

**For CA FINAL**

**FINANCIAL REPORTING**

**DIGEST**

**(Newly Added Questions)**

**\*Including MTP RTP Questions Upto Dec 21  
which were not included in Edition 4**

**This PDF can be referred along-with Edition 4  
of Question Bank**

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# FINANCIAL REPORTING

## #FRWITHAK

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1	Roadmap	-	-	-	-
2	Conceptual Framework	5	0	5	1
3	IND AS 1	3	0	3	6
4	IND AS 2	1	1	0	9
5	IND AS 7	2	1	1	10
6	IND AS 8	3	2	1	13
7	IND AS 10	-	-	-	-
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9	IND AS 16	3	2	1	19
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18	IND AS 37	-	-	-	-
19	IND AS 38	-	-	-	-
20	IND AS 40	1	1	-	36



# FINANCIAL REPORTING

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21	IND AS 41	3	2	1	37
22	IND AS 101	2	0	2	40
23	IND AS 105	1	0	1	42
24	IND AS 108	-	-	-	-
25	IND AS 113	2	0	2	43
26	IND AS 115	1	0	1	45
27	IND AS 116	3	2	1	46
28	IND AS 102	1	0	1	49
29	IND AS 103	1	0	1	50
30	IND AS 110 & 27	5	1	4	56
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# CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING UNDER IND AS

## Module Questions

### Illustration 1

#### Derecognition vs. Faithful Representation

As at 31 March 20X2, Natasha Ltd. carried trade receivables of ₹ 280 crores in its balance sheet. At that date, Natasha Ltd. entered into a factoring agreement with Samantha Ltd., a financial institution, according to which it transferred the trade receivables in exchange for an immediate cash payment of ₹ 250 crores. As per the factoring agreement, any shortfall between the amount collected and ₹ 250 crores will be reimbursed by Natasha Ltd. to Samantha Ltd. Once the trade receivables have been collected, any amounts above ₹ 250 crores, less interest on this amount, will be repaid to Natasha Ltd. The directors of Natasha Ltd. are of the opinion that the trade receivables should be derecognized.

You are required to explain the appropriate accounting treatment of this transaction in the financial statements for the year ending 31 March 20X2, and also evaluate this transaction in the context of the Conceptual Framework for Financial Reporting. Hence there is outcome uncertainty.

#### Solution

##### Accounting Treatment:

Trade Receivables fall within the ambit of financial assets under Ind AS 109, Financial Instruments. Thus, the issue in question is whether the factoring arrangement entered into with Samantha Ltd. requires Natasha Ltd. to derecognize the trade receivables from its financial statements.

As per Para 3.2.3, 3.2.4, 3.2.5 and 3.2.6 of Ind AS 109, Financial Instruments, an entity shall derecognise a financial asset when, and only when:

- the contractual rights to the cash flows from the financial asset expire, or
- it transfers the financial asset or substantially all the risks and rewards of ownership of the financial asset to another party.

In the given case, since the trade receivables are appearing in the Balance Sheet of Natasha Ltd. as at 31 March 20X2 and are expected to be collected, the contractual rights to the cash flows have not expired.

As far as the transfer of the risks and rewards of ownership is concerned, the factoring arrangement needs to be viewed in its substance, rather than its legal form. Natasha Ltd. has transferred the receivables to Samantha Ltd. for cash of ₹ 250 crores, and yet, it remains liable for making good any shortfall between ₹ 250 crores and the amount collected by Samantha Ltd. Thus, in substance, Natasha Ltd. is effectively liable for the entire ₹ 250 crores, although the shortfall would not be such an amount. Accordingly, Natasha Ltd. retains the credit risk despite the factoring arrangement entered.

It is also explicitly stated in the agreement that Samantha Ltd. would be liable to pay to Natasha Ltd. any amount collected more than ₹ 250 crores, after retaining an amount towards interest. Thus, Natasha Ltd. retains the potential rewards of full settlement.

A perusal of the above clearly shows that substantially all the risks and rewards continue to remain with Natasha Ltd., and hence, the trade receivables should continue to appear in the Balance Sheet of Natasha Ltd. The immediate payment (i.e. consideration as per the factoring agreement) of ₹ 250 crores by Samantha Ltd. to Natasha Ltd. should be regarded as a financial liability, and be shown as such by Natasha Ltd. in its Balance Sheet.

### Illustration 2

Explain the criteria in the Conceptual Framework for Financial Reporting for the recognition of an asset and discuss whether there are inconsistencies with the criteria in Ind AS 38, Intangible Assets.

#### Solution:

The Conceptual Framework defines an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Assets should be recognized if they meet the Conceptual Framework definition of an asset and such recognition provides users of financial statements with information that is useful (i.e. it is relevant as well as results in faithful representation). However, the criteria of a cost-benefit analysis always exists i.e. the benefits of the information must be sufficient to justify the costs of providing such information. The recognition criteria outlined in the Conceptual Framework allows for flexibility in the application in amending or developing the standards.

Para 8 of Ind AS 38, Intangible Assets defines an intangible asset as an identifiable non-monetary asset without physical substance. Further, Ind AS 38 defines an asset as a resource:

- (a) controlled by an entity as a result of past events; and
- (b) from which future economic benefits are expected to flow to the entity.

Furthermore, Para 21 of Ind AS 38 states that an intangible asset shall be recognised if, and only if:

- (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- (b) the cost of the asset can be measured reliably.

This requirement is applicable both in case of an externally acquired intangible asset or an internally generated intangible asset. The probability of expected future economic benefits must be based on reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. Further, as per Para 33 of Ind AS 38, the probability recognition criterion is always considered to be satisfied for intangible assets acquired in business combinations. If the recognition criteria are not satisfied, Ind AS 38 requires the expenditure to be expensed as and when it is incurred.

It is notable that the Conceptual Framework does not prescribe a 'probability criterion'. As long as there is a potential to produce economic benefits, even with a low probability, an item can be recognized as an asset according to the Conceptual Framework. However, in terms of intangible assets, it could be argued that recognizing an intangible asset having low probability of generating economic benefits would not be useful to the users of financial statements given that the asset has no physical substance.

The recognition criteria and definition of an asset under Ind AS 38 are different as compared to those outlined in the Conceptual Framework. To put in simple words, the criteria in Ind AS 38 are more specific, but definitely do provide information that is relevant and a faithful representation. When viewed from the prism of relevance and faithful representation, the requirements of Ind AS 38 in terms of recognition appear to be consistent with the Conceptual Framework.

### Illustration 3

The directors of Hind Ltd. are particular about the usefulness of the financial statements. They have opined that although Ind AS implement a fair value model, Ind AS are failing in reflecting the usefulness of the financial statements as they do not reflect the financial value of the entity.

Discuss the views of the directors as regards the use of fair value in Ind AS and the fact that the Ind AS do not reflect the financial value of an entity, making.

#### Solution:

#### Usage of Fair Value in Ind AS:

Treatment under Ind AS:

The statement of the directors regarding Ind AS implementing a fair value model is not entire accurate. Although Ind AS do use fair value (and present value), it is not a complete fair value system. Ind AS are often based on the business model of the entity and on the expectations of realizing the asset- and liability-related cash flows through operations and transfers.

It is notable that what is preferred is a mixed measurement system, with some items being measured at fair value while others measured at historical cost.

About Fair Value (Ind AS 113)

Ind AS 113 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This price is an exit price.

Ind AS 113 has given consistency to the definition and application of fair value, and this consistency is applied across other Ind AS, which are generally required to measure fair value in accordance with Ind AS 113. However, it cannot be implied that Ind AS requires all assets and liabilities to be measured at fair value. Rather, many entities measure most items at depreciated historical costs, although the exception being in the case of business combinations, where assets and liabilities are recorded at fair value on the date of acquisition. In other cases, usage of fair value is restricted.

#### Examples of use of fair value in Ind AS:

- (a) Ind AS 16 Property, Plant and Equipment permits revaluation through other comprehensive income, provided it is carried out regularly.
- (b) Disclosure of fair value of Investment Property in Ind AS 40, while the companies account for the same under the cost model.
- (c) Ind AS 38 Intangible Assets allows measurement of intangible assets at fair value with corresponding changes in equity, but only if the assets can be measured reliably by way of existence of an active market for them.
- (d) Ind AS 109 Financial Instruments requires some financial assets and liabilities to be measured at amortized cost and others at fair value. The measurement basis is largely determined by the business model for that financial instrument. Where the financial instruments are carried at fair value, depending on the category and circumstances, the movement in the fair value (gain or loss) is either recognized in profit or loss or in other comprehensive income.

#### Financial value of an entity

Although Ind AS makes use of fair values in the measurement of assets and liabilities, the financial statements prepared under Ind AS are not intended to reflect the aggregate value of the entity, as could be the notion among people. As discussed in 2.2 above, the Conceptual Framework specifically states that general purpose financial statements are not intended to show the value of a reporting entity. Furthermore, such an attempt would not be fruitful as certain internally generated intangible assets cannot be recognized under Ind AS. Instead, the objective of general purpose financial reports is to provide financial information about the reporting entity which would be useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

It is only in the case of acquisition of an entity by another entity and subsequent consolidation in group accounts that an entity's net assets are reported at fair value.

#### Illustration 4

Everest Ltd. is a listed company having investments in various subsidiaries. In its annual financial statements for the year ending 31 March 20X2 as well as 31 March 20X3, Everest Ltd. classified Kanchenjunga Ltd. a subsidiary as 'held-for-sale' and presented it as a discontinued operation. On 1 November 20X1, the shareholders had authorized the management to sell all of its holding in Kanchenjunga Ltd. within the year. In the year to 31 March 20X2, the management made a public announcement of its intention to sell the investment but did not actively try to sell the subsidiary as it was still operational within the Everest group.

Certain organizational changes were made by Everest Ltd. during the year to 31 March 20X3, thereby resulting in additional activities being transferred to Kanchenjunga Ltd. Additionally, during the year ending 31 March 20X3, there had been draft agreements and some correspondence with investment bankers, which showed in principle only that Kanchenjunga was still for sale.

Discuss whether the classification of Kanchenjunga Ltd. as held for sale and its presentation as a discontinued operation is appropriate, by referring to the principles notes.

#### Solution:

Kanchenjunga Ltd. is a disposal group in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations. Disposal group can be defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Para 6 of Ind AS 105 provides that a disposal group shall be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Ind AS 105 is particularly strict as far as the application of held for sale criteria is concerned, and often the decision to sell an asset or a disposal group is made well before the criteria are met.

Thus, as per Ind AS 105, for the asset (or disposal group) to be classified as held for sale, it 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.

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).
- ✓ An active programme to locate a buyer and complete the plan must have been initiated.
- ✓ The asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- ✓ The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.
- ✓ It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

In the given case, the draft agreements and correspondence with investment bankers are not specific enough to fit in the points above to prove that the criteria for held for sale was met at that date. Additional information would be needed to confirm that the subsidiary was available for immediate sale, and that it was being actively marketed at an appropriate price so as to satisfy the criteria in the year to 31 March 20X2.

Further, the organizational changes made by Everest Ltd. in the year 20X2-20X3 are a good indicator that Kanchenjunga Ltd. was not available for immediate sale in its present condition at the point of classification. The fact that additional activities have been given to Kanchenjunga Ltd. indicate that the change wasn't insignificant. The shareholders had authorized for a year from 1 November 20X1. There is no evidence that this authorization extended beyond 1 November 20X2.

#### **Conclusion:**

Based on the information provided in the given case, it appears that Kanchenjunga Ltd. should not be classified by Everest Ltd. as a subsidiary held for sale. Instead, the results of the subsidiary should be reported as a continuing operation in the financial statements for the year ending 31 March 20X2 and 31 March 20X3.

#### **Evaluation of treatment in context of the Conceptual Framework**

The Conceptual Framework states that the users need information to allow them to assess the amount, timing and uncertainty of the prospects for future net cash inflows. Highlighting the results of discontinued operations separately equips users with the information that is relevant to this assessment as the discontinued operation will not contribute to cash flows in the future.

If a company has made a firm decision to sell the subsidiary, it could be argued that the subsidiary should be classified as discontinued operation, even if the criteria to classify it as 'held for sale' as per Ind AS 105 have not been met, because this information would be more useful to users. However, Ind AS 105 criteria was developed with high degree of strictness on classification. Accordingly, this decision could be argued to be in conflict with the Conceptual Framework.

#### **Illustration 5**

The directors of Jayant Ltd. have received the following email from its majority shareholder:

To: Directors of Jayant Ltd. Re: Measurement

I recently read an article published in the financial press about the 'mixed measurement approach' that is used by lots of companies. I hope Jayant Ltd. does not follow such an approach because 'mixed' seems to imply 'inconsistent'. I believe that consistency is of paramount importance, and hence feel it would be better to measure everything in a uniform manner. It would be appreciated if you could provide further information at the next annual general meeting on measurement bases, covering what approach is taken by Jayant Ltd.

and why, and the potential effect such an approach has on the investors trying to analyse the financial statements.

Prepare notes for the directors of Jayant Ltd. to discuss the issue raised in the shareholders' email with reference to the Conceptual Framework wherever appropriate.

### **Solution**

'Mixed measurement' approach implies that a company selects different measurement bases (e.g. historical cost or fair value) for its various assets and liabilities, rather than using one single measurement basis for all items. The measurement basis so selected should reflect the type of entity and the sector in which it operates and the business model that the entity adopts.

There are criticisms of the mixed measurement approach, particularly under the IFRS regime, because investors think that if different measurement bases are used for assets and liabilities, the resulting figures could lack relevance or exhibit little meaning.

It is however important to note that figures of items in the financial statements cannot be derived by following a one-size-fits-all approach. Such an approach may not provide relevant information to users. A particular measurement basis may be easier to understand, more verifiable and less costly to implement. Therefore, to state that 'mixed measurement' approach is 'inconsistent' is a poor argument. In reality, a mixed approach may actually provide more relevant information to the stakeholders.

The Conceptual Framework confirms the allowance of the usage of a mixed measurement approach in developing standards. The measurement methods included in the standards are those which the standard-setters believe provide the most relevant information and which most faithfully represent the underlying transaction or event. Based on the reactions to the convergence to Ind AS, it feels that most investors feel this approach is consistent with their analysis of financial statements. Thus, the arguments against a mixed measurement are far outweighed by the greater relevance achieved by such measurement bases.

Jayant Ltd. prepares its financial statements under Ind AS, and therefore applies the measurement bases permitted in Ind AS. Ind AS adopt a mixed measurement basis, which includes current value (fair value, value in use, fulfilment value and current cost) and historical cost.

Where an Ind AS allows a choice of measurement basis, the directors of Jayant Ltd. must exercise judgment as to which basis will provide the most useful information for its primary users. Furthermore, when selecting a measurement basis, measurement uncertainty should also be considered. The Conceptual Framework states that for some estimates, a high level of measurement uncertainty may outweigh other factors to such an extent that the resulting information may be of little relevance.

# IND AS 1

## Module Questions

### Illustration 25 – (RTP – Dec 2021)

Is offsetting permitted under the following circumstances?

- Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary - whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?
- Whether profit on sale of an asset against loss on sale of another asset can be offset?
- When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?

### Solution

- As per paragraph 33 of Ind AS 1, offsetting is permitted only when the offsetting reflects the substance of the transaction.

In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. If the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

- Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising on disposal of various items of property, plant and equipment shall be presented on net basis. However, gains or losses should be presented separately if they are material.
- Ind AS 1 prescribes that assets and liabilities, and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per paragraph 42 of Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously.

In accordance with the above, the receivable and payable should be offset against each other and net amount is presented in the balance sheet if the entity has a legal right to set off and the entity intends to do so. Otherwise, the receivable and payable should be reported separately.

## MTP / RTP / PP Questions

### Question 3 (Past Exam July - 21)

Charm Limited (the 'Company') is a manufacturing company, which is into manufacturing of wires and cables and has assessed its operating cycle to be 15 months. The Company has some trade receivables which are receivable within a period of 12 months from the reporting date i.e. 31st March 2021.

With respect to the following transactions, which took place during the financial year 2020-2021, give your opinion based on relevant Ind AS:

- ✓ The Company has received a contract of ₹ 10 crore on 31st March 2021. The terms of the contract require the Company to make a security deposit of 20% of the contract value with the customer. The Company made a security deposit of ₹ 2 crore on 31st March 2021. This contract will be completed in about 14 months. 70% of the deposit will be refunded immediately and the balance 30% of the deposit will be refunded after 3 months from the completion of the contract. The Company wants to present the security deposit of ₹ 2 crore as non-current. Is the management's decision correct?
- ✓ The Company has some trade receivables that are due after 14 months from the date of the balance sheet; the management of the Company expects to receive the amount within the period of the operating cycle. Despite the fact that these are receivables in 14 months, the management would like to present these as current. Is the management's decision correct?
- ✓ In the normal course of business, the Company has given 2 contracts and received a total security deposit of ₹ 4 crore. ₹ 3 crore is received from X Limited and ₹ 1 crore is received from Y Limited on

31st March 2021. These are repayable on completion of the contract. However, if the contract is cancelled within the contract term of 18 months, then the deposit becomes payable immediately. The Company is positive about the contract with X Limited but is in doubt about the contract received from Y Limited. The Company wants to present the amount of ₹ 3 crore as non-current and ₹ 1 crore as current in the balance sheet. Is the management's decision correct?

- ✓ The Company is planning to replace a machinery. It has given an advance of ₹ 1 crore for purchase of new machinery which will be delivered in 6 months from the date of the balance sheet. It has sold the old machinery for ₹ 0.5 crore, the payment of which is due in 10 months from the date of the balance sheet. The Company wants to present both these amounts as current since they will be settled within twelve months from the end of the reporting period. Is the management's decision correct?

(5 Marks)

**Solution:****Operating cycle of Charm Limited = 15 months**

- (i) The security deposit made by the Company with the customers be classified as current assets to the extent of 70% (₹ 2 crore x 70% = ₹ 1.40 crore) as it will be refunded immediately on completion of 14 months of contract i.e. within the operating cycle of 15 months.

However, 30% of the security deposit will be refunded after 3 months of completion of the contract (14+3 = 17 months) i.e. after 2 months of operating cycle (Operating cycle of the Company is 15 months). Hence, it will be classified as non-current. Therefore, management's decision is not correct. (Refer Para 66 of Ind AS 1)

- (ii) Yes, the Company's decision of presenting the trade receivables as Current Assets is correct despite the fact that these are receivables in 14 months' time since the operating cycle of the company is 15 months and any event arising due to trade will be considered as current if its settlement is within the tenure of operating cycle. Additionally, the Company also need to disclose amounts that are receivable within a period of 12 months and after 12 months from the reporting date. (Refer Para 60 and 61 of Ind AS 1)
- (iii) Paragraph 69(d) of Ind AS 1 states that an entity shall classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Although it is expected that X Limited will fulfil the contract and the deposit will not be refunded, but in case of cancellation within the contract term, refund of security deposit is a condition that is not within the control of the entity. Hence, Charm Limited does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Accordingly, the deposit will have to be classified as current liability in case of both X and Y Limited.

- (iv) Yes, the management decision to classify the payment of ₹ 0.5 crore as a current asset is correct since the payment will be realised in less than twelve months from the end of the reporting period. Capital advances are advances given for procurement of Property, Plant and Equipment etc. Typically, companies do not expect to realize them in cash. Rather, over the period, these get converted into non-current assets. Hence, capital advances should be treated as other non-current assets irrespective of when the Property, Plant and Equipment is expected to be received. Under Ind AS Schedule III, Capital Advances are not to be classified under Capital Work in Progress since they are specifically to be disclosed under other non-current assets.

Accordingly, advance of ₹ 1 crore given for purchase of machinery is 'Capital advance' which will be classified as non-current as it relates to acquisition of non-current item i.e., machinery. Hence, management decision to classify it as current is incorrect.

**Question 4 – (MTP Oct'21)**

A holding company [being the entity under consideration] gives a loan / intercorporate deposit to a subsidiary that is recoverable on demand, at a rate of interest at 10%.

- a) Should such loan be disclosed as a current/non-current asset in the books of the holding company? How relevant would the commercial reality of the transaction be in comparison to the legal terms of the transaction?
- b) How this loan / inter-corporate deposit that is repayable on demand would be classified in the books of the subsidiary? **(4 Marks)**

**Solution**

- (a) Paragraph 66 (c) of Ind AS 1 provides that an asset shall be classified as current when an entity expects to realise the asset within a period of twelve months after the reporting period. To determine the expectation of the entity, the commercial reality of the transaction should also be considered. If the loans have been given with an understanding that these loans would not be called for repayment even though a clause may have been added that these are recoverable on demand, it should be classified as a non-current asset.
- (b) Paragraph 69(c) of Ind AS 1 provides that a liability should be classified as current if the liability is due to be settled within twelve months after the reporting period. Since the loan/inter- corporate deposit would become due immediately as and when demanded and presuming that the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, it should be classified as current liability.

# IND AS 2

## Module Questions

### Illustration 23 - (RTP May 2021) - Already Covered in Edition 4 (Ques 4)

On 1 January 20X1 an entity accepted an order for 7,000 custom-made corporate gifts.

On 3 January 20X1 the entity purchased raw materials to be consumed in the production process for ₹ 5,50,000, including ₹ 50,000 refundable purchase taxes. The purchase price was funded by raising a loan of ₹ 5,55,000 (including ₹ 5,000 loan-raising fees). The loan is secured by the inventories.

During January 20X1 the entity designed the corporate gifts for the customer. Design costs included:

- Cost of external designer = ₹ 7,000; and
- Labour = ₹ 3,000.

During February 20X1 the entity's production team developed the manufacturing technique and made further modifications necessary to bring the inventories to the conditions specified in the agreement. The following costs were incurred in the testing phase:

- materials, net of ₹. 3,000 recovered from the sale of the scrapped output = ₹ 21,000;
- labour = ₹ 11,000; and
- depreciation of plant used to perform the modifications = ₹ 5,000.

During February 20X1 the entity incurred the following additional costs in manufacturing the customised corporate gifts:

- consumable stores = ₹ 55,000;
- labour = ₹ 65,000; and
- depreciation of plant used to manufacture the customised corporate gifts = ₹ 15,000.

The customised corporate gifts were ready for sale on 1 March 20X1. No abnormal wastage occurred in the development and manufacture of the corporate gifts.

Compute the cost of the inventory? Substantiate your answer with appropriate reasons and calculations, wherever required.

### SOLUTION

#### Statement showing computation of inventory cost

Particulars	Amount (₹)	Remarks
Costs of purchase	5,00,000	Purchase price of raw material [purchase price (₹ 5,50,000) less refundable purchase taxes (Rs. 50,000)]
Loan-raising fee	–	Included in the measurement of the liability
Costs of purchase	55,000	Purchase price of consumable stores
Costs of conversion	65,000	Direct costs—labour
Production overheads	15,000	Fixed costs—depreciation
Production overheads	10,000	Product design costs and labour cost for specific customer
Other costs	37,000	Refer working note
Borrowing costs		Recognised as an expense in profit or loss
<b>Total cost of inventories</b>	<b><u>6,82,000</u></b>	

#### Working Note:

#### Costs of testing product designed for specific customer:

₹ 21,000 material (ie net of the ₹ 3,000 recovered from the sale of the scrapped output) +  
₹ 11,000 labour + ₹ 5,000 depreciation.

# IND AS 7

## Module Questions

### Illustration 18 - (RTP Nov 2020) + (MTP March 2021) - Already Covered in Edition 4 (Ques 2)

During the financial year 2019-2020, Akola Limited have paid various taxes & reproduced the below mentioned records for your perusal:

- Capital gain tax of ₹ 20 crore on sale of office premises at a sale consideration of 100 crore.
- Income Tax of ₹ 3 crore on Business profits amounting ₹ 30 crore (assume entire business profit as cash profit).
- Dividend Distribution Tax of ₹ 2 crore on payment of dividend amounting ₹ 20 crore to its shareholders.
- Income tax Refund of ₹ 1.5 crore (Refund on taxes paid in earlier periods for business profits).

You need to determine the net cash flow from operating activities, investing activities and financing activities of Akola Limited as per relevant Ind AS.

#### Solution

Para 36 of Ind AS 7 inter alia states that when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Accordingly, the transactions are analysed as follows:

Particulars	Amount (in crore)	Activity
Sale Consideration	100	Investing Activity
Capital Gain Tax	(20)	Investing Activity
Business profits	30	Operating Activity
Tax on Business profits	(3)	Operating Activity
Dividend Payment	(20)	Financing Activity
Dividend Distribution Tax	(2)	Financing Activity
Income Tax Refund	1.5	Operating Activity
<b>Total Cash flow</b>	<b>86.5</b>	

Activity wise	Amount (in crore)
Operating Activity	28.5
Investing Activity	80
Financing Activity	(22)
<b>Total</b>	<b>86.5</b>

### Illustration 19 – (RTP – Dec 2021)

From the following data of Galaxy Ltd., prepare statement of cash flows showing cash generated from Operating Activities using direct method as per Ind AS 7:

	31.3.20X2 (₹)	31.3.20X1 (₹)
Current Assets:		
Inventory	1,20,000	1,65,000
Trade receivables	2,05,000	1,88,000
Cash & cash equivalents	35,000	20,500
Current Liabilities:		

Trade payable	1,95,000	2,15,000
Provision for tax	48,000	65,000

Summary of Statement of Profit and Loss		₹
Sales	85,50,000	
Less: Cost of sales	<u>(56,00,000)</u>	29,50,000
Other Income		
Interest income	20,000	
Fire insurance claim received	<u>1,10,000</u>	<u>1,30,000</u>
		30,80,000
Depreciation	(24,000)	
Administrative and selling expenses	(15,40,000)	
Interest expenses	(36,000)	
Foreign exchange loss	<u>(18,000)</u>	<u>(16,18,000)</u>
Net Profit before tax and extraordinary income		14,62,000
Income Tax		<u>(95,000)</u>
Net Profit		<u>13,67,000</u>

**Additional information:**

- Trade receivables and Trade payables include amounts relating to credit sale and credit purchase only.
- Foreign exchange loss represents increment in liability of a long-term borrowing due to exchange rate fluctuation between acquisition date and balance sheet date.

**SOLUTION**

**Statement Cash Flows from operating activities  
of Galaxy Ltd. for the year ended 31 March 20X2 (Direct Method)**

Particulars	₹	₹
<b>Operating Activities:</b>		
Cash received from Trade receivables (W.N. 3)		85,33,000
Less: Cash paid to Suppliers (W.N.2)	55,75,000	
Payment for Administration and Selling expenses	15,40,000	
Payment for Income Tax (W.N.4)	1,12,000	(72,27,000)
		13,06,000
Adjustment for exceptional items (fire insurance claim)		1,10,000
Net cash generated from operating activities		14,16,000

**Working Notes:****(1) Calculation of total purchases**

Cost of Sales = Opening stock + Purchases – Closing Stock

₹ 56,00,000 = ₹ 1,65,000 + Purchases – ₹ 1,20,000

Purchases = ₹ 55,55,000

**(2) Calculation of cash paid to Suppliers****Trade Payables**

	₹		₹
--	---	--	---

To	Bank A/c (balancing figure)	55,75,000	By	Balance b/d	2,15,000
To	Balance c/d	<u>1,95,000</u>	By	Purchases (W.N. 1)	<u>55,55,000</u>
		<u>57,70,000</u>			<u>57,70,000</u>

**(3) Calculation of cash received from Customers****Trade Receivables**

		₹			₹
To	Balance b/d	1,88,000	By	Bank A/c (balancing figure)	85,33,000
To	Sales	<u>85,50,000</u>	By	Balance c/d	<u>2,05,000</u>
		<u>87,38,000</u>			<u>87,38,000</u>

**(4) Calculation of tax paid during the year in cash****Provision for tax**

		₹			₹
To	Bank A/c (balancing figure)	1,12,000	By	Balance b/d	65,000
To	Balance c/d	<u>48,000</u>	By	Profit and Loss A/c	<u>95,000</u>
		<u>1,60,000</u>			<u>1,60,000</u>

# IND AS 8

## Module Questions

### Illustration 18 - (RTP Nov 2019) + (MTP March 2021) - Already Covered in Edition 4 (Ques 3)

During 20X4-X5, Cheery Limited discovered that some products that had been sold during 20X3-X4 were incorrectly included in inventory at 31st March, 20X4 at ₹ 6,500.

Cheery Limited's accounting records for 20X4-X5 show sales of ₹ 104,000, cost of goods sold of ₹ 86,500 (including ₹ 6,500 for the error in opening inventory), and income taxes of ₹ 5,250.

In 20X3-X4, Cheery Limited reported:

	₹
Sales	73,500
Cost of goods sold	<u>(53,500)</u>
Profit before income taxes	<u>20,000</u>
Income taxes	<u>(6,000)</u>
Profit	<u>14,000</u>
Basic and diluted EPS	<u>2.8</u>

The 20X3-X4 opening retained earnings was ₹ 20,000 and closing retained earnings was ₹ 34,000. Cheery Limited's income tax rate was 30% for 20X4-X5 and 20X3-X4. It had no other income or expenses.

Cheery Limited had ₹ 50,000 (5,000 shares of ₹ 10 each) of share capital throughout, and no other components of equity except for retained earnings.

State how the above will be treated /accounted in Cheery Limited's Statement of profit and loss, statement of changes in equity and in notes wherever required for current period and earlier period(s) as per relevant Ind AS.

### SOLUTION

#### Cheery Limited

#### Extract from the Statement of profit and loss

	20X4-X5 ₹	(Restated) 20X3-X4 ₹
Sales	1,04,000	73,500
Cost of goods sold	<u>(80,000)</u>	<u>(60,000)</u>
<b>Profit before income taxes</b>	<b>24,000</b>	<b>13,500</b>
Income taxes	<u>(7,200)</u>	<u>(4,050)</u>
<b>Profit</b>	<b><u>16,800</u></b>	<b><u>9,450</u></b>
Basic and diluted EPS	3.36	1.89

#### Cheery Limited

#### Statement of Changes in Equity

	Share capital	Retained earnings	Total
Balance at 31st March, 20X3	50,000	20,000	70,000
Profit for the year ended 31st March, 20X4 as restated		9,450	9,450
<b>Balance at 31st March, 20X4</b>	<b>50,000</b>	<b>29,450</b>	<b>79,450</b>
Profit for the year ended 31st March, 20X5		16,800	16,800
<b>Balance at 31st March, 20X5</b>	<b>50,000</b>	<b>46,250</b>	<b>96,250</b>

**Extract from the Notes**

Some products that had been sold in 20X3-X4 were incorrectly included in inventory at 31st March, 20X4 at ₹ 6,500. The financial statements of 20X3-X4 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below:

	<b>Effect on 20X3-X4</b>
(Increase) in cost of goods sold	(6,500)
Decrease in income tax expenses	1,950
(Decrease) in profit	(4,550)
(Decrease) in basic and diluted EPS	(0.91)
(Decrease) in inventory	(6,500)
Decrease in income tax payable	1,950
(Decrease) in equity	(4,550)

There is no effect on the balance sheet at the beginning of the preceding period i.e. 1st April, 20X3.

**Illustration 19 (RTP - May 2021) - Already Covered in Edition 4 (Ques 5)**

In 20X3-20X4, after the entity's 31 March 20X3 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that could not be discovered by reasonable or customary inspection). As a result of the latent defect the entity incurred ₹ 100,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31 March 20X3. An additional ₹ 20,000 was incurred to rectify the latent defect in products sold during 20X3-20X4 before the defect was detected and the production process rectified, ₹ 5,000 of which relates to items of inventory at 31 March 20X3. The defective inventory was reported at cost ₹ 15,000 in the 20X2-20X3 financial statements when its selling price less costs to complete and sell was estimated at ₹ 18,000. The accounting estimates made in preparing the 31 March 20X3 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Analyse the above situation in accordance with relevant Ind AS.

**SOLUTION**

Ind AS 8 is applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset. This change in accounting estimate is an outcome of the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Further, the effect of change in an accounting estimate, shall be recognised prospectively by including it in profit or loss in: (a) the period of the change, if the change affects that period only; or (b) the period of the change and future periods, if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were approved for issue; and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

On the basis of above provisions, the given situation would be dealt as follows:

The defect was neither known nor reasonably possible to detect at 31 March 20X3 or before the financial statements were approved for issue, so understatement of the warranty provision ₹ 1,00,000 and

overstatement of inventory ₹ 2,000 (Note 1) in the 31 March 20X3 financial statements are not a prior period errors.

The effects of the latent defect that relate to the entity's financial position at 31 March 20X3 are changes in accounting estimates.

In preparing its financial statements for 31 March 20X3, the entity made the warranty provision and inventory valuation appropriately using all reliable information that the entity could reasonably be expected to have obtained and had taken into account the same in the preparation and presentation of those financial statements.

Consequently, the additional costs are expensed in calculating profit or loss for 20X3-20X4.

**Working Note:**

Inventory is measured at the lower of cost (ie ₹ 15,000) and fair value less costs to complete and sell (ie ₹ 18,000 originally estimated minus ₹ 5,000 costs to rectify latent defect) = ₹ 13,000.

**MTP / RTP / PP**

**Question 6 - (MTP Nov'21)**

Given the decreased revenue in financial year 20X1-20X2, management of PQR Ltd is keen to identify ways to reduce the overall impact on profit and loss. A consultant has suggested that they could explore changing the basis of depreciation from SLM to hours-in-use but not entirely sure if this is permitted. Annual depreciation charge for financial year 20X1-20X2 would be ₹ 25 lacs using SLM and ₹ 7 lacs using new method. This difference is significant for PQR Ltd.'s financial statements.

What are the considerations in determining whether a change in depreciation methodology is appropriate, and how should this change be accounted for? Given the risk of charging lower depreciation per annum and the possibility that the asset will be depreciated over a period longer than it would otherwise be (under SLM basis), what other safeguards do you suggest, in order to ensure compliance with relevant standards in Ind AS and its framework? **(6 Marks)**

**Solution:**

As illustrated in per para 32 of Ind AS 8, Change in method of depreciation is a change in accounting estimates.

**Considerations in determining whether the change in depreciation methodology is appropriate:**

Paragraphs 60 and 61 of Ind AS 16, Property, Plant and Equipment, state that the depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

**Accounting procedure:**

Such a change is accounted for as a change in an accounting estimate in accordance with Ind AS 8.

Depreciation is a function of several factors, with extent of usage and efflux of time being its primary determinants. The hours-in-use method relates the amount of periodic depreciation charge only to one of the above two factors, namely, the extent of usage as reflected by the number of hours. This method may therefore be said to be appropriate as per para 62 of Ind AS 16.

Determination of depreciation method involves an accounting estimate; depreciation method is not a matter of an accounting policy. Accordingly, as per Ind AS 8 and Ind AS 16, a change in depreciation method shall be accounted for as a change in accounting estimate, i.e; prospectively.

However, given the possibility that the asset will be depreciated over a period longer than it would be under SLM basis, the company will need to assess if there are any impairment triggers and carry out impairment testing as required under Ind AS 36.

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# IND AS 12

## Module Questions

### Illustration 19 - (RTP - Nov 2020) – Already Covered in Edition 4 (in IND AS 103 – Ques 3)

On 1 January 2020, entity H acquired 100% share capital of entity S for ₹15,00,000. The book values and the fair values of the identifiable assets and liabilities of entity S at the date of acquisition are set out below, together with their tax bases in entity S's tax jurisdictions. Any goodwill arising on the acquisition is not deductible for tax purposes. The tax rates in entity H's and entity S's jurisdictions are 30% and 40% respectively.

Acquisitions	₹Book values ₹'000	Tax base ₹'000	Fair values ₹'000
Land and buildings	600	500	700
Property, plant and equipment	250	200	270
Inventory	100	100	80
Accounts receivable	150	150	150
Cash and cash equivalents	130	130	130
Accounts payable	(160)	(160)	(160)
Retirement benefit obligations	(100)	-	(100)

You are required to calculate the deferred tax arising on acquisition of Entity S. Also calculate the Goodwill arising on acquisition.

#### Solution

Calculation of Net assets acquired (excluding the effect of deferred tax liability):

Net assets acquired	Tax base ₹'000	Fair values ₹'000
Land and buildings	500	700
Property, plant and equipment	200	270
Inventory	100	80
Accounts receivable	150	150
Cash and cash equivalents	130	130
Total assets	1,080	1,330
Accounts payable	(160)	(160)
Retirement benefit obligations	-	(100)
Net assets before deferred tax liability	920	1,070

#### Calculation of deferred tax arising on acquisition of entity S and goodwill

	₹'000	₹'000
Fair values of S's identifiable assets and liabilities (excluding deferred tax)		1,070
Less: Tax base		(920)
Temporary difference arising on acquisition		150
Net deferred tax liability arising on acquisition of entity S (₹150,000 @ 40%)		60
Purchase consideration		1,500
Less: Fair values of entity S's identifiable assets and liabilities (excluding deferred tax)	1,070	

Deferred tax liability	(60)	(1,010)
Goodwill arising on acquisition		490

Note: Since, the tax base of the goodwill is nil, taxable temporary difference of ₹4,90,000 arises on goodwill. However, no deferred tax is recognised on the goodwill. The deferred tax on other temporary differences arising on acquisition is provided at 40% and not 30%, because taxes will be payable or recoverable in entity S's tax jurisdictions when the temporary differences will be reversed.

# IND AS 16

## Module Questions

### Illustration 23 – (RTP - May 2020) + (MTP – March 2021) – Already covered in Edition 4 (Ques 4)

Company X performed a revaluation of all of its plant and machinery at the beginning of 20X1. The following information relates to one of the machinery:

	Amount (‘000)
Gross carrying amount	₹ 200
Accumulated depreciation (straight-line method)	(₹ 80)
Net carrying amount	<u>₹ 120</u>
Fair value	₹ 150

The useful life of the machinery is 10 years and the company uses Straight line method of depreciation. The revaluation was performed at the end of 4 years.

How should the Company account for revaluation of plant and machinery and depreciation subsequent to revaluation? Support your answer with journal entries.

#### SOLUTION

According to paragraph 35 of Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

- (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

In such a situation, the revised carrying amount of the machinery will be as follows:

Gross carrying amount	₹ 250	[(200/120) x 150]
Net carrying amount	<u>₹ 150</u>	
Accumulated depreciation	<u>₹ 100</u>	(₹ 250 – ₹ 150)

#### Journal entry

Plant and Machinery (Gross Block)	Dr. ₹ 50	
	To Accumulated Depreciation	₹ 20
	To Revaluation Reserve	₹ 30

#### Depreciation subsequent to revaluation

Since the Gross Block has been restated, the depreciation charge will be ₹ 25 per annum (₹ 250/10 years).

#### Journal entry

Accumulated Depreciation	Dr. ₹ 25 p.a.
	To Plant and Machinery (Gross Block) ₹ 25 p.a.

- (b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with the paragraphs 39 and 40 of Ind AS 16.

In this case, the gross carrying amount is restated to ₹ 150 to reflect the fair value and accumulated depreciation is set at zero.

**Journal entry**

Accumulated Depreciation	Dr. ₹ 80	
	To Plant and Machinery (Gross Block)	₹ 80
Plant and Machinery (Gross Block)	Dr. ₹ 30	
	To Revaluation Reserve	₹ 30

**Depreciation subsequent to revaluation**

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of ₹ 25 per annum as per Option A (₹ 150 / 6 years).

**Journal entry**

Accumulated Depreciation	Dr. ₹ 25 p.a.	
	To Plant and Machinery (Gross Block)	₹ 25 p.a.

**Illustration 24 (RTP May 2021) – Already covered in Edition 4 (Ques 7)**

An entity has the following items of property, plant and equipment:

- Property A — a vacant plot of land on which it intends to construct its new administration headquarters;
- Property B — a plot of land that it operates as a landfill site;
- Property C — a plot of land on which its existing administration headquarters are built;
- Property D — a plot of land on which its direct sales office is built;
- Properties E1–E10 — ten separate retail outlets and the land on which they are built;
- Equipment A — computer systems at its headquarters and direct sales office that are integrated with the point of sale computer systems in the retail outlets;
- Equipment B — point of sale computer systems in each of its retail outlets;
- Furniture and fittings in its administrative headquarters and its sales office;
- Shop fixtures and fittings in its retail outlets.

How many classes of property, plant and equipment must the entity disclose?

**SOLUTION**

To answer this question one must make a materiality judgement.

A class of assets is defined as a grouping of assets of a similar nature and use in an entity's operations.

The nature of land without a building is different to the nature of land with a building.

Consequently, land without a building is a separate class of asset from land and buildings. Furthermore, the nature and use of land operated as a landfill site is different from vacant land. Hence, the entity should disclose Property A separately. The entity must apply judgement to determine whether the entity's retail outlets are sufficiently different in nature and use from its office buildings, and thus constitute a separate class of land and buildings.

The computer equipment is integrated across the organisation and would probably be classified as a single separate class of asset.

Furniture and fittings used for administrative purposes could be sufficiently different to shop fixtures and fittings in retail outlets to be classified in two separate classes of assets.

**Illustration 25 – (RTP Dec 2021)**

Heaven Ltd. had purchased a machinery on 1.4.2X01 for ₹ 30,00,000, which is reflected in its books at written down value of ₹ 17,50,000 on 1.4.2X06. The company has estimated an upward revaluation of 10% on 1.4.2X06 to arrive at the fair value of the asset. Heaven Ltd. availed the option given by Ind AS of transferring some of the surplus as the asset is used by an enterprise.

On 1.4.2X08, the machinery was revalued downward by 15% and the company also re-estimated the machinery's remaining life to be 8 years. On 31.3.2X10 the machinery was sold for ₹ 9,35,000. The company charges depreciation on straight line method.

Prepare machinery account in the books of Heaven Ltd. over its useful life to record the above transactions.

**SOLUTION****In the books of Heaven Ltd. Machinery A/c**

Date	Particulars	Amount	Date	Particulars	Amount
1.4.2X01	To Bank/ Vendor	30,00,000	31.3.2X02	By Depreciation (W.N.1)	2,50,000
		_____	31.3.2X02	By Balance c/d	<u>27,50,000</u>
		<u>30,00,000</u>			<u>30,00,000</u>
1.4.2X02	To Balance b/d	27,50,000	31.3.2X03	By Depreciation	2,50,000
		_____	31.3.2X03	By Balance c/d	<u>25,00,000</u>
		<u>27,50,000</u>			<u>27,50,000</u>
1.4.2X03	To Balance b/d	25,00,000	31.3.2X04	By Depreciation	2,50,000
		_____	31.3.2X04	By Balance c/d	<u>22,50,000</u>
		<u>25,00,000</u>			<u>25,00,000</u>
1.4.2X04	To Balance b/d	22,50,000	31.3.2X05	By Depreciation	2,50,000
		_____	31.3.2X05	By Balance c/d	<u>20,00,000</u>
		<u>22,50,000</u>			<u>22,50,000</u>
1.4.2X05	To Balance b/d	20,00,000	31.3.2X06	By Depreciation	2,50,000
		_____	31.3.2X06	By Balance c/d	<u>17,50,000</u>
		<u>20,00,000</u>			<u>20,00,000</u>
1.4.2X06	To Balance b/d	17,50,000	31.3.2X07	By Depreciation (W.N.2)	2,75,000
1.4.2X06	To Revaluation Reserve @ 10%	<u>1,75,000</u>	31.3.2X07	By Balance c/d	16,50,000
		<u>19,25,000</u>			<u>19,25,000</u>
1.4.2X07	To Balance b/d	16,50,000	31.3.2X08	By Depreciation	2,75,000
		_____	31.3.2X08	By Balance c/d	<u>13,75,000</u>
		<u>16,50,000</u>			<u>16,50,000</u>
1.4.2X08	To Balance b/d	13,75,000	1.4.2X08	By Revaluation Reserve (W.N.4)	1,25,000
			31.3.2X09	By Profit and Loss	81,250
				A/c (W.N.5)	
			31.3.2X09	By Depreciation (W.N.3)	1,46,094
		13,75,000			
			31.3.2X09	By Balance c/d	10,22,656



# IND AS 20

## Module Questions

### Illustration 18 – (RTP – Nov 2020) – Already Covered in Edition 4 (Ques 1)

Entity A is awarded a government grant of ₹60,000 receivable over three years (₹40,000 in year 1 and ₹10,000 in each of years 2 and 3), contingent on creating 10 new jobs and maintaining them for three years. The employees are recruited at a total cost of ₹30,000, and the wage bill for the first year is ₹1,00,000, rising by ₹10,000 in each of the subsequent years. Calculate the grant income and deferred income to be accounted for in the books for year 1, 2 and 3.

#### SOLUTION

The income of ₹ 60,000 should be recognised over the three year period to compensate for the related costs.

#### Calculation of Grant Income and Deferred Income:

Year	Labour Cost	Grant Income		Deferred Income	
	₹	₹		₹	
1	1,30,000	21,667	$60,000 \times (130/360)$	18,333	(40,000 – 21,667)
2	1,10,000	18,333	$60,000 \times (110/360)$	10,000	(50,000 – 21,667 – 18,333)
3	<u>1,20,000</u>	<u>20,000</u>	$60,000 \times (120/360)$	-	(60,000 – 21,667 – 18,333 – 20,000)
	<u>3,60,000</u>	<u>60,000</u>			

Therefore, Grant income to be recognised in Profit & Loss for years 1, 2 and 3 are ₹ 21,667, ₹ 18,333 and ₹ 20,000 respectively.

Amount of grant that has not yet been credited to profit & loss i.e; deferred income is to be reflected in the balance sheet. Hence, deferred income balance as at year end 1, 2 and 3 are ₹ 18,333, ₹ 10,000 and Nil respectively.

## MTP / RTP / PP

### Question 3 – RTP (Dec 2021)

A Ltd. has been conducting its business activities in backward areas of the country and due to higher operating costs in such regions, it has collectively incurred huge losses in previous years. As per a scheme of government announced in March 20X1, the company will be partially compensated for the losses incurred by it to the extent of ₹ 10,00,00,000, which will be received in October 20X1. The compensation being paid by the government meets the definition of government grant as per Ind AS 20. Assume that no other conditions are to be fulfilled by the company to receive the compensation.

When should the grant be recognised in statement of profit and loss? Discuss in light of relevant Ind AS.

#### Solution

Paragraph 7 of Ind AS 20 states that, Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

- (e) the entity will comply with the conditions attaching to them; and
- (f) the grants will be received.

Further, paragraphs 20 and 22 of Ind AS 20 state as follows:

“A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable”.

“A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.”

In accordance with the above, in the given case, as at March 20X1, A Ltd. is entitled to receive government grant in the form of compensation for losses already incurred by it in the previous years. Therefore, even though the compensation will be received in the month of October 20X1, A Ltd. should recognise the compensation receivable by it as a government grant in the profit or loss for the period in which it became receivable, i.e., for the financial year 20X0-20X1 with disclosure to ensure that its effect is clearly understood.

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# IND AS 21

## Module Questions

### Illustration 15 - (RTP - Nov 2019, May 2021) – Already Covered in Edition 4 (Ques 4)

Global Limited, an Indian company acquired on 30th September, 20X1 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Global Limited is Rupees and its financial year end is 31st March, 20X2.

- (i) The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid is 17.5 million EURO on 30th September, 20X1.

The exchange rates as at 30th September, 20X1 was ₹ 82 / EURO and at 31st March, 20X2 was ₹ 84 / EURO.

What is the value at which the goodwill has to be recognised in the financial statements of Global Limited as on 31st March, 20X2?

- (ii) Mark Limited sold goods costing 2.4 million EURO to Global Limited for 4.2 million EURO during the year ended 31st March, 20X2. The exchange rate on the date of purchase by Global Limited was ₹ 83 / EURO and on 31st March, 20X2 was ₹ 84 / EURO. The entire goods purchased from Mark Limited are unsold as on 31st March, 20X2. Determine the unrealised profit to be eliminated in the preparation of consolidated financial statements.

#### Solution

- i) Para 47 of Ind AS 21 requires that goodwill arose on business combination shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42. In this case the amount of goodwill will be as follows:

Net identifiable asset Dr.		23 million
Goodwill(bal. fig.) Dr.		1.4 million
	To Bank	17.5 million
	To NCI (23 x 30%)	6.9 million

Thus, goodwill on reporting date would be 1.4 million EURO x ₹ 84 = ₹117.6 million

- ii)

Particulars	EURO in million
Sale price of Inventory	4.20
Unrealised Profit [a]	1.80

Exchange rate as on date of purchase of Inventory [b] ₹ 83 / Euro Unrealized profit to be eliminated [a x b] ₹ 149.40 million

As per para 39 of Ind AS 21 "income and expenses for each statement of profit and loss presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions".

In the given case, purchase of inventory is an expense item shown in the statement profit and loss account. Hence, the exchange rate on the date of purchase of inventory is taken for calculation of unrealized profit which is to be eliminated on the event of consolidation.

### Illustration 16 – (RTP – May 2020) – Already Covered in Edition 4 (Ques 5)

On 1st April, 20X1, Makers Ltd. raised a long term loan from foreign investors. The investors subscribed for 6 million Foreign Currency (FCY) loan notes at par. It incurred incremental issue costs of FCY 2,00,000. Interest of FCY 6,00,000 is payable annually on 31st March, starting from 31st March, 20X2. The loan is repayable in FCY on 31st March, 20X7 at a premium and the effective annual interest rate implicit in the loan is 12%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:

- 1st April, 20X1 - FCY 1 = ₹ 2.50.

- 31st March, 20X2 – FCY 1 = ₹ 2.75.

- Average rate for the year ended 31st March, 20X2 – FCY 1 = ₹ 2.42. The functional currency of the group is Indian Rupee.

What would be the appropriate accounting treatment for the foreign currency loan in the books of Makers Ltd. for the FY 20X1-20X2? Calculate the initial measurement amount for the loan, finance cost for the year, closing balance and exchange gain / loss.

### Solution

Initial carrying amount of loan in books Loan amount received = 60,00,000 FCY  
 Less: Incremental issue costs = 2,00,000 FCY  
 58,00,000 FCY

Ind AS 21, "The Effect of Changes in Foreign Exchange Rates" states that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Loan to be converted in INR = 58,00,000 FCY x ₹ 2.50/FCY = ₹ 1,45,00,000

Therefore, the loan would initially be recorded at ₹ 1,45,00,000.

Calculation of amortized cost of loan (in FCY) at the year end:

Period	Opening Financial Liability (FCY) A	Interest @ 12% (FCY) B	Cash Flow (FCY) C	Closing Financial Liability (FCY) A+B-C
20X1-20X2	58,00,000	6,96,000	6,00,000	58,96,000

The finance cost in FCY is 6,96,000

The finance cost would be recorded at an average rate for the period since it accrues over a period of time.

Hence, the finance cost for FY 20X1-20X2 in INR is ₹ 16,84,320 (6,96,000 FCY x ₹ 2.42 / FCY)

The actual payment of interest would be recorded at 6,00,000 x 2.75 = INR 16,50,000

The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date.

So the closing loan balance in INR is 58,96,000 FCY x INR 2.75 / FCY = ₹ 1,62,14,000

The exchange differences that are created by this treatment are recognized in profit and loss. In this case, the exchange difference is ₹ [1,62,14,000 - (1,45,00,000 + 16,84,320 - 16,50,000)] = ₹ 16,79,680.

This exchange difference is taken to profit and loss.

## MTP / RTP / PP

### Question 7 – (MTP Nov'21)

PQR Holdings Limited is based in London and has Pound sterling ("GBP") as its functional and presentation currency. On 1st April, 20X1, PQR Holdings Limited incorporated PQR India Limited as its wholly owned subsidiary in India. PQR India will be engaged in trading of items purchased from PQR Holdings. The shares of PQR India, having a face value of ₹ 10 each amounting to total of ₹ 500 crore, were issued to PQR Holdings in GBP on 1st April, 20X1.

PQR India has adopted Ind AS with effect from its incorporation. In accordance with Ind AS, management of PQR India has concluded that its functional currency is Indian Rupee ("INR"). Following is the summarized trial balance of PQR India as on 31st March, 20X2, being the reporting date of PQR India and PQR Holdings:

(Note: All amounts in the below mentioned trial balance are ₹ in crore)

S. No.	Particulars	Debit Balances	Credit Balances
1.	Share capital	-	500.0
2.	Securities premium reserve on issue of equity shares	-	150.0
3.	Retained earnings	-	110.0

4.	Long-term borrowings	-	30.0
5.	Deferred tax liability	-	10.0
6.	Income tax payable	-	25.0
7.	Import duty payable	-	5.0
8.	Employee benefits payable		7.5
9.	Sundry trade payables	-	2.5
10.	Property, plant and equipment (net of depreciation)	550.0	-
11.	Computer software (net of amortisation)	70.0	-
12.	Inventories purchased on 15 <sup>th</sup> March, 20X2 (there is no indicator of impairment)	200.0	
13.	Cash and bank balance	5.0	-
14.	Sundry trade receivables	17.0	-
15.	Allowance for doubtful trade receivables	-	2.0
	Total	842.0	842.0

Additional information relating to property, plant and equipment, and computer software:

Line item	Date of acquisition
Property, plant and equipment	30 <sup>th</sup> April, 20X1
Computer software	5 <sup>th</sup> May, 20X1

PQR India has adopted the following accounting policy in relation to shareholders' funds to translate equity:

Share capital	To be translated using historical exchange rate
Securities premium	To be translated using historical exchange rate
Retained earnings	To be translated using average exchange rate

Since the presentation currency of PQR Holdings is GBP, PQR India is required to translate its trial balance from INR to GBP. Following table provides relevant foreign exchange rates:

Closing spot rate as on 1 <sup>st</sup> April, 20X1	1 INR = 0.0123 GBP
Closing spot rate as on 30 <sup>th</sup> April, 20X1	1 INR = 0.0120 GBP
Closing spot rate as on 5 <sup>th</sup> May, 20X1	1 INR = 0.0119 GBP
Closing spot rate on 15 <sup>th</sup> March, 20X2	1 INR = 0.0108 GBP
Closing spot rate as on 31 <sup>st</sup> March, 20X2	1 INR = 0.0109 GBP
Average exchange rate for the year ended 31 <sup>st</sup> March, 20X2	1 INR = 0.0116 GBP

As the accountant of PQR India, you are required to do the following for its separate financial statements:

- Explain the principle of monetary and non-monetary items. Based on this principle, bifurcate the line items of the trial balance into monetary and non-monetary items.
- Translate the trial balance of PQR India from INR to GBP. **(14 Marks)**

**Solution:**

- Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Para 15 of Ind AS 21 states that the essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item.

Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency.

On the basis of above principles, the line items of trial balance should be bifurcated as follows:

Particulars	Monetary item / Non-monetary item
Share Capital	Non-monetary item
Securities Premium reserve on issue of equity shares	Non-monetary item
Retained earnings	Non-monetary item
Long-term borrowings	Monetary item
Deferred tax liability	Non-monetary item
Income tax payable	Monetary item
Import duty payable	Monetary item
Employee benefits payable	Monetary item
Sundry trade payables	Monetary item
Property, plant and equipment (net of depreciation)	Non-monetary item
Computer software (net of amortization)	Non-monetary item
Inventories purchased (there is no indicator of impairment)	Non-monetary item
Cash and bank balance	Monetary item
Sundry trade receivables	Monetary item
Allowance for doubtful trade receivables	Monetary item

As per para 38 of Ind AS 21, an entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

(b) Translation of the balances for the purpose of consolidation

Particulars	INR incrore	Rate(GBP)	Amount in GBP
Property, plant and equipment (net of depreciation)	550.0	0.0109	5.995
Computer software (net of amortization)	70.0	0.0109	0.763
Inventories	200.0	0.0109	2.18
Cash and bank balance	5.0	0.0109	0.0545
Sundry trade receivables net of allowance for doubtful trade receivables (17.0-2.0)	<u>15.0</u>	0.0109	<u>0.1635</u>
Total Assets	<u>840.0</u>		<u>9.156</u>
Share Capital	500.0	0.0123	6.15
Securities Premium reserve	150.0	0.0123	1.845
Retained earnings	110.0	0.0116	1.276
Long-term borrowings	30.0	0.0109	0.327
Deferred tax liability	10.0	0.0109	0.109
Income tax payable	25.0	0.0109	0.2725
Import duty payable	5.0	0.0109	0.0545

Employee benefits payable	7.5	0.0109	0.08175
Sundry trade payables	2.5	0.0109	0.02725
Foreign Currency Translation reserve recognised in OCI (balancing figure)	—		<u>(0.987)</u>
Total Equity and liabilities	<u>840.0</u>		<u>9.156</u>

CA AAKASH KANDOI

# IND AS 23

## Module Questions

### Illustration 16 – (RTP – May 2021) – Already Covered in Edition 4 (Ques 2)

How will you capitalise the interest when qualifying assets are funded by borrowings in the nature of bonds that are issued at discount?

Y Ltd. issued at the start of year 1, 10% (interest paid annually and having maturity period of 4 years) bonds with a face value of ₹ 2,00,000 at a discount of 10% to finance a qualifying asset which is ready for intended use at the end of year 2.

Compute the amount of borrowing costs to be capitalized if the company amortizes discount using Effective Interest Rate method by applying 13.39% p.a. of EIR.

#### Solution

#### Capitalisation Method

As per the Standard, borrowing costs may include interest expense calculated using the effective interest method. Further, capitalisation of borrowing cost should cease where substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Thus, only that portion of the amortized discount should be capitalised as part of the cost of a qualifying asset which relates to the period during which acquisition, construction or production of the asset takes place.

#### Capitalisation of Interest

Hence based on the above explanation the amount of borrowing cost of year 1 & 2 are to be capitalised and the borrowing cost relating to year 3 & 4 should be expensed.

#### Quantum of Borrowing

The value of the bond to Y Ltd. is the transaction price ie ₹ 1,80,000 (2,00,000 – 20,000) Therefore, Y Ltd will recognize the borrowing at ₹ 1,80,000.

#### Computation of the amount of Borrowing Cost to be Capitalised

Y Ltd will capitalise the interest (borrowing cost) using the effective interest rate of 13.39% for two years as the qualifying asset is ready for intended use at the end of the year 2, the details of which are as follows:

Year	Opening Borrowing	Interest expense @ 13.39% to be capitalised	Total	Interest paid	Closing Borrowing
	(1)	(2)	(3)	(4)	(5) = (3) – (4)
1	1,80,000	24,102	2,04,102	20,000	1,84,102
2	1,84,102	<u>24,651</u>	2,08,753	20,000	1,88,753
		<u>48,753</u>			

Accordingly, borrowing cost of ₹ 48,753 will be capitalized to the cost of qualifying asset.

### Illustration 17 – (RTP Dec 2021)

Nikka Limited has obtained a term loan of ₹ 620 lacs for a complete renovation and modernisation of its Factory on 1st April, 20X1. Plant and Machinery was acquired under the modernisation scheme and installation was completed on 30th April, 20X2. An expenditure of ₹ 510 lacs was incurred on installation of Plant and Machinery, ₹ 54 lacs has been advanced to suppliers for additional assets (acquired on 25th April, 20X1) which were also installed on 30th April, 20X2 and the balance loan of ₹ 56 lacs has been used for working capital purposes. Management of Nikka Limited considers the 12 months period as substantial period of time to get the asset ready for its intended use.

The company has paid total interest of ₹ 68.20 lacs during financial year 20X1-20X2 on the above loan. The accountant seeks your advice how to account for the interest paid in the books of accounts. Will your

answer be different, if the whole process of renovation and modernization gets completed by 28th February, 20X2?

### Solution

As per Ind AS 23, Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Where, a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Accordingly, the treatment of Interest of ₹ 68.20 lacs occurred during the year 20X1-20X2 would be as follows:

#### (i) When construction of asset completed on 30th April, 20X2

The treatment for total borrowing cost of ₹ 68.20 lakh will be as follows:

Purpose	Nature	Interest to be capitalised	Interest to be charged to profit and loss account
		₹ in lakh	₹ in lakh
Modernization and renovation of plant and machinery	Qualifying asset	$[68.20 \times (510/620)] = 56.10$	
Advance to Suppliers for additional assets	Qualifying asset	$[68.20 \times (54/620)] = 5.94$	
Working Capital	Not a qualifying asset		$[68.20 \times (56/620)] = 6.16$
		<u>62.04</u>	<u>6.16</u>

#### (ii) When construction of assets is completed by 28th February, 20X2

When the process of renovation gets completed in less than 12 months, the plant and machinery and the additional assets will not be considered as qualifying assets (until and unless the entity specifically considers that the assets took substantial period of time for completing their construction). Accordingly, the whole of interest will be required to be charged off / expensed off to Profit and loss account.

# IND AS 33

## Module Questions

### Illustration 23 - (RTP - May 2020) + (MTP - April 2021) – Already Covered in Edition 4 (Ques 3)

CAB Limited is in the process of preparation of the consolidated financial statements of the group for the year ending 31st March, 20X3 and the extract of the same is as follows:

Particulars	Attributable to CAB Limited	Non-controlling interest	Total (₹ in '000)
Profit for the year	39,000	3,000	42,000
Other Comprehensive Income	5,000	Nil	5,000
Total Comprehensive Income	44,000	3,000	47,000

The long-term finance of the company comprises of the following:

- (i) 20,00,00,000 equity shares at the beginning of the year and the company has issued 5,00,00,000 shares on 1st July, 20X2 at full market value.
- (ii) 8,00,00,000 irredeemable preference shares. These shares were in issue for the whole of the year ended 31st March, 20X3. The dividend on these preference shares is discretionary.
- (iii) ₹ 18 crores of 6% convertible debentures issued on 1st April, 20X1 and repayable on 31st March, 20X5 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 10 crores ordinary shares in the company. On 1st April, 20X1, the prevailing market interest rate for four-year convertible debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of ₹ 1 payable in four years is 0.74 and the cumulative present value of ₹ 1 payable at the end of years one to four is 3.31.

In the year ended 31st March, 20X3, CAB Limited declared an ordinary dividend of 0.10 paise per share and a dividend of 0.05 paise per share on the irredeemable preference shares.

#### Compute the following:

- the finance cost of convertible debentures and its closing balance as on 31st March, 20X3 to be presented in the consolidated financial statements.
- the basic and diluted earnings per share for the year ended 31st March, 20X3. Assume that income tax is applicable to CAB Limited and its subsidiaries at 25%.

#### Solution

Calculation of the liability and equity components on 6% Convertible debentures:

Present value of principal payable at the end of 4th year (₹ 1,80,000 thousand x 0.74) = ₹ 1,33,200 thousand

Present value of interest payable annually for 4 years (₹ 1,80,000 thousand x 6% x 3.31) = ₹ 35,748 thousand

Total liability component = ₹ 1,68,948 thousand

Therefore, equity component = ₹ 1,80,000 thousand – ₹ 1,68,948 thousand = ₹ 11,052 thousand

#### Calculation of finance cost and closing balance of 6% convertible debentures

Year	Opening balance ₹ in '000	Finance cost @ 8% ₹ in '000	Interest paid @ 6% ₹ in '000	Closing balance ₹ in '000
	a	b = a x 8%	c	d = a + b - c
31.3.20X2	1,68,948	13,515.84	10,800	1,71,663.84
31.3.20X3	1,71,663.84	13,733.11	10,800	1,74,596.95

Finance cost of convertible debentures for the year ended 31.3. 20X3 is ₹ 13,733.11 thousand and closing balance as on 31.3. 20X3 is ₹ 1,74,596.95 thousand.

Calculation of Basic EPS

₹ in '000

Profit for the year	39,000
Less: Dividend on preference shares (80,000 thousand x ₹ 0.05)	(4,000)
Profit attributable to equity shareholders	<u>35,000</u>

Weighted average number of shares =  $20,00,00,000 + \{5,00,00,000 \times (9/12)\} = 23,75,00,000$   
shares or 2,37,500 thousand shares

Basic EPS = ₹ 35,000 thousand / 2,37,500 thousand shares = ₹ 0.147

**Calculation of Diluted EPS**

₹ in '000

Profit for the year	39,000
Less: Dividend on preference shares (80,000 x 0.05)	<u>(4,000)</u>
	35,000
Add: Finance cost (as given in the above table) 13,733.11	
Less: Tax @ 25% (3,433.28)	<u>10,299.83</u>
	<u>45,299.83</u>

Weighted average number of shares =  $20,00,00,000 + \{5,00,00,000 \times (9/12)\} + 10,00,00,000$   
= 33,75,00,000 shares or 3,37,500 thousand shares

Diluted EPS = ₹ 45,299.83 thousand / 3,37,500 thousand shares = ₹ 0.134

**MTP / RTP / PP****Question 5 (MTP Oct'21)**

Sohan has been recently hired in Zio Life Limited. Since he is facing difficulty in computation of EPS as per Ind AS 33, guide him by discussing the steps for the calculation of Basic EPS and Diluted EPS along with the necessary computations for EPS of Year 1.

The following basic facts relate to Company Zio Life Limited.

- Net profit for Year 1 is ₹ 46,00,000.
- The number of ordinary shares outstanding on 1st April Year 1 is 30,00,000. The following facts are also relevant for Year 1.
- On 1st April, Zio Life Limited issues 20,00,000 three-year term convertible bonds for ₹ 1 each.
- Zio Life Limited has an option to settle the principal amount in ordinary shares (every 10 bonds are convertible into one ordinary share) or cash on settlement date.
- The principal amount of the bonds is classified as an equity instrument and the interest is classified as a financial liability.
- The interest expense relating to the liability component of the bonds is ₹ 1,800.
- The interest expense is tax-deductible. The applicable income tax rate is 40%. (7 Marks)

**Solution**

(b) The EPS computations for Year 1 as per Ind AS 33 are as follows.

Basic EPS	Diluted EPS
<p>1. <b>Determine the numerator</b> No adjustment is necessary until the convertible bonds are converted and ordinary shares are issued. The numerator is net profit ie. ₹ 46,00,000.</p>	<p>1. <b>Identify Potential Ordinary Shares (POSS)</b> The convertible bonds are the only POSS.</p>

**2. Determine the denominator**

There is no change in the number of outstanding shares during the year. The denominator is therefore 30,00,000.

**2. For each POS, calculate Earnings per Incremental Share (EPIS)**

Since Zio Life Limited has the choice of settlement, for the purpose of determining the EPIS, it assumes the share-settlement assumption.

**Potential adjustment to the numerator for EPIS:**

The convertible bonds, when settled in ordinary shares, would increase profit or loss for the year by the post-tax amount of the interest expense:

$$\text{(Interest expense on the convertible bonds)} \times (1 - \text{income tax rate}) =$$

$$(\text{₹ } 1,800) \times (1 - 40\%) = \text{₹ } 1,080$$

**Potential adjustment to the denominator for EPIS:**

The convertible bonds, when settled in ordinary shares, would increase the number of outstanding shares by 2,00,000 (20,00,000 / 10).

**EPIS is calculated as follows:**

$$\text{EPIS} = 1,080 / 2,00,000 = 0.01$$

**3. Determine basic EPS**

$$\text{Basic EPS} = 46,00,000 / 30,00,000 \\ = 1.53$$

**3. Rank the POSs**

This step does not apply, because the convertible bonds are the only class of POSs.

**4. Identify dilutive POSs and determine diluted EPS**

The potential impact of convertible bonds is determined as follows. (Refer W.N. below)

Accordingly, Zio Life Limited includes the impact of the convertible bonds in diluted EPS.

$$\text{Diluted EPS} = \text{₹ } 1.44$$

**Working Note:****Calculation of Diluted EPS**

	Earnings (₹)	Weighted average number of shares	Per Share (₹)	Dilutive?
Basic EPS	46,00,000	30,00,000	1.53	
Convertible bonds	1,080	2,00,000		
Total	46,01,080	32,00,000	1.44	Yes

# IND AS 34

## Module Questions

### Illustration 10 (RTP Nov 2020) – Already Covered in Edition 4

An entity's accounting year ends is 31st December, but its tax year end is 31st March. The entity publishes an interim financial report for each quarter of the year ended 31st December, 2019. The entity's profit before tax is steady at ₹10,000 each quarter, and the estimated effective tax rate is 25% for the year ended 31st March, 2019 and 30% for the year ended 31st March, 2020.

How the related tax charge would be calculated for the year 2019 and its quarters.

**Solution:**

Table showing computation of tax charge:

	Quarter ending 31st March, 2019	Quarter ending 30th June, 2019	Quarter ending 30 <sup>th</sup> Sept, 2019	Quarter ending 31st Dec, 2019	Year ending 31st Dec, 2019
	₹	₹	₹	₹	₹
Profit before tax	10,000	10,000	10,000	10,000	40,000
Tax charge	(2,500)	(3,000)	(3,000)	(3,000)	(11,500)
	7,500	7,000	7,000	7,000	28,500

Since an entity's accounting year is not same as the tax year, more than one tax rate might apply during the accounting year. Accordingly, the entity should apply the effective tax rate for each interim period to the pre-tax result for that period.

# IND AS 40

## Module Questions

### Illustration 11 - (RTP - May 2021) – Already Covered in Edition 4 (Ques 3)

X Ltd owned a land property whose future use was not determined as at 31 March 20X1. How should the property be classified in the books of X Ltd as at 31 March 20X1?

During June 20X1, X Ltd commenced construction of office building on it for own use. Presuming that the construction of the office building will still be in progress as at 31 March 20X2

- How should the land property be classified by X Ltd in its financial statements as at 31 March 20X2?
- Will there be a change in the carrying amount of the property resulting from any change in use of the investment property?
- Whether the change in classification to, or from, investment properties is a change in accounting policy to be accounted for in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors?
- Would your answer to (a) above be different if there were to be a management intention to commence construction of an office building for own use; however, no construction activity was planned by 31 March 20X2?

### Solution

As per paragraph 8(b) of Ind AS 40, any land held for currently undetermined future use, should be classified as an investment property. Hence, in this case, the land would be regarded as held for capital appreciation. Hence the land property should be classified by X Ltd as investment property in the financial statements as at 31 March 20X1.

As per Para 57 of the Standard, an entity can change the classification of any property to, and from, an investment property when and only when evidenced by a change in use. A change occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. Mere management's intention for use of the property does not provide evidence of a change in use.

- Since X Ltd has commenced construction of office building on it for own use, the property should be reclassified from investment property to owner occupied as at 31 March 20X2.
- As per Para 59, transfers between investment property, owner occupied and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or disclosure purposes.
- No. The change in classification to, or from, investment properties is due to change in use of the property. No retrospective application is required and prior period's financial statements need not be re-stated.
- Mere management intentions for use of the property do not evidence change in use. Since X Ltd has no plans to commence construction of the office building during 20X1-20X2, the property should continue to be classified as an investment property by X Ltd. in its financial statements as at 31 March 20X2.

# IND AS 41

## Module Questions

### Illustration 8 - (RTP - Nov 2020) - Already Covered in Edition 4 (Ques 3)

Entity A purchased cattle at an auction on 30th June 20X1.

Purchase price at 30 <sup>th</sup> June 20X1	₹ 1,00,000
Costs of transporting the cattle back to the entity's farm	₹ 1,000
Sales price of the cattle at 31 <sup>st</sup> March, 20X2	₹ 1,10,000

The company would have to incur similar transportation costs if it were to sell the cattle at auction, in addition to an auctioneer's fee of 2% of sales price. The auctioneer charges 2% of the selling price, from both, the buyer as well as the seller.

Calculate the amount at which cattle is to be recognised in books on initial recognition and at year end 31st March, 20X2.

#### Solution

#### Initial recognition of cattle

	₹
Fair value less costs to sell (₹ 1,00,000 – ₹ 1,000 - ₹ 2,000)	97,000
Cash outflow (₹ 1,00,000 + ₹ 1,000 + ₹ 2,000)	1,03,000
Loss on initial recognition	6,000
Cattle Measurement at year end	
Fair value less costs to sell (₹ 1,10,000 – 1,000 – (2% x 1,10,000))	1,06,800

At 31st March, 20X2, the cattle is measured at fair value of ₹ 1,09,000 less the estimated auctioneer's fee of ₹ 2,200). The estimated transportation costs of getting the cattle to the auction of ₹ 1,000 are deducted from the sales price in determining fair value.

### Illustration 9

On 1st November, 20X1, C Agro Ltd. purchased 100 goats of special breed from a market for ₹ 10,00,000 with a transaction cost of 2%. Goats fair value decreased from ₹ 10,00,000 to ₹ 9,00,000 as on 31st March, 20X2.

Determine the fair value on the date of purchase and as on financial year ended 31st March, 20X2 under both the cases viz-

- (i) The transaction costs are borne by the seller and
- (ii) The transaction costs are incurred by the seller and purchaser both. Also pass journal entries under both the situations on both dates.

#### Solution

As per para 12 of Ind AS 41, a biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. Therefore, regardless of who bears the transaction costs, the transaction costs of 2% are the costs to sell the goats on 1st November 20X1, and therefore, the goats should be measured at their fair value less costs to sell on initial recognition date, i.e., ₹ 9,80,000.

#### Journal Entry

#### As on 1st November 20X1:

#### (i) Where transaction costs are borne by the seller:

Biological assets (Goats) A/c	Dr. 9,80,000	
Loss on purchase of biological assets (Goats) A/c	Dr. 20,000	
To Bank A/c		10,00,000

**(ii) Where transaction costs are borne by the buyer:**

Biological assets (Goats) A/c	Dr.	9,80,000	
Loss on purchase of biological asset (Goats) A/c	Dr.	40,000	
To Bank A/c			10,20,000

**As on 31 March 20X2 – under both the scenarios:**

Loss on fair valuation of biological assets A/c	Dr.	98,000	
To Biological assets (Goats) A/c			98,000
[9,80,000 - (9,00,000 - 18,000)]			

**Illustration 10 - (RTP – May 2021) - Already Covered in Edition 4 (Ques 3)**

Analyse whether the following activities fall within the scope of Ind AS 41 with proper reasoning:

- ✓ Managing animal-related recreational activities like Zoo
- ✓ Fishing in the ocean
- ✓ Fish farming
- ✓ Development of living organisms such as cells, bacteria and viruses
- ✓ Growing of plants to be used in the production of drugs
- ✓ Purchase of 25 dogs for security purpose of the company's premises.

**Solution**

Activity	Whether in the scope of Ind AS 41?	Remarks
Managing animal-related recreational activities like Zoo	No	Since the primary purpose is to show the animals to public for recreational purposes, there is no management of biological transformation but simply control of the number of animals. Hence it will not fall in the purview of considered in the definition of agricultural activity.
Fishing in the ocean	No	Fishing in ocean is harvesting biological assets from unmanaged sources. There is no management of biological transformation since fish grow naturally in the ocean. Hence, it will not fall in the scope of the definition of agricultural activity.
Fish farming	Yes	Managing the growth of fish and then harvest for sale is agricultural activity within the scope of Ind AS 41 since there is management of biological transformation of biological assets for sale or additional biological assets.
Development of living organisms such as cells, bacteria viruses	Analysis required	The development of living organisms for research purposes does not qualify as agricultural activity, as those organisms are not being developed for sale, or for conversion into agricultural produce or into additional biological assets. Hence, development of such organisms for the said purposes does not fall under the scope of Ind AS 41.
		However, if the organisms are being developed for sale or use in dairy products, the activity will be considered as agricultural activity under the scope of Ind AS 41.

Growing of plants to be used in the production of drugs	Yes	If an entity grows plants for using it in production of drugs, the activity will be agricultural activity. Hence it will come under the scope of Ind AS 41.
Purchase of 25 dogs for security purposes of the company's premises	No	Ind AS 41 is applied to account for the biological assets when they relate to agricultural activity. Guard dogs for security purposes do not qualify as agricultural activity, since they are not being kept for sale, or for conversion into agricultural produce or into additional biological assets. Hence, they are outside the scope of Ind AS 41.

**IND AS 101****Module Questions****MTP / RTP / PP****Question 2 (Past Exam – July 2021)**

Government of India provides loans to MSMEs at a below-market rate of interest to fund the set-up of a new manufacturing facility. Sukshma Limited's date of transition to Ind AS is 1st April 2020.

In financial year 2014-2015, the Company had received a loan of ₹ 2.0 crore at a below - market rate of interest from the government. Under Indian GAAP, the Company had accounted for the loan as equity and the carrying amount was ₹ 2.0 crore at the date of transition. The amount repayable on 31st March 2024 will be ₹ 2.50 crore.

The Company has been advised to recognize the difference of ₹ 0.50 crores in equity by correspondingly increasing the value of various assets under property, plant & equipment by an equivalent amount on proportionate basis. Further, on 31st March 2024 when the loan has to be repaid, ₹ 2.50 crore should be presented as a deduction from property, plant & equipment.

Discuss the above treatment and share your views as per applicable Ind AS.

**(6 Marks)****Solution:**

Requirement as per Ind AS:

A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32. A first-time adopter shall apply the requirements in Ind AS 109 and Ind AS 20, prospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

Treatment to be done:

Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

In the instant case, the loan meets the definition of a financial liability in accordance with Ind AS 32. Company therefore reclassifies it from equity to liability. It also uses the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening Ind AS balance sheet.

It calculates the annual effective interest rate (EIR) starting 1st April 2020 as below:  $EIR = \text{Amount} / \text{Principal}(1/t)$  i.e.  $2.50/2(1/4)$  i.e. 5.74%. approx.

At this rate, ₹ 2 crore will accrete to ₹ 2.50 crore as at 31st March 2024.

During the next 4 years, the interest expense charged to statement of profit and loss shall be:

Year ended	Opening amortised cost (₹)	Interest expense for the year (₹) @ 5.74% p.a. approx.	Closing amortised cost (₹)
31 <sup>st</sup> March 2021	2,00,00,000	11,48,000	2,11,48,000
31 <sup>st</sup> March 2022	2,11,48,000	12,13,895	2,23,61,895
31 <sup>st</sup> March 2023	2,23,61,895	12,83,573	2,36,45,468
31 <sup>st</sup> March 2024	2,36,45,468	13,54,532	2,50,00,000

An entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind AS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.

The accounting treatment is to be done as per above guidance and the advice which the company has been provided is not in line with the requirements of Ind AS 101 .

**Question 3 - (RTP Dec 2021)**

While preparing an opening balance sheet on the date of transition, an entity is required to:

- (a) recognise all assets and liabilities whose recognition is required by Ind AS;
- (b) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and
- (c) apply Ind AS in measuring all recognised assets and liabilities. Give examples for each of the above 4 categories.

**Solution**

The examples of the items that an entity may need to recognise, derecognise, remeasure, reclassify on the date of transition are as under:

- (a) recognise all assets and liabilities whose recognition is required by Ind AS:
  - (i) customer related intangible assets if an entity elects to restate business combinations
  - (ii) share-based payment transactions with non-employees
  - (iii) recognition of deferred tax on land
- (b) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but is a different type of asset, liability or component of equity in accordance with Ind AS:
  - (i) redeemable preference shares that would have earlier been classified as equity;
  - (ii) non-controlling interests which would have been earlier classified outside equity; and
- (c) apply Ind ASs in measuring all recognised assets and liabilities:
  - (i) discounting of long-term provisions
  - (ii) measurement of deferred income taxes for all temporary differences instead of timing differences

**IND AS 105****Module Questions**

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**MTP / RTP / PP****Question 2 – (RTP Dec 2021)**

On February 28, 20X1, Entity X is committed to the following plans:

- (a) To sell a property after completion of certain renovations to increase its value prior to selling it. The renovations are expected to be completed within a short span of time i.e., 2 months.
- (b) To sell a commercial building to a buyer after the occupant vacates the building. The time required for vacating the building is usual and customary for sale of such commercial property. The entity considers the sale to be highly probable.

Can the above-mentioned property and commercial building be classified as non-current assets held for sale at the reporting date i.e. 31st March, 20X1?

**Solution**

Ind AS 105 provides guidance on classification of a non-current asset held for sale in paragraph 7 which states that, 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.

- (a) In respect of Entity X's plan to sell property which is being renovated and such renovation is incomplete as at the reporting date. Although, the renovations are expected to be completed within 2 months from the reporting date i.e., March 31, 20X1, the property cannot be classified as held for sale at the reporting date as it is not available for sale immediately in its present condition.

In case of Entity X's plan to sell commercial building, it intends to transfer the commercial building to a buyer after the occupant vacates the building and the time required for vacating such building is usual and customary for sale of such non-current asset. Accordingly, the criterion of the asset being available for immediate sale would be met and hence, the commercial building can be classified as held for sale at the reporting date.

# IND AS 113

## Module Questions

### Illustration 8 – (RTP – Dec 2021)

On 1st January, 20X1, A Ltd assumes a decommissioning liability in a business combination. The reporting entity is legally required to dismantle and remove an offshore oil platform at the end of its useful life, which is estimated to be 10 years. The following information is relevant:

If A Ltd was contractually allowed to transfer its decommissioning liability to a market participant, it concludes that a market participant would use all of the following inputs, probability weighted as appropriate, when estimating the price it would expect to receive:

a. Labour costs

Labour costs are developed based on current marketplace wages, adjusted for expectations of future wage increases, required to hire contractors to dismantle and remove offshore oil platforms. A Ltd. assigns probability to a range of cash flow estimates as follows:

Cash Flow Estimates:	100 Cr	125 Cr	175 Cr
Probability:	25%	50%	25%

b. Allocation of overhead costs:

Assigned at 80% of labour cost

c. The compensation that a market participant would require for undertaking the activity and for assuming the risk associated with the obligation to dismantle and remove the asset. Such compensation includes both of the following:

I. Profit on labour and overhead costs:

A profit mark-up of 20% is consistent with the rate that a market participant would require as compensation for undertaking the activity

II. The risk that the actual cash outflows might differ from those expected, excluding inflation:

A Ltd. estimates the amount of that premium to be 5% of the expected cash flows. The expected cash flows are 'real cash flows' / 'cash flows in terms of monetary value today'.

d. Effect of inflation on estimated costs and profits

A Ltd. assumes a rate of inflation of 4 percent over the 10-year period based on available market data.

e. Time value of money, represented by the risk-free rate: 5%

f. Non-performance risk relating to the risk that Entity A will not fulfill the obligation, including A Ltd.'s own credit risk: 3.5%

A Ltd, concludes that its assumptions would be used by market participants. In addition, A Ltd. does not adjust its fair value measurement for the existence of a restriction preventing it from transferring the liability.

**Solution:**

		Amount (In Cr)
Expected Labour Cost (Refer W.N.)		131.25
Allocated Overheads	(80% x 131.25 Cr)	105.00
Profit markup on Cost	(131.25 + 105) x 20%	<u>47.25</u>
<b>Total Expected Cash Flows before inflation</b>		<b><u>283.50</u></b>
Inflation factor for next 10 years (4%)	(1.04) <sup>10</sup> =1.4802	
Expected cash flows adjusted for inflation	283.50 x 1.4802	419.65
Risk adjustment - uncertainty relating to cash flows	(5% x 419.64)	<u>20.98</u>
<b>Total Expected Cash Flows</b>	(419.65+20.98)	<b><u>440.63</u></b>
<b>Discount rate to be considered = risk-free</b>		

rate + entity's non-performance risk	5% + 3.5%	8.5%
Expected present value at 8.5% for 10 years	(440.63 / (1.08510))	<u>194.97</u>

**Working Note:****Expected labour cost:**

Cash Flows Estimates	Probability	Expected Cash Flows
100 Cr	25%	25 Cr
125 Cr	50%	62.50 Cr
175 Cr	25%	<u>43.75 Cr</u>
<b>Total</b>		<b><u>131.25 Cr</u></b>

**Illustration 9 – (RTP Dec 2021)**

- ii. Entity A owns 250 ordinary shares in company XYZ, an unquoted company. Company XYZ has a total share capital of 5,000 shares with nominal value of ₹ 10. Entity XYZ's after-tax maintainable profits are estimated at ₹ 70,000 per year. An appropriate price/earnings ratio determined from published industry data is 15 (before lack of marketability adjustment). Entity A's management estimates that the discount for the lack of marketability of company XYZ's shares and restrictions on their transfer is 20%. Entity A values its holding in company XYZ's shares based on earnings. Determine the fair value of Entity A's investment in XYZ's shares.
- iii. Based on the facts given in the aforementioned part (i), assume that, Entity A estimates the fair value of the shares it owns in company XYZ using a net asset valuation technique. The fair value of company XYZ's net assets including those recognised in its balance sheet and those that are not recognised is ₹ 8,50,000. Determine the fair value of Entity A's investment in XYZ's shares.

**Solution**

An earnings-based valuation of Entity A's holding of shares in company XYZ could be calculated as follows:

(i)

Particulars	Unit
Entity XYZ's after-tax maintainable profits (A)	₹ 70,000
Price/Earnings ratio (B)	15
Adjusted discount factor (C) (1- 0.20)	0.80
Value of Company XYZ (A) x (B) x (C)	₹ 8,40,000

Value of a share of XYZ = ₹ 8,40,000 ÷ 5,000 shares = ₹ 168

The fair value of Entity A's investment in XYZ's shares is estimated at ₹ 42,000 (that is, 250 shares × ₹ 168 per share).

(ii) Share price = ₹ 8,50,000 ÷ 5,000 shares = ₹ 170 per share.

The fair value of Entity A's investment in XYZ shares is estimated to be ₹ 42,500 (250 shares × ₹ 170 per share).

**IND AS 115****Module Questions****MTP / RTP / PP****Question 8 - (RTP Dec 2021)**

Prime Ltd. is a technology company and regularly sells Software S, Hardware H and Accessory A. The stand-alone selling prices for these items are stated below:

Software S – ₹ 50,000 Hardware H – ₹1,00,000 and Accessory A – ₹ 20,000.

Since the demand for Hardware H and Accessory A is low, Prime Ltd. sells H and A together at ₹ 100,000. Prime Ltd. enters into a contract with Zeta Ltd. to sell all the three items for a consideration of ₹1,50,000.

What will be the accounting treatment for the discount in the financial statements of Prime Ltd., considering that the three items are three different performance obligations which are satisfied at different points in time? Further, what will be the accounting treatment if Prime Ltd. would have transferred the control of Hardware H and Accessory A at the same point in time.

**Solution**

Paragraph 82 of Ind AS 115 states that, “An entity shall allocate a discount entirely to one or more, but not all, performance obligations in the contract if all of the following criteria are met:

- the entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a stand-alone basis;
- the entity also regularly sells on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and
- the discount attributable to each bundle of goods or services described in paragraph 82(b) is substantially the same as the discount in the contract and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs”.

In the given case, the contract includes a discount of ₹ 20,000 on the overall transaction, which should have been allocated proportionately to all three performance obligations when allocating the transaction price using the relative stand-alone selling price method (in accordance with paragraph 81 of Ind AS 115). However, as Prime Ltd. meets all the criteria specified in paragraph 82 above, i.e., it regularly sells Hardware H and Accessory A together for ₹ 1,00,000 and Software S for ₹ 50,000, accordingly, it is evident that the entire discount should be allocated to the promises to transfer Hardware H and Accessory A.

In the given case, since the contract requires the entity to transfer control of Hardware H and Accessory A at different points in time, then the allocated amount of ₹ 1,00,000 should be individually allocated to the promises to transfer Hardware H (stand-alone selling price of ₹ 1,00,000) and Accessory A (stand-alone selling price of ₹20,000).

Product	Allocated transaction price (₹)
Hardware H	83,333 (1,00,000/ 120,000 x 100,000)
Accessory A	16,667 (20,000/120,000 x 100,000)
Total	<u>1,00,000</u>

However, if Prime Ltd. would have transferred the control of Hardware H and Accessory A at the same point in time, then the Prime Ltd. could, as a practical matter, account for the transfer of those products as a single performance obligation. That is, Prime Ltd. could allocate ₹ 1,00,000 of the transaction price to the single performance obligation and recognise revenue of ₹ 1,00,000 when Hardware H and Accessory A simultaneously transfer to Zeta Ltd.

# IND AS 116

## Module Questions

### Illustration 59 - (RTP - Nov 2020) – Already Covered in Edition 4 (Ques 1)

Entity X (lessee) entered into a lease agreement ('lease agreement') with Entity Y (lessor) to lease an entire floor of a shopping mall for a period of 9 years. The annual lease rent of ₹ 70,000 is payable at year end. To carry out its operations smoothly, Entity X simultaneously entered into another agreement ('facilities agreement') with Entity Y for using certain other facilities owned by Entity Y such as passenger lifts, DG sets, power supply infrastructure, parking space etc., which are specifically mentioned in the agreement, for annual service charges amounting to ₹ 1,00,000. As per the agreement, the ownership of the facilities shall remain with Entity Y. Lessee's incremental borrowing rate is 10%.

The facilities agreement clearly specifies that it shall be co-existent and coterminous with 'lease agreement'. The facility agreement shall stand terminated automatically on termination or expiry of 'lease agreement'.

Entity X has assessed that the stand-alone price of 'lease agreement' is ₹ 1,20,000 per year and stand-alone price of the 'facilities agreement' is ₹ 80,000 per year. Entity X 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) and accordingly it separates non-lease components from lease components.

How will Entity X account for lease liability as at the commencement date?

#### Solution

Entity X identifies that the contract contains lease of premises and non-lease component of facilities availed. As Entity X has not elected to apply the practical expedient as provided in paragraph 15, it will separate the lease and non-lease components and allocate the total consideration of ₹ 1,70,000 to the lease and non-lease components in the ratio of their relative stand-alone selling prices as follows:

Particulars	Stand-alone Prices	% of total Stand-alone Price	Allocation of consideration
	₹		₹
Building rent	1,20,000	60%	1,02,000
Service charge	<u>80,000</u>	<u>40%</u>	<u>68,000</u>
<b>Total</b>	<b><u>2,00,000</u></b>	<b><u>100%</u></b>	<b><u>1,70,000</u></b>

As Entity X's incremental borrowing rate is 10%, it discounts lease payments using this rate and the lease liability at the commencement date is calculated as follows:

Year	Lease Payment (A)	Present value factor @ 10% (B)	Present value of lease payments (A x B = C)
Year 1	1,02,000	0.909	92,718
Year 2	1,02,000	0.826	84,252
Year 3	1,02,000	0.751	76,602
Year 4	1,02,000	0.683	69,666
Year 5	1,02,000	0.621	63,342
Year 6	1,02,000	0.564	57,528
Year 7	1,02,000	0.513	52,326
Year 8	1,02,000	0.467	47,634
Year 9	1,02,000	0.424	43,248
<b>Lease Liability at commencement date</b>			<b>5,87,316</b>

Further, ₹ 68,000 allocated to the non-lease component of facility used will be recognised in profit or loss as and when incurred.

**Illustration 60 - (RTP - May 2021) – Already Covered in Edition 4 (Ques 2)**

Entity X is an Indian entity whose functional currency is Indian Rupee. It has taken a plant on lease from Entity Y for 5 years to use in its manufacturing process for which it has to pay annual rentals in arrears of USD 10,000 every year. On the commencement date, exchange rate was USD = Rs. 68. The average rate for Year 1 was Rs. 69 and at the end of year 1, the exchange rate was Rs. 70. The incremental borrowing rate of Entity X on commencement of the lease for a USD borrowing was 5% p.a.

How will entity X measure the right of use (ROU) asset and lease liability initially and at the end of Year 1?

**Solution**

On initial measurement, Entity X will measure the lease liability and ROU asset as under:

Year	Lease Payments (USD)	Present Value factor @ 5%	Present Value of Lease Payment	Conversion rate (spot rate)	INR value
1	10,000	0.952	9,520	68	6,47,360
2	10,000	0.907	9,070	68	6,16,760
3	10,000	0.864	8,640	68	5,87,520
4	10,000	0.823	8,230	68	5,59,640
5	10,000	0.784	7,840	68	5,33,120
<b>Total</b>			<b>43,300</b>		<b>29,44,400</b>

As per Ind AS 21 The Effects of Changes in Foreign Exchange Rates, monetary assets and liabilities are restated at each reporting date at the closing rate and the difference due to foreign exchange movement is recognised in profit and loss whereas non-monetary assets and liabilities carried measured in terms of historical cost in foreign currency are not restated.

Accordingly, the ROU asset in the given case being a non-monetary asset measured in terms of historical cost in foreign currency will not be restated but the lease liability being a monetary liability will be restated at each reporting date with the resultant difference being taken to profit and loss.

At the end of Year 1, the lease liability will be measured in terms of USD as under: Lease Liability:

At the end of Year 1, the lease liability will be measured in terms of USD as under: Lease Liability:

Year	Initial Value (USD) (a)	Lease Payment (b)	Interest @ 5% (c) = (a x 5%)	Closing Value (USD) (d = a + c - b)
1	43,300	10,000	2,165	35,465

Interest at the rate of 5% will be accounted for in profit and loss at average rate of ₹ 69 (i.e., USD 2,165 x 69) = ₹ 1,49,385.

Particulars	Dr. (₹)	Cr. (₹)
Interest Expense	Dr. 1,49,385	
To Lease liability		1,49,385

Lease payment would be accounted for at the reporting date exchange rate, i.e. ₹ 70 at the end of year 1

Particulars	Dr. (₹)	Cr. (₹)
Lease liability	Dr. 7,00,000	
To Cash		7,00,000

As per the guidance above under Ind AS 21, the lease liability will be restated using the reporting date exchange rate i.e., ₹ 70 at the end of Year 1. Accordingly, the lease liability will be measured at ₹ 24,82,550 (35,465 x ₹ 70) with the corresponding impact due to exchange rate movement of ₹ 88,765 (24,82,550 – (29,44,400 + 1,49,385 – 700,000) taken to profit and loss.

At the end of year 1, the ROU asset will be measured as under:

Year	Opening Balance (₹)	Depreciation (₹)	Closing Balance (₹)
1	29,44,400	5,88,880	23,55,520

## MTP / RTP / PP

## Question 5 – (RTP Dec 2021)

The Company has entered into a lease agreement for its retail store as on 1st April, 20X1 for a period of 10 years. A lease rental of ₹ 56,000 per annum is payable in arrears. The Company recognized a lease liability of ₹ 3,51,613 at inception using an incremental borrowing rate of 9.5% p.a. as at 1st April 20X1. As per the terms of lease agreement, the lease rental shall be adjusted every 2 years to give effect of inflation. Inflation cost index as notified by the Income tax department shall be used to derive the lease payments. Inflation cost index was 280 for financial year 20X1-20X2 and 301 for financial year 20X3-20X4. The current incremental borrowing rate is 8% p.a.

Show the Journal entry at the beginning of year 3, to account for change in lease.

## Solution

As per para 27 (b) of Ind AS 116, variable lease payments that depend on an index or a rate, are initially measured using the index or rate as at the commencement date.

At the beginning of the third year, Lessee remeasures the lease liability at the present value of eight payments of ₹ 60,200 discounted at an original discount rate of 9.5% per annum as per para 43 of Ind AS 116.

Year	Revised lease rental	Discount factor @ 9.5%	Present value
3	$[(56,000 / 280) \times 301] =$	0.913	54,963
4	60,200	0.834	50,207
5	60,200	0.762	45,872
6	60,200	0.696	41,899
7	60,200	0.635	38,277
8	60,200	0.580	34,916
9	60,200	0.530	31,906
10	60,200	0.484	<u>29,137</u>
			<u>3,27,127</u>

Table showing amortised cost of lease liability

Year	Opening balance	Interest @ 9.5%	Rental paid	Closing balance
1	3,51,613	33,403	56,000	3,29,016
2	3,29,016	31,257	56,000	3,04,273

Difference of ₹ 22,854 (3,27,127 – 3,04,273) will increase the lease liability with corresponding increase in ROU Asset as per para 39 of Ind AS 116.

## Journal entry at the beginning of year 3 would be:

Right-of-use asset	Dr.	₹ 22,854	
To Lease liability			₹ 22,854

**IND AS 102****Module Questions**

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**MTP / RTP / PP****Question 3 - (MTP Oct'21)**

Ryder, a public limited company is reviewing certain events which have occurred since its year - end 31st March, 20X4. The financial statements were authorized for issue on 12th May, 20X4. The following events are relevant to the financial statements for the year ended 31 st March, 20X4.

The company granted share appreciation rights (SARs) to its employees on 1 st April, 20X2 based on 10 million shares. At the date the rights are exercised, the SAR's provide employees with the right to receive cash equal to the appreciation in the company's share price since the grant date. The rights vested on 31st March, 20X4 and payment was made on schedule on 1st May, 20X4.

The FV of the SAR's per share at 31st March, 20X3 was ₹ 6, at 31st March, 20X4 was ₹ 8 and at 1st May, 20X4 was ₹ 9. The company has recognized a liability for the SAR's as at 31st March, 20X2 based upon Ind AS 102 'Share-based Payments' but the liability was stated at the same amount at 31st March, 20X4.

Discuss the accounting treatment of the above events in the financial statements of the Ryder Group for the year ending 31st March, 20X4 taking into account the implications of events occurring after the reporting period. **(6 Marks)**

**Solution**

Ind AS 102 'Share-based Payments' requires a company to remeasure the fair value of a liability to pay cash-settled share-based payments at each reporting date and the settlement date until the liability is settled. Share Appreciation rights fall under this category. Hence, the company should recognize a liability of ₹ 80 million (₹ 8 x 10 million) at 31st March, 20X4, the vesting date.

The liability recognised at 31st March, 20X4 was in fact based on the share price at the previous year-end and would have been shown at ₹ 6 x ½ x 10 million shares – half the cost as the SARs vest over 2 years. This liability at 31st March, 20X4 has not been changed since the previous year- end by the company.

The SARs vest over a two-year period and hence on 31st March, 20X4 there would be a weighting of the eventual cost by 1 year / 2 year. Therefore, an additional liability of ₹ 50 million (30 million

+ 20 million) should be accounted for in the financial statements at 31st March, 20X4.

The SARs would be settled on 1st May, 20X4 at ₹ 90 million (₹ 9 x 10 million). The increase of ₹ 10 million (over and above ₹ 80 million) in the value of the SARs is a non-adjusting event. Hence, the change in the fair value of ₹ 10 million during the year 20X4-20X5 would be charged to profit and loss for the year ended 31st March, 20X5 and not 31st March, 20X4.

# IND AS 103

## Illustration 53 – (RTP Dec'21)

Company X is engaged in the business of exploration & development of Oil & Gas Blocks.

Company X currently holds participating interest (PI) in below mentioned producing Block as follows:

Block Name	Company X	Company Y	Company Z	Total
AWM/01	30%	60%	10%	100%

For the above Block, Company X, Y & Z has entered into unincorporated Joint Venture.

Company Y is the Operator of the Block AWM/01. Company X & Company Z are the Joint Operators. Company Y incurs all the expenditure on behalf of Joint Venture and raise cash call to Company X & Company Z at each month end in respect of their share of expenditure incurred in Joint Venture. All the manpower and requisite facilities / machineries owned by the Joint venture and thereby owned by all the Joint Operators.

For past few months, due to liquidity issues, Company Z defaulted in payment of cash calls to operators. Therefore, company Y (Operator) has issued notice to company Z for withdrawal of their participating right from on 01.04.20X1. However, company Z has filed the appeal with arbitrator on 30.04.20X1.

Financial performance of company Z has not been improved in subsequent months and therefore company Z has decided to withdraw participating interest rights from Block AWM/01 and entered into sale agreement with Company X & Company Y. As per the terms of the agreement, dated 31.5.20X1, Company X will receive 33.33% share & Company Y will receive 66.67% share of PI rights owned by Company Z.

Company X is required to pay ₹ 1 Lacs against 33.33% share of PI rights owned by Company Z.

After signing of sale agreement, Operator (company Y) approach government of India for modification in PSC (Production Sharing Contract) i.e. removal of Company Z from PSC of AWM/01 and government has approved this transaction on 30.6.20X1. Government approval for the modification in PSC is essential given the industry in which the joint operators operate.

**Balance sheet of Company X & Company Z are as follows:**

Particulars	Company X		Company Z	
	31.5.20X1	30.6.20X1	31.5.20X1	30.6.20X1
	₹	₹	₹	₹
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, Plant & Equipment	5,00,000	10,00,000	1,50,000	3,00,000
Right of Use Asset	1,00,000	2,00,000	10,000	20,000
Development CWIP	50,000	1,00,000	50,000	1,00,000
Financial Assets				
Loan receivable	<u>25,000</u>	<u>50,000</u>	<u>25,000</u>	<u>50,000</u>
<b>Total Non-Current Assets</b>	<b><u>6,75,000</u></b>	<b><u>13,50,000</u></b>	<b><u>2,35,000</u></b>	<b><u>4,70,000</u></b>
<b>Current assets</b>				
Inventories	1,00,000	2,00,000	15,000	30,000
Financial Assets				
Trade receivables	1,50,000	3,00,000	50,000	1,00,000
Cash and cash equivalents	2,00,000	4,00,000	1,00,000	2,00,000
Other Current Assets	<u>2,25,000</u>	<u>50,000</u>	<u>25,000</u>	<u>50,000</u>
<b>Total Current Assets</b>	<b><u>6,75,000</u></b>	<b><u>9,50,000</u></b>	<b><u>1,90,000</u></b>	<b><u>3,80,000</u></b>
<b>Total Assets</b>	<b><u>13,50,000</u></b>	<b><u>23,00,000</u></b>	<b><u>4,25,000</u></b>	<b><u>8,50,000</u></b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Equity share capital	3,00,000	3,00,000	1,00,000	1,00,000

Other equity	<u>2,00,000</u>	<u>3,00,000</u>	<u>75,000</u>	<u>2,50,000</u>
<b>Total Equity</b>	<b><u>5,00,000</u></b>	<b><u>6,00,000</u></b>	<b><u>1,75,000</u></b>	<b><u>3,50,000</u></b>
<b>Liabilities</b>				
Non-Current Liabilities				
Provisions	4,00,000	8,00,000	1,00,000	2,00,000
Other Liabilities	<u>1,50,000</u>	<u>3,00,000</u>	<u>50,000</u>	<u>1,00,000</u>
<b>Total Non-Current Liabilities</b>	<b><u>5,50,000</u></b>	<b><u>11,00,000</u></b>	<b><u>1,50,000</u></b>	<b><u>3,00,000</u></b>
Current Liabilities				
Financial Liabilities				
Trade Payables	<u>3,00,000</u>	<u>6,00,000</u>	<u>1,00,000</u>	<u>2,00,000</u>
<b>Total Current Liabilities</b>	<b><u>3,00,000</u></b>	<b><u>6,00,000</u></b>	<b><u>1,00,000</u></b>	<b><u>2,00,000</u></b>
<b>Total Liabilities</b>	<b><u>13,50,000</u></b>	<b><u>23,00,000</u></b>	<b><u>4,25,000</u></b>	<b><u>8,50,000</u></b>

**Additional Information:**

1. Fair Value of PPE & Development CWIP owned by Company Z as per Market participant approach is ₹ 5,00,000 & ₹ 2,00,000 respectively.
2. Fair Value of all the other assets and liabilities acquired are assumed to be at their carrying values (except cash & cash equivalent). Cash and cash equivalents of Company Z are not to be acquired by Company X as per the terms of agreement.
3. Tax rate is assumed to be 30%.
4. As per Ind AS 28, all the joint operators are joint ventures whereby each parties that have joint control of the arrangement have rights to the net assets of the arrangement and therefore every operator records their share of assets and liabilities in their books.

**You need to determine the following:**

1. Whether the above acquisition falls under business or asset acquisition as defined under business combination standard Ind AS 103?
2. Determine the acquisition date in the above transaction?
3. Prepare Journal entries for the above-mentioned transaction?
4. Draft the Balance Sheet for Company X based on your analysis in Part 1 above as at acquisition date.

**Solution**

- (1) Ind AS 103 defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

For a transaction to meet the definition of a business combination (and for the acquisition method of accounting to apply), the entity must gain control of an integrated set of assets and activities that is more than a collection of assets or a combination of assets and liabilities.

To be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs.

Therefore, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

In the aforesaid transaction, Company X acquired share of participating rights owned by Company Z for the producing Block (AWM/01). The output exist in this transaction (Considering AWM/01) is a producing block. Also all the manpower and requisite facilities / machineries are owned by Joint venture and thereby all the Joint Operators. Hence, acquiring participating rights tantamount to acquire inputs (Expertise Manpower & Machinery) and it is critical to the ability to continue producing outputs. Thus, the said acquisition will fall under the Business Acquisition and hence standard Ind AS 103 is to be applied for the same.

- (2) As per paragraph 8 of Ind AS 103, acquisition date is the date on which the acquirer obtains control of the acquiree. Further, paragraph 9 of Ind AS 103 clarifies that the date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date.

An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date. Since government of India (GOI) approval is a substantive approval for Company X to acquire control of Company Z's operations, the date of acquisition cannot be earlier than the date on which approval is obtained from GOI. This is pertinent given that the approval from GOI is considered to be a substantive process and accordingly, the acquisition is considered to be completed only on receipt of such approval. Hence acquisition date in the above scenario is 30.6.20X1.

(3) **Journal entry for acquisition**

Particulars		Amount (₹)	Amount (₹)
Property Plant & Equipment	Dr.	1,66,650	
Right-of-use Asset	Dr.	6,666	
Development CWIP	Dr.	66,660	
Financial Assets - Loan Receivables	Dr.	16,665	
Inventories	Dr.	9,999	
Trade Receivables	Dr.	33,330	
Other Current Assets	Dr.	16,665	
To Provisions			66,660
To Other Liabilities			33,330
To Trade Payables			66,660
To Deferred Tax Liability			29,997
To Cash & Cash Equivalent (purchase consideration)			1,00,000
Gain on bargain purchase (Other Comprehensive Income)			19,988
(Being assets acquired and liabilities assumed from Company Z recorded at fair value along gain on bargain purchase)			

(4) **Balance Sheet of Company X as at 30.6.20X1**

**(Pre & Post Acquisition of PI rights pertaining to Company Z)**

Particulars	Pre- Acquisition	Adjustments	Post- Acquisition
	30.6.20X1		30.6.20X1
<b>Assets</b>			
<b>Non - Current Assets</b>			
Property Plant & Equipment	10,00,000	1,66,650	11,66,650
Right of Use Asset	2,00,000	6,666	2,06,666
Development CWIP	1,00,000	33,330	1,66,660
Financial Assets			
Loan receivable	<u>50,000</u>	16,665	<u>66,665</u>
<b>Total Non-Current Assets</b>	<b><u>13,50,000</u></b>		<b><u>16,06,641</u></b>
<b>Current assets</b>			
Inventories	2,00,000	9,999	2,09,999
Financial Assets			

Trade receivables	3,00,000	33,330	3,33,330
Cash and cash equivalents	4,00,000	(1,00,000)	3,00,000
Other Current Assets	50,000	16,665	66,665
<b>Total Current Assets</b>	<b><u>9,50,000</u></b>		<b><u>9,09,994</u></b>
<b>Total Assets</b>	<b><u>23,00,000</u></b>		<b><u>25,16,635</u></b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Equity share capital	<u>3,00,000</u>		<u>3,00,000</u>
Other equity	<u>3,00,000</u>		<u>3,00,000</u>
Capital Reserve (OCI)		19,988	<u>19,988</u>
<b>Total Equity</b>	<b><u>6,00,000</u></b>		<b><u>6,19,988</u></b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Provisions	<u>8,00,000</u>	66,660	<u>8,66,660</u>
Other Liabilities	<u>3,00,000</u>	33,330	<u>3,33,330</u>
Deferred Tax Liability		29,997	<u>29,997</u>
<b>Total Non-Current Liabilities</b>	<b><u>11,00,000</u></b>		<b><u>12,29,987</u></b>
<b>Current Liabilities</b>			
<b>Financial liabilities</b>			
Trade Payables	<u>6,00,000</u>	66,660	<u>6,66,660</u>
<b>Total Current Liabilities</b>	<b><u>6,00,000</u></b>		<b><u>6,66,660</u></b>
<b>Total Equity and Liabilities</b>	<b><u>23,00,000</u></b>		<b><u>25,16,635</u></b>

## Working Notes

## 1. Determination of Company Z's balance acquired by Company X on 30.6.20X1 (Acquisition Date)

Particulars	As per Company Z Books	Carrying Value 33.33% Share	Acquisition Date Value	Remarks
	30.6.20X1			
	₹	₹	₹	
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property Plant & Equipment	3,00,000	99,990	1,66,650	Note 1
Right of Use Asset	20,000	6,666	6,666	
Development CWIP	1,00,000	33,330	66,660	Note 2
Financial Assets				
Loan receivable	<u>50,000</u>	<u>16,665</u>	<u>16,665</u>	
<b>Total Non-Current Assets</b>	<b><u>4,70,000</u></b>	<b><u>1,56,651</u></b>	<b><u>2,56,641</u></b>	
<b>Current assets</b>				
Inventories	<u>30,000</u>	<u>9,999</u>	<u>9,999</u>	
Financial Assets				

Trade receivables	<u>1,00,000</u>	<u>33,330</u>	<u>33,330</u>	
Cash and cash equivalents	<u>2,00,000</u>	<u>66,660</u>	<u>66,660</u>	
Other Current Assets	<u>50,000</u>	<u>16,665</u>	<u>16,665</u>	
<b>Total Current Assets</b>	<b><u>3,80,000</u></b>	<b><u>1,26,654</u></b>	<b><u>1,26,654</u></b>	
Liabilities				
Non-Current Liabilities				
Provisions	<u>2,00,000</u>	<u>66,660</u>	<u>66,660</u>	
Other Liabilities	<u>1,00,000</u>	<u>33,330</u>	<u>33,330</u>	
Total Non-Current Liabilities	<u>3,00,000</u>	<u>99,990</u>	<u>99,990</u>	
Current Liabilities				
Financial liabilities				
Trade Payables	<u>2,00,000</u>	<u>66,660</u>	<u>66,660</u>	
<b>Total Current Liabilities</b>	<b><u>2,00,000</u></b>	<b><u>66,660</u></b>	<b><u>66,660</u></b>	

**Note 1: Fair Value of PPE:**

Fair Value of PPE in Company Z Books	₹ 5,00,000
33.33% Share acquired by Company X	₹ 1,66,650

**Note 2: Fair Value of Development CWIP:**

Fair Value of PPE in Company Z Books	₹ 2,00,000
33.33% Share acquired by Company X	₹ 66,660

**2. Computation Goodwill/Bargain Purchase Gain**

Particulars	As at 30.6.20X1 (₹)
Total Non - Current Assets	2,56,641
Total Current Assets (Except Cash & Cash Equivalent of ₹ 66,660) (1,26,654 – 66,660)	59,994
Total Non-Current Liabilities	(99,990)
Total Current Liabilities	(66,660)
Total Deferred Tax Liability (Refer Working note 3)	(29,997)
Net Assets Acquired	1,19,988
Less: Consideration Paid	(1,00,000)
Gain on Bargain Purchase (To be transferred to OCI)	19,988

\*In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination in which the value of net assets acquired in a business combination exceeds the purchase consideration. The acquirer shall recognise the resulting gain in other comprehensive income on the acquisition date and accumulate the same in equity as capital reserve, if the reason for bargain purchase gain is clear and evidence exist. If there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, then the gain shall be recognised directly in equity as capital reserve. Since in above scenario it is clearly evident that due to liquidity issues, Company Z has to withdraw their participating right from AWM/01. The said bargain purchase gain should be transferred to other comprehensive income on the acquisition date.

**3. Computation of Deferred Tax Liability arising on Business Combination**

Particulars	Acquisition Date Value (₹)
Total Non - Current Assets	2,56,641
Total Current Assets (Except Cash & Cash Equivalent of ₹ 66,660)	59,994
Total Non-Current Liabilities	(99,990)
Total Current Liabilities	(66,660)
<b>Net Assets Acquired at Fair Value</b>	<b>1,49,985</b>
Book value of Net Assets Acquired	(49,995)
<b>Temporary Difference</b>	<b><u>99,990</u></b>
<b>DTL @ 30% on Temporary Difference</b>	<b>29,997</b>

Note: As per Ind AS 103, in case an entity acquires another entity step by step through series of purchase then the acquisition date will be the date on which the acquirer obtains control. Till the time the control is obtained the investment will be accounted as per the requirements of other Ind AS 109, if the investments are covered under that standard or as per Ind AS 28, if the investments are in Associates or Joint Ventures.

If a business combination is achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Since in the above transaction, company X does not hold any prior interest in Company Z & company holds only 30% PI rights in Block AWM/01 through unincorporated joint venture, this is not a case of step acquisition.

# IND AS 110

## Module Questions

### Illustration 73 – (RTP May 2020) – Already Covered in Edition 4 (Ques 6)

Gamma Limited, a parent company, is engaged in manufacturing and retail activities. The group holds investments in different entities as follows:

- ✓ Gamma Limited holds 100% Investment in G Limited and D Limited;
- ✓ G Limited and D Limited hold 60% and 40% in GD Limited respectively;
- ✓ Delta Limited is a 100% subsidiary of GD Limited

Firstly, Gamma Limited wants you to suggest whether GD Limited can avail the exemption from the preparation and presentation of consolidated financial statements as per applicable Ind AS?

Secondly, if all other facts remain the same as above except that G Limited and D Limited are both owned by an Individual (say, Mr. X) instead of Gamma Limited, then explain whether GD Limited can avail the exemption from the preparation and presentation of consolidated financial statements.

### Solution

As per paragraph 4(a) of Ind AS 110, an entity that is a parent shall present consolidated financial statements. This Ind AS applies to all entities, except as follows:

A parent need not present consolidated financial statements if it meets all the following conditions:

- (i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
- (ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- (iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- (iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind ASs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this Ind AS.

In accordance with the above, it may be noted that as per paragraph 4(a)(i) above, a parent need not present consolidated financial statements if it is a:

- wholly-owned subsidiary; or
- is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements.

Although GD Limited is a partly-owned subsidiary of G Limited, it is the wholly-owned subsidiary of Gamma Limited (and therefore satisfies the condition 4(a)(i) of Ind AS 110 without regard to the relationship with its immediate owners, i.e. G Limited and D Limited). Thus, GD Limited being the wholly owned subsidiary fulfils the conditions as mentioned under paragraph 4(a)(i) and is not required to inform its other owner D Limited of its intention not to prepare the consolidated financial statements.

Thus, in accordance with the above, GD Limited may take the exemption given under paragraph 4(a) of Ind AS 110 from presentation of consolidated financial statements.

In Alternative Scenario, where both G Limited and D Limited are owned by an individual Mr. X, then GD Limited is ultimately wholly in control of Mr. X (i.e., an individual) and hence it cannot be considered as a wholly owned subsidiary of an entity.

This is because Ind AS 110 makes use of the term 'entity' and the word 'entity' includes a company as well as any other form of entity. Since, Mr. X is an 'individual' and not an 'entity', therefore, GD Limited cannot be considered as wholly owned subsidiary of an entity.

Therefore, in the given case, GD Limited is a partially-owned subsidiary of another entity. Accordingly, in order to avail the exemption under paragraph 4(a), its other owner, D Limited should be informed about and

do not object to GD Limited not presenting consolidated financial statements. Further, for the purpose of consolidation of G Limited and D Limited, GD Limited will be required to provide relevant financial information as per Ind AS.

### MTP / RTP / PP

#### Question 9 (Past Exam - July'21)

Given below are the balance sheets of a group of companies comprising LX Limited, MX Limited and NX Limited as on 31st March 2021:

Particulars	LX Limited	MX Limited	NX Limited
<b>₹ in lakh</b>			
<b>Assets</b>			
<u>Non-current Assets</u>			
Property, Plant and Equipment	1,500	1,600	1,400
Investment			
17.0 lakh share in MX Limited	2,620	-	-
9.6 lakh shares in NX Limited	-	1,350	-
<u>Current Assets</u>			
Inventories	1,230	730	1,180
Financial Assets			
Trade Receivables	1,415	270	620
Bills Receivables	650	60	-
Cash in hand and at Bank	<u>1,085</u>	<u>90</u>	<u>150</u>
	<b><u>8,500</u></b>	<b><u>4,100</u></b>	<b><u>3,350</u></b>
<b>Equity and Liabilities</b>			
Shareholders' Equity			
Share Capital (₹ 100 per share)	3,400	2,000	1,600
Other Equity			
Reserves	1,150	810	580
Retained earnings	1,030	600	310
<u>Current Liabilities</u>			
Financial Liabilities			
Trade Payables	2,920	690	805
Bills Payable	-	-	-
MX Limited	—	—	<u>55</u>
	<b><u>8,500</u></b>	<b><u>4,100</u></b>	<b><u>3,350</u></b>

LX Limited holds 85% shares in MX Limited, which were acquired on 1st April 2020 and MX Limited holds 60% shares in NX Limited, which were acquired on 30th September 2020.

The following balances stood in the books of MX Limited and NX Limited as on 1st April 2020:

	MX Limited	NX Limited
	₹ in lakh	₹ in lakh
Reserves	760	520
Retained earnings	480	150

The business activities of NX Limited are not seasonal in nature.

The parent company has adopted an accounting policy to measure non-controlling interest at fair value applying Ind AS 103. The fair value is to be determined at quoted market price. The given market price of MX Limited is ₹ 120 per share and NX Limited is ₹ 125 per share.

Prepare the consolidated Balance Sheet as on 31st March 2021 of the group of companies LX Limited, MX Limited and NX Limited. **(15 Marks)**

**Solution:**

**Consolidated Balance Sheet of the Group as at 31st March, 2021**

Particulars	Note No.	₹ in lakh
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1	4,500.00
<b>Current assets</b>		
(a) Inventories	2	3,140.00
(b) Financial assets		
Trade receivables	3	2,305.00
Bills receivables	4	655.00
Cash and cash equivalents	5	<u>1,325.00</u>
<b>Total assets</b>		<b><u>11,925.00</u></b>
<b>EQUITY &amp; LIABILITIES</b>		
<b>Equity attributable to owners of parent</b>		
Share Capital		3,400.00
Other Equity	6	2,893.10
<b>Non-controlling interests (W.N.4)</b>		1,216.90
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		Nil
<b>Current liabilities</b>		
(a) Financial Liabilities		
Trade payables	7	<u>4,415.00</u>
<b>Total equity and liabilities</b>		<b><u>11,925.00</u></b>

Notes to Accounts

1.	Property Plant & Equipment		
	LX Ltd.	1,500	
	MX Ltd.	1,600	
	NX Ltd.	1,400	4,500
2.	Inventories		
	LX Ltd.	1,230	
	MX Ltd.	730	
	NX Ltd.	1,180	3,140
3.	Trade Receivables		
	LX Ltd.	1,415	

	MX Ltd.	270	
	NX Ltd.	620	2,305
4.	Bills Receivables		
	LX Ltd.	650	
	MX Ltd. (60-55)	5	655
5.	Cash & Cash equivalents		
	LX Ltd.	1,085	
	MX Ltd.	90	
	NX Ltd.	150	1,325
6.	Other Equity		
	Reserve (W.N.5)	1,207.80	
	Retained earnings (W.N.5)	1,172.80	
	Capital Reserve (W.N.3)	512.50	2,893.10
7.	Trade Payables		
	LX Ltd.	2,920	
	MX Ltd.	690	
	NX Ltd.	805	4,415

**Working Notes:****1. Analysis of Reserves and Surplus**

(₹ in lakh)

	MX Ltd.		NX Ltd.
Reserves as on 1.4.2020	760		520
Increase during the year 2020-2021 (580 - 520)		60	
Increase for the half year till 30.9.2020			30
Balance on acquisition date (A)	760		550
Total balance as on 31.3.2021	810		580
Post-acquisition balance	50		30
Retained Earnings as on 1.4.2020	480		150
Increase during the year 2020-2021 (310 - 150)		160	
Increase for the half year till 30.9.2020			80
Balance on acquisition date (B)	480		230
Total balance as on 31.3.2021	600		310
Post-acquisition balance	120		80
Total balance on the acquisition date (A+B)	1,240		780

**2. Calculation of Effective Interest of LX Ltd. in NX Ltd.**

Acquisition by LX Ltd. in MX Ltd. = 85%

Acquisition by MX Ltd. in NX Ltd. = 60%

Acquisition by Group in NX Ltd. (85% x 60%) = 51%

Non-controlling Interest = 49%

**3. Calculation of Goodwill / Capital Reserve on the acquisition**

	MX Ltd.	NX Ltd.
Investment or consideration	2,620.00	(1,350 x 85%) 1,147.50
Add: NCI at Fair value		
[(2,000 / 100) x 120 x 15%]	360.00	
[(1,600 / 100) x 125 x 49%]	-	980.00
	2,980.00	2,127.50
Less: Identifiable net assets (Share Capital + Increase in the Reserves and Surplus till acquisition date)	(2,000+760+48 0) (3,240.00)	(1,600+550+23 0) (2,380.00)

Capital Reserve	260.00	252.50
Total Capital Reserve (260 + 252.50)	512.5 0	

#### 4. Calculation of Non-controlling Interest

	MX Ltd.	NX Ltd.
At Fair Value (See Note 3)	360.00	980.00
Add: Post Acquisition Reserves (W.N.1)	(50 x 15%) 7.50	(30 x 49%) 14.70
Add: Post Acquisition Retained Earnings (W.N.1)	(120 x 15%) 18.00	(80 x 49%) 39.20
Less: NCI share of investment in NX Ltd.	(1,350 x 15%) (202.50)*	-
	183.00	1,033.90
Total (183.00 + 1,033.90)		1,216.90

\*Note: The non-controlling interest in MX Ltd. will take its proportion in NX Ltd. Therefore, they have to bear their proportion in the investment by MX Ltd. (in NX Ltd.) also.

#### 5. Calculation of Consolidated Other Equity

	Reserves	Retained Earnings
LX Ltd.	1,150.00	1,030.00
Add: Share in MX Ltd.	(50 x 85%) 42.50	(120 x 85%) 102.00
Add: Share in NX Ltd.	(30 x 51%) 15.30	(80 x 51%) 40.80
	1,207.80	1,172.80

#### Question 10 (Ind AS 27) – (RTP – Dec 2021)

A company, AB Ltd. holds investments in subsidiaries and associates. In its separate financial statements, AB Ltd. wants to elect to account its investments in subsidiaries at cost and the investments in associates as financial assets at fair value through profit or loss (FVTPL) in accordance with Ind AS 109, Financial Instruments.

Whether AB Limited can carry investments in subsidiaries at cost and investments in associates in accordance with Ind AS 109 in its separate financial statements?

### Solution

Paragraph 10 of Ind AS 27 'Separate Financial Statements' inter-alia provides that, when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109 'Financial Instruments' in its separate financial statements. Further, the entity shall apply the same accounting for each category of investments.

It may be noted that although the 'category' is used in number of Standards, it is not defined in any of the Ind AS. It seems that subsidiaries, associates and joint ventures would qualify as separate categories. Thus, the same accounting policies are applied for each category of investments - i.e. each of subsidiaries, associates and joint ventures. However, paragraph 10 of Ind AS 27 should not be read to mean that, in all circumstances, all investments in associates are one 'category' of investment and all investments in joint ventures or an associate are one 'category' of investment. These categories can be further divided into sub-categories provided the sub-category can be defined clearly and objectively and results in information that is relevant and reliable. For example, an investment entity parent can have investment entity subsidiary (at fair value through profit or loss) and non-investment entity subsidiary (whose main purpose is to provide services that relate to the investment entity's investment activities) as separate categories in its separate financial statements.

In the present case, investment in subsidiaries and associates are considered to be different categories of investments. Further, Ind AS 27 requires to account for the investment in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109 for each category of Investment. Thus, AB Limited can carry its investment in subsidiaries at cost and its investments in associates as financial assets in accordance with Ind AS 109 in its separate financial statements.

### Question 11 - (RTP Dec 2021)

PP Ltd., a non-investment entity, is the parent of Praja Ltd. within the meaning of Ind AS 110 'Consolidated Financial Statements'. The investment in Praja Ltd. was carried in the separate financial statements of PP Ltd. at fair value with changes in fair value recognised in the other comprehensive income. On 1st April, 20X2, PP Ltd. qualifies as one that is an investment entity. Carrying amount of the investment on 1st April, 20X2 was ₹ 8,00,000. The fair value of its investment in Praja Ltd was ₹ 10,00,000 on that date. PP Ltd had recognised in OCI an amount of ₹ 1,00,000 as a previous fair value increase related to the investment in Praja Ltd.

How would PP Ltd account for the investment in Praja Ltd on the date of change of its classification/status as an investment entity, in its separate financial statements?

### Solution

- (i) As per paragraph 11B(b) of Ind AS 27, on the date of change, ie, 1st April, 20X2, PP Ltd (the parent) becoming an investment entity, its investment in Praja Ltd (the subsidiary) shall be at fair value through profit and loss in accordance with Ind AS 109. Accordingly, the new carrying amount will be ₹ 10,00,000.
- (ii) The difference between the new carrying amount and the carrying amount of the investment on the date of change will be recognised in the profit and loss. Hence, PP Ltd will recognise an amount of ₹ 2,00,000 (₹ 10,00,000 – ₹ 8,00,000) in profit and loss as gain.
- (iii) Any fair value adjustments previously recognised in OCI in respect of subsidiary ie Praja Ltd. shall be treated as if the investment entity had disposed off the subsidiary at the date of change in status as per para 11B(b) of Ind AS 27.

Further, as per para B5.7.1 of Ind AS 109, amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity.

Therefore, the company shall not reclassify the fair value gains or losses to profit or loss on change in classification from FVTOCI to FVTPL. However, the company may transfer the fair value gains or losses from one component to the other within equity.

Moreover, Paragraph 11A(e) of Ind AS 107, requires disclosure of any transfers of the cumulative gain or loss within equity during the period and the reason for such transfers. Accordingly, PP Ltd. shall provide the disclosures if it transfers the cumulative gain or loss from one component to the other within equity.

Particulars	₹
Carrying amount of investment in Praja Ltd [as per (i) above]	10,00,000
Amounts recognised in profit and loss relating to investment in Praja Ltd [as per (ii) above]	2,00,000

### Question 12 - (RTP Dec 2021)

Solar Limited has an 80% interest in its subsidiary, Mars Limited. Solar Limited holds a direct interest of 25% in Venus Limited. Mars Limited also holds a 30% interest in Venus Limited. The decisions concerning relevant activities of Venus Limited require a simple majority of votes. How should Solar Limited account for its investment in Venus Limited in its consolidated financial statements?

### Solution

In the present case, Solar Limited controls Mars Limited (since it holds 80% of its voting rights). Consequently, it also controls the voting rights associated with 30% equity interest held by Mars Limited in Venus Limited. Solar Limited also has 25% direct equity interest and related voting power in Venus Limited. Thus, Solar Limited controls 55% (30% + 25%) voting power of Venus Limited. As the decisions concerning relevant activities of Venus Limited require a simple majority of votes. Solar Limited controls Venus Limited and should therefore consolidate it in accordance with Ind AS 110.

Although, Solar Limited controls Venus Limited, its entitlement to the subsidiary's economic benefits is determined on the basis of its actual ownership interest. For the purposes of the consolidated financial statements, Solar Limited's share in Venus Limited is determined as 49% [25% + (80% × 30%)]. As a result, 51% of profit or loss, other comprehensive income and net assets of Venus Limited shall be attributed to the non-controlling interests in the consolidated financial statements (this comprises 6% attributable to holders of non-controlling interests in Mars Limited [reflecting 20% interest of non-controlling shareholders of Mars Limited in 30% of Venus Limited] and 45% to holders of non-controlling interests in Venus Limited).

# IND AS 111

## Module Questions

### Illustration 25 – (RTP – Nov 18) – Already Covered in Edition 4 (Ques 1)

On 1st April 20X1 Alpha Ltd. commenced joint construction of a property with Gama Ltd. For this purpose, an agreement has been entered into that provides for joint operation and ownership of the property. All the ongoing expenditure, comprising maintenance plus borrowing costs, is to be shared equally. The construction was completed on 30th September 20X1 and utilisation of the property started on 1st January 20X2 at which time the estimated useful life of the same was estimated to be 20 years.

Total cost of the construction of the property was ₹ 40 crores. Besides internal accruals, the cost was partly funded by way of loan of ₹ 10 crores taken on 1st January 20X1. The loan carries interest at an annual rate of 10% with interest payable at the end of year on 31st December each year. The company has spent ₹ 4,00,000 on the maintenance of such property.

The company has recorded the entire amount paid as investment in Joint Venture in the books of accounts. Suggest the suitable accounting treatment of the above transaction as per applicable Ind AS.

#### Solution

As provided in Ind- AS 111 - Joint Arrangements - this is a joint arrangement because two or more parties have joint control of the property under a contractual arrangement. The arrangement will be regarded as a joint operation because Alpha Ltd. and Gama Ltd. have rights to the assets and obligations for the liabilities of this joint arrangement. This means that the company and the other investor will each recognise 50% of the cost of constructing the asset in property, plant and equipment.

The borrowing cost incurred on constructing the property should under the principles of Ind AS 23 'Borrowing Costs', be included as part of the cost of the asset for the period of construction.

In this case, the relevant borrowing cost to be included is ₹ 50,00,000 ( $₹ 10,00,00,000 \times 10\% \times 6/12$ ).

The total cost of the asset is ₹ 40,50,00,000 ( $₹ 40,00,00,000 + ₹ 50,00,000$ ) ₹ 20,25,00,000 crores is included in the property, plant and equipment of Alpha Ltd. and the same amount in the property, plant and equipment of Gama Ltd.

The depreciation charge for the year ended 31 March 20X2 will therefore be ₹ 1,01,25,000 ( $₹ 40,50,00,000 \times 1/20 \times 6/12$ ) ₹ 50,62,500 will be charged in the statement of profit or loss of the company and the same amount in the statement of profit or loss of Gama Ltd.

The other costs relating to the arrangement in the current year totalling ₹ 54,00,000 (finance cost for the second half year of ₹ 50,00,000 plus maintenance costs of ₹ 4,00,000) will be charged to the statement of profit or loss of Alpha Ltd. and Gama Ltd. in equal proportions- ₹ 27,00,000 each.

# IND AS 28

## Module Questions

### Illustration 18 – (RTP – Nov 2020) – Already Covered in Edition 4 (Ques 3)

On 1st April 2019, Investor Ltd. acquires 35% interest in another entity, XYZ Ltd. Investor Ltd. determines that it is able to exercise significant influence over XYZ Ltd. Investor Ltd. has paid total consideration of ₹ 47,50,000 for acquisition of its interest in XYZ Ltd. At the date of acquisition, the book value of XYZ Ltd.'s net assets was ₹ 90,00,000 and their fair value was ₹ 1,10,00,000. Investor Ltd. has determined that the difference of ₹ 20,00,000 pertains to an item of property, plant and equipment (PPE) which has remaining useful life of 10 years.

During the year, XYZ Ltd. made a profit of ₹ 8,00,000. XYZ Ltd. paid a dividend of ₹ 12,00,000 on 31st March, 2020. XYZ Ltd. also holds a long-term investment in equity securities. Under Ind AS, investment is classified as at FVTOCI in accordance with Ind AS 109 and XYZ Ltd. recognized an increase in value of investment by ₹ 2,00,000 in OCI during the year. Ignore deferred tax implications, if any.

Calculate the closing balance of Investor Ltd.'s investment in XYZ Ltd. as at 31st March, 2020 as per the relevant Ind AS.

#### Solution

#### Calculation of Investor Ltd.'s investment in XYZ Ltd. under equity method:

	₹	₹
<b>Acquisition of investment in XYZ Ltd.</b>		
Share in book value of XYZ Ltd.'s net assets (35% of ₹ 90,00,000)	31,50,000	
Share in fair valuation of XYZ Ltd.'s net assets [35% of (₹ 1,10,00,000 – ₹ 90,00,000)]	7,00,000	
Goodwill on investment in XYZ Ltd. (balancing figure)	<u>9,00,000</u>	
<b>Cost of investment</b>		<b>47,50,000</b>
<b>Profit during the year</b>		
Share in the profit reported by XYZ Ltd. (35% of ₹ 8,00,000)	2,80,000	
Adjustment to reflect effect of fair valuation [35% of ( 20,00,000/10 years)]	<u>(70,000)</u>	
<b>Share of profit in XYZ Ltd. recognised in income by Investor Ltd.</b>		<b>2,10,000</b>
<b>Long term equity investment</b>		
FVTOCI gain recognised in OCI (35% of ₹ 2,00,000)		70,000
Dividend received by Investor Ltd. during the year [35% of ₹ 12,00,000]		<u>(4,20,000)</u>
<b>Closing balance of Investor Ltd.'s investment in XYZ Ltd.</b>		<b>46,10,000</b>

# Financial Instruments

## Module Questions

### Illustration 127 - (RTP May'21, MTP Oct'21) - Already Covered in Edition 4 (Ques 14)

On 1 April 20X1, Sun Limited guarantees a ₹ 10,00,000 loan of Subsidiary – Moon Limited, which Bank STDK has provided to Moon Limited for three years at 8%.

Interest payments are made at the end of each year and the principal is repaid at the end of the loan term.

If Sun Limited had not issued a guarantee, Bank STDK would have charged Moon Limited an interest rate of 11%. Sun Limited does not charge Moon Limited for providing the guarantee.

On 31 March 20X2, there is 1% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited.

On 31 March 20X3, there is 3% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited.

Provide the accounting treatment of financial guarantee as per Ind AS 109 in the books of Sun Ltd., on initial recognition and in subsequent periods till 31 March 20X3.

### Solution

#### 1 April 20X1

A financial guarantee contract is initially recognised at fair value. The fair value of the guarantee will be the present value of the difference between the net contractual cash flows required under the loan, and the net contractual cash flows that would have been required without the guarantee.

Particulars	Year 1 (₹)	Year 2 (₹)	Year 3 (₹)	Total (₹)
Cash flows based on interest rate of 11% (A)	1,10,000	1,10,000	1,10,000	3,30,000
Cash flows based on interest rate of 8% (B)	80,000	80,000	80,000	2,40,000
Interest rate differential (A-B)	30,000	30,000	30,000	90,000
Discount factor @ 11%	0.901	0.812	0.731	
Interest rate differential discounted at 11%	27,030	24,360	21,930	<u>73,320</u>
<b>Fair value of financial guarantee contract (at inception)</b>				<b>73,320</b>

### Journal Entry

Particulars	Debit (₹)	Credit (₹)
Investment in subsidiary	Dr. 73,320	
To Financial guarantee (liability)		73,320
(Being financial guarantee initially recorded)		

#### 31 March 20X2

Subsequently at the end of the reporting period, financial guarantee is measured at the higher of:

- the amount of loss allowance; and
- the amount initially recognised less cumulative amortization, where appropriate.

At 31 March 20X2, there is 1% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited. The 12-month expected credit losses are therefore Rs.10,000 (Rs.10,00,000 x 1%).

The initial amount recognised less amortisation is ₹ 51,385 (₹ 73,320 + ₹ 8,065 (interest accrued based on EIR)) – ₹ 30,000 (benefit of the guarantee in year 1) Refer table below. The unwound amount is recognised as income in the books of Sun Limited, being the benefit derived by Moon Limited not defaulting on the loan during the period.

Year	Opening balance ₹	EIR @ 11%	Benefits provided ₹	Closing balance ₹
1	73,320	8,065	(30,000)	51,385
2	51,385	5,652	(30,000)	27,037
3	27,037	2,963*	(30,000)	-

\* Difference is due to approximation

The carrying amount of the financial guarantee liability after amortisation is therefore

₹ 51,385, which is higher than the 12-month expected credit losses of ₹ 10,000. The liability is therefore adjusted to ₹ 51,385 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	21,935	
To Profit or loss (Being financial guarantee subsequently adjusted)		21,935

### 31 March 20X3

At 31 March 20X3, there is 3% probability that Moon Limited will default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited. The 12-month expected credit losses are therefore ₹ 30,000 (₹ 10,00,000 x 3%).

The initial amount recognised less accumulated amortisation is ₹ 27,037, which is lower than the 12-month expected credit losses (₹ 30,000). The liability is therefore adjusted to ₹ 30,000 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	21,385*	
To Profit or loss (Note) (Being financial guarantee subsequently adjusted)		21,385

\* The carrying amount at the end of 31 March 20X2 = ₹ 51,385 less 12-month expected credit losses of ₹ 30,000.

## MTP / RTP / PP

### Question 16 - (MTP Oct'21)

Which of the following would meet and not meet the definition of financial instruments and fall outside the scope of Ind AS 32?

- (1) Cash deposited in banks
- (2) Gold deposited in banks
- (3) Trade receivables
- (4) Investments in debt instruments
- (5) Investments in equity instruments
- (6) Prepaid expenses
- (7) Inter-corporate loans and deposits
- (8) Deferred revenue
- (9) Tax liability
- (10) Provision for estimated litigation losses.

(4 Marks)

**Solution**

Table showing classification of various items:

S. No.	Item	Classification
(1)	Cash deposited in banks	Financial Instrument
(2)	Gold deposited in banks	Not a financial instrument
(3)	Trade receivables	Financial Instrument
(4)	Investments in debt instruments	Financial Instrument
(5)	Investments in equity instruments	Financial Instrument
(6)	Prepaid expenses	Not a financial instrument
(7)	Inter-corporate loans and deposits	Financial Instrument
(8)	Deferred revenue	Not a financial instrument
(9)	Tax liability	Not a financial instrument
(10)	Provision for estimated litigation losses	Not a financial instrument

# CORPORATE SOCIAL RESPONSIBILITY

## Module Questions

### Illustration 10

Company A is incorporated during financial year 20X1-20X2, and as per eligibility criteria the company is covered under section 135(1) for FY 20X3-20X4. Whether CSR provisions apply to a company that has not completed the period of three financial years since its incorporation?

#### Solution

Yes. If the company has not completed three financial years since its incorporation, but it satisfies any of the criteria mentioned in section 135(1), the CSR provisions including spending of at least two per cent of the average net profits made during immediately preceding financial year(s) are applicable.

Accordingly, the CSR spending obligation under section 135(5) for Company A would be at least two per cent of the average net profits of the company made during FY 20X1-20X2 and FY 20X2-20X3.

### Illustration 11

Whether a holding or subsidiary of a company fulfilling the criteria under section 135(1) has to comply with the provisions of section 135, even if the holding or subsidiary itself does not fulfil the criteria?

#### Solution

No, the compliance with CSR requirements is specific to each company. A holding or subsidiary of a company is not required to comply with the CSR provisions unless the holding or subsidiary itself fulfils the eligibility criteria prescribed under section 135(1) stated above. Example: Company A is covered under the criteria mentioned in section 135(1). Company B is holding company of company A. If Company B by itself does not satisfy any of the criteria mentioned in section 135(1), Company B is not required to comply with the provisions of section 135.

### Illustration 12

In financial year 20X1-20X2 a company had spent Rs. 2 crores in excess. In FY 20X2-20X3, it sets-off Rs. 50 lakhs from such excess. However, from FY 20X3-20X4, the company is no longer subject to CSR provisions under section 135(1). Since the company cannot take the benefit of set off of excess amount spent in the previous financial year because of non- applicability of CSR.

#### Solution

Yes, the law states that the excess CSR amount spent can be carried forward up to immediately succeeding three financial years; thus, in case any excess amount is left for set off, it will lapse at the end of the said period.

In such case, the company may continue to retain the remaining excess CSR of Rs. 1.50 crores up to FY 20X4-20X5, and thereafter the same shall lapse.

## MTP / RTP / PP

### Question 3 – (Past Exam - July 2021)

Nice Limited is a company incorporated on 1st April 2019. The Company has a net worth of ₹ 350 crore. The business of the company was affected due to low demand of its products. The following financial data is available as on 31st March 2021:

	₹ in crore	
	31st March 2020 Audited	31st March 2020 Provisional
Net Profit	7.10	4.80
Turnover	550.00	1,050.00

During the financial year 2020-2021:

- The Company has spent ₹ 55,000 per month for developing vocational skills of local youth;
- The Company has also provided its products at a considerable discount for the benefit of the under-privileged, the cost of which to the Company is ₹ 3,50,000.

The Company wants to carry forward its entire expenditure to next year as it is of the opinion that it does not have to spend anything on CSR activities during the current year.

Comment on the Company's applicability under Corporate Social Responsibility as per section 135 of the Companies Act, 2013 for the financial year 2020 -2021. Does it have any obligation to transfer any amount to any fund? **(6 Marks)**

**Solution:**

**Applicability of CSR:**

A company which meets the net worth, turnover or net profits criteria in immediately preceding financial year will need to comply with provisions of sections 135(2) to (5) read with the CSR Rules.

According to the Act, the Board of every company shall ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

**Analysis of given case:**

**As per the criteria**

- (1) Net worth greater than or equal to ₹ 500 crore: This criterion is not satisfied.
- (2) Sales greater than or equal to ₹ 1,000 crore: This criterion is not satisfied.
- (3) Net profit greater than or equal to ₹ 5 crore: This criterion is satisfied in financial year ended 31st March 2020 ie immediate preceding financial year.

Hence, the Board has to spend on CSR Activities.

Quantification and mode of utilisation: As per the facts given in the question amount spent on CSR Activities during the year 2020-2021 pertains to the average net profits of the immediately preceding financial year i.e. 2019-2020. Accordingly, the company is under the obligation to transfer/expense 2% of ₹ 7.10 crore i.e 0.142 crore = ₹ 14,20,000 in the year 2020-2021.

Nice Limited has spent ₹ 6,60,000 during the financial year 2020-2021 for developing vocational skills of local youth which is a permissible activity of Corporate Social Responsibility under Schedule VII to the Companies Act, 2013. However, expenditure of ₹ 3,50,000 spent on commercial activities at concessional rate does not qualify as expenditure on CSR activity. Hence, the amount spent of ₹ 6,60,000 by Nice Limited for financial year 2020-2021 is less than the required expenditure of ₹ 14,20,000 to be spent as per the provisions of CSR Rules.

**Decision:**

Since the company fails to spend such amount, the Board has to report the reasons for not spending the amount as per section 135(5). Further, because the company does not have any on-going project, the unspent amount of ₹ 7,60,000 (₹ 14,20,000 – ₹ 6,60,000) will be transferred to a Fund specified in Schedule VII to the Companies Act, 2013 within a period of 6 months of the expiry of the financial year 2020-2021.

# INTEGRATED REPORTING

## Module Questions

### Illustration 1

Does an integrated report need to be a stand-alone document?

#### Solution

No. An integrated report can be either a stand-alone report or included as a distinguishable, prominent and accessible part of another report or communication. For example, it may be included at the front of a report that also includes the organization's full financial statements.

## MTP / RTP / PP

### Question 1 – (MTP Oct'21)

What is the organisational structure and role of IIRC in relation to integrated reporting. What considerations are kept in mind by IIRC while developing the framework. **(5 Marks)**

#### Solution

In 2010, the International Integrated Reporting Council (IIRC) was set up which aims to create the globally accepted integrated reporting framework.

The International Integrated Reporting Council (IIRC) is a global coalition of:

- Regulators
- Investors
- Companies
- Standard setters
- The accounting profession and NGOs

Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. With this purpose, they issued the International Integrated Reporting (IR) Framework.

The framework has been developed keeping in mind the greater flexibility to be given to the entity and the management in the reporting but at the same time should target to report the value created by the organisation through various capital.

# ANALYSIS OF FS

## Module Questions

### Case Study 12 – (MTP April 2021) – Already Covered in Edition 4 (Ques 3)

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

Additional Information:

1. 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 <sup>st</sup> 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 (Rs.)
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 are 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 the 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.

## Solution

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

Particulars	Working/ Note reference	(₹)
<b>ASSETS</b>		
<b>Non-current assets</b>		
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
<b>Current assets</b>		
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
<b>TOTAL ASSETS</b>		<b>1,24,50,850</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Equity share capital	A	10,00,000
Other equity	B	28,44,606
<b>Non-current liabilities</b>		
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
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,24,50,850</b>

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

## A. Equity Share Capital

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

## B. Other Equity

	Retained Earnings (₹)	Equity component of Compound Financial Instrument (₹)	Total (₹)
As at 31 <sup>st</sup> 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
<b>As at 31<sup>st</sup> March, 20X2</b>	<b>24,19,646</b>	<b>4,24,960</b>	<b>28,44,606</b>

## 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.
- 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:
  - use in the production or supply of goods or services or for administrative purposes; or
  - sale in the ordinary course of business.

Therefore, Land held for capital appreciation should be classified as Investment property rather than PPE.

- 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.
- Current investments here are 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, ₹ 5,000 (60,000 – 55,000) increase in fair value of financial asset will be recognised in profit and loss.
- 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.
- Cash is a financial asset. Hence it should be reclassified.
- 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.

- 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.
- 'Other Equity' cannot be shown under 'Non-current liabilities'. Accordingly, 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	<u>47,00,160</u>
Amount to be recognised as a liability				59,75,040
Initial proceeds				<u>(64,00,000)</u>
Amount to be recognised as equity				<u>4,24,960</u>

\* 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 31 March 20X2

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

#### In Balance Sheet as at 31 March 20X2

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

Since entity has the intention to set off deferred tax asset against deferred tax liability and the entity has a 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	<u>(2,54,150)</u>
Deferred tax liability (net)	<u>2,20,700</u>

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	<u>1,19,299</u>

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.

**CASE STUDY 13 - (RTP May'21) – Already Covered in Edition 4 (IND AS 101 – Ques 1)**

HIM Limited having net worth of ₹ 250 crores is required to adopt Ind AS from 1st April, 20X2 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

Rahul, the senior manager, of HIM Ltd. has identified following issues which need specific attention of CFO so that opening Ind AS balance sheet as on the date of transition can be prepared:

**Issue 1:** As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The carrying value of land as on the date of transition was ₹ 5,00,000. The land was acquired for a consideration of ₹ 5,00,000. However, the fair value of land as on the date of transition was ₹ 8,00,000.

**Issue 2:** Under Ind AS, the Company has designated mutual funds as investments at fair value through profit or loss. The value of mutual funds as per previous GAAP was ₹ 4,00,000 (at cost). However, the fair value of mutual funds as on the date of transition was ₹ 5,00,000.

**Issue 3:** Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 1,80,000 as against the carrying amount of loan which at present equals ₹ 2,00,000.

**Issue 4:** The company has declared dividend of ₹ 30,000 for last financial year. On the date of transition, the declared dividend has already been deducted by the accountant from the company's 'Reserves & Surplus' and the dividend payable has been grouped under 'Provisions'. The dividend was only declared by board of directors at that time and it was not approved in the annual general meeting of shareholders. However, subsequently when the meeting was held it was ratified by the shareholders.

**Issue 5:** The company had acquired intangible assets as trademarks amounting to ₹ 2,50,000. The company assumes to have indefinite life of these assets. The fair value of the intangible assets as on the date of transition was ₹ 3,00,000. However, the company wants to carry the intangible assets at ₹ 2,50,000 only.

**Issue 6:** After consideration of possible effects as per Ind AS, the deferred tax impact is computed as ₹ 25,000. This amount will further increase the portion of deferred tax liability. There is no requirement to carry out the separate calculation of deferred tax on account of Ind AS adjustments.

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding.

Prepare Ind AS Impact Analysis Report (Extract) for HIM Limited for presentation to the management wherein you are required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue for preparation of transition date balance sheet. Also pass journal entry for each issue.

**Solution****Assessment of Preliminary Impact Assessment of Transition to Ind AS on Him Limited's Financial Statements**

Issue 1: Fair value as deemed cost for property plant and equipment:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS 10, Property, Plant and Equipment is recognised at cost less depreciation.	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, so the book value should be brought up to fair value. The resulting impact of fair valuation of land ₹ 3,00,000 should be adjusted in other equity.

## Journal Entry on the date of transition

Particulars		Debit (₹)	Credit (₹)
Property Plant and Equipment	Dr.	3,00,000	
To Revaluation Surplus (OCI- Other Equity)			3,00,000

## Issue 2: Fair valuation of Financial Assets:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per Accounting Standard, investments are measured at lower of cost and fair value.	On transition, financial assets including investments	All financial assets (other than Investment in subsidiaries, associates and JVs' which are recorded at cost) are initially recognized at fair value. The subsequent measurement of such assets are based on its categorization either Fair Value through Profit & Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVTOCI) or at Amortised Cost based on business model assessment and contractual cash flow characteristics. Since investment in mutual fund are designated at FVTPL, increase of ₹ 1,00,000 in mutual funds fair value would increase the value of investments with corresponding increase to Retained Earnings.

## Journal Entry on the date of transition

Particulars		Debit (₹)	Credit (₹)
Investment in mutual funds	Dr.	1,00,000	
To Retained earnings			1,00,000

## Issue 3: Borrowings - Processing fees/transaction cost:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, such expenditure is charged to Profit and loss account or capitalised as the case may be	As per Ind AS, such expenditure is amortised over the period of the loan. Ind AS 101 states that if it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability.	Fair value as on the date of transition is ₹ 1,80,000 as against its book value of ₹ 2,00,000. Accordingly, the difference of 20,000 is adjusted through retained earnings.

## Journal Entry on the date of transition

Particulars		Debit (₹)	Credit (₹)
Borrowings / Loan payable	Dr.	20,000	
To Retained earnings			20,000

**Issue 4: Proposed dividend:**

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, provision for proposed dividend is made in the year when it has been declared and approved.	As per Ind AS, liability for proposed dividend is recognised in the year in which it has been declared and approved.	Since dividend should be deducted from retained earnings during the year when it has been declared and approved. Therefore, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment

Particulars	Debit (₹)	Credit (₹)
Provisions To Retained earnings	Dr. 30,000	30,000

**Issue 5 : Intangible assets:**

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
The useful life of an intangible asset cannot be indefinite under IGAAP principles. The Company amortised brand/trademark on a straight line basis over maximum of 10 years as per AS 26.	The useful life of an intangible asset like brand/trademark can be indefinite. Not required to be amortised and only tested for impairment.  Company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.	Consequently, there would be no impact as on the date of transition since company intends to use the carrying amount instead of book value at the date of transition.

**Issue 6: Deferred tax**

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, deferred taxes are accounted as per income statement approach.	As per Ind AS, deferred taxes are accounted as per balance sheet approach.	On date of transition to Ind AS, deferred tax liability would be increased by ₹ 25,000.

**Journal Entry on the date of transition**

Particulars	Debit (₹)	Credit (₹)
Retained earnings To Deferred tax liability	Dr. 25,000	25,000



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### Rankers / Exemption Holders



Vaibhav  
Hariharan (AIR 2)



Arpit Jain  
(AIR 29)



Prateek Koolwal  
(AIR 30)



Darsh Savla  
(AIR 38)



Anshul Jain



Teethar  
Basha



Mansi Maun



Amresh  
Prajapati



Akhilesh  
Iyer



Vasu  
Goyal



Ruchi  
Shenoy



Bholeshwar  
Birla



Parth  
Khona



Pushkar  
Sankholkar



Tarun Jain



Rishabh  
Galhotra



Keshav  
Shah



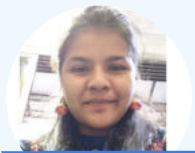
Rohit Gupta



Narendra  
Singh



Kritika  
Srivastav



Prachi  
Sanghavi



Pranav  
Amritkar



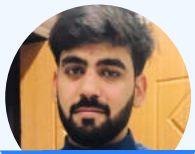
Mandira  
Choudhary



Arpan Jain



Sunil  
Kendenti



Akash J.  
Pinjani



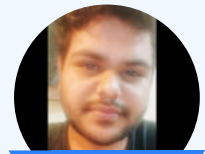
P Ravi Teja



Dhananjay  
Warudikar



Harpreet  
Kaur Hora



Sumit  
Chandwani



Vivek Anand  
Goenka



Priya Yadav



Raj M.  
Shrishrimal



Yash S.  
Sikchi



Khushi  
Rathi



Vipul  
Naranial



Yashada  
Kabra



Ankush  
Chouhan



Avni Roongta



Mohammad Eraf  
Shaikh



Sneha  
Khandelwal



Mihir Shah



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### Rankers / Exemption Holders



Vanshika  
Goyal



Channa  
Nikhitha



Einstein Tiwari



Amisha  
Khandelwal



Sanika Shete



Mayank bajaj



Silmi Kadam



Anmol gupta



Adnan Memon



Shreya  
Mehrotra



Prachita  
Vasudeo Dandale



Saeysha Bjj



Amit Vishnoi



Priya  
chaturvedi



Chandrika Garg



Supriya  
Ramakrishna



Mohammad  
Afzalbhai Musani



Gaurav  
Joshi



Simran  
Bagga



Rohan R  
Patil



Shrestha  
Anand



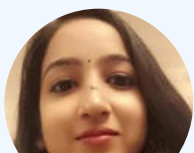
Anas zaidi



Puneet Gamnani



Kunal Satish  
Pokharna



Pusp Shikha



Naimisha Giri



Prateek hasija



Einstein Tiwari



Anjali Variyani



Rounak  
Agarwalla



Navya garg



Paramjit kaur  
chauhan



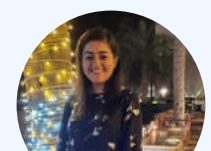
B Mohit  
Sairam Kiran



Krati Nema



Rishabh  
Multani



Shreya Jain



Tej Khandor



Vishal Chhajer



Rucha Kale

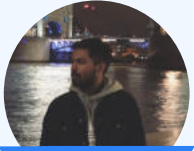


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### Rankers / Exemption Holders



Ruhan  
Hanif Khan



Bhavika



Deepak  
Khetan



Revant  
Rohit Bhalla



Megha Jha



Yashada  
Kabra



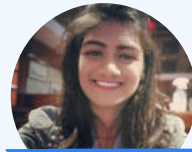
MD  
Fakruddin



Monica



Shubhashree G  
Shettigar



Deepika  
Toshniwal



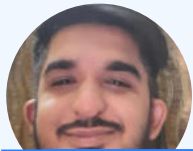
Vaishali  
Goyal



Priya Jindal



Shubham Kedia



Rahul dhingra



Kushal Singhal



Vishal Chavda



Ankita Kapur



Anand Saran



Aditya  
Anil Sharma



Khalid Patel



Vivek Anand  
Goenka



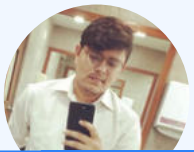
Akshay  
Wadhwa



Jairaj Rawal



Nikhil  
Neelakantan



Parth Karia



Abhishek  
Thakur



Giriraj Ghurka



Sukriti Arya



Maitry  
Saraswat



Shubham  
Nanda



Sneha  
Chakradeo



Naimisha Giri



Kunalmulatkar



Yuktha



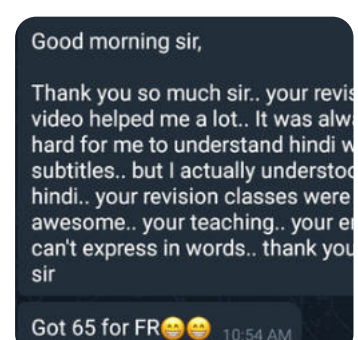
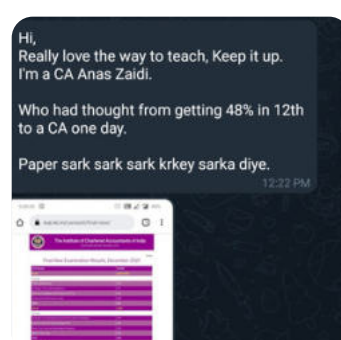
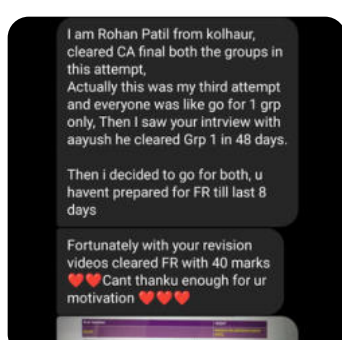
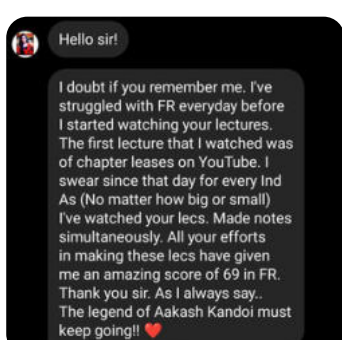
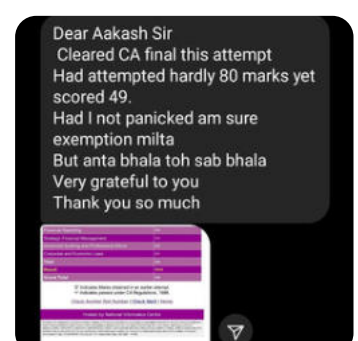
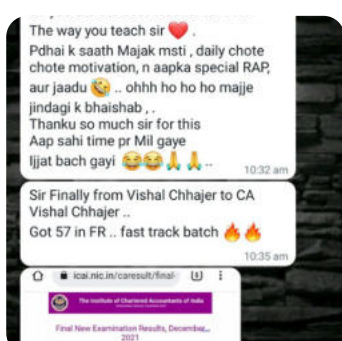
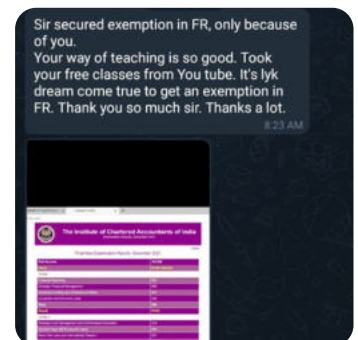
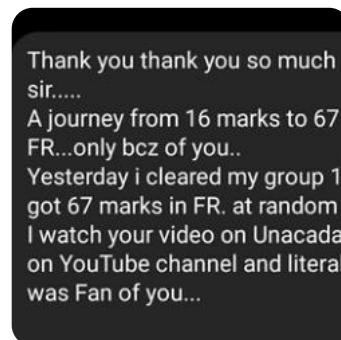
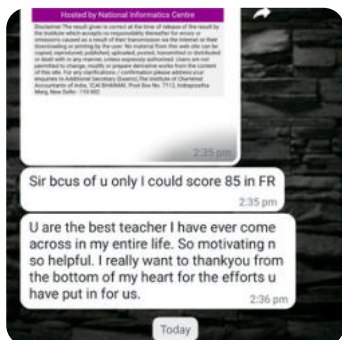
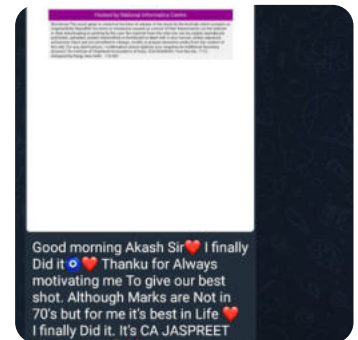
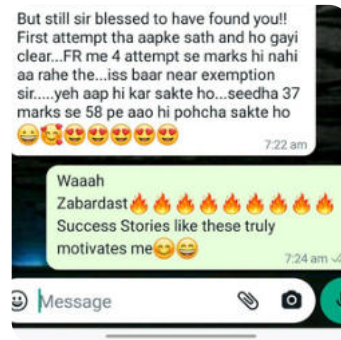
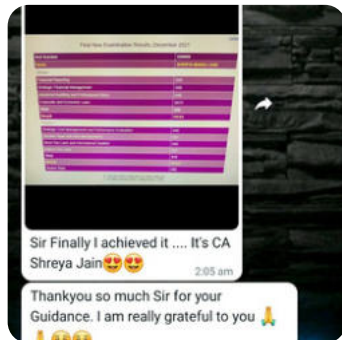
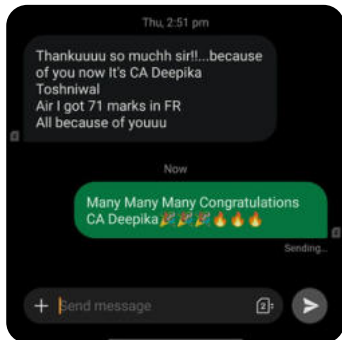
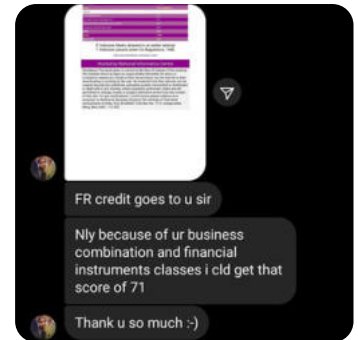
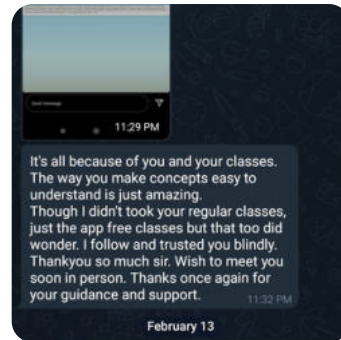
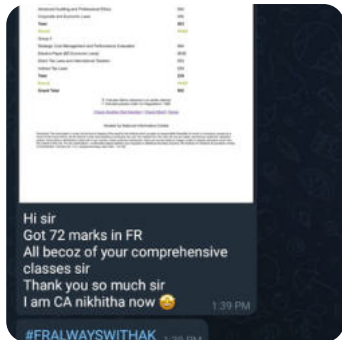
Puneet  
maheshwari



Priyanka  
chamoli

# FEEDBACK

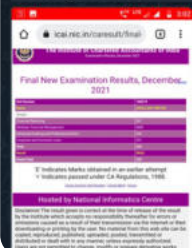
## #FRWITHAK




# FEEDBACK

## #FRWITHAK

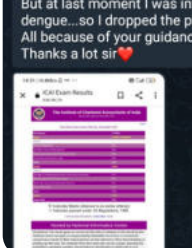
Hi sir this is yuktha...I have secured an exemption in FR and cleared grp 1..thang so much it wouldn't have been possible without your classes. 10:12 AM



Sir apki waja se FR mai jo confidence aur clarity aayi hai that is amazing. Thank you for being such a great teacher sir. And I have successfully become a CA 12:14 PM



Good morning sir. I cleared group 1 and secured an exemption in group 2. But at last moment I was infected with dengue...so I dropped the plan for group 2. All because of your guidance sir. Thanks a lot sir 12:04 PM



Hi Aakash Sir, Finally CA Deep Shah... Thanks for your kind support.. A journey from 34 to 81 in FR. Love you so much 12:04 PM

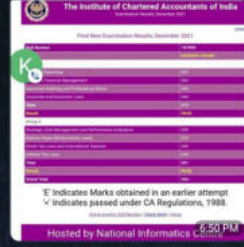
I have taken classes from renowned faculty and I scored 34 in FR and I followed you on YT and Unacademy without incurring any cost and I secured 81 in FR.. 12:07 PM

Love you so much Sir. It's not possible without you..Love you and God bless 12:08 PM

Good morning sir! Thank you so much for making FR so easy to understand! Your way of explaining the concepts was super awesome which also made me select my elective as GFRS and securing exemption in it #FRwithAK #FRmadeeasywithAK 11:40 AM



really agar apne motivate na kaaa hota after DT exam toh mera idt rehjata nd first attempt CA na banapta thankyou sir 6:50 PM



CA Einstein Tiwari. 2:43 PM


February 11

Last time i didn't appear just because of FR.. This time I cleared only because of you ... I owe you sir.. I am from Nepal.. Jab bombay auunga aap k liye Ek sisya ki taraf se guru k liye kuch leke auunga ..smth special from Nepal.. Love you sir.. I haven't taken your lectures, but I watched all of your videos from youtube and Unacademy app.. Sir aap se clas liya hota na, literally FR

Sir 67 in FR Just because of u and finally now I am CA thank u so much sir you r best teacher I have come across in my life if u were not there thn this might


Good morning sir Scored 63 in FR.... All because of u sir U are the Bestest teacher in FR sir... Honestly u made FR easy. Personally referring many friends for FR. Thank you so very much sir I knw words are not enough to thank you enough but definitely we can pray for more success. God bless you sir... An asset to CA fraternity. 9:56 AM

Hello sir. Can't thank you enough for everything that you have done. It's CA Naimisha Giri and nothing could've been possible without you. Thankyou so much sir. 6:22 PM

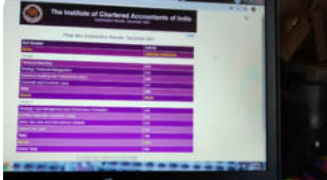


Thank you so much sir cleared my CA Final Group 1 Apk revision video k kam aaj mera Group clear hua Ask bahot jada help hue sir ... Ur great FR CAN ONLY BE WITH AK 9:25 AM

Thank you so much sir 9:25 AM



Thank you so much sir.....I watched your be lectures nd got 59 in FR...thank so much for all the guidance nd frt....you made fr easy...#FRWITHAK 12:03 AM



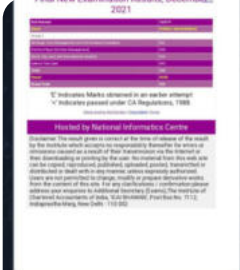
Please keep up the good work. Though I took classes from other teacher(won't name, sorry! and yes ofcourse he also taught well) but the end moment booster revision from you were simply cherry on the cake. Your LDR questions were of great help, it was because of your extreme hardwork when you well ill at that point when we had our exam that we could make it till exemption. Thank you so much sir!! Your efforts truly means a lot. Without even paying and taking your classes, you effortlessly solved out doubts over the calls/messages/special classes which were not solved by the teachers to whom we paid. Truly blessed to youtube and unacademy that they made me find you!!! Thank you sir 1:19 AM

Thank you so much sir... For all the support... Today I am CA paramjit kaur... U helped me a lot... N got exemption in financial reporting only and only bcz of you... 6:23 PM



Final New Examination Results, December 2021

Hello Sir This journey of being CA is completed now and many more to




reh gya But for FR I am happy that I came across your capsule batches of Financial Instruments and Business Combination. After following your revision classes, tests and marathons I felt so confident and felt ki ye paper to exempt hi hoga. Even yesterday morning I had a dream in which I failed but I clearly remember I was so sure that I won't fail in FR this time and I'm surely dreaming and that's how I woke up yesterday All the confidence that I have got in FR is due to your efforts and amazing teaching style sir. In fact sir this time I was able to cover all syllabus except 2 IndAs. Thank you so much sir for providing all these lectures on youtube and

Sir. I had not purchased any classes from you for FR. I just viewed your content on Unacademy and YouTube. Your paper analysis, from predicting about Reverse Acquisition to IND AS 113 questions all were true. Being young like us you understand how to approach the exams. More than being a teacher, you approached the subject like one of us. With your hardwork and guidance I'm CA Manthan Mehta today. 4:37 PM

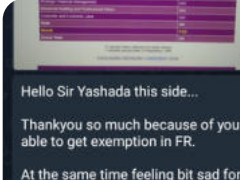
Thank you very much. God bless you with all the success in the world. 4:38 PM

And Congratulations sir on your wedding. God bless you both 4:38 PM

I would like to thank you for helping me in clearing such a vast subject like FR and scoring good marks in it. I prepared FR only through your free resources which are available on YT and Unacademy. I must say that you are currently the best faculty for FR. I loved your teaching style and the way you explain the concepts. 4:15 PM



Hello Sir Yashada this side... Thankyou so much because of you was able to get exemption in FR. At the same time feeling bit sad for able to get aggregate. But will surely try to get it next time. #FRmadeeasywithAKonly #FRwithAKonly 2:14 PM



Hello sir 9:45 PM

I secured 69 marks in FR

Thanks a lot sir your revision marathon lectures helped

Finally Its CA Aastha josh

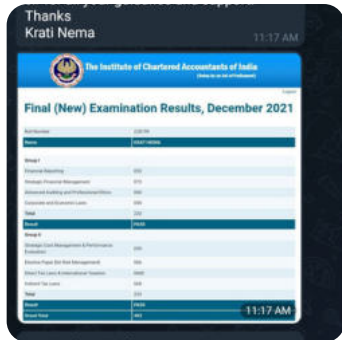
# FEEDBACK

## #FRWITHAK

Sir  
I got 72 in FR but couldn't clear group to other subjects  
I benefited a lot from your capsule ba and all revision lectures specially last marathons..

Although coaching I took went in vain videos were saviours

Always thankful #FRWITHAK#



Thank you so much sir... You told me to attempt group 1 even when I was unprepared for the same.. Your words motivated me to appear and prepare in that 1.5 day as I was focusing on group 2 thank you so very much sir... I will recommend each one to be your student as I was the one

Hello sir 3:18 pm

Tysm for all your efforts & guidance Without a teacher like u... I never I today... All of your revision videos other stuff r too good.... U r a blessing in disguise for all CA students...

Tysm again... 🙏🙏

CA Pradeep Panchal

I cleared CA in this attempt, I had taken your fast track! I scored average marks on FR despite paper going so well, but FR se jo confidence aaya hai baaki papers ka, that ultimately led me performing well in other subjects and eventually clearing CA.

Thank You so much Sir for all the clarity of concepts. Thanks to you, I've this new interest in FR and I'll look for something where I can apply this interest and Knowledge! 🙏🙏

+91 96891 78616  
Hi Sir, Have a happy married life. I cleared CA in this attempt, I had taken your fast track! I scored average marks on F...  
Aur haan! Sabko FRWITHAK ka code

Maa mujhe sab samjh aaraha hai maa 😊😊.....Thaks alot sir , apke sath ke chalte journey baut easy hogai aur ek attempt me nikal gaya

Firstly sir, Congratulations on your wedding !!  
Wish both of you lots of happiness and love !!  
Secondly sir , I secured 66 marks in FR ( Old course )  
I had always left Financial instruments in my previous attempts but this time , watched the entire chapter on unacademy!!  
sir , as you also know each mark counts.

Thankyou sir. Indebted to you forever 🙏

I'm from all the Capsule Batches you took on YouTube and all One Shot Revisions, Marathons anything You posted, I was there to follow whatever you were saying.

You made accounts so easy for me and with all your wishes, parents' blessings and all the hardwork , Today I'm a Chartered Accountant ❤️

Thank you for everything you've done. Grateful for you ❤️

Heartyly, CA Gaurav Shinglot

Hello Sir  
I had my second group pending for Dec Exams  
For GFRS I had referred your FR Lectures on YouTube  
It helped a lot and your efforts on teaching helped me through  
I am glad to share that I have cleared and passed CA Finals.  
Not only about teaching but short motivational sentences during lecture played a role too!  
Thankyou so much sir!!

Thanks a lot sir 😊 I had taken fastrack batch from you and it was really very helpful for me to crack my CA exams. Your way of teaching is very amazing. You are really one of the best teacher,mentor, friend,etc . Thank you so much sir...🙏

CA MEGHA JHA SIR  
80 marks in FR because of you only.. Thank you thank you thank you so much sir..  
Forever grateful..  
#FRWITHAKONLY

But capsule batch ne sab clear kr diya  
Aap mahan ho ❤️

Aaj tk bina exemption ke final tk aaya hu

Abhi FR exemption ke sapne aane lge hai

Rahul Std - FR Digest  
FRWITHAK main target is always 70+

CA MEGHA JHA SIR  
80 marks in FR because of you only.. Thank you thank you thank you so much sir..  
Forever grateful..  
#FRWITHAKONLY

First of all, congratulations 🙏 and have a beautiful married life ahead 🙏🙏  
Sir, although maine apse koi classes nahi li hain still you have always helped me with everything.. I cleared my group1 and scored 57 in FR.. mera paper complete nahi ho paya tha and effectively mai 70 marks ka paper h attempt kar pai thi (because so slow speed) still aapki YT videos and capsule batches ne bht help kia.. plus, meri self study thi toh you were always there toh help me with my conceptual gaps chahe vo 4PM ho ya 4AM.. you always always have helped me even with the silliest doubt 😊  
Thank you soooo veryyy muchh sir.. thanks a lot.. you a great great human being.. and above all an amazing teacher.. thank you for always being there like a big brother..  
Thanks alot sir 🙏🙏

Never thought fr becomes so easy

Regular viewer of ur classes on unacademy and YouTube

Namastey and Infinite Dhanyawad to your parents and yourself

Sir aap hum logo ke Sonu Sood ho

Aapne itna bharosa dila diya ki ab mai full confident ho jaunga

Thanks a ton

Lots of respect for you Sir 🙏

Btw I have completed business combination and ind as 12

Jabra fan ho gya aapka 🙏

Thank You So much For Your Kind Words 🙏

Sir you actually deserve these words

Jisne classes li wo to hume bhool gaye

AS 12 and 19 I just literally cried after completion of these 2 Ind AS the level of confidence I gained after lectures cannot express. #FRmadeeasywithAK a true mentor 🙏

Hi Sir  
Your teaching is awesome 🙏  
Just came to know about u in one of the telegram grp, from then following ur youtube videos  
Also purchased ur recent concept course 🙏 and I am fully satisfied  
Thanks a lot...  
Now I am confident in FR  
Hope for the best

Thank You 🙏  
All the best for your exams  
Keep Working Hard 🙏

Sir really thank u so much for u r always there to solve our doubts.. I have purchased other subjects PD but that faculty has not solved my doubts yet I compliant to their ofc still no replies from their side.. I really appreciate and thank u for being so helpful n always available for ur students..

My Pleasure 🙏

Thank You 🙏  
There will be more 5 Parts Approx...

Thyku so mch...for ur efforts.... sir, Love ur audio clips also...🙏

Thank You So much 🙏

# FEEDBACK

## #FRWITHAK

Taking your crash course & studying from your FR digest was the best part of FR.  
FR : Smooth as Scotch.  
Your teaching : Masala Papad 🍷❤️

7:03 PM

Thank You So Much 🙏  
Itna Creative Tariff 🙏🙏

7:10 PM ✓

in sequence. Except question 6c and part of 6d I attempted everything sir. Before going to exam I listened to your voice clip sir, ur words no matter what attempt 100 marks was running in my mind . I tried to make time from question 1. I can hear ur explanations in exam hall.Thanks a ton sir.

6:37 PM

Woww  
Thats Great 🙏🙏

6:43 PM ✓

Had a good start to CA FINAL Exams - paper went well. Could attempt full 100 marks. My presentation was not the best, but I am confident of all my answers. I knew entire paper. Expecting 70 at worst.

All thanks to your revision video lectures 🙏

-Vaibhav H.

7:15 pm

Wow Buddy  
Thats Great to hear 🙏🙏  
Wish you luck for remaining Papers as well  
Keep Working Hard 🙏🙏

7:31 pm ✓

Sir paper was nice... Tysm for ur help.. Ur tag line #FR made easy with Ak.. is totally worth it. 🙏🙏

6:25 PM

Glad to hear that 🙏🙏  
Keep Working Hard for Remaining Papers as well 🙏

6:26 PM ✓

Something good return i cn expect out of ut

8:06 pm

Thats Great 🙏🙏

6:09 pm ✓

Sir be frank first time q1 pehle attempt kia And 12 marks ka hi chuta

6:10 pm

Baki all i covered

6:10 pm

Easily

6:10 pm

Woww  
Thats Great 🙏🙏  
Now Carry this momentum in the remaining papers and keep working hard like you did for this paper

6:11 pm ✓

Hello sir. Revision clips are definitely helping me a lot.. while listening to the audio clips, i realised that there were a lot of concepts which i had forgotten completely.. and mcq are challenging as well.. eagerly waiting for audio clips of ind as 36 and 38 in particular. Thank you for your efforts.

9:33 pm

Your Most Welcome 🙏  
Stay Tuned For More Revision Clips...

9:40 pm ✓

Sir just completed the full lecture on ind as 116.  
Now i finally understood what the ind as is. Thank you so much sir. 🙏

Great work. 🙏🙏

7:45 pm

Your Most Welcome 🙏🙏

8:01 pm ✓

Sir Anmol here  
Remember we had a conversation over call regarding batch  
Ek bat khni thi sir....  
Thanks a lot sir...abhi tk books bhi nhi receive hui h pr sir par aap sachhi me saviour ho mere liye... jese doctor OF se bahar aake bolta h na chinta ki koi bat nhi h same ab me vo feel kr rha hu...  
Ab FR me koi dar nhi h...  
Thanks a lot sir

9:23 PM

Hahah 🙏🙏  
Your Most Welcome  
Keep Working Hard  
You have to score good in your exams 🙏

9:25 PM ✓

and u won't believe it was the best lecture i have ever seen with so much conceptual clarity... Specially logic behind using original or revised discount rate on lease term basis and haan the modification part is awesome ....tq sir for this...I really appreciate 🙏

10:37 pm

Last 2 parts r pending and i complete it today only 🙏

10:39 pm

+91 94134 71290  
Sir i m watching ind as 116 rev lect of urs and u won't believe it was the best lecture i have ever seen with so much conceptual clarity... Special...  
My Pleasure 🙏🙏  
Keep Working Hard 🙏

Hello sir

10:51 pm

Your student bholeshwar birla

10:51 pm

Thank you for your support and guidance in financial reporting

10:51 pm

Finally cleared CS

10:51 pm

CA\*

10:52 pm

Many Many Congratulations 🙏🙏  
All Your Effort has paid off 🙏

10:54 pm ✓

Hello bhaiya

12:28 pm

Kya padate ho yaar aap bhaiya

12:29 pm

Next level 🙏🙏🙏

12:29 pm

I am taking revision lectures of yours. and they are very helpful  
thanks a lot for revision lectures.

3:23 PM

My Pleasure 🙏  
Keep Learning 🙏

3:23 PM ✓

Messages and calls are end-to-end encrypted. No one outside of this chat, not even WhatsApp, can read or listen to them. Tap to learn more.

Hello sir...

9:05 pm

Darsh Savla here

9:05 pm

I had taken your FR revision course...

9:05 pm

I got 69 marks in FR and secured AIR 38

9:07 pm

Thank you sir !! 🙏

9:08 pm

Hi Darsh Thats Great Buddy  
Many Many Many Congratulations 🙏🙏🙏  
Getting a Rank is a Great Achievement 🙏  
Congratulations Again 🙏🙏

9:08 pm ✓

Sir watched your indas 115 and 116 lectures....  
Mai exam ke liye un dono indas ko chhod ke jaane wala tha 🙏 but you were the saviour...  
It was great experience learning from you 🙏

12:43 PM

Great Buddy 🙏🙏  
Keep Working Hard 🙏

4:05 PM ✓

Thank you aakash sir you are helping so much by teaching in such a deep concept even in free lectures

10:06 PM

Watched videos on indas 12 on unacademy. Thank you so much

10:08 PM

My Pleasure 🙏

10:33 PM ✓

Sir ...ind as 12 ka bahut video dekh chuka hun lekin sayad aapSe padh leta to itna time waste nehi hota ....thank u again sir u r just jhakaas ..god bless u sir 🙏🙏🙏🙏🙏

9:08 am

My Pleasure 🙏🙏

12:39 pm ✓

Sir today's FR test was really great.. Thanku so much sir for your efforts for us...  
I got 2nd rank and It really boost my confidence

12:09 AM

Really thanku so much sir... 🙏❤️

12:09 AM

Congratulations on Achieving Great Marks  
Carry this confidence and keep working hard till exams

Sir aj to apki bat sunke maza aa gaya....nd literally abi mera attempt November m h but miko din kam lgta hai bhut.... Nd apki bat sunte sunte ye sath sath m short quick revision k notes bnara tha m taki dobara se pura chp m jana na pde nd tym save ho..... Thankw so much sir.... Will make u proud exemption lake

1:50 pm

Messages and calls are end-to-end encrypted. No one outside of this chat, not even WhatsApp, can read or listen to them. Tap to learn more.

Hello sir

First of all thank you so much... For providing us Fr latest amendment and Extra qus.. free of cost

It's a great help to us... All my doubts are getting clear one after the other with your video...

1:50 pm

I got 2nd rank and It really boost my confidence

12:09 AM

Really thanku so much sir... 🙏❤️

12:09 AM

Congratulations on Achieving Great Marks  
Carry this confidence and keep working hard till exams  
You will surely achieve great success 🙏

12:10 AM ✓

Yeah sir ap guide kre ho to fr Definitely