40,000. However, Ind AS 109 mandates to recognise the interest income as per effective interest method after the adjustment of transaction costs. Management says it is tedious task in the given case to apply the effective interest rate changes with retrospective effect and hence is reluctant to apply the same retrospectively in its first time adoption.

f) In the long-term borrowings, ₹4,50,000 of component is due towards the State Government. Interest is payable on the government loan at 4%, however the prevailing rate in the market at present is 8%. The fair market value of loan stands at ₹4,20,000 as on the relevant date.

g) Under Previous GAAP, the mutual funds were measured at cost or market value, whichever is lower. Under Ind AS, the Company has designated these investments at fair value through profit or loss. The value of mutual funds as per previous GAAP is ₹2,00,000 as included in 'current investment'. However, the fair value of mutual funds as on the date of transition is ₹2,30,000.

h) Ignore separate calculation of deferred tax on above adjustments. Assume the net deferred tax income to be ₹50,000 on account of Ind AS transition adjustments.

Requirements:

- Prepare transition date balance sheet of Shaurya Limited as per Indian Accounting Standards
- Show necessary explanation for each of the items presented by chief financial officer in the form of notes, which may or may not require the adjustment as on the date of transition.

Q. 2

XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The Company has decided to voluntarily adopt Ind AS w.e.f 1st April, 2022 with a transition date of 1st April, 2021.

The Company has one Wholly Owned Subsidiary and one Joint Venture which are into manufacturing of automobile spare parts.

The consolidated financial statements of the Company under Indian GAAP are as under:

Consolidated Financial Statements

		(₹ in Lakhs)
Particulars	**31.03.2022**	**31.03.2021**
Shareholder's Funds		
Share Capital	7,953	7,953
Reserves & Surplus	16,547	16,597
Non-Current Liabilities		
Long Term Borrowings	1,000	1,000
Long Term Provisions	1,101	691
Other Long-Term Liabilities	5,202	5,904
Current Liabilities		
Trade Payables	9,905	8,455
Short Term Provisions	500	475
	42,208	41,075
Non-Current Assets		
Property Plant & Equipment	21,488	22,288
Goodwill on Consolidation of subsidiary and JV	1,507	1,507
Investment Property	5,245	5,245
Long Term Loans & Advances	6,350	6,350
Current Assets		
Trade Receivables	4,801	1,818
Investments	1,263	3,763
Other Current Assets	1,554	104
Total	42,208	41,075

Additional Information:

The Company has entered into a joint arrangement by acquiring 50% of the equity shares of ABC Pvt. Ltd. Presently, the same has been accounted as per the proportionate consolidated method. The proportionate share of assets and liabilities of ABC Pvt. Ltd. included in the consolidated financial statement of XYZ Pvt. Ltd. is as under:

Particulars	**₹ in Lakhs**
Property, Plant & Equipment	1,200
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Trade Payables	75
Short Term Provisions	35

The Investment is in the nature of Joint Venture as per Ind AS 111.

The Company has approached you to advice and suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1st April, 2021.

Q. 3

Mathur India Private Limited has to present its first financials under Ind AS for the year ended 31st March, 2023. The transition date is 1st April, 2021.

The following adjustments were made upon transition to Ind AS:

(a) The Company opted to fair value its land as on the date on transition.

The fair value of the land as on 1st April, 2021 was ₹10 crores. The carrying amount as on 1st April, 2021 under the existing GAAP was ₹4.5 crores.

(b) The Company has recognised a provision for proposed dividend of ₹60 lacs and related dividend distribution tax of ₹18 lacs during the year ended 31st March, 2021. It was written back as on opening balance sheet date.

(c) The Company fair values its investments in equity shares on the date of transition. The increase on account of fair valuation of shares is ₹75 lacs.

(d) The Company has an Equity Share Capital of ₹80 crores and Redeemable Preference Share Capital of ₹25 crores.

(e) The reserves and surplus as on 1st April, 2021 before transition to Ind AS was ₹95 crores representing ₹40 crores of general reserve and ₹5 crores of capital reserve acquired out of business combination and balance is surplus in the Retained Earnings.

(f) The company identified that the preference shares were in nature of financial liabilities.

What is the balance of total equity (Equity and other equity) as on 1st April, 2021 after transition to Ind AS? Show reconciliation between total equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1st April, 2021.

Ignore deferred tax impact.

Q. 4

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.

Chapter – 5

Ind AS on Liabilities of the Financial Statements

5.1 Ind AS 19 Employee Benefits

Q. 1

Vested Accumulating Benefits

Mr. Rajan is working for Infotech Ltd. Consider the following particulars:

Annual salary of Mr. Rajan = ₹30,00,000

Total working days in 2020-21 = 300 days

Leaves allowed in 2020-21 as per company policy = 10 days

Leaves utilized by Mr. Rajan in 2020-21 = 8 days

The unutilized leaves are settled by way of payment and accordingly, carry forward of such leaves to the subsequent period is not allowed.

Compute the total employee benefit expense for Infotech Ltd. in respect of 2020-21.

Q. 2

Non-Vested Accumulating Benefits

Mr. Niranjan is working for Infotech Ltd. Consider the following particulars:

	Year 2020-2021	Year 2021-2022
Annual salary	₹30,00,000	₹30,00,000
No. of working days during the year	300 days	300 days
Leave allowed	10 days	10 days
Leave taken	7 days	13 days
Leave unutilized carried forward to next year	3 days	NIL

Based on past experience, Infotech Ltd. assumes that Mr. Niranjan will avail the unutilized leaves of 3 days of 2020-2021 in 2021-2022.

Infotech Ltd. contends that it will record ₹30,00,000 as employee benefits expense in each of the years 2020-2021 and 2021-2022, stating that the leaves will, in any case, be utilized by 2021-2022.

Comment on the accounting treatment proposed to be followed by Infotech Ltd. Also pass journal entries for both the years.

Assume same information as in above

Based on past experience, Infotech Ltd. assumes that Mr. Niranjan will avail the unutilized leaves of 2 days of 2020-2021 subsequently.

However, in 2021-2022, Mr. Niranjan availed in actual all 3 days of brought forward leave.

Compute the expense to be recognised in 2020-2021 and 2021-2022. Also pass journal entries for both the years.

Q. 3

An entity has 100 employees, who are each entitled to ten working days of paid sick leave for each year. Unused sick leave may be carried forward for one financial year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis).

At 31 March 2021, the average unused entitlement is two days per employee. Based on past experience, the management expects that only 20% of the employees will use 1 day from their carried forward leave. Salary per day is ₹2,500.

Compute the expenses in respect of the short-term compensated absences, if they are assumed to be (a) vested short-term compensated absences, and (b) non-vested short-term compensated absences.

Q. 4

Acer Ltd. has 350 employees (same as a year ago). The average staff attrition rates observed during past 10 years represents 6% per annum. Acer Ltd. provides the following benefits to all its employees:

Paid vacation - 10 days per year regardless of date of hiring. Compensation for paid vacation is 100% of employee's salary and unused vacation can be carried forward for 1 year. As of 31st March, 2021, unused vacation carried forward was 3 days per employee, average salary was ₹15,000 per day and accrued expense for unused vacation in 2020-2021 was ₹65,00,000. During 2021-2022, employees took 9 days of vacation in average. Salary increase in 2021-2022 was 10%.

How would Acer Ltd. recognize liabilities and expenses for these benefits as of 31st March, 2022? Pass the journal entry to show the accounting treatment.

Q. 5

Acer Ltd. has 350 employees (same as a year ago). The average staff attrition rates as observed during past 10 years represents 6% per annum. Acer provides the following benefits to all its employees:

Annual bonus - during past 10 years.

Acer paid bonus to all employees who were in service during the entire financial year. Bonus was paid in June following the financial year-end. Amount of bonus for 2021-2022 paid in June 2022 represented ₹1,25,000 per employee. Acer Ltd. used to increase amount of bonus based on official inflation rate which is 8.5% for 2022-2023, although there was no legal obligation to increase the bonus by such inflation rate.

How would Acer Ltd. recognize liabilities and expenses for these employee benefits as on 31st March, 2023? Pass the journal entry to show the accounting treatment.

Q. 6

A company pays each employee a lump-sum one-time benefit upon retirement. This benefit is computed based on the employee's years in service in the company and the final salary prior to retirement. To cover its liabilities from this remuneration, the company contributes 3% of annual gross salaries to the fund. Would this obligation represent a defined contribution plan or a defined benefit plan and why?

Q. 7

In accordance with applicable legislation, company contributes 12% and employees 12% of annual gross salaries to the provident and pension fund. Upon retirement, the employees will get the accumulated balance that is calculated based on employee's years of service and his average salary for past 15 years before retirement. The pension will be paid out of the state fund assets and the company has no further obligation except to make contributions. Would this obligation represent a defined contribution plan or a defined benefit plan?

Q. 8

Acer Ltd. provides lump-sum remuneration upon retirement to its employees. Remuneration is paid out of the fund to which Acer Ltd. contributes 12% of annual gross salaries. Contributions are made twice a year ie in November of the related financial year and in June after the financial year-end. Total annual gross salaries for 2020-21 amounted to ₹50 crores. Contribution made by Acer Ltd. in November 2020 was ₹2.8 crores. Remuneration depends on the number of employee's service and amount of cash in the fund at retirement date (Acer Ltd. has no further obligations except for contributions).

How should this transaction appear in the financial statements of Acer Ltd. as of 31st March 2021?

Q. 9

Dinkar Ltd., a large IT company, accounts for gratuity on payment basis, and supports such accounting policy by making the following disclosure in the Financial Statements:

"Due to high labour turnover, a large degree of uncertainty is involved in estimating the liability of gratuity. Accordingly, the management opines that as the estimates of the uncertainty would confuse the readers by complicating the financial statements, such liability would be recorded on payment basis."

The management opines that by making the above disclosures, the company is complying with the requirements of all the Ind AS, as a disclosure to the effect of the above is given. The management is also willing to specifically highlight the above aspect by making it conspicuous in the financial statements.

Is the contention of management correct as per the provisions of Ind AS?

Q. 10

How will the following information be presented in the Balance Sheet of Udyog Ltd.?

Particulars	**₹ in lakhs**
PV of Defined Benefit Obligations	3,500
Fair Value of Plan Assets	3,332

Q. 11

How will the following information be presented in the Balance Sheet of Udyog Ltd.?

Particulars	**₹ in lakhs**
PV of Defined Benefit Obligations	2,750
Fair Value of Plan Assets	2,975
Asset Ceiling	175

Q. 12

A post-employment medical plan reimburses 40 percent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service. How will the benefit be attributed to the years of service?

Q. 13

A post-employment medical plan reimburses 10 percent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.

How will the benefit be attributed to the years of service?

Q. 14

Pratap Ltd. belongs to the ship-building industry. The company reviewed an Actuarial Valuation for the first time for its pension scheme which revealed a surplus of ₹60 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹20 lakhs instead of ₹50 lakhs.

The average remaining life of the employees is estimated to be 6 years. Advise the Company in line with 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, 2021, the actuaries advised that the present value of the defined benefit obligation was ₹6,00,00,000. On the same date, the fair value of the assets of the defined benefit plan was ₹5,20,00,000. On 1st April, 2021, the annual market yield on government bonds was 5%. During the year ended 31st March, 2022, A Ltd. made contributions of ₹70,00,000 into the plan and the plan paid out benefits of ₹42,00,000 to retired members. Both these payments were made on 31st March, 2022.

The actuaries advised that the current service cost for the year ended 31st March, 2022 was ₹62,00,000. On 28th February, 2022, 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 ₹15,00,000 from that date.

During the year ended 31st March, 2022, 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 ₹80,00,000. Before 31st March, 2022, A Ltd. made payments of ₹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, 2022, the actuaries advised that the present value of the defined benefit obligation was ₹6,80,00,000. On the same date, the fair value of the assets of the defined benefit plan were ₹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, 2022 as per Ind AS.

Q. 16

On 1st April 2021, the fair value of the assets of XYZ Ltd's defined benefit plan were valued at ₹20,40,000 and the present value of the defined obligation was ₹21,25,000. On 31st March,2022 the plan received contributions from XYZ Ltd amounting to ₹4,25,000 and paid out benefits of ₹2,55,000. The current service cost for the financial year ending 31st March 2022 is ₹5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31st March 2022 was ₹23,80,000, and the present value of the defined benefit obligation was ₹27,20,000. Provide a reconciliation from the opening balance to the closing balance for Plan assets and Defined benefit obligation. Also show how much amount should be recognised in the statement of profit and loss, other comprehensive income and balance sheet?

5.2 Ind As 37 Provision, Contingent Liabilities & Contingent Assets

Q. 1

ABC Limited is an automobile component manufacturer. The automobile manufacturer has specified a delivery schedule, non-adherence to which will entail a penalty. As on 31st March, 2021, the reporting date, the manufacturer has a delivery scheduled for June 2022. However, the manufacturer is aware that he will not be able to meet the delivery schedule in June 2022.

Determine whether the entity has a present obligation as at 31st March, 2021, requiring recognition of provision.

Q. 2

ABC Ltd. has an obligation to restore the seabed for the damage it has caused in the past. It has to pay ₹10,00,000 cash on 31st March 2023 relating to this liability. ABC Ltd.'s management considers that 5% is an appropriate discount rate. The time value of money is considered to be material.

Calculate the amount to be provided for at 31st March 2021 for the costs of restoring the seabed.

Q. 3

U Ltd. is a large conglomerate with a number of subsidiaries. It is preparing consolidated financial statements as on 31st March 2022 as per the notified Ind AS. The financial statements are due to be approved for issue on 15th May 2022. Following are a few 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 2022, the board of directors of U Ltd. decided to discontinue the business of G Ltd. from 30th April 2022. They made a public announcement of their decision on 15th February 2022.

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 2022. U Ltd. would collect any amounts still owed by G Ltd.'s customers after 31st May 2022. 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 ₹60 lakhs. The actual termination payments totalling to ₹520 lakhs were made in full on 15th May 2022. As per latest estimates made on 15th May 2022, the total relocation cost is ₹63 lakhs.
- G Ltd. had taken a property on operating lease, which was expiring on 31st March 2026. The present value of the future lease rentals (using an appropriate discount rate) is ₹430 lakhs. On 15th May 2022, G Ltd. made a payment to the lessor of ₹410 lakhs in return for early termination of the lease.

The loss after tax of G Ltd. for the year ended 31st March 2022 was ₹400 lakhs. G Ltd. made further operating losses totalling ₹60 lakhs till 30th April 2022.

What are the provisions that the Company is required to make as per Ind AS 37?

Q. 4

A company manufacturing and supplying process control equipment is entitled to duty draw back if it exceeds its turnover above a specified limit. To claim duty drawback, the company needs to file application within 15 days of meeting the specified turnover. If application is not filed within stipulated time, the Department has discretionary power of giving duty draw back credit. For the year 2021-2022 the company has exceeded the specified limit of turnover by the end of the reporting period. However, duty drawback can be claimed on filing of application within the stipulated time or on discretion of the Department if filing of application is late. The application for duty drawback is filed on April 20, 2022, which is after the stipulated time of 15 days of meeting the turnover condition. Duty drawback has been credited by the Department on June 28, 2022 and financial statements have been approved by the Board of Directors of the company on July 26, 2022. What would be the treatment of duty drawback credit as per the given information?

Q. 5

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

Q. 6

Marico has an obligation to restore environmental damage in the area surrounding its factory. Expert advice indicates that the restoration will be carried out in two distinct phases; the first phase requiring expenditure of ₹2 million to remove the contaminated soil from the area and the second phase, commencing three years later from the end of first phase, to replant the area with suitable trees and vegetation. The estimated cost of replanting is ₹3.5 million. Marico uses a cost of capital (before taxation) of 10% and the expenditure, when incurred, will attract tax relief at the company's marginal tax rate of 30%. Marico has not recognised any provision for such costs in the past and today's date is 31st March 2022. The first phase of the clean-up will commence in a few months' time and will be completed on 31st March 2023 when the first payment of ₹2 million will be made. Phase 2 costs will be paid three years later from the end of first phase. Calculate the amount to be provided at 31st March 2022 for the restoration costs.

Chapter – 6

Ind AS on Items Impacting the Financial Statements

6.1 Ind As 12 Income Taxes

Q. 1

The directors of H wish to recognise a material deferred tax asset in relation to ₹250 Cr of unused trading losses which have accumulated as at 31st March 2021. H has budgeted profits for ₹80 Cr for the year ended 31st March 2022. The directors have forecast that profits will grow by 20% each year thereafter. However, the improvement in trading results may occur after the next couple of years to come at the position of breakeven. The market is currently depressed and sales orders are at a lower level for the first quarter of 2022 than they were for the same period in any of the previous five years. H operates under a tax jurisdiction which allows for trading losses to be only carried forward for a maximum of two years.

Analyse whether a deferred tax asset can be recognized in the financial statements of H for the year ended 31st March 2021?

Q. 2

On 1st April 2021, S Ltd. leased a machine over a 5 year period. The present value of lease liability is ₹120 Cr (discount rate of 8%) and is recognized as lease liability and corresponding Right of Use (RoU) Asset on the same date. The RoU Asset is depreciated under straight line method over the 5 years. The annual lease rentals are ₹30 Cr payable starting 31st March 2022. The tax law permits tax deduction on the basis of payment of rent.

Assuming tax rate of 30%, you are required to explain the deferred tax consequences for the above transaction for the year ended 31st March 2022.

Q. 3

On 1st April 2021, A Ltd. acquired 12 Cr shares (representing 80% stake) in B Ltd. by means of a cash payment of ₹25 Cr. It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at fair value. The market value of an equity share in B Ltd. at 1st April 2021 can be used for this purpose. On 1st April 2021, the market value of a B Ltd. share was ₹2.00

On 1st April 2021, the individual financial statements of B Ltd. showed the net assets at ₹23 Cr.

The directors of A Ltd. carried out a fair value exercise to measure the identifiable assets and liabilities of B Ltd. at 1st April 2021. The following matters emerged:

- Property having a carrying value of ₹15 Cr at 1 April 2021 had an estimated market value of ₹18 Cr at that date.
- Plant and equipment having a carrying value of ₹1 Cr at 1st April 2021 had an estimated market value of ₹13 Cr at that date.
- Inventory in the books of B Ltd. is shown at a cost of ₹2.50 Cr. The fair value of the inventory on the acquisition date is ₹3 Cr.

The fair value adjustments have not been reflected in the individual financial statements of B Ltd. In the consolidated financial statements, the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary differences is 20%.

Calculate the deferred tax impact on above and calculate the goodwill arising on acquisition of B Ltd.

Q. 4

On 1st April 2021, P Ltd. had granted 1 Cr share options worth ₹4 Cr subject to a two-year vesting period. The income tax law permits a tax deduction at the exercise date of the intrinsic value of the options. The intrinsic value of the options at 31st March 2022 was ₹1.60 Cr and at 31st March 2023 was ₹4.60 Cr. The increase in the fair value of the options on 31st March 2023 was not foreseeable at 31st March 2022. The options were exercised at 31st March 2023.

Give the accounting for the above transaction for deferred tax for period ending 31st March, 2022 and 31st March, 2023. Assume that there are sufficient taxable profits available in future against any deferred tax assets. Tax rate of 30% is applicable to P Ltd.

Q. 5

A's Ltd. profit before tax according to Ind AS for Year 2021-2022 is ₹100 thousand and taxable profit for year 2021-2022 is ₹104 thousand. The difference between these amounts arose as follows:

1. On 1st February, 2022, it acquired a machine for ₹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.
2. In the year 2021-2022, expenses of ₹8 thousand were incurred for charitable donations. These are not deductible for tax purposes.

Prepare necessary entries as at 31st March 2022, 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.

Q. 6

A Ltd prepares financial statements to 31st March each year. The rate of income tax applicable to A Ltd is 20%. The following information relates to transactions, assets and liabilities of A Ltd during the year ended 31st March 2022:

(i) A Ltd has a 40% shareholding in L Ltd. A Ltd purchased this shareholding for ₹45 Cr. The shareholding gives A Ltd significant influence over L Ltd but not control and therefore A Ltd. accounts for its interest in L Ltd using the equity method. The equity method carrying value of A Ltd's investment in L Ltd was ₹70 Cr on 31st March 2021 and ₹75 Cr on 31st March 2022. In the tax jurisdiction in which A Ltd operates, profits recognised under the equity method are taxed if and when they are distributed as a dividend or the relevant investment is disposed of.

(ii) A Ltd. measures its head office building using the revaluation model. The building is revalued every year on 31st March. On 31st March 2021, carrying value of the building (after revaluation) was ₹40 Cr and its tax base was ₹22 Cr. During the year ended 31st March 2022, A Ltd charged depreciation in its statement of profit or loss of ₹2 Cr and claimed a tax deduction for tax depreciation of ₹1.25 Cr. On 31st March 2022, the building was revalued to ₹45 Cr. In the tax jurisdiction in which A Ltd operates, revaluation of property, plant and equipment does not affect taxable income at the time of revaluation.

Basis the above information, you are required to compute:

(a) The deferred tax liability of A Ltd at 31st March 2022

(b) The charge or credit to both profit or loss and other comprehensive income relating to deferred tax for the year ended 31st March 2022

Q. 7

K Ltd prepares consolidated financial statements to 31st March each year. During the year ended 31st March 2022, K Ltd entered into the following transactions:

(a) On 1st April 2021, K Ltd purchased an equity investment for ₹2,00,000. The investment was designated as fair value through other comprehensive income. On 31st March 2022, the fair value of the investment was ₹2,40,000. In the tax jurisdiction in which K Ltd operates, unrealised gains and losses arising on the revaluation of investments of this nature are not taxable unless the investment is sold. K Ltd has no intention of selling the investment in the foreseeable future.

(b) On 1st August 2021, K Ltd sold products to A Ltd, a wholly owned subsidiary operating in the same tax jurisdiction as K Ltd, for ₹80,000. The goods had cost to K Ltd for ₹64,000. By 31st March 2022, A Ltd had sold 40% of these goods, selling the remaining during next year.

(c) On 31st October 2021, K Ltd received ₹2,00,000 from a customer. This payment was in respect of services to be provided by K Ltd from 1st November 2021 to 31st July 2022. K Ltd recognised revenue of ₹1,20,000 in respect of this transaction in the year ended 31st March 2022 and will recognise the remainder in the year ended 31st March 2023. Under the tax jurisdiction in which K Ltd operates, ₹2,00,000 received on 31st October 2021 was included in the taxable profits of K Ltd for the year ended 31st March 2022.

Explain and show how the tax consequences (current and deferred) of the three transactions would be reported in its statement of profit or loss and other comprehensive income for the year ended 31st March 2022. Assume tax rate to be 25%.

Q. 8

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 ₹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 ₹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 31st March 2019, X Ltd. expects to make taxable profits which are well in excess of ₹20,00,000. On 31st March, 2018, X Ltd. had taxable temporary differences from other sources which were greater than ₹20,00,000.

(iii) During the year ended 31st 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 ₹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 31st March, 2018.

(iv) On 1st April, 2017, X Ltd. borrowed ₹1,00,00,000. The cost to X Ltd. of arranging the borrowing was ₹2,00,000 and this cost qualified for a tax deduction on 1st April, 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March, 2020 will be ₹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 ₹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 31st March, 2018 as per Ind AS. Assume the rate of corporate income tax is 20%.

Q. 9

PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 2018, the following events affected the tax position of the group:

- QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of ₹30,00,000. QPR Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow QPR Ltd. to transfer the tax loss to other group companies. However, it allows QPR Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of PQR Ltd. do not consider that QPR Ltd. will make taxable profits in the foreseeable future.
- During the year ended 31st March, 2018, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was ₹16,00,000. The development project began to generate economic benefits for PQR Ltd. from 1st January, 2018. The directors of PQR Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 2018.
- On 1st April, 2017, PQR Ltd. borrowed ₹1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was ₹2,00,000 and this cost qualified for a tax deduction on 1st April 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March 2020 will be ₹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 ₹30,43,800 will be claimable when the loan is repaid on 31st March, 2020.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of PQR Ltd. group at 31st March, 2018 as per Ind AS. The rate of corporate income tax is 30%.

Q. 10

An entity is finalising its financial statements for the year ended 31st March, 2022. Before 31st March, 2022, the government announced that the tax rate was to be amended from 40 per cent to 45 per cent of taxable profit from 30th June, 2022.

The legislation to amend the tax rate has not yet been approved by the legislature. However, the government has a significant majority and it is usual, in the tax jurisdiction concerned, to regard an announcement of a change in the tax rate as having the substantive effect of actual enactment (i.e. it is substantively enacted).

After performing the income tax calculations at the rate of 40 per cent, the entity has the following deferred tax asset and deferred tax liability balances:

Deferred tax asset	₹80,000
Deferred tax liability	₹60,000

Of the deferred tax asset balance, ₹28,000 related to a temporary difference. This deferred tax asset had previously been recognised in OCI and accumulated in equity as a revaluation surplus.

The entity reviewed the carrying amount of the asset in accordance with para 56 of Ind AS 12 and determined that it was probable that sufficient taxable profit to allow utilisation of the deferred tax asset would be available in the future.

Show the revised amount of Deferred tax asset & Deferred tax liability and present the necessary journal entries.

6.2 Ind As 21 The Effects of Changes in Foreign Exchange Rates

Q. 1

On 30th January, 2021, A Ltd. purchased a machinery for $ 5,000 from USA supplier on credit basis. A Ltd.'s functional currency is Rupees. The exchange rate on the date of transaction is 1 $ = ₹60. The fair value of the machinery determined on 31st March, 2021 is $ 5,500. The exchange rate on 31st March, 2021 is 1$ = ₹65. The payment to overseas supplier done on 31st March 2022 and the exchange rate on 31st March 2022 is 1$ = ₹67. The fair value of the machinery remain unchanged for the year ended on 31st March 2022. Prepare the Journal entries for the year ended on 31st March 2021 and year 2022 according to Ind AS 21. Tax rate is 30%

Q. 2

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= ₹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 = ₹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.

Q. 3

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

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

Chapter – 7

Ind AS on Disclosure in the Financial Statements

7.1 Ind As 24 Related Party Disclosures

Q. 1

Mr. X, is the financial controller of ABC Ltd., a listed entity which prepares consolidated financial statements in accordance with Ind AS. Mr. X has recently produced the final draft of the financial statements of ABC Ltd. for the year ended 31st March, 2022 to the managing director Mr. Y for approval. Mr. Y, who is not an accountant, had raised following query from Mr. X after going through the draft financial statements:

One of the notes to the financial statements gives details of purchases made by ABC Ltd. from PQR Ltd. during the period 2021-2022. Mr. Y owns 100% of the shares in PQR Ltd. However, he feels that there is no requirement for any disclosure to be made in ABC Ltd.'s financial statements since the transaction is carried out on normal commercial terms and is totally insignificant to ABC Ltd., as it represents less than 1% of ABC Ltd.'s purchases.

Provide answers to the query raised by the Managing Director Mr. Y as per Ind AS.

Q. 2

Uttar Pradesh State Government holds 60% shares in PQR Limited and 55% shares in ABC Limited. PQR Limited has two subsidiaries namely P Limited and Q Limited. ABC Limited has two subsidiaries namely A Limited and B Limited. Mr. KM is one of the Key management personnel in PQR Limited. ·

(a) Determine the entity to whom exemption from disclosure of related party transactions is to be given. Also examine the transactions and with whom such exemption applies.

(b) What are the disclosure requirements for the entity which has availed the exemption?

Q. 3

S Ltd., a wholly owned subsidiary of P Ltd is the sole distributor of electricity to consumers in a specified geographical area. A manufacturing facility of P Ltd is located in the said geographical area and, accordingly, P Ltd is also a consumer of electricity supplied by S Ltd. The electricity tariffs for the geographical area are determined by an independent rate-setting authority and are applicable to all consumers of S Ltd, including P Ltd. Whether the above transaction is required to be disclosed as a related party transaction as per Ind AS 24, Related Party Disclosures in the financial statements of S Ltd.?

7.2 Ind As 33 Earnings per Share

Q. 1

Assume the following facts for Company XY:

- Income from continuing operations:	₹30,00,000
- Loss from discontinued operations:	(₹36,00,000)
- Net loss:	(₹6,00,000)
- Weighted average Number of shares outstanding	10,00,000
- Incremental common shares outstanding relating to stock options	2,00,000

(a) You are required to calculate the basic and diluted EPS for Company XY from the above information.

(b) Assume, if in above case, Loss from continued operations is ₹10,00,000 and income from discontinued operations is ₹36,00,000 calculate the diluted EPS.

7.3 Ind As 108 Operating Segment

Q. 1

The CEO along with other Board members do a review of financial information about various business segments and take decisions on the basis of discrete information available for these segments and are correctly identified as Chief Operating Decision Maker (CODM). Review of only revenue information is done for decision making about those segments by the CODM. As per CODM, many segments require minimal costs due to centralization of costs. Whether review of only the revenue related information is sufficient for these segments to be considered as operating segments for the purposes of Ind AS 108 'Operating Segments'?

Q. 2

CODM of XY Ltd. receives and reviews multiple sets of information when assessing the businesses' overall performance to take a decision on resources allocation. It receives the information as under:

- Level 1 Report: Summary report for all 4 regions
- Level 2 Report: Summary report for 20 Sub-regions within those regions
- Level 3 Report: Detailed report for 50 Branches within the sub-regions

What factors and level should be considered for determining an operating segment?

Q. 3

T Ltd is engaged in transport sector, running a fleet of buses at different routes. T Ltd has identified 3 operating segments:

- Segment 1: Local Route
- Segment 2: Inter-city Route
- Segment 3: Contract Hiring

The characteristics of each segment are as under:

Segment 1: The local transport authority awards the contract to ply the buses at different routes for passengers. These contracts are awarded following a competitive tender process; the ticket price paid by passengers are controlled by the local transport authority. T Ltd would charge the local transport authority on a per kilometer basis.

Segment 2: T Ltd operates buses from one city to another, prices are set by T Ltd on the basis of services provided (Deluxe, Luxury or Superior).

Segment 3: T Ltd also leases buses to schools under a long-term arrangement.

While Segment 1 has been showing significant decline in profitability, Segment 2 is performing well in respect of higher revenues and improved margins. The management of the company is not sure why is the segment information relevant for users when they should only be concerned about the returns from overall business. They would like to aggregate the Segment 1 and Segment 2 for reporting under 'Operating Segment'

Required:

Whether it is appropriate to aggregate Segments 1 and 2 with reference to Ind AS 108 'Operating Segments'? and

Discuss, in the above context, whether disclosure of segment information is relevant to an investor's appraisal of financial statements?

Q. 4

XY Ltd. has operations in France, Italy, Germany, UK and India. It wishes to apply aggregation criteria on geographical basis.

How will the aggregation criteria apply for reporting segments in the given scenario?

Q. 5

An entity has branches in different parts of the country – catering to different customers and selling local made products (a product of one region is not sold in any other region). No region or product contributes more than 5% to total revenue of the entity.

Discuss how many segments are reportable?

Q. 6

GH Ltd. has four distinct operating segments. The management of GH is concerned as it is unsure on how common costs be reasonably allocated to different operating segments. They intend to allocate management charges, interest costs of internal funding, cost of management of properties and pension costs.

Whether such costs need to conform to the accounting policies as used to prepare the financial statements?

Q. 7

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

Q. 8

ABC Limited has 5 operating segments namely A, B, C, D and E. The profit/ loss of respective segments for the year ended March 31, 2021 are as follows:

Segment	**Profit/(Loss) (₹ in crore)**
A	780
B	1,500
C	(2,300)
D	(4,500)
E	6,000
Total	1,480

Based on the quantitative thresholds, which of the above segments A to E would be considered as reportable segments for the year ending March 31, 2021?

Chapter – 8

Industry Specific Ind AS

8.1 Ind As 41 Agriculture

Q. 1

XY Ltd. is a farming entity where cows are milked on a daily basis. Milk is kept in cold storage immediately after milking and sold to retail distributors on a weekly basis. On 1st April 2021, XY Ltd. ad a herd of 500 cows which were all three years old.

During the year, some of the cows became sick and on 30th September 2021, 20 cows died. On 1st October 2021, XY Ltd. purchased 20 replacement cows at the market for ₹21,000 each. These 20 cows were all one year old when they were purchased.

On 31st March 2022, XY Ltd. had 1,000 litres of milk in cold storage which had not been sold to retail distributors. The market price of milk at 31st March 2022 was ₹20 per litre. When selling the milk to distributors, XY Ltd. incurs selling costs of ₹1 per litre. These amounts did not change during March 2022 and are not expected to change during April 2022.

Information relating to fair value and costs to sell is given below:

Date	Fair value of a dairy cow (aged)				Costs to sell a cow
	1 year	1.5 years	3 years	4 years	
1st April 2021	20,000	22,000	27,000	25,000	1,000
1st October 2021	21,000	23,000	28,000	26,000	1,000
31st March 2022	21,500	23,500	29,000	26,500	1,100

You can assume that fair value of a 3.5 years old cow on 1st October 2021 is ₹27,000.

Pass necessary journal entries of above transactions with respect to cows in the financial statements of XY Ltd. for the year ended 31st March, 2022? Also show the amount lying in inventory if any.

Q. 2

Company X purchased 100 goat at an auction for ₹1,00,000 on 30th September 2021. Subsequent transportation costs were ₹1,000 that is similar to the cost X would have to incur to sell the goat at the auction. Additionally, there would be a 2% selling fee on the market price of the goat to be incurred by the seller.

On 31st March 2022, the market value of the goat in the most relevant market increases to ₹1,10,000. Transportation costs of ₹1,000 would have to be incurred by the seller to get the goat to the relevant market. An auctioneer's fee of 2% on the market price of the goat would be payable by the seller.

On 1st June 2022, X sold 18 goat for ₹20,000 and incurred transportation charges of ₹150. In addition, there was a 2% auctioneer's fee on the market price of the goat paid by the seller.

On 15th September 2022, the fair value of the remaining goat was ₹82,820. 42 goat were slaughtered on that day, with a total slaughter cost of ₹4,200. The total market price of the carcasses on that day was ₹48,300, and the expected transportation cost to sell the carcasses is ₹420. No other costs are expected.

On 30th September 2022, the market price of the remaining 40 goat was ₹44,800. The expected transportation cost is ₹400. Also, there would be a 2% auctioneer's fee on the market price of the goat payable by the seller.

Pass Journal entries so as to provide the initial and subsequent measurement for all above transactions. Interim reporting periods are of 30 September and 31st March and the company determines the fair values on these dates for reporting.

Chapter – 9

Ind AS 102 Accounting for Share Based Payment

Q. 1

A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is ₹30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options. Pass the necessary journal entries for giving effect to the above arrangement.

Q. 2

P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1st April 2021 with a fair value ₹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 2022	₹210
31st March 2023	₹220
31st March 2024	₹215
31st March 2025	₹218

What would be the difference if at the end of the second year of service (i.e. at 31st March 2023), P Ltd. modifies the terms of the award to require only three years of service?

Q. 3

QA Ltd. had on 1st April, 2021 granted 1,000 share options each to 2,000 employees. The options are due to vest on 31st March, 2024 provided the employee remains in employment till 31st March, 2024.

On 1st April, 2021, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 2024. This estimate was amended to 1,850 employees on 31st March, 2022 and further amended to 1,840 employees on 31st March, 2023.

On 1st April, 2021, the fair value of an option was ₹1.20. The fair value increased to ₹1.30 as on 31st March, 2022 but due to challenging business conditions, the fair value declined thereafter. In September, 2022, when the fair value of an option was ₹0.90, the Directors repriced the option and this caused the fair value to increase to ₹1.05. Trading conditions improved in the second half of the year and by 31st March, 2023 the fair value of an option was ₹1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 2022 should be spread over the remaining vesting period from 30th September, 2022 to 31st March, 2024.

The Company has requested you to suggest the suitable accounting treatment for these transaction as on 31st March, 2023.

Q. 4

A parent, Company P, grants 30 shares to 100 employees each of its subsidiary, Company S, on condition that the employees remain employed by Company S for three years. Assume that at the outset, and at the end of Years 1 and 2, it is expected that all the employees will remain employed for all the three years. At the end of Year 3, none of the employees has left. The fair value of the shares on grant date is ₹5 per share.

Company S agrees to reimburse Company P over the term of the arrangement for 75 percent of the final expense recognised by Company S. What would be the accounting treatment in the books of Company P and Company S?

Q. 5

An entity which follows its financial year as per the calendar year grants 1,000 share appreciation rights (SARs) to each of its 40 management employees as on 1st January 2025. The SARs provide the employees with the right to receive (at the date when the rights are exercised) cash equal to the appreciation in the entity's share price since the grant date. All of the rights vest on 31st December 2026; and they can be exercised during 2027 and 2028. Management estimates that, at grant date, the fair value of each SAR is ₹11; and it estimates that overall 10% of the employees will leave during the two-year period. The fair values of the SARs at each year end are shown below:

Year	Fair value at year end
31st December 2025	12
31st December 2026	8
31st December 2027	13
31st December 2028	12

10% of employees left before the end of 2026. On 31st December 2027 (when the intrinsic value of each SAR was ₹10), six employees exercised their options; and the remaining 30 employees exercised their options at the end of 2028 (when the intrinsic value of each SAR was equal to the fair value of ₹12).

How much expense and liability is to be recognized at the end of each year? Pass Journal entries.

Chapter – 10

Ind As 115 Revenue from Contracts with Customers

Q. 1

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

Q. 2

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

Would these contracts be combined?

Q. 3

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

Should these contracts be combined or separately accounted?

Q. 4

Telco T Ltd. enters into a two-year contract for internet services with Customer C. C also buys a modem and a router from T Ltd. and obtains title to the equipment. T Ltd. does not require customers to purchase its modems and routers and will provide internet services to customers using other equipment that is compatible with T Ltd.'s network. There is a secondary market in which modems and routers can be bought or sold for amounts greater than scrap value.

Determine how many performance obligations does the entity T Ltd. have?

Q. 5

V Ltd. grants Customer C a three-year licence for anti-virus software. Under the contract, V Ltd. promises to provide C with when-and-if-available updates to that software during the licence period. The updates are critical to the continued use of the anti -virus software.

Determine how many performance obligations does the entity have?

Q. 6

Media Company P Ltd. offers magazine subscriptions to customers. When customers subscribe, they receive a printed copy of the magazine each month and access to the magazine's online content.

Determine how many performance obligations does the entity have?

Q. 7

Implied promise to reseller's customers

Software Company K Ltd. enters into a contract with reseller D, which then sells software products to end users. K Ltd. has a customary business practice of providing free telephone support to end users without involving the reseller, and both reseller and the customer expect K Ltd. to continue to provide this support.

Determine how many performance obligations does the entity K Ltd. have?

Q. 8

Implied performance obligation

Carmaker N Ltd. has a historical practice of offering free maintenance services – e.g. oil changes and tyre rotation – for two years to the end customers of dealers who buy its vehicles. However, the two years' free maintenance is not explicitly stated in the contract with its dealers, but it is typically stated in N's advertisements for the vehicles.

Determine how many performance obligations does the entity have?

Q. 9

Entity sells gym memberships for ₹7,500 per year to 100 customers, with an option to renew at a discount in 2nd and 3rd years at ₹6,000 per year. Entity estimates an annual attrition rate of 50% each year.

Does the option provide a material right to the customers that it would not receive without entering into the contract?

Determine the amount of revenue to be recognised in the first year and the amount of contract liability against the option given to the customer for renewing the membership at discount.

Q. 10

Company D Ltd. provides advertising services to customers. D Ltd. enters into a sub-contract with a multinational online video sharing company, F Ltd. Under the sub-contract, F Ltd. places all of D Ltd.'s customers' adverts.

D Ltd. notes the following:

- D Ltd. works directly with customers to understand their advertising needs before placing adverts.
- D Ltd. is responsible for ensuring that the advert meets the customer's needs after the advert is placed.
- D Ltd. directs F Ltd. over which advert to place and when to place it.
- D Ltd. does not bear inventory risk because there is no minimum purchase requirement with F Ltd.
- D Ltd. does not have discretion in setting the price because fees are charged based on F Ltd.'s scheduled rates.

D is Principal or an agent?

Q. 11

Warranty

An entity manufactures and sells computers that include an assurance-type warranty for the first 90 days. The entity offers an optional 'extended coverage' plan under which it will repair or replace any defective part for three years from the expiration of the assurance-type warranty. Since the optional 'extended coverage' plan is sold separately, the entity determines that the three years of extended coverage represent a separate performance obligation (i.e. a service-type warranty). The total transaction price for the sale of a computer and the extended warranty is ₹36,000. The entity determines that the stand-alone selling prices of the computer and the extended warranty are ₹32,000 and ₹4,000, respectively. The inventory value of the computer is ₹14,400. Furthermore, the entity estimates that, based on its experience, it will incur ₹2,000 in costs to repair defects that arise within the 90-day coverage period for the assurance-type warranty.

Pass required journal entries.

Q. 12

Warranty

Entity sells 100 ultra-life batteries for ₹2,000 each and provides the customer with a five-year guarantee that the batteries will withstand the elements and continue to perform to specifications. The entity, which normally provides a one-year guarantee to customer purchasing ultra-life batteries, determines that years two through five represent a separate performance obligation. The entity determines that ₹1,70,000 of the ₹2,00,000 transaction price should be allocated to the batteries and ₹30,000 to the service warranty (based on estimated stand-alone selling prices and a relative selling price allocation). The entity's normal one-year warranty cost is ₹1 per battery.

Pass required journal entries.

Q. 13

Non-cash consideration - Free advertising

Production Company Y sells a television show to Television Company X. The consideration under the arrangement is a fixed amount of ₹1,000 and 100 advertising slots. Y determines that the stand-alone selling price of the show would be ₹1,500. Based on market rates, Y determines that the fair value of the advertising slots is ₹600.

Determine the transaction price.

Q. 14

Credits to a new customer

Customer C is in the middle of a two-year contract with Telco B Ltd., its current wireless service provider, and would be required to pay an early termination penalty if it terminated the contract today. If C cancels the existing contract with B Ltd. and signs a two-year contract with Telco D Ltd. for ₹800 per month, then D Ltd. promises at contract inception to give C a one-time credit of ₹2,000 (referred to as a 'port-in credit'). The amount of the port-in credit does not depend on the volume of service subsequently purchased by C during the two-year contract.

Determine the transaction price.

Q. 15

Discretionary credit

Telco G Ltd. grants a one-time credit of ₹50 to a customer in Month 14 of a two-year contract. The credit is discretionary and is granted as a commercial gesture, not in response to prior service issues (often referred to as a 'retention credit'). The contract includes a subsidised handset and a voice and data plan. G Ltd. does not regularly provide these credits and therefore customers do not expect them to be granted.

How this will be accounted for under Ind AS 115?

Q. 16

An entity, a music record label, licenses to a customer a 1975 recording of a classical symphony by a noted orchestra. The customer, a consumer products company, has the right to use the recorded symphony in all commercials, including television, radio and online advertisements for two years in Country A. In exchange for providing the licence, the entity receives fixed consideration of ₹50,000 per month. The contract does not include any other goods or services to be provided by the entity. The contract is non-cancellable.

Determine how the revenue will be recognised?

Q. 17

Assessing the nature of a software licence with unspecified upgrades

Software Company X licenses its software application to Customer Y. Under the agreement, X will provide updates or upgrades on a when-and-if-available basis; Y can choose whether to install them. Y expects that X will undertake no other activities that will change the functionality of the software.

Determine the nature of license.

Q. 18

Assessing the nature of a film licence and the effect of marketing activities

Film Studio C grants a licence to Customer D to show a completed film. C plans to undertake significant marketing activities that it expects will affect box office receipts for the film. The marketing activities will not change the functionality of the film, but they could affect its value.

Determine the nature of license.

Q. 19

Assessing the nature of a team name and logo

Sports Team D enters into a three-year agreement to license its team name and logo to Apparel Maker M. The licence permits M to use the team name and logo on its products, including display products, and in its advertising or marketing materials.

(i) Determine the nature of license in the above case.

(ii) Modifying above facts that, Sports Team D has not played games in many years and the licensor is Brand Collector B, an entity that acquires IP such as old team or brand names and logos from defunct entities or those in financial distress. B's business model is to license the IP, or obtain settlements from entities that use the IP without permission, without undertaking any ongoing activities to promote or support the IP

Would the answer be different in this situation?

Q. 20

An entity G Ltd. enters into a contract with a customer P Ltd. for the sale of a machinery for ₹20,00,000. P Ltd. intends to use the said machinery to start a food processing unit. The food processing industry is highly competitive and P Ltd. has very little experience in the said industry.

P Ltd. pays a non-refundable deposit of ₹1,00,000 at inception of the contract and enters into a long-term financing agreement with G Ltd. for the remaining 95 per cent of the agreed consideration which it intends to pay primarily from income derived from its food processing unit as it lacks any other major source of income. The financing arrangement is provided on a non-recourse basis, which means that if P Ltd. defaults then G Ltd. can repossess the machinery but cannot seek further compensation from P Ltd., even if the full value of the amount owed is not recovered from the machinery. The cost of the machinery for G Ltd. Is ₹12,00,000. P Ltd. obtains control of the machinery at contract inception.

When should G Ltd. recognise revenue from sale of machinery to P Ltd. in accordance with Ind AS 115?

Q. 21

Entity I sells a piece of machinery to the customer for ₹2 million, payable in 90 days. Entity I is aware at contract inception that the customer might not pay the full contract price. Entity I estimates that the customer will pay atleast ₹1.75 million, which is sufficient to cover entity I's cost of sales (₹1.5 million) and which entity I is willing to accept because it wants to grow its presence in this market. Entity I has granted similar price concessions in comparable contracts.

Entity I concludes that it is highly probable that it will collect ₹1.75 million, and such amount is not constrained under the variable consideration guidance.

What is the transaction price in this arrangement?

Q. 22

On 1 January 2028, entity J enters into a one-year contract with a customer to deliver water treatment chemicals. The contract stipulates that the price per container will be adjusted retroactively once the customer reaches certain sales volume, defined, as follows:

Price per container	Cumulative sales volume
₹100	1 - 1,000,000 containers
₹90	1,000,001 - 3,000,000 containers
₹85	3,000,001 containers and above

Volume is determined based on sales during the calendar year. There are no minimum purchase requirements. Entity J estimates that the total sales volume for the year will be 2.8 million containers, based on its experience with similar contracts and forecasted sales to the customer.

Entity J sells 700,000 containers to the customer during the first quarter ended 31st March 2028 for a contract price of ₹100 per container.

How should entity J determine the transaction price?

Q. 23

Entity K sells electric razors to retailers for C 50 per unit. A rebate coupon is included inside the electric razor package that can be redeemed by the end consumers for C 10 per unit.

Entity K estimates that 20% to 25% of eligible rebates will be redeemed, based on its experience with similar programmes and rebate redemption rates available in the market for similar programmes. Entity K concludes that the transaction price should incorporate an assumption of 25% rebate redemption, as this is the amount for which it is highly probable that a significant reversal of cumulative revenue will not occur if estimates of the rebates change.

How should entity K determine the transaction price?

Q. 24

A manufacturer enters into a contract to sell goods to a retailer for ₹1,000. The manufacturer also offers price protection, whereby it will reimburse the retailer for any difference between the sale price and the lowest price offered to any customer during the following six months. This clause is consistent with other price protection clauses offered in the past, and the manufacturer believes that it has experience which is predictive for this contract.

Management expects that it will offer a price decrease of 5% during the price protection period. Management concludes that it is highly probable that a significant reversal of cumulative revenue will not occur if estimates change.

How should the manufacturer determine the transaction price?

Q. 25

Electronics Manufacturer M sells 1,000 televisions to Retailer R for ₹50,00,000 (₹5,000 per television). M provides price protection to R by agreeing to reimburse R for the difference between this price and the lowest price that it offers for that television during the following six months. Based on M's extensive experience with similar arrangements, it estimates the following outcomes.

Price reduction in next six months (₹)	Probability
0	70%
₹500	20%
₹1,000	10%

Determine the transaction price.

Q. 26

Construction Company C enters into a contract with Customer E to build an asset. Depending on when the asset is completed, C will receive either ₹1,10,000 or ₹1,30,000.

Outcome	Consideration (₹)	Probability
Project completes on time	1,30,000	90%
Project is delayed	1,10,000	10%

Determine the transaction price.

Q. 27

Franchisor Y Ltd. licenses the right to operate a store in a specified location to Franchisee F. The store bears Y Ltd.'s trade name and F will have a right to sell Y Ltd.'s products for 10 years. F pays an up-front fixed fee. The franchise contract also requires Y Ltd. to maintain the brand through product improvements, marketing campaigns etc. Determine the nature of license.

Chapter – 11

Analysis of Financial Statements

Q. 1

Deepak started a new company Softbharti Pvt. Ltd. with Iktara Ltd. wherein investment of 55% is done by Iktara Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company formed was the subsidiary of Iktara Ltd. with two directors, and Deepak eventually becomes one of the directors of company. A consultant was hired and he charged ₹30,000 for the incorporation of company and to do other necessary statuary registrations. ₹30,000 is to be charged as an expense in the books after incorporation of company. The company, Softbharti Pvt. Ltd. was incorporated on 1st April 2021.

The financials of Iktara Ltd. are prepared as per Ind AS.

An accountant who was hired at the time of company's incorporation, has prepared the draft financials of Softbharti Pvt. Ltd. for the year ending 31st March, 2022 as follows:

Statement of Profit and Loss

Particulars	**Amount (₹)**
Revenue from operations	10,00,000
Other Income	1,00,000
Total Revenue (a)	11,00,000
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses (b)	7,45,000
Profit before tax (c) = (a)-(b)	3,55,000
Current tax	1,06,500
Deferred tax	6,000
Total tax expense (d)	1,12,500
Profit for the year (e) = (c) – (d)	2,42,500

Balance Sheet

Particulars	Amount (₹)
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	1,06,500
TOTAL	5,21,000

ASSETS	
(1) Non-Current Assets	
(a) Property, plant and equipment (net)	1,00,000
(b) Long-term Loans and Advances	40,000
(c) Other Non-Current Assets	50,000
(2) Current Assets	
(a) Current Investment	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	51,000
TOTAL	5,21,000

Additional information of Softbharti Pvt Ltd.:

i. Deferred tax liability of ₹6,000 is created due to following temporary difference:

Difference in depreciation amount as per Income tax and Accounting profit

ii. There is only one property, plant and equipment in the company, whose closing balance as at 31st March, 2022 is as follows:

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

iii. Pre incorporation expenses are deductible on straight line basis over the period of five years as per Income tax. However, the same are immediately expensed off in the books.

iv. Current tax is calculated at 30% on PBT - ₹3,55,000 without doing any adjustments related to Income tax. The correct current tax after doing necessary adjustments of allowances / disallowances related to Income tax comes to ₹1,25,700.

v. After the reporting period, the directors have recommended dividend of ₹15,000 for the year ending 31st March, 2022 which has been deducted from reserves and surplus. Dividend payable of ₹15,000 has been grouped under 'other current liabilities' alongwith other financial liabilities.

vi. There are 'Government statuary dues' amounting to ₹15,000 which are grouped under 'other current liabilities'.

vii. The capital advances amounting to ₹50,000 are grouped under 'Other non-current assets'.

viii. Other current assets of ₹51,000 comprise Interest receivable from trade receivables.

ix. Current investment of ₹30,000 is in shares of a company which was done with the purpose of trading; current investment has been carried at cost in the financial statements. The fair value of current investment in this case is ₹50,000 as at 31st March, 2022.

x. Actuarial gain on employee benefit measurements of ₹1,000 has been omitted in the financials of Softbharti private limited for the year ending 31st March, 2022.

The financial statements for financial year 2021-2022 have not been yet approved.

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

Q. 2

Mumbai Challengers Ltd., a listed entity, is a sports organization owning several cricket and hockey teams. The issues below pertain to the reporting period ending 31st March 2022.

(a) Owing to the proposed schedules of Indian Hockey League as well as Cricket Premier Tournament, Mumbai Challengers Ltd. needs a new stadium to host the sporting events. This stadium will form a part of the Property, Plant and Equipment of the company. Mumbai Challengers Ltd. began the construction of the stadium on 1st December, 2021. The construction of the stadium was completed in 2022-2023. Costs directly related to the construction amounted to ₹ 140 crores in December 2021. Thereafter, ₹ 350 crores have been incurred per month until the end of the financial year. The company has not taken any specific borrowings to finance the construction of the stadium, although it has incurred finance costs on its regular overdraft during the period, which were avoidable had the stadium not been constructed. Mumbai Challengers Ltd. has calculated that the weighted average cost of the borrowings for the period 1st December 2021 to 31st March 2022 amounted to 15% per annum on an annualized basis.

The company seeks advice on the treatment of borrowing costs in its financial statements for the year ending 31st March 2022.

(b) Mumbai Challengers Ltd. acquires and sells players' registrations on a regular basis. For a player to play for its team, Mumbai Challengers Ltd. must purchase registrations for that player. These player registrations are contractual obligations between the player and the company. The costs of acquiring player registrations include transfer fees, league levy fees, and player agents' fees incurred by the club.

At the end of each season, which happens to also be the reporting period end for Mumbai Challengers Ltd., the club reviews its contracts with the players and makes decisions as to whether they wish to sell/transfer any players' registrations. The company actively markets these registrations by circulating with other clubs a list of players' registrations and their estimated selling price. Players' registrations are also sold during the season, often with performance conditions attached. In some cases, it becomes clear that a player will not play for the club again because of, for example, a player sustaining a career threatening injury or being permanently removed from the playing squad for any other reason. The playing registrations of certain players were sold after the year end, for total proceeds, net of associated costs, of ₹ 175 crores. These registrations had a net book value of ₹ 49 crores.

Mumbai Challengers Ltd. seeks your advice on the treatment of the acquisition, extension, review and sale of players' registrations in the circumstances outlined above.

(c) Mumbai Challengers Ltd. measures its stadiums in accordance with the revaluation model. An airline company has approached the directors offering ₹ 700 crores for the property naming rights of all the stadiums for five years. Three directors are on the management boards of both Mumbai Challengers Ltd. and the airline. Additionally, statutory legislations regulate the financing of both the cricket and hockey clubs. These regulations prevent contributions to the capital from a related party which 'increases equity without repayment in return'. Failure to adhere to these legislations could lead to imposition of fines and withholding of prize money.

Mumbai Challengers Ltd. wants to know how to take account of the naming rights in the valuations of the stadium and the potential implications of the financial regulations imposed by the legislations.

Q. 3

(a) Neelanchal Gas Refinery Ltd. (hereinafter referred to as Neelanchal), a listed company, is involved in the production and trading of natural gas and oil. Neelanchal jointly owns an underground storage facility with another entity, Seemanchal Refineries Ltd. (hereinafter referred to as Seemanchal). Both the companies are engaged in extraction of gas from offshore gas fields, which they own and operate independently of each other. Neelanchal owns 60% of the underground facility and Seemanchal owns 40%. Both the companies have agreed to share services and costs accordingly, with decisions relating to the storage facility requiring unanimous agreement of the parties. The underground facility is pressurised so that the gas is pushed out when extracted. When the gas pressure is reduced to a certain level, the remaining gas is irrecoverable and remains in the underground storage facility until it is decommissioned. As per the laws in force, the storage facility should be decommissioned at the end of its useful life.

Neelanchal seeks your advice on the treatment of the agreement with Seemanchal as well as the accounting for the irrecoverable gas.

(b) Neelanchal has entered into a ten-year contract with Uttaranchal Refineries Pvt. Ltd. (hereinafter referred to as Uttaranchal) for purchase of natural gas. Neelanchal has paid an advance to Uttaranchal equivalent to the total quantity of gas contracted for ten years based on the forecasted price of gas. This advanced amount carries interest at the rate of 12.5% per annum, which is settled by Uttaranchal way of supply of extra gas. The contract requires fixed quantities of gas to be supplied each month. Additionally, there is a price adjustment mechanism in the contract whereby the difference between the forecasted price of gas and the prevailing market price is settled in cash on a quarterly basis. If Uttaranchal does not deliver the gas as agreed, Neelanchal has the right to claim compensation computed at the current market price of the gas.

Neelanchal wants to account for the contract with Uttaranchal in accordance with Ind AS 109 Financial Instruments and seeks your inputs in this regard.