PAPER – 1 : FINANCIAL REPORTING

*Question No.**1** is compulsory. Candidates are required to answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Question 1

(a) *The Balance Sheet of David Ltd. and Parker Ltd. as of 31st March, 2019 is given below:*

(₹ in lakh)

Assets	***David Ltd.***	***Parker Ltd.***
Non-current assets:		
Property, plant and equipment	400	600
Investment	300	200
Current assets:		
Inventories	300	100
Financial assets		
Trade receivables	400	200
Cash and cash equivalents	150	200
Others	300	300
Total	1,850	1,600
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 100 each for Parker Ltd. & ₹ 10 each for David Limited	500	400
Other Equity	700	275
Non-current liabilities:		
Long term borrowings	200	300
Long term provisions	100	80
Deferred tax	20	55
Current liabilities:		
Short term borrowings	130	170
Trade payables	200	320
Total	1,850	1,600

Other Information :

(i) David Ltd. acquired 70% shares of Parker Ltd. on 1st April, 2019·by issuing its own shares in the ratio of 1 share of David Ltd. for every 2 shares of Parker Ltd. The fair value of the shares of David Ltd. was ₹ 50 per share.

(ii) The fair value exercise resulted in the following :

(1) Fair value of property, plant and equipment (PPE) on 1st April, 2019 was ₹ 450 lakh.

(2) David Ltd. agreed to pay an additional payment as consideration that is higher of ₹ 30 lakh and 25% of any excess profits in the first year after acquisition, over its profits in the preceding 12 months made by Parker Ltd. This additional amount will be due after 3 years. Parker Ltd. has earned ₹ 20 lakh profit in the preceding year and expects to earn another ₹ 10 lakh.

(3) In addition to above, David Ltd. also has agreed to pay one of the founder shareholder-Director a payment of ₹ 25 lakh provided he stays with the Company for two years after the acquisition.

(4) Parker Ltd. had certain equity settled share-based payment award (original award) which got replaced by the new awards issued by David Ltd. As per the original term, the vesting period was 4 years and as of the acquisition date the employees of Parker Ltd. have already served 2 years of service. As per the replaced awards, the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:

Original award - ₹ 6 lakh

Replacement award - ₹ 9 lakh

(5) Parker Ltd. had a lawsuit pending with a customer who had made a claim of ₹ 35 lakh. Management reliably estimated the fair value of the liability to be ₹ 10 lakh.

(6) The applicable tax rate for both entities is 40%.

You are required to prepare opening consolidated balance sheet of David Ltd. as on 1st April, 2019 along with workings. Assume discount rate of 8%. ***(16 Marks)***

(b) Arun Ltd. is an entity engaged in plantation and farming on a large scale and diversified across India. On 1st April, 2018, the company has received a government grant for ₹ 20 lakh 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 trees for specified period of five years and *accordingly it recognizes proportionate grant for ₹ 4 lakh 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:

Evaluate whether the above accounting treatment made by the management is in compliance with the applicable Ind AS. If not, advise the correct treatment. ***(4 Marks)***

Answer

(a) Consolidated Balance Sheet of David Ltd as on 1st April, 2019 (₹ in lakh)

	Amount
Assets	
Non-current assets:	
Property, plant and equipment	850.00
Investment	500.00
Current assets:	
Inventories	400.00
Financial assets:	
Trade receivables	600.00
Cash and cash equivalents	350.00
Others	600.00
Total	3,300.00
Equity and Liabilities	
Equity	
Share capital - Equity shares of ₹ 100 each	514.00
Other Equity	1,067.49
Non Controlling Interest	173.70
Non-current liabilities:	
Financial liabilities:	
Long term borrowings	500.00
Long term provisions (100+80+23.81)	203.81
Deferred tax	11.00

Current liabilities:	
Financial liabilities:	
Short term borrowings	300.00
Trade payables	520.00
Provision for law suit damages	10.00
Total	3,300.00

Working Notes:

a. Fair value adjustment- As per Ind AS 103, the acquirer is required to record the assets and liabilities at their respective fair value. Accordingly, the PPE will be recorded at ₹ 450 lakh.

b. The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, ₹ 3 lakh (6 x 2/4) is considered as a part of purchase consideration and is credited to David Ltd equity as this will be settled in its own equity. The balance of ₹ 3 lakh will be recorded as employee expense in the books of Parker Ltd over the remaining life, which is 1 year in this scenario.

c. There is a difference between contingent consideration and deferred consideration. In the given case, ₹ 30 lakh is the minimum payment to be paid after 3 years and accordingly will be considered as deferred consideration. The other element is if company meet certain target then they will get 25% of that or ₹ 30 lakh whichever is higher. In the given case, since the criteria is the minimum what is expected to be paid, the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 8%.

d. The additional consideration of ₹ 25 lakh to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the income statement of Parker Ltd.

Working Notes:

1. Computation of Purchase Consideration **₹ in lakh**

Particulars		Amount
Share capital of Parker Ltd.		400
Number of shares	4,00,000	
Shares to be issued 2:1	2,00,000	
Fair value per share		50

Purchase consideration (2,00,000x70%x₹ 50 per share) (A)		70.00
Deferred consideration after discounting ₹ 30 lakh for 3 years @ 8% (B)		23.81
Replacement award - Market based measure of the acquiree award ie Fair value of original award (6) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (4) of the acquiree award ie (6 x 2 / 4) (C)		3.00
Purchase consideration (A+B+C)		96.81

2. Allocation of Purchase consideration

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	600	450	(150)
Investment	200	200	-
Inventories	100	100	-
Financial assets:			-
Trade receivables	200	200	-
Cash and cash equivalents	200	200	-
Others	300	300	
Less: Financial Liabilities			
Long term borrowings	(300)	(300)	-
Long term provisions	(80)	(80)	-
Deferred tax	(55)	(55)	-
Financial Liabilities			
Short term borrowings	(170)	(170)	-
Trade payables	(320)	(320)	-
Contingent liability	-	(10)	(10)
Net assets (X)	675	515	(160)
Deferred tax asset on fair value adjustment (160 x 40%) (Y)		64	160
Net assets (X+Y)		579	
Non-controlling interest (NCI) (579 x 30%) rounded off		173.70	
Capital reserve (Net assets – NCI – PC)		308.49	
Purchase consideration (PC)		96.81	

3. **Computation of Consolidated amounts of consolidated financial statements**

	David Ltd.	*Parker Ltd. (pre-acquisition)*	*PPA Allocation*	*Total*
Assets				
Non-current assets:				
Property, plant and equipment	400	600	(150)	850
Investment	300	200		500
Current assets:				
Inventories	300	100		400
Financial assets:				
Trade receivables	400	200		600
Cash and cash equivalents	150	200		350
Others	300	300		600
Total	1,850	1,600	(150)	3300
Equity and Liabilities				
Equity				
Share capital- Equity shares of ₹ 100 each	500			
Shares allotted to Parker Ltd. (2,00,000 x 70% x ₹ 10 per share)			14	514
Other Equity				
Other Equity	700			700
Replacement award			3	3
Security premium				
(2,00,000 shares x 70% x ₹ 40)			56	56
Capital reserve			308.49	308.49
Non-controlling interest	0		173.70	173.70
Non-current liabilities:				
Financial Liabilities				
Long term borrowings	200	300		500
Long term provisions	100	80	23.81	203.81

Deferred tax	20	55	(64)	11
Current liabilities:				
Financial Liabilities				
Short term borrowings	130	170		300
Trade payable	200	320	0	520
Liability for lawsuit damages	____	____	10	10
Total	1,850	925	525	3,300

(b) Arun Ltd. is engaged in plantation and farming on a large scale. This implies that it has agriculture business. Hence, Ind AS 41 will be applicable.

Further, the government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. This implies that it is a conditional grant.

In the absence of the measurement base of biological asset, it is assumed that "Arun Ltd measures its Biological Asset at fair value less cost to sell":

(i) As per Ind AS 41, the government grant should be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met ie continuous plantation of eucalyptus tree for coming period of 5 years. In this case, the grant shall not be recognised in profit or loss until the five years have passed. The entity has recognised the grant in profit and loss on proportionate basis, which is incorrect.

(ii) However, if the terms of the grant allow part of it to be retained according to the time elapsed, the entity recognises that part in profit or loss as time passes. Accordingly, the entity can recognise the proportionate grant for ₹ 4 lakh in the statement of Profit and Loss based on the terms of the grant.

Alternatively, it may be assumed that Arun Ltd. measures its Biological Asset at its cost less any accumulated depreciation and any accumulated impairment losses (as per para 30 of Ind AS 41):

In such a situation, principles of Ind AS 20 (with respect to conditional grant will apply). According to Ind AS 20, the conditional grant should be recognised in the Statement of Profit and Loss over the periods and in the proportions in which depreciation expense on those assets is recognised. Hence the proportionate recognition of grant ₹ 4 lakh (20 lakh / 5) as income is correct since the entity has reasonable assurance that the entity will comply with the conditions attached to the grant.

Note: In case eucalyptus tree is considered as bearer plant by Arun Ltd., then Ind AS 20 will be applicable and not Ind AS 41.

Question 2

(a) *Vedika Ltd. issued 80,000 8% convertible debentures of ₹ 100 each on 1st April, 2015. The debentures are due for redemption on 31st March, 2019 at a premium of 20%, convertible into equity shares to the extent of 50% and balance to be settled in cash to the debenture holders. The interest rate on equivalent debentures without conversion right was 12%. The conversion to equity qualifies as fixed for fixed.*

You are required to separate the debt and equity components at the time of issue and show the accounting entries in Vedika Ltd.'s books at initial recognition only. The following present values of Rupee 1 at 8% and 12% are provided for a period of 5 years.

Interest rate	***Year 1***	***Year 2***	***Year 3***	***Year 4***	***Years 5***
8%	*0.923*	*0.853*	*0.789*	*0.731*	*0.677*
12%	*0.887*	*0.788*	*0.701*	*0.625*	*0.557*

(10 Marks)

(b) *On June 1, 2018, entity D Limited plans to sell a group of assets and liabilities, which is classified as a disposal group. On July 31, 2018, the Board of Directors approved and committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity G Limited.*

However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by November 30, 2018 and the sale is expected to be completed by 31st March, 2019. Entity D Limited follows December year end. The assets and liabilities attributable to this manufacturing unit are as under:

(₹ in lakh)

Particulars	*Carrying value as on 31st December, 2017*	*Carrying value as on 31st July, 2018*
Goodwill	*1,000*	*1,000*
Plant and Machinery	*2,000*	*1,800*
Building	*4,000*	*3,700*
Debtors	*1,700*	*2,100*
Inventory	*1,400*	*800*
Creditors	*(600)*	*(500)*
Loans	*(4,000)*	*(3,700)*
Net	***5,500***	***5,200***

The fair value of the manufacturing unit as on December 31, 2017 is ₹ 4,000 lakh and as on July 31, 2018 is ₹ 3,700 lakh. The cost to sell is ₹ 200 lakh on both these dates. The *disposal group is not sold at, the period end i.e., December 31, 2018. The fair value as on 31st December, 2018 is lower than the carrying value of the disposal group as on that date.*

Required:

(i) Assess whether the manufacturing unit can be classified as held for sale and reasons thereof. If yes, then at which date?

(ii) The measurement of the manufacturing unit as on the date of classification as held for sale.

(iii) The measurement of the manufacturing unit as at the end of the year. ***(10 Marks)***

Answer

(a) Computation of debt component of convertible debentures on 1st April, 2015

Particulars	Amount (₹)
Present value of principal amount repayable after 4 years	
(A) 80,00,000 x 50% x 120% x 0.625 (12% discount factor)	30,00,000
(B) Present value of interest [8,00,000 x 80% x 3.001] (4 years cumulative 10% discount factor)	19,20,640
Total present value of debt component (A) + (B)	49,20,640
Issue proceeds from convertible debentures	80,00,000
Value of equity component	30,79,360

Journal entry at initial recognition

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c Dr.	80,00,000	
To 8% Debentures A/c (liability component)		49,20,640
To 8% Debentures A/c (equity component)		30,79,360
(Being disbursement recorded at fair value)		

Note: The question has been solved on the basis of the discounting factors given in the question.

(b) (i) Assessment of manufacturing unit whether to be classified as held for sale

The manufacturing unit can be classified as held for sale due to the following reasons:

(a) The disposal group is available for immediate sale and in its present condition. The regulatory approval is customary and it is expected to be received in one year. The date at which the disposal group is classified as held for sale will be

31st July, 2018, i.e. the date at which management becomes committed to the plan.

(b) The sale is highly probable as the appropriate level of management i.e., board of directors in this case have approved the plan.

(c) A firm purchase agreement has been entered with the buyer.

(d) The sale is expected to be complete by 31st March, 2019, i.e., within one year from the date of classification.

(ii) Measurement of the manufacturing unit as on the date of classification as held for sale

Following steps need to be followed:

Step 1: Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Ind AS.

This has been done and the carrying value of the disposal group as on 31st July, 2018 is determined at ₹ 5,200 lakh. The difference between the carrying value as on 31st December, 2017 and 31st July, 2018 is accounted for as per Ind AS 36.

Step 2: An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

The fair value less cost to sell of the disposal group as on 31st July, 2018 is ₹ 3,500 lakh (i.e. ₹ 3,700 lakh - ₹ 200 lakh). This is lower than the carrying value of ₹ 5,200 lakh. Thus, an impairment loss needs to be recognised and allocated first towards goodwill and thereafter pro-rata between assets of the disposal group which are within the scope of Ind AS 105 based on their carrying value.

Thus, the assets will be measured as under: (₹ in lakh)

Particulars	Carrying value – 31st July, 2018	Impairment	Carrying value as per Ind AS 105 – 31st July, 2018
Goodwill	1,000	(1,000) (Refer WN)	-
Plant and Machinery	1,800	(229) (Refer WN)	1,571
Building	3,700	(471)	3,229
Debtors	2,100	-	2,100
Inventory	800	-	800
Creditors	(500)	-	(500)
Loans	(3,700)	-	(3,700)
	5,200	(1,700)	3,500

Working Note:

Allocation of impairment loss to Plant and Machinery and Building

After adjustment of impairment loss of ₹ 1,000 lakh from the full value of goodwill, the balance ₹ 700 lakh (₹ 1,700 lakh – ₹ 1,000 lakh) is allocated to plant and machinery and Building on proportionate basis.

Plant and machinery – ₹ 700 lakh x ₹ 1,800 lakh / ₹ 5,500 lakh = ₹ 230 lakh (rounded off)

Building – ₹ 700 lakh x ₹ 3,700 lakh / ₹ 5,500 lakh = ₹ 470 lakh (rounded off)

(iii) Measurement of the manufacturing unit as on the date of classification as at the year end

The measurement as at the year-end shall be on similar lines as done above.

The assets and liabilities in the disposal group not within the scope of this Standard are measured as per the respective standards.

The fair value less cost to sell of the disposal group as a whole is calculated. This fair value less cost to sell as at the year-end shall be compared with the carrying value as at the date of classification as held for sale. It is provided that the fair value as on the year end is less than the carrying amount as on that date – thus the impairment loss shall be allocated in the same way between the assets of the disposal group falling within the scope of this standard as shown above.

Measurement of the manufacturing unit as on the date of classification as at the year-end shall be on similar lines as done above.

Question 3

(a) ABC Limited granted 500 stock appreciation rights (SAR) each to 80 employees on 1st April, 2017 with a fair value ₹ 100 each. The terms of the award require the employee to provide service for four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the option. The fair value of each SAR at each reporting date is as follows:

31st March, 2018	*₹ 110*
31st March, 2019	*₹ 120*
31st March, 2020	*₹ 115*
31st March, 2021	*₹ 130*

Please present the journal entries in the books of ABC Limited over the entire life of the grants.

What would be the difference if at the end of the second year of service (i.e. at 31st March, 2019), ABC Limited modifies the terms of the award to require only three years of total service? Please present with the revised journal entries. Answer on the basis of relevant Ind AS. ***(8 Marks)***

(b) *An entity constructs a new office building commencing on 1st September, 2018, which continues till 31st December, 2018 (and is expected to go beyond a year). Directly attributable expenditure at the beginning of the month on this asset are ₹ 2 lakh in September 2018 and ₹ 4 lakh in each of the months of October to December 2018.*

The entity has not taken any specific borrowings to finance the construction of the building but has incurred finance costs on its general borrowings during the construction period. During the year, the entity had issued 9% debentures with a face value of ₹ 30 lakh and had an overdraft of ₹ 4 lakh, which increased to ₹ 8 lakh in December 2018. Interest was paid on the overdraft at 12% until 1st October, 2018 and then the rate was increased to 15%.

Calculate the capitalization rate for computation of borrowing cost in accordance with Ind AS 'Borrowing Cost'. ***(8 Marks)***

(c) *What is the functional currency of an entity?*

What are the primary and secondary factors that influence determination of functional currency? ***(4 Marks)***

Answer

(a) Number of SARs = 80 Employees x 500 SARs = 40,000 SARs

1. When the term of the awards is 4 years of service

Period	Fair value	To be vested	Cumulative	Expense in proportion to the award earned	Cumulative expenses recognized
	a	b	c = 40,000 x a x b	d = [{(c / no. of total years) x years completed} – e of pvs year]	e
1st April, 2017	100	100%	40,00,000	-	-
31st March, 2018	110	100%	44,00,000	11,00,000	11,00,000
31st March, 2019	120	100%	48,00,000	13,00,000	24,00,000

31st March, 2020	115	100%	46,00,000	10,50,000	34,50,000
31st March, 2021	130	100%	52,00,000	17,50,000	52,00,000

Journal Entries

31st March, 2018			
Employee benefits expenses/Profit and Loss A/c	Dr.	11,00,000	
To Share based payment liability			11,00,000
(Fair value of SARs has been recognised)			
31st March, 2019			
Employee benefits expenses/Profit and Loss A/c	Dr.	13,00,000	
To Share based payment liability			13,00,000
(Fair value of SARs has been re-measured)			
31st March, 2020			
Employee benefits expenses/Profit and Loss A/c	Dr.	10,50,000	
To Share based payment liability			10,50,000
(Fair value of SARs has been recognized)			
31st March, 2021			
Employee benefits expenses A/c	Dr.	17,50,000	
To Share based payment liability			17,50,000
(Fair value of SARs has been recognized)			

2. **When the term of the awards is modified to 3 years of service instead of 4 years of service**

Period	Fair value a	%age of vesting B	Cumulative c = 40,000 x a x b	Expense in proportion to the award earned d = [{(c / no. of total years) x years completed} – e of pvs year]	Cumulative expenses recognized E
1st April, 2017	100	100%	40,00,000	-	-

31st March, 2018	110	100%	44,00,000	11,00,000	11,00,000
31st March, 2019	120	100%	48,00,000	21,00,000	32,00,000
31st March, 2020	115	100%	46,00,000	14,00,000	46,00,000

Journal Entries

31st March, 2018			
Employee benefits expenses	Dr.	11,00,000	
To Share based payment liability			11,00,000
(Fair value of SARs has been recognised)			
31st March, 2019			
Employee benefits expenses	Dr.	21,00,000	
To Share based payment liability			21,00,000
(Fair value of SARs has been re-measured)			
31st March, 2020			
Employee benefits expenses	Dr.	14,00,000	
To Share based payment liability			14,00,000
(Fair value of SARs has been recognized)			

(b) Calculation of capitalization rate on borrowings other than specific borrowings

Nature of general borrowings	*Period of outstanding balance*	*Amount of loan (₹)*	*Rate of interest p.a.*	*Weighted average amount of interest (₹)*
	a	*b*	*c*	*d = [(b x c) x (a/12)]*
9% Debentures	12 months	30,00,000	9%	2,70,000
Bank overdraft	9 months	4,00,000	12%	36,000
	2 months	4,00,000	15%	10,000
	1 month	8,00,000	15%	10,000
		46,00,000		3,26,000

Weighted average cost of borrowings

= {30,00,000 x(12/12)} + {4,00,000 x (11/12)} + {8,00,000 x (1/12)}

= 34,33,334

Capitalisation rate = (Weighted average amount of interest / Weighted average of general borrowings) x 100

= (3,26,000 / 34,33,334) x 100 = 9.50% p.a.

(c) Functional currency is the currency of the primary economic environment in which the entity operates. In this regard, the primary economic environment will normally be the one in which it primarily generates and expends cash i.e. it operates. The functional currency is normally the currency of the country in which the entity is located. It might, however, be a different currency.

The following are the factors that influence determination of an appropriate functional currency

1. **Primary indicators:**

   (a) the currency:

      i. that mainly influences sales prices for its goods and services. This will often be the currency in which sales prices are denominated and settled; and

      ii. of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

      iii. the currency that mainly influences labour, material and other costs of providing goods and services. This will often be the currency in which these costs are denominated and settled.

2. **Secondary indicators:** Other factors that may provide supporting evidence to determine an entity's functional currency are-

   (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and

   (b) the currency in which receipts from operating activities are usually retained.

Question 4

(a) Nivaan Limited commenced work on two long-term contracts during the financial year ended on 31st March, 2019.

The first contract with A & Co. commences on 1st June, 2018 and had a total sales value of ₹ 40 lakh. It was envisaged that the contract would run for two years and that the total expected costs would be ₹ 32 lakh. On 31st March, 2019, Nivaan Limited revised its estimate of the total expected cost to ₹ 34 lakh on the basis of the additional rectification cost of ₹ 2 lakh incurred on the contract during the current financial year. An independent surveyor has estimated at 31st March, 2019 that the contract is 30% complete. Nivaan

Limited has incurred costs up to 31st March, 2019 of ₹ 16 lakh and has received payments on account of ₹ 13 lakh.

The second contract with B & Co. commenced on 1st September, 2018 and was for 18 months. The total sales value of contract was ₹ 30 lakh and the total expected cost is ₹ 24 lakh. Payments on account already received were ₹ 9.50 lakh and total costs incurred to date were ₹ 8 lakh. Nivaan Limited has insisted on a large deposit from B & Co. because the companies had not traded together prior to the contract. The independent surveyor estimated that on 31st March, 2019 the contract was 20% complete.

The two contracts meet the requirement of Ind AS 115 'Revenue from Contracts with Customers' to recognize revenue over time as the performance obligations are satisfied over time.

The company also has several other contracts of between twelve and eighteen months in duration. Some of these contracts fall into two accounting periods and were not completed as at 31st March, 2019. In absence of any financial date relating to the other contracts, you are advised to ignore these other contracts while preparing the financial statements of the company for the year ended 31st March, 2019.

Prepare financial statement extracts for Nivaan Limited in respect of the two construction contracts for the year ending 31st March, 2019. ***(12 Marks)***

(b) MNC Ltd. is in process of setting up a medicine manufacturing business which is at very initial stage. For this purpose, MNC Ltd. as part of its business expansion strategy acquired on 1st April, 2019, 100% shares of Akash Ltd., a company that manufactures pharmacy products. The purchase consideration for the same was by way of a share exchange valued at ₹ 38 crore. The fair value of Akash Ltd.'s assets and liabilities were ₹ 68 crore and ₹ 50 crore respectively, but the same does not include the following:

(i) A patent owned by Akash Ltd. for an established successful new drug that has a remaining life of 6 years. A consultant has estimated the value of this patent to be ₹ 8 crore. However, the outcome of clinical trails for the same are awaited. If the trails are successful, the value of the drug would fetch the estimated ₹ 12 crore.

(ii) Akash Ltd. has developed and patented another new drug which has been approved for clinical use. The cost of developing the drug was ₹ 13 crore. Based on early assessment of its sales success, a reputed valuer has estimated its market value at ₹ 19 crore. However, there is no active market for the patent.

(iii) Akash Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the company has been granted an exclusive five-year license on 1st April, 2018 to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is valuable asset which assures guaranteed sales and the cost to acquire the license is estimated at ₹ 7 crore of remaining period of life. It is expected to generate at least equivalent revenue.

Suggest the accounting treatment of the above transactions with reasoning under applicable Ind AS in the books of MNC Ltd. ***(8 Marks)***

Answer

(a) Extracts of Balance Sheet of Nivaan Ltd. as on 31st March, 2019

	₹ in lakh
Current Assets	
Contract Assets- Work-in-progress (Refer W.N. 3)	9.0
Current Liabilities	
Contract Liabilities (Advance from customers) (Refer W.N. 2)	4.5

Extracts of Statement of Profit and Loss of Nivaan Ltd. as on 31st March, 2019

	₹ in lakh
Revenue from contracts (Refer W.N. 1)	18
Cost of Revenue (Refer W.N. 1)	(15)
Net Profit on Contracts (Refer W.N. 1)	3

Working Notes:

1. **Table showing calculation of total revenue, expenses and profit or loss on contract for the year** *₹ in lakh*

	A & Co.	B & Co.	Total
Revenue from contracts	(40 x 30%) = 12	(30 x 20%) = 6	18
Expenses due for the year	(34* x 30%) = 10.2	(24 x 20%) = 4.8	15
Profit or loss on contract	1.8	1.2	3

***Note:** Additional rectification cost of ₹ 2 lakh has been treated as normal cost. Hence total expected cost has been considered as ₹ 34 lakh. **Alternatively**, in case this ₹ 2 lakh is treated as abnormal cost then expense due for the year would be ₹ 11.6 lakh (ie 30% of ₹ 32 lakh plus ₹ 2 lakh). Accordingly, with respect to A & Co., the profit for the year would be ₹ 0.4 lakh and work-in-progress recognised at the end of the year would be ₹ 4.4 lakh.

2. **Calculation of amount due from / (to) customers** *₹ in lakh*

	A & Co.	B & Co.	Total
Billing based on revenue recognised in the books	12	6	18
Payments received from the customers	(13)	(9.5)	(22.5)
Advance received from the customers	1	3.5	4.5

3. Work in Progress recognised as part of contract asset at the end of the year

₹ in lakh

	A & Co.	B & Co.	Total
Total actual cost incurred during the year	16	8	24
Less: Cost recognised in the books for the year 31.3.2019	(10.2)	(4.8)	(15)
Work-in-progress recognised at the end of the year	5.8	3.2	9.0

(b) As per para 13 of Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.

Based on the above, the company can recognise following Intangible assets while determining Goodwill / Bargain Purchase for the transaction:

(i) Patent owned by Akash Ltd.: The patent owned will be recognised at fair value by MNC Ltd. even though it was not recognised by Akash Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 6 years. Since the company is awaiting the outcome of the trials, the value of the patent should be valued at ₹ 8 crore. It cannot be estimated at ₹ 12 crore and the extra ₹ 4 crore should only be disclosed as a contingent asset and not recognised.

(ii) Patent internally developed by Akash Ltd.: As per para 18 of Ind AS 103 'Business Combination', the acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. Since the patent developed has been approved for clinical use, it is an identifiable asset, hence the same will be measured at fair value ie ₹ 19 crore on the acquisition date.

(iii) Grant of Licence to Akash Ltd. by the Government: As regards to the five-year license, applying para 18 of Ind AS 103, grant asset will be recognised at fair value on the acquisition date by MNC Ltd. On acquisition date, the fair value of the license asset is ₹ 7 crore. However, since the question does not mention about the fair value of the identifiable liability with respect to grant of license for the acquirer, it is assumed that the fair value of the liability with respect to grant, for acquirer is nil. Therefore, only, the grant asset (license) would be recognised at ₹ 7 crore in the books of acquirer MNC Ltd.

Hence the revised working would be as follows:

Fair value of net assets of Akash Ltd. (68-50)	₹ 18 crore
Add: Patent (8 + 19)	₹ 27 crore

Add: License	₹ 7 crore
Less: Grant for License	(Nil)
	₹ 52 crore
Purchase Consideration	(₹ 38 crore)
Capital Reserve	₹ 14 crore

Question 5

(a) *Following are the Financial Statements of Abraham Ltd.:*

Balance Sheet

Particulars	***Note No.***	***As at 31st March, 2019 (₹ in lakh)***
EQUITY AND LIABILITIES:		
Shareholders' funds		
Share capital (shares of ₹ 10 each)		*1,000*
Reserves and surplus	*1*	*2,400*
Non-current liabilities		
Long term borrowings	*2*	*5,700*
Deferred tax liabilities	*3*	*400*
Current liabilities		
Trade payables		*300*
Short-term provisions		*300*
Other current liabilities	*4*	*200*
Total		***10,300***
ASSETS		
Non-current assets		
Fixed assets		*5,000*
Deferred tax assets	*3*	*700*
Current assets		
Inventories		*1,500*
Trade receivables	*5*	*1,100*
Cash and bank balances		*2,000*
Total		***10,300***

Statement of Profit & Loss

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

Notes to Accounts:

Note 1: Reserves and surplus (₹ in lakh)

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

Note 2: Long-term borrowings

Term loan from bank	5,700
Total	5,700

Note 3: Deferred tax

Deferred tax asset	700
Deferred tax liability	400
Total	300

Note 4: Other current liabilities

Unclaimed dividends	10
Billing in advance	150

Other current liabilities	*40*
Total	*200*

Note 5: Trade Receivables

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

Additional information:

(i) Share capital comprises of 100 lakh shares of ₹ 10 each.

(ii) Term Loan from bank for ₹ 5,700 lakh also includes interest accrued and due of ₹ 700 lakh as on the reporting date.

(iii) Reserve for foreseeable loss is created against a service contract due within 6 months.

(iv) Inventory should be valued at cost ₹ 1,500 lakh, NRV as on date is ₹ 1,200 lakh.

(v) A dividend of 10 % was declared by the Board of directors of the company.

(vi) Accrued Interest income of ₹ 300 lakh is not booked in the books of the company.

(vii) Deferred taxes related to taxes on income are levied by the same governing tax laws.

Identify and report the errors and misstatements in the above extracts and prepare corrected Balance Sheet and Statement of Profit & Loss and where required the relevant notes to the accounts with explanations thereof. ***(12 Marks)***

(b) M Ltd. is setting up a new factory outside the Delhi city limits. In order to facilitate the construction of the factory and its operations, M Ltd. is required to incur expenditure on the construction/ development of electric-substation. Though M Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether M Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, then how should these items be depreciated and presented in the financial statements of M Ltd. as per Ind AS? ***(8 Marks)***

Answer

(a) 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 31st March, 2019

	Note No.	*(₹ in lakh)*
ASSETS		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	1	300
Current assets		
Inventories		1,200
Financial assets		
Trade receivables	2	1,100
Cash and cash equivalents		2,000

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

Statement of Profit and Loss of Abraham Ltd.

For the year ended 31st March, 2019

	Note No.	*(₹ in lakh)*
Revenue from operations		6,000
Other income		300
Total income		6,300
Expenses		
Operating costs	9	3,199
Change in inventories cost		300
Employee benefits expense		1,200
Depreciation		450
Total expenses		5,149
Profit before tax		1,151
Tax expense		(201)
Profit for the period		950

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 31st March, 2019

3. Equity Share Capital *(₹ in lakh)*

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

4. Other Equity *(₹ in lakh)*

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

***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	400
	300

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	(5)	35
Total		1,100

5. Long Term Borrowings *(₹ in lakh)*

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

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

Unclaimed dividends	10
Interest on term loan	700
Total	710

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

Provisions	300
Foreseeable loss against a service contract	400
Total	700

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

Billing in Advance	150
Other	40
Total	190

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

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

(b) As per Ind AS 16, the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

Further, Ind AS 16 does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances.

Ind AS 16, further, states that the cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, electric-substation is required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In view of this, even though M Ltd. may not be able to recognise expenditure incurred on electric-substation as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalised as a part of overall cost of the project.

From this, it can be concluded that, in the extant case the expenditure incurred on electric-substation should be considered as the cost of constructing the factory and accordingly, expenditure incurred on electric-substation should be allocated and capitalised as part of the items of property, plant and equipment of the factory.

Depreciation

As per Ind AS 16, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Further, Ind AS 16 provides that, if these assets have a useful life which is different from the useful life of the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge. Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment.

The useful lives of electric-substation should not exceed that of the asset to which it relates.

Presentation

Electric-substation should be presented within the class of asset to which they relate ie factory.

Question 6

(a) Discuss with reasons whether these events are in nature of adjusting or non-adjusting and the treatment needed in light of accounting standard Ind AS 10.

(i) Moon Ltd. won an arbitration award on 25th April, 2019 for ₹ 1 crore. From the arbitration proceeding, it was evident that the Company is most likely to win the arbitration award. The directors approved the financial statements for the year ending 31.03.2019 on 1st May, 2019. The management did not consider the effect of the

above transaction in Financial Year 2018-2019, as it was favourable to the Company and the award came after the end of the financial year.

(ii) Zoom Ltd. has a trading business of Mobile telephones. The Company has purchased 1000 mobiles phones at ₹ 5,000 each on 15th March, 2019. The manufacturers of phone had announced the release of the new version on 1st March, 2019 but had not announced the price. Zoom Ltd. has valued inventory at cost of ₹ 5,000 each at the year ending 31st March, 2019.

Due to arrival of new advance version of Mobile Phone on 8th April, 2019, the selling prices of the mobile stocks remaining with Company was dropped at ₹ 4,000 each.

The financial statements of the company valued mobile phones @ ₹ 5,000 each and not at the value @ ₹ 4,000 less expenses on sales, as the price reduction in selling price was effected after 31.03.2019.

(iii) There as an old due from a debtor amounting to ₹ 15 lakh against whom insolvency proceedings was instituted prior to the financial year ending 31st March, 2019. The debtor was declared insolvent on 15th April, 2019.

(iv) Assume that subsequent to the year end and before the financial statements are approved, Company's management announces that it will restructure the operation of the company. Management plans to make significant redundancies and to close a few divisions of company's business; however, there is no formal plan yet. Should management recognise a provision in the books, if the company decides subsequent to end of the accounting year to restructure its operations? ***(8 Marks)***

(b) An asset is sold in two different active markets at different prices. Manor Ltd. enters into transactions in both markets and can access the price in those markets for the asset at the measurement date.

In Mumbai market, the price that would be received is ₹ 290, transaction costs in that market are ₹ 40 and the costs to transport the asset to that market are ₹ 30. Thus, the net amount that would be received is ₹ 220.

In Kolkata market the price that would be received is ₹ 280, transaction costs in that market are ₹ 20 and the costs to transport the asset to that market are ₹ 30. Thus, the net amount that would be received in Kolkata market is ₹ 230.

(i) What should be the fair value of the asset if Mumbai Market is the principal market? What should be fair value if none of the markets is principle market?

(ii) It the net realization after expenses is more in export market, say ₹ 280, but Government allows only 15% of the production to be exported out of India. Discuss what would be fair value in such case. ***(8 Marks)***

(c) Make necessary journal entries for accounting of the security deposit made by Admire Ltd., whose details are described below. Assume market interest rate for a deposit for similar period to be 12% per annum.

Particulars	*Details*
Date of Security Deposit (Starting Date)	*1st April, 2014*
Date of Security Deposit (Finishing Date)	*31st March, 2019*
Description	*Lease*
Total Lease Period	*5 years*
Discount rate	*12%*
Security deposit (A)	*20,00,000*
Present value factor at the 5th year	*0.567427*

(4 Marks)

OR

Parent A holds 100% in its subsidiary B. Parent A had acquired B, 10 years back and had decided to account for the acquisition under the purchase method using fair values of the subsidiary B in its consolidated financial statements.

During the current year, A decides to merge B with itself.

For the purpose of this proposed merger, what values of B should be used for accounting under the Ind AS? ***(4 Marks)***

Answer

(a) As per Ind AS 10, the treatment of stated issues would be as under:

(i) **Adjusting event:** It is an adjusting event as it is the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. Even though winning of award is favorable to the company, it should be accounted in its books as receivable since it is an adjusting event.

(ii) **Adjusting event:** The sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period, hence it is an adjusting event as per Ind AS 10. Zoom Limited should value its inventory at ₹ 40,00,000. Hence, appropriate provision must be made for ₹ 15 lakh.

(iii) **Adjusting event:** As per Ind AS 10, the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.

The bankruptcy of a customer that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period.

(iv) **Non – adjusting event:**

Announcing or commencing the implementation of a major restructuring after reporting period is a non-adjusting event as per Ind AS 10. Though this is a non-adjusting event occurred after the reporting period, yet it would result in disclosure of the event in the financial statements,if restructuring is material.

This would not require provision since as per Ind AS 37, decision to restructure was not taken before or on the reporting date. Hence, it does not give rise to a constructive obligation at the end of the reporting period to create a provision.

(b) (i) (a) If Mumbai Market is the principal market

If Mumbai Market is the principal market for the asset (i.e., the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transportation costs.

Fair value will be

	₹
Price receivable	290
Less: Transportation cost	(30)
Fair value of the asset	260

(b) If neither of the market is the principal market

If neither of the market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transportation costs (i.e., the net amount that would be received in the respective markets).

	₹	₹
	Mumbai Market	Kolkata Market
Fair value of the asset as per the question	220	230

Since the entity would maximise the net amount that would be received for the asset in Kolkata Market i.e.₹ 230, the fair value of the asset would be measured using the price in Kolkata Market.

Fair value in such a case would be

	₹
Price receivable	280

Less: Transportation cost	(30)
Fair value of the asset	250

(ii) Export prices are more than the prices in the principal market and it would give highest return comparing to the domestic market. Therefore, the export market would be considered as most advantageous market. But since the Government has capped the export, maximum upto 15% of total output, maximum sale activities are being done at domestic market only i.e. 85%. Since the highest level of activities with highest volume is being done at domestic market, principal market for asset would be domestic market. Therefore, the prices received in domestic market would be used for fair valuation of assets.

(c) Either

The above security deposit is an interest free deposit redeemable at the end of lease term for ₹ 20,00,000. Hence, this involves collection of contractual cash flows and shall be accounted at amortised cost.

Upon initial measurement

Particulars	**Details**
Security deposit (A)	20,00,000
Total lease period (Years)	5
Discount rate	12.00%
Present value annuity factor	0.567427
Present value of deposit at beginning (B)	**11,34,854**
Prepaid lease payment at beginning (A-B)	**8,65,146**

Journal entry at initial recognition

Particulars		**Amount**	**Amount**
Security deposit A/c	Dr.	11,34,854	
Prepaid lease expenses A/c	Dr.	8,65,146	
To Bank A/c			20,00,000

Subsequently, every annual reporting year, interest income shall be accrued @ 12% per annum and prepaid expenses shall be amortised on straight line basis over the lease term.

Following table shows the amortisation of security deposit based on discount rate:

Year	**Opening balance (A)**	**Interest @ 12% (B)**	**Closing balance (A) = (A) + (B)**
1	11,34,854	1,36,183	12,71,037

2	12,71,037	1,52,524	14,23,561
3	14,23,561	1,70,827	15,94,388
4	15,94,388	1,91,327	17,85,715
5	17,85,315	2,14,685*	20,00,000

*Difference is due to approximation.

Journal entries for Year 1-5

For – Year 1

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,36,183	
To Interest income			1,36,183
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 2

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,52,524	
To Interest income			1,52,524
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 3

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,70,827	
To Interest income			1,70,827
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 4

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,91,327	
To Interest income			1,91,327
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 5

Particulars		Amount	Amount
Security deposit A/c	Dr.	2,14,685	

To Interest income			2,14,685
Lease expense (8,65,146 / 5 years)	Dr.	1,73,030	
To Prepaid lease expenses			1,73,030

Journal entry for realisation of security deposit at the end of 5th year

Particulars		Amount	Amount
Bank A/c	Dr.	20,00,000	
To Security deposit Ac			20,00,000

OR

The acquisition of B Ltd. by A Ltd. is business combination under common control. In such a situation, pooling of interest method should be applied. However, B Ltd. is 100% subsidiary of A Ltd. and A Ltd. in its Consolidated financial statements use to give the carrying values of assets and liabilities of B Ltd. at fair value (as per acquisition under purchase method). Hence the carrying value for the purpose of pooling of interest method will be the values given in Consolidated financial statements and not in Separate financial statements.

In other words, since B Ltd. is merging with A Ltd. (i.e. parent) nothing has changed and the transaction only means that the assets, liabilities and reserves of B Ltd. which were appearing in the consolidated financial statements of Group A immediately before the merger would now be a part of the separate financial statements of A Ltd. Accordingly, it would be appropriate to recognise the carrying value of the assets, liabilities and reserves pertaining to B Ltd as appearing in the consolidated financial statements of A Ltd.