

# CHAPTER 34

## ANALYSIS OF FINANCIAL STATEMENTS

### DIVISION II- SCHEDULE III OF COMPANIES ACT

#### GENERAL INSTRUCTIONS FOR PREPARATION OF FINANCIAL STATEMENT OF A COMPANY REQUIRED TO COMPLY WITH IND AS

1. Every company to which Indian Accounting Standards apply, shall prepare its financial statements in accordance with this Schedule or with such modification as may be required under certain circumstances.
2. Where compliance with the requirements of the Act including Indian Accounting Standards (except the option of presenting assets and liabilities in the order of liquidity as provided by the relevant Ind AS) as applicable to the companies require any change in treatment or disclosure including addition, amendment substitution or deletion in the head or sub-head or any changes inter se, in the financial statements or statements forming part thereof, the same shall be made and the requirements under this Schedule shall stand modified accordingly.
3. The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Indian Accounting Standards. Additional disclosures specified in the Indian Accounting Standards shall be made in the Notes or by way of additional statement or statements unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act, 2013 shall be made in the Notes in addition to the requirements set out in the Schedule.
4. Each item on the face of the Balance Sheet, Statement of Changes in Equity and Statement of Profit and Loss shall be cross-referenced to any related information in the Notes. In preparing the Financial Statements including the Notes, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.
5. Depending upon the **Total Income** of the Company ~~turnover~~<sup>turnover</sup>, figures appearing in the Financial Statements shall be rounded off as below:

Total Income	Rounding off
(i) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
(ii) one hundred crore rupees or more	To the nearest, lakhs, millions or crores, or decimals thereof.

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

6. Financial Statements shall contain the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statement including Notes except in the case of first Financial Statements laid before the company after incorporation.
7. Financial Statements shall disclose all 'material' items, ie, the items if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size or nature of the item or a combination of both, to be judged in the particular circumstances.
8. For the purpose of this Schedule, the terms used herein shall have the same meanings assigned to them in Indian Accounting Standards.
9. Where any Act or Regulation requires specific disclosure to be made in the standalone financial statement of a company, the said disclosure shall be made in addition to those required under this Schedule.

### **GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET**

1. An entity shall classify an asset as current when-
  - it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
  - it holds the asset primarily for the purpose of trading;
  - it expects to realise the asset within twelve months after the reporting period; or
  - the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
2. An entity shall classify all other assets as non-current.
3. The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents, When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.
4. An entity shall classify a liability as current when-
  - it expects to settle the liability in its normal operating cycle;
  - it holds the liability primarily for the purpose of trading;
  - the liability is due to be settled within twelve months after the reporting period; or
  - it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
5. An entity shall classify all other liabilities as non-current.

6. A receivable shall be classified as a 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.
7. A payable shall be classified as a 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.
8. A company shall disclose the following in the Notes:

#### A **Non-Current Assets**

##### I. **Property, Plant and Equipment:**

(i) Classification shall be given as:

- (a) Land
- (b) Buildings
- (c) Plant and Equipment
- (d) Furniture and Fixtures
- (e) Vehicles
- (f) Office equipment
- (g) Bearer Plants
- (h) Others (specify nature)

(ii) Assets under lease shall be separately specified under each class of assets

(iii) **A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment) and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.**

~~A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.~~

##### II. **Investment Property:**

A reconciliation of the gross and net carrying amounts of each class of property at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses or reversals shall be disclosed separately.

##### III. **Goodwill:**

A reconciliation of the gross and net carrying amount of goodwill at the beginning and end of the reporting period showing additions, impairments, disposals and other adjustments.

##### IV. **Other Intangible assets**

- (i) Classification shall be given as:
  - (a) Brands or trademarks
  - (b) Computer software
  - (c) Mastheads and publishing titles
  - (d) Mining rights
  - (e) Copyright, patents, other intellectual property rights, services and operating rights
  - (f) Recipes, formulae, models, designs and prototypes
  - (g) Licenses and franchises
  - (h) Others (specify nature)
- (ii) **A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of intangible assets) and other adjustments and the related amortization and impairment losses or reversals shall be disclosed separately.**

~~A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses or reversals shall be disclosed separately.~~

#### **V. Biological Assets other than bearer plants:**

A reconciliation of the carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments shall be disclosed separately.

#### **VI. Investment**

- (i) Investments shall be classified as:
  - (a) Investments in Equity Instruments;
  - (b) Investments in Preference Shares;
  - (c) Investments in Government or trust securities;
  - (d) Investments in debentures or bonds;
  - (e) Investments in Mutual Funds;
  - (f) Investments in partnership firms; or
  - (g) Other investments (specify nature)

Under each classification, details shall be given of names of the bodies corporate that are-

- (i) subsidiaries,
- (ii) associates,
- (iii) joint ventures, or
- (iv) structured entities,

in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). Investments in partnership firms along with names of the firms, their partners, total capital and the shares of each partner shall be disclosed separately.

- (ii) The following shall also be disclosed:
  - (a) Aggregate amount of quoted investment and market value thereof:
  - (b) Aggregate amount of unquoted investment: and
  - (c) Aggregate amount of impairment in value of investment.

#### VII. Trade Receivables:

- (i) Trade receivables shall be sub-classified as;
  - a. Trade Receivables considered good - Secured;
  - b. Trade Receivables considered good - Unsecured;
  - c. Trade Receivables which have significant increase in Credit Risk; and
  - d. Trade Receivables - credit impaired
- (ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
- (iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.
- (iv) For trade receivables outstanding, following ageing schedule shall be given:

#### Trade Receivables ageing schedule

(Amount in Rs.)

Particulars	Outstanding for following periods from due date of payment*					Total
	Less Than 6 months	6 months- 1 year	1-2 years	2-3 years	More than 3 years	
(i) Undisputed Trade receivables—considered good						
(ii) Undisputed Trade Receivables – which have significant increase in credit risk						

<i>(iii) Undisputed Trade Receivables – credit impaired</i>						
<i>(iv) Disputed Trade Receivables – considered good</i>						
<i>(v) Disputed Trade Receivables – which have significant increase in credit risk</i>						
<i>(vi) Disputed Trade Receivables – credit impaired</i>						

\* similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction.

Unbilled dues shall be disclosed separately

### VIII. Loans;

- (i) Loans shall be classified as-
  - ~~(a) Security Deposits;~~
  - (b) Loans to related parties (giving details thereof); and
  - (c) Other loans (specify nature).
- (ii) The above shall also be separately sub-classified as-
  - (a) Loans Receivables considered good - Secured;
  - (b) Loans Receivables considered good - Unsecured;
  - (c) Loans Receivables which have significant increase in Credit Risk; and
  - (d) Loans Receivables - credit impaired;
- (iii) Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.
- (iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

### IX. Other Financial assets

- (i) Security Deposits
- (ii) Bank deposits with more than 12 months maturity
- (iii) Others(to be specified)

### X. Other non-current asset: Other non-current assets shall be classified as-

- (i) Capital Advances; and
- (ii) Advances other than capital advances;

- (1) Advances other than capital advances shall be classified as:
    - (a) Security Deposits;
    - (b) Advances to related parties (giving details thereof; and
    - (c) Other advances (specify nature).
  - (2) Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated, in case advances are of the nature of a financial asset as per relevant Ind AS, these are to be disclosed under other financial assets separately.
- (iii) Others (specify nature).

## B. Current Assets

### I. Inventories:

- (i) Inventories shall be classified as-
  - (a) Raw materials;
  - (b) Work in-progress;
  - (c) Finished goods;
  - (d) Stock-in-trade (in respect of goods acquired for trading);
  - (e) stores and spares;
  - (f) Loose tools; and
  - (g) Others (specify nature).
- (ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.
- (iii) Mode of valuation shall be stated.

### II. Investment;

- (i) Investments shall be classified as-
  - (a) Investments in Equity instruments;
  - (b) investment in Preference Shares;
  - (c) investment in government or trust securities;
  - (d) Investments in debentures or bonds;
  - (e) Investments in Mutual Funds;
  - (f) investment in partnership firms; and
  - (g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate that are-

- (i) subsidiaries,
- (ii) associates,
- (iii) joint ventures, or
- (iv) structured entities,

in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid)

- (ii) The following shall also be disclosed
  - (a) Aggregate amount of quoted investments and market value thereof;
  - (b) Aggregate amount of unquoted investments;
  - (c) Aggregate amount of impairment in value of investments,

### III. Trade Receivables

- (i) Trade receivables shall be sub-classified as:
  - a. Trade Receivables considered good - Secured;
  - b. Trade Receivables considered good - Unsecured;
  - c. Trade Receivables which have significant increase in Credit Risk; and
  - d. Trade Receivables - credit impaired
- (ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
- (iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.
- (iv) For trade receivables outstanding, following ageing schedule shall be given:

#### Trade Receivables ageing schedule

(Amount in Rs.)

Particulars	Outstanding for following periods from due date of payment*					Total
	Less Than 6 months	6 months-1 year	1-2 years	2-3 years	More than 3 years	
(i) Undisputed Trade receivables—considered good						
(ii) Undisputed Trade Receivables – which have significant increase in credit risk						

<i>(iii) Undisputed Trade Receivables – credit impaired</i>						
<i>(iv) Disputed Trade Receivables – considered good</i>						
<i>(v) Disputed Trade Receivables – which have significant increase in credit risk</i>						
<i>(vi) Disputed Trade Receivables – credit impaired</i>						

\* similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction.

Unbilled dues shall be disclosed separately

#### IV. Cash and cash equivalents:

Cash and cash equivalents shall be classified as-

- Balances with Banks (of the nature of cash and cash equivalents);
- Cheques, drafts on hand;
- Cash on hand; and
- Others (specify nature).

#### V. Loans:

(i) Loans shall be classified as:

~~(a) Security deposits;~~

(b) Loans to related parties (giving details thereof); and

(c) others (specify nature).

(ii) The above shall also be sub-classified as-

(a) Loans Receivables considered good - Secured;

(b) Loans Receivables considered good - Unsecured;

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

(d) Loans Receivables - credit impaired;

(iii) Allowance for bad and doubtful loans shall be disclosed under the relevant heads separately.

(iv) Loans due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

**VA. Other Financial Assets:**

This is an all-inclusive heading, which incorporates financial assets that do not fit into any other financial asset categories, such as, Security Deposits.

**VI. Other current assets (specify nature):**

This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories. Other current assets shall be classified as-

- (i) Advances other than capital advances
  - (1) Advances other than capital advances shall be classified as:
    - (a) Security Deposits;
    - (b) Advances to related parties (giving details thereof);
    - (c) Other advances (specify nature)
  - (2) Advances to directors or other officers of the company or any of them either severally or jointly with any other persons or advances to firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

**C. Cash and Bank balances:**

The following disclosures with regard to cash and bank balances shall be made:

- (a) Earmarked balances with banks (for example. for unpaid dividend) shall be separately stated.
- (b) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.
- (c) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.

**D. Equity****I. Equity Share Capital:** For each class of equity share capital:

- (a) the number and amount of shares authorised;
- (b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;
- (c) par value per Share;
- (d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
- (e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;
- (f) shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;

- (g) shares in the company held by each shareholder holding more than five per cent. shares specifying the number of shares held;
- (h) shares reserved for issue under options and contracts or commitments for the sale of shares or disinvestment, including the terms and amounts;
- (i) for the period of five years immediately preceding the date at which the Balance Sheet is prepared
- aggregate number and class of shares allotted as fully paid up pursuant to contract without payment being received in cash;
  - aggregate number and class of shares allotted as fully paid up by way of bonus shares; and
  - aggregate number and class of shares bought back;
- (j) terms of any securities convertible into equity shares issued along with the earliest date of conversion in descending order starting from the farthest such date;
- (k) calls unpaid (showing aggregate value of calls unpaid by directors and officers);
- (l) forfeited shares (amount originally paid up).
- (m) A company shall disclose Shareholding of Promoters\* as under:**

Shares held by promoters at the end of the year				% Change during the year***
S. No	Promoter name	No. of Shares**	% of total shares	
Total				

\*Promoter here means promoter as defined in the Companies Act, 2013.

\*\*Details shall be given separately for each class of shares

\*\*\*Percentage change shall be computed with respect to the number at the beginning of the year or if issued during the year for the first time then with respect to the date of issue.

## II. Other Equity:

- (i) Other Reserves shall be classified in the notes as-
- (a) Capital Redemption Reserve;
  - (b) Debenture Redemption Reserve;
  - (c) Share Options Outstanding Account; and
  - (d) others- (specify the nature and purpose of each reserve and the amount in respect thereof);
- (Additions and deductions since last balance sheet to be shown under each of the specified heads)

- (ii) Retained Earnings represents surplus i.e. balance of the relevant column in the Statement of Changes in Equity;
- (iii) A reserve specifically represented by earmarked investments shall disclose the fact that it is so represented;
- (iv) Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'retained earnings'. Similarly, the balance of 'Other Equity', after adjusting negative balance of retained earnings, if any, shall be shown under the head 'Other Equity' even if the resulting figure is in the negative; and
- (v) Under the sub-head 'Other Equity', disclosure shall be made for the nature and amount of each item.

#### D. **Non-Current Liabilities**

##### I. **Borrowings:**

- (i) borrowings shall be classified as-
  - (a) Bonds or debentures
  - (b) Term loans
    - (i) from banks
    - (ii) from other Parties
  - (c) Deferred payment liabilities
  - (d) Deposits.
  - (e) Loans from related parties
  - (f) ~~Long term maturities of finance lease obligations~~
  - (g) Liability component of compound financial instruments
  - (h) Other loans (specify nature);
- (ii) borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
- (iii) where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed;
- (iv) bonds or debentures (along with the rate of interest, and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be, where bonds/debentures are redeemable by installments, the date of maturity for this purpose must be reckoned as the date on which the first installment becomes due;
- (v) particulars of any redeemed bonds or debentures which the company has power to reissue shall be disclosed;
- (vi) terms of repayment of term loans and other loans shall be stated; and

(vii) period and amount of default as on the balance sheet date in repayment of borrowings and interest shall be specified separately in each case.

II. **Provisions:** The amounts shall be classified as-

- (a) Provision for employee benefits; and
- (b) Others (specify nature).

III. **Other non-current liabilities;**

- (a) Advances; and
- (b) Others (specify nature).

E. **Current Liabilities**

I. **Borrowings:**

(i) Borrowings shall be classified as-

- (a) Loans repayable on demand
  - (I) from banks
  - (II) from other parties

(b) Loans from related parties

(c) Deposits

(d) Other loans (specify nature);

(ii) borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case;

(iii) where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed;

(iv) period and amount of default as on the balance sheet date in repayment of borrowings and interest, shall be specified separately in each case.

(v) **Current maturities of Long term borrowings shall be disclosed separately**

II. **Other Financial Liabilities:** Other Financial liabilities shall be classified as-

(a) ~~Current maturities of long term debt;~~

(b) ~~Current maturities of finance lease obligations;~~

(c) Interest accrued;

(d) Unpaid dividends;

(e) Application money received for allotment of securities to the extent refundable and interest accrued thereon;

(f) Unpaid matured deposits and interest accrued thereon;

(g) Unpaid matured debentures and interest accrued thereon; and

(h) Others (specify nature).

'Long term debt is a borrowing having a period of more than twelve months at the time of origination

**III. Other current liabilities:**

The amounts shall be classified as-

- (a) revenue received in advance;
- (b) other advances (specify nature); and
- (c) others (specify nature);

**IV. Provisions:** The amounts shall be classified as-

- (i) provision for employee benefits; and
- (ii) others (specify nature)

**FA. Trade Payables**

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

- a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;
- b) the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006), along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;
- c) the amount of interest due and payable for the period of delay in making payment (which has been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;
- d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and
- e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.

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

- FB. For trade payables due for payment, following ageing schedule shall be given: Trade Payables aging schedule (Amount in ₹)**

Particulars	Outstanding for following periods from due date of payment*				Total
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
(i) MSME					
(ii) Others					
(iii) Disputed dues – MSME					
(iv) Disputed dues - Others					

\*Similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction.

**Unbilled dues shall be disclosed separately.**

- G. The presentation of liabilities associated with group of assets classified as held for sale and non-current assets classified as held for sale shall be in accordance with the relevant Indian Accounting Standards (Ind ASs)
- H. Contingent Liabilities and Commitments: (to the extent not provided for)
- (i) Contingent Liabilities shall be classified as-
- claims against the company not acknowledged as debt;
  - guarantees excluding financial guarantees; and
  - other money for which the company is contingently liable.
- (ii) Commitments shall be classified as-
- estimated amount of contracts remaining to be executed on capital account and not provided for;
  - uncalled liability on shares and other investments partly paid; and
  - other commitments (specify nature).
- I. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and title related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on irredeemable preference shares shall also be disclosed separately.
- J. Where in respect of an issue of securities made for a specific purpose the whole or part of amount has not been used for the specific purpose at the Balance sheet date, there shall be indicated by way of note how such unutilised amounts have been used or invested.
- JA. Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.**
- K.. **This Para is deleted**

## L Additional Regulatory Information

### (i) Title deeds of Immovable Properties not held in name of the Company

The company shall provide the details of all the immovable properties (other than properties where the Company is the lessee and the lease agreements are duly executed in favour of the lessee) whose title deeds are not held in the name of the company in following format and where such immovable property is jointly held with others, details are required to be given to the extent of the company's share.

Relevant line item in the Balance sheet	Description of item of property	Gross carrying value	Title deeds held in the name of	Whether title deed holder is a promoter, director or relative# of promoter*/director or employee of promoter/director	Property held since which date	Reason for not being held in the name of the company**
PPE	Land Building	-	-	-	-	**also indicate if in dispute
Investment property	Land Building					
PPE retired from active use and held for disposal	Land Building					
Others						

#Relative here means relative as defined in the Companies Act, 2013.

\*Promoter here means promoter as defined in the Companies Act, 2013.

- (ii) The Company shall disclose as to whether the fair value of investment property (as measured for disclosure purposes in the financial statements) is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.
- (iii) Where the Company has revalued its Property, Plant and Equipment (including Right-of-Use Assets), the company shall disclose as to whether the revaluation is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.
- (iv) Where the company has revalued its intangible assets, the company shall disclose as to whether the revaluation is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.

- (v) The following disclosures shall be made where Loans or Advances in the nature of loans are granted to promoters, directors, KMPs and the related parties (as defined under Companies Act, 2013), either severally or jointly with any other person, that are:

- (a) repayable on demand; or  
(b) without specifying any terms or period of repayment,

Type of Borrower	Amount of loan or advance in the nature of loan outstanding	Percentage to the total Loans and Advances in the nature of loans
Promoters		
Directors		
KMPs		
Related Parties		

- (vi) **Capital-Work-in Progress (CWIP)**

- (a) For Capital-work-in progress, following ageing schedule shall be given: CWIP ageing schedule (Amount in Rs.)

CWIP	Amount in CWIP for a period of				Total*
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Project in progress					
Projects temporarily suspended					

\*Total shall tally with CWIP amount in the balance sheet.

- (b) For capital-work-in progress, whose completion is overdue or has exceeded its cost compared to its original plan, following CWIP completion schedule shall be given\*\*:

(Amount in ₹)

CWIP	To be completed in			
	Less than 1 year	1-2 years	2-3 years	More than 3 years
Project 1				
Project 2				

\*\*Details of projects where activity has been suspended shall be given separately.

- (vii) **Intangible assets under development:**

- (a) For Intangible assets under development, following ageing schedule shall be given:

Intangible assets under development ageing schedule

(Amount in ₹)

Intangible assets under development	Amount in CWIP for a period of				Total*
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Project in progress					
Projects temporarily suspended					

\* Total shall tally with the amount of Intangible assets under development in the balance sheet.

(b) For Intangible assets under development, whose completion is overdue or has exceeded its cost compared to its original plan, the following Intangible assets under development completion schedule shall be given\*\*: (Amount in ₹)

CWIP	To be completed in			
	Less than 1 year	1-2 years	2-3 years	More than 3 years
Project 1				
Project 2				

\*\*Details of projects where activity has been suspended shall be given separately.

(viii) **Details of Benami Property held**

Where any proceeding has been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, the company shall disclose the following:

- Details of such property,
- Amount thereof,
- Details of Beneficiaries,
- If property is in the books, then reference to the item in the Balance Sheet,
- If property is not in the books, then the fact shall be stated with reasons,
- Where there are proceedings against the company under this law as an abettor of the transaction or as the transferor then the details shall be provided,
- Nature of proceedings, status of same and company's view on same.

(ix) **where the Company has borrowings from banks or financial institutions on the basis of security of current assets, it shall disclose the following:**

- whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of accounts;

(b) if not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.

(x) **Wilful Defaulter\***

Where a company is a declared wilful defaulter by any bank or financial Institution or other lender, following details shall be given:

(a) Date of declaration as wilful defaulter,

(b) Details of defaults (amount and nature of defaults)

\* wilful defaulter" here means a person or an issuer who or which is categorized as a wilful defaulter by any bank or financial institution (as defined under the Companies Act, 2013) or consortium thereof, in accordance with the guidelines on wilful defaulters issued by the Reserve Bank of India.

(xi) **Relationship with Struck off Companies**

Where the company has any transactions with companies struck off under section 248 of the Companies Act, 2013 or section 560 of Companies Act, 1956, the Company shall disclose the following details, namely:

<i>Name of Struck off Company</i>	<i>Nature of transactions with struck off Company</i>	<i>Balance Outstanding</i>	<i>Relationship with the Struck off company, if any, to be disclosed</i>
	<i>Investments in securities</i>		
	<i>Receivables</i>		
	<i>Payables</i>		
	<i>Shares held by stuck off company</i>		
	<i>Other outstanding balances (to be specified)</i>		

(xii) **Registration of charges or satisfaction with Registrar of Companies (ROC)**

Where any charges or satisfaction yet to be registered with ROC beyond the statutory period, details and reasons thereof shall be disclosed.

(xiii) **Compliance with number of layers of companies**

Where the company has not complied with the number of layers prescribed under clause (87) of section 2 of the Act read with the Companies (Restriction on number of Layers) Rules, 2017, the name and CIN of the companies beyond the specified layers and the relationship or extent of holding of the company in such downstream companies shall be disclosed.

(xiv) **Following Ratios to be disclosed:**

a) Current Ratio,

- b) Debt-Equity Ratio,
- c) Debt Service Coverage Ratio,
- d) Return on Equity Ratio,
- e) Inventory turnover ratio,
- f) Trade Receivables turnover ratio,
- g) Trade payables turnover ratio,
- h) Net capital turnover ratio,
- i) Net profit ratio,
- j) Return on Capital employed,
- k) Return on investment.

The company shall explain the items included in numerator and denominator for computing the above ratios. Further explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.

(xv) **Compliance with approved Scheme(s) of Arrangements**

Where the Scheme of Arrangements has been approved by the Competent Authority in terms of sections 230 to 237 of the Companies Act, 2013, the company shall disclose that the effect of such Scheme of Arrangements have been accounted for in the books of account of the Company in accordance with the Scheme and in accordance with accounting standards' and any deviation in this regard shall be explained.

(xvi) **Utilisation of Borrowed funds and share premium:**

(A) Where company has advanced or loaned or invested funds (either borrowed funds or share premium or any other sources or kind of funds) to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall

- I. directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (Ultimate Beneficiaries) or
- II. provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries; the company shall disclose the following:
  - i. date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary.
  - ii. date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries alongwith complete details of the ultimate beneficiaries.

- iii. date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- iv. declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).

**(B) Where a company has received any fund from any person(s) or entity(ies), including foreign entities (Funding Party) with the understanding (whether recorded in writing or otherwise) that the company shall**

- I. directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or
- II. provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries, the company shall disclose the following:
  - i. date and amount of fund received from Funding parties with complete details of each Funding party.
  - ii. date and amount of fund further advanced or loaned or invested other intermediaries or Ultimate Beneficiaries alongwith complete details of the other intermediaries or ultimate beneficiaries.
  - iii. date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
  - iv. declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).]

- 9. When a company applies an accounting policy retrospectively or makes a restatement of items in the financial statements or when it reclassifies items in its financial statements, the company shall attach to the Balance Sheet, a "Balance Sheet" as at the beginning of the earliest comparative period presented.
- 10. Share application money pending allotment shall be classified into equity or liability in accordance with relevant Indian Accounting Standards. share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable shall be separately shown under 'Other financial liabilities'.
- 11. Preference shares including premium received on issue, shall be classified and presented as 'Equity' or 'Liability' in accordance with the requirements of the relevant Indian Accounting Standards. Accordingly, the disclosure and presentation requirements in that regard

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

12. Compound financial instruments such as convertible debentures, where split into equity and liability components, as per the requirements of the relevant Indian Accounting Standards, shall be classified and presented under the relevant heads in 'Equity' and 'Liabilities'
13. Regulatory Deferral Account Balances shall be presented in the Balance Sheet in accordance with the relevant Indian Accounting Standards.

### GENERAL INSTRUCTIONS FOR PREPARING OF STATEMENT OF PROFIT AND LOSS

1. The provisions of this Part shall apply to the income and expenditure account, in like manner as they apply to a Statement of Profit and Loss,
2. The Statement of Profit and Loss shall include:
  - (1) Profit of loss for the Period;
  - (2) Other Comprehensive Income for the periodThe sum of (1) and (2) above is "Total Comprehensive Income"
3. Revenue from operations shall disclose separately in the notes
  - (a) sale of products (including Excise Duty);
  - (b) sale of services;
  - (ba) Grants or donations received (relevant in case of section 8 companies only); and**
  - (c) other operating revenues.
4. Finance Costs: Finance costs shall be classified as-
  - (a) interest;
  - (b) dividend on redeemable preference shares;
  - (c) exchange differences regarded as an adjustment to borrowing costs; and
  - (d) other borrowing costs (specify nature).
5. Other income: other income shall be classified as-
  - (a) interest Income;
  - (b) dividend Income; and
  - (c) other non-operating income (net of expenses directly attributable to such income)
6. Other Comprehensive Income shall be classified into-
  - (A) Items that will not be reclassified to profit or loss

- (i) Changes in revaluation surplus;
  - (ii) Re-measurements of the defined benefit plans;
  - (iii) Equity Instruments through Other Comprehensive Income;
  - (iv) Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss;
  - (v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and
  - (vi) Others (specify nature).
- (B) Items that will be reclassified to profit or loss;
- (i) Exchange differences in translating the financial statements of a foreign operation;
  - (ii) Debt instruments through Other Comprehensive Income;
  - (iii) The effective portion of gains and loss on hedging instruments in a cash flow hedge;
  - (iv) Share of other comprehensive income in Associates and Joint Ventures, to the extent to be classified into profit or loss; and
  - (v) Others (specify nature)
7. Additional Information: A Company shall disclose by way of notes, additional information regarding aggregate expenditure and income on the following items:
- (a) employee Benefits expense (showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) share based payments to employees, (iv) staff welfare expenses).
  - (b) depreciation and amortisation expense;
  - (c) **any item of income or expenditure which exceeds one per cent of the revenue from operations or ₹ 10,00,000, whichever is higher, in addition to the consideration of 'materiality' as specified in clause 7 of the General Instructions for Preparation of Financial Statements of a Company;**
  - (d) interest Income;
  - (e) interest Expense
  - (f) dividend income;
  - (g) net gain or loss on sale of investments;
  - (h) net gain or loss on foreign currency transaction and translation (other than considered as finance cost);
  - (i) payments to the auditor as (a) auditor, (b) for taxation matters, (c) for company law matters, (d) for other services, (e) for reimbursement of expenses;
  - (j) in case of companies covered under section 135, amount of expenditure incurred on corporate social responsibility activities; and

(k) details of items of exceptional nature;

(l) **Undisclosed income**

The Company shall give details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961), unless there is immunity for disclosure under any scheme and shall also state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.

(m) **Corporate Social Responsibility (CSR)**

Where the company covered under section 135 of the Companies Act, the following shall be disclosed with regard to CSR activities:

- i. amount required to be spent by the company during the year,
- ii. amount of expenditure incurred,
- iii. shortfall at the end of the year,
- iv. total of previous years shortfall,
- v. reason for shortfall,
- vi. nature of CSR activities,
- vii. details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,
- viii. where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year shall be shown separately.

(n) **Details of Crypto Currency or Virtual Currency**

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed: -

- a) profit or loss on transactions involving Crypto currency or Virtual Currency,
- b) amount of currency held as at the reporting date,
- c) deposits or advances from any person for the purpose of trading or investing in Crypto Currency or virtual currency.

**QUESTIONS FROM ICAI STUDY MATERIAL**

**Q1:** On 1 April 20X1, Star Limited has advanced a housing loan of ₹ 15 lakhs to one of its employees at an interest rate of 6% per annum which is repayable in 5 equal annual installments along with interest at each year end. Employee is not required to give any specific performance against this benefit. The market rate of similar loan for housing finance by banks is 10% per annum.

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

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

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

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

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

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

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

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

The fair value of the loan shall be as follows:

Date	Outstanding loan	Principal	Interest income @ 6%	Total inflow	Discount factor @ 10%	PV
31 March 20X2	15,00,000	3,00,000	90,000	3,90,000	0.909	3,54,510
31 March 20X3	12,00,000	3,00,000	72,000	3,72,000	0.826	3,07,272
31 March 20X4	9,00,000	3,00,000	54,000	3,54,000	0.751	2,65,854

31 March 20X5	6,00,000	3,00,000	36,000	3,36,000	0.683	2,29,488
31 March 20X6	3,00,000	3,00,000	18,000	3,18,000	0.621	1,97,478
Fair value of the loan						13,54,602

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

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

Calculation of amortised cost of loan to employees

Financial year ending on 31 March	Amortised cost (opening balance)	Interest to be recognised @ 10%	Repayment (including interest)	Amortised cost (closing balance)
20X2	13,54,602	1,35,460	3,90,000	11,00,062
20X3	11,00,062	1,10,006	3,72,000	8,38,068
20X4	8,38,068	83,807	3,54,000	5,67,875
20X5	5,67,875	56,788	3,36,000	2,88,663
20X6	2,88,663	29,337*	3,18,000	-

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

**Journal Entries to be recorded at every period end:**

**1. On 1 April 20X1**

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

**2. On 31 March 20X2**

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
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Bank A/c	Dr.	3,90,000	
To Finance income A/c (profit and loss) @10%			1,35,460
To Loan to employee A/c			2,54,540
(Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate @ 10%)			
Employee benefit cost (profit and loss) A/c Dr.		29,080	
To Prepaid employee cost A/c (1,45,398/5)			29,080
(Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)			

The Following housing loan balances should appear in the financial statements:

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

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

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

**Q2:** Pluto Ltd. has purchased a manufacturing plant for ₹ 6 lakhs on 1 April 20X1. The useful life of the plant is 10 years. On 30th September 20X3, Pluto temporarily stops using the manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.

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

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

**The accountant has performed the following working:**

**INR**

Carrying amount on initial classification as held for sale

Purchase Price of Plant	6,00,000
Less: Accumulated dep (6,00,000/ 10 Years)* 2.5 years	(1,50,000)
	4,50,000
Fair Value less cost to sell as on 31 March 20X3	4,00,000
The value will be lower of the above two	4,00,000

#### Balance Sheet extracts as on 31 March 20X4

##### Assets

Current Assets

Other Current Assets

Assets classified as held for sale 3,50,000

##### Required:

Analyse whether the above accounting treatment made by the accountant is in compliance with the Ind AS. If not, advise the correct treatment alongwith working for the same.

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

**Para 6 of Ind AS 105** 'Non-current Assets Held for Sale and Discontinued Operations' states that:

"An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use".

**Paragraph 7 of Ind AS 105 states that:**

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

**Further, paragraph 8 of Ind AS 105 states that:**

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

**Paragraph 13 of Ind AS 105 states that:**

“An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.”

**Paragraph 55 of Ind AS 16 states that:**

“Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.”

Going by the guidance given above,

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

Accordingly, the manufacturing plant should be treated as abandoned asset rather as held for sale because its carrying amount will be principally recovered through continuous use. Pluto Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

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

Calculation of carrying amount as on 31 March 20X4	
Purchase Price of Plant	6,00,000
Less: Accumulated depreciation (6,00,000/ 10 Years)* 3 Years	(1,80,000)
	4,20,000

Balance Sheet extracts as on 31 March 20X4

Assets	
Non-Current Assets	
Property, Plant and Equipment	4,20,000

**Q3:** On 5th April, 20X2, fire damaged a consignment of inventory at one of the Jupiter's Ltd.'s warehouse. This inventory had been manufactured prior to 31st March 20X2 costing ₹ 8 lakhs. The net realisable value of the inventory prior to the damage was estimated at ₹ 9.60 lakhs. Because of the damage caused to the consignment of inventory, the company was required to spend an additional amount of ₹ 2 lakhs on repairing and re-packaging of the inventory. The inventory was sold on 15th May, 20X2 for proceeds of ₹ 9 lakhs.

The accountant of Jupiter Ltd treats this event as an adjusting event and adjusted this event of causing the damage to the inventory in its financial statement and accordingly re-measures the inventories as follows:

	INR lakhs
Cost	8.00
Net realisable value (9.6 - 2)	7.60
Inventories (lower of cost and net realisable value)	7.60

**Required:**

Analyse whether the above accounting treatment made by the accountant in regard to financial year ending on 31.0.20X2 is in compliance of the Ind AS. If not, advise the correct treatment alongwith working for the same.

**Ans:** The above treatment needs to be examined in the light of the provisions given in Ind AS 10 'Events after the Reporting Period' and Ind AS 2 'Inventories'.

Para 3 of Ind AS 10 'Events after the Reporting Period' defines "Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

**Further, paragraph 10 of Ind AS 10 states that:**

"An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period".

**Further, paragraph 6 of Ind AS 2 defines:**

"Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale".

**Further, paragraph 9 of Ind AS 2 states that:**

"Inventories shall be measured at the lower of cost and net realisable value".

Accountant of Jupiter Ltd. has re-measured the inventories after adjusting the event in its financial statement which is not correct and nor in accordance with provision of Ind AS 2 and Ind AS 10.

Accordingly, the event causing the damage to the inventory occurred after the reporting date and as per the principles laid down under Ind AS 10 'Events After the Reporting Date' is a non-adjusting event as it does not affect conditions at the reporting date. Non-adjusting events are not recognised in the financial statements, but are disclosed where their effect is material.

Therefore, as per the provisions of Ind AS 2 and Ind AS 10, the consignment of inventories shall be recorded in the Balance Sheet at a value of ₹ 8 Lakhs calculated below:

	INR' lakhs
Cost	8.00
Net realisable value	9.60
Inventories (lower of cost and net realisable value)	8.00

**Q4:** Venus Ltd. is a multinational entity that owns three properties. All three properties were purchased on April 1, 20X1. The details of purchase price and market values of the properties are given as follows:

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

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

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

**Required:**

Analyse whether the accounting policies adopted by the Venus Ltd. in relation to these properties is in accordance of Indian Accounting Standards (Ind AS). If not, advise the correct treatment along with working for the same. **[Exam May 2018; MTP May 2023]**

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

**Property '1' and '2'**

Para 6 of Ind AS 16 'Property, Plant and Equipment' defines:

"Property, plant and equipment are tangible items that:

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

**Paragraph 29 of Ind AS 16 states that:**

"An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment".

Further, paragraph 36 of Ind AS 16 states that:

"If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued".

Further, paragraph 39 of Ind AS 16 states that:

“If an asset’s carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss”.

**Further, paragraph 52 of Ind AS 16 states that:**

“Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset’s residual value does not exceed its carrying amount”.

### **Property ‘3’**

**Para 6 of Ind AS 40 ‘Investment property’ defines:**

“Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

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

**Further, paragraph 30 of Ind AS 40 states that:**

“An entity shall adopt as its accounting policy the cost model to all of its investment property”.

**Further, paragraph 79 (e) of Ind AS 40 requires that:**

“An entity shall disclose the fair value of investment property”.

Further, paragraph 54 (2) of Ind AS 1 ‘Presentation of Financial Statements’ requires that:

“As a minimum, the balance sheet shall include line items that present the following amounts:

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

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

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

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

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

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

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

**Case 1:** Venus Ltd. has applied the Cost Model to an entire class of property, plant and equipment.

**Balance Sheet extracts as at 31st March 20X2**

Assets		INR
Non-Current Assets		
Property, Plant and Equipment		
Property '1'	13,500	
Property '2'	9,000	22,500
Investment Properties		
Property '3'		10,800

**Case 2:** Venus Ltd. has applied the Revaluation Model to an entire class of property, plant and equipment.

**Balance Sheet extracts as at 31st March 20X2**

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

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

**Q5:** On 1st January 20X2, Sun Ltd. was notified that a customer was taking legal action against the company in respect of a financial losses incurred by the customer. Customer alleged that the financial losses were caused due to supply of faulty products on 30th September 20X1 by the Company. Sun Ltd. defended the case but considered, based on the progress of the case up to

31st March 20X2, that there was a 75% probability they would have to pay damages of ₹ 10 lakhs to the customer.

However, the accountant of Sun Ltd. has not recorded this transaction in its financial statement as the case is not yet finally settled. The case was ultimately settled against the company resulting in to payment of damages of ₹ 12 lakhs to the customer on 15th May 20X2. The financials have been authorized by the Board of Directors in its meeting held on 18th May 20X2.

**Required:** Analyse whether the above accounting treatment made by the accountant is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same.

**Ans:** The above treatment needs to be examined in the light of the provisions given in Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' and Ind AS 10 'Events After the Reporting Period'.

**Para 10 of Ind AS 37** 'Provisions, Contingent Liabilities and Contingent Assets' defines:

"Provision is a liability of uncertain timing or amount.

Liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits".

**Further, paragraph 14 of Ind AS 37, states:**

"A provision shall be recognised when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation".

**Further, paragraph 36 of Ind AS 37, states:**

"The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period".

**Further, paragraph 3 of Ind AS 10 'Events after the Reporting Period' defines:**

"Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

**Further, paragraph 8 of Ind AS 10 states that:**

“An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.”

The Accountant of Sun Ltd. has not recognised the provision and accordingly not adjusted the amounts recognised in its financial statements to reflect adjusting events after the reporting period is not correct and nor in accordance with provision of Ind AS 37 and Ind AS 10.

As per given facts, the potential payment of damages to the customer is an obligation arising out of a past event which can be reliably estimated. Therefore, following the provision of Ind AS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’ – a provision is required. The provision should be for the best estimate of the expenditure required to settle the obligation at 31 March 20X2 which comes to ₹ 7.5 lakhs (₹ 10 lakhs \* 75%).

Further, following the principles of Ind AS 10 ‘Events After the Reporting Period’ evidence of the settlement amount is an adjusting event. Therefore, the amount of provision created shall be increased to ₹ 12 lakhs and accordingly be recognised as a current liability.

**Q6:** Mercury Ltd. is an entity engaged in plantation and farming on a large scale diversified across India. On 1st April 20X1, the company has received a government grant for ₹ 10 lakhs subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years.

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

**Required:** Analyse whether the above accounting treatment made by the management is in compliance of the Ind AS. If not, advise the correct treatment alongwith working for the same.

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

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

**Para 2(d) of Ind AS 20** ‘Accounting for Government Grants and Disclosure of Government Assistance’ states:

“This Standard does not deal with government grants covered by Ind AS 41, Agriculture”.

**Further, paragraph 1 (c) of Ind AS 41 ‘Agriculture’, states:**

“This Standard shall be applied to account for the government grants covered by paragraphs 34 and 35 when they relate to agricultural activity”.

**Further, paragraph 1 (c) of Ind AS 41 ‘Agriculture’, states:**

“If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met”.

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

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

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

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

Liabilities	INR
Non-Current liabilities	
Other Non-Current Liabilities	
Government Grants	10,00,000

**Q7:** Mercury Ltd. has sold goods to Mars Ltd. at a consideration of ₹ 10 lakhs, the receipt of which receivable in three equal installments of ₹ 3,33,333 over a two year period (receipts on 1st April 20X1, 31st March 20X2 and 31st March 20X3).

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

The total consideration to be received from such sale is at ₹ 10 Lakhs and hence, the management has recognised the revenue from sale of goods for ₹ 10 lakhs. Further, the management is of the view that there is no difference in this aspect between Indian GAAP and Ind AS.

**Required:** Analyse whether the above accounting treatment made by the accountant is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same.

[Exam Nov 22 (6 Marks); MTP May 2024; SEP 2025]

**Ans:** The above treatment needs to be examined in the light of the provisions given in Ind AS 115 : Revenue from Contract with customer

In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.

A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (ie the cash selling price).

The Transaction (cash price equivalent) of the sale of goods is calculated as follows: INR

Year	Consideration (Installment)	Present value factor	Present value of consideration
Time of sale	3,33,333	-	3,33,333
End of 1 <sup>st</sup> year	3,33,333	0.949	3,16,333
End of 2 <sup>nd</sup> year	3,33,334	0.901	3,00,334
	<b>10,00,000</b>		<b>9,50,000</b>

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

Initial recognition of sale of goods		INR	INR
Cash	Dr.		3,33,333
Trade Receivable	Dr.		6,16,667
To Sale		9,50,000	
<b>Recognition of interest expense and receipt of second installment</b>			
Cash	Dr.		3,33,333
To Interest Income		32,999	
To Trade Receivable		3,00,334	
<b>Recognition of interest expense and payment of final installment</b>			
Cash	Dr.		3,33,334
To Interest Income (Balancing figure)		17,000	
To Trade Receivable		3,16,333	

Balance Sheet and Profit and Loss extracts showing the presentation for the year ended as at for the year ending 31st March 20X2 and 31st March 20X3

Ind AS compliant Division II of Schedule III needs to be referred for presentation requirement in Balance Sheet and Profit and Loss on Ind AS.

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

INR

	As at Mar 31, 20X2	As at Mar 31, 20X3
Assets		
Current Assets		
Financial Assets		
Trade Receivable	3,16,333	XXX

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

	As at Mar 31, 20X2	As at Mar 31, 20X3
Income		
Sale of Goods	9,50,000	-
Other Income (Finance income)	32,999	17,000

**Q8:** On April 1, 20X1, Sun Ltd. has acquired 100% shares of Earth Ltd. for ₹ 30 lakhs. Sun Ltd. has 3 cash-generating units A, B and C with fair value of ₹ 12 lakhs, 8 lakhs and 4 lakhs respectively. The company recognizes goodwill of ₹ 6 lakhs that relates to CGU 'C' only.

During the financial year 20X2-20X3, the CFO of the company has a view that there is no requirement of any impairment testing for any CGU since their recoverable amount is comparatively higher than the carrying amount and believes there is no indicator of impairment.

**Required:** Analyse whether the view adopted by the CFO of Sun Ltd is in compliance of the Ind AS. If not, advise the correct treatment in accordance with relevant Ind AS

**Ans:** The above treatment needs to be examined in the light of the provisions given in Ind AS 36: Impairment of Assets.

**Para 9 of Ind AS 36 'Impairment of Assets'** states that "An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset."

**Further, paragraph 10(b) of Ind AS 36 states that:**

"Irrespective of whether there is any indication of impairment, an entity shall also test goodwill acquired in a business combination for impairment annually."

Sun Ltd has not tested any CGU on account of not having any indication of impairment is partially correct i.e. in respect of CGU A and B but not for CGU C. Hence the treatment made by the Company is not in accordance with Ind AS 36.

Accordingly, impairment testing in respect of CGU A and B are not required since there are no indications of impairment. However, Sun Ltd shall test CGU C irrespective of any indication of impairment annually as the goodwill acquired on business combination is fully allocated to CGU 'C'.

**Q9:** Neptune Ltd. issued 15,000, 12% convertible debentures for ₹ 15 lakhs of ₹ 100 each at face value on 1st April 20X1 which will be converted into equity instruments on 31st March 20X6. Similar debentures without conversion right carry interest rate of 15%.

The CFO of the company has advised to recognise the 12% debentures in the balance sheet equivalent to the amount of face value of debentures issued i.e. ₹ 15 lakhs. The interest expense for the period is recognised at the contracted rate in the Statement of Profit and Loss by the company i.e. ₹ 1,80,000 (₹ 15 lakhs x 12%).

**Required:** Analyse whether the above accounting treatment advised by CFO is in compliance with the Ind AS. If not, advise the correct treatment alongwith working for the same.

**Ans:** The above treatment needs to be analysed from the purview of provisions given in Ind AS 32, Ind AS 107 and Ind AS 109 on 'Financial Instruments'.

The terms of a financial instrument may be structured such that it contains both equity and liability components (i.e. by substance, the instrument is neither a liability nor an equity instrument in entirety).

**Para 11 of Ind AS 32 'Financial Instruments : Presentation' states that:**

"A financial liability is any liability that is: (a) a contractual obligation: (i) to deliver cash or .....

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities".

**Paragraph 28 of Ind AS 32 states that:**

"The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. Such components shall be classified separately as financial liabilities, financial assets or equity instruments in accordance with paragraph 15."

Further, paragraph 32 of Ind AS 32 which deals with separating the liability and equity components, states that: "The issuer of a bond convertible into ordinary shares first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole."

**Further, paragraph 5.1.1 of Ind AS 109 states that:**

"at initial recognition, an entity shall measure a financial asset or financial liability at its fair value".

Further, paragraph 5.1.1 of Appendix B to Ind AS 109 provides the guidance to determine the fair value of liability:

The fair value of the liability component on initial recognition is the present value of the contractual stream of future cash flows discounted at the market rate of interest that would have been applied to an instrument of comparable credit quality with substantially the same cash flows, on the same terms, but without the conversion option.

**Further, paragraph 4.2.1 of Ind AS 109 provides that:**

The financial liability component will be subsequently measured depending on its classification either as a financial liability at FVTPL, or as a Financial liability measured at amortised cost (using the effective interest rate method).

As per the facts of the case study given in the question, the liability component is measured at amortised cost using the effective interest rate method.

The equity component will not be required to remeasured.

The CFO of the Neptune Ltd. has advised to recognise 12% debenture in the balance sheet equivalent to the amount of face value of debentures issued i.e. ₹ 15 lakhs without separating into the liability and equity component and ₹ 1,80,000 as interest expense for the period is recognised at the contracted rate in the Statement of Profit and Loss which is not correct and not in accordance with Ind AS 32, 107 and 109.

Accordingly, the 12% debentures initially need to be separated between the liability and equity component using the guidance given under Ind AS 32. The liability component shall be initially measured at the fair value and subsequently at the amortised cost. The interest expense is calculated by using the effective interest method. It may be noted that equity component will not be remeasured.

a) Calculation of Financial liability INR

Year	Cash outflow	Discounting Factor (15%)	Present Value
1	1,80,000	0.870	1,56,600
2	1,80,000	0.756	1,36,080
3	1,80,000	0.658	1,18,440
4	1,80,000	0.572	1,02,960
5	1,80,000	0.497	89,460
Total			6,03,540

b) Separating the liability and equity components

Equity component = Fair value of the instrument as whole – Financial liability

$$= ₹ 15,00,000 - ₹ 6,03,540 = ₹ 8,96,460$$

The following journal entry is required to pass on the initial recognition of the instrument:

	₹	₹
Bank Account	Dr. 15,00,000	
To Financial Liability		6,03,540
To Equity		8,96,460

c) Amortisation table INR

Year	Opening balance of liability (a)	Interest (15%) (b)=(a) x 15%	Repayment (c)	Closing balance of liability (d) = (a +b -c)
1	6,03,540	90,531	1,80,000	5,14,071
2	5,14,071	77,111	1,80,000	4,11,182
3	4,11,182	61,677	1,80,000	2,92,859
4	2,92,859	43,929	1,80,000	1,56,788
5	1,56,788	23,212 (b.f.)	1,80,000	Nil

Balance Sheet extracts showing the presentation of compounded financial instrument as at 31st March 20X2

Ind AS compliant Division II of Schedule III needs to be referred for presentation requirement in Balance Sheet on Ind AS.

INR

Equity and Liabilities	
Equity	
Other Equity	
Equity component of compound financial instrument	8,96,460
Liabilities	
Non-Current liabilities	
Financial Liabilities	
(i) Borrowings (5,14,071 – 1,02,889)	4,11,182
Current liabilities	
Financial Liabilities	
(i) Borrowings (5,14,071 – 4,11,182)	1,02,889

The Equity component of compound financial instrument needs to be shown as a separate column in Statement of Changes in Equity as per Ind AS compliant Schedule III.

**Q10:** Mumbai Challengers Ltd., a listed entity, is a sports organization owning several cricket and hockey teams. The issues below pertain to the reporting period ending 31 March 20X2.

- a) Owing to the proposed schedules of Indian Hockey League as well as Cricket Premier Tournament, Mumbai Challengers Ltd. needs a new stadium to host the sporting events. This stadium will form a part of the Property, Plant and Equipment of the company. Mumbai Challengers Ltd. began the construction of the stadium on 1 December, 20X1. The construction of the stadium was completed in 20X2-20X3. Costs directly related to the construction amounted to ₹ 140 crores in December 20X1. Thereafter, ₹ 350 crores have been incurred per month until the end of the financial year. The company has not taken any specific borrowings to finance the construction of the stadium, although it has incurred finance costs on its regular overdraft during the period, which were avoidable had the stadium not been constructed. Mumbai Challengers Ltd. has calculated that the weighted average cost of the borrowings for the period 1 December 20X1 to 31 March 20X2 amounted to 15% per annum on an annualized basis.

The company seeks advice on the treatment of borrowing costs in its financial statements for the year ending 31 March 20X2.

- b) Mumbai Challengers Ltd. acquires and sells players' registrations on a regular basis. For a player to play for its team, Mumbai Challengers Ltd. must purchase registrations for that player. These player registrations are contractual obligations between the player and the company. The costs of acquiring player registrations include transfer fees, league levy fees, and player agents' fees incurred by the club.

At the end of each season, which happens to also be the reporting period end for Mumbai Challengers Ltd., the club reviews its contracts with the players and makes decisions as to whether they wish to sell/transfer any players' registrations. The company actively markets these registrations by circulating with other clubs a list of players' registrations and their estimated selling price. Players' registrations are also sold during the season, often with performance conditions attached. In some cases, it becomes clear that a player will not play for the club again because of, for example, a player sustaining a career threatening injury or being permanently removed from the playing squad for any other reason. The playing registrations of certain players were sold after the year end, for total proceeds, net of associated costs, of ₹ 175 crores. These registrations had a net book value of 49 crores.

Mumbai Challengers Ltd. seeks your advice on the treatment of the acquisition, extension, review and sale of players' registrations in the circumstances outlined above.

- c) Mumbai Challengers Ltd. measures its stadiums in accordance with the revaluation model. An airline company has approached the directors offering ₹ 700 crores for the property naming rights of all the stadiums for five years. Three directors are on the management boards of both Mumbai Challengers Ltd. and the airline. Additionally, statutory legislations regulate the financing of both the cricket and hockey clubs. These regulations prevent contributions to the capital from a related party which 'increases equity without repayment in return'. Failure to adhere to these legislations could lead to imposition of fines and withholding of prize money.

Mumbai Challengers Ltd. wants to know how to take account of the naming rights in the valuations of the stadium and the potential implications of the financial regulations imposed by the legislations

[MTP Nov 2024]

Ans:

(a) **Borrowing Costs**

As per Ind AS 23 Borrowing Costs, an entity shall capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) as part of the cost of that asset. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period.

The capitalization rate of the borrowings of Mumbai Challengers Ltd. during the period of construction is 15% per annum (as given in the question), and therefore, the total amount of borrowing costs to be capitalized is the expenditures incurred on the asset multiplied by the capitalization rate, which is as under:

Particulars	₹ in crores
Costs incurred in December 20X1: (₹ 140 crores x 15% x 4/12)	7.000
Costs incurred in January 20X2: (₹ 350 crores x 15% x 3/12)	13.125
Costs incurred in February 20X2: (₹ 350 crores x 15% x 2/12)	8.750
Costs incurred in March 20X2: (₹ 350 crores x 15% x 1/12)	4.375
Borrowing Costs to be capitalized in 20X1-X2	<b>33.250</b>

Weighted average carrying amount of the stadium during 20X1-X2 is:

$$₹ (140 + 490 + 840 + 1,190) \text{ crores}/4 = ₹ 665 \text{ crores}$$

Applying the weighted average rate of borrowings of 15% per annum, the borrowing cost to be capitalized is computed as:

$$₹ 665 \text{ crores} \times (15\% \times 4/12) = ₹ 33.25 \text{ crores}$$

## (b) Players' Registrations

### Acquisition

As per Ind AS 38 Intangible Assets, an entity should recognize an intangible asset where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Accordingly, the costs associated with the acquisition of players' registrations would need to be capitalized which would be the amount of cash or cash equivalent paid or the fair value of other consideration given to acquire such registrations. In line with Ind AS 38 Intangible Assets, costs would include transfer fees, league levy fees, and player agents' fees incurred by the club, along with other directly attributable costs, if any. Amounts capitalized would be fully amortized over the period covered by the player's contract.

### Sale of registrations

Player registrations would be classified as assets held for sale under Ind AS 105 Non- Current Assets Held for Sale and Discontinued Operations when their carrying amount is expected to be recovered principally through a sale transaction and a sale is considered to be highly probable. To consider a sale to be 'highly probable', the assets (in this case, player registrations) should be actively marketed for sale at a price that is reasonable in relation to its current fair value. In the given case, it would appear that the management is committed to a plan to sell the registration, that the asset is available for immediate sale and that an active plan to locate a buyer is already in place by circulating clubs. Ind AS 105 stipulates that it should be unlikely that the plan to sell the registrations would be significantly changed or withdrawn. To fulfil this requirement, it would be prudent if only those registrations are classified as held for sale where unconditional offers have been received prior to the reporting date.

Once the conditions for classifying assets as held for sale in accordance with Ind AS 105 have been fulfilled, the player registrations would be stated at lower of carrying amount and fair value less costs to sell, with the carrying amount stated in accordance with Ind AS 38 prior to application of Ind AS 105, subjected to impairment, if any.

Profits and losses on sale of players' registrations would be computed by deducting the carrying amount of the players' registrations from the fair value of the consideration receivable, net of transactions costs. In case a portion of the consideration is receivable on the occurrence of a future performance condition (i.e. contingent consideration), this amount would be recognized in the Statement of Profit and Loss only when the conditions are met.

The players registrations disposed of, subsequent to the year end, for ₹ 175 crores, having a corresponding book value of ₹ 49 crores would be disclosed as a non-adjusting event in accordance with Ind AS 10 Events after the Reporting Period.

### **Impairment review**

Ind AS 36 Impairment of Assets requires companies to annually test their assets for impairment. An asset is said to be impaired if the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is higher of the asset's fair value less costs to sell and its value in use (which is the present value of future cash flows expected to arise from the use of the asset). In the given scenario, it is not easy to determine the value in use of any player in isolation as that player cannot generate cash flows on his/her own unless via a sale transaction or an insurance recovery. Whilst any individual player cannot really be separated from the single cash-generating unit (CGU), being a cricket team or a hockey team in the instant case, there may be certain instances where a player is taken out of the CGU when it becomes clear that he/she will not play for the club again. If such circumstances arise, the carrying amount of the player should be assessed against the best estimate of the player's fair value less any costs to sell and an impairment charge should be recognized in the profit or loss, which reflects any loss arising.

### **(c) Valuation of stadiums**

In terms of Ind AS 113 Fair Value Measurement, stadiums would be valued at the price which would be received to sell the asset in an orderly transaction between market participants at the measurement date (i.e. exit price). The price would be the one which maximizes the value of the asset or the group of assets using the principle of the highest and best use. The price would essentially use Level 2 inputs which are inputs other than quoted market prices included within Level 1 which are observable for the asset or liability, either directly or indirectly. Property naming rights present complications when valuing property. The status of the property indicates its suitability for inviting sponsorship attached to its name. It has nothing to do with the property itself but this can be worth a significant amount. Therefore, Mumbai Challengers Ltd. could include the property naming rights in the valuation of the stadium and write it off over three years.

Ind AS 24 Related Party Disclosures lists the criteria for two entities to be treated as related parties. Such criteria include being members of the same group or where a person or a close member of that person's family is related to a reporting entity if that person has control or joint control over the reporting entity. Ind AS 24 deems that parties are not related simply because they have a director or a key manager in common. In this case, there are three directors in common and in the absence of any information to the contrary, it appears as though the entities are not related. However, the regulator will need to establish whether the sponsorship deal is a related party transaction for the purpose of the financial control provisions. There would need to be demonstrated that the airline may be expected to influence, or be influenced

by, the club or a related party of the club. If the deal is deemed to be a related party transaction, the regulator will evaluate whether the sponsorship is at fair value or not.

**Q11:**

a) Neelanchal Gas Refinery Ltd. (hereinafter referred to as Neelanchal), a listed company, is involved in the production and trading of natural gas and oil. Neelanchal jointly owns an underground storage facility with another entity, Seemanchal Refineries Ltd. (hereinafter referred to as Seemanchal). Both the companies are engaged in extraction of gas from offshore gas fields, which they own and operate independently of each other. Neelanchal owns 60% of the underground facility and Seemanchal owns 40%. Both the companies have agreed to share services and costs accordingly, with decisions relating to the storage facility requiring unanimous agreement of the parties. The underground facility is pressurised so that the gas is pushed out when extracted. When the gas pressure is reduced to a certain level, the remaining gas is irrecoverable and remains in the underground storage facility until it is decommissioned. As per the laws in force, the storage facility should be decommissioned at the end of its useful life.

Neelanchal seeks your advice on the treatment of the agreement with Seemanchal as well as the accounting for the irrecoverable gas.

b) Neelanchal has entered into a ten-year contract with Uttaranchal Refineries Pvt. Ltd. (hereinafter referred to as Uttaranchal) for purchase of natural gas. Neelanchal has paid an advance to Uttaranchal equivalent to the total quantity of gas contracted for ten years based on the forecasted price of gas. This advanced amount carries interest at the rate of 12.5% per annum, which is settled by Uttaranchal way of supply of extra gas. The contract requires fixed quantities of gas to be supplied each month. Additionally, there is a price adjustment mechanism in the contract whereby the difference between the forecasted price of gas and the prevailing market price is settled in cash on a quarterly basis. If Uttaranchal does not deliver the gas as agreed, Neelanchal has the right to claim compensation computed at the current market price of the gas.

Neelanchal wants to account for the contract with Uttaranchal in accordance with Ind AS 109 Financial Instruments and seeks your inputs in this regard.

**Ans:**

**a) Joint Arrangement**

As per Ind AS 111 Joint Arrangements, a joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The structure and form of the arrangement determines the nature of the relationship. However, irrespective of the purpose, structure or form of the arrangement, the classification of joint arrangements depends upon the parties' rights and obligations arising from the arrangement. Accordingly, a joint arrangement could be classified as a joint operation or as a joint venture. A joint arrangement which is NOT structured through a separate vehicle is a joint operation. In such cases, the contractual arrangement establishes the parties' rights and obligations. A joint operator accounts for the assets,

liabilities, revenues and expenses relating to its involvement in a joint operation in accordance with the relevant Ind AS. Based on the information provided, the arrangement with Seemanchal Refineries Ltd. is a joint operation as no separate vehicle is formed and the companies have agreed to share services and costs with decisions regarding the storage facility requiring unanimous agreement of the parties. Neelanchal Gas Refinery Ltd. should recognize its share of the asset as Property, Plant and Equipment.

As per Para 16 of Ind AS 16 Property, Plant and Equipment, the cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets provides guidance on measuring decommissioning, restoration and similar liabilities. Para 45 of Ind AS 37 provides that where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. Thus, costs incurred by an entity in respect of obligations for dismantling, removing and restoring the site on which an item of property, plant and equipment is situated are recognized and measured in accordance with Ind AS 16 and Ind AS 37, with the journal entry being as under:

Property, Plant and Equipment	Dr. xxx	
To Provision for Dismantling, Removal and Restoration		xxx

Neelanchal Gas Refinery Ltd. should recognize 60% of the cost of decommissioning of the underground storage facility. However, in line Para 29 of Ind AS 37 where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. Accordingly, Neelanchal Gas Refinery Ltd. should also disclose 40% of the cost of decommissioning of the underground facility as a contingent liability, should there arise future events that prevent Seemanchal Refineries Ltd. from fulfilling its obligations under the arrangement.

As per Ind AS 16, 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.

Thus, Neelanchal Gas Refinery Ltd. should classify and account for its share of irrecoverable gas as property, plant and equipment, as the irrecoverable gas is necessary for the storage facility to perform its function. Therefore, the irrecoverable gas, being a part of the storage facility, should be capitalized as a component of the storage facility asset, and should be depreciated to its residual value over the life of the storage facility. However, if the gas is recoverable in full upon decommissioning of the storage facility, then depreciation against the irrecoverable gas component will be recorded only if the estimated residual value of the gas decreases below cost during the life of the facility. Upon decommissioning of the storage facility, when the cushion gas is extracted and sold, the sale of irrecoverable gas is accounted as a disposal of an item of property, plant and equipment in accordance with Ind AS 16 and the resulting gain or loss is recognized in the Statement of Profit and Loss. The natural gas in excess of the

irrecoverable gas which is injected into the facility would be treated as inventory in accordance with Ind AS 2 Inventories.

**b) Contract with Uttaranchal Refineries Pvt. Ltd.**

As per para 2.4 of Ind AS 109 Financial Instruments, this standard applies to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (i.e. own use contracts). This contract will result in physical delivery of the commodity i.e. extra gas.

Para 2.5 of Ind AS 109 further provides that a contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract was a financial instrument, may be irrevocably designated as measured at fair value through profit or loss even if it was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from not recognising that contract because it is excluded from the scope of this Standard.

There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:

- (a) when the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;
- (b) when the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);
- (c) when, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and
- (d) when the non-financial item that is the subject of the contract is readily convertible to cash.

A written option to buy or sell a non-financial item, such as a commodity, that can be settled net in cash or another financial instrument, or by exchanging financial instruments, is within the scope of Ind AS 109. Such a contract is accounted as a derivative. Such a contract cannot be entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements. Judgment would be required in this area as net settlements caused by unique events beyond management's control may not necessarily prevent the entity from applying the 'own use' exemption to all similar contracts.

In the given case, the contract with Uttaranchal Refineries Pvt. Ltd. will result in physical delivery of extra gas (which is a commodity and not cash, or a financial instrument) for the use of Neelanchal Gas Refinery Ltd. Accordingly, it appears that this contract would be an own use contract falling outside the scope of Ind AS 109 and therefore, would be treated as an executory contract. However, arguments could be placed that the contract is net settled due to the penalty mechanism requiring Uttaranchal Refineries Pvt. Ltd. to compensate Neelanchal Gas Refinery Ltd. at the current prevailing market price. Further, if natural gas is readily convertible into cash at the location of delivery, the contract could be considered net settled. Additionally, if there is volume flexibility, the contract could be regarded as a written option which falls within the scope of Ind AS 109.

However, the contract will probably continue to be regarded as 'own use' as long as it has been entered into and continues to be held for expected counterparties' sale / usage requirements. Additionally, the entity has not irrevocably designated the contract as measured at fair value through profit or loss, thus emphasizing the 'own use' designation.

**Q12:** Good Drugs and Pharmaceuticals Ltd. acquired a sachet filling machine on 1st April, 20X1 for ₹ 60 lakhs. The machine was expected to have a productive life of 6 years. At the end of financial year 20X1-20X2 the carrying amount was ₹ 41 lakhs. A short circuit occurred in this financial year but luckily the machine did not get badly damaged and was still in working order at the close of the financial year. The machine was expected to fetch ₹ 36 lakhs, if sold in the market. The machine by itself is not capable of generating cash flows. However, the smallest group of assets comprising of this machine also, is capable of generating cash flows of ₹ 54 crore per annum and has a carrying amount of ₹ 3.46 crore. All such machines put together could fetch a sum of ₹ 4.44 crore if disposed.

**Required:** Discuss the applicability of Impairment loss.

**Ans:** As per provisions of IND AS 36 "Impairment of Assets", impairment loss is not to be recognized for a given asset if its cash generating unit (CGU) is not impaired. In the given question, the related cash generating unit which is group of asset to which the damaged machine belongs is not impaired; and the recoverable amount is more than the carrying amount of group of assets. Hence there is no need to provide for impairment loss on the damaged sachet filling machine.

### QUESTION FROM ICAI RTP/MTP/EXAMS

**Q13:** Mr. X, is the financial controller of ABC Ltd., a listed entity which prepares consolidated financial statements in accordance with Ind AS. Mr. X has recently produced the final draft of the financial statements of ABC Ltd. for the year ended 31st March, 2018 to the managing director for approval. Mr. Y, who is not an accountant, had raised following queries from Mr. X after going through the draft financial statements:

- (a) One of the notes to the financial statements gives details of purchases made by ABC Ltd. from PQR Ltd. during the period. Mr. Y own 100% of the shares in PQR Ltd. However, he feels that there is no requirement for any disclosure to be made in ABC Ltd.'s financial statements since the transaction is carried out on normal commercial terms and is totally insignificant to ABC Ltd., as it represents less than 1% of ABC Ltd.'s purchases.

- (b) The notes to the financial statements say that plant and equipment is held under the 'cost model'. However, property which is owner occupied is revalued annually to fair value. Changes in fair value are sometimes reported in profit or loss but usually in 'other comprehensive income'. Also, the amount of depreciation charged on plant and equipment as a percentage of its carrying amount is much higher than for owner occupied property. Another note states that property owned by ABC Ltd. but rent out to others is depreciated annually and not fair valued. Mr. Y is of the opinion that there is no consistent treatment of PPE items in the accounts. Elucidate how all these treatments comply with the relevant Ind AS.
- (c) In the year to March, 2018, ABC Ltd. spent considerable amount on designing a new product. ABC Ltd. spent the six months from April, 2017 to September, 2017 researching into the feasibility of the product. Mr. X charged these research costs to profit or loss. From October, 2017, A Ltd. was confident that the product would be commercially successful and A Ltd. is fully committed to finance its future development. A Ltd. spent remaining part of the year in developing the product, which is expected to start from selling in the next few months. These development costs have been recognised as intangible assets in the Balance Sheet. State whether the treatment done by Mr. X is correct when all these research and development costs are design costs. Justify your answer with reference to relevant Ind AS.

Provide answers to the queries raised by the managing director Mr. Y as per Ind AS.

[RTP Nov 2018]

**Ans.** Ongoing through the queries raised by the Managing Director Mr. Y, the financial controller Mr. X explained the notes and reasons for their disclosures as follows:

- (a) Related parties are generally characterised by the presence of control or influence between the two parties.

Ind AS 24 'Related Party Disclosures' identifies related parties as, inter alia, key management personnel and companies controlled by key management personnel. On this basis, PQR Ltd. is a related party of ABC Ltd.

The transaction is required to be disclosed in the financial statements of ABC Ltd. since Mr. Y is Key Management personnel of ABC Ltd. Also at the same time, it owns 100% shares of PQR Ltd. ie. he controls PQR Ltd. This implies that PQR Ltd. is a related party of ABC Ltd.

Where transactions occur with related parties, Ind AS 24 requires that details of the transactions are disclosed in a note to the financial statements. This is required even if the transactions are carried out on an arm's length basis.

Transactions with related parties are material by their nature, so the fact that the transaction may be numerically insignificant to ABC Ltd. does not affect the need for disclosure.

- (b) The accounting treatment of the majority of tangible non-current assets is governed by Ind AS 16 'Property, Plant and Equipment'. Ind AS 16 states that the accounting treatment of PPE is determined on a class by class basis. For this purpose, property and

plant would be regarded as separate classes. Ind AS 16 requires that PPE is measured using either the cost model or the revaluation model. This model is applied on a class by class basis and must be applied consistently within a class. Ind AS 16 states that when the revaluation model applies, surpluses are recorded in other comprehensive income, unless they are cancelling out a deficit which has previously been reported in profit or loss, in which case it is reported in profit or loss. Where the revaluation results in a deficit, then such deficits are reported in profit or loss, unless they are cancelling out a surplus which has previously been reported in other comprehensive income, in which case they are reported in other comprehensive income.

According to Ind AS 16, all assets having a finite useful life should be depreciated over that life. Where property is concerned, the only depreciable element of the property is the buildings element, since land normally has an indefinite life. The estimated useful life of a building tends to be much longer than for plant. These two reasons together explain why the depreciation charge of a property as a percentage of its carrying amount tends to be much lower than for plant.

Properties which are held for investment purposes are not accounted for under Ind AS 16, but under Ind AS 40 'Investment Property'. As per Ind AS 40, investment properties should be accounted for under a cost model. ABC Ltd. had applied the cost model and thus our investment properties are treated differently from the owner occupied property which is annually to fair value.

- (c) As per Ind AS 38 'Intangible Assets', the treatment of expenditure on intangible items depends on how it arose. Internal expenditure on intangible items incurred during research phase cannot be recognised as an asset. Once it can be demonstrated that a development project is likely to be technically feasible, commercially viable, overall profitable and can be adequately resourced, then future expenditure on the project can be recognised as an intangible asset. The difference in the treatment of expenditure upto 30th September, 2017 and expenditure after that date is due to the recognition phase ie. research or development phase.

**Q14:** Following are the Financial Statements of Abraham Ltd.:

**Balance Sheet**

Particulars	Note No.	As at 31 <sup>st</sup> March, 2019 (₹ in lakh)
<b>EQUITY AND LIABILITIES:</b>		
Shareholders' funds		
Share capital (shares of ₹ 10 each)		1,000
Reserves and surplus	1	2,400
Non-current liabilities		
Long term borrowings	2	5,700
Deferred tax liabilities	3	400
Current liabilities		

Trade payables		300
Short-term provisions		300
Other current liabilities	4	<u>200</u>
<b>Total</b>		<b><u>10,300</u></b>
<b>ASSETS</b>		
Non-current assets		
Fixed assets		5,000
Deferred tax assets	3	700
Current assets		
Inventories		1,500
Trade receivables	5	1,100
Cash and bank balances		<u>2,000</u>
<b>Total</b>		<b><u>10,300</u></b>

**Statement of Profit & Loss**

Particular	Note No.	Year ended 31 <sup>st</sup> March, 2019 (₹ in lakh)
Revenue from operations		<u>6,000</u>
Expenses:		
Employee benefit expense		1,200
Operating costs		3,199
Depreciation		<u>450</u>
Total expenses		<u>4,849</u>
Profit before tax		1,151
Tax expense		<u>201</u>
Profit after tax		<u>950</u>

**Notes to Accounts:****Note 1: Reserves and surplus (₹ in lakh)**

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

**Note 2: Long-term borrowings**

Term loan from bank		5,700
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Total	5,700
<b>Note 3: Deferred tax</b>	
Deferred tax asset	700
Deferred tax liability	400
Total	300
<b>Note 4: Other current liabilities</b>	
Unclaimed dividends	10
Billing in advance	150
Other current liabilities	40
Total	200
<b>Note 5: Trade Receivables</b>	
Considered good (outstanding within 6 months)	1,065
Considered doubtful (due from past 1 year)	40
Provision for doubtful debts	(5)
Total	1,100
<b>Additional information:</b>	
1.	Share capital comprises of 100 lakh shares of ₹ 10 each.
2.	Term Loan from bank for ₹ 5,700 lakh also includes interest accrued and due of ₹ 700 lakh as on the reporting date.
3.	Reserve for foreseeable loss is created against a service contract due within 6 months.
4.	Inventory should be valued at cost ₹ 1,500 lakh, NRV as on date is ₹ 1,200 lakh.
5.	A dividend of 10 % was declared by the Board of directors of the company.
6.	Accrued Interest income of ₹ 300 lakh is not booked in the books of the company.
7.	Deferred taxes related to taxes on income are levied by the same governing tax laws.
Identify and report the errors and misstatements in the above extracts and prepare corrected Balance Sheet and Statement of Profit & Loss and where required the relevant notes to the accounts with explanations thereof.	
<b>[Exam Nov 2019]</b>	

**Ans:** Following adjustments / rectifications are required to be done

1. Reserve for foreseeable loss for ₹ 400 lakh, due within 6 months, should be a part of provisions. Hence it needs to be regrouped. If it was also part of previous year's comparatives, a note should be added in the notes to account on the regrouping done this year.

2. Interest accrued and due of ₹ 700 lakh on term loan will be a part of current liabilities. Thus, it should be shown under the heading "Other Current Liabilities".
3. As per Ind AS 2, inventories are measured at the lower of cost and net realisable value. The amount of any write down of inventories to net realisable value is recognised as an expense in the period the write-down occurs. Hence, the inventories should be valued at ₹ 1,200 lakh and write down of ₹ 300 lakh (₹ 1,500 lakh – ₹ 1,200 lakh) will be added to the operating cost of the entity.
4. In the absence of the declaration date of dividend in the question, it is presumed that the dividend is declared after the reporting date. Hence, no adjustment for the same is made in the financial year 2018-2019. However, a note will be given separately in this regard (not forming part of item of financial statements).
5. Accrued income will be shown in the Statement of Profit and Loss as 'Other Income' and as 'Other Current Asset' in the Balance Sheet.
6. Since the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws, these shall be set off, in accordance with Ind AS 12. The net DTA of ₹ 300 lakh will be shown in the balance sheet.
7. As per Division II of Schedule III to the Companies Act, 2013, the Statement of Profit and Loss should present the Earnings per Equity Share.
8. In Ind AS, Assets are not presented in the Balance sheet as 'Fixed Asset', rather they are classified under various categories of Non-current assets. Here, it is assumed as 'Property, Plant and Equipment'.
9. The presentation of the notes to 'Trade Receivables' will be modified as per the requirements of Division II of Schedule III.

#### Balance Sheet of Abraham Ltd.

For the year ended 31<sup>st</sup> March, 2019

	Note No.	(₹ in lakh)
<b>ASSETS</b>		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	1	300
Current assets		
Inventories		1,200
Financial assets		
Trade receivables	2	1,100
Cash and cash equivalents		2,000
Others financial asset (accrued interest)		<u>300</u>
<b>TOTAL</b>		<u><b>9,900</b></u>

EQUITY AND LIABILITIES		
Equity		
Equity share capital	3	1,000
Other equity	4	2,000
Non-current liabilities		
Financial liabilities		
Long-term borrowings	5	5,000
Current liabilities		
Financial liabilities		
Trade payables		300
Others	6	710
Short-term provisions (300 + 400)	7	700
Other current liabilities	8	<u>190</u>
TOTAL		<u>9,900</u>

**Statement of Profit and Loss of Abraham Ltd.**

**For the year ended 31<sup>st</sup> March, 2019**

	Note No.	(₹ in lakh)
Revenue from operations		6,000
Other income		<u>300</u>
Total income		<u>6,300</u>
Expenses		
Operating costs	9	3,199
Change in inventories cost		300
Employee benefits expense		1,200
Depreciation		<u>450</u>
Total expenses		<u>5,149</u>
Profit before tax		1,151
Tax expense		<u>(201)</u>
Profit for the period		<u>950</u>
Earnings per equity share		
Basic		9.5
Diluted		9.5
Number of equity shares (face value of ₹ 10 each)		100 lakh

**Statement of Changes in Equity of Abraham Ltd.**

**For the year ended 31<sup>st</sup> March, 2019**

**Equity Share Capital**

(₹ in lakh)

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

**Other Equity** (₹ in lakh)

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

**\*Note:** Capital reserve given in the Note 1 of the question is assumed to be brought forward from the previous year. However, alternatively, if it may be assumed as created during the year.

1. **Deferred Tax** (₹ in lakh)

Deferred Tax Asset	700
Deferred Tax Liability	<u>400</u>
	<u>300</u>

2. **Trade Receivables** (₹ in lakh)

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

3. **Long Term Borrowings** (₹ in lakh)

Term Loan from Bank (5,700 - 700)	<u>5,000</u>
Total	<u>5,000</u>

4. **Other Financial Liabilities** (₹ in lakh)

Unclaimed dividends	10
Interest on term loan	<u>700</u>
Total	<u>710</u>

5. **Short-term provisions** (₹ in lakh)

Provisions	300
Foreseeable loss against a service contract	<u>400</u>
Total	<u>700</u>

6. **Other Current Liabilities** (₹ in lakh)

Billing in Advance	150
Other	<u>40</u>
Total	<u>190</u>

#### 7. Dividends not recognised at the end of the reporting period

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

**Q15:** Deepak started a new company Softbharti Pvt. Ltd. with Iktara Ltd. wherein investment of 55% is done by Iktara Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company formed was the subsidiary of Iktara Ltd. with two directors, and Deepak eventually becomes one of the directors of company. A consultant was hired and he charged ₹ 30,000 for the incorporation of company and to do other necessary statutory registrations. ₹ 30,000 is to be charged as an expense in the books after incorporation of company. The company, Softbharti Pvt. Ltd. was incorporated on 1st April 2019.

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

An accountant who was hired at the time of company's incorporation, has prepared the draft financials of Softbharti Pvt. Ltd. for the year ending 31st March, 2020 as follows:

#### Statement of Profit and Loss

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

#### Balance Sheet

Particulars	Amount (₹)
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<b>EQUITY AND LIABILITIES</b>	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	<u>1,06,500</u>
<b>TOTAL</b>	<b><u>5,21,000</u></b>
<b>ASSETS</b>	
(1) Non Current Assets	
(a) Property, plant and equipment (net)	1,00,000
(b) Long-term Loans and Advances	40,000
(c) Other Non Current Assets	50,000
(2) Current Assets	
(a) Current Investment	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	<u>51,000</u>
<b>TOTAL</b>	<b><u>5,21,000</u></b>

**Additional information of Softbharti Pvt Ltd.:**

- Deferred tax liability of ₹ 6,000 is created due to following temporary difference: Difference in depreciation amount as per Income tax and Accounting profit
- There is only one property, plant and equipment in the company, whose closing balance as at 31st March, 2020 is as follows:

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

- Pre incorporation expenses are deductible on straight line basis over the period of five years as per Income tax. However, the same are immediately expensed off in the books.
- Current tax is calculated at 30% on PBT - ₹ 3,55,000 without doing any adjustments related to Income tax. The correct current tax after doing necessary adjustments of allowances / disallowances related to Income tax comes to ₹ 1,25,700.

- After the reporting period, the directors have recommended dividend of ₹ 15,000 for the year ending 31st March, 2020 which has been deducted from reserves and surplus. Dividend payable of ₹ 15,000 has been grouped under 'other current liabilities' along with other financial liabilities.
- There are 'Government statutory dues' amounting to ₹ 15,000 which are grouped under 'other current liabilities'.
- The capital advances amounting to ₹ 50,000 are grouped under 'Other non-current assets'.
- Other current assets of ₹ 51,000 comprise Interest receivable from trade receivables.
- Current investment of ₹ 30,000 is in shares of a company which was done with the purpose of trading; current investment has been carried at cost in the financial statements. The fair value of current investment in this case is ₹ 50,000 as at 31st March, 2020.
- Actuarial gain on employee benefit measurements of ₹ 1,000 has been omitted in the financials of Softbharti private limited for the year ending 31 st March, 2020.

The financial statements for financial year 2019-2020 have not been yet approved.

You are required to ascertain that whether the financial statements of Softbharti Pvt. Ltd. are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti Pvt. Ltd. after the careful analysis of mentioned facts and information. **[RTP Nov 2020; MTP Nov 2021; MTP Nov 2023]**

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

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

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

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

**STATEMENT OF PROFIT AND LOSS**  
**for the year ended 31st March, 2020**

Particulars	Amount (₹)
Revenue from operations	10,00,000
Other Income (1,00,000 + 20,000) (refer note -1)	1,20,000
Total Revenue	<b>11,20,000</b>
Expenses:	

Purchase of stock in trade	5,00,000
(Increase) / Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
<b>Total Expenses</b>	<b>7,45,000</b>
Profit before tax	<b>3,75,000</b>
Current tax	1,25,700
Deferred tax (W.N.1)	4,800
<b>Total tax expense</b>	<b>1,30,500</b>
<b>Profit for the year (A)</b>	<b>2,44,500</b>
<b>OTHER COMPREHENSIVE INCOME</b>	
<b>Items that will not be reclassified to Profit or Loss:</b>	
Remeasurements of net defined benefit plans	1,000
Tax liabilities relating to items that will not be reclassified to Profit or Loss	
Remeasurements of net defined benefit plans (tax) [1000 x 30%]	(300)
<b>Other Comprehensive Income for the period (B)</b>	<b>700</b>
<b>Total Comprehensive Income for the period (A+B)</b>	<b>2,45,200</b>

**BALANCE SHEET as at 31st March, 2020**

Particulars	(₹)
<b>ASSETS</b>	
Non-current assets	
Property, plant and equipment	1,00,000
Financial assets	
Other financial assets (Long-term loans and advances)	40,000
Other non-current assets (capital advances) (refer note-2)	50,000
Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -1)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable from trade receivables)	51,000
<b>TOTAL ASSETS</b>	<b>5,41,000</b>
<b>EQUITY AND LIABILITIES</b>	
Equity	

Equity share capital	1,00,000
Other equity	2,45,200
Non-current liabilities	
Provision (25,000 – 1,000)	24,000
Deferred tax liabilities (4800 + 300)	5,100
Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 5)	15,000
Other current liabilities (Govt. statutory dues) (Refer note 3)	15,000
Current tax liabilities	1,25,700
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5,41,000</b>

### STATEMENT OF CHANGES IN EQUITY For the year ended 31st March, 2020

#### A. EQUITY SHARE CAPITAL

	Balance (₹)
As at 31 <sup>st</sup> March, 2019	-
Changes in equity share capital during the year	<u>1,00,000</u>
As at 31 <sup>st</sup> March, 2020	<u>1,00,000</u>

#### B. OTHER EQUITY

	Retained Earnings (₹)
As at 31 <sup>st</sup> March, 2019	-
Profit for the year	2,44,500
Other comprehensive income for the year	700
Total comprehensive income for the year	2,45,200
Less: Dividend on equity shares (refer note – 4)	-
As at 31st March, 2020	2,45,200

#### DISCLOSURE FORMING PART OF FINANCIAL STATEMENTS:

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

#### Notes:

1. Current investment 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, ₹ 20,000 (50,000 – 30,000) increase in fair value of financial asset will be recognised in profit and loss.

2. Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
3. Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.
4. As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.
5. Other current financial liabilities:

	(₹)
Balance of other current liabilities as per financial statements	45,000
Less: Dividend declared for FY 2019 - 2020 (Note – 4)	(15,000)
Reclassification of government statutory dues payable to 'other current liabilities'	<u>(15,000)</u>
Closing balance	<u>15,000</u>

#### Working Note:

1. Calculation of deferred tax on temporary differences as per Ind AS 12 for financial year 2019 – 2020

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

Chp Nov 26

**Q16:** 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	Rs.
<b>ASSETS</b>	
Non-current assets	
Property, plant and equipment	85,37,500

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

**Additional Information:**

- On 1st April 20X1, 8% convertible loan with a nominal value of Rs. 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 Rs. 200 worth of loan.

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

Present Value (PV) rates are as follows:

<b>Year End</b>	<b>@ 8%</b>	<b>@ 10%</b>
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 Rs. 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:	
	<b>Particulars</b>	<b>Amount (Rs.)</b>
	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 (Rs.)	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 31st 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:	
	<b>Particulars</b>	<b>Amount (Rs.)</b>
	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 Rs.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 Rs.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 Rs.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.

[MTP May 2019; MTP May 2023]

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

Particulars	Working/ Note reference	(Rs.)
<b>ASSETS</b>		
Non-current assets		
Property, plant and equipment	1	49,87,750
Capital work-in-progress	2	20,01,600
Investment Property	3	15,48,150
Financial assets		4,62,500
Other financial assets (Security deposits)		
Other non-current assets (capital advances)	4	17,33,480
Current assets		
Inventories		5,98,050
Financial assets		
Investments (55,000 + 5,000)	5	60,000
Trade receivables	6	7,25,000
Cash and cash equivalents	7	1,16,950
Other financial assets	8	1,27,370
Other current assets (Prepaid expenses)	8	90,000
<b>TOTAL ASSETS</b>		<b>1,24,50,850</b>
<b>EQUITY AND LIABILITIES</b>		
Equity		
Equity share capital	A	10,00,000

Other equity	B	28,44,606
Non-current liabilities		
Financial liabilities		
8% Convertible loan	11	60,60,544
Long term provisions		5,24,436
Deferred tax liability	12	2,20,700
Current liabilities		
Financial liabilities		
Trade payables	13	6,69,180
Other financial liabilities	14	1,19,299
Other current liabilities (TDS payable)	15	81,265
Current tax liabilities		9,30,820
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,24,50,850</b>

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

## A) Equity Share Capital

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

## B) Other Equity

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

Disclosure forming part of Financial Statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance

Sheet date. (Note 9)

Notes/ Workings: (for adjustments/ explanations)

1. 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 (Rs. 37,50,250) and Vehicles (Rs. 12,37,500), since those assets are held for administrative purposes.
2. Property, plant and equipment which are not ready for intended use as on the date of Balance Sheet are disclosed as "Capital work-in-progress". It would be classified from PPE to Capital work-in-progress.
3. Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:
  - a) use in the production or supply of goods or services or for administrative purposes; or
  - b) sale in the ordinary course of business.

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

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

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

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

9. As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, 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.

10. '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	47,00,160
Amount to be recognised as a liability				59,75,040
Initial proceeds				(64,00,000)
Amount to be recognised as equity				4,24,960

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

Presentation in the Financial Statements:

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

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

In Balance Sheet as at 31 March 20X2

<b>Equity and Liabilities</b>		
Equity		
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

12. 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 (Rs.)
-------------	--------------

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

13. A liability that is a contractual obligation to deliver cash or another financial asset to another entity is a financial liability. Trade payables is a financial liability in this case.
14. 'Other current financial liabilities':

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

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

**Q17:** Special Limited is a multinational entity that owns 3 properties. All 3 properties were purchased on 1st April, 2020. The following details were furnished:

Particulars	Property 1	Property 2	Property 3
Purchase Price	₹ 7,50,000	₹ 10,50,000	₹ 12,00,000
Estimated life	10 years	15 years	15 years
Fair value as on 31st March, 2021	₹ 8,00,000	₹ 9,50,000	₹ 13,00,000

The Company uses Property 1 and Property 2 for its business purposes. The Company is exploring the opportunity to sell Property 3 if it gets reasonable consideration. Till the time it is not sold, the Company has rented the property.

It has adopted revaluation model for subsequent measurement of these properties. The depreciation is charged on straight line method. However, the Company has not charged any depreciation on Property 1 and Property 3 for the current year since the fair value of properties exceeds their carrying amount. The difference between their fair value and carrying amount has been recognized in the statement of profit and loss. The properties are shown under the head property, plant and equipment in the Balance Sheet.

Analyze whether the accounting policies adopted by the Company in relation to the given properties are in accordance with Ind AS. If not, advise the correct treatment and present an extract of the Balance Sheet for the year ended 31st March 2021.

[Exam July 2021 (8 Marks); MTP Jan 2026 ]

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

**Guidance given in relevant Ind AS:****1. Property '1' and '2'****Definition and applicability:**

As per Ind AS 16, Property plant and equipment are tangible items that:

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

Hence, property 1 and 2 are held for use in the business, therefore Ind AS 16 shall apply in respect of these two properties.

**Accounting Principles:**

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

If an asset's carrying amount is decreased as a result of revaluation, the decrease shall be recognised in profit and loss statement.

**2. Property '3'****Definition and applicability:**

As per Ind AS 40, Investment property is property held to earn rentals or for capital appreciation or both, rather than for:

- Use in the production of goods or services or for administrative purposes; or
- Sale in the ordinary course of business.

Therefore, property 3 is an investment property and company shall follow cost model for its subsequent measurement.

**Accounting Principles:**

- An entity shall adopt as its accounting policy the cost model to all of its investment property; and (Refer paragraph 30 of Ind AS 40)
- requires that an entity shall disclose the fair value of investment property. ( Refer paragraph 79 (e) of Ind AS 40)

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

- a. Property, Plant and Equipment
- b. Investment Property.

**Analysis:**

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

- Presented all three properties in balance sheet as 'property, plant and equipment';
- Not charged depreciation to Property '1' and '3';
- Upward revaluation is recognised in the statement of profit and loss as profit; and
- Applied revaluation model to Property '3' being classified as Investment Property.

The above accounting treatment is neither correct nor in accordance with provision of Ind AS 1, Ind AS 16 and Ind AS 40.

Accordingly, Special Ltd. shall depreciate Property 1 irrespective of the fact that, their fair value exceeds the carrying amount. The revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

There is no alternative of revaluation model in respect to property '3' being classified as Investment Property and only cost model is permitted for subsequent measurement. However, Special Ltd. is required to disclose the fair value of the property in the Notes to Accounts. Further, Property '3' shall be presented as separate line item as Investment Property and depreciation should be charged on it as well.

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

**Balance Sheet (extracts) as at 31st March, 2021**

		Assets	₹
<b>Non-Current Assets</b>			
Property, Plant and Equipment			
Property '1'	8,00,000		
Property '2'	9,50,000		17,50,000
Investment Properties			
Property '3'	(1,200,000 – 80,000)		11,20,000
<b>Equity and Liabilities</b>			
Other Equity			
Revaluation Reserve			
Property '1'	[8,00,000 – (7,50,000 – 75,000)]		1,25,000

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

**Working Notes:**

Particulars	Property 1	Property 2	Property 3
Purchase Price	₹ 7,50,000	₹ 10,50,000	₹ 12,00,000

Estimated Life	10 years	15 years	15 years
Depreciation for the year	₹ 75,000	₹ 70,000	₹ 80,000
Carrying Value as on 31st March, 2021	₹ 6,75,000	₹ 9,80,000	₹ 11,20,000
Fair Value as on 31st March, 2021	₹ 8,00,000	₹ 9,50,000	₹ 13,00,000
Subsequent Measurement Revaluation Surplus / (Deficit)	Fair Value ₹ 1,25,000	Fair Value (₹30,000)	Cost

**NOTES**

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