

CHAPTER - 32

Analysis of Financial Statements

Question 1

Venus Ltd. is a multinational entity that owns three properties. All three properties were purchased on 1st April, 20X1. The details of purchase price and market values of the properties are given as follows:

Particulars	Property 1	Property 2	Property 3
	Factory	Factory	Let-Out
Purchase price	15,000	10,000	12,000
Market value 31.03.20X2	16,000	11,000	13,500
Life	10 Years	10 Years	10 Years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

Property 1 and 2 are used by Venus Ltd. as factory building whilst property 3 is let-out to a non-related party at a market rent. The management presents all three properties in balance sheet as 'property, plant and equipment'.

The Company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Analyse whether the accounting policies adopted by the Venus Ltd. in relation to these properties is in accordance with Ind AS. If not, advise the correct treatment and present an extract of the Balance Sheet for the year ended 31st March 20X2.

Answer

The above issue needs to be examined in the umbrella of the provisions given in Ind AS 1 'Presentation of Financial Statements', Ind AS 16 'Property, Plant and Equipment' in relation to property '1' and '2' and Ind AS 40 'Investment Property' in relation to property '3'.

Property '1' and '2'

Para 6 of Ind AS 16 'Property, Plant and Equipment' defines, 'Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period."

Paragraph 29 of Ind AS 16 states that "An entity shall choose either cost model or revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment".

Further, paragraph 36 of Ind AS 16 states that "If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued".

Further, paragraph 39 of Ind AS 16 states that "If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss".

Further, paragraph 52 of Ind AS 16 states that "Depreciation is recognised even if the fair value of asset

exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount".

Property '3'

Para 6 of Ind AS 40 'Investment property' defines, "Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business".

Further, paragraph 30 of Ind AS 40 states that "An entity shall adopt as its accounting policy the cost model to all of its investment property".

Further, paragraph 79 (e) of Ind AS 40 requires that "An entity shall disclose the fair value of investment property".

Further, paragraph 54 (2) of Ind AS 1 'Presentation of Financial Statements' requires that "As a minimum, the balance sheet shall include line items that present the following amounts:

- (a) property, plant and equipment;
- (b) investment property;

As per the facts given in the question, Venus Ltd. has

- (a) presented all three properties in balance sheet as 'property, plant and equipment';
- (b) applied different accounting policies to Property '1' and '2';
- (c) revaluation is charged in statement of profit and loss as profit; and
- (d) applied revaluation model to Property '3' being classified as Investment Property.

These accounting treatments is neither correct nor in accordance with provision of Ind AS 1, Ind AS 16 and Ind AS 40.

Accordingly, Venus Ltd. shall apply same accounting policy (i.e. either revaluation or cost model) to entire class of property being property '1' and '2". It also required to depreciate these properties irrespective of their fair value exceeds carrying amount. The revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

There is no alternative of revaluation model in respect to **property '3' being classified as Investment Property and only cost model** is permitted for subsequent measurement. However, Venus ltd. is required to disclose the fair value of the property in the Notes to Accounts. Also, the property '3' shall be presented as separate line item as Investment Property.

Therefore, as per the provisions of Ind AS 1, Ind AS 16 and Ind AS 40, the presentation of these three properties in the balance sheet is as follows:

Case 1: Venus Ltd. has applied Cost Model to entire class of PPE

Balance Sheet extracts as at 31st March, 20X2

Assets	₹
Non-Current Assets	
Property, Plant and Equipment	
Property '1' 13,500	
Property '2' <u>9,000</u>	22,500

Investment Properties Property '3'	10,800
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Case 2: Venus Ltd. has applied Revaluation Model to entire class of PPE

Balance Sheet extracts as at 31st March, 20X2

Assets	₹
Non-Current Assets	
Property, Plant and Equipment	
Property '1' 16,000	
Property '2' <u>11,000</u>	27,000
Investment Properties	
Property '3' 10,800	10,800
Equity and Liabilities	
Other Equity	
Revaluation Reserve	
Property '1' 2,500	
Property '2' <u>2,000</u>	4,500

The revaluation reserve should be routed through Other Comprehensive Income (subsequently not reclassified to Profit and Loss) and shown as a separate column in Statement of Changes in Equity.

Question 2

UK Ltd. has purchased a new head office property on 1st April 20X1 for ₹ 10 crores. The new office building has 10 floors and the organisation structure of UK Ltd. is as follows:

Floor	1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th	9 th	10 th
Use	Waiting Area	Admin	HR	Accounts	Inspection	MD Office	Canteen	Vacant		

Since UK Ltd. did not need the floors 8, 9 and 10 for its business needs, it has leased out the same to a restaurant on a long-term lease basis. The terms of the lease agreement are as follows:

- Tenure of Lease Agreement – 3 Years
- Lease Rental – Annual lease rental receivable from these floors is ₹ 10,00,000 per floor with an escalation of 5% every year.

Based on the certificate from its architect, UK Ltd. has estimated the cost of the 3 top floors as approximately ₹ 3 crores. The remaining cost of ₹ 7 crores can be allocated as 25% towards Land and 75% towards Building.

As on 31st March, 20X2, UK Ltd. obtained a valuation report from an independent valuer who has estimated the fair value of property at ₹ 15 crores. UK Ltd. wishes to use the cost model for measuring Property, Plant & Equipment and the fair value model for measuring the Investment Property. UK Ltd. depreciates the building over an estimated useful life of 50 years, with no estimated residual value.

Advise UK Ltd. on the accounting and disclosures for the above as per the applicable Ind AS together with the computation of the carrying value of property as at 31st March, 20X2.

Note: Present all amounts in ₹ crore upto 3 decimals

Answer

Ind AS 16 ‘Property, Plant and Equipment’ states that property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

As per **Ind AS 40 ‘Investment property’**, investment property is a property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Further, as per para 8 of Ind AS 40, the building owned by the entity and leased out under one or more operating leases will be classified as investment property.

Here top three floors have been leased out for 3 years. The useful life of the building is 50 years. The lease period is far less than the useful life of the building leased out. Further, the lease rentals of three years altogether do not recover the fair value of the floors leased i.e. ₹ 15 crore x 30% = ₹ 4.50 crore. Hence the lease is an operating lease. Therefore, the **3 floors leased out as operating lease will be classified as investment property** in the books of lessor i.e. UK Ltd.

However, for investment property, Ind AS 40 states that an entity **shall adopt** as its accounting policy the **cost model to all of its investment property**. Ind AS 40 also requires that an entity shall disclose the fair value of such investment property (ies).

(₹ in crore)

	PPE (70%)		Investment Property (30%)
	Land (25%)	Building (75%)	
Cost (₹ 10 crore)	1.75	5.25	3
Valuation model followed	Cost	Cost	Cost
Value recognized in the books	1.75	5.25	3
Less: Depreciation	Nil	0.105 [5.25/50]	0.06 [3/50]
Carrying value as on 31 st March, 20X2	1.75	5.145	2.94

Question 3

Super Sounds Limited had the following transactions during the Financial Year 20X1-20X2.

- (i) On 1st April 20X1, Super Sounds Limited purchased net assets of Music Limited for ₹ 13,20,000. The fair value of Music Limited's identifiable net assets was ₹ 10,00,000. Super Sounds Limited is of the view that due to popularity of Music Limited's product, the life of goodwill is 10 years.
- (ii) On 4th May 20X1, Super Sounds Limited purchased a Franchisee to organize musical shows from Armaan TV for ₹ 80,00,000 and at an annual fee of 2% of musical shows revenue. The Franchisee expires after 5 years. Musical shows revenue was ₹ 10,00,000 for financial year 20X1-20X2. The projected future revenues for financial year 20X2-20X3 are ₹ 25,00,000 and ₹ 30,00,000 p.a. for remaining 3 years thereafter.

- (iii) On 4th July 20X1, Super Sounds Limited was granted a Copyright that had been applied for by Music Limited. During financial year 20X1-20X2, Super Sound Limited incurred ₹ 2,50,000 on legal cost to register the Copyright and ₹ 7,00,000 additional cost to successfully prosecute a copyright infringement suit against a competitor. The life of the Copyright is 10 years.

Super Sound Limited follows an accounting policy to amortize all intangible on SLM (Straight Line Method) basis or any appropriate basis over a maximum period permitted by relevant Ind AS, taking a full year amortization in the year of acquisition.

You are required to prepare:

- (i) A Schedule showing the intangible section in Super Sound Limited Balance Sheet as on 31st March 20X2, and
- (ii) A Schedule showing the related expenses that would appear in the Statement of Profit and Loss of Super Sound Limited for the year ended 20X1-20X2.

Answer

(i)

Super Sounds Limited

Balance Sheet (Extract relating to intangible asset) as at 31st March 20X2

	Note No.	₹
Assets		
(1) Non-current asset		
Intangible assets	1	69,45,000

(ii)

Super Sounds Limited

Statement of Profit and Loss (Extract) for the year ended 31st March 20X2

	Note No.	₹
Revenue from Operations		10,00,000
Expenses:		
Amortization expenses	2	16,25,000
Other expenses	3	7,20,000

Notes to Accounts (Extract)

1. Intangible Assets

		Gross Block (Cost)			Accumulated amortisation			Net block
		Opening balance	Additions	Closing Balance	Opening balance	Additions	Closing Balance	Closing Balance
1.	Goodwill*	-	3,20,000	3,20,000	-	-	-	3,20,000
2.	Franchise**	-	80,00,000	80,00,000	-	16,00,000	16,00,000	64,00,000
3.	Copyright	-	2,50,000	2,50,000	-	25,000	25,000	2,25,000
		-	85,70,000	85,70,000	-	16,25,000	16,25,000	69,45,000

*As per Ind AS 36, irrespective of whether there is any indication of impairment, an entity shall test

goodwill acquired in a business combination for impairment annually. This implies that goodwill is not amortised annually but is subject to annual impairment, if any.

**As per the information in the question, the limiting factor in the contract for the use is time i.e., 5 years and not the fixed total amount of revenue to be generated. Therefore, an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate and amortisation based on time can only be applied.

2. Amortization expenses

Franchise (W.N. 2)	16,00,000	
Copyright (W.N. 3)	<u>25,000</u>	16,25,000

3. Other expenses

Prosecution cost on copyright infringement	7,00,000	
Fee for Franchise (10,00,000 x 2%)	<u>20,000</u>	7,20,000

Working Notes:

	₹
(1) Goodwill on acquisition of business	
Cash paid for acquiring the business	13,20,000
Less: Fair value of net assets acquired	(10,00,000)
Goodwill	3,20,000
(2) Franchise	
Purchase cost	80,00,000
Less: Amortisation (over 5 years)	(16,00,000)
Balance to be shown in the balance sheet	64,00,000
(3) Copyright	
Legal cost to register copyright	2,50,000
Less: Amortisation (over 10 years as per SLM)	(25,000)
Balance to be shown in the balance sheet	2,25,000

Question 4

Pluto Ltd. has purchased a manufacturing plant for ₹ 6 lakhs on 1st April, 20X1. The useful life of the plant is 10 years. On 30th September, 20X3, Pluto temporarily stops using the manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.

The accountant of Pluto ltd. decided to treat the plant as held for sale until the demands picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell

Also, the accountant has also stopped charging the depreciation for the rest of period considering the plant as held for sale. The fair value less cost to sell on 30th September, 20X3 and 31st March, 20X4 was ₹ 4 lakhs and ₹ 3.5 lakhs respectively.

The accountant has performed the following working to determine the carrying amount on initial classification as held for sale:

		₹
Purchase Price of Plant	6,00,000	
Less: Accumulated Depreciation $[(6,00,000/10 \text{ years}) \times 2.5 \text{ years}]$	<u>(1,50,000)</u>	4,50,000
Fair Value less cost to sell as on 30 th September, 20X3		4,00,000
The carrying amount is lower of the above two		4,00,000

Balance Sheet extracts as on 31st March, 20X4

Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	3,50,000

Analyse whether the above accounting treatment made by the accountant is in compliance with the Ind AS. If not, advise the correct treatment and provide balance sheet extract as at 31st March, 20X4 together with the computation of the carrying value of PPE as at 31st March, 20X4.

Note: Assume value in use of the plant as Nil since it has temporarily not been used for manufacturing due to decline in demand.

Answer

The above treatment needs to be examined in the light of the provisions given in Ind AS 16 'Property, Plant and Equipment' and Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'.

Para 6 of **Ind AS 105** 'Non-current Assets Held for Sale and Discontinued Operations' states that "An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use".

Paragraph 7 of Ind AS 105 states that "For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future".

Further, paragraph 8 of Ind AS 105 states that "For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn."

Paragraph 13 of Ind AS 105 states that "An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use."

Paragraph 14 of Ind AS 105 states that "An entity shall not account for a non-current asset that has

been temporarily taken out of use as if it had been abandoned.”

Paragraph 55 of Ind AS 16 states that “Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.”

Going by the guidance given above, the **Accountant of Pluto Ltd. has treated the plant as held for sale** and measured it at the fair value less cost to sell. Also, the depreciation has not been charged thereon since the date of classification as held for sale **which is not correct** and not in accordance with Ind AS 105 and Ind AS 16.

Accordingly, the manufacturing plant should neither be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use. **Pluto Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use** to the end of their economic life.

The working of the same for presenting in the balance sheet is given as below:

Calculation of carrying amount as on 31 st March, 20X4	₹
Purchase Price of Plant	6,00,000
Less: Accumulated depreciation [(6,00,000/10 years) x 3 years]	<u>(1,80,000)</u>
	4,20,000
Less: Impairment loss	(70,000)
	3,50,000

Balance Sheet extracts as on 31st March, 20X4

Assets	₹
Non-Current Assets	
Property, Plant and Equipment	3,50,000

Working Note:

Fair value less cost to sell of the Plant = ₹ 3,50,000

Value in use = Nil

Recoverable amount = Higher of above i.e. ₹ 3,50,000

Impairment loss = Carrying amount – Recoverable amount

Impairment loss = ₹ 4,20,000 – ₹ 3,50,000 = ₹ 70,000

Question 5

Mercury Ltd. is an entity engaged in plantation and farming on a large scale diversified across India. On 1st April, 20X1, the company has received a government grant for ₹ 10 lakhs subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. Eucalyptus trees are not considered as bearer plant in this case.

The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus tree for specified period of five years and accordingly it recognises proportionate grant for ₹ 2 lakhs in Statement of Profit and Loss as income following the principles laid down under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance.

Analyse whether the above accounting treatment made by the management is in compliance of the Ind AS. If not, advise the correct treatment and present an extract of the Balance Sheet for the year ended 31st March 20X2.

Note: Assume that grant is fully refundable on failure to meet the condition of grant.

Answer

As per given facts, the company is engaged in plantation and farming. Hence, **Ind AS 41 Agriculture shall be applicable** to this company.

The above facts need to be examined in the light of the provisions given in Ind AS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’ and Ind AS 41 ‘Agriculture’.

Para 2(d) of Ind AS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’ states “This Standard does not deal with government grants covered by Ind AS 41, Agriculture”.

Further, paragraph 1 (c) of Ind AS 41 ‘Agriculture’, states “This Standard shall be applied to account for the **government grants** covered by paragraphs 34 and 35 when they **relate to agricultural activity**”.

Further, paragraph 1 (c) of Ind AS 41 ‘Agriculture’, states “If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met”.

Understanding of the given facts, **The Company has recognised the proportionate grant for ₹ 2 lakhs in Statement of Profit and Loss** before the conditions attaching to government grant are met **which is not correct** and nor in accordance with provision of Ind AS 41 ‘Agriculture’.

Accordingly, the accounting treatment of government grant received by the Mercury Ltd. is governed by the provision of Ind AS 41 ‘Agriculture’ rather Ind AS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’.

Government grant for ₹ 10 lakhs shall be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met i.e. after the expiry of specified period of five years of continuing engagement in the plantation of eucalyptus tree.

Balance Sheet extracts showing the presentation of Government Grant as on 31st March, 20X2

Liabilities	₹
Non-Current liabilities	
Other Non-Current Liabilities	
Deferred Government Grant	10,00,000

Question 6

Mercury Ltd. has sold goods to Mars Ltd. at a consideration of ₹ 10 lakhs, the receipt of which receivable in three equal installments of ₹ 3,33,333 over a two year period (receipts on 1st April, 20X1, 31st March, 20X2 and 31st March, 20X3).

The company is offering a discount of 5% (i.e. ₹ 50,000) if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.36% p.a.

The total consideration to be received from such sale is at ₹ 10 Lakhs and hence, the management has recognised the revenue from sale of goods for ₹ 10 lakhs.

Analyse whether the above accounting treatment made by the accountant is in compliance of the Ind AS. If not, advise the correct treatment along with journal entries. Also show its presentation in the extracts of Balance Sheet and Statement of Profit & Loss for the year ended 31st March, 20X2 and 20X3.

Answer

The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue. Hence, the **accounting treatment of recognizing revenue of ₹ 10,00,000 by the accountant is not correct.**

The fair value of consideration (**cash price equivalent**) of the sale of goods to be recognised on the date of sale should be calculated as follows: ₹

Year	Consideration (Installment)	PVF @ 5.36%	Present value of consideration
Time of sale	3,33,333	1.000	3,33,333
End of 1 st year	3,33,333	0.949	3,16,333
End of 2 nd year	3,33,334	0.901	3,00,334
	10,00,000		9,50,000

The Company that agrees for deferring the cash inflow from sale of goods will recognise the revenue from sale of goods and finance income as follows (**Journal entries**):

Particulars		₹	₹
Initial recognition of sale of goods			
Cash A/c	Dr.	3,33,333	
Trade Receivable A/c	Dr.	6,16,667	
To Sale A/c			9,50,000
Recognition of interest expense and receipt of second installment			
Cash A/c	Dr.	3,33,333	
To Interest Income A/c (6,16,667 x 5.36%)			33,053
To Trade Receivable A/c			3,00,280
Recognition of interest expense and payment of final installment			
Cash A/c	Dr.	3,33,334	
To Interest Income A/c (Balancing figure)			16,947
To Trade Receivable A/c (6,16,667 – 3,00,280)			3,16,387

Statement of Profit and Loss (extracts) for year ended 31st March, 20X2 and 31st March, 20X3 ₹

	As at 31 st March, 20X2	As at 31 st March, 20X3
Income		
Sale of Goods	9,50,000	-
Other Income (Finance income)	33,053	16,947

Balance Sheet (extracts) as at 31st March, 20X2 and 31st March, 20X3

₹

	As at 31 st March, 20X2	As at 31 st March, 20X3
Assets		
Current Assets		
Financial Assets		
Trade Receivables	3,16,387	–

Question 7

On 1st April 20X1, Star Limited has advanced a housing loan of ₹ 15 lakhs to one of its employees at an interest rate of 6% per annum which is repayable in 5 equal annual installments along with interest at each year end. Employee is not required to give any specific performance against this benefit. The market rate of similar loan for housing finance by banks is 10% per annum.

The accountant of the company has recognized the staff loan in the balance sheet equivalent to the amount of housing loan disbursed i.e. ₹ 15 lakhs. The interest income for the year is recognized at the contracted rate in the Statement of Profit and Loss by the company i.e. ₹ 90,000 (6% of ₹ 15 lakhs).

Analyze whether the above accounting treatment made by the accountant is in compliance with the relevant Ind AS. If not, advise the correct treatment of housing loan, interest and other expenses in the financial statements of Star Limited for the year 20X1-20X2 along with journal entries.

You are required to explain how the housing loan should be reflected in the Ind AS compliant Balance Sheet of Star Limited on 31st March 20X2.

Answer

The accounting treatment made by the accountant is not in compliance with Ind AS 109 'Financial Instruments'. As per Ind AS 109, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value. The fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received.

After initial recognition, an entity shall measure a financial asset either at amortised cost or at fair value through profit and loss or fair value through other comprehensive income.

Here, the loan given to employee is not at market rate. Hence, the fair value of the loan will not be equal to its initial loan proceeds. As per Ind AS 109, a financial instrument is initially measured and recorded in the books at its fair value. Further, interest income to be recognised in the Statement of Profit and Loss will be the finance income recognised at effective rate of interest i.e. @ 10% and not the rate of interest charged by the company i.e. @ 6%.

The correct accounting treatment as per Ind AS 109 will be as under:

For measuring the fair value or present value of the loan at initial recognition, market rate of interest of similar loan is considered (level 1 observable input) i.e. @ 10%, to discount the cash outflows.

The fair value of the loan shall be as follows:

Date	Outstanding loan	Principal	Interest income @6%	Total inflow	Discount factor @10%	PV

31 st March 20X2	15,00,000	3,00,000	90,000	3,90,000	0.909	3,54,510
31 st March 20X3	12,00,000	3,00,000	72,000	3,72,000	0.826	3,07,272
31 st March 20X4	9,00,000	3,00,000	54,000	3,54,000	0.751	2,65,854
31 st March 20X5	6,00,000	3,00,000	36,000	3,36,000	0.683	2,29,488
31 st March 20X6	3,00,000	3,00,000	18,000	3,18,000	0.621	1,97,478
Fair value of the loan						13,54,602

As per Ind AS 19, employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for termination of employment. Difference of loan proceeds and present value of the loan will be treated as prepaid employee cost irrespective of the fact that employee is not required to give any specific performance against this benefit. This is because employee is required to be in service of company to continue availing the benefits of concessional rate of interest on housing loan. Practically, once the employee leaves the organisation, they have to repay the outstanding loan because the company provides the loan at concessional rate of interest only to its employees.

Hence, it is an employee benefit given by the company to its employees. This deemed employee cost of ₹ 1,45,398 (15,00,000 – 13,54,602) will be deferred and amortised over the period of loan on straight line basis.

Calculation of amortised cost of loan to employees

Year ending on 31 st March	Opening Balance	Interest @ 10%	Repayment (incl. interest)	Closing Balance
20X2	13,54,602	1,35,460	3,90,000	11,00,062
20X3	11,00,062	1,10,006	3,72,000	8,38,068
20X4	8,38,068	83,807	3,54,000	5,67,875
20X5	5,67,875	56,788	3,36,000	2,88,663
20X6	2,88,663	29,337*	3,18,000	-

*2,88,663 x 10% = ₹ 28,866. Difference of ₹ 471 (29,337 – 28,866) is due to approximation.

Journal Entries to be recorded at every period end:

1. On 1st April 20X1

Particulars		Dr. Amount (₹)	Cr. Amount (₹)
Loan to employee A/c	Dr.	13,54,602	
Prepaid employee cost A/c	Dr.	1,45,398	
To Bank A/c			15,00,000
(Being loan asset recorded at initial fair value)			

2. On 31st March 20X2

Particulars		Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c	Dr.	3,90,000	
To Finance income A/c (profit and loss)			1,35,460
To Loan to employee A/c			2,54,540

(Being first instalment of repayment of loan accounted using amortised cost and effective interest rate @ 10%)		
Employee benefit cost (profit and loss) A/c Dr.	29,080	
To Prepaid employee cost A/c (1,45,398/5)		29,080
(Being amortization of prepaid employee cost charged to profit and loss as employee benefit cost)		

Extracts of Balance sheet of Star Ltd. as at 31st March 20X2

Non-current asset	
Financial asset	
Loan to employee (11,00,062 – 3,72,000 + 1,10,006)	8,38,068
Other non-current asset	
Prepaid employee cost	87,238
Current asset	
Financial asset	
Loan to employee (3,72,000 – 1,10,006)	2,61,994
Other current asset	
Prepaid employee cost	29,080

Deferred tax on temporary differences arising on the above-mentioned account balances should be recognised. However, in absence of any tax rate in the question no deferred tax has been recognised.

Question 8

Following are the Financial Statements of Abraham Ltd.:

Balance Sheet

(₹ in lakh)

Particulars	Note No.	31.03.20X1
EQUITY AND LIABILITIES:		
Shareholders' funds		
Share capital (shares of ₹ 10 each)		1,000
Reserves and surplus	1	2,400
Non-current liabilities		
Long term borrowings	2	5,700
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		300
Short-term provisions		300
Other current liabilities	4	200
Total		10,300

ASSETS		
Non-current assets		
Fixed assets		5,000
Deferred tax assets	3	700
Current assets		
Inventories		1,500
Trade receivables	5	1,100
Cash and bank balances		2,000
Total		10,300

Statement of Profit & Loss

(₹ in lakh)

Particulars	Note No.	31.03.20X1
Revenue from operations		<u>6,000</u>
Expenses:		
Employee benefit expense		1,200
Operating costs		3,199
Depreciation		<u>450</u>
Total expenses		<u>4,849</u>
Profit before tax		1,151
Tax expense		(201)
Profit after tax		950

Notes to Accounts:

Note 1: Reserves and surplus

(₹ in lakh)

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

Note 2: Long-term borrowings

Term loan from bank	5,700
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Note 3: Deferred tax

Deferred tax asset	700
Deferred tax liability	400
	Total
	300

Note 4: Other current liabilities

Unclaimed dividends	10
Billing in advance	150
Other current liabilities	40
Total	200

Note 5: Trade Receivables

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

Additional information:

- (i) Share capital comprises of 100 lakh shares of ₹ 10 each.
- (ii) Term Loan from bank for ₹ 5,700 lakh also includes interest accrued and due of ₹ 700 lakh as on the reporting date.
- (iii) Reserve for foreseeable loss is created against a service contract due within 6 months.
- (iv) Inventory is valued at cost of ₹ 1,500 lakh (NRV as on date is ₹ 1,200 lakh).
- (v) A dividend of 10% is declared after 31st March 20X1 by the Board of directors of the company. However, the same has not been yet accounted by the company in its financials.
- (vi) Accrued Interest income of ₹ 300 lakh is not booked in the books of the company.
- (vii) Deferred taxes related to taxes on income are levied by the same governing tax laws.

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

Answer

Following adjustments/rectifications are required to be done:

1. Reserve for foreseeable loss for ₹ 400 lakh, due within 6 months, should be a part of provisions. Hence it needs to be regrouped. If it was also part of previous year's comparatives, a note should be added in the notes to account on the regrouping done this year.
2. Interest accrued and due of ₹ 700 lakh on term loan will be a part of current liabilities. Thus, it should be shown under the heading "Other Financial Liabilities".
3. As per Ind AS 2, inventories are measured at the lower of cost and net realisable value. The amount of any write down of inventories to net realisable value is recognised as an expense in the period the write-down occurs. Hence, the inventories should be valued at ₹ 1,200 lakh and write down of ₹ 300 lakh (₹ 1,500 lakh – ₹ 1,200 lakh) will be added to operating cost of entity.
4. Since dividend is declared after the reporting date. Hence, no adjustment for the same is made in the financial year 20X0-20X1. However, a note will be given separately in this regard (not forming part of item of financial statements).
5. Accrued income will be shown in the Statement of Profit and Loss as 'Other Income' and as 'Other

Financial Asset' in the Balance Sheet.

6. Since the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws, these shall be set off, in accordance with Ind AS 12. The net DTA of ₹ 300 lakh will be shown in the balance sheet.
7. As per Division II of Schedule III to the Companies Act, 2013, the Statement of Profit and Loss should present the Earnings per Equity Share.
8. In Ind AS, Assets are not presented in the Balance sheet as 'Fixed Asset', rather they are classified as 'Property, Plant and Equipment'.
9. The presentation of the notes to 'Trade Receivables' will be modified as per the requirements of Division II of Schedule III.

Balance Sheet of Abraham Ltd. for the year ended 31st March, 20X1

Particulars	Note No.	(₹ in lakh)
ASSETS		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	1	300
Current assets		
Inventories		1,200
Financial assets		
Trade receivables	2	1,100
Cash and cash equivalents		2,000
Other financial assets (accrued interest)		300
TOTAL		9,900
EQUITY AND LIABILITIES		
Equity		
Equity share capital	3	1,000
Other equity	4	2,000
Non-current liabilities		
Financial liabilities		
Long-term borrowings	5	5,000
Current liabilities		
Financial liabilities		
Trade payables		300
Other financial liabilities	6	710
Short-term provisions (300 + 400)	7	700
Other current liabilities	8	190
TOTAL		9,900

Statement of Profit and Loss of Abraham Ltd. for the year ended 31st March, 20X1

Particulars	Note No.	(₹ in lakh)
Revenue from operations		6,000
Other income (accrued interest)		<u>300</u>
Total income		<u>6,300</u>
Expenses		
Operating costs (3,199 + 300)		3,499
Employee benefits expense		1,200
Depreciation		<u>450</u>
Total expenses		<u>5,149</u>
Profit before tax		1,151
Tax expense		(201)
Profit for the period		950
Earnings per equity share		
Basic		9.5
Diluted		9.5

Statement of Changes in Equity of Abraham Ltd. For the year ended 31st March, 20X1

3. Equity Share Capital (₹ in lakh)

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
1,000	0	1,000

4. Other Equity (₹ in lakh)

Particulars	Reserves & Surplus		Total
	Capital reserve	Retained Earnings	
Balance at the beginning of the year	500	550	1,050
Total comprehensive income for the year		950	950
Balance at the end of the year	500	1,500	2,000

Notes to Accounts

1. Deferred Tax (₹ in lakh)

Deferred Tax Asset	700
Deferred Tax Liability	(400)
	300

2. Trade Receivables (₹ in lakh)

Trade receivables considered good	1,065
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Trade receivables which have significant increase in credit risk	40	
Less: Provision for doubtful debts	<u>(5)</u>	35
Total		1,100

5. Long Term Borrowings (₹ in lakh)

Term Loan from Bank (5,700 – 700)	5,000
Total	5,000

6. Other Financial Liabilities (₹ in lakh)

Unclaimed dividends	10
Interest on term loan	700
Total	710

7. Short-term provisions (₹ in lakh)

Provisions	300
Foreseeable loss against a service contract	400
Total	700

8. Other Current Liabilities (₹ in lakh)

Billing in Advance	150
Other	40
Total	190

9. Dividends not recognised at the end of the reporting period

At year end, the directors have recommended the payment of dividend of 10% i.e. ₹ 1 per equity share. This proposed dividend is subject to the approval of shareholders in the ensuing annual general meeting.

Question 9

Deepak started a new company Softbharti Pvt. Ltd. with Iktara Ltd. wherein investment of 55% is done by Iktara Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company formed was the subsidiary of Iktara Ltd. with two directors, and Deepak eventually becomes one of the directors of company. A consultant was hired and he charged ₹ 30,000 for the incorporation of company and to do other necessary statutory registrations. ₹ 30,000 is to be charged as an expense in the books after incorporation of company. The company, Softbharti Pvt. Ltd. was incorporated on 1st April 20X1.

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

An accountant who was hired at the time of company's incorporation, has prepared the draft financials of Softbharti Pvt. Ltd. for the year ending 31st March, 20X2 as follows:

Statement of Profit and Loss

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

Balance Sheet

Particulars	Amount (₹)
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions (DBO)	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	1,06,500
TOTAL	5,21,000
ASSETS	
(1) Non-Current Assets	
(a) Property, plant and equipment (net)	1,00,000
(b) Long-term Loans	40,000
(c) Other Non-Current Assets	50,000
(2) Current Assets	

(a) Current Investment	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	51,000
TOTAL	5,21,000

Additional information of Softbharti Pvt Ltd.:

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

Difference in depreciation amount as per Income tax and accounting profit.

There is only one property, plant and equipment in the company, whose closing balance as at 31st March, 20X2 is as follows:

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

- (ii) Pre incorporation expenses are deductible on straight line basis over the period of five years as per Income tax. However, the same are immediately expensed off in the books.
- (iii) Current tax is calculated at 30% on PBT of ₹ 3,55,000 without doing any adjustments related to Income tax. The correct current tax after doing adjustments of allowances/disallowances related to Income tax comes to ₹ 1,25,700.
- (iv) After the reporting period, the directors have recommended dividend of ₹ 15,000 for the year ending 31st March, 20X2 which has been deducted from reserves and surplus. Dividend payable of ₹ 15,000 has been grouped under 'other current liabilities' alongwith other financial liabilities.
- (v) There are 'Government statutory dues' amounting to ₹ 15,000 which are grouped under 'other current liabilities'.
- (vi) The capital advances amounting to ₹ 50,000 are grouped under 'Other non-current assets'.
- (vii) Other current assets of ₹ 51,000 comprise Interest receivable from trade receivables.
- (viii) Current investment of ₹ 30,000 is in shares of a company which was done with the purpose of trading; current investment has been carried at cost in the financial statements. The fair value of current investment in this case is ₹ 50,000 as at 31st March, 20X2.
- (ix) Actuarial gain on employee benefit measurements of ₹ 1,000 has been omitted in the financials of Softbharti private limited for the year ending 31st March, 20X2.

The financial statements for financial year 20X1-20X2 have not been yet approved.

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

Answer

If Ind AS is applicable to any company, then Ind AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of set of standards on such companies.

In the given case, it has been mentioned that the financials of Iktara Ltd. are prepared as per Ind AS. Accordingly, the results of its subsidiary Softbharti Pvt. Ltd. should also have been prepared as per Ind AS. However, financials of Softbharti Pvt. Ltd. have been presented as per accounting standards (AS).

Hence, it is necessary to revise the financial statements of Softbharti Pvt. Ltd. as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

The revised financial statements of Softbharti Pvt. Ltd. as per Ind AS and Division II to Schedule III of the Companies Act, 2013 are as follows:

Statement of Profit and Loss for the year ended 31st March, 20X2

Particulars	Amount (₹)
Revenue from operations	10,00,000
Other Income (1,00,000 + 20,000) [Refer note 1]	1,20,000
Total Revenue	11,20,000
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses	7,45,000
Profit before tax	3,75,000
Current tax	1,25,700
Deferred tax (W.N.)	4,800
Total tax expense	1,30,500
Profit for the year (A)	2,44,500
OTHER COMPREHENSIVE INCOME	
Items that will not be reclassified to Profit or Loss:	
Remeasurements of net defined benefit plans	1,000
Tax liabilities relating to items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans (tax) [1,000 x 30%]	(300)
Other Comprehensive Income for the period (B)	700
Total Comprehensive Income for the period (A + B)	2,45,200

Balance Sheet as at 31st March, 20X2

Particulars	(₹)
ASSETS	
Non-current assets	
Property, plant and equipment	1,00,000

Financial assets	
Loans	40,000
Other non-current assets (capital advances) [Refer note 2]	50,000
Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) [Refer note 1]	50,000
Trade receivables	55,000
Cash and cash equivalents	1,15,000
Other financial assets (Interest receivable from trade receivables)	51,000
TOTAL ASSETS	5,41,000
EQUITY AND LIABILITIES	
Equity	
Equity share capital	1,00,000
Other equity	2,45,200
Non-current liabilities	
Provision (25,000 – 1,000)	24,000
Deferred tax liabilities (4800 + 300)	5,100
Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 5)	15,000
Other current liabilities (Government statutory dues) [Refer note 3]	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	5,41,000

Statement of Changes in Equity for the year ended 31st March, 20X2

A. Equity Share Capital

	₹
As at 31 st March, 20X1	–
Changes in equity share capital during the year	1,00,000
As at 31 st March, 20X2	1,00,000

B. Other Equity (Retained Earnings)

	₹
As at 31 st March, 20X1	–
Profit for the year	2,44,500

Other comprehensive income for the year	700
Total comprehensive income for the year	2,45,200
Less: Dividend on equity shares (Refer note 4)	-
As at 31 st March, 20X2	2,45,200

Disclosure Forming Part of Financial Statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance Sheet date. (Refer note 4)

Notes:

1. Current investment is held for the purpose of trading. Hence, it is a financial asset classified as FVTPL. Any gain in its fair value will be recognised through profit or loss. Hence, ₹ 20,000 (₹ 50,000 – ₹ 30,000) increase in fair value of financial asset will be recognised in profit and loss. However, it will attract deferred tax liability on increased value (Refer W.N.).
2. Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
3. Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.
4. As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.
5. Other current financial liabilities:

	(₹)
Balance of other current liabilities as per financial statements	45,000
Less: Dividend declared for FY 20X1-20X2 (Refer note 4)	(15,000)
Less: Reclassification of government statutory dues to other current liabilities	(15,000)
Closing balance	15,000

W.N.: Calculation of deferred tax on temporary differences as per Ind AS 12 for 20X1-20X2

Item	Carrying amount	Tax base	Difference	DTA/DTL @ 30%
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000 – DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200 – DTA
Current Investment	50,000	30,000	20,000	6,000 – DTL
Net DTL				4,800 – DTL

Question 10

Master Creator Private Limited is an Indian company to whom Ind AS are applicable. Following draft balance sheet is prepared by the accountant for year ending 31st March 20X2.

Balance Sheet of Master Creator Private Limited as at 31st March, 20X2

Particulars	₹
ASSETS	
Non-current assets	
Property, plant and equipment	85,37,500
Financial assets	
Other financial assets (Security deposits)	4,62,500
Other non-current assets (capital advances)	17,33,480
Deferred tax assets	2,54,150
Current assets	
Trade receivables	7,25,000
Inventories	5,98,050
Financial assets	
Investments	55,000
Other financial assets	2,17,370
Cash and cash equivalents	1,16,950
TOTAL ASSETS	1,27,00,000
EQUITY AND LIABILITIES	
Equity share capital	10,00,000
Non-current liabilities	
Other Equity	25,00,150
Deferred tax liability	4,74,850
Borrowings	64,00,000
Long term provisions	5,24,436
Current liabilities	
Financial liabilities	
Other financial liabilities	2,00,564
Trade payables	6,69,180
Current tax liabilities	9,30,820
TOTAL EQUITY AND LIABILITIES	1,27,00,000

Additional Information:

- On 1st April 20X1, 8% convertible loan with a nominal value of ₹ 64,00,000 was issued by the entity. It is redeemable on 31st March 20X5 also at par. Alternatively, it may be converted into equity shares on the basis of 100 new shares for each ₹ 200 worth of loan.

An equivalent loan without the conversion option would have carried interest at 10%. Interest of ₹ 5,12,000 has already been paid and included as a finance cost.

Present Value (PV) rates are as follows:

Year End	@ 8%	@ 10%
1	0.93	0.91
2	0.86	0.83
3	0.79	0.75
4	0.73	0.68

2. After the reporting period, the board of directors have recommended dividend of ₹ 50,000 for the year ending 31st March, 20X1. However, the same has not been yet accounted by the company in its financials.

3. 'Other current financial liabilities' consists of the following:

Particulars	Amount (₹)
Wages payable	21,890
Salary payable	61,845
TDS payable	81,265
Interest accrued on trade payables	35,564

4. Property, Plant and Equipment consists following items:

Particulars	Amount (₹)	Remarks
Building	37,50,250	It is held for administration purposes
Land	15,48,150	It is held for capital appreciation
Vehicles	12,37,500	These are used as the conveyance for employees
Factory premises	20,01,600	The construction was started on 31 st March 20X2 and consequently no depreciation has been charged on it. The construction activities will continue to happen, and it will take 2 years to complete and be available for use.

5. The composition of 'other current financial assets' is as follows:

Particulars	Amount (₹)
Interest accrued on bank deposits	57,720
Prepaid expenses	90,000
Royalty receivable from dealers	69,650

6. Current Investments consist of securities held for trading which should be carried at fair value through profit & loss. Investments were purchased on 1st January, 20X2 at ₹ 55,000 and accordingly are shown at cost as at 31st March 20X2. The fair value of said investments as on 31st March 20X2 is ₹ 60,000.

7. Trade payables and Trade receivables are due within 12 months.

8. There has been no changes in equity share capital during the year.

9. Entity has the intention to set off a deferred tax asset against a deferred tax liability as they relate

to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off taxes.

10. Other Equity consists retained earnings only. The opening balance of retained earnings was ₹ 21,25,975 as at 1st April 20X1.
11. No dividend has been actually paid by company during the year.
12. Assume that the deferred tax impact, if any on account of above adjustments is correctly calculated in financials.

Being Finance & Accounts manager, you are required to identify the errors and misstatements if any in the balance sheet of Master Creator Private Limited and prepare corrected balance sheet with details on the face of balance sheet i.e. no need to prepare notes to accounts, after considering the additional information. Provide necessary explanations/workings for the treated items, wherever necessary.

Answer

Balance Sheet of Master Creator Private Limited as at 31st March, 20X2

Particulars	Note No.	(₹)
ASSETS		
Non-current assets		
Property, plant and equipment	1	49,87,750
Capital work-in-progress	2	20,01,600
Investment Property	3	15,48,150
Financial assets		
Other financial assets (Security deposits)		4,62,500
Other non-current assets (capital advances)	4	17,33,480
Current assets		
Inventories		5,98,050
Financial assets		
Investments (55,000 + 5,000)	5	60,000
Trade receivables	6	7,25,000
Cash and cash equivalents	7	1,16,950
Other financial assets	8	1,27,370
Other current assets (Prepaid expenses)	8	90,000
TOTAL ASSETS		1,24,50,850
EQUITY AND LIABILITIES		
Equity		
Equity share capital	A	10,00,000
Other equity	B	28,44,606
Non-current liabilities		
Financial liabilities		

8% Convertible loan	11	60,60,544
Long term provisions		5,24,436
Deferred tax liability	12	2,20,700
Current liabilities		
Financial liabilities		
Trade payables	13	6,69,180
Other financial liabilities	14	1,19,299
Other current liabilities (TDS payable)	15	81,265
Current tax liabilities		9,30,820
TOTAL EQUITY AND LIABILITIES		1,24,50,850

Statement of changes in equity for the year ended 31st March, 20X2

A. Equity Share Capital

	Balance (₹)
As at 31 st March, 20X1	10,00,000
Changes in equity share capital during the year	-
As at 31 st March, 20X2	10,00,000

B. Other Equity

	Retained Earnings	Equity component of Compound Financial Instrument	Total
As at 31 st March, 20X1	21,25,975	-	21,25,975
Total comprehensive income for the year (25,00,150 + 5,000 - 85,504 - 21,25,975)	2,93,671	-	2,93,671
Issue of compound financial instrument during the year	-	4,24,960	4,24,960
As at 31st March, 20X2	24,19,646	4,24,960	28,44,606

Disclosure forming part of Financial Statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance Sheet date. (Note 9)

Notes/Workings (for adjustments/explanations):

- Property, plant and equipment are tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period. Therefore, the items of PPE are Buildings (₹ 37,50,250) and Vehicles (₹ 12,37,500), since those assets are held for administrative purposes.
- Property, plant and equipment which are not ready for intended use as on the date of Balance

Sheet are disclosed as “Capital work-in-progress”. It would be classified from PPE to Capital work-in-progress.

3. Investment property is property (land or a building, or part of a building or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

Therefore, Land held for capital appreciation is Investment property rather than PPE.

4. Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
5. Current investments here are held for purpose of trading. Hence, it is a financial asset classified as FVTPL. Any gain in its fair value will be recognised through profit or loss. Hence, ₹ 5,000 (60,000 – 55,000) increase in fair value of financial asset will be recognised in profit and loss.
6. A contractual right to receive cash or another financial asset from another entity is a financial asset. Trade receivables is a financial asset in this case and hence should be reclassified.
7. Cash is a financial asset. Hence it should be reclassified.
8. Other current financial assets:

Particulars	Amount (₹)
Interest accrued on bank deposits	57,720
Royalty receivable from dealers	69,650
Total	1,27,370

Prepaid expenses does not result into receipt of any cash or financial asset. However, it results into future goods or services. Hence, it is not a financial asset.

9. As per Ind AS 10, ‘Events after the Reporting Period’, If dividends are declared after the reporting period but before the financial statements are approved for issue, dividends are not recognized as liability at the end of reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.
10. ‘Other Equity’ cannot be shown under ‘Non-current liabilities’. So, it is reclassified under ‘Equity’.
11. There are both ‘equity’ and ‘debt’ features in the instrument. An obligation to pay cash i.e. interest at 8% per annum and a redemption amount will be treated as ‘financial liability’ while option to convert the loan into equity shares is the equity element in the instrument. Therefore, convertible loan is a compound financial instrument.

Calculation of debt and equity component and amount to be recognised in the books:

S. No.	Year	Interest amount @ 8%	Discounting factor @ 10%	Amount (₹)
Year 1	20X2	5,12,000	0.91	4,65,920
Year 2	20X3	5,12,000	0.83	4,24,960
Year 3	20X4	5,12,000	0.75	3,84,000
Year 4	20X5	69,12,000	0.68	47,00,160

Amount to be recognised as a liability	59,75,040
Initial proceeds	(64,00,000)
Amount to be recognised as equity	4,24,960

*In year 4, the loan note will be redeemed; therefore, the cash outflow would be ₹ 69,12,000 (₹ 64,00,000 + ₹ 5,12,000).

Presentation in the Financial Statements:

In Statement of Profit and Loss for the year ended on 31st March 20X2

Particulars	Amount (₹)
Finance cost to be recognised in Profit and Loss (₹ 59,75,040 x 10%)	5,97,504
Less: Already charged to the Statement of Profit and Loss	(5,12,000)
Additional finance charge required to be recognised in Profit & Loss	85,504

In Balance Sheet as at 31st March 20X2

Particulars	Amount (₹)
Equity and Liabilities	
Equity	
Other Equity (8% convertible loan)	4,24,960
Non-current liability	
Financial liability [8% convertible loan (59,75,040 + 5,97,504 – 5,12,000)]	60,60,544

12. Since entity has intention to set off deferred tax asset against deferred tax liability and the entity has legally enforceable right to set off taxes, hence their balance on net basis should be shown as:

Particulars	Amount (₹)
Deferred tax liability	4,74,850
Deferred tax asset	(2,54,150)
Deferred tax liability (net)	2,20,700

13. A liability that is a contractual obligation to deliver cash or another financial asset to another entity is a financial liability. Trade payables is a financial liability in this case.

14. 'Other current financial liabilities':

Particulars	Amount (₹)
Wages payable	21,890
Salary payable	61,845
Interest accrued on trade payables	35,564
Total	1,19,299

15. Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities. Hence, TDS payable should be reclassified from 'Other current financial liabilities' to 'Other current liabilities' since it is not a contractual obligation.