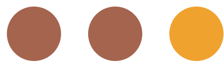


PAPER – 1: FINANCIAL REPORTING

Part I-Amendments applicable from May, 2026 examination

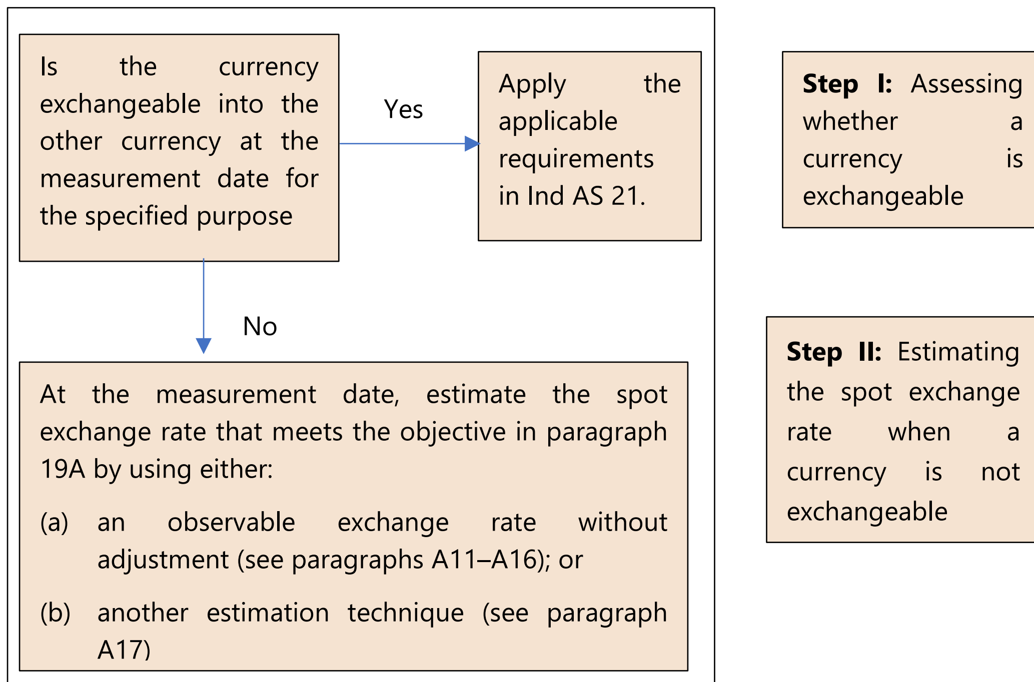
In the year 2025, MCA has issued amendments viz two notifications at two different dates to amend the Companies (Indian Accounting Standards) Rules, 2015. The first amendment of the year was vide notification G.S.R. 291(E) dated 7th May, 2025 and the second amendment of the year was vide notification G.S.R. 549(E) dated 13th August, 2025. These amendments are generally brought by MCA to keep uniformity between Ind AS and IFRS.

1. Amendment in Ind AS notification G.S.R. 291(E) dated 7th May, 2025

The Ministry of Corporate Affairs (MCA) issued the Companies (Indian Accounting Standards) Amendment Rules, 2025 on May 7, 2025, primarily amending Ind AS 21 regarding a "lack of exchangeability" for foreign currencies, effective for annual periods starting on or after April 1, 2025. These amendments align Ind AS 21 with IAS 21, guiding how to determine the spot rate when a currency cannot be exchanged into

Under Ind AS 21, The Effects of Changes in Foreign Exchange Rates, a company on initial recognition, uses a spot exchange rate when translating a foreign currency transaction at the date of the transaction. Additionally, Ind AS 21 requires the use of a spot exchange rate when an entity reports foreign operation's results and financial position in its financial statements. A spot exchange rate is the exchange rate for immediate delivery.

However, in rare circumstances, it is possible that one currency cannot be exchanged into another. This lack of exchangeability can have a significant accounting impact over affected companies.



In this regard, the Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) Amendment Rules, 2025, on May 7, 2025, amending Ind AS 21, The Effects of Changes in Foreign Exchange Rates. Effective for annual periods beginning on or after April 1, 2025, the amendments address the lack of exchangeability between two currencies by explaining

- when a currency is exchangeable,
- providing guidance on estimating spot rates, and
- enhancing disclosure requirements.

Key highlights of the Amendment in Ind AS 21

❖ **Definition of Exchangeability:** A currency is exchangeable into another when an entity can *obtain the other currency within a time frame allowing for normal administrative delay*, through a mechanism that *creates enforceable rights.*

- **Estimate Spot Rate:** If exchangeability is lacking, the entity must estimate the spot rate to translate transactions, ensuring it reflects an orderly transaction.
- **Two-Step Approach**

Two-step approach:

The following diagram is to help entities assess whether a currency is exchangeable and estimate the spot exchange rate when a currency is not exchangeable.

Step I: Assessing whether a currency is exchangeable

An entity might determine that currency PC is not exchangeable into currency LC, even though currency LC is exchangeable into currency PC.

Following key factors are required to be considered when determining that a currency is exchangeable:

1. **Time frame:** An exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public holidays. A normal administrative delay in obtaining the other currency does not preclude a currency from being exchangeable into that other currency. What constitutes a normal administrative delay depends on facts and circumstances.
2. **Ability to obtain the other currency:** In assessing whether a currency is exchangeable into another currency, an entity shall consider its ability to obtain the other currency, rather than its intention or decision to do so. A currency is exchangeable into another currency if an entity is able to obtain the other currency either directly or indirectly, even if it intends or decides not to do so. For example, regardless of whether the entity intends or decides to obtain PC, currency LC is exchangeable into currency PC if an entity is able to either exchange LC for PC, or exchange LC for another currency (FC) and then exchange FC for PC.
3. **Markets or exchange mechanisms:** In assessing whether a currency is exchangeable into another currency, an entity shall consider only markets or exchange mechanisms in which a transaction to exchange the

currency for the other currency would create enforceable rights and obligations. It depends on facts and circumstances.

4. **Purpose of obtaining the other currency:** Different exchange rates might be available for different uses of a currency. This could affect an entity's ability to obtain those currencies and thus, lead to lack of exchangeability. Hence, it would be important for an entity to consider the purpose for which it obtains the other currency.

5. **Ability to obtain only limited amounts of the other currency:** A currency is not exchangeable into another currency if an entity is able to obtain no more than an insignificant amount of the other currency. An entity shall assess the significance of the amount of the other currency it is able to obtain for a specified purpose by comparing that amount with the total amount of the other currency required for that purpose.

   For example, an entity with a functional currency of LC has liabilities denominated in currency FC. The entity assesses whether the total amount of FC it can obtain for the purpose of settling those liabilities is no more than an insignificant amount compared with the aggregated amount (the sum) of its liability balances denominated in FC.

Where a currency is exchangeable into another currency, then the existing principles of Ind AS 21 would be applied for translation of the foreign currency transaction. But, where a currency is not exchangeable, an entity has to apply Step II.

Step II: Estimating the spot exchange rate when a currency is not exchangeable

When a currency is not exchangeable, a company needs to estimate a spot rate. A company’s objective when estimating a spot rate is only that it reflects the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

To estimate a spot rate, a company should consider using:

1. An observable exchange rate without adjustment

A company can use an observable rate if that rate satisfies the estimation objective – i.e. the rate reflects the price at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

To assess whether the exchange rates reflect the prevailing economic conditions, following needs to be considered:

- Whether several observable exchange rates exist
- The purpose for which the currency is exchangeable
- The nature of the exchange rate; and
- The frequency with which exchange rates are updated

Examples of an observable exchange rate include:

- A spot exchange rate for a purpose other than that for which the company is assessing exchangeability.
- The first exchange rate at which a company is able to obtain the other currency for its specified purpose after exchangeability is restored. If a company opts to use this rate as an observable rate, then it would also need to consider
  - the time between the measurement date and the date at which exchangeability is restored,
  - inflation rates.

2. Using another estimation technique

When estimating a spot rate, the other alternative is that a company may use any observable exchange rate and adjust it as necessary. This includes using rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations- and adjust that rate, as necessary, to meet the estimation objective.

Disclosure when a currency is not exchangeable

An entity shall disclose:

(a) the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;

(b) a description of affected transactions;

(c) the carrying amount of affected assets and liabilities;

(d) the spot exchange rates used and whether those rates are:

i. observable exchange rates without adjustment (see paragraphs A12–A16); or

ii. spot exchange rates estimated using another estimation technique (see paragraph A17);

(e) a description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs and assumptions used in that estimation technique; and

(f) qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

When a foreign operation's functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation's functional currency, an entity shall also disclose:

(a) the name of the foreign operation; whether the foreign operation is a subsidiary, joint operation, joint venture, associate or branch; and its principal place of business;

(b) summarised financial information about the foreign operation; and

(c) the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.

Transition

In applying *Lack of Exchangeability,* the companies are not required to restate comparative information; instead, they adjust opening balance of retained earnings or cumulative amount of translation differences-accumulated in a separate component of equity.

2. Amendment in Ind AS notification G.S.R. 549(E) dated 13th August, 2025

The amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2025 relate to:

A. Classification of liabilities as current or non-current and non-current liabilities with covenants (Ind AS 1, *Presentation of Financial Statements*)

B. Disclosure of supplier finance arrangements (Ind AS 7, *Statement of Cash Flows and* Ind AS 107 *Financial Instruments: Disclosures*)

C. Pillar Two Model Rules (Ind AS 12, *Income Taxes*).

A. AMENDMENT IN IND AS 1 '*PRESENTATION OF FINANCIAL STATEMENTS*'

Current – non-current classification of liabilities

In Ind AS 1, certain paragraphs have been inserted for the classification of certain liabilities as current or non-current. Further, companies may require making new disclosures for liabilities subject to covenants.

Right to defer settlement must exist at reporting date and have substance

Prior to the notification in Ind AS 1, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendment has removed the requirement for a right to be ***unconditional*** and instead now requires that a right to defer settlement must exist at the reporting date and have substance.

Liabilities with covenants – clarification on classification criteria and introduction of new disclosures

A company will classify a liability as non-current if it has a right to defer settlement for at least 12 months after the reporting date. This right may be subject to a company complying with covenants specified in a loan arrangement.

Only covenants with which a company must comply ***on or before*** the reporting date affect the classification of a liability as current or non-current.

Covenants with which the company must comply after the reporting date (i.e. future covenants) do not affect a liability's classification at that date. However, when non-current liabilities are subject to future covenants, **companies will now need to disclose information** to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

Breach of covenant (effective for accounting periods beginning on or after 1 April 2025)

Ind AS 1 continues to carry the existing carve-outs from IAS 1 regarding the classification of liabilities when there is a breach of a material covenant that transforms the liability from non-current to current.

Where there is a breach of a material covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity would not classify the liability as current, if the lender, after the reporting period and before the approval of the financial statements for issue, agreed not to demand payment as a consequence of the breach. However, in such circumstances, **the entity shall disclose information as per Ind AS 107 for each breach**.

Breach of covenant (effective for accounting periods beginning on or after 1 April 2026)

For accounting periods beginning on or after 1 April 2026, *the carve-out has been removed and hence when an entity breaches any covenant of a long-term loan arrangement on or before the end of the reporting period with the*

effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least 12 months after that date.

However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

If the following events occur between the end of the reporting period and the date the financial statements are approved for issue, *those events are disclosed as non-adjusting events* in accordance with Ind AS 10, *Events after the Reporting Period*:

(a) refinancing on a long-term basis of a liability classified as current;

(b) rectification of a breach of a long-term loan arrangement classified as current;

(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current; and

(d) settlement of a liability classified as non-current.

Convertible debt may become current

Clarification on how a company classifies a liability that can be settled in its own shares – e.g. convertible debt.

When a liability includes a counterparty conversion option that involves a transfer of the company's own equity instruments, the conversion option is recognised as either equity or a liability separately from the host liability under Ind AS 32 Financial Instruments: Presentation. *The amendments states that when a company classifies the host liability as current or non-current, it can ignore only those conversion options that are recognised as equity.*

New disclosure requirements

As per the amendment in Ind AS 1, companies are now required to disclose information related to non-current liabilities from loan arrangements that are subject to future covenants in the notes to the financial statements. This disclosure aims to inform users about the potential risk that such liabilities may become repayable within 12 months following the reporting date.

The following new disclosures about covenants are required:

- Information about the covenants – e.g. nature of the covenants and when the company is required to comply with them and the carrying amount of related liabilities.
- Facts and circumstances, if any, that indicate the company may have difficulty complying with the covenants within the next 12 months of the reporting date – e.g. actions taken by the company during or after the reporting period to avoid or mitigate a potential breach, or the fact that the covenants would have been breached if assessed for compliance based on the company's circumstances at the reporting date (i.e. based on a hypothetical test at the reporting date).

Effective date –retrospectively application

Amendments in Ind AS 1 apply retrospectively for annual reporting periods beginning on or after 1 April 2025.

The amendment relating to breach of covenants on or before the reporting period that are aligned to IAS 1 are applicable for annual reporting periods beginning on or after 1 April 2026, retrospectively in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

B. AMENDMENT IN IND AS 7 *'STATEMENT OF CASH FLOWS'*

Supplier Finance Arrangements

Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the

entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) *are not supplier finance arrangements.*

An entity shall disclose in aggregate following information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.

(a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions.

(b) as at the beginning and end of the reporting period:

   (i) the carrying amounts, and associated line items presented in the entity's balance sheet, of the financial liabilities that are part of a supplier finance arrangement.

   (ii) the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers.

   (iii) the range of payment due dates for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges).

(c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash

changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents.

Transition- Effective date

An entity shall apply the supplier finance arrangements for the annual reporting periods beginning on or after 1 April 2025.

In applying supplier finance arrangements, an entity is ***not*** required to disclose:

(a) Comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies these amendments;

(b) The following information as at the beginning of the annual reporting period in which the entity first applies those amendments

- ❖ the carrying amounts and associated line items presented in the balance sheet at the beginning and end of the reporting period for both the financial liabilities that are part of supplier finance arrangements in total and those for which the supplier has already been paid.
- ❖ the range of payment due dates for the financial liabilities that are part of supplier finance arrangements and comparable trade payables (e.g. trade payables within the same jurisdiction or business) that are not part of such arrangements as at the beginning of the annual reporting period in which the entity first applies these amendments.

(c) The information regarding supplier finance arrangements for any interim period presented within the annual reporting period in which the entity first applies these amendments.

C. AMENDMENT IN IND AS 12 *'INCOME TAXES'*

Pillar Two Legislation and Pillar Two Income Taxes

Pillar Two legislation includes Pillar Two Model Rules as per Organisation for Economic Co-operation and Development (OECD) including tax law that

implements qualified domestic minimum top-up taxes described in those rules.

As an exception to the requirements in this Standard, *an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.*

The amendments to Ind AS 12 states that

- An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

- An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes.

- In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.

- To meet the above disclosure, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period.

  This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

Part II-Questions and Answers

QUESTIONS

Case Scenario

An entity enters into a contract with a customer A to sell groceries at its market price INR 200, and the arrangement includes a 40% discount voucher on future purchases.

Simultaneous seasonal promotion gives all customers a 10% discount, therefore, customer A receives an incremental discount of 30% (40% discount in the contract less the 10% discount available to all customers).

Entity determines there is an 80% likelihood of redemption and estimates that customers will purchase (on average) INR 50 of additional groceries.

Based on the facts given above, choose the most appropriate answer to Questions 1 to 5 below as per the relevant Ind AS.

1. What is the standalone selling price of the voucher?

   (a) ₹ 50

   (b) ₹ 200

   (c) ₹ 12

   (d) ₹ 11.32

2. How much revenue will be recognised in teh current year for sale of groceries?

   (a) ₹ 188.68

   (b) ₹ 200

   (c) ₹ 212

   (d) Nil

3. At what value the liability or deferred revenue be recognised on initial sale of groceries?

   (a) ₹ 50

   (b) ₹ 200

   (c) ₹ 12

   (d) ₹ 11.32

4. When will the liability or deferred revenue recognised at the time of initial sale be recognised as revenue?

   (a) The said liability will never be recognised as revenue

   (b) The said liability will be subsequently credited to revenue only when the customer purchases in future using the discount coupon or when the coupon expires.

   (c) The said liability will be subsequently credited to revenue when customer purchases in future even though he does not uses the discount coupon.

   (d) The liability will be recognized as revenue in the next year, even though the coupon has neither expired nor been used by the customer.

5. What would be the nature of the said liability and under which standard?

   (a) Financial liability under Ind AS 109

   (b) Contingent liability under Ind AS 37

   (c) Contract Liability under Ind AS 115

   (d) Lease liability under Ind AS 116

Ind AS 110: Consolidated Financial Statements

6. Following is the Balance Sheets of M ltd. and N Ltd. of two different dates:

	M Ltd. (As on 31.3.20X2) ₹	N Ltd. (As on 31.12.20X1) ₹
ASSETS		
Non-current Assets		
Property, Plant and Equipment	6,50,000	4,05,000
Financial Assets		
Investments:		
40,000 shares in N Ltd.	8,00,000	–
1,000 Debentures in N Ltd.	1,50,000	–
Current assets:		
Inventory	2,00,000	3,50,000
Financial Assets		
Trade Receivables	1,50,000	2,65,000
Cash and cash equivalents	80,000	1,05,000
Total	**20,30,000**	**11,25,000**
EQUITY AND LIABILITIES		
Equity Shares of ₹ 10 each	10,00,000	5,00,000
Retained Earnings	4,50,000	2,05,000
Non-current Liabilities		
Financial Liabilities		
13% Debentures (₹ 100 each)	–	3,00,000

Current liabilities		
Financial Liabilities		
Trade Payables	3,80,000	80,000
Other liabilities	2,00,000	40,000
Total	**20,30,000**	**11,25,000**

On 5th January 20X2, certain inventory of N Ltd. costing ₹ 20,000 were completely destroyed by fire. The insurance company paid 75% of the claim. On 20th January 20X2, M Ltd. sold goods to N Ltd. costing ₹ 1,50,000 at an invoice price of cost plus 20%. 50% of those goods were resold by N Ltd. to M Ltd. within 31st March 20X2 (these were then sold by M Ltd. to a third party before 31st March, 20X2). As on 31st March, 20X2, N Ltd. owes ₹ 60,000 to M Ltd. in respect of those goods. Pre-acquisition profits of N Ltd. on the date of acquisition was ₹ 75,000.

NCI is measured as per fair value method on the date of acquisition. Fair value of the share of N Ltd. as on the date of acquisition is ₹ 18 per share.

Prepare Consolidated Balance Sheet as on 31st March, 20X2 after making necessary adjustments in the Balance sheet of N Ltd. Ignore Notes to Accounts

Ind AS 1 : Presentation of Financial Statements

7. Find out total comprehensive income for 20X1-20X2 of V Ltd. from the following information:

Profit from normal operations	₹ 50,00,000
Remeasurement gains from defined benefit plans	₹ 5,00,000
Gain on translation of foreign operations	₹ 10,00,000
Revaluation gains on property, plant and equipment	₹ 3,50,000
Fair value changes on financial assets	₹ 4,50,000

Ind AS 12: Income Taxes

8. X Ltd. has 2 wholly owned subsidiaries A Ltd. and B Ltd. The company had acquired 100% equity of these companies as at 1st April, 20X1. The investment was made as under:

Company	Invested on April 1, 20X1 ₹	Profit (loss) for the FY 20X1-20X2 ₹	Profit (loss) for the FY 20X2-20X3 ₹	Profit (loss) for the FY 20X3-20X4 ₹
A Ltd.	5,00,000	(50,000)	(60,000)	(70,000)
B Ltd.	5,00,000	50,000	60,000	70,000

As at 31st March, 20X4 in the standalone financial statements of X Ltd., the future projections of company A Ltd. being negative, the entire investment was impaired by ₹ 5,00,000. The same was disallowed under income-tax laws of X Ltd.'s jurisdiction. Further, in the consolidated financial statements of X Ltd., the net assets in relation to A Ltd. was also fully impaired.

As at 31st March, 20X4, B Ltd. has excess earnings available which would be transferred to the holding company in future but it cannot be repatriated in a tax free manner.

Required

On the preparation of the consolidated financial statements of X Ltd.-

(i) Would a deferred tax liability be recorded for the difference in the carrying value and tax books value of A Ltd. in the consolidated financial statement (CFS) of X Ltd.? Assume no indexation benefit is available on investment in A Ltd.

(ii) Would a deferred tax liability be recorded for the difference in the carrying value and tax books value of B Ltd. in the CFS of X Ltd.? Assume no indexation benefit is available on investment in B Ltd.

Ind AS 23: Borrowing Costs

9. S Ltd. financed the construction of a qualifying asset with an inter-company loan taken from its parent company P Ltd. with an interest rate of 7% p.a. P Ltd. in-turn has obtained the said loan from a Bank at the same rate of interest of 7% p.a. for the specific purpose of providing it to S Ltd.

   State how the same will be treated in the separate financial statements of S Ltd. and P Ltd. and consolidated financial statements of P Ltd. as per Ind AS 23?

Ind AS 38: Intangible Assets

10. A Ltd. has incurred ₹ 1,00,000 of research expenditure on a project to develop a new type of fuel and has expensed these costs. B Ltd. purchases the research project, including certain patents that have been registered by A Ltd., for ₹ 1,50,000 and recognises an intangible asset.

    Subsequently, B Ltd. incurs ₹ 2,00,000 of expenditure on completing the research phase and decides to develop the product commercially. It incurs a further ₹ 3,00,000 of costs in bringing the product to a stage where the conditions for recognising development costs as an internally generated intangible asset are met. Further costs of ₹ 1 million are incurred in bringing the product into a condition where it is ready for use in the manner that management intends. Marketing costs and initial losses of ₹ 2,00,000 are incurred before the product reaches widespread distribution.

    Required

    What costs can B Ltd. capitalise?

Ind AS 109: Financial Instruments

11. On 1st April 2XX0, Zx Co originates a 10-year 6% ₹ 1,00,000 loan. The loan carries an annual interest rate of 6% payable at the end of each year and the loan is repayable at par at the end of year 10. Zx charges ₹ 3,000 non-refundable loan origination fee to the borrower and it also incurs ₹ 5,000 in direct loan origination costs. The contract specifies

that the borrower has an option to pre-pay the instrument and that no penalty will be charged for pre-payment. The contract meets the SPPI criteria. At inception, Zx expects the borrower not to pre-pay.

The effective interest rate is approximately 5.7317%.

What is the carrying amount on initial recognition and what impact does the pre-payment feature have on the amortised cost calculations?

Ind AS 115: Revenue From Contracts with Customers

12. X Ltd. agrees to produce 2,000 customized engines for use by Customer A in its products. X Ltd. concludes that the engines will transfer to Customer A over time because:

- they have no alternative use to X Ltd.; and
- Customer A is contractually obligated to pay X Ltd. for any finished or in-process engines, including a reasonable margin, if Customer A terminates the contract even when no fault of X Ltd.

X Ltd. already has the process in place to produce the engines and is given the design by Customer A, such that X Ltd. does not expect to incur any significant learning curve or design and development costs. X Ltd. uses a method of measuring progress toward complete satisfaction of its manufacturing contracts that takes into account work in progress and finished goods controlled by Customer A.

Require:

(i) State whether the 2000 engines are distinct in nature or not.

(ii) State whether 2000 engines is a single performance obligation or each engine is a separate performance obligation.

Ind AS 20: Accounting for Government Grants and Disclosure of Government Assistance

13. A Ltd. has acquired equipment for ₹ 100 lakhs. The estimated useful life of the equipment is 10 years. Residual value at the end of useful life is Nil. Depreciation is recognised on a straight-line basis.

To encourage the acquisition of the assets, the Government will give a grant to A Ltd. towards the purchase of the equipment as follow:

- o If specified employment targets are achieved by the end of the 3rd year, A Ltd. will receive a grant of ₹ 10 lakhs.
- o In all other cases, A Ltd. will receive a grant of ₹ 5 lakhs.

On the date of acquisition as well as at the end of year 1, A Ltd. expects to receive a grant of ₹ 10 lakhs.

At the beginning of year 2, A Ltd. has revised the assessment in light of development and now expects that it will only receive a grant of ₹ 5 lakhs.

There were no errors in the estimation of grants in the prior period.

A Ltd. has assessed and concluded that the grant is in nature of grants related to assets.

A Ltd. presents government grants related to assets in the balance sheet by deducting the grant in calculating the carrying amount of the asset.

Required

How is the change in the amount of grant-related assets is accounted for in the books of A Ltd.?

Ind AS 116: Leases

14. Lessee enters into an agreement with Lessor for a period of five years to lease a floor of a building. Lessee is required to make a fixed annual lease payment of ₹ 4,20,000 (i.e., total payment of ₹ 21,00,000 over the five-year term). As per the terms of the contract, the ₹ 4,20,000 annual payment comprises:

	₹
Building rent	2,40,000
Common area maintenance services	84,000
Property taxes (pro-rata)	60,000
Building insurance (pro-rata)	36,000

From Lessee's perspective, the estimated standalone price of the building rent is ₹ 2,64,000 and the estimated standalone price of the common area maintenance service is ₹ 96,000. Lessee has not elected

to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate non-lease component(s) from lease component(s). Hence, it has to separate non-lease components from lease components.

Required

How are the above payments allocated and accounted for by Lessee?

Ind AS 7: Statement of Cash Flows

15. An entity invests in a 10-year bond with a face value of ₹ 6,00,000 by paying ₹ 2,31,500. The effective rate of interest is 10%. An entity recognises proportionate interest income in its statement of profit and loss over the period of bond.

    How the interest income will be treated in the statement of cash flows during the period of bond?

    How the maturity proceeds of ₹ 6,00,000 will be treated in the statement of cash flows?

    Note: The entity is not in the business of dealing in securities.

Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

16. (i) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of ₹ 2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of ₹ 1,60,000. The gas will be used to generate electricity, which will be sold at a profit.

    State whether the contract is onerous.

    (ii) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of ₹ 2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of ₹ 1,60,000. The gas will be used to generate electricity. However, the electricity is sold at a loss, and the entity makes an overall operating loss. All of the gas purchased by the entity is used to generate electricity using dedicated assets. The electricity is sold to a wide range of customers.

    State whether the contract is onerous.

(iii) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of ₹ 2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of ₹ 1,60,000. The gas will be used to generate electricity. However, the entity sells the gas under contract, which it no longer needs, to a third party for 18 paise per unit (5 paise below cost). The entity determines that it would have to pay ₹ 55,000 to exit the purchase contract.

State whether the contract is onerous. If the contract is onerous then also state the amount of provision to be made on account of the onerous contract.

(iv) In the year ended 31st March 20X1, an entity has a contract with a third party supplier. The entity wishes to terminate this contract in 20X1-20X2, even though it will still have two years to run, because it can enter into a cheaper contract with a new supplier. It will incur a charge for terminating the contract.

Does the entity have to provide in 20X0-20X1 for the contract that it will be exiting in 20X1-20X2?

SUGGESTED ANSWERS

Answer to Multiple Choice Questions

1.	**Option (c)** ₹ 12
2.	**Option (a)** ₹ 188.68
3.	**Option (d)** ₹ 11.32
4.	**Option (b)** The said liability will be subsequently credited to revenue only when the customer purchases in future using the discount coupon or when the coupon expires.
5.	**Option (c)** Contract Liability under Ind AS 115

6. Consolidated Balance Sheet of M Ltd and its subsidiary N Ltd. as at 31st March 20X2

I. ASSETS	
A. Non-Current Assets	
1. Property, Plant and Equipment (6,50,000 + 4,05,000)	10,55,000
2. Goodwill (W.N.7)	4,05,000
B. Current Assets	
1. Inventories (W.N.8)	6,05,000
2. Financial Assets	
a. Trade Receivables (W.N.9)	3,55,000
b. Cash and cash equivalents (80,000+1,05,000+15,000 Insur. claim)	2,00,000
Total	**26,20,000**
II. EQUITY AND LIABILITIES	
A. Equity	
1. Equity Share Capital	
Issued, subscribed and fully paid up	
1,00,000 equity shares of ₹ 10 each	10,00,000
2. Other Equity	
Retained Earnings (W.N.10)	5,09,000
3. Non-Controlling Interest (W.N.6)	2,11,000
B. Liabilities	
1. Non-Current Liabilities	
a. Financial Liabilities	
Borrowings [13% Debentures (2,000 × 100)]	2,00,000
2. Current liabilities	
a. Financial Liabilities	

	Trade Payables (W.N.9)	4,60,000
b.	Other Current liabilities (2,00,000 + 40,000)	2,40,000
Total		**26,20,000**

Working Notes:

1. Shareholding pattern

Particulars	Number of Shares	% of holding
M Ltd.	40,000	80%
Non-Controlling interest	10,000	20%

2. Analysis of Retained Earnings of N Ltd.

	₹
Closing balance as on 31.3.20X1	2,05,000
Pre-acquisition Profits	(75,000)
Post-acquisition Profits	1,30,000
Less: Loss of inventory by fire (W.N.3)	(5,000)
Add: Profit from sale of goods purchased from M Ltd. (W.N.4)	30,000
	1,55,000

3. Loss of inventory by fire

	₹
Cost of goods destroyed by fire	20,000
Less: Insurance Claim received (20,000 × 75/100)	(15,000)
Loss of inventory by fire	5,000

4. Profit from Sale of goods

	₹
Cost of goods sold by M Ltd.	1,50,000

Add: Profit by M Ltd. (1,50,000 × 20%)	30,000
Invoice price of M Ltd. (i.e., Cost to N Ltd.)	1,80,000
Cost of goods sold back by N Ltd. to M Ltd. (1,80,000 × 50%)	90,000
Net payable (given in the question)	60,000
Sale value of goods sold by N Ltd. to M Ltd. (1,80,000 – 60,000)	1,20,000
Profit on sale by N Ltd. to M Ltd. (1,20,000 – 90,000)	30,000

5. **Apportionment of profits of N Ltd.**

Particulars	**Pre-acquisition**	**Post-acquisition**
Retained Earnings (W.N.3)	75,000	1,55,000
M Ltd – 80%		1,24,000
NCI – 20%		31,000

6. **Non-Controlling Interest as per fair value method**

Particulars	**₹**
Share capital / Fair Value of shares held by NCI (10,000 Shares × ₹ 18)	1,80,000
Share of post-acquisition retained earnings (W.N.5)	31,000
Total	**2,11,000**

7. **Computation of Goodwill**

Particulars		**₹**
Cost of investment		8,00,000
Add: Fair Value of Shares held by Non-Controlling Interest (10,000 Shares × ₹ 18)		1,80,000
		9,80,000
Less: Fair value of net identifiable assets or net worth		
Share capital of N Ltd.	5,00,000	

Pre-acquisition retained earnings	75,000	(5,75,000)
Goodwill		**4,05,000**

8. Computation of Inventory to be shown in CBS

Particulars	₹
Aggregate value of inventory (2,00,000 + 3,50,000)	5,50,000
Add: Invoice price of goods purchased from M Ltd	1,80,000
Less: Cost of goods resold to M Ltd	(90,000)
Less: Loss of inventory by fire	(20,000)
	6,20,000
Less: Unrealised profit (90,000 x 20/120)	(15,000)
Net Inventory for CBS	6,05,000

9. Computation of Consolidated Trade Receivables and Trade Payables

Particulars	Trade Receivables ₹	Trade Payables ₹
Aggregate balance	4,15,000	4,60,000
Less: Inter-company owings	(60,000)	(60,000)
Net for CBS	**3,55,000**	**4,60,000**

10. Retained Earnings for CBS

Particulars	₹
M Ltd. Balances	4,50,000
Add: M Ltd.'s share of post-acquisition profits (W.N.5)	1,24,000
Less: Unrealised profit on inventory (W.N.8)	(15,000)
Less: Loss on cancellation of debentures	

[1,50,000 - (1,000 x 100)]	(50,000)
Net for CBS	5,09,000

7. Total Comprehensive Income of V Ltd.

Particulars		₹
Profit from normal operations (A)		50,00,000
Other Comprehensive Income		
Items not reclassified to P&L		
Remeasurement gains from defined benefit plans	5,00,000	5,00,000
Items reclassified to P&L		
Gain on translation of foreign operations	10,00,000	
Revaluation gains on Property, Plant and Equipment	3,50,000	
Fair value changes on financial assets	4,50,000	18,00,000
Total Other Comprehensive Income (B)		23,00,000
Total Comprehensive Income (A +B)		73,00,000

8. For investment in subsidiaries, branches and associates and interests in joint arrangements, paragraphs 38 and 39 of Ind AS 12 states that temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint arrangements (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

(a) the existence of undistributed profits of subsidiaries, branches, associates and joint arrangements;

(b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and

(c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the parent's separate financial statements if the parent carries the investment in its separate financial statements at cost or revalued amount.

Further, an entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

(a) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and

(b) it is probable that the temporary difference will not reverse in the foreseeable future.

Further, paragraph 44 of Ind AS 12 provides that an entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

(a) the temporary difference will reverse in the foreseeable future; and

(b) taxable profit will be available against which the temporary difference can be utilised.

Applying the above guidance,

(i) In consolidated financial statements of X Ltd., the investment in subsidiary is eliminated and the net assets including goodwill are recorded. For comparing the tax base of investment with the books in case of a consolidated financial statements the carrying value of investment is replaced with the net assets (including goodwill).

Thus, book base of A Ltd. in consolidated financial statements of X Ltd. is Nil (i.e. ₹ 5,00,000 less losses amounting to ₹ 1,80,000 less impairment of ₹ 3,20,000).

The impairment on investment in subsidiary-A Ltd. recognised in standalone financial statements (amounting to ₹ 5,00,000) was disallowed under the Income tax laws of X Ltd.'s jurisdiction. The entire cost of investment of ₹ 5,00,000 is deductible upon sale of investment under the applicable tax laws. Thus, the tax base of investment in A Ltd. is ₹ 5,00,000.

Thus, there is a temporary difference of ₹ 5,00,000. In practice, such temporary differences are commonly referred to as 'outside basis differences'.

A deferred tax asset should be recorded for this outside basis difference only if the conditions specified in paragraph 44 of Ind AS 12 mentioned above are met.

(ii) In consolidated financial statements of X Ltd., the investment in subsidiary is eliminated and the net assets including goodwill are recorded.

The book base of B Ltd. in consolidated financial statements of X Ltd. is ₹ 6,80,000 (i.e. ₹ 5,00,000 add profits amounting to ₹ 1,80,000).

The entire cost of investment of ₹ 5,00,000 is deductible under tax upon sale of investment. Thus, the tax base of investment in B Ltd. is ₹ 5,00,000.

The difference in the book base and tax base lead to an outside basis difference of INR 1,80,000.

Paragraph 40 of Ind AS 12 provides that as a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when

the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability. The same considerations apply to investments in branches."

In the given scenario, for B Ltd., the company proposes to repatriate the surplus to its holding company in the foreseeable future and it cannot be repatriated in a tax-free manner. Thus, it is probable that the temporary difference would reverse in the foreseeable future.

Thus, a deferred tax liability would be recorded for this temporary difference at the tax rate applicable to the repatriation of surplus by B Ltd. to its holding company on such portion which will reverse in the foreseeable future. To illustrate, if X Ltd. expects that out of the temporary difference of ₹ 1,80,000, X Ltd. expects to repatriate only ₹ 1,00,000 and would re-invest the balance ₹ 80,000 in B Ltd. itself or requires it for its working capital requirements. Thus, deferred tax liability would be recorded on ₹ 1,00,000 only as this is the amount which is reversible in the foreseeable future and not the entire amount.

However, if it is probable that the temporary difference will not reverse in the foreseeable future (e.g. by way of dividend distribution or sale of investment), then no deferred tax liability is recognised on outside basis difference of ₹ 1,80,000 in the consolidated financial statements of X Ltd.

9. In the separate financial statements of:

- the subsidiary S Ltd., the borrowing costs are capitalised to the extent of the actual costs incurred by the subsidiary.
- the parent P Ltd., the parent recognises only the inter-company loan given to the subsidiary. There is no qualifying asset in the separate financial statements of P Ltd., so the borrowing costs cannot be capitalised in the separate financial statements of the parent P Ltd.

In the consolidated financial statements of the parent P Ltd., capitalisation of borrowing costs is required. However, the amount of the borrowing costs incurred by the subsidiary in the case of inter-

company loans should be adjusted to reflect how the qualifying asset was financed from the perspective of the group as a whole:

- if the group uses external general borrowings, the borrowing costs capitalised by the subsidiary are adjusted if the capitalisation rate at the group level is different from the rate used by the subsidiary.
- if the group uses specific external borrowings, the borrowing costs are adjusted if the borrowing costs on the external borrowings vary from the amount of borrowing costs capitalised by a subsidiary.

Borrowing costs calculated and capitalised in accordance with Ind AS 23 cannot exceed the amount of borrowing costs incurred by the group.

In the given case, since the parent has taken specific borrowing for the purpose of lending it to subsidiary at the same rate of interest, hence the borrowing cost will not be required to be adjusted and will be the same as incurred by P Ltd.

10. As per para 24 of Ind AS 38, an intangible asset shall be measured initially at cost. Furthermore, para 25 states that normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion is always considered to be satisfied for separately acquired intangible assets.

Accordingly, B Ltd. recognises ₹ 1,50,000 as the cost of the acquired research project.

Further, as per para 42 of the standard, research or development expenditure that:

(a) relates to an in-process research or development project acquired separately and recognised as an intangible asset; and

(b) is incurred after the acquisition of that project

shall be accounted for.

However, as per para 54 of the standard, expenditure on research phase of an internal project shall be recognised as an expense when it is incurred.

Hence, the subsequent research costs of ₹ 2,00,000 are expensed as incurred.

Further, an intangible asset arising from development phase of an internal project shall be recognised if, and only if, an entity can demonstrate all of the conditions stated therein under point a to f of para 57. Since, the subsequent development costs incurred of ₹ 3,00,000 do not meet the conditions for recognition and are expensed as incurred.

Further development costs of ₹ 1 million must be recognised, because they meet the conditions for recognition as an intangible asset.

It may be noted that as per para 71 of the standard, the previously written-off development costs are not reinstated.

The marketing costs and initial losses of ₹ 2,00,000 are expensed as incurred as per paras 67 and 69 of the standard.

Accordingly. the intangible asset's carrying amount, when production and sale of the product commences, is ₹ 11,50,000.

11. The initial carrying amount of the loan asset is calculated as follows:

	₹
Loan principal	1,00,000
Origination fees charged to borrower	(3,000)
Origination costs incurred by lender	5,000
Carrying amount of loan	1,02,000

Because the entity expects the borrower not to pre-pay, the amortisation period is equal to the instrument's full term.

The carrying amount of the loan over the period to maturity, assuming that the entity continues to expect the borrower not to pre-pay, will be as follows:

	Opening Carrying amount	Cash in flows (coupon)	Interest-income@ 5.7317%	Amortisation of net fees	Closing Carrying amount
		₹	₹	₹	₹
	a	b=1,00,000 x 6%	c=a x 5.7317%	d=b-c	e=a-d
1 Apr 2XX0					1,02,000
31 Mar 2XX1	1,02,000	6,000	5,846	154	1,01,846
31 Mar 2XX2	1,01,846	6,000	5,838	162	1,01,684
31 Mar 2XX3	1,01,684	6,000	5,828	172	1,01,512
31 Mar 2XX4	1,01,512	6,000	5,818	182	1,01,330
31 Mar 2XX5	1,01,330	6,000	5,808	192	1,01,138
31 Mar 2XX6	1,01,138	6,000	5,797	203	1,00,935
31 Mar 2XX7	1,00,935	6,000	5,785	215	1,00,721
31 Mar 2XX8	1,00,721	6,000	5,773	227	1,00,494
31 Mar 2XX9	1,00,494	6,000	5,760	240	1,00,254
31 Mar 2X10	1,00,254	6,000	5,746	254	1,00,000
		60,000	58,000	2,000	
31 Mar 2X10		Repayment of principal			(1,00,000)
31 Mar 2X10		Carrying value of loan			Nil

The effective interest income for the period is calculated by applying the effective interest rate of 5.7317% to the loan's amortised cost at the end of the previous reporting period. The annual interest income decreases each year, to reflect the decrease in the asset's carrying value as the initial net fee is amortised. So, the difference between the calculated effective income for a given reporting period and the loan's coupon is the amortisation of the transaction costs during that reporting period. The loan's amortised cost at the end of the previous period less amortisation in the current reporting period gives the loan's amortised cost at the end of the current period. By maturity date, the net fees received are fully amortised and the loan's carrying amount is equal to the face amount, which is then repaid in full.

12. **(i)** X Ltd. concludes that each of the 2,000 engines is distinct, because:

- Customer A can use each engine on its own; and
- each engine is separately identifiable from the others because one does not significantly affect, modify or customize another.

(ii) Despite the fact that each engine is distinct, X Ltd. concludes that the 2,000 units are a single performance obligation because:

- each engine will transfer to Customer A over time; and
- X Ltd. uses the same method to measure progress toward complete satisfaction of the obligation to transfer each engine to Customer A.

Consequently, the transaction price for all 2,000 engines is recognized over time using an appropriate measure of progress. This outcome may be different from the outcome of allocating a fixed amount to each engine if each one was a performance obligation.

13. Para 32 of Ind AS 20 under the heading "Repayment of Government Grants" *inter alia* states that a Government grant that becomes repayable shall be accounted for as a change in accounting estimate as per Ind AS 8. Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.

Further para 33 of the standard states that the circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Following the above guidance, below is depreciation computation for the first 2 years where the grant is deducted from the carrying amount of the assets:

₹ in lakhs

Particular	Government grant received /receivable in case of	
	₹ 10 lakhs	₹ 5 lakhs
Cost of equipment	100.00	100.00
Grant received	(10.00)	(5.00)
Cost of equipment (Net of Grant received)	90.00	95.00
Useful life (years)	10.00	10.00
Depreciation (per annum) for year 1	9.00	9.50
Written down value (WDV) of the equipment at the end of year 1	81.00	85.50
Depreciation for year 2	9.00	9.50
WDV of the equipment at the end of year 2	72.00	76.00
Total cumulative depreciation for years 1 and 2	18.00	19.00

Drawing an analogy from the accounting of the repayment of government grants, similar accounting may be applied for a change in the amount of government grant receivable.

The cumulative additional depreciation of ₹ 1 lakhs [i.e., ₹ 19 lakhs minus ₹ 18 lakhs], would have been recognized to date as an expense, had government grant receivable by entity from inception was INR 5.

Therefore, A Ltd. may pass the following journal entry to recognise change in the amount of grant received/receivable: *₹ in lakhs*

Particular	Dr.	Cr.	Remark
Equipment A/c Dr.	4		₹ 76 lakhs – ₹ 72 lakhs
Depreciation Dr.	1		Additional depreciation recognised in Profit and Loss A/c
To Bank/Grant receivable		5	Payment of grant /adjustment to grant receivable

A Ltd. to carry out impairment assessment of assets, as per Ind AS requirement, which may trigger in view of an increase in carrying amount of the assets due to repayment of government grant received/ receivable.

14. Paragraph B33 of Ind AS 116 states that a contract may include an amount payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable, do not give rise to a separate component of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The payments to be made by Lessee for common area maintenance represents payment for non-lease components as it is a payment for a service provided to it by Lessor.

The property taxes are required to be paid by Lessor irrespective of whether it leased the building and to which party. Likewise, the building insurance paid by Lessee also protects the Lessor's property and only Lessor will be entitled to receive the claim if received. Accordingly, these are not separate components of the contract because they do not represent payments for goods or services and are considered to be part of the total consideration that is allocated to the separately identified components of the contract (i.e., the lease and non-lease components).

As Lessee has not elected the practical expedient as provided in paragraph 15 of the standard, it will separate the lease and the non-lease components, even though the agreement specified payments for four separately identified matters, the arrangement will comprise only two components for accounting purposes.

The total annual payment would be allocated between the two identified goods and services representing the lease component and non-lease component as follows:

Particulars	Standalone prices	% of Total Standalone Price	Allocation of annual payment* (calculation on full scale)
Building rent	2,64,000	73.333%	3,07,860
Maintenance services	96,000	26.666%	1,12,140
Total	**3,60,000**	**100.00%**	**4,20,000**

*The portion of consideration that is allocated to the lease components includes, apart from rent, those amounts that are not considered a separate component (e.g., ₹ 60,000 on account of property taxes and ₹ 36,000 on account of building insurance).

15. Since the entity is not in the business of dealing in securities, a sum of ₹ 2,31,500 invested in a bond will be classified as investing activities. There is no cash flow of interest during bond period, as there is no cash receipt. On maturity, proceeds of ₹ 6,00,000 will be classified as receipt under investing activity with a bifurcation of ₹ 3,68,500 as interest and ₹ 2,31,500 as proceeds towards redemption of bond.

16. (i) The economic benefits from the contract include the benefits to the entity of using the gas in its business and because the electricity will be sold at a profit, the contract is not onerous.

(ii) The entity first considers whether the assets used to generate electricity are impaired. To the extent that there is still a loss after the assets have been written down, a provision for an onerous contract should be recorded.

(iii) The only economic benefit from the purchase contract costing ₹ 2,30,000 are the proceeds from the sales contract, which are ₹ 1,80,000. Therefore, a provision should be made for the onerous element of ₹ 50,000, being the lower of the cost of fulfilling the contract and the penalty cost of cancellation (₹ 55,000).

(iv) A provision should be recognised only if the contract is onerous. If the goods received under the supply contract are sold at a profit, the contract is not onerous and provision should not be made in the year 20X0-20X1. The termination cost should be recognised as incurred in 20X1-20X2.