PAPER –1: FINANCIAL REPORTING

PART I

RELEVANT AMENDMENTS, NOTIFICATIONS AND ANNOUNCEMENTS

A. Applicable for November, 2019 Examination

1. The Companies (Indian Accounting Standards) Second Amendments Rules, 2019 notified on 30th March, 2019

Headings	Details
Appendix C, Uncertainty over Income Tax *Treatments,* to Ind AS 12	MCA has inserted a new Appendix C to Ind AS 12, *Uncertainty over Income Tax Treatments.* The appendix explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses: ➢ how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty; ➢ that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. detection risk should be ignored; ➢ that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment; ➢ that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty; and ➢ that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.
Amendments to Ind AS 12 – Income tax consequences of payments on financial instruments	The amendments clarify that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends. Previously, it was unclear whether the income tax consequences of dividends should be recognised in profit or loss, or in equity, and the scope of the existing guidance was ambiguous

classified as equity	
Amendments to Ind AS 19 – Plan amendment, curtailment or settlement	The amendments to Ind AS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must: ➢ calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; ➢ any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling; and ➢ separately recognise any changes in the asset ceiling through other comprehensive income.
Amendments to Ind AS 23 – Borrowing costs eligible for capitalisation	In computing the capitalisation rate for generally borrowed funds, the entity should exclude borrowing costs on borrowings which are specifically used for the purpose of obtaining a qualifying asset until that specific asset is ready for its intended use or sale. Once such specific asset is ready for its intended use or sale, borrowing costs related to borrowings of such asset shall be considered as part of general borrowing costs of the entity and be used for computation of capitalisation rate on general borrowings.
Amendment to Ind AS 28 - Long-term Interests in Associates and Joint Ventures	An entity's net investment in associate or joint venture includes investment in ordinary shares, other interests that are accounted using the equity method, and other long term interests, such as preference shares and long term receivables or loans, the settlement of which is neither planned nor likely to occur in the foreseeable future. These long term interests are not accounted for in accordance with Ind AS 28, instead they are governed by the principles of Ind AS 109. As per para 10 of Ind AS 28, the carrying amount of entity's investment in its associate and joint venture increases or decreases (as per equity method) to recognise the entity's share of profit or loss of its investee associate and joint venture. Para 38 of Ind AS 38 further states that the losses that exceed he entity's investment in ordinary shares are applied to other components of the

	entity's interest in the associate or joint venture in the reverse order of their superiority. In this context, the amendments to Ind AS 28 clarify that the accounting for losses allocated to long-term interests would involve the dual application of Ind AS 28 and Ind AS 109. The annual sequence in which both standards are to be applied can be explained in a three step process: **Step 1: Apply Ind AS 109 independently** Apply Ind AS 109 (such as impairment, fair value adjustments etc.) ignoring any adjustments to carrying amount of long-term interests under Ind AS 28 (such as allocation of losses, impairment etc.) **Step 2: True-up past allocations** If necessary, prior years' Ind AS 28 loss allocation is trued up in the current year, because Ind AS 109 carrying value may have changed. This may involve recognizing more prior year's losses, reversing these losses or re-allocating them between different long-term interests. **Step 3: Book current year equity share** Any current year Ind AS 28 losses are allocated to the extent that the remaining long-term interest balance allows. Any current year Ind AS 28 profits reverse any unrecognized prior years' losses and then allocations are made against long-term interests.
Amendment to Ind AS 103 – Control over a joint operation achieved in stages	When a party to a joint operation, obtains control of a joint operation business, the transaction will be considered as a business combination achieved in stages. The acquirer should re-measure its previously held interest in the joint operation at fair value at the acquisition date.
Amendment to Ind AS 109 – Prepayment Features with Negative Compensation	Some prepayment options could result in other party being forced to accept negative compensation – e.g. the lender receives an amount less than the unpaid amounts of principal and interest if the borrower chooses to prepay. Earlier, these instruments were measured at FVTPL. However, now after amendment, such financial assets could be measured at amortised cost or at FVOCI if they meet the other relevant requirements of Ind AS 109. In other words, to qualify for amortised cost measurement**, the negative compensation must be 'reasonable compensation** for early termination

	of the contract' and the asset must be held within a 'held to collect' business model. To be eligible for the exception, the fair value of the prepayment feature would have to be **insignificant on initial recognition** of the asset. If this is impracticable to assess based on the facts and circumstances that existed on initial recognition of the asset, then the exception would not be available. Also financial assets prepayable at current fair value would be measured at FVTPL.
Amendment to Ind AS 111 – Joint control over a joint operation achieved in stages	The amendments clarify that the entity, who is a party to joint operation but was not having joint control earlier, now obtains joint control of a business that is a joint operation should not re-measure its previously held interest in the joint operation.

2. Amendment in Schedule III notified by MCA on 12.10.2018

Following amendments have been made in Schedule III to the Companies Act, 2013

(a) In Division I which covers formats and instructions for financial statements drawn as per Accounting Standards ie Indian GAAP

Following amendments have been made

(i) Clause (ii) of paragraph 4 under 'General instructions for preparation of Balance Sheet and statement of Profit an d Loss of a company', states uniform use of unit of measurement in the financial statements. In the given sentence the word 'shall' has been replaced with the word 'should' through this notification. Hence, now the clause (ii) of paragraph 4 shall be read as follows:

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

(ii) Underneath Part I in the format of Balance Sheet, under the heading "II Assets" sub-heading "Non-current assets", **the words "Fixed assets" should be replaced as "Property, Plant and Equipment".** This amendment has been done since the title of revised AS 10 is now 'Property, Plant and Equipment' instead of 'Fixed Assets'.

Similar substitution has been done in Point W of the "Notes" under the heading "General Instructions for preparation of Balance Sheet".

(iii) Point 6B of the "Notes", under the heading "General Instructions for preparation of Balance Sheet" deals with the classification of Reserves and Surplus. One of the category was 'Securities Premium Reserve'. As per the amendment the word 'Reserve' after Securities Premium has been omitted. Now it should be read as **'Securities Premium'** only.

(b) In Division II which covers formats and instructions for financial statements drawn as per Indian Accounting Standards ie Ind AS

Following amendments have been made

(i) In Part I which specifies the format of Balance Sheet, under the heading 'Equity and Liabilities', Trade Payables (both under 'non-current liabilities' and 'current liabilities') shall further be classified as

"(A) total outstanding dues of micro enterprises and small enterprises; and

(B) total outstanding dues of creditors other than micro enterprises and small enterprises.";

(ii) In the table (format) for 'Other Equity' under the 'Statement of Changes in Equity', "Securities Premium Reserve" is substituted as "Securities Premium". Also below the table on 'Other Equity' a note has been given which shall be renumbered as '(i)' and further a note has been added as follows:

"(ii) A description of the purposes of each reserve within equity shall be disclosed in the Notes."

(iii) Paragraph 6A and 6B of "General Instructions for Preparation of Balance Sheet" is on 'Non-current assets' and 'current assets' respectively.

(A) Under point 'VII. Trade Receivables' of 6A and 'III. Trade Receivables' of 6B, sub point (i) has been substituted as follows:

"(i) Trade Receivables shall be sub-classified as:

(a) Trade Receivables considered good - Secured;

(b) Trade Receivables considered good - Unsecured;

(c) Trade Receivables which have significant increase in Credit Risk; and

(d) Trade Receivables - credit impaired."

(B) Under point 'VIII. Loans' of 6A and 'V. Loans' of 6B, sub point (ii) is substituted as follows:

"(ii) Loans Receivables shall be sub-classified as:

(a) Loans Receivables considered good - Secured;

(b) Loans Receivables considered good - Unsecured;

(c) Loans Receivables which have significant increase in Credit Risk; and

(d) Loans Receivables - credit impaired,"

(iv) After paragraph F of "General Instructions for Preparation of Balance Sheet" paragraph FA shall be inserted as follows:

"FA. Trade Payables

The following details relating to micro, small and medium enterprises shall be disclosed in the notes:

(a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;

(b) the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006), along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;

(c) the amount of interest due and payable for the period of delay in making payment (which has been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;

(d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and

(e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.

Explanation- *The terms 'appointed day', 'buyer', 'enterprise', 'micro enterprise', 'small enterprise' and 'supplier', shall have the same meaning as assigned to them under clauses (b), (d), (e), (h), (m) and (n) respectively of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006."*

(v) In paragraph 9, after the words "For instance,", the words "plain vanilla" has been inserted. This amendment has been done to bring clarity to the treatment of redeemable preference shares ie which redeemable preference shares should fall in the category of 'borrowings'. Accordingly, the last sentence of para 9 will be read as follows:

"For instance, ***plain vanilla*** *redeemable preference shares shall be classified and presented under 'non-current liabilities' as 'borrowings' and the disclosure requirements in this regard applicable to such borrowings shall be applicable mutatis mutandis to redeemable preference shares."*

(c) Division III (newly notified division applicable for NBFCs)

Through this notification, MCA added/notified Division III in the Schedule III which is applicable to Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015. **However, this Division III has not been made applicable for CA Final Students**.

3. Amendment in Ind AS 20 notified by MCA in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 20th September 2018

Amendment has been made in Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. The amendment provides entities the option for recording non-monetary government grants at a nominal amount and presenting government grants related to assets by deducting the grant from the carrying amount of the asset.

4. Notification of Ind AS 115 and withdrawal of Ind AS 11 and Ind AS 18 alongwith the consequential amendments in other Ind AS and other amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 28th March, 2018 (Summary of Ind AS 115 has been given as 'Annexure' at the end of this Part-1.)

The Rules have brought in the following significant amendments to Ind AS:

- New revenue standard Ind AS 115 has been notified which supersedes Ind AS 11, Construction Contracts and Ind AS 18, Revenue.
- Appendix B, Foreign Currency Transactions and Advance Consideration to Ind AS 21, The Effects of Changes in Foreign Exchange Rates has been notified. The appendix applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used for initial recognition of the related asset, expense or income. Ind AS 21 requires an entity to use the exchange rate at the 'date of the transaction', which is defined as the date when the transaction first qualifies for initial recognition.

  Here, the question arises that whether the date of the transaction is the date when the asset, expense or income is initially recognised, or an earlier date on which the advance consideration is paid or received, resulting in recognition of a prepayment or deferred income.

  The appendix provides guidance for when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  - **Single payment/receipt** The appendix states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, should be the date on which an entity initially recognises the non-monetary asset or liability arising from an advance consideration paid/received.

- o **Multiple receipts/payments** The appendix states that, if there are multiple payments or receipts in advance of recognising the related asset, income or expense, the entity should determine the date of the transaction for each payment or receipt.

- Amendment to Ind AS 40, Investment Property stating that when assets are transferred to, or from, investment properties. The amendment states that to transfer to, or from, investment properties there must be a change in use supported by evidence. A change in intention, in isolation is not enough to support a transfer.

  The amendment has re-described the list of evidence of change in use as a non-exhaustive list of examples and scope of these examples have been expanded to include assets under construction and development and not only transfers of completed properties.

  Examples of evidence of a change in use include:

  a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;

  b) commencement of development with a view to sale, for a transfer from investment property to inventories;

  c) end of owner-occupation, for a transfer from owner-occupied property to investment property;

  d) inception of an operating lease to another party, for a transfer from inventories to investment property.

- Amendments to Ind AS 12, Income Taxes elucidate the existing guidance in Ind AS 12. They do not change the underlying principles of recognition of deferred tax asset. As per the amendment:

  - o Existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value in the books of the holder for which the tax base remains at cost gives rise to a deductible temporary difference. This is regardless of whether the holder expects to collect all the contractual cash flows of the debt instrument.

  - o Determining the existence and amount of temporary differences and estimating future taxable profit against which deferred tax assets can be utilised are two separate steps. Recovering assets for more than their carrying amounts is inherent in an expectation of taxable profits and should therefore be included in estimated taxable profit if there is sufficient evidence to conclude that it is probable that the entity will recover the asset for more than its carrying amount. For example, an entity should assume that a debt investment measured at fair value will be recovered for more than its carrying value when that outcome is probable even if carrying value is below its tax base (original investment cost).

- Recoverability of deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply (for example where capital losses can be set off against capital gains), deferred tax assets are assessed in combination only with other deferred tax assets of the same type.
- When comparing deductible temporary differences against future taxable profits, the determination of future taxable profits shall exclude tax deductions resulting from reversal of these deductible temporary differences.

- Amendment to Ind AS 28, Investments in Associates and Joint Ventures and Ind AS 112, Disclosure of Interests in Other Entities stating that:
  - Disclosures requirement of Ind AS 112 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of Ind AS 112).
  - In Ind AS 28, the option available with venture capital organisations, mutual funds, unit trusts and similar entities to measure their investments in associates or joint ventures at fair value through profit or loss (FVTPL) is available for each investment in an associate or joint venture.
- Consequential amendments to other Ind AS due to notification of Ind AS 115 and other amendments discussed above

  (i) Ind AS 101, First-time Adoption of Indian Accounting Standards: The Rules introduce two additional exemptions in Ind AS 101 related to Ind AS 115 and Appendix B to Ind AS 21. These are:

  - Ind AS 115: A first-time adopter can apply the transition provisions in paragraphs C5 and C6 of Ind AS 115 (related to practical expedients when applying Ind AS 115 retrospectively) at the date of transition to Ind AS. Further, a first-time adopter is not required to restate contracts that were completed before the earliest period presented.
  - Appendix B to Ind AS 21: A first-time adopter need not apply Appendix B to Ind AS 21 to assets, expenses and income in the scope of the appendix initially recognised before the date of transition to Ind AS.

  (ii) Ind AS 2, Inventories: Costs of services by a service provider that does not give rise to inventories will need to be accounted for as costs incurred to fulfil a contract with customer in accordance with Ind AS 115. Such costs can be capitalised under Ind AS 115 if they

(1) relate directly to the contract,

(2) enhance the resources of the entity to perform under the contract and relate to satisfying a future performance obligation, and

(3) are expected to be recovered.

Earlier paragraph 8 of Ind AS 2 which stated that in case of a service provider, inventories include costs of the service, for which the entity has not yet recognised the related revenue, has been deleted.

(iii) Ind AS 16, Property, Plant and Equipment, Ind AS 38, Intangible Assets and Ind AS 40, Investment Property: These standards have been amended to require use of principles of Ind AS 115 for recognition of a gain or loss on the transfer of non-financial assets i.e. property, plant and equipment, intangible asset and investment property, that are not an output of an entity's ordinary activities. Although a gain or loss on this type of sale generally does not meet the definition of revenue, an entity should apply the guidance in Ind AS 115 related to the transfer of control and measurement of the transaction price including the constraint on variable consideration, to evaluate the timing and amount of the gain or loss recognised.

Further, since Ind AS 115 deals with accounting for contract assets, Ind AS 38 has been amended to add a scope exclusion for such contract assets.

(iv) Ind AS 37, Provisions, Contingent Assets and Contingent Liabilities: Ind AS 115 does not have any specific requirement to address the accounting of contracts with customers that are, or have become, onerous. Previously, depending upon type of contract, such onerous contracts were accounted under Ind AS 11 or Ind AS 37. With the omission of Ind AS 11, a consequential amendment has been made to Ind AS 37 to bring all onerous revenue contracts within the scope of the Ind AS 37. Ind AS 37 defines onerous contract asa contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

(v) Ind AS 109, Financial Instruments: Amendments to Ind AS 109 are discussed below:

(i) The current Ind AS 109 states that an entity shall measure trade receivables at their transaction price. Due to notification of Ind AS 115, an entity is required to measure trade receivables at their transaction price if the trade receivables do not contain a significant financing component in accordance with Ind AS 115.

(ii) An entity shall have an accounting policy choice to measure loss allowance on trade receivables or contracts assets within the scope of Ind AS 115 containing a significant financing component at an amount equal to life time expected credit losses (simplified approach) or using the general model (3 stage).

(iii) Entities shall now consider the principles of Ind AS 115 for subsequent measurement of financial guarantee and loan commitments.

5. Applicability of Amendments to Ind AS 7 and Ind AS 102 issued by the MCA dated 17th March 2017

To align Ind AS with IFRS, the recent amendments made in IAS 7 and IFRS 2 by the IASB have been incorporated in Ind AS 7 'Statement of Cash Flows' and Ind AS 102 'Share-based Payment' by way of a notification issued by the Ministry of Corporate Affairs on 17th March, 2017.

I. Amendments in Ind AS 7 'Statement of Cash Flows'- Disclosure requirements

The amendments made to Ind AS 7 require certain additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

In addition to the above, the disclosure is required for changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

As per the amendment, one of the way for disclosure is providing a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified, by linking items included in the reconciliation to the balance sheet and the statement of cash flows for the sake of information to the users.

If an entity provides disclosures of changes in other assets and liabilities besides changes in liabilities arising from financing activities, it shall disclose the later changes separately from changes in those other assets and liabilities.

II. Amendments in Ind AS 102 'Share-based Payment'

The amendments cover following accounting areas:

Measurement of cash-settled share-based payments

Under Ind AS 102, the measurement basis for an equity-settled share-based payment should not be 'fair value' in accordance with Ind AS 113, 'Fair value measurement'. However, 'fair value' was not defined in connection with a cash-settled share-based payment. The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. Market-based performance conditions and non-vesting conditions are reflected in the 'fair value', but non-market performance conditions and service conditions are reflected in the estimate of the number of awards expected to vest.

The amendment to Ind AS 102 with respect to measurement of cash-settled awards has most impact where an award vests (or does not vest) based on a non-marketing condition. Absent this clarification, it may be argued that the fair value of a cash-settled award is to be determined using the guidance in Ind AS 113 and reflecting the probability that non-market and service vesting conditions would be met. The amendment clarifies that non-market and service vesting conditions are ignored in the measurement of fair value.

Classification of share-based payments settled net of tax withholdings

Tax laws or regulations may require the employer to withhold some of the shares to which an employee is entitled under a share-based payment, and to remit the tax payable on it to the tax authority.

Ind AS 102 would require such share based payment to be split into a cash settled component for the tax payment and an equity settled component for the net shares issued to the employee. The amendment now adds an exception that requires the share based payment to be treated as equity-settled in its entirety. The cash payment to the tax authority is treated as if it was part of an equity settlement. The exception would not apply to any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment.

Accounting for a modification of a share-based payment from cash-settled to equity-settled

As per the amendment, if the terms and conditions of a cash-settled share-based payment transactions are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification. Specifically:

- o The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date. The equity-settled share-based payment transaction is recognised in equity on the modification date to the extent to which goods or services have been received.
- o The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date.
- o Any difference between the carrying amount of the liability derecognised and the amount of equity recognised on the modification date is recognised immediately in profit or loss.
- o The amendment requires any change in value to be dealt with before the change in classification. Accordingly, the cash-settled award is remeasured, with any

difference recognised in the statement of profit and loss before the remeasured liability is reclassified into equity.

6. Relevant Sections of the Companies Act, 2013

The relevant Sections of the Companies Act, 2013 notified up to 30th April, 2019 are applicable for November, 2019 Examination.

B. Not applicable for November, 2019 Examination

The Companies (Indian Accounting Standards) Amendment Rules, 2019 notified by MCA on 30.3.2019 wherein it has notified Ind AS 116 (by replacing Ind AS 17) is <u>not</u> applicable for November, 2019 examination.

Instead of it Ind AS 17 will be applicable (as given in Chapter 2 of January, 2017 edition of the Study material)

Annexure

Overview of Ind AS 115, Revenue from Contracts with Customers

The objective of Ind AS 115 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The standard applies to all contracts with customers, except the lease contracts within the scope of Ind AS 17, Leases; insurance contracts within the scope of Ind AS 104, Insurance Contracts; financial instruments and other contractual rights or obligations; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The core principle of Ind AS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue shall be recognised by an entity in accordance with this core principle by applying the following five steps:

1. **Identify contract with a customer:** This Standard defines a 'contract' and a 'customer' and specifies five mandatory criteria to be met for identification of a contract.

2. **Identify performance obligations in contract:** At contract inception, assess the goods or services promised and identify as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

3. **Determine transaction price:** This Standard uses transaction price approach instead of fair value approach in Ind AS 18 while determining amount of consideration. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised may include fixed amounts, variable amounts, or both. If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. Estimate amount of variable consideration by using either the expected value method or the most likely amount method. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component for any consideration payable to the customer.

4. **Allocate the transaction price to the performance obligations in the contract:** An entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. The requirements specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations in the contract. Any subsequent changes in the transaction price shall be allocated to the performance obligations on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

5. **Recognise revenue when the entity satisfies a performance obligation:** An entity recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognised is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time or over time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time. For performance obligations satisfied over time, an entity recognises revenue over time by selecting an appropriate method (output methods and input methods) for measuring the entity's progress towards complete satisfaction of that performance obligation.

Treatment of Contract Costs

Ind AS 115 specifies the following requirements for contract costs:

1. *Incremental costs of obtaining a contract:*

   Those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. An entity shall recognise these costs as an asset if the entity expects to recover those costs. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

2. *Costs to fulfil a contract:*

   If costs incurred in fulfilling a contract are not within scope of another Standard, entity shall recognise an asset from the costs incurred to fulfil a contract only if some specified criteria are met. If costs incurred in fulfilling a contract are within scope of another Standard, entity shall account for those costs in accordance with those other Standards.

Contract costs recognised as an asset shall be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

An impairment loss shall be recognised in profit or loss to the extent that the carrying amount of contract costs recognised as an asset exceeds the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates after deducting the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

Presentation

When either party to a contract has performed, an entity shall present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

- If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e. a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier).
- If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable.
- An entity shall present any unconditional rights to consideration separately as a receivable.

Sale with a right of return

To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following:

- revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);
- a refund liability; and
- an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

Warranties

If customer has the option to purchase warranty separately, the warranty is a distinct service because the entity promises to provide the service to the customer in addition to the product that has the functionality described in the contract. In that case, entity shall account for the promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation.

Principal versus agent considerations

When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer. If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

Repurchase agreements

Repurchase agreements generally come in three forms viz. (i) an entity's obligation to repurchase the asset (a forward); (ii) an entity's right to repurchase the asset (a call option); and an entity's obligation to repurchase the asset at the customer's request (a put option).

Bill-and-hold arrangements

A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but retains physical possession of the product until it is transferred to the customer at a point in time in the future. Ind AS 115 specifies four criteria that must be fulfilled for a customer to have obtained control of a product in a bill-and-hold arrangement.

Disclosure

The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

- its contracts with customers
- the significant judgements, and changes in the judgements, made in applying this Standard to those contracts and
- any assets recognised from the costs to obtain or fulfil a contract with a customer

Appendix D of Ind AS 115 gives guidance on the accounting by operators for public-to-private service concession arrangements. This Appendix applies to both (a) infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement. Infrastructure within the scope of this Appendix shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator.

Carve out in Ind AS 115 from IFRS 15

As per IFRS

IFRS 15 provides that all types of penalties which may be levied in the performance of a contract should be considered in the nature of variable consideration for recognising revenue.

Carve out

Ind AS 115 has been amended to provide that penalties shall be accounted for as per the substance of the contract. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration, otherwise the same should not be considered for determining the consideration and the transaction price shall be considered as fixed.

Significant differences in Ind AS 115 from AS 7 and AS 9

S. No.	Particular	Ind AS 115	AS 7 and AS 9
1.	Framework of Revenue Recognition	Ind AS 115 gives a framework of revenue recognition within a standard. It specifies the core principle for revenue recognition which requires the 'revenue to	AS 7 and AS 9 do not provide any such overarching principle to fall upon in case of doubt.

		depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services'.	
2.	Comprehensive Guidance on Recognition and Measurement of Multiple Elements within a Contract with Customer:	Ind AS 115 gives comprehensive guidance on how to recognise and measure multiple elements within a contract with customer.	AS 7 and AS 9 do not provide comprehensive guidance on this aspect.
3.	Coverage	Ind AS 115 comprehensively deals with all types of performance obligation contract with customer. However, it does not deal with revenue from 'interest' and 'dividend' which are covered in financial instruments standard.	AS 7 covers only revenue from construction contracts which is measured at consideration received / receivable. AS 9 deals only with recognition of revenue from sale of goods, rendering of services, interest, royalties and dividends.
4.	Measurement of Revenue	As per Ind AS 115, revenue is measured at transaction price, i.e., the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.	As per AS 9, Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. As per AS 7,

			revenue from construction contracts is measured at consideration received / receivable and to be recognised as revenue as construction progresses, if certain conditions are met.
5.	Recognition of Revenue	As per Ind AS 115, revenue is recognised when the control is transferred to the customer.	As per AS 9, revenue is recognised when significant risks and rewards of ownership is transferred to the buyer. As per AS 7, revenue is recognised when the outcome of a construction contract can be estimated reliably, contract revenue should be recognised by reference to the stage of completion of the contract activity at the reporting date.
6.	Capitalisation of Costs	Ind AS 115 provides guidance on recognition of costs to obtain and fulfill a contract, as asset	AS 7 and AS 9 do not deal with such capitalisation of costs.
7.	Guidance on Service Concession Arrangements	Ind AS 115 gives guidance on service concession arrangements and disclosures thereof	AS does not provide such guidance.
8.	Disclosure Requirements	Ind AS 115 contains detailed disclosure requirements.	Less disclosure requirements are prescribed in AS

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Accounting Standards

1. (i) "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. "Discuss and explain the benefits of Accounting Standards.

   (ii) "One of the characteristic of the financial statement is neutrality." Do you agree with this statement? Explain in brief.

AS 2

2. (a) Town Furniture Ltd. has normal wastage of 5% in the production process. During the year 20X1-X2, the company used 16,000 MT of Raw Material costing ₹ 190 per MT. At the end of the year, total stock wastage was of 950 MT. The accountant wants to know how this wastage is to be treated in the books. You are required to:

   (i) Calculate the amount of abnormal loss

   (ii) Explain the treatment of normal loss and abnormal loss as per AS 2.

AS 3

   (b) The following information was provided by ABC Ltd. for the year ended 31st March, 20X2:

   (1) Gross Profit ratio was 25% for the year, it amounts to ₹ 3,75,000

   (2) Company sold goods for cash only

   (3) Opening inventory was lesser than closing inventory by ₹ 25,000

   (4) Wages paid during the year ₹ 5,55,000

   (5) Office expenses paid during the year ₹ 35,000

   (6) Selling expenses paid during the year ₹ 15,000

   (7) Dividend paid during the year ₹ 40,000 (including dividend distribution tax)

   (8) Bank loan repaid during the year ₹ 2,05,000 (including interest ₹ 5,000)

   (9) Trade payables on 31st March, 20X1 were ₹ 50,000 and on 31st March, 20X2 were ₹ 35,000

   (10) Amount paid to trade payables during the year ₹ 6,10,000

   (11) Income tax paid during the year amounts to ₹ 55,000

   (12) Investment of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000

   (13) Depreciation on furniture amounts to ₹ 40,000

(14) Depreciation on other tangible assets amounts to ₹ 20,000

(15) Plant and machinery purchased on 15th November, 20X1 for ₹ 3,50,000

(16) On 31st March, 20X2, ₹2,00,000, 7% Debentures were issued at face value in an exchange for a plant

(17) Cash and cash equivalents on 31st March, 20X1 was ₹ 2,25,000 and on 31st March, 20X2 was ₹ 7,00,000

(A) Prepare cash flow statement for the year ended 31st March, 20X2, using direct method.

(B) Calculate cash flow from operating activities, using indirect method.

AS 4

3. (a) The financial statements of Alpha Ltd. for the year 20X1-02 was approved by the Board of Directors on 15th July, 20X2. The following information was provided:

(i) A suit against the company's advertisement was filed by a party on 20th April, 20X2 claiming damages of ₹ 25 lakhs.

(ii) The terms and conditions for acquisition of business of another company have been decided by March, 20X2. But the financial resources were arranged in April, 20X2 and amount invested was ₹ 50 lakhs.

(iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 20X2, was detected on 16th July, 20X2.

(iv) Company sends a proposal to sell an immovable property for ₹ 40 lakhs in March, 20X2. The book value of the property is ₹ 30 lakh on 31st March, 20X2. However, the deed was registered on 15th April, 20X2.

(v) A major fire has damaged the assets in a factory on 5th April, 20X2. However, the assets are fully insured.

With reference to AS 4, state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

AS 7

(b) (i) ABC Ltd., a construction contractor, undertakes the construction of commercial complex for XYZ Ltd. ABC Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units ie ₹ 50 lakh, ₹ 60 lakh and ₹ 75 lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS 7, whether ABC Ltd., should treat it as a single contract or three separate contracts.

(ii) On 1st December, 20X1, MGR Realty Ltd. undertook a contract to construct a building for ₹ 45 lakh. On 31st March, 20X2, the company found that it had already spent ₹ 32.50 lakh on the construction. Additional cost of completion is estimated at ₹ 15.10 lakh. What amount should be charged to revenue in the final accounts for the year ended 31st March, 20X2 as per provisions of AS 7?

AS 9

4. (a) Given below are the following information's of SUP Ltd.

(i) Goods of ₹ 50,000 was sold on 18th March, 20X1 but at the request of the buyer these were delivered on 15th April, 20X1.

(ii) On 13th January, 20X1, goods of ₹ 1,25,000 were sent on consignment basis, of which 20% of the goods unsold are lying with the consignee as on 31st March, 20X1.

(iii) ₹ 1,00,000 worth of goods were sold on approval basis on 1st December, 20X0. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods upto 31st January, 20X1 and no approval or disapproval received for the remaining goods till 31st March, 20X1.

You are required to advise the accountant of SUP Ltd. with valid reasons, the amount to be recognised as revenue for the year ended 31st March, 20X1 in above cases in the context of AS 9.

AS 10

(b) All in one Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.

Management has prepared the following budget for this period –

Salaries of the staff engaged in preparation of restaurant before its opening ₹ 7,50,000

Construction and remodeling cost of restaurant ₹ 30,00,000

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

AS 11

5. (a) (i) CAT Ltd. a Indian Company obtained long term loan from Perfect private Ltd., a U.S. company amounting to ₹ 30,00,000. It was recorded at US $1 = ₹ 60.00, taking exchange rate prevailing at the date of transaction. The exchange rate on balance sheet date ie on 31.03.20X1 was US $1 = ₹ 62.00.

(ii) Trade receivable includes amount receivable from JBB Ltd., ₹ 10,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $1 = ₹ 59.00. The exchange rate on balance sheet date (31.03.20X1) was US $1 = ₹ 62.00.

You are required to calculate the amount of exchange difference and also explain the accounting treatment needed in the above two cases as per AS 11 in the books of CAT Ltd.

AS 13

(b) A Ltd. on 1-1-20X1 had made an investment of ₹ 600 lakhs in the equity shares of B Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-20X1 became ₹ 200 lakhs as B Ltd. lost a case of copyright. How will you recognize the reduction in the value of the investment in the financial statements for the year ended on 31-3-20X1?

AS 14

6. (a) Wow Ltd. agreed to takeover Wonder Ltd. on 1st April, 20X1. The terms and conditions of takeover were as follows:

(i) Wow Ltd. issued 56,000 equity shares of ₹ 100 each at a premium of ₹ 15 per share to the equity shareholders of Wonder Ltd.

(ii) Cash payment of ₹ 39,000 was made to equity shareholders of Wonder Ltd.

(iii) 24,000 fully paid preference shares of ₹ 50 each issued at par to discharge the preference shareholders of Wonder Ltd.

(iv) The 8% Debentures of Wonder Ltd. (₹ 78,000) converted into equivalent value of 9% debentures in Wow Ltd.

(v) The actual cost of liquidation of Wonder Ltd. was ₹ 23,000. Liquidation cost is to be reimbursed by Wow Ltd. to the extent of ₹ 15,000.

You are required to:

(1) Calculate the amount of purchase consideration as per the provisions of AS 14 and

(2) Pass Journal Entry relating to discharge of purchase consideration in books of Wow Ltd.

AS 15

(b) Synergy Ltd., is in engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employee is estimated to be 6 years.

You are required to advise the company.

AS 16

7. (a) Saluba Ltd. began construction of a new building at an estimated cost of ₹ 7 lakh on 1st April, 20X1. To finance construction of the building it obtained a specific loan of ₹ 2 lakh from a financial institution at an interest rate of 9% per annum.

The company's other outstanding loans were:

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

The expenditure incurred on the construction was:

1st April, 20X1	₹ 1,50,000
1st August, 20X1	₹ 2,00,000
1st October, 20X1	₹ 3,50,000
1st January, 20X2	₹ 1,00,000

The construction of building was completed by 31st January, 20X2. Interest is paid at the year end. Following the provisions of AS 16 'Borrowing Costs', calculate the amount of interest to be capitalized when the asset was ready for use and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 20X2.

AS 18

(b) Identify the related parties in the following cases as per AS 18:

(i) Maya Ltd. holds 61% shares of Sheetal Ltd.

Sheetal Ltd. holds 51% shares of Fair Ltd.

Care Ltd. holds 49% shares of Fair Ltd.

Give your answer Reporting Entity wise for Maya Ltd., Sheetal Ltd. Care Ltd. and Fair Ltd.

(ii) Mr. Subhash Kumar is managing director of A Ltd. and also holds 72% capital of B Ltd.

AS 19

8. (a) ANI Ltd. sold machinery having WDV of ₹ 40 lakhs to BDH Ltd. for ₹ 50 lakhs and the same machinery was leased back by BDH Ltd. to ANI Ltd. The lease back is operating lease. Comment if –

(a) Sale price of ₹ 50 lakhs is equal to fair value.

(b) Fair value is ₹ 60 lakhs.

(c) Fair value is ₹ 45 lakhs and sale price is ₹ 38 lakhs.

(d) Fair value is ₹ 40 lakhs and sale price is ₹50 lakhs.

(e) Fair value is ₹46 lakhs and sale price is ₹ 50 lakhs

(f) Fair value is ₹35 lakhs and sale price is ₹39 lakhs.

AS 20

(b) As at 1st April, 20X1 a company had 6,00,000 equity shares of ₹ 10 each (₹ 5 paid up by all shareholders). On 1st September, 20X1 the remaining ₹ 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 20X2 was ₹ 21,96,000 after considering dividend on preference shares and dividend distribution tax on such dividend totalling to ₹ 3,40,000.

Compute Basic EPS for the year ended 31st March, 20X2 as per Accounting Standard 20 "Earnings Per Share".

AS 22

9. (a) NCRI Ltd. is the owner of a CGU (Cash Generating Unit) block of assets whose current carrying cost is ₹ 999 lakhs. The company, after a detailed study by its technical team, has assessed the present recoverable amount of this CGU block of assets at ₹ 555 lakhs. The value of the block of assets as per the Income tax Records is ₹ 777 lakhs. The Approving Authority of the company have issued a signed statement confirming that the impairment in the value of the CGU is only a temporary phenomenon which is reversible in subsequent periods and also assuring virtual certainty of taxable incomes in the foreseeable future. You are required to show Deferred Tax workings as per Accounting Standards in force, given the tax rate of 30% plus 10% surcharge thereon. The depreciation rate for tax purposes is 15% and that per books is 13.91%. The current carrying cost of the CGU block of asset as per Accounting and Tax Records are after charging depreciation of the current year.

AS 25

(b) Adam Ltd. provides you the following information and asks you to calculate the tax expense for each quarter with reference to AS 25, assuming that there is no difference between the estimated taxable income and the estimated accounting income:

Estimated Gross Annual Income (inclusive of Estimated Capital Gains of ₹ 8,00,000)	33,00,000

Estimated Income of Quarter I is ₹ 7,00,000, Quarter II is ₹ 8,00,000, Quarter III (including Estimated Capital Gains of ₹ 8,00,000) is ₹ 12,00,000 and Quarter IV is ₹ 6,00,000.

Tax Rates:	On Capital Gains		12%
	On Other Income:	First ₹ 5,00,000	30%
		Balance Income·	40%

AS 29

10. (a) Zaira Company has at its financial year ended on 31st March, 20X1, fifteen law suits outstanding none of which has been settled by the time the accounts are approved by the directors. The directors have estimated the possible outcomes as below:

Result	Probability	Amount of loss
For first ten cases:		
Win	0.6	
Loss-low damages	0.3	90,000
Loss-high damages	0.1	1,60,000
For remaining five cases:		
Win	0.5	
Loss-low damages	0.3	60,000
Loss-high damages	0.2	95,000

The directors believe that the outcome of each case is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss.

Guidance Note on Division I of Schedule III to the Companies Act, 2013

(b) Earth Ltd. has issued convertible bonds for ₹ 65 crores which are due to mature on 30th September, 20X1.

While preparing financial statements for the year ending 31st March, 20X1, company expects that bond holders will not exercise their option of converting bonds to equity shares. How should the company classify the convertible bonds as per the requirements of Schedule-III to the Companies Act, 2013 as on 31st March, 20X1?

Also state, whether classification of convertible bonds as per Schedule-III to the Companies Act will change if the company expects that convertible bond holders will convert their holdings into equity shares of Earth Ltd.

Indian Accounting Standard

11. Explain the treatment of Short-term Employee Benefits as per Ind AS 19.

Accounting for Corporate Restructuring

12. The following was the abridged Balance Sheet of TMC Ltd, as at 31st March, 20X1:

Liabilities	₹	Assets	₹
Capital: Authorized:		Plant and machinery at depreciated value	8,60,000
10,000 Equity shares of ₹ 100 each	10,00,000	Land	7,00,000

Issued and paid up:		Current assets	
8,000 Equity shares of ₹ 100 each, fully paid up	8,00,000	Trade receivables	8,00,000
Reserves and surplus:		Patents, trademarks and copyrights	6,00,000
General reserve 5,00,000			
Securities premium 4,00,000			
Profit and loss 3,60,000	12,60,000		
11% Debentures secured against the assets of the Company	5,00,000		
Trade payables	4,00,000		
	29,60,000		29,60,000

The Company ran two distinct departments utilizing the trademarks and copyrights owned and generated by it. The assets and liabilities of one of the departments as on the date of Balance Sheet were:

	₹
Plant and machinery	4,00,000
Land (used for business)	2,00,000
Current assets	2,00,000
Trademarks and copyrights	3,50,000
	11,50,000
Trade payables	(2,50,000)
	9,00,000

Due to managerial constraints, TMC is unable to develop this department. An overseas buyer is interested to acquire this department and after due diligence, offers a consideration of ₹ 20,00,000 to the company for transfer of business. The buyer offered to discharge the purchase consideration immediately after 31st March, 20X1, in the following manner:

(i) Issue of equity shares of the buyer's company for ₹ 10,00,000 nominal value at a premium of 20% over the face value; and

(ii) Payment of the balance consideration in £ Sterling. The exchange rate agreed upon is ₹ 80 per £ Sterling. This amount will be retained in London, till the actual takeover of the business is done by the buyer.

(a) expenses to put through the transaction come to ₹ 8,00,000 initially to be incurred by TMC but to be shared equally by the parties.

(b) the balance value of trademarks, copyrights and patents left with TMC does not enjoy any market value and has to be written off.

(c) the value of the balance of land in TMC's possession will be taken at its market value in the books of account. Such a value, determined by an approved valuer, is 200 percent of the book value.

(d) the parties agree that the date of legal ownership of the transferred business shall be 31st March, 20X1, though certain formalities may have to be gone through and agree that the actual transfer to the buyer will be effected before 30th April, 20X1.

TMC Ltd to carry on the business in the normal course and account for the profits of the transferred department to the foreign buyer. TMC made a net cash profit of ₹ 2,40,000 from the whole business for April, 20X1; 40 percent of the net profit related to the business of the transferred department.

(e) the shares of the overseas buyer's company were quoted on the London Stock Exchange and on 30th April, 20X1 were quoted at 95 percent of their face value.

(f) the cash received by TMC at London was remitted by it to its Indian banking account on 30th April 20X1 when the rupee sterling rate was ₹ 75 per UK sterling pound.

Draw the Balance Sheet of TMC Ltd. as at 30th April, 20X1, after the transfer of the business to the overseas buyer. TMC Ltd intends to hold investment in shares of overseas buyer as temporary investment. The amount of current assets and current liabilities of TMC Ltd. on 30th April, 20X1 has been same as on 31st March, 20X1.

Consolidated Financial Statements

13. Awasthi Ltd. acquired 100% (50,00,000) equity shares of ₹ 10 each in Jawala Ltd. on 1st April, 20X1. Jawala Ltd. was incorporated on 1st April, 20X1.

Awasthi Ltd. acquired 80% (24,00,000) equity shares in Shaurya Ltd. for ₹ 600 lakh on 1st April, 20X1 when Shaurya Ltd. had share capital of ₹ 300 lakh and Reserves and Surplus of ₹ 300 lakh.

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

On 1st April, 20X4, Awasthi Ltd. sold 12,00,000 equity shares of Shaurya Ltd. for cash consideration of ₹ 360 lakh with recognition of profit arising out of this sale.

The net assets of Shaurya Ltd. on 31st March, 20X4 were ₹ 700 lakh. The amount of Reserves and Surplus was ₹ 880 lakh, ₹ 720 lakh and ₹ 400 lakh respectively of Awasthi Ltd., Jawala Ltd. and Shaurya Ltd. on 31st March, 20X4.

The Balance Sheet extracts of the companies as on 31st March, 20X5 were as follows:

(₹ in lakh)

	Awasthi Ltd.	*Jawala Ltd.*	*Shaurya Ltd.*
Share Capital (₹ 10 each)	1000	500	300
Reserves and Surplus	1240	910	640
Current Liabilities	460	490	560
	2700	1900	1500
Fixed Assets	640	420	380
50,00,000 equity shares in Jawala Ltd.	500		
12,00,000 equity shares in Shaurya Ltd.	300		
Current Assets	1260	1480	1120
	2700	1900	1500

You are required to prepare for Awasthi Ltd. Group Balance Sheet as on 31st March, 20X5 following AS 21 and AS 23. Notes to Accounts and working notes should form part of your answer.

Accounting for Financial Instruments

14. Sagar Ltd. has contracted as a point of staff welfare measures to lend to its employees a sum of ₹ 12,00,000 on 1st April, 20X1 at a rate of interest of 6% per annum. The amounts lent are to be repaid, along with the interest, in four equal annual instalments. The market rate of interest is 10% per annum.

    Following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the journal entries for the year ended 31st March, 20X2 for the transaction and also calculate the value of the loan initially to be recognised and the amortised cost for all the subsequent years.

    For the purpose of calculation, the following discount factors at interest rate of 10% may be considered:

At end of year	1	2	3	4
Discount factor	0.909	0.827	0.751	0.683

Accounting for Share Based Payment

15. NCR Ltd. has its share capital divided into Equity Shares of ₹ 10 each. On 1st April, 20X1, the company offered 250 shares to each of its 520 employees at ₹ 60 per share, when the market price was ₹ 150 per share. The options were to be exercised between 1st March, 20X2 to 31st March, 20X2. 410 employees accepted the offer and paid ₹ 60 per share purchased and the remaining options lapsed.

The company closes its books on 31st March, every year.

You are required to show Journal Entries (with narrations) as would appear in the books of NCR Ltd. for the year ended 31st March, 20X2 with regard to employees stock options.

Accounting for Mutual Funds

16. Mutual fund has launched a new scheme "All Purpose Scheme". The Mutual Fund Asset Management Company wishes to invest 25% of the NAV of the scheme in an unrated debt instrument of a company Zama Ltd., which has been paying above average returns for the past many years. The promoters of the company seek advice in light of the regulations of SEBI. Will the position change in case the debt instruments of the company Zama Ltd. are rated.

Valuation of Goodwill

17. The summarised balance sheet of TMI Ltd. for the year ended on 31st March, 20X1, 20X2 and 20X3 are as follows:

	₹ in thousand		
	20X1	20X2	20X3
1,60,000 equity shares of ₹ 10 each fully paid	1,600	1,600	1,600
General reserve	1,200	1,400	1,600
Profit and Loss account	140	160	240
Trade Payable	600	800	1,000
	3,540	3,960	4,440
Assets:			
Goodwill	1,000	800	600
Building and machinery less depreciation	1,400	1,600	1,600
Inventory	1000	1,200	1,400
Trade Receivable	20	160	440
Bank balance	120	200	400
	3,540	3,960	4,440

Additional information:

(i) Actual valuations were as under:

	20X1	20X2	20X3
Building and machinery less depreciation	1,800	2,000	2,200
Inventory	1,200	1,400	1,600
Net profit (including opening balance after writing off depreciation, goodwill, tax provision and transfer to general reserve)	420	620	820

(ii) Capital employed in the business at market value at the beginning of 20X0-20X1 was ₹ 3,60,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by T Ltd. is 12.5%.

(iii) The balance in the general reserve on 1st April, 20X0 was ₹ 10 lakhs.

(iv) The goodwill shown on 31st March, 20X1 was purchased on 1st April, 20X0 for ₹ 10 lakhs on which date the balance in the Profit and Loss account was ₹ 1,20,000.

You are required to find out the average capital employed in each year. Also compute goodwill to be valued at 5 year's purchase of Super Profit (Simple average method).

Value Added Statement

18. Divine Corporation has been preparing Value Added Statements for the past five years. The Human Resource Manager of the company has suggested introducing a value added incentive scheme to motivate the employees for their better performance. To introduce the scheme, it is proposed that the best index performance (favourable to employer) i.e. Employee Costs to Added Value for the last five years, will be used as the target index for future calculations of the bonus to be paid.

After the target index is determined, any actual improvement in the index will be rewarded. The employer and the employee will be sharing any such improvement in the ratio of 1:2. The bonus is given at the end of the year, after the profit for the year is determined.

The following information is available for the last 5 years.

Value Added Statement for 5 years

Particulars					₹ in thousands
	20X1	20X2	20X3	20X4	20X5
Sales	5,600	7,600	9,200	10,400	12,000
Less: Bought in goods & services	(2,560)	(4,000)	(5,000)	(5,600)	(6,400)
Value Added	3,040	3,600	4,200	4,800	5,600
Employee Costs	1,300	1,520	1,680	1,968	2,240
Dividend	200	300	400	480	600
Taxes	640	760	840	1000	1,120
Depreciation	520	620	720	880	1,120
Debenture Interest	80	80	80	80	80
Retaining Earnings	300	320	480	392	440
Value Added	3,040	3,600	4,200	4,800	5,600

Summarised Profit and Loss Account for the year ended on 31st March, 20X6

Particulars		(₹ in thousand) Amount
Income		
Sales less returns	13,600	
Dividends and Interest	500	
Miscellaneous Income	500	14,600
Expenditure		
Production and Operational Expenses:		
Cost of Materials	5,000	
Wages & Salaries	1,800	
Other Manufacturing Expenses	1,400	8,200
Administrative Expenses:		
Administrative Salaries	600	
Administration Expenses	600	1,200
Selling and Distribution Expenses:		
Selling and Distribution Salaries	120	
Selling Expenses	400	520
Financial Expenses:		
Debenture Interest		80
Depreciation		1,520
Total Expenditure		11,520
Profit before taxation		3,080
Provision for taxation		770
Profit after taxation		2,310

From the above information, prepare Value Added Statement for the year 20X5-20X6 and determine the amount of bonus payable to employees, if any.

Economic Value Added

19. The following information is available of a concern; calculate E.V.A.:

Debt capital 12%	₹ 2,000 crores
Equity capital	₹ 500 crores
Reserve and surplus	₹ 7,500 crores

Capital employed	₹ 10,000 crores
Risk-free rate	9%
Beta factor	1.05
Market rate of return	19%
Equity (market) risk premium	10%
Net Operating profit after tax	₹ 2,100 crores
Tax rate	30%

Human Resource Accounting

20. From the following details, compute according to Lev and Schwartz (1971) model, the total value of human resources of the employee groups skilled and unskilled.

		Skilled	Unskilled
(i)	Annual average earning of an employee till the retirement age	₹ 50,000	₹ 30,000
(ii)	Age of retirement	65 years	62 years
(iii)	Discount rate	15%	15%
(iv)	No. of employees in the group	20	25
(v)	Average age	62 years	60 years

SUGGESTED ANSWERS/HINTS

1. (i) Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

(1) **Standardization of alternative accounting treatments:** Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.

(2) **Requirements for additional disclosures:** There are certain areas where importance is not only of statutorily requirements to be disclosed. Standards may call for disclosure beyond what is required by law.

(3) **Comparability of financial statements:** The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

(ii) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.

Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a balanced view of the financial position of the company without attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, i.e. they must be neutral.

2. (a) As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Calculation of Abnormal Loss in quantity and in amount

Material used	16,000 MT @ ₹ 190 = ₹ 30,40,000
Normal Loss (5% of 16,000 MT)	800 MT (included in calculation of cost of inventories)
Net quantity of material after normal loss	15,200 MT
Abnormal Loss in quantity (950 - 800)	150 MT
Abnormal Loss in amount	₹ 30,000 [150 units @ ₹ 200 (₹ 30,40,000 / 15,200)]

Treatment of Abnormal Loss

Abnormal loss of ₹ 30,000 will be charged to the Profit and Loss account.

(b) (i) ABC Ltd.

Cash Flow Statement for the year ended 31st March, 20X2
(Using direct method)

Particulars	₹	₹
Cash flows from Operating Activities		
Cash sales (₹ 3,75,000 / 25%)		15,00,000

Less: Cash payment to trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses (35,000+15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from investing activities		
Sale of investments (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid (including dividend distribution tax)	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		**2,25,000**
Cash and cash equivalents at end of the period		**7,00,000**

(ii) 'Cash Flow from Operating Activities' by indirect method

		₹
Net profit for the year before tax and extraordinary items		2,80,000
Add: Non-cash and non-operating expenses:		
Depreciation (40,000 + 20,000)		60,000
Interest paid		5,000
Less: Non-cash and non-operating incomes:		
Profit on sale of investments		(20,000)
Net Profit after adjustment for non-cash items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	25,000	(40,000)
Cash generated from operations before taxes		2,85,000
Less: Income tax paid		(55,000)
Cash generated from operations after taxes		2,30,000

Working note:

Calculation of net profit earned during the year

Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	
Depreciation (40,000 + 20,000)	60,000	
Interest paid	5,000	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

3. (a) (i) Non-adjusting event: Suit filed against the company is a contingent liability but it was not existing as on date of balance sheet date as the suit was filed on 20th April after the balance sheet date. As per AS 4, 'Contingencies' is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statement and will be a non-adjusting event.

(ii) Adjusting event: In the given case, terms and conditions for acquisition of business were finalised before the balance sheet date and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 20X2. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 20X2.

(iii) Non-adjusting event: Only those events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure. In the given case, as the theft of cash was detected on 16th July, 20X2 ie after approval of financial statements, no adjustment is required.

(iv) Non-adjusting event: Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date, and was not finalized. Therefore, adjustment to assets for sale of immovable property is not necessary in the financial statements for the year ended 31st March, 20X2.

(v) Non-adjusting event: Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding fire and loss completely insured may be given in the report of approving authority.

(b) (i) As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

ABC Ltd. has submitted separate proposals for each of the 3 units of commercial complex. Also the revenue and completion time has been laid down for each unit separately which implies separate negotiation for them.

Therefore, ABC Ltd. is required to treat construction of each unit as a separate construction contract as the above-mentioned conditions of AS 7 are fulfilled in the given case.

(ii) Computation of percentage of completion of contract

	₹ in lakhs
Cost of construction incurred till date	32.50
Add: Estimated future cost	15.10
Total estimated cost of construction	47.60

Percentage of completion till date to total estimated cost of construction

$= (32.50/47.60)\times 100 = 68.28\%$

Proportion of total contract value recognised as revenue for the year ended 31st March, 20X2 per AS 7 (Revised)

= Contract price x percentage of completion

= ₹ 45 lakh x 68.28% = ₹ 30.73 lakhs.

Amount of foreseeable loss	*(₹ in lakhs)*
Total cost of construction	47.60
Less: Total contract price	(45.00)
Total foreseeable loss to be recognized as expense	2.60

According to of AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately. Hence ₹ 2.60 lakhs will be charged to Profit and Loss as loss provision.

4. **(a)** As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(1) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(2) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i)

The sale is complete but delivery has been postponed at buyer's request. SUP Ltd. should recognize the entire sale of ₹ 50,000 for the year ended 31st March, 20X1.

Case (ii)

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,00,000 (80% of ₹ 1,25,000). In case of consignment sale, revenue should not be recognized until the goods are sold to a third party. This is because the ownership of goods vest with the consignor only though the goods are lying at consignee's place.

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 1,00,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹ 2,50,000 (50,000 + 1,00,000+ 1,00,000) will be recognized for the year ended 31st March, 20X1 in the books of SUP Ltd.

(b) As per provisions of AS 10, any cost directly attributable to bring the assets to the location and conditions necessary for it to be capable of operating in the manner indicated by the management are called directly attributable costs and would be included in the costs of an item of PPE.

Management of All-in-one Enterprise should capitalize the costs of construction and remodeling the restaurant, because they are necessary to bring the restaurant to the condition necessary for it to be capable of operating in the manner intended by the management. The restaurant cannot be opened without incurring the construction and remodeling expenditure amounting ₹ 30,00,000 and thus the expenditure should be considered as part of the asset.

However, the cost of salaries of staff engaged in preparation of restaurant ₹ 7,50,000 before its opening are in the nature of operating expenditure that would be incurred even after the inauguration of the restaurant. Further, these costs are not necessary to bring the restaurant to the conditions necessary for it to be capable of operating in the manner intended by management. Hence, ₹ 7,50,000 should be expensed ie charged to Profit and Loss.

5. (a) Amount of Exchange difference and its Accounting Treatment

		Foreign Currency Rate	₹
(i)	**Long term Loan**		
	Initial recognition US $ 50,000 ₹ (30,00,000/60)	1 US $ = ₹ 60	30,00,000
	Rate on Balance sheet date	1 US $ = ₹ 62	
	Exchange Difference Loss US $ 50,000 x ₹ (62 – 60)		1,00,000
	Treatment: Credit Loan A/c and Debit FCMITD A/c or Profit and Loss A/c by ₹ 1,00,000		
(ii)	**Trade receivables**		
	Initial recognition US $ 16,949.152* (₹10,00,000/59)	1 US $ = ₹ 59	10,00,000
	Rate on Balance sheet date	1 US $ = ₹ 62	
	Exchange Difference Gain US $ 16,949.152* x ₹ (62-59)		50,847.456*
	Treatment: Credit Profit and Loss A/c by ₹ 50,847.456* and Debit Trade Receivables		

Thus, Exchange Difference on Long term loan amounting ₹ 1,00,000 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account at the option of the entity but exchange difference on trade receivables amounting ₹ 50,847.456 is required to be transferred to Profit and Loss.

(b) A limited invested ₹ 600 lakhs in the equity shares of B Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by A Limited only for 3 months (from 1.1. 20X1 to 31.3.20X1), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3. 20X1 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be charged in the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline.

Here, B Limited has lost a case of copyright which drastically reduced the realisable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long term investment by ₹ 200 lakhs and show the investments at ₹ 100 lakhs, considering the downfall in the value of shares as decline other than temporary. The reduction of ₹ 200 lakhs in the carrying value of long term investment will be charged to the profit and loss account.

Alternatively, for treatment of long term investment, if one assumes that the decline in the value of long term investment is temporary and B Limited will overcome this downfall in a short period by filing a case against this decision of government, with strong arguments. In such a case, long term investment will be shown at cost of ₹ 300 lakhs.

6. (a) As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

(i) Computation of Purchase Consideration

		₹
(a)	Preference Shares: ₹ 50 per share 24,000 Preference shares	12,00,000
(b)	Cash	39,000
(c)	Equity shares: 56,000 equity shares in Wow Ltd. @ ₹ 115	64,40,000
		76,79,000

(ii) Journal entry

		₹	₹
Liquidator of Wonder Ltd.	Dr.	76,79,000	
To Cash			39,000
To Preference Share Capital A/c			12,00,000
To Equity Share Capital A/c			56,00,000
To Securities Premium A/c [56,000 x ₹ 15 (115-100)]			8,40,000
(Payment of cash and issue of shares in satisfaction of purchase consideration)			

(b) According to para 92 of AS 15 (Revised) "Employee Benefits", actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, surplus of ₹ 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the profit and loss statement of the current year. Hence, Synergy Ltd. cannot spread the actuarial gain of ₹ 6 lakhs over the next 2 years by reducing the annual contributions to ₹ 2 lakhs instead of ₹ 5 lakhs. It has to contribute ₹ 5 lakhs annually for its pension schemes.

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

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

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

Date of incurrence of expenditure	*Amount spent*	*Financed through*	*calculation*	₹
1st April, 20X1	1,50,000	Specific borrowing	1,50,000 x 9% x 10/12	11,250
1st August, 20X1	2,00,000	Specific borrowing	50,000 x 9% x 10/12	3,750

		General borrowing	1,50,000 x 11.4375% x 6/12	8,578.125
1st October, 20X1	3,50,000	General borrowing	3,50,000 x 11.4375% x 4/12	13,343.75
1st January, 20X2	1,00,000	General borrowing	1,00,000 x 11.4375% x 1/12	953.125
				37,875

(iii) Total expenses to be capitalized for building

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

(iv) Journal Entry

Date	*Particulars*		₹	₹
31.1.20X2	Building account	Dr.	8,37,875	
	To Bank account			8,00,0000
	To Interest payable			37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

(b) (i) (a) Reporting entity- Maya Ltd.

- Sheetal B Ltd. (subsidiary) is a related party
- Fair Ltd.(subsidiary) is a related party

(b) Reporting entity- Sheetal Ltd.

- Maya Ltd. (holding company) is a related party
- Fair Ltd. (subsidiary) is a related party

(c) Reporting entity- Fair Ltd.

- Maya Ltd. (holding company) is a related party
- Sheetal Ltd. (holding company) is a related party

- Care Ltd. (investor/ investing party) is a related party

(d) Reporting entity- Care Ltd.

- Fair Ltd. (associate) is a related party

(ii) Mr. Subhash Kumar is key management personnel as he has the authority for planning, directing and controlling the activities of A Ltd. He also holds substantial interest in B Ltd. as he holds 72% capital of B Ltd. Thus, Mr. Subhash is related party for both A Ltd. and B Ltd.

8. (a) Following will be the treatment in the given cases:

(a) When sales price of ₹ 50 lakhs is equal to fair value; ANI Ltd. should immediately recognize the profit of ₹10 lakhs (i.e. 50 – 40) in its books.

(b) When fair value is ₹ 60 lakhs then also profit of ₹10 lakhs should be immediately recognized by ANI Ltd.

(c) When fair value of leased machinery is ₹ 45 lakhs & sales price is ₹ 38 lakhs, then loss of ₹ 2 lakhs (40 – 38) to be immediately recognized by ANI Ltd. in its books provided loss is not compensated by future lease payment.

(d) When fair value is ₹ 40 lakhs & sales price is ₹ 50 lakhs then, profit of ₹ 10 lakhs is to be deferred and amortized over the lease period.

(e) When fair value is ₹ 46 lakhs & sales price is ₹ 50 lakhs, profit of ₹ 6 lakhs (46 - 40) to be immediately recognized in its books and balance profit of ₹4 lakhs (50-46) is to be amortised/deferred over lease period.

(f) When fair value is ₹ 35 lakhs & sales price is ₹ 39 lakhs, then the loss of ₹ 5 lakhs (40-35) to be immediately recognized by ANI Ltd. in its books and profit of ₹ 4 lakhs (39-35) should be amortised/deferred over lease period

(b) Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{21{,}96{,}000}{4{,}57{,}500 \text{ Shares (as per working note)}} = ₹\ 4.80 \text{ per share}$$

Working Note:

Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	*No. of equity shares*	*Amount paid per share*	*Weighted average no. of equity shares*
	₹	₹	₹
1.4.20X1	6,00,000	5	6,00,000 x 5/10 x 5/12 = 1,25,000
1.9.20X1	5,40,000	10	5,40,000 x 7/12 = 3,15,000
1.9.20X1	60,000	5	60,000 x 5/10 x 7/12 = 17,500
Total weighted average equity shares			4,57,500

9. (a) Statement showing Deferred Tax workings for the current year

	₹ in lakhs
Depreciation as per Accounting books for the current year $\frac{999}{(1-.1391)}\times.1391$	161.41
Depreciation as per Income Tax Records for the current year $\frac{777}{(1-.15)}\times.15$	137.12
Timing difference	24.29
Tax effect of the above timing difference at 33%* (deferred tax asset) (A)	8.02
Impairment Loss recognised in the profit and loss account (999- 555)	444
Impairment Loss allowed for tax purposes	Nil
Timing difference	444
Tax effect of the above timing difference at 33% (deferred tax asset) (B)	146.52
Total deferred tax asset (A+B)	154.54

Note:

1. Deferred tax asset should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax asset can be realised. The Approving Authority of NCRI Ltd. have issued signed statement confirming virtual certainty

* Tax rate = 30% x 110% = 33%.

of taxable incomes in the foreseeable future. Therefore, the company can recognize deferred tax asset during the current year.

2. The deferred tax asset calculated on account of difference of depreciation as per accounting and tax records is actually a reversal of deferred tax liability created in the previous years.

(b) As per para 29 of AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

If different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries) to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income.

		₹
Estimated annual income exclusive of estimated capital gain (33,00,000 – 8,00,000)	(A)	25,00,000
Tax expense on other income:		
30% on ₹ 5,00,000		1,50,000
40% on remaining ₹ 20,00,000		8,00,000
	(B)	9,50,000
Weighted average annual income tax rate = $\frac{B}{A}$ =		
(9,50,000/25,00,000) x 100 = 38%		

Tax expense to be recognised in each of the quarterly reports

		₹
Quarter I - ₹ 7,00,000 x 38%		2,66,000
Quarter II - ₹ 8,00,000 x 38%		3,04,000
Quarter III - ₹ (12,00,000 - 8,00,000) x 38%	1,52,000	
₹ 8,00,000 x 12%	96,000	2,48,000
Quarter IV - ₹ 6,00,000 x 38%		2,28,000
		10,46,000

10. (a) In the given case, the probability of winning first 10 cases is 60% and for remaining five cases is 50%. In other words, probability of losing 10 cases and 5 cases is 40% and 50% respectively. According to AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where it is not probable that a present obligation exists, an enterprise discloses a contingent liability. Since in the given case, chances of winning the case is more and losing the case is less, no provision will be recognized. In fact, it is a contingent loss / liability.

The amount of contingent loss may be calculated as under:

Expected contingent loss in first ten cases = [(₹ 90,000 x 0.3) + (₹ 1,60,000 x 0.1)] x 10 cases

= [₹ 27,000 + ₹ 16,000] x 10 cases

= ₹ 43,000 x 10 cases = ₹ 4,30,000

Expected contingent loss in remaining five cases = [₹ 60,000 x 0.3 + ₹ 95,000 x 0.2] x 5 cases

= [₹ 18,000 + ₹ 19,000] x 5 cases

= ₹ 37,000 x 5 cases = ₹ 1,85,000

Total contingent liability = ₹ 4,30,000 + ₹ 1,85,000

= ₹ 6,15,000.

An enterprise should recognise a contingent liability. For each class of contingent loss / liability at the balance sheet date, an enterprise should disclose, by way of a note, a brief description of the nature of the contingent liability.

(b) Schedule III to the Companies Act, 2013 provides that:

"A liability should be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the reporting date; or

(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments and do not affect its classification."

In the present situation, Earth Ltd. does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, hence Earth Ltd. should classify the FCCBs as current liabilities as on 31st March 20X1.

The position will be same even when the bond holders are expected to convert their holdings into equity shares of Earth Ltd. Expectations cannot be called as unconditional rights. Thus, in this situation also, Earth Ltd. should classify the FCCBs as current liabilities as on 31st March 20X1.

11. When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) **as a liability** (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an **asset** (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

(b) **as an expense**, unless another Ind AS requires or permits the inclusion of the benefits in the cost of an asset (For example, Ind AS 2, *'Inventories'*, and Ind AS 16*, 'Property, Plant and Equipment'*).

Short-term paid absences: An entity shall recognise the expected cost of short-term employee benefits in the form of paid absences as follows:

- Short Term Paid Absences
- Accumulating
- When the employees render service that increases their entitlement to future paid absences
- Non-accumulating
- When the absences occur

Profit-sharing and bonus plans: An entity shall recognise the expected cost of profit-sharing and bonus payments, only when:

(i) the entity has a present legal or constructive obligation to make such payments as a result of past events; and

(ii) a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

12. Balance Sheet of TMC Co. Ltd. as at 30th April, 20X1 (after demerger)

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	8,00,000
(b) Reserves and Surplus	2	20,54,000
(2) **Non-Current Liabilities**		
Long-term borrowings	3	5,00,000
(3) **Current Liabilities**		
Trade payables		1,50,000
Total		35,04,000

II. Assets		
(1) Non-current assets		
Property, Plant and Equipment		
Tangible assets	4	14,60,000
(2) Current assets		
(a) Trade receivables (8,00,000-2,00,000)		6,00,000
(b) Current investment		9,50,000
(c) Cash and cash equivalents (W.N.2)		4,94,000
Total		35,04,000

Notes to Accounts

		₹	₹
1.	Share Capital		
	Authorised share capital:		
	10,000 Equity shares of ₹ 100 each		10,00,000
	Issued share capital:		
	8,000 Equity shares of ₹ 100 each		8,00,000
2.	Reserves and surplus		
	Revaluation reserve (W.N.6)	5,00,000	
	General reserve	5,00,000	
	Capital reserve (W.N.3)	11,00,000	
	Securities Premium	4,00,000	
	Profit and Loss Account (W.N.1)	(4,46,000)	20,54,000
3.	Long-term Borrowings		
	Secured borrowings		
	11% Debentures secured against the assets of the Company		5,00,000
4.	Tangible Assets		
	Plant & Machinery at depreciated value (8,60,000 - 4,00,000)	4,60,000	
	Land (W.N.6)	10,00,000	14,60,000

Working Notes:

1. **Computation of Profit and Loss Account as on 30th April, 20X1**

		₹
Balance as on 31st March, 20X1		3,60,000
Add: Profit earned during the month of April, 20X1 (W.N.4)		1,44,000
		5,04,000
Less: Expenses on sale of department (share of TMC Ltd.) (₹ 8,00,000 x 50%)	4,00,000	
Patents, trademarks and copyrights written off (W.N.5)	2,50,000	
Diminution in the value of investment (W.N.7)	2,50,000	
Loss due to foreign exchange translation difference (W.N.8)	50,000	(9,50,000)
		(4,46,000)

2. **Cash and bank**

		₹
Cash received from Overseas buyer on 30th April, 20X1 (£ 10,000 x ₹ 75)		7,50,000
Add: Cash reimbursed by Overseas buyer (₹ 8,00,000x50%)		4,00,000
Cash profit earned during the month of April, 20X1 by TMC Co. Ltd. (See Note)		2,40,000
		13,90,000
Less: Expenses on sale of department to overseas buyer	8,00,000	
Share of profit (for April, 20X1) paid to Overseas buyer (W.N.4)	96,000	(8,96,000)
		4,94,000

3. **Calculation of gain on sale of department and discharge of purchase consideration**

	₹
Purchase consideration	20,00,000

Less: Net assets sold	(9,00,000)
Gain on sale of department transferred to capital reserve	11,00,000
Purchase consideration	20,00,000
Less: Discharged by issue of Overseas Buyer's Equity shares of ₹ 10,00,000 at 20% premium	(12,00,000)
Balance discharged in cash i.e. (8,00,000/80) = £ 10,000	8,00,000

4. **Profit earned during the month of April, 20X1**

	₹
Total profit earned by TMC Co. Ltd. during the month of April, 20X1	2,40,000
Less: 40% Profit of the sold department	(96,000)
Profit of TMC Co. Ltd. on the retained department	1,44,000

5. **Patents, trademarks and copyrights written off**

	₹
Patents, trademarks and copyrights as per balance sheet of TMC Ltd.	6,00,000
Less: Patents, trademarks and copyrights taken over by Overseas buyer	(3,50,000)
Patents, trademarks and copyrights written off (charged to Profit and Loss Account)	2,50,000

6. **Land**

	₹
Land as per balance sheet of TMC Ltd.	7,00,000
Less: Land taken over by Overseas buyer	(2,00,000)
Book value of land retained by TMC Ltd.	5,00,000
Revalued value (200% of book value)	10,00,000
Revaluation reserve (10,00,000-5,00,000)	5,00,000

7. **Diminution in the market value of equity shares of Overseas Buyer**

	₹
Nominal value of shares	10,00,000
Issued at 20% Premium	12,00,000

Market value of shares on 30th April, 20X1 is 95% of nominal value (10,00,000 x 95%)	(9,50,000)
Diminution charged to Profit and Loss Account	2,50,000

8. Loss due to foreign exchange translation difference

	₹
Cash payment by overseas buyer £ 10,000 due on 31st March, 20X1 @ ₹ 80 per £	8,00,000
Exchange rate on 30th April, 20X1 is ₹ 75 per £	
Less: Amount remitted in Indian Currency (£ 10,000 x ₹ 75)	(7,50,000)
Loss on foreign exchange translation transferred to Profit and Loss Account	50,000

13. Consolidated Balance Sheet as on 31.3.20X5

Particulars	*Note No.*	*(₹ in lakh)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,000
(b) Reserves and Surplus	2	2,238
(2) Current Liabilities	3	950
Total		4,188
II. Assets		
(1) Non-current assets		
Property, Plant and Equipment	4	1,060
Non-current investment (Investment in Associate Shaurya Ltd.)	5	388
(2) Current assets	6	2,740
Total		4,188

Notes to Accounts

			₹ in lakh
1.	**Share Capital**		
	100 lakh Equity shares of ₹ 10 each fully paid up		1,000
2.	**Consolidated Reserves and Surplus as on 31.3.20X5**		
	Balance of Reserves and surplus of Awasthi Ltd. as on 31.3.20X5	1,240	

	Add: Post-acquisition reserves and surplus of Jawala Ltd. (subsidiary)	910	
	Profit accumulated over the years on investment of Awasthi Ltd. (304-300)	4	
	Post-acquisition reserves and surplus of Shaurya Ltd. (640-400) x 40%	96	
	Less: Goodwill amortised for the period (24/2)	(12)	2,238
3.	**Current Liabilities**		
	Awasthi Ltd.	460	
	Jawala Ltd.	490	950
4.	**Property, Plant and Equipment**		
	Awasthi Ltd.	640	
	Jawala Ltd.	420	1,060
5.	**Non-current investment (Investment in Associate Shaurya Ltd.)**		
	Carrying amount of Investment in Associate. [W.N.2]	304	
	(Identified goodwill included in the above ₹ 24 lakh) [W.N.3]		
	Add: Increase in reserves and surplus during the year (640-400) x 40%	96	
	Less: Goodwill written off in the fourth year (₹ 24 lakh x ½)	(12)	388
6.	**Current assets**		
	Awasthi Ltd.	1,260	
	Jawala Ltd.	1,480	2,740

Working Notes:

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

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

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

	₹ in lakh
Net Assets of Shaurya Ltd. on the date of disposal	700
Less: Minority's interest in Shaurya Ltd. on the date of disposal (700 x 20%)	(140)
Share of Awasthi Ltd. in Net Assets	560
Add: Carrying value of Goodwill (Refer W.N.1)	48
Total value of investment in Shaurya Ltd. as on 1.4.20X4	608
Less: Carrying Value of investment disposed off [₹ 608 lakh x (12 lakh / 24 lakh)]	(304)
Carrying Value of investment retained by Awasthi Ltd.	304

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

	₹ in lakh
Carrying value of retained 40% holdings in Shaurya Ltd. as on 1st April, 20X4	304
Less: Share in value of equity of Shaurya Ltd., as at date of investment when its subsidiary relationship is transformed to an associate (700 x 40%)	(280)
Goodwill arising on such investment under Equity method as per AS 23	(24)

14. Equal instalments for each year will be:

Present Value Annuity factor @ 6% for 4 years = 3.465 (to be calculated by the candidates)

Equated annual instalment will be 12,00,000 / 3.465 = ₹ 3,46,320

(i) Calculation of initial recognition amount of loan to employees

Year end 31st March (a)	*Total ₹ (b)*	*P.V. factor@10% (c)*	*Present value ₹ (b) x (c) = (d)*
20X2	3,46,320	0.909	3,14,805
20X3	3,46,320	0.827	2,86,407
20X4	3,46,320	0.751	2,60,086
20X5	3,46,320	0.683	2,36,537
			10,97,835

(ii) Calculation of amortised cost of loan to employees

Year ended 31st March	*Amortised cost (Opening balance) [1] ₹*	*Interest to be recognized @10% [2] ₹*	*Repayment (including interest) [3] ₹*	*Amortised Cost (Closing balance) [4]=[1]+ [2]–[3] ₹*
20X2	10,97,835	1,09,784	3,46,320	8,61,299
20X3	8,61,299	86,130	3,46,320	6,01,109
20X4	6,01,109	60,111	3,46,320	3,14,900
20X5	3,14,900	31,420*	3,46,320	Nil

*₹ 3,14,900x 10% = ₹ 31,490. The difference of ₹ 70 (₹ 31,490 – ₹ 31,420) is due to approximation in computation and discounting factor.

(iii) Journal Entries in the books of Sagar Ltd.

For the year ended 31st March, 20X2 (regarding loan to employees)

		Dr. (₹)	*Cr. (₹)*
Staff loan A/c	Dr.	12,00,000	
To Bank A/c			12,00,000
(Being the disbursement of loans to staff)			
Staff cost A/c* ₹ (12,00,000 –10,97,835) [Refer part (i)]	Dr.	1,02,165	
To Staff loan A/c			1,02,165
(Being the difference debited as staff cost to write off the excess of loan balance over present value in order to reflect the loan at its present value of ₹ 10,97,835)			
Staff loan A/c	Dr.	1,09,784	
To Interest on staff loan A/c			1,09,784
(Being the charge of interest @ market rate of 10% on the loan)			
Bank A/c	Dr.	3,46,320	
To Staff loan A/c			3,46,320
(Being the repayment of first instalment with interest for the year)			

Interest on staff loan A/c Dr.	1,09,784	
To Profit and Loss A/c		1,09,784
(Being transfer of balance of staff loan Interest account to profit and loss account)		

* Where the difference between the amount given by the Company to its employees and its fair value represents another asset, then such asset shall be recognised. Accordingly, such difference is recognised as prepaid employee cost and amortised over the period of loan.

15. Journal Entries in the books of NCR Ltd.

			₹	₹
1.3.X2	Bank A/c (1,02,500 x ₹ 60)	Dr.	61,50,000	
to 31.3.X2	Employee compensation expense A/c (1,02,500 x ₹90)	Dr.	92,25,000	
	To Equity share capital A/c (1,02,500 x ₹10)			10,25,000
	To Securities premium A/c (1,02,500 x ₹140)			1,43,50,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.X2	Profit and Loss A/c	Dr.	92,25,000	
	To Employee compensation expense A/c			92,25,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)			

16. The Seventh Schedule of SEBI (Mutual funds) Regulations, 1996 states that a mutual fund scheme shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the scheme. All such investments shall be made with the prior approval of the Board of Trustees and the Board of Asset Management Company.

It also states that a mutual fund scheme shall not invest more than 10% of its NAV in debt instruments issued by a single issuer which are rated not below investment grade by an authorized credit rating agency. Such investment limit may be extended to 12% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of Asset Management Company.

Accordingly, if the debts instruments of Zama Ltd. are unrated then Mutual Fund Asset Management Company (AMC) cannot invest more than 10% of its NAV in those instruments. If the debts instruments of Zama Ltd. are rated, even then, Mutual Fund Asset Management Company cannot invest more than 12% of its NAV in those instruments. Therefore, investment of 25% of its NAV of the scheme in debts instrument of Zama Ltd. by Mutual Fund Asset Management Company is not permissible as per the SEBI (Mutual Fund) Regulations, 1996.

17. Capital Employed at the end of each year

₹ in thousand

	31.3.20X1 ₹	*31.3.20X2* ₹	*31.3.20X3* ₹
Goodwill*	1,000	800	600
Building and Machinery (Revaluation)	1,800	2,000	2,200
Inventory (Revalued)	1,200	1,400	1,600
Trade Receivables	20	160	440
Bank Balance	120	200	400
Total Assets	4,140	4,560	5,240
Less: Trade Payables	(600)	(800)	(1,000)
Closing Capital	3,540	3,760	4,240
Add: Opening Capital	3,660	3,540	3,760
Total	7,200	7,300	8,000
Average Capital	3,600	3,650	4,000

*Since the goodwill has been purchased, it is taken as a part of Capital employed.

Valuation of Goodwill

(i) Future Maintainable Profit	31.3.20X1	31.3.20X2	31.3.20X3
Net Profit as given	420	620	820
Less: Opening Balance	(120)	(140)	(160)
Adjustment for Valuation of Opening Inventory	-	(200)	(200)
Add: Adjustment for Valuation of closing inventory	200	200	200

Goodwill written off	-	200	200
Transferred to General Reserve	200	200	200
Future Maintainable Profit	700	880	1060
Less: 12.50% Normal Return	(450)	(456.25)	(500)
(ii) Super Profit	250	423.75	560

(iii) **Average Super Profit =** ₹ (250 + 423.75 + 560) ÷ 3 = ₹ 411.25 (thousand).

(iv) **Value of Goodwill** at five years' purchase= Rs 411.25 × 5 = ₹ 2056.25 (thousand).

18. 1. Calculation of Target index

	(₹ in thousands)				
Year	20X1	20X2	20X3	20X4	20X5
Employees cost	1,300	1,520	1,680	1,968	2,240
Value added	3,040	3,600	4,200	4,800	5,600
Percentage of 'Employee cost' to 'Value added'	42.76%	42.22%	40%	41%	40%

Target index percentage is taken as least of the above from the employer's viewpoint i.e. 40%.

2. Value Added Statement for the year 20X5-20X6

	(₹ in thousands)	*(₹ in thousands)*
Sales		13,600
Less: Cost of bought in goods & services		
Materials consumed	5,000	
Other manufacturing expenses	1,400	
Administrative expenses	600	
Selling expenses	400	(7,400)
		6,200
Add: Miscellaneous income		500
Dividends and interest		500
Value Added		7,200

3. Employee cost for 20X5-20X6

	(₹ in thousands)
Wages and salaries	1,800
Administrative salaries	600

Selling and distribution salaries	120
	2,520

4. Calculation of target employee cost = Target Index Percentage x Value added

= 40% x ₹ 7,200 thousands = ₹ 2,880 thousands

5. Calculation of savings

Target employee cost	=	₹ 2,880 thousands
Less: Actual Cost	=	(₹ 2,520 thousands)
Saving	=	₹ 360 thousands

6. Calculation of Bonus payable for the year 20X5-20X6:

2/3 of savings is Bonus Payable = ₹ 360 thousands x 2/3 = ₹ 240 thousands.

19. E.V.A. = NOPAT – COCE

NOPAT = Net Operating Profit after Tax

COCE = Cost of Capital Employed

COCE = Weighted Average Cost of Capital × Average Capital Employed

= WACC × Capital Employed

Debt Capital		₹ 2,000 crores
Equity capital (500 + 7,500)	=	₹ 8,000 crores
Capital employed	=	₹ 2,000+ ₹ 8,000 = ₹ 10,000 crores
Debt to capital employed	=	$\frac{2,000}{10,000}=0.20$
Equity to Capital employed	=	$\frac{8,000}{10,000}=0.80$
Debt cost before Tax		12%
Less: Tax (30% of 12%)		(3.6%)
Debt cost after Tax		8.4%

According to Capital Asset Pricing Model (CAPM)

Cost of Equity Capital = Risk Free Rate + Beta × Equity Risk Premium

Or

= Risk Free Rate + Beta (Market Rate – Risk Free Rate)

= 9 + 1.05 × (19-9)

= 9 + 1.05 × 10 = 19.5%

WACC = Equity to CE x Cost of Equity capital + Debt to CE x Cost of debt

= $0.8\times 19.5\% + 0.20\times 8.40\%$

= 15.60% + 1.68% = 17.28%

COCE = WACC × Capital employed

= 17.28% × ₹ 10,000 crores = ₹ 1728 crores

E.V.A. = NOPAT – COCE

= ₹ 2,100 – ₹ 1,728 = ₹ 372 crores

20. According to Lev and Schwartz, the value of human capital embodied in a person of age is the present value of his remaining future earnings from employment. Their valuation model for a discrete income stream is given by the following formula:

$$V = \sum_{t=\tau}^{t} \frac{I(t)}{(1+r)^{t-\tau}}$$

Where,

V = the human capital value of a person for ...... years old

I(t) = the person's annual earnings up to retirement.

r = a discount rate specific to the person.

t = retirement age.

Value of skilled employees:

$$= \frac{50,000}{(1+0.15)^{(65-62)}} + \frac{50,000}{(1+0.15)^{(65-63)}} + \frac{50,000}{(1+0.15)^{(65-64)}}$$

= ₹ 32,875.81 + ₹ 37,807.18 + ₹ 43,478.26 = ₹ 1,14,161.25

Total value of skilled employees is ₹ 1,14,161.25 × 20 = ₹ 22,83,225

Value of unskilled employees

$$= \frac{30,000}{(1+0.15)^{(62-60)}} + \frac{30,000}{(1+0.15)^{(62-61)}} = \frac{30,000}{(1+0.15)^{2}} + \frac{30,000}{(1+0.15)}$$

= ₹ 22,684.31 + ₹ 26,086.96 = ₹ 48,771.27

Total value of the unskilled employees = ₹ 48,771.27× 25 = ₹ 12,19,282

Total value of human resources (skilled and unskilled) = ₹ 22,83,225 + ₹ 12,19,282

= ₹ 35,02,507.