AVINASH LALA CLASSES

CMA INTER

CORPORATE ACCOUTNING

Ind AS Marathon

BY: CA. AVINASH LALA

Ind AS-2: INVENTORIES

Question-1

The following particulars are presented by M Ltd. (deals in clothing) as on 31.3.2021:

Compute the value of stock as per Ind AS 2.

Stock held by M Ltd.:

Cost Price ₹ 10,550

Net Realisable Value ₹ 11,500

The details of such stocks were:

Particulars	Cost Price (₹)	Net Realizable Value (₹)
Cotton	5,600	4,960
Woolen	3,450	4,540
Synthetic	1,500	2,000
Total	10,550	11,500

Solution

Valuation of Inventory as per Ind AS 2

As per Ind AS 2, inventories are usually valued at lower of cost and net realisable value on an item-by-item basis.

	Cost Price (₹)	Net Realizable Value (₹)	Value of Closing Stock (₹)
Cotton	5,600	4,960	4,960
Woolen	3,450	4,540	3,450
Synthetic	1,500	2,000	1,500
	10,550	11,500	9,910

Hence, value of stock will be considered for ₹ 9,910 as per Ind AS 2.

Question-2

Sonar Bhandar deals in old colour TVs. It has 4 TVs the particulars of which are given below:

You are asked to compute the value of inventory to be included, in Balance Sheet for the year ended 31st March 2021.

TVs	Onida (₹)	Philips (₹)	EC (₹)	Sony (₹)	Total (₹)
Cost Price	10,000	20,000	35,000	50,000	1,15,000
Expenses incurred to bring into salable conditions	3,000	2,000	5,000	-	10,000
Net Realizable Value	18,000	30,000	36,000	55,000	1,39,000

Solution

As per Ind AS 2, Inventories, inventories should be valued at the lower of cost or net realisable value on an item-by-item basis, which are:

TVs	Onida (₹)	Philips (₹)	EC (₹)	Sony (₹)	Total (₹)
Cost Price (including expenses)	13,000	22,000	40,000	50,000	1,25,000
Net Realizable Value	18,000	30,000	36,000	55,000	1,39,000
Value of Stock	13,000	22,000	36,000	50,000	1,21,000

Value of inventory to be included in Balance Sheet will be ₹1,21,000.

Question-3

The total stock of A Ltd. as on 31.3.2021 was ₹5,00,000 of which stock amounting to ₹31,000 were not ascertained as per Ind AS 2.

Compute the value of the said stocks as per Ind AS 2 for inclusion in financial statements as on that date.

Type of Product	Cost of Materials (₹)	Production Expenses incurred (₹)	Selling and Distribution expense to be incurred (₹)	Estimated Selling Price (₹)
P	10,000	2,000	1,000	15,000
S	5,000	---	500	4,500
T	12,000	3,000	2,000	18,000
	27,000	5,000	3,500	37,500

Solution

As per Ind AS 2, inventories are usually written-down to net realisable value on item-by-item basis. Thus, value of stock will be computed as:

Type of Product	Cost Price (including Production Exp.) (₹)	Net Realizable Value (excluding Selling & Distribution Expenses from Selling Price) (₹)	Value of Stock to be taken (lower of Cost Price & Net Realizable Value) (₹)
P	12,000 (10,000 + 2,000)	14,000 (15,000 – 1,000)	12,000
S	5,000	4,000 (4,500 – 500)	4,000
T	15,000 (12,000 + 3,000)	16,000 (18,000 – 2,000)	15,000
			31,000

So, Value of Stock will be ₹31,000 for inclusion in financial statements as per Ind AS 2.

Question-4

At the end of its financial year, Company P has 100 units of inventory on hand recorded at a carrying amount of ₹ 10 per unit. The current market price is ₹ 8 per unit at which these units can be sold. Company P has a firm sales contract with Company Q to sell 60 units at ₹ 11 per unit, which cannot be settled net. Estimated incremental selling cost is ₹ 1 per unit.

Compute Net Realisable Value (NRV) of the inventory of Company P.

Question-5

Calculate the value of Work in progress at the end of the year from the following information

	Amount (₹)
Cost of Material	1,00,000
Conversion cost incurred till date	50,000
Further estimated cost to complete the goods	30,000

Net Realisable Value of the finished goods is ₹ 1,70,000.

Question-6

AB Ltd. has finished goods costing ₹ 3,00,000 whose Net Realisable Value is-

Case -a: ₹ 3,14,000

Case -b: ₹ 3,00,000

Case -c: ₹ 2,89,000

Raw Material also is in stock. Cost Price is ₹ 2,10,000. Replacement Price is ₹ 1,90,000.

Calculate the value of Inventories.

Question-7

Cost of Production of product M is given below:

Material per unit ₹ 120

Wages per unit ₹ 80

Overhead per unit ₹ 50

As on the balance sheet date, the replacement cost of raw material is ₹ 105 per unit. There were 2000 units of raw material on 31.03.2021.

Calculate the value of closing stock of raw material in following conditions:

i. If finished product is sold at the rate of ₹270 per unit, what will be value of closing stock of raw material?
ii. If finished product is sold at the rate of ₹ 235 per unit, what will be value of closing stock of raw material?

Question-8

X Ltd. presented the following particulars as on 31.3.2021 on the total cost of product:

Particulars	Cost per unit (₹)
Cost of materials (₹12 each)	50
Manufacturing inputs	30
Total Cost	80
Profit	20
Selling Price	100

On 31.3.2021, selling price has gone down suddenly from ₹ 100 to ₹ 70. Price of raw material has also gone down to ₹ 8 each. X Ltd. had in its stock 6,000, units of materials which was bought as per the above rate on the same date. Compute the value of stock as on 31.03.2021.

Solution

As per Ind AS 2, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value, the materials are written-down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value. In this case, the total cost of ₹80 exceeds the net realisable value, i.e., selling price, of ₹70 (as the price of raw materials had gone down from ₹12 to ₹8). So, inventories should be valued @ ₹70 each and, as such, the total value of stock would be ₹4,20,000 (i.e., 6,000 units x ₹70).

Question-9

Sharp Trading Inc. purchases motorcycles from various countries and exports them to Europe. Sharp Trading has incurred these expenses during 2023:

a. Cost of purchases (based on vendors' invoices) ₹ 5,00,000
b. Trade discounts on purchases ₹ 10,000
c. Import duties ₹ 200
d. Freight and insurance on purchases ₹ 250
e. Other handling costs relating to imports ₹ 100
f. Salaries of accounting department ₹ 15,000
g. Brokerage commission payable to indenting agents for arranging imports ₹ 300
h. Sales commission payable to sales agents ₹ 150
i. After-sales warranty costs ₹ 600

Advise as if which of the above item is to be included in the cost of inventory and wants you to calculate cost of inventory as per Ind AS 2.

Solution

Items (a), (b), (c), (d), (e), and (g) are permitted to be included in the cost of inventory since these elements contribute to cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition, as per Ind AS 2

Statement showing cost of inventory

	Amount (₹)
Cost of purchases (based on vendors' invoices)	5,00,000
Trade discounts on purchases	(10,000)
Import duties	200
Freight and insurance on purchases	250
Other handling costs relating to imports	100
Brokerage commission payable to indenting agents for arranging imports	300
Cost of inventory under Ind AS 2	4,90,850

Note: Salaries of accounting department, sales commission, and after-sales warranty costs are not considered as part of cost of inventory under Ind AS 2.

Question-10

ABC Ltd. produced 20,00,000 units of product A during the year 2020-21 per unit cost is as follows:

Raw Material ₹ 100

Direct wages ₹ 50

Direct Expenses ₹ 2

Production overhead is ₹ 40,00,000 of which 40% is fixed. The company sold 16,00,000 units and 4,00,000 units were in stock as on 31/3/2021. Normal capacity is 10,00,000 units. Calculate the value of closing stock.

Question-11

State with reference to accounting standards how will you value the inventories in the following cases:

i. Raw materials were purchased at ₹100 per kg. Prices of raw materials are on the decline. The finished goods in which the raw materials is incorporated is expected to be sold at below cost. 10,000 Kgs. of raw materials is on stock at the year end. Replacement cost is ₹80 per kg.

ii. In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is ₹1,000. The entire quantity of waste is on stock at the year-end.

iii. Per kg of finished goods consisted of:

	Amount (₹)
Material Cost	100
Direct Labour	20
Direct Variable Production Overhead	10

Fixed production charges for the year on normal capacity of one lakh kg is ₹10 lakhs. 2,000 kg of finished goods are on stock at the year end.

Solution

i. As per Ind AS 2, materials and other supplies held for use in the production of inventories are not written- down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value, the materials are written down to net realisable value.

In this case, cost of raw material was ₹100 per kg. But the finished goods (which are produced from the said raw materials) are expected to realise at below the Cost Price. So, the value of 10,000 kg of raw materials will be @ ₹80 per kg (i.e., on the basis of replacement cost) ₹8,00,000.

ii. As per Ind AS 2, in determining the cost of inventories it is appropriate to exclude abnormal amount of wasted materials, labour or other production expenses in the period in which they are incurred.

Input 5,000 MT; Normal loss 5% of 5,000 MT = 250 MT.

Wastage 300 MT;

Abnormal loss = 300 MT – 250 MT = 50 MT

Revised Cost of one MT of input after adjusting Normal Loss= (5,000 x 1,000)/4,750 = 1,052.6

So, cost of 250 MT should be included in the cost of finished goods. But the cost of entire abnormal wastage (i.e., 1,052.6 x ₹50) ₹52,630 should be charged against Profit and Loss of the company.

iii. As per Ind AS 2, the allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion is based on the normal capacity of the production facilities.

Thus, the cost of finished goods per kg will be:

Cost per kg = Direct Material + Direct Labour + Variable Production overhead + Fixed production overhead

= ₹100 + ₹20 + ₹10 + ₹10 = ₹140.

Note: Fixed Production overhead per kg = 10,00,000/1,00,000 = ₹10 per kg.

Therefore, value of closing stock of finished goods will be ₹2,80,000 (i.e., 2,000 kg x ₹140).

Question-12

From the following information presented by P Ltd. ascertain the value of stock to be included in Balance Sheet: Cost Price of certain stock amounted to ₹60,000; being obsolete, it can be used for production purposes after incurring ₹10,000 for modification. The same could be used as a raw material for an existing product, the purchase price for the same amounts to ₹40,000.

Solution

Cost price of the product (given) ₹60,000.

Net Realisable Value of the product = ₹40,000 – ₹10,000 = ₹30,000.

Inventories are valued at lower of Cost and Net Realisable value. Hence, ₹30,000 should be treated as the Value of Stock to be included in Balance Sheet.

Question-13

How will you deal with the following situation?

"A company deals in purchase and sale of timber and has included notional interest charges calculated (on the paid-up share capital and free reserves) in the value of stock of timber as at the Balance Sheet date as part of cost of holding the timber".

Solution

According to Ind AS 2, Inventories, interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are, therefore, usually not included in the cost of inventories. Hence, the valuation of closing stock of timber cannot be considered as it is not in conformity with Ind AS 2.

Question-14

Z Co. Ltd. purchased goods at the cost of ₹ 40 lakhs in October 2020. Till March 2021, 75% of the stocks were sold. The company wants to disclose closing stock at ₹10 lakhs. The expected sales value is ₹11 lakhs and a commission at 10% on sale is payable to the agent. What is the correct closing stock to be disclosed as at 31.3.2021?

Solution

The stand of the company to disclose the closing stock at ₹10 lakhs is not in line with Ind AS 2. As per Ind AS 2, inventory should be valued as per cost price or net realisable value, whichever is lower. In the given problem, cost price is ₹10 lakhs, but the net realisable value is ₹11,00,000 x 90% = ₹9,90,000. So, the value of closing inventory should be taken as ₹9,90,000 being the lower.

Question-15

How would you deal with the following in the annual accounts of a company for the year ended 31.3.2021?

"The company has to pay delayed cotton clearing charges over and above the negotiated price for asking delayed delivery of cotton from the supplier's godown. Up to 2019-20, the company has regularly included such charges in the valuation of closing stock. This being in the nature of interest the company has decided to exclude it from closing stock valuation for the year 2020-21. This would result into decrease in profit by ₹7.60 lakhs."

Solution

As per Ind AS 2, Inventories, interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are, therefore, usually not included in the cost of inventories. Thus, it becomes quite clear that delayed cotton clearing charges which were treated in the nature of interest must not be included while valuing closing stock as per the provision of Ind AS 2 and it is not in compliance with Ind AS 2 which was done up to 2019-20.

But from year 2020-21, the company decided to change the earlier view i.e. they decided to exclude the same from the valuation of closing stock which is, no doubt, in compliance with Ind AS 2.

As a result of change in accounting policy regarding valuation of stock, the profit was reduced by is. ₹7.60 lakhs which must be disclosed in the financial statement.

Question-16

In a manufacturing process of Mars Ltd, one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process are here under:

Item	Unit	Amount (₹)	Output	Closing Stock 31.03.2025
Raw material	14,500	1,50,000	MP1 - 5,000 units	250
Wages	-	90,000	MP2 - 4,000 units	100
Fixed overhead	-	65,000	BP- 2,000 units	
Variable overhead	-	50,000		

Average market price of MP1 and MP2 is ₹ 60 per unit and ₹ 50 per unit respectively, by-product is sold @ ₹ 20 per unit. There is a profit of ₹ 5,000 on sale of by-product after incurring separate processing charges of ₹ 8,000 and packing charges of ₹ 2,000, ₹ 5,000 was realised from sale of scrap.

Calculate the value of closing stock of MP1 and MP2 as on 31.03.2025.

Solution

As per Ind AS 2 'Inventories', most by-products as well as scrap or waste materials, by their nature, are immaterial. They are often measured at net realisable value and this value is deducted from the cost of the main product.

1. Calculation of NRV of By-product BP

Particulars	Amount (₹)
Selling price of by-product (2,000 units x 20 per unit)	40,000
Less: Separate processing charges of by- product BP	(8,000)
Packing charges	(2,000)

Net realisable value of by-product BP	30,000

2. Calculation of cost of conversion for allocation between joint products MP1 and MP2

Particulars		Amount (₹)
Raw material		1,50,000
Wages		90,000
Fixed overhead		65,000
Variable overhead		50,000
Less: NRV of by-product BP (See calculation 1)	30,000	
Sale value of scrap	5,000	(35,000)
Joint cost to be allocated between MP1 and MP2		3,20,000

3. Determination of "basis for allocation" and allocation of joint cost to MP1 and MP2

	MP I	MP 2
Output in units (a)	5,000	4,000
Sales price per unit (b)	60	50
Sales value (a x b)	3,00,000	2,00,000
Ratio of allocation	3	2
Joint cost of 3,20,000 allocated in the ratio of 3:2 (c)	1,92,000	1,28,000
Cost per unit [c/a]	38.4	32

4. Determination of value of closing stock of MP1 and MP2

Particulars	MP I	MP 2
Closing stock in units	250 units	100 units
Cost per unit	38.4	32
Value of closing stock	9,600	3,200

Question-17

On 31 March 2021, the inventory of ABC includes spare parts which it had been supplying to a number of different customers for some years. The cost of the spare parts was ₹ 10 million and based on retail prices at 31 March 2021, the expected selling price of the spare parts is ₹ 12 million. On 15 April 2021, due to market fluctuations, expected selling price of the spare parts in stock is reduced to ₹ 8 million. The estimated selling expense required to make the sales would ₹ 0.5 million. Financial statements were approved by the Board of Directors on 20th April 2021.

As at 31st March 2022, Directors noted that such inventory is still unsold and lying in the warehouse of the company. Directors believe that inventory is in a saleable condition and

active marketing would result in an immediate sale. Since the market conditions have improved, estimated selling price of inventory is ₹ 11 million and estimated selling expenses are same ₹ 0.5 million.

Determine the value inventory at the following dates:

a. 31st March 2021
b. 31st March 2022

Solution

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

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

As per para 33 of Ind AS 2, a new assessment is made of net realisable value in each subsequent period. It inter alia states that if there is increase in net realisable value because of changed economic circumstances, the amount of write down is reversed so that new carrying amount is the lower of the cost and the revised net realisable value. Accordingly, as at 31 March 2022, again inventory would be valued at cost or net realisable value whichever is lower. In the present case, cost is ₹ 10 million and net realisable value would be ₹ 10.5 million (i.e. expected selling price ₹ 11 million – estimated selling expense ₹ 0.5 million). Accordingly, inventory would be recorded at 10 million and inventory write down carried out in previous year for ₹ 2.5 million shall be reversed.

Ind AS-10: EVENTS AFTER REPORTING PERIOD

Question-1

X Ltd. finalized its accounts on 31.03.2021. However, the financial statements were approved by the Board on 20.05.2021. An accident occurred in the premises of X Ltd. on 30.05.2021 and properties worth ₹50 lakh has been lost. Will it be considered as an event after the reporting period as per the scope of Ind AS 10?

Solution

As per Ind AS 10, events occurring after the end of the reporting period but before the financial statements are approved by the BOD are not regarded as 'events after the reporting period'. Since the accident took place after the financial statements have been approved, the event should not be treated as events after the reporting period.

Question-2

A Ltd. closed its accounting year on 31/03/2021 and the accounts for that period were considered and approved by the board of directors on 20th May, 2021. The company was engaged in boring tunnels for metro railway. While doing the boring work on 01/06/2021 it hit an aquifer and as a result 18 building were damaged. It was estimated that there would be extra cost to the tune of ₹15 crores. You are required to state with reasons, how it would be dealt with in the financial statements for the year ended 31.03.2021.

Solution

Ind AS 10 defines 'events after the reporting date' are those 'significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors'. In this case the incidence, which was expected to push cost, became evident after the date of approval of the accounts. So that was not an 'event after the reporting date' as per Ind AS 10. However, this maybe mentioned in the Director's Report.

Question-3

While preparing its final accounts for the year ended 31st March, 2021, a company made a provision for doubtful debts @ 5% of its total debtors. In the last week of February 2021, a debtor for ₹20 lakh suffered heavy loss and subsequently became insolvent in April, 2021. Can the company provide the full loss out of the insolvency of the debtor in the final accounts for the year ended on 31.03.2021?

Solution

As per Ind AS 10, for 'events after the reporting date', if circumstances were existing on the balance sheet date, adjustments should be made in accounts. In the given case, circumstances were pre-existing and the event in April, 2021 only confirms the same. Hence, it is adjustable event. Hence, the company can provide the full loss out of the insolvency of the debtor in the final accounts for the year ended on 31.03.2021.

Question-4

The company has inventory of 100 finished cars on 31st March, 2022, which are having a cost of 4,00,000 each. On 30th April, 2022, as per the new government rules, higher road tax and penalties are to be paid by the buyers for such cars (which were already expected to come) and hence the selling price of a car has come down and the demand for such cars has dropped drastically. The selling price has come down to ₹ 3,00,000 each. The financial statements of the company for the year 2021-2022 are not yet approved. Should the company value its stock at 4,00,000 each or should it value at ₹ 3,00,000 each? Ignore estimated costs necessary to make the sale.

Solution

Events after the reporting period provide the evidence about the net realisable value of the cars at the end of the reporting period and, therefore, the amount of ₹ 3,00,000 should be considered for the valuation of stock.

Question-5

A case is going on between ABC Ltd., and GST department on claiming some exemption for the year 2021-2022. The court issued the order on 15th April, 2022 and rejected the claim of the company. Accordingly, the company is liable to pay additional tax. The financial statements of the company for the year 2021-2022 have been approved on 15th May, 2022. Should the company account for such tax in the year 2021-2022 or should it account for the same in the year 2022-2023?

Solution

An event after the reporting period is an adjusting event, if it provides evidence of a condition existing at the end of the reporting period. Here, this condition is satisfied. Court order received after the reporting period (but before the financial statements are approved) provides evidence of the liability existing at the end of the reporting period. Therefore, the event will be considered as an adjusting event and, accordingly, the amounts will be adjusted in financial statements for 2021-2022.

Question-6

B Ltd. supplies parts to a car manufacturer in respect of a particular model of car. On the reporting date, B Ltd. has a high level of inventory of parts due to low order levels. After the reporting date but before the date of approval of the financial statements, the car

manufacturer announces that the specific model will no longer be produced. There is no alternative market for the inventory. Should B Ltd. write-down of inventory to net realizable value and adjust the inventory reported on the reporting date?

Solution

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made. These estimates consider fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. This inventory should be written down to net realizable value, the high inventory levels indicated slow demand from the manufacturer. The post balance sheet announcement confirmed the over-supply at year end.

Question-7

Prior to the approval of the financial statements but subsequent to the balance sheet date, C Ltd. in trading difficulties obtained a valuation of its properties for the purpose of providing additional security to its bankers. C Ltd. is also considering selling certain properties to generate additional cash. The amount estimated by the valuer is materially lower than the carrying amount attributed to the properties at the balance sheet date based on the last impairment review carried out three years ago. How should this be reflected in the financial statements?

Solution

In the given scenario, the valuation provides sufficient evidence of impairment in value that had occurred prior to the balance sheet date. Thus, an impairment review should be carried out in accordance with IAS 36 and a provision to write down the properties would be regarded as an 'adjusting event' with the values attributed to the properties in the balance sheet being adjusted accordingly.

Question-8

The exchange differences arising on the translation of the bank overdraft since the balance sheet date exceed the profit for the period under review due to an adverse movement on the foreign exchange rate after year end. How should this be reflected in the financial statements?

Solution

Exchange rate changes are included in the list of non-adjusting post balance sheet events set out in Ind AS 10. Although the bank overdraft existed at the balance sheet date, the conditions that gave rise to the loss did not exist on that date. The exchange rate fluctuation occurred subsequent to the balance sheet date. Accordingly, in normal circumstances, the effect should not be adjusted in the financial statements. However, if the same is material, it should be disclosed by way of a note to the financial statements.

Question-9

AIR Aviation Co. Ltd. announced a restructuring programme in 2018 which was implemented in full in 2019. The workforce was adequately downsized and a number of non-profitable routes were suspended. However, in view of the still -difficult market environment, the high cost of aviation fuel and continuing declines in yields, the Board of Directors approved a further package of measures on January 31, 2020 under which the regional aircraft fleet will be reduced by at least 15 aircraft. This action is intended to reduce net annual cost by recurring ₹200 lakh. The actions will be taken over the next 15 months. The company is expecting a break-even in 2021.

Should the company prepare its financial statements on a going concern basis?

Solution

As per Ind AS 10, an entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the given situation, the company has no plan to discontinue its operation and rather expects to break-even in the near future after implementing the additional restructuring package to be executed in 15 months' time. Consequently, the company should prepare its financial statements were prepared on a going concern basis.

Question-10

On 31.08.2022 the BOD of M Ltd. proposed dividend of 10% for the year 2021-22. Financial Statement of 2021-22 are approved by the BOD on 30.09.2022.

Discuss the accounting treatment of the proposed dividend as per Ind AS-10.

Solution

Proposed dividends is an event occurring after the Balance Sheet date. The company does not have any liability to pay dividend on Balance Sheet date. The reason being dividend will be a liability to the company only when it is approved by the members of the Company in Annual General Meeting.

As there are no conditions existing on 31.03.2022 the subsequent proposal of dividend is not adjusting event hence the co. should not make a provision for the same.

As Per Ind. AS. proposed dividend should be disclosed in the notes to accounts separately.

Question-11

AB Ltd. declared Dividend on 01/02/2024 to its shareholders. Dividend can be paid in Cash ₹ 7,50,000 or Stock for 15,000 units having Fair Value of ₹ 50 per unit.

Probability for Cash Dividend is 55% and for Stock Dividend is 45%. Cost of Stock is ₹ 6,00,000.

On 31/03/2024, Fair Value of Stock increased by ₹ 3 Per Unit and probability for Stock Dividend is increased up to 60%.

On 30/04/2024, Dividend was distributed. 30 % opted for Cash and rest opted for stock. Fair Value on the date of distribution of Dividend Fair Value of Stock was ₹ 8,40,000.

Pass Journal Entries.

Solution

In the books of AB Ltd.

Journal Entries

Date	Particulars		L.F.	Amount (₹)	Amount (₹)
2024					
Feb. 1	Equity A/c	Dr.		7,50,000	
	To Dividend Payable A/c [(Cash = 7,50,000 x .55) + (Stock = 15,000 x 50 x .45)]				7,50,000
Mar. 31	Equity A/c	Dr.		27,000	
	To Dividend Payable A/c [(Cash = 7,50,000 x .4) + (Stock = 15,000 x 53 x .6)] – 7,50,000				27,000
April 30	Equity A/c	Dr.		36,000	
	To Dividend Payable A/c [(Cash = 7,50,000 x .3) + (Stock = 8,40,000 x .7)] – 7,77,000				36,000
April 30	Stock A/c	Dr.		1,68,000	
	To Statement of Profit and Loss A/c (8,40,000 x .7) – 6,00,000 x .7				1,68,000
April 30	Dividend Payable A/c	Dr.		8,13,000	
	To Bank A/c (7,50,000 x.3)				2,25,000
	To Stock A/c (8,40,000 x.7)				5,88,000

Ind AS-19: EMPLOYEE BENEFITS

Short Term Employee Benefits

Question-1

Mr. X is an employee of ABC Ltd. His annual salary is ₹15 lakh. The company follows a 300 working days policy. As per the policy of the company, Mr. X is entitled to a leave of 10 days for 2020-21. He, however, utilises 8 days leave. The unutilised leaves are not allowed to be carried forward but are settled by way of payment to the employee.

Compute the total employee benefit expenses of ABC Ltd. in respect of Mr. X.

Solution

Salary payable per day = ₹15,00,000 ÷ 300 = ₹5,000

Unutilised leaves = 10-8 = 2 days

Payment for Unutilised leaves = ₹ 5,000 x 2 = ₹10,000

Total expense to be recognised = ₹15,00,000 + ₹10,000 = ₹15,10,000.

Question-2

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

	Year 2023-2023	Year 2023-2024
Annual salary	30,00,000	30,00,000
No. of working days during the year	300 days	300 days
Leave allowed	10 days	10 days
Leave taken	7 days	13 days
Leave unutilized carried forward to next year	3 days	NIL

Case - A

Based on past experience, Infotech Ltd. assumes that Mr. Niranjan will avail the unutilized leaves of 3 days of 2022-2023 in 2023-2024.

Infotech Ltd. contends that it will record ₹ 30,00,000 as employee benefits expense in each of the years 2022-2023 and 2023-2024, stating that the leaves will, in any case, be utilized by 2023-2024.

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

Case - B

Based on past experience, Infotech Ltd. assumes that Mr. Niranjan will avail the unutilized leaves of 2 days of 2022-2023 in 2023-2024.

However, in 2023-2024, Mr. Niranjan availed in actual all 3 days of brought forward leave.

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

Solution

Case – A

Particulars	Year 2022-23	Year 2023-24
Annual Salary	30,00,000	30,00,000
No. of working days (A)	300 days	300 days
Leaves Allowed	10 days	10 days
Leaves Taken (B)	7 days	13 days
Therefore, number of days worked (A – B)	293 days	287 days
Expense proposed to be recognized by Infotech Ltd.	30,00,000	30,00,000

Based on the evaluation above, Mr. Niranjan has worked for 6 days more (293 days – 287 days) in 2022-2023 as compared to 2023-2024.

Since he has worked more in 2022-2023 as compared to 2023-2024, the accrual concept requires that the expenditure to be recognized in 2022-2023 should be more as compared to 2023-2024.

Thus, if Infotech Ltd. recognizes the same expenditure of 30,00,000 for each year, it would be in violation of the accrual concept

The expenditure to be recognized will be as under:

Particulars	Year 2022-23	Year 2023-24
Annual salary (A)	30,00,000	30,00,000
No. of working days (B)	300 days	300 days
Salary cost per day (A ÷ B)	10,000 per day	10,000 per day
No. of days worked (from above)	293 days	287 days
Expense to be recognised: **In 2022-2023:**30,00,000 + [10,000 per day x 3 days (leaves unutilized expected to be utilized subsequently)]	30,30,000	
In 2023-2024: 30,00,000 – [10,000 per day x 3 days (excess leave utilized in 2023- 2024)]		29,70,000

Journal Entry for 2022-2023

Employee Benefits Expense Account Dr.	30,30,000	
To Bank Account		30,00,000
To Provision for Leave Encashment		30,000

Journal Entry for 2023-2024

Employee Benefits Expense Account Dr.	29,70,000	
Provision for Leave Encashment Account Dr.	30,000	
To Bank Account		30,00,000

Case – B

The expenditure to be recognized will be as under:

Particulars	Year 2022-23	Year 2023-24
Annual salary (A)	30,00,000	30,00,000
No. of working days (B)	300 days	300 days
Salary cost per day (A ÷ B)	10,000 per day	10,000 per day
No. of days worked (from above)	293 days	287 days
Expense to be recognised: **In 2022-2023:**30,00,000 + [10,000 per day x 2 days (leaves unutilized expected to be utilized subsequently)]	30,20,000	
In 2023-2024: 30,00,000 – [10,000 per day x 3 days (excess leave utilized in 2023- 2024)] + 10,000 (additional expense due to change in accounting estimate)		29,80,000

The additional ₹ 10,000 booked as an expense in 2023-2024 represents a change in accounting estimate (i.e. as against the entity's estimation that 2 days of unutilized leave would be utilized subsequently, actually 3 days were utilized subsequently), for which a prospective effect needs to be given, in line with Para 36 of Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Journal Entry for 2022-2023

Employee Benefits Expense Account Dr.	30,20,000	
To Bank Account		30,00,000
To Provision for Leave Encashment		20,000

Journal Entry for 2023-2024

Employee Benefits Expense Account Dr.	29,80,000	
Provision for Leave Encashment Account Dr.	20,000	
To Bank Account		30,00,000

Question-3

A Ltd. has 100 employees. Each employee is entitled to 10 days sick leave each year. Unused sick leave is carried forward for one year. An employee avails the carried forward leave only if the current year's entitlement falls short of the leave he or she requires.

On December 31, 2020, the average unused sick leave is 2 days per employee. The management, based on experience, estimates that in the year 2021, only 10% of the employees will use one day from their carried forward leave and the rest of the employees will not require more than 10 days of leave. Average payment per employee per day is ₹100. How will you treat this?

Solution

In 2021, the firm will pay, in total, an additional (100 X 0.10 x 1) or 10 days of pay as a result of unused entitlement accumulated as at December 31, 2020.

If the average payment per employee per day is ₹100, the firm should provide for a liability of ₹1,000. Therefore, expense on salaries and wages to be recognized in the profit and loss account for the current year is the total of the amount paid or payable for the current year (2020) and ₹1,000. The ₹1,000 is the provision for the additional amount to be paid in 2021 as a result of unused entitlement accumulated as at December 31, 2020.

Question-4

A profit-sharing plan requires an entity to pay a specified proportion of its net profit for the year to employees who serve throughout the year. If no employee leaves during the year, the total profit-sharing payments for the year will be 5% of net profit. The entity estimates that some of the staff may leave during the year and therefore not entitled for profit sharing this will reduce the payment of profit-sharing plan from 5% to 4% of net profit. Advise the company.

Solution

The entity recognizes a liability and expense of 4% of net profit.

Note: An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognizes the cost of profit-sharing and bonus plans not as a distribution of net profit but as an expense. If profit-sharing and bonus payments are not due wholly within 12 months after the end of the period in which the employees render the related service, those payments are other long term employee benefits.

Question-5

Consider the following information:

No. of employees (same as the previous year) = 150

Employees' turnover rate = 6%

Bonus paid to each employee last year = ₹1,00,000

Increase in bonus rate due to inflation = 7% (as per company's regular practice)

Determine the liability and expense to be recognised.

Solution

Bonus payable for current year = ₹1,00,000 + 7% of ₹1,00,000 = ₹1,07,000

No. of employees in payroll = 150 – 6% of 150 = 141

Provision for bonus = ₹1,07,000 x 141 = ₹1,50,87,000

Accounting treatment:

Employee Benefits Expenses A/c……Dr. 1,50,87,000

To Provision for Bonus A/c 1,50,87,000

Note: Here, the company has a constructive obligation and not a legal obligation to increase the bonus.

Post Employment or Other Long Term Employee Benefits

Question-6

XP Ltd. has Gratuity scheme for its Scheme for its employees. Gratuity is payable after 5 Year of Services. Following are the details of Mr. Sahil an employee of XP Ltd.

Particulars	Details
Date of Joining	01-04-2020
Salary at the end of Year 2020-21 i.e., on 31-03-2021	₹ 40,000 p.m.
Gratuity amount will be 2 months' salary (last drawn) for each completed year of service.	
Salary increment	10%
Discounting Rate	12%

Pass Journal Entries in the books of XP Ltd. and also present extracts of Financial Statements for Year 2020-21 and 2021-22.

Solution

WN-1 Calculation of Defined Benefit Obligation on 31-03-2021

= (40,000 x 1.10 x 1.10 x 1.10 x 1.10) x 2 x 5

= 5,85,640

WN-2 Calculation of Current Service Cost

Allocated Benefit = 5,85,640 / 5

= 1,17,128

Current Service Cost for Several Years

Year	Allocated Benefit	Discounting factor	Present Value
2020-21	1,17,128	.6355	74,435

2021-22	1,17,128	.7118	83,372
2022-23	1,17,128	.7972	93,374
2023-24	1,17,128	.8928	1,04,572
2024-25	1,17,128	1	1,17,128

Journal Entries

Date	Particulars			Debit (₹)	Credit (₹)
31-03-2021	Current Service Cost A/c	Dr.		74,435	
	To Present Value of Defined Benefit Obligation, A/c				74,435
31-03-2022	Current Service Cost A/c	Dr.		83,372	
	To Present Value of Defined Benefit Obligation, A/c				83,372
31-03-2022	Interest Cost A/c	Dr.		8,932	
	To Present Value of Defined Benefit Obligation, A/c (74,435 x 12%)				8,932

Extracts of Statement of Profit and Loss

Employee Benefit Expenses

Year		Amount (₹)
2020-21	Current Service Cost	74,435
2021-22	Current Service Cost	83,372
	Interest Cost	8,932

Extracts of Balance Sheet

Long Term Provisions

Year		Amount (₹)
2020-21	Present Value of Defined Benefit Obligation	74,435
2021-22	Present Value of Defined Benefit Obligation	1,66,739

Liability Sheet

Year	Opening Liability	Interest	Current Service Cost	Closing Liability
2020-21	-	-	74,435	74,435
2021-22	74,435	8,932	83,372	1,66,739

2022-23	1,66,739	20,009	93,374	2,80,122
2023-24	2,80,122	33,615	1,04,572	4,18,309
2024-25	4,18,309	50,203	1,17,128	5,85,640

Question-7

The following information applies to a company's defined benefit pension plan for the year:

Particulars	Amount (₹)
FMV of plan assets (beginning of the year)	2,80,000
FMV of plan assets (end of the year)	3,90,000
Employer's contribution	85,000
Benefit paid	70,000

Calculate the actual return on plan assets.

Solution

Calculation of actual return on plan assets

Particulars	Amount (₹)	Amount (₹)
Change in plan assets (3,90,000 – 2,80,000)		1,10,000
Adjustments:		
Employer's contribution	85,000	
Less: Benefit paid	70,000	15,000
Actual return on plan assets		95,000

Question-8

Consider the following information provided by Y Ltd:

PV of defined contribution obligations = ₹ 15 lakh.

Fair value of plan assets = ₹ 14.12 lakh

How will you treat the above for presentation in the Balance Sheet?

Question-9

Consider the following information provided by Z Ltd:

PV of defined contribution obligations = ₹ 15 lakh.

Fair value of plan assets = ₹ 15.22 lakh

Asset ceiling = ₹ 0.19 lakh

Ind AS-33: EARNING PER SHARE

Question-1

The following information has been provided by A Ltd.

Paid up capital: 1,00,000 ordinary shares of ₹ 1.00 = ₹ 1,00,000

20,000, 10% Preference shares of ₹ 1.00 = ₹ 20,000

Gross Profit for the year ended on 31.03.2021 = ₹3,50,000

Other operating expenses = ₹ 1,00,000

Tax rate 30%

Determine profit or loss attributable to ordinary equity holders.

Solution

Calculation for profit or loss attributable to ordinary equity holders

Particulars	Amount (₹)
Gross Profit for the year ended on 31.03.2021	3,50,000
Less: Other operating expenses	1,00,000
Profit Before Tax (PBT)	2,50,000
Less: Tax @ 30%	75,000
Profit After Tax (PAT)	1,75,000
Less: Preference dividend (20,000 × 10%)	2,000
Profit or loss attributable to ordinary equity holders	1,73,000

Question-2

Calculate Basic earning per share from the following details

i. Earnings available for ordinary shares ₹ 7,50,000
ii. Opening Balance of Equity Shares as on 01/04/2023 – 40,000 Shares of ₹ 10 each
iii. Fresh issue of shares on 01/10/2023 – 20,000 Shares of ₹ 10 each

Question-3

01.04.2020 B Ltd. has 3600 ordinary shares outstanding. On 31.08.2021 it issued 1200 ordinary shares for cash. On 31.01.21 it bought back 600 ordinary shares. Calculate weighted average number of shares as on 31.03.21.

Solution

Computation of weighted average as per Ind AS-33

Weighted average number of ordinary shares

= (3600 × 5/12) + (4800 × 5/12) + (4200 × 2/12) = 4200 shares

The weighted average number of shares can alternatively be computed as follows:

= (3600 × 12/12) + (1200 × 7/12) - (600 × 2/12) = 4200 shares

Question-4

C Ltd. had 10,00,000 ordinary shares outstanding as on 01.04.2020. On 01.01.2021 it issued 2 ordinary shores bonus for each share outstanding on 31.12.2020, Profit for the year 2019-20 was ₹9,00,000. Profit for 2020-21 was ₹ 30,00,000.

Calculate Basic EPS the year 2020-21 and adjusted EPS for the year 2019-20.

Solution

Earnings per share for the year 2020-21 as per Ind AS-33

= 30,00,000/(10,00,000 + 20,00,000) = ₹ 1.00

Adjusted/Restated earnings per share for the year 2019-20

= 9,00,000/(10,00,000 + 20,00,000) = ₹ 0.30

Since the bonus issue is an issue without consideration the issue is treated as if it had occurred in the beginning of the year 2020-21, the earliest period reported.

Question-5

JK Ltd. provided following information

Particulars	Details
Earnings – 2022-23	₹ 6,75,000
2023-24	₹ 8,51,250
Opening balance of ordinary shares 01-04-2022	70,000 Shares
Fresh Issue of ordinary shares 01-10-2022	10,000 Shares
Fresh Issue of ordinary shares 01-06-2023	15,000 Shares
Bonus shares issued on 01-07-2023	1 Shars for 5 Shares held
Fresh Issue of ordinary shares 01-01-2024	10,000 Shares

Calculate basic earnings per share for both the years and adjusted basic earnings per share for 2022-23 also.

Solution

Earnings per share for the year 2022-23 as per Ind AS-33

Earnings = 6,75,000

Weighted Average Number of shares

= (70,000 x 6/12) + (70,000 + 10,000) x 6/12

= 75,000

Earnings Per Share

= 6,75,000/ 75,000

= ₹ 9

Earnings per share for the year 2023-24 as per Ind AS-33

Earnings = 6,75,000

Weighted Average Number of shares

= (80,000 x 1.2 x 2/12) + (95,000 x 1.2) x 7/12 + (95,000 x 1.2 + 10,000) x 3/12

= 1,13,500

Earnings Per Share

= 8,51,250/ 1,13,500

= ₹ 7.5

Bonus fraction

= (1+5)/ 5

= 1.2

Question-6

Y Ltd. supplied the following information:

Net Profit for 2019-20 = ₹ 10,00,000

Net Profit for 2020-21 = ₹ 15,00,000

No. of shares prior to right issue = 5,00,000

Terms of right issue:

1 new share for every 4 shares held on 01/04/2020;

Right issue price = ₹20

Fair value of 1 ordinary share immediately prior to exercise of right = ₹25

Calculate basic EPS.

Solution

Theoretical Ex-right fair value

$$= \frac{Number\ of\ Shares\ before\ right\ x\ Fair\ Value\ before\ right + Right\ share\ x\ Roght\ Price}{Total\ shares\ after\ Right}$$

$$= \frac{(5{,}00{,}000\ x\ 25) + (1{,}25{,}000\ x\ 20)}{5{,}00{,}000 + 1{,}25{,}000}$$

= 24

Right Factor

= Fair Value per share immediately prior to right issue / Theoritical ex-right fair value per share

= 25/24

= 1.04

Basic EPS for 2020-21 = 15,00,000/(5,00,000 × 1.04 × 3/12 + 6,25,000 × 9/12) = ₹2.50

Restated EPS for 2019-20 = 10,00,000/(5,00,000 × 1.04) = ₹1.92

Question-7

From the following information provided by P Ltd. Calculate Basic EPS and Diluted EPS as per Ind AS 33

Particulars	Amount (₹)
Net Profit for the year	₹ 12,50,00,000
Number of Equity Shares Outstanding	2,50,00,000
Number of 12% Convertible Debenture of ₹ 100 each (Each Debenture is convertible into 8 equity shares)	2,50,000
Interest Expenses for the year	₹ 30,00,000
Tax rate	30%

(Dec-23, 7 Marks)

Solution

1. Calculation of Basic earnings per share

$$= \frac{Earnings\ available\ for\ Ordinary\ Shareholders}{Weighted\ Average\ Number\ of\ Ordinary\ Shareholders}$$

= 12,50,00,000/2,50,00,000

= ₹5.00

2. Calculation of Diluted earnings per share

Number of 12% convertible debentures of ₹ 100 each = 2,50,000

Each debenture is convertible into 8 ordinary shares

Number of ordinary shares on conversion = 2,50,000 × 8 = 20,00,000

Interest expenses for the current year = 30,00,000

Tax relating to interest expense (30%) = 30,00,000 × 30% = ₹9,00,000

Adjusted net profit for the current year

= (12,50,00,000 + 30,00,000 – 9,00,000) = ₹ 12,71,00,000

Number of equity shares used to compute diluted earnings per share

= 2,50,00,000 + 20,00,000 = 2,70,00,000

Diluted earnings per share as per Ind AS-33

= 12,71,00,000/2,70,00,000 = ₹ 4.71

Question-8

M Ltd Equity Capital of ₹40 lakhs consisting of fully paid equity shares of ₹10 each. The net Profit for the year 2021-22 was ₹60 lakhs. It has also issued 36,000, 10% convertible debentures of ₹50 each. Each debenture is convertible into 5 equity shares. The tax rate applicable is 30%. Compute Basic EPS and Diluted EPS.

(MTP Dec-23, Set 1)

Solution

1. Calculation of Basic earnings per share

$$= \frac{Earnings\ available\ for\ Ordinary\ Shareholders}{Weighted\ Average\ Number\ of\ Ordinary\ Shareholders}$$

= 60,00,000/4,00,000

= ₹ 15

2. Calculation of Diluted earnings per share

Number of 10% convertible debentures of ₹ 100 each = 36,000

Int. Exp. that need not be paid after conversion 36,000 × ₹50 × 10% = ₹1,80,000

Income tax exp. (₹1,80,000 x 30%) = 54,000

Adjusted Net Profit to Equity Shareholders= ₹ 60,00,000 + ₹ 1,80,000- ₹ 54,000 = ₹ 61,26,000

No. of Equity Shares resulting from conversion of debentures = 36,000 Debentures x 5 = 1,80,000 Equity Shares

Total No. of Equity Shares after conversion = 4,00,000 + 1,80,000 = 5,80,000

Diluted EPS = 61,26,0000 / 5,80,000

= 10.56

Question-9

R Ltd. had 10,00,000 ordinary shares outstanding on 01.04.2020. Profit for 2020-21 was ₹48,00,000. Average fair value per share during 2020-21 was ₹ 20. R Ltd. has given share option to its employees of 2,00,000 shares at option price of ₹15. Calculate basic EPS and diluted EPS.

Solution

Profit for the year = ₹ 48,00,000

Weighted average number of shares = 10,00,000 Basic EPS = 48,00,000/10,00,000 = ₹4.80

No. of shares under option = 2,00,000

No. of shares that would have been issued at fair value = 2,00,000x15/20 = 1,50,000

Weighted average number of shares = 10,00,000+(2,00,000 – 1,50,000) = 10,50,000

Adjusted earnings = ₹ 48,00,000

Diluted EPS = 48,00,000/10,50,000 = ₹4.57

Question-10

Calculate Diluted EPS from the following information provided by XYZ Ltd.

Profit attributable to ordinary shareholders	₹ 20,00,000
Ordinary share outstanding	80,000
Basic EPS	₹ 25

There are the following potential ordinary shares:

(i)	Options	2,000 at Zero exercise price.
(ii)	8% Convertible Debentures	10,000 Debentures of ₹ 100 which will be Converted into 60,000 ordinary shares
(iii)	10% Convertible Preference Shares	₹ 4,00,000 Preference Shares which will be Converted into 20,000 ordinary shares

Tax rate is 35%.

Solution

Increase in Earnings Attributable to Ordinary Shareholders on Conversion of Potential Ordinary Shares

Potential Ordinary Shares	Incremental Earnings	Incremental Ordinary Shares	Incremental EPS
Options	Nil	2,000	Nil
8% Convertible Debentures	10,000 x 100 x 8% (1-.35) = 52,000	60,000	.87
10% Convertible Preference Shares	4,00,000 x 10% = 40,000	20,000	2

So, the order of dilutive instruments is as follows:

1. Options
2. 8% Convertible Debentures
3. 10% Convertible Preference Shares

Statement Showing Dilution Test

Sl. No.	Particulars	Profit Attributable	No. of Equity Shares	EPS	Nature (Dilutive/Anti-Dilutive)
	Reported (Basic EPS)	20,00,000	80,000	25	-
1.	Options	Nil	20,000	-	
	Total	20,00,000	1,00,000	20	Dilutive
2.	8% Convertible Debentures	52,000	60,000		
	Total	20,52,000	1,60,000	12.825	Dilutive
3.	Convertible preference shares	40,000	20,000		
	Total	20,92,000	1,80,000	11.62	Dilutive

Diluted EPS = 11.62

Question-11

The following information has been provided by S Ltd.

Profit attributable to ordinary shareholders	₹ 50,00,000
Ordinary share outstanding	20,00,000
Average market price per ordinary share during the year	₹ 75

There are the following potential ordinary shares:

(i)	Options	1,00,000 with exercise price of ₹60 per share
(ii)	Convertible preference shares	8,00,000, 8% shares of ₹100 each to be converted into two ordinary shares
(iii)	5% Convertible bonds	Face value of ₹ 10 crore. Each ₹ 1,000 bond is convertible into 20 ordinary shares

Tax rate is 40%.

Analyze with respect to the provisions under Ind AS 33, Earnings Per Share, the impact of the above conversions on EPS to determine the order of inclusion of dilutive instruments. Examine the dilutive/anti-dilutive nature of the above instruments while calculating the diluted EPS.

(MTP June-23 Set 1)

Solution

WN-1 Number of Potential Ordinary Shares in case of Option

= Total Option – (Proceed expected to be received / Average Fair Value)

= 1,00,000 – (1,00,000 x 60) / 75

= 1,00,000 – 80,000

= 20,000

Increase in Earnings Attributable to Ordinary Shareholders on Conversion of Potential Ordinary Shares

Potential Ordinary Shares	Incremental Earnings	Incremental Ordinary Shares	Incremental EPS
Options	Nil	20,000	Nil
Convertible preference shares	8,00,000 x 100 x 8% = 64,00,000	8,00,000 x 2 = 16,00,000	4
5% Convertible bonds	10,00,00,000 x 5% x (1-.4) = 30,00,000	(10,00,00,000/1,000) x 20 = 20,00,000	1.5

So, the order of dilutive instruments is as follows:

1. Options
2. 5% Convertible Bonds
3. Convertible Preference Shares

Statement Showing Dilution Test

Sl. No.	Particulars	Profit Attributable	No. of Equity Shares	EPS	Nature (Dilutive/Anti-Dilutive)
	Reported (Basic EPS)	50,00,000	20,00,000	2.50	-
1.	Options	Nil	20,000	-	
	Total	50,00,000	20,20,000	2.47	Dilutive
2.	5% Convertible bonds	30,00,000	20,00,000		
	Total	80,00,000	40,20,000	1.99	Dilutive
3.	Convertible preference shares	64,00,000	16,00,000		
	Total	1,44,00,000	56,20,000	2.56	Anit- Dilutive

Question-12

X Ltd. has 320 written put options outstanding on 320 of its ordinary shares, with an exercise price of ₹ 10 per option. The put obligation is therefore ₹3,200. The average market price of the entity's ordinary shares is ₹8 for the period. The company expects to issue 400 ordinary shares at ₹ 8 per share to raise the proceeds necessary to satisfy the put option. How will you treat the above?

Solution

The difference between the 400 ordinary shares assumed to be issued and the 320 ordinary shares that would have been received on exercise of the option (that is, 80 shares) is added to the denominator (number of shares) in calculating the diluted EPS. No adjustments are made to the numerator (profit attributable to ordinary) in calculating diluted EPS, the entity assumes that it issues.

Ind AS-37:

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Question-1

ABC Limited is an automobile component manufacturer. The automobile manufacturer has specified a delivery schedule, non-adherence to which will entail a penalty. As on 31st March, 2023, the reporting date, the manufacturer has a delivery scheduled for June 2024. However, the manufacturer is aware that he will not be able to meet the delivery schedule in June 2024.

Determine whether the entity has a present obligation as at 31st March, 2023, requiring recognition of provision.

Solution

In this case, there is no present obligation arising out of a past event as the goods are scheduled for delivery in June 2024 and there is no delay as at 31st March, 2023. Hence, there is no present obligation to pay the penalty in the current year. Therefore, there is no present obligation to recognise the provision.

Question-2

An entity sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in all products sold, repair costs of ₹ 1 lakh would result. If major defects were detected in all products sold, repair costs of ₹ 4 lakh would result. The entity's past experience and future expectations indicate that, for the coming year, 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major defects.

Calculate the amount to be provided.

Solution

The expected value of the provision for repairs is:

(75% × 0) + (20% × 100000) + (5% of 400000) = ₹ 40,000

Question-3

An entity has an obligation to restore an asset for the damage it has in the past. It has ₹20 lakh cash to pay on 31.03.2024 relating to this liability. The entity considers that 15% is an appropriate discount rate. the time value of money is considered material.

Calculate the amount to be provided on 31-03-2022.

Solution

PV of the provisions = ₹ 20 lakh/(1 + 0.15)2 = ₹ 15.12 lakh

Question-4

X Ltd. has become subject to an obligating event on 01.04.2020 for which the company is committed to expenditure of ₹5,00,000 at the end of 10 years. An appropriate discount rate is 10%. Show how the same is to be treated by X Ltd. (Show treatment up to 31.03.2022).

Solution

PV as on 01.04.2020 = ₹5,00,000/(1.10)10 = ₹1,92,772

PV as on 01.04.2021 = ₹5,00,000/(1.10)10 = ₹2,12,049; increase = ₹19,277

PV as on 01.04.2022 = ₹5,00,000/(1.10)10 = ₹2,33,254; increase = ₹21,205

On 01.04.2020		
Expense A/c ……Dr	1,92,772	
To Provision A/c		1,92,772
On 31.03.2021		
Interest (Expense) A/c Dr.	19,277	
To Provision A/c		19,277
On 31.03.2022		
Interest (Expense) A/c Dr.	21,205	
To Provision A/c		21,205

Note: Thus, every year interest @10% will be provided and interest will be written off to Profit and Loss A/c. At the end of the 10th year, the provision will become ₹ 5,00,000.

Question-5

X Beauty Solutions Ltd. is selling cosmetic products under its brand name 'B', but it is getting its product manufactured from Y Ltd. It has an understanding (enforceable agreement) with Y Ltd. that if the company becomes liable for any damage claims, due to any injury or harm to the customer of the cosmetic products, 30% will be reimbursed to it by Y Ltd. During the financial year 2023-2024, an estimate of the claim of 30,00,000 may be payable to customers by X Beauty Solutions Ltd. How should X Beauty Solutions Ltd. account for the claim that becomes payable?

Solution

Since the understanding results in an enforceable agreement, the reimbursement of ₹ 9,00,000 (30,00,000 x 30%) shall be recognised as a reimbursement right and provision will be recognised for ₹ 30,00,000. The reimbursement right shall be treated as a separate asset

and shall not be offset with the provision. In the statement of profit and loss, the expense may be presented as ₹ 21,00,000 after offsetting the reimbursement right.

Question-6

X Metals Ltd. had entered into a non-cancellable contract with Y Ltd. to purchase 10,000 units of raw material at ₹ 50 per unit at a contract price of ₹ 5,00,000. As per the terms of contract, X Metals Ltd. would have to pay ₹ 60,000 to exit the said contract. X Metals Ltd. has discontinued manufacturing the product that would use the said raw material. For that X Metals Ltd. has identified a third party to whom it can sell the said raw material at ₹ 45 per unit.

State how should X Metals Ltd. account for this transaction in its books of account in respect of the above contract?

Solution

These circumstances do indicate an onerous contract. The only benefit to be derived from the purchase contract costing ₹ 5,00,000 are the proceeds from the sale contact, which are ₹ 4,50,000. Therefore, a provision should be made for the onerous element of ₹ 50,000, being the lower of cost of fulfilling the contract and the penal cost of cancellation of ₹ 60,000.

Question-7

Entity XYZ entered into a contract to supply 1000 television sets for ₹ 2 million. An increase in the cost of inputs has resulted into an increase in the cost of sales to ₹ 2.5 million. The penalty for non- performance of the contract is expected to be ₹ 0.25 million.

Evaluate whether the contract is onerous and also determine the amount of provision to be made in this regard.

Solution

Ind AS 37 "Provisions, Contingent Liabilities and Contingent Assets" defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Ind AS 37 states that the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

In the instant case, cost of fulfilling the contract is ₹ 0.5 million (2.5 million – 2 million) and cost of exiting from the contract by paying penalty is ₹ 0.25 million.

In accordance with the above reproduced paragraph, it is an onerous contract as cost of meeting the contract exceeds the economic benefits.

Therefore, the provision should be recognised at the best estimate of the unavoidable cost, which is lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, i.e., at ₹ 0.25 million (lower of 0.25 million and 0.5 million).

Question-8

X Packaging Ltd. has two segments, packaging division and paper division. In March 2023, the board of directors approved and announced a formal plan to sell the paper division in June 2023. Operating losses of the paper division are estimated to be approximately ₹ 50,00,000 during the period from 1st April, 2023 to the expected date of disposal. Management of X Packaging Ltd. wants to include the future operating loss of ₹ 50,00,000 in a provision for restructuring in the financial statements for the period ended 31st March, 2023.

Recommend whether X Packaging Ltd. can include these operating losses in a provision for restructuring.

Solution

Standard states that provision should not be made for future operating losses. Since Ind AS 37 prohibits the recognition of future operating losses, so X Packaging Ltd. should not include these future operating losses in a provision for restructuring even though these losses relate to the disposal group.