MOCK TEST PAPER 2

FINAL (NEW) COURSE

PAPER 1: FINANCIAL REPORTING

ANSWERS

1. (a) Balance Sheet of Master Creator Private Limited as at 31st March, 20X2

Particulars	Working/ Note reference	(Rs.)
ASSETS		
Non-current assets		
Property, plant and equipment	1	49,87,750
Capital work-in-progress	2	20,01,600
investment Property	3	15,48,150
Financial assets		
Other financial assets (Security deposits)		4,62,500
Other non-current assets (capital advances)	4	17,33,480
Current assets		
Inventories		5,98,050
Financial assets		
Investments (55,000 + 5,000)	5	60,000
Trade receivables	6	7,25,000
Cash and cash equivalents	7	1,16,950
Other financial assets	8	1,27,370
Other current assets (Prepaid expenses)	8	90,000
TOTAL ASSETS		**1,24,50,850**
EQUITY AND LIABILITIES		
Equity		
Equity share capital	A	10,00,000
Other equity	B	28,44,606
Non-current liabilities		
Financial liabilities		
8% Convertible loan	11	60,60,544
Long term provisions		5,24,436
Deferred tax liability	12	2,20,700
Current liabilities		
Financial liabilities		
Trade payables	13	6,69,180
Other financial liabilities	14	1,19,299
Other current liabilities (TDS payable)	15	81,265

Current tax liabilities		9,30,820
TOTAL EQUITY AND LIABILITIES		**1,24,50,850**

Statement of changes in equity

For the year ended 31st March, 20X2

A. Equity Share Capital

	Balance (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 20X2

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

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

12. Since entity has 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.

(b) The loans from ABC Bank carry interest @ 10% and 12% for 5 year term and 3 year term respectively. Additionally, there is a processing fee payable @ 1% on the principal amount on date of transaction. It is assumed that ABC Bank charges all customers in a similar manner and hence this is representative of the market rate of interest.

Amortised cost is computed by discounting all future cash flows at market rate of interest. Further, any transaction fees that are an integral part of the transaction are adjusted in the effective interest rate and recognised over the term of the instrument.

Hence loan processing fees shall be reduced from the principal amount to arrive the value on day 1 upon initial recognition.

Fair value (5 year term loan) = 10,00,000 – 10,000 (1% x 10,00,000) = 9,90,000

Fair value (3 year term loan) = 8,00,000 – 8,000 (1% x 8,00,000) = 7,92,000.

Now, effective interest rate shall be higher than the interest rate of 10% and 12% on 5 year loan and 3 year loan respectively, so that the processing fees gets recognised as interest over the respective term of loans.

2. (a) Calculation of discounting factor based on yield @ 6% p.a.

Date	**Spot rate at indicated date**	**Forward rate for 30th September 20X1**	**Discount factor @ 6% p.a. on quarter basis**
1st April, 20X1		76	0.971
30th June 20X1		74	0.985
30th September, 20X1	72	71	1

Determination of fair value change

		1st April, 20X1	**30th June, 20X1**	**30th September, 20X1**
a	Nominal value in Rs. @ Rs. 76 / USD	7,600	7,600	7,600
b	Nominal value in USD (100 kg for USD 100)	100	100	100
c	Forward rate for 30th September, 20X1	76	74	71
d	Value in Rs. (b x c)	7,600	7,400	7,100
e	Difference (a-d)	0	200	500
f	Discount factor (as calculated in the above table)	0.971	0.985	1
g	Fair value (e x f)	0	197	500
h	Fair value change for the period	0	197	303*

* 500 – 197= 303

Journal Entries

Date	Particulars	Dr.	Cr.
1st April, 20X1	No entry as initial fair value is zero		
30th June, 20X1	Future Contract Dr.	197	
	To Cash Flow Hedge Reserve (Other Equity)- OCI		197
	(Being Change in Fair Value of Hedging Instrument recognised in OCI accumulated in a separate component in Equity)		
30th September, 20X1	Future Contract Dr.	303	
	To Cash Flow Hedge Reserve (Other Equity) - OCI		303
	(Being change in fair value of the hedging instrument recognised in OCI)		
30th September,	Bank/Trade Receivable Dr.	7,200	

20X1	To Revenue from Contracts with Customers (Being sale of 100 kgs. of copper for USD 100 recognised at spot rate of Rs. 72 for USD 1)		7,200
30th September, 20X1	Cash Flow Hedge Reserve (Other Equity) - OCI Dr. To Revenue from Contracts with Customers (Being fair value change in forward contract reclassified to profit and loss and recognised in the line item affected by the hedge item)	500	500
30th September, 20X1	Bank / Cash Dr. To Future Contract	500	500

(b) In the given case, Lessee calculates the ROU asset and the lease liabilities before modification as follows:

Year	Lease Liability				ROU asset		
	Initial value	Lease payments	Interest expense @ 8%	Closing balance	Initial Value	Depreciation	Closing balance
	a	b	c = a x 8%	d = a-b + c	e	f	g
1	4,02,600*	60,000	32,208	3,74,808	4,02,600	40,260	3,62,340
2	3,74,808	60,000	29,985	3,44,793	3,62,340	40,260	3,22,080
3	3,44,793	60,000	27,583	3,12,376	3,22,080	40,260	2,81,820
4	3,12,376	60,000	24,990	2,77,366	2,81,820	40,260	2,41,560
5	2,77,366	60,000	22,189	2,39,555	2,41,560	40,260	2,01,300
6	2,39,555				2,01,300		

* Initial value of ROU asset and lease liability = Annual lease payment x annuity factor @ 8% = 60,000 x 6.71 = Rs. 4,02,600

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability based on:

(a) a five-year remaining lease term,

(b) annual payments of Rs. 35,000 and

(c) Lessee's incremental borrowing rate of 6% p.a.

Present value of modified lease = Annual lease payment x annuity factor @ 6% = 35,000 x 4.212 = 1,47,420

Lessee determines the proportionate decrease in the carrying amount of the ROU Asset on the basis of the remaining ROU Asset (i.e., 3,000 square metres corresponding to 50% of the original ROU Asset).

50% of the pre-modification ROU Asset (Rs. 2,01,300) is Rs. 1,00,650

50% of the pre-modification lease liability (Rs. 2,39,555) is Rs. 1,19,777.50.

Consequently, Lessee reduces the carrying amount of the ROU Asset by Rs. 1,00,650 and the carrying amount of the lease liability by Rs. 1,19,777.50. Lessee recognises the difference between the decrease in the lease liability and the decrease in the ROU Asset (Rs. 1,19,777.50 – Rs. 1,00,650 = Rs. 19,127.50) as a gain in profit or loss at the effective date of the modification (at the beginning of Year 6).

Lessee recognises the difference between the remaining lease liability of Rs. 1,19,777.50 and the modified lease liability of Rs. 1,47,420 (which equals Rs. 27,642.50) as an adjustment to the ROU Asset reflecting the change in the consideration paid for the lease and the revised discount rate.

3. (a) Consolidated Balance Sheet of David Ltd as on 1st April, 20X1 (Rs. 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 Rs. 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 Rs. 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, Rs. 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 Rs. 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, Rs. 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 Rs. 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 Rs. 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 **Rs. 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%xRs. 50 per share) (A)		70.00
Deferred consideration after discounting Rs. 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 Rs. 100 each	500			
Shares allotted to Parker Ltd. (2,00,000 x 70% x Rs. 10 per share)			14	514
Other Equity				
Other Equity	700			700
Replacement award			3	3
Security premium (2,00,000 shares x 70% x Rs. 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)

Particulars	Amount (Rs.)
Fair value as at 1st April, 20X1	13,750
Increase due to Price change [250 x {60 - (13,750/250)}]	1,250
Increase due to Physical change [250 x {75-60}]	3,750
Fair value as at 31st March, 20X2	18,750

4. (a) Calculation of the liability and equity components on 6% Convertible debentures:

Present value of principal payable at the end of 4th year (Rs. 1,80,000 thousand x 0.74)

= Rs. 1,33,200 thousand

Present value of interest payable annually for 4 years (Rs. 1,80,000 thousand x 6% x 3.31)

= Rs. 35,748 thousand

Total liability component = Rs. 1,68,948 thousand

Therefore, equity component = Rs. 1,80,000 thousand – Rs. 1,68,948 thousand

= Rs. 11,052 thousand

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

Year	Opening balance Rs. in '000	Finance cost @ 8% Rs. in '000	Interest paid @ 6% Rs. in '000	Closing balance Rs. in '000
	a	b = a x 8%	c	d = a + b - c
31.3.20X2	1,68,948	13,516	10,800	1,71,664
31.3.20X3	1,71,664	13,733	10,800	1,74,597

Finance cost of convertible debentures for the year ended 31.3. 20X3 is Rs. 13,733 thousand and closing balance as on 31.3.20X3 is Rs. 1,74,597 thousand.

Calculation of Basic EPS Rs. in '000

Profit for the year	39,000
Less: Dividend on preference shares (80,000 thousand x Rs. 0.05)	(4,000)
Profit attributable to equity shareholders	35,000

Weighted average number of shares = 20,00,00,000 + {5,00,00,000 x (9/12)}

= 23,75,00,000 shares or 2,37,500 thousand shares

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

Calculation of Diluted EPS Rs. in '000

Profit for the year		39,000
Less: Dividend on preference shares (80,000 x 0.05)		(4,000)
		35,000
Add: Finance cost (as given in the above table)	13,733	
Less: Tax @ 25%	(3,433.28)	10,300
		45,300

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

Diluted EPS = Rs. 45,300 thousand / 3,37,500 thousand shares
= Rs. 0.134

(b)

Particulars	**Year 20X0-20X1**	**Year 20X1-20X2**
Annual Salary	Rs. 30,00,000	Rs. 30,00,000
No. of working days (A)	300 days	300 days
Leaves Allowed	10 days	10 days
Leaves Taken (B)	7 days	13 days
Therefore, No. of days worked (A – B)	293 days	287 days
Expense proposed to be recognized by Infotech Ltd.	Rs. 30,00,000	Rs. 30,00,000

Based on the evaluation above, Mr. Niranjan has worked for 6 days more (293 days – 287 days) in 20X0-20X1 as compared to 20X1-20X2.

Since he has worked more in 20X0-20X1 as compared to 20X1-20X2, the accrual concept requires that the expenditure to be recognized in 20X0-20X1 should be more as compared to 20X1-20X2.

Thus, if Infotech Ltd. recognizes the same expenditure of Rs. 30,00,000 for each year, it would be in violation of the accrual concept.

The expenditure to be recognized will be as under:

Particulars	Year 20X0-20X1	Year 20X1-20X2
Annual salary (A)	Rs. 30,00,000	Rs. 30,00,000
No. of working days (B)	300 days	300 days
Salary cost per day (A ÷ B)	Rs. 10,000 per day	Rs. 10,000 per day
No. of days worked (from above)	293 days	287 days
Expense to be recognised: In 20X0-20X1:Rs. 30,00,000 + [Rs. 10,000 per day x 3 days (leaves unutilized expected to be utilized subsequently)]	Rs. 30,30,000	
In 20X1-20X2:Rs. 30,00,000 – [Rs. 10,000 per day – 3 days (excess leave utilized in 20X1-20X2)]		Rs. 29,70,000

Journal Entry for 20X0-20X1

Employee Benefits Expense Account	Dr.	30,30,000	
To Bank Account			30,00,000
To Provision for Leave Encashment			30,000

Journal Entry for 20X1-20X2

Employee Benefits Expense Account	Dr.	29,70,000	
Provision for Leave Encashment Account	Dr.	30,000	
To Bank Account			30,00,000

5. (a) In the instant case, the quarterly net profit has not been correctly stated. As per Ind AS 34, *Interim Financial Reporting*, the quarterly net profit should be adjusted and restated as follows:

(i) The treatment of bad debts is not correct as the expenses incurred during an interim reporting period should be recognised in the same period. Accordingly, Rs. 50,000 should be deducted from Rs. 20,00,000.

(ii) Recognising additional depreciation of Rs. 4,50,000 in the same quarter is correct and is in tune with Ind AS 34.

(iii) Treatment of exceptional loss is not as per the principles of Ind AS 34, as the entire amount of Rs. 28,000 incurred during the third quarter should be recognized in the same quarter. Hence Rs. 14,000 which was deferred should be deducted from the profits of third quarter only.

(iv) As per Ind AS 34 the income and expense should be recognised when they are earned and incurred respectively. As per para 39 of Ind AS 34, the costs should be anticipated or deferred only when:

(i) it is appropriate to anticipate or defer that type of cost at the end of the financial year, and

(ii) costs are incurred unevenly during the financial year of an enterprise.

Therefore, the treatment done relating to deferment of Rs. 5,00,000 is not correct as expenditures are uniform throughout all quarters.

Thus, considering the above, the correct net profits to be shown in Interim Financial Report of the third quarter shall be Rs. 14,36,000 (Rs. 20,00,000 -Rs. 50,000 - Rs.14,000 - Rs. 5,00,000).

(b) In determining the transaction price, Buildings Limited separately estimates variable consideration for each element of variability ie the early completion bonus and the quality bonus.

Buildings Limited decides to use the expected value method to estimate the variable consideration associated with the early completion bonus because there is a range of possible outcomes and the entity has experience with a large number of similar contracts that provide a reasonable basis to predict future outcomes. Therefore, the entity expects this method to best predict the amount of variable consideration associated with the early completion bonus. Buildings Ltd.'s best estimate of the early completion bonus is Rs. 2.125 crore, calculated as shown in the following table:

Bonus %	Amount of bonus (Rs. in crore)	Probability	Probability-weighted amount (Rs. in crore)
15%	3.75	25%	0.9375

10%	2.50	40%	1.00
5%	1.25	15%	0.1875
0%	-	20%	-
		100%	**2.125**

Buildings Limited decides to use the most likely amount to estimate the variable consideration associated with the potential quality bonus because there are only two possible outcomes (Rs. 2 crore or Rs. Nil) and this method would best predict the amount of consideration associated with the quality bonus. Buildings Limited believes the most likely amount of the quality bonus is Rs. 2 crore.

Total variable consideration = 4.125 crore (2.125 crore + 2 crore).

(c) Paragraph 20 of Ind AS 115, inter alia, states that, "An entity shall account for a contract modification as a separate contract if both of the following conditions are present:

(a) the scope of the contract increases because of the addition of promised goods or services that are distinct (in accordance with paragraphs 26–30); and

(b) the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

In accordance with the above, it may be noted that a contract modification should be accounted for prospectively if the additional promised goods or services are distinct and the pricing for those goods or services reflects their stand-alone selling price.

In the given case, even though the remaining services to be provided are distinct, the modification should not be accounted for as a separate contract because the price of the contract did not increase by an amount of consideration that reflects the standalone selling price of the additional services. The modification would be accounted for, from the date of the modification, as if the existing arrangement was terminated and a new contract created (i.e. on a prospective basis) because the remaining services to be provided are distinct.

AB Ltd. should reallocate the remaining consideration to all of the remaining services to be provided (i.e. the obligations remaining from the original contract and the new obligations). AB Ltd. will recognise a total of Rs.4,20,000 (Rs.1,20,000 + Rs.3,00,000) over the remaining four-year service period (one year remaining under the original contract plus three additional years) or Rs.1,05,000 per year.

(d) Paragraph 41 of Ind AS 8 states as follows: "Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period."

In accordance with the above, the reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March, 20X2, the comparative amounts for the year ended 31st March 20X1 would be restated to reflect the correct classification.

Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, the retrospective restatement of relevant items in statement of profit and loss has no effect on the information in the balance sheet at the beginning of the preceding period (1st April 20X0). Therefore, the entity is not required to present a third balance sheet.

6. (a) Ind AS 102 defines grant date and measurement dates as follows:

(a) **Grant date:** The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

(b) **Measurement date:** The date at which the fair value of the equity instruments granted is measured for the purposes of this Ind AS. For transactions with employees and others providing similar services, the measurement date is grant date. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.

Applying the above definitions in the given scenarios following would be the conclusion based on the assumption that the approvals have been received prospectively:

Scenario	Grant date	Measurement date	Base for grant date	Base for measurement date
(i)	30th June, 20X1	30th June, 20X1	The date on which the scheme was approved by the employees	For employees, the measurement date is grant date
(ii)	1st April, 20X1	30th July, 20X1	The date when the entity and the counterparty entered a contract and agreed for settlement by equity instruments	The date when the entity obtains the goods from the counterparty
(iii)	30th September, 20X1	30th September, 20X1	The date when the approval by shareholders was obtained	For employees, the measurement date is grant date

(b) Items impacting the Statement of Profit and Loss for the year ended 31st March, 20X1 (Rs.)

Current service cost	1,75,000
Gains and losses arising from translating the monetary assets in foreign currency	75,000
Income tax expense	35,000
Share based payments cost	3,35,000

Items impacting the other comprehensive income for the year ended 31st March, 20X1 (Rs.)

Remeasurement of defined benefit plans	2,57,000
Changes in revaluation surplus	1,25,000
Gains and losses arising from translating the financial statements of a foreign operation	65,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	1,00,000

(c) (a) A Ltd. has entered into an arrangement wherein against the borrowing, A Ltd. has contractual obligation to make stream of payments (including interest and principal). This meets definition of financial liability.

(b) Let's compute the amount required to be settled and any differential arising upon one time settlement at the end of 6th year –

- Loan principal amount = Rs. 10,00,000
- Amount payable at the end of 6th year = Rs. 12,54,400 [10,00,000 x 1.12 x 1.12 (Interest for 5th & 6th year in default plus principal amount)]
- One time settlement = INR 13,00,000
- Additional amount payable = Rs. 45,600

The above represents a contractual obligation to pay cash against settlement of a financial liability under conditions that are unfavorable to A Ltd. (owing to additional amount payable in comparison to amount that would have been paid without one time settlement). Hence the rescheduled arrangement meets definition of 'financial liability'.

(d) **Either**

The major changes in Ind AS 2 vis-à-vis AS 2 with respect to following are as follows:

(i) Machinery Spares: AS 2 explains that inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment. Such items are accounted for in accordance with AS 10. Ind AS 2 does not contain specific explanation in respect of such spares as this aspect is covered under Ind AS 16.

(ii) Subsequent Assessment of Net Realisable Value (NRV): Ind AS 2 provides detailed guidance in case of subsequent assessment of net realisable value. It also deals with the reversal of the write-down of inventories to net realisable value to the extent of the amount of original write-down, and the recognition and disclosure thereof in the financial statements. AS 2 does not deal with such reversal.

(iii) *Cost Formulae:* AS 2 specifically provides that the formula used in determining the cost of an item of inventory should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition whereas Ind AS 2 does not specifically state so and requires the use of consistent cost formulas for all inventories having a similar nature and use to the entity.

OR

Determining whether a good or service represents a performance obligation on its own or is required to be aggregated with other goods or services can have a significant impact on the timing of revenue recognition. While the customer may be able to benefit from each promised good or service on its own (or together with other readily available resources), they do not appear to be separately identifiable within the context of the contract. That is, the promised goods and services are subject to significant integration, and as a result will be treated as a single performance obligation.

This is consistent with a view that the customer is primarily interested in acquiring a single asset (a water purification plant) rather than a collection of related components and services.