PAPER – 1 : FINANCIAL REPORTING

*Question No.**1** is compulsory. Candidates are required to answer any **five** questions from the remaining **six** 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) Rohtas Ltd. has a subsidiary company Bee Ltd. and it is preparing Consolidated Financial Statements as on 31st March, 2017. On 10th May, 2016, Rohtas Ltd. acquired 40% shares of Amit Ltd. for ₹ 45,00,000. By such an acquisition Rohtas Ltd. can exercise significant influence over Amit Ltd. During the financial year ending on 31st March, 2016, Amit Ltd. earned profits ₹ 11,54,000 and declared a dividend of ₹ 2,48,000 on 16th September, 2016. Amit Ltd. reported earnings of ₹ 26,26,000 for the financial year ending on 31st March, 2017 and declared dividends of ₹ 9,85,000 on 17th August, 2017.

You are required to calculate the carrying amount of investments in Separate Financial Statements of Rohtas Ltd. as on 31st March, 2017 and also in Consolidated Financial Statements of Rohtas Ltd. as on 31st March, 2017. What will be the carrying amount of Investments in Consolidated Financial Statements of Rohtas Ltd. if prepared on 31st August 2017?

(b) Neelesh Ltd. has initiated a lease for 3 years in respect of a machinery costing ₹ 6,00,000 with expected useful life of 5 years. Machinery would revert to Neelesh Ltd. under the lease agreement. The unguaranteed residual value of the machinery after the expiry of the lease term is estimated at ₹ 80,000. The implicit rate of interest is 8%. The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of machinery. Annual lease payments are made at the end of each accounting year. (PV of ₹ 1 @ 8% for 3 years is 0.9259, 0.8573, 0.7938 respectively).

You are asked to ascertain the annual lease payment, the unearned finance income and the segregation of finance income in the hands of Neelesh Ltd.

(c) Keeping in view the provisions of AS 10, analyse the following:

(i) Trozen Ltd. operates a major chain of supermarkets all over India. It acquires a new store in Pune which requires significant renovation expenditure. It is expected that the renovations will be done in 2 months during which the store will be closed. The budget for this period, including expenditure related to construction and remodelling costs (₹ 18 lakhs), salaries of staff (₹ 2 lakhs) who will be preparing the store before its opening and related utilities costs (₹ 1.5 lakhs), is prepared. What will the treatment of such expenditures in the books of accounts?

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(ii) Trozen Ltd. carried plant and machinery in its books at ₹ 5,50,000. These were destroyed in a fire. These were destroyed in a fire. The assets were insured 'New for Old' and were replaced by the insurance company with new machines that cost ₹ 25 lakhs. The machines were acquired by the insurance company and the company did not receive ₹ 25 lakhs as cash compensation. State, how Trozen Ltd. should account for the same?

(d) Himalaya Ltd. which is in a business of manufacturing and export of its product. Sometimes, back in 2014, the Government put restriction on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth of ₹ 4,000 lakhs for ₹ 6,000 lakh at the end of the year 2010. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on straight line basis. When Government put the restriction at the end of 2014, the company recognised the impairment loss by determining the recoverable amount of assets for ₹ 2,720 lakh. In 2016 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at ₹ 3,420 lakh.

Required:

(i) Calculation and allocation of impairment loss in 2014.

(ii) Reversal of impairment loss and its allocation as per AS 28 in 2016. ***(4 x 5 = 20 Marks)***

Answer

(a) (i) Carrying amount of investment in Separate Financial Statement of Rohtas Ltd. as on 31.03.2017

	₹
Amount paid for investment in Associate (on 10.5.2016)	45,00,000
Less: Pre-acquisition dividend (₹ 2,48,000 x 40%)	(99,200)
Carrying amount as on 31.3.2017 as per AS 13	44,00,800

(ii) Carrying amount of investment in Consolidated Financial Statements of Rohtas Ltd. as on 31.3.2017 as per AS 23

	₹
Carrying amount as per separate financial statements	44,00,800
Add: Proportionate share of profit of investee as per equity method (40% of ₹ 26,26,000)	10,50,400
Carrying amount as on 31.3.2017 as per AS 23	54,51,200

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(iii) Carrying amount of investment in Consolidated Financial Statement of Rohtas Ltd. as on 31.8.2017 as per AS 23

	₹
Carrying amount as on 31.3.2017	54,51,200
Less: Dividend received (₹ 9,85,000 x 40%)	(3,94,000)
Carrying amount as on 31.8.2017 as per AS 23	50,57,200

Note: Investment in an individual financial statements mean investment in subsidiary, investment in associates and other investments. However, in the above question, no details of investment in subsidiary Ltd. has been mentioned. Therefore, the above solution has been done on the basis of the information given in the question i.e. carrying amount of investment in associate, on various dates, has been calculated.

(b) (i) Calculation of Annual Lease Payment

	₹
Cost of the equipment	6,00,000
Less: PV of unguaranteed residual value for 3 years @ 8% (₹ 80,000 x 0.7938)	(63,504)
Fair value to be recovered from 3 years Annual Lease Payment	5,36,496
Annuity for 3 years @ 8% (0.9259 + 0.8573 + 0.7938)	2.577
Annual Lease Payment (₹ 5,36,496 / Annuity for 3 years @ 8%)	2,08,186

(ii) Unearned Finance Income

Total lease payments [₹ 2,08,186 x 3]	6,24,558
Add: Residual value	80,000
Gross Investments	7,04,558
Less: Present/Fair value of Investments	(6,00,000)
Unearned Finance Income	1,04,558

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(iii) Segregation of Finance Income *(All figures in ₹)*

Year	*Lease Rentals*	*Finance Charges @ 8% on outstanding amount of the year*	*Repayment*	*Outstanding Amount*
	a	*b*	*c*	*d*
		(d of previous year x 8%)	a – b	(d = d of previous year – c of current year)
0				6,00,000
I	2,08,186	48,000	1,60,186	4,39,814
II	2,08,186	35,185	1,73,001	2,66,813
III	2,08,186	21,373**	1,86,813	80,000*
	6,24,558	1,04,558	5,20,000	

* This amount is unguaranteed residual value of equipment i.e. ₹ 80,000.

** Difference in interest value is due to approximation.

(c) (i) Trozen Ltd. should capitalise the costs of construction and remodelling the supermarket, because they are necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended. The supermarket cannot be opened without incurring the remodelling expenditure. Therefore, this construction and remodelling expenditure of ₹ 18 lakh should be considered as part of the cost of the asset.

However, the cost of salaries of the staff ₹ 2 lakh and utilities cost ₹ 1.5 lakh are operating expenditures that would be incurred even after the opening of the supermarket. Therefore, these costs are not necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by the management and should be expensed off.

(ii) Trozen Ltd. should account for a loss of ₹5.50 lakhs in the Statement of Profit and Loss on derecognition of the carrying value of plant and machinery in accordance with revised AS 10 'Property Plant and Equipment'.

Trozen Ltd. should separately recognise a receivable and a gain of ₹ 25 lakhs in the income statement resulting from the insurance proceeds, once the receipt is virtually certain. The receivable should be measured at the fair value of assets that will be provided by the insurer.

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(d) (i) Calculation and allocation of impairment loss in 2014 *(Amount in ₹ lakhs)*

	Goodwill	***Identifiable assets***	***Total***
Historical cost	2,000	4,000	6,000
Accumulated depreciation/amortisation (4 yrs.)	(1,600)	(1,067)	(2,667)
Carrying amount before impairment	400	2,933	3,333
Impairment loss*	(400)	(213)	(613)
Carrying amount after impairment loss	0	2,720	2,720

*** Notes:**

1. As per para 87 of AS 28, an impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:

   (a) first, to goodwill allocated to the cash-generating unit (if any); and

   (b) then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

   Hence, first goodwill is impaired at full value and then identifiable assets are impaired to arrive at recoverable value.

2. Since the goodwill has arisen on acquisition of assets, AS 14 comes into the picture. As per para 19 of AS 14, goodwill shall amortise over a period not exceeding five years unless a somewhat longer period can be justified. Therefore, the amortization period of goodwill is considered as 5 years.

(ii) Carrying amount of the assets at the end of 2016 *(Amount in ₹ lakhs)*

End of 2016	***Goodwill***	***Identifiable assets***	***Total***
Carrying amount in 2016	0	2,225	2,225
Add: Reversal of impairment loss (W.N.2)	-	175	175
Carrying amount after reversal of impairment loss	-	2,400	2,400

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Working Note:

1. Calculation of depreciation after impairment till 2016 and reversal of impairment loss in 2016

			(Amount in ₹ lakhs)
	Goodwill	Identifiable assets	Total
Carrying amount after impairment loss in 2014	0	2,720	2,720
Additional depreciation (i.e. (2,720/11) x 2)	–	(495)	(495)
Carrying amount	0	2,225	2,225
Recoverable amount			3,420
Excess of recoverable amount over carrying amount			1,195

Note: It is assumed that the restriction by the Government has been lifted at the end of the year 2016.

2. Determination of the amount to be impaired by calculating depreciated historical cost of the identifiable assets without impairment at the end of 2016

(Amount in ₹ lakhs)

End of 2016	*Identifiable assets*
Historical cost	4,000
Accumulated depreciation	(266.67 x 6 years) = (1,600)
Depreciated historical cost	2,400
Carrying amount (in W.N. 1)	2,225
Amount of reversal of impairment loss	175

Notes:

1. As per para 107 of AS 28, in allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset should not be increased above the lower of:
   (a) its recoverable amount (if determinable); and
   (b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.

   Hence impairment loss reversal is restricted to ₹ 175 lakhs only.

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2. The reversal of impairment loss took place in the 6th year. However, goodwill is amortised in 5 years. Therefore, there would be no balance in the goodwill account in the 6th year even without impairment loss. Hence in W.N. 2 above there is no column for recalculation of goodwill.

Question 2

Following are the summarised Balance Sheets of Sheep Ltd and Bear Ltd. as on 31st March, 2016:

Liabilities	Sheep Ltd. ₹	Bear Ltd. ₹	Assets	Sheep Ltd. ₹	Bear Ltd. ₹
Equity Share Capital (₹ 10 each fully paid up)	10,50,000	5,00,000	Building	9,25,000	3,00,000
General Reserve	8,16,900	2,23,300	Machinery	2,25,000	75,000
Profit & Loss A/c	1,00,000	1,00,000	Furniture	1,50,000	28,000
Trade Payables	3,81,000	1,60,000	Inventory	3,00,000	3,90,000
			Trade Receivables	4,10,000	1,05,000
			Cash at Bank	3,37,900	85,300
	23,47,900	**9,83,300**		**23,47,900**	**9,83,300**

On 1st October, 2016, Sheep Ltd. decided to take over Bear Ltd. No balance sheet was prepared on that date. For six months period from 1st April, 2016 to 30th September, 2016, Sheep Ltd. and Bear Ltd. earned a profit of ₹ 3,36,000 and ₹ 1,98,000 respectively after writing off depreciation @ 15% per annum on Building and @ 10% per annum on Machinery and Furniture for both the companies.

Sheep Ltd. and Bear Ltd. paid equity dividend @ 8% on 15th July, 2016. Tax @10% on such payments was also paid by each of them. Goodwill of Bear Ltd. was valued at ₹ 97,320 on the date of takeover.

For the purpose of takeover:

Inventory of both the companies would be appreciated by 12%. Trade Receivables of Sheep Ltd. and Bear Ltd. would be reduced by 5% and 6% respectively.

Sheep Ltd. issued fully paid equity shares of ₹ 10 each to the shareholders' of Bear Ltd., on the basis of comparative intrinsic values of shares on the take-over date.

You are required to draft the Balance Sheet of Sheep Ltd., after absorption of Bear Ltd. All the workings are to form part of your answer. ***(16 Marks)***

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Answer

Balance Sheet of Sheep Ltd. (after absorption of Bear Ltd.)
as on 1st October, 2016

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	15,76,000
(b) Reserves and Surplus	2	17,65,120
(2) Current Liabilities		
Trade payables (3,81,000 +1,60,000}		5,41,000
Total		38,82,120
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
i. Tangible assets	3	15,87,225
ii. Intangible assets	4	97,320
(2) Current assets		
(a) Inventory (₹ 3,36,000 + ₹ 4,36,800)		7,72,800
(b) Trade receivables (₹ 3,89,500 + ₹ 98,700)		4,88,200
(c) Cash and cash equivalents (₹ 6,69,625 + ₹ 2,66,950)		9,36,575
Total		38,82,120

Notes to Accounts

		₹	₹
1.	Share Capital		
	1,57,600 (i.e. 1,05,000 + 52,600) Equity Shares of ₹ 10 each fully paid		15,76,000
	(52,600 shares allotted as fully paid without payment being received in cash)		
2.	Reserves and surplus		
	Securities Premium	5,89,120	
	General Reserve	8,16,900	
	Profit and Loss Account (W.N.2)	3,59,100	17,65,120

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3.	Tangible Assets [As per Notes to accounts (2) given in W.N.3]		
	Building Sheep- 8,55,625		
	Bear – 2,77,500	11,33,125	
	Machinery Sheep- 2,13,750		
	Bear – 71,250	2,85,000	
	Furniture Sheep- 1,42,500		
	Bear – 26,600	1,69,100	15,87,225
4.	Intangible assets		
	Goodwill		97,320

Working Notes:

(1) Bank Balance on 30.09.2016 (before absorption)

		Sheep Ltd. ₹		*Bear Ltd.* ₹
Bank Balance as on 31.3.2016		3,37,900		85,300
Add: Cash net profit				
Net Profit of 6 months	3,36,000		1,98,000	
Depreciation on Building	69,375		22,500	
Depreciation on Machinery	11,250		3,750	
Depreciation on Furniture	7,500	4,24,125	1,400	2,25,650
		7,62,025		3,10,950
Less: Dividend paid		(84,000)		(40,000)
Less: Dividend distribution tax @ 10%*		(8,400)		(4,000)
Bank Balance as on 1.10.2016		6,69,625		2,66,950

***Note:**

As per the provisions of the Income-tax Act, 1961, rate of dividend distribution tax (DDT) is 15%. Applying this rate, the net dividend has to be grossed up, and thereafter, the effective rate of tax of 17.304% (applying surcharge @ 12% and cess @ 3%) has to be applied on the gross dividend to arrive at the dividend distribution tax payable by the company. However, since the rate of DDT given in the question is 10%, which is hypothetical and not as per the Income-tax Act, the rate of 10%, as given in the question, has been applied directly (in the above solution). Nevertheless, students, may apply the grossing up provisions and the effective rate of tax (including surcharge and cess).

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(2) Profit and Loss Account as on 1.10.2016

	Sheep Ltd. ₹	*Bear Ltd.* ₹
Balance as on 31.3.2016	1,00,000	1,00,000
Add: 6 months' profit	3,36,000	1,98,000
	4,36,000	2,98,000
Less: Dividend paid	(84,000)	(40,000)
Dividend distribution tax	(8,400)	(4,000)
Balance	3,43,600	2,54,000
Add: Appreciation in Inventory	36,000	46,800
Less: Reduction in Trade receivables	(20,500)	(6,300)
	3,59,100	2,94,500

(3) Balances as on 1st October, 2016 (before absorption)

		Sheep Ltd.		*Bear Ltd.*	
		(₹)	(₹)	(₹)	(₹)
1.	**Reserves and surplus**				
	General Reserve	8,16,900		2,23,300	
	Profit and Loss A/c (W.N.2)	3,59,100	11,76,000	2,94,500	5,17,800
2.	**Tangible Assets**				
	Building	9,25,000		3,00,000	
	Less: Depreciation @ 15% for 6 months	(69,375)	8,55,625	(22,500)	2,77,500
	Machinery	2,25,000		75,000	
	Less: Depreciation @ 10% for 6 months	(11,250)	2,13,750	(3,750)	71,250
	Furniture	1,50,000		28,000	
	Less: Depreciation @ 10% for 6 months	(7,500)	1,42,500	(1,400)	26,600
			12,11,875		3,75,350

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(4) Calculation of Intrinsic value

	Sheep Ltd. ₹	Bear Ltd. ₹
Goodwill	–	97,320
Tangible Assets [As per Notes to accounts (2) given in W.N.3]	12,11,875	3,75,350
Inventory	3,36,000	4,36,800
Trade receivables	3,89,500	98,700
Bank Balance	6,69,625	2,66,950
	26,07,000	12,75,120
Less: Trade payables	(3,81,000)	(1,60,000)
Net Assets	22,26,000	11,15,120
Number of Shares	1,05,000	50,000
Intrinsic value	21.20	22.3024

Purchase consideration = ₹ 11,15,120 to be paid by Sheep Ltd. on intrinsic value

$$= \frac{11{,}15{,}120}{21.20} = 52{,}600 \text{ shares}$$

Share Capital = 52,600 shares @ ₹ 10 = ₹ 5,26,000

Securities Premium = 52,600 shares @ ₹ 11.20 = 5,89,120.

Question 3

Bright Limited is a company carrying on the business of cotton product and having a subsidiary Dark Ltd. Their balance sheets as on 31st March, 2017 were as under:

Particulars	*Bright Ltd. (₹)*	*Dark Ltd. (₹)*
Equity and Liabilities		
Shareholder's Funds		
Share Capital	*25,00,000*	*5,80,000*
Reserve and Surplus		
General Reserves	*2,00,000*	*1,20,000*
Profit and Loss Account	*3,12,500*	*2,05,000*

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Current Liabilities		
Trade payables	*4,55,000*	*2,35,500*
Bills Payable	*28,000*	*83,000*
Total	***34,95,500***	***12,23,500***
Assets		
Non-current Assets		
Fixed Assets	*21,70,000*	*6,25,000*
Investments (4,640 shares in Dark Ltd.)	*5,82,000*	
Current Assets		
Inventories	*4,08,000*	*3,19,200*
Trade Receivables	*1,80,000*	*1,64,000*
Bills Receivables	*68,000*	*1,00,000*
Cash and Cash equivalents	*87,500*	*15,300*
Total	***34,95,500***	***12,23,500***

Bright Limited has also given the following information:

(i) Bright Limited has acquired the shares in Dark Limited on two lots on two different dates. The relevant information at the time of acquisition of shares was as under:

No. of shares acquired	*Balance in General Reserve*	*Balance in Profit & Loss A/c*
1st acquisition, 4060 Shares	*₹ 80,000*	*₹ 25,000*
2nd acquisition, 580 Shares	*₹ 85,000*	*₹ 1,02,000*

(ii) Bills receivables of Bright Limited include ₹ 15,000 being acceptance from Dark Limited.

(iii) Both the companies have declared dividends of 10% for the year ended 31st March, 2017, but it has not been provided in the books of account.

(iv) Dark Limited's inventory includes stock of ₹ 1,45,000 purchased from Bright Limited. Bright Limited sells goods at mark up of 25% on its cost.

Prepare the Consolidated Balance Sheet of Bright Limited along with 'Notes to Accounts'.

(16 Marks)

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Answer

Consolidated Balance Sheet of Bright Ltd. and its subsidiary Dark Ltd.
as on 31st March, 2017

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	25,00,000
Reserves and Surplus	2	4,01,300
(2) Minority Interest (W.N.2)		1,69,400
(3) Current Liabilities		
Trade payables	3	7,86,500
Other Current liabilities	4	2,61,600
Total		41,18,800
II. Assets		
(1) Fixed Assets		
Tangible assets	5	27,95,000
Intangible assets	6	25,800
(2) Current assets		
Inventory	7	6,98,200
Trade Receivables	8	4,97,000
Cash and Cash equivalents	9	1,02,800
Total		41,18,800

Notes to Accounts

			₹
1.	**Share Capital**		
	Authorised, Issued, Subscribed and Paid up		
	25,000 Equity shares of ₹ 100 each		25,00,000
2.	**Reserves and Surplus**		
	General Reserve (W.N.4)	2,31,500	
	Profit & Loss Account (W.N.4)	1,69,800	4,01,300
3.	**Trade Payables**		
	Trade Payables		

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	Bright Ltd.		4,55,000		
	Dark Ltd.		2,35,500	6,90,500	
	Bills payables				
	Bright Ltd.		28,000		
	Dark Ltd.	83,000			
	Less: Mutual Owings	(15,000)	68,000	96,000	7,86,500
4.	**Other Current liabilities**				
	Dividend payable				
	Bright Ltd.			2,50,000	
	Minority Interest			11,600	2,61,600
5.	**Tangible assets**				
	Bright Ltd.			21,70,000	
	Dark Ltd.			6,25,000	27,95,000
6.	**Intangible assets**				
	Goodwill (W.N.3)				25,800
7.	**Inventory**				
	Bright Ltd.			4,08,000	
	Dark Ltd.			3,19,200	
				7,27,200	
	Less: Unrealised profit			(29,000)	6,98,200
8.	**Trade Receivables**				
	Trade Receivables				
	Bright Ltd.		1,80,000		
	Dark Ltd.		1,64,000	3,44,000	
	Bills Receivable				
	Bright Ltd.	68,000			
	Less: Mutual owings	(15,000)	53,000		
	Dark Ltd.		1,00,000	1,53,000	4,97,000
9.	**Cash and Cash equivalents**				
	Bright Ltd.			87,500	
	Dark Ltd.			15,300	1,02,800

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Working Notes:

1. Analysis of Reserves and Surplus of Dark Ltd.

	Pre-acquisition Profits	*Post-acquisition*	
		General Reserve	*Profit & Loss Account*
	₹	₹	₹
General Reserve	80,000	40,000	
Profit & Loss Account	25,000	____	1,80,000
For Lot 1 (A)	1,05,000	40,000	1,80,000
Pre-acquisition for Lot 2			
General Reserve (85,000 – 80,000)		5,000	
Profit & Loss Account (1,02,000-25,000)			77,000
Post-acquisition for Lot 2		35,000	1,03,000
Bright Ltd. (80% of (A))	84,000	32,000	1,44,000
Adjustment of pre-acquisition General Reserve for Lot 2 (10%)	500	(500)	
Adjustment of pre-acquisition Profit & Loss Account for Lot 2 (10%)	7,700	____	(7,700)
Bright Ltd.	92,200	31,500	1,36,300
Minority Interest (20% of (A))	21,000	8,000	36,000

2. Minority Interest

	₹
Share Capital (20%)	1,16,000
Add: Share of pre-acquisition profit	21,000
Share of post-acquisition General Reserve	8,000
Share of post-acquisition Profit & Loss Account	36,000
	1,81,000
Less: Share of Dividend payable	(11,600)
	1,69,400

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3. Cost of Control/Goodwill

	₹
Cost of investments	5,82,000
Less: Share capital (80%)	(4,64,000)
Share of pre-acquisition profit	(92,200)
Goodwill	25,800

4. Consolidated General Reserve & Profit and Loss Account

	General Reserve	*Profit and Loss*
	₹	₹
Bright Ltd.	2,00,000	3,12,500
Less: Dividend declared by Bright Ltd.		(2,50,000)
Less: Unrealised profit $\left(\frac{1,45,000}{125} \times 25\right)$	____	(29,000)
	2,00,000	33,500
Add: Share in post-acquisition item of Dark Ltd.	31,500	1,36,300
	2,31,500	1,69,800

Question 4

(a) *Kishan Ltd. grants 250 stock options to each of its 800 employees on 1st April, 2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is ₹ 22 on the grant date and the exercise price is ₹ 70 per share. The number of employees expected to satisfy service condition are 720 in the first year and 670 in the second year. 30 employees left the company in the first year of service and 700 employees have actually completed second year vesting period. The profit of the enterprise before amortisation of the compensation cost on account of ESOP is ₹ 58,65,000 for 2015-16 and ₹ 76,45,000 for 2016-17. The fair value of shares for these years were ₹ 90 and ₹ 100 respectively. The company has 5 lakhs shares of ₹ 10 each, outstanding at the end of both years.*

Ignore taxation impacts, compute Basic and Diluted EPS for both the years. **(8 Marks)**

(b) *The following data is given in respect of Prosperous Ltd. for the year ended 31-3-2017:*

Abstract of Statement of Profit & Loss for the year ended 31-3-2017

	₹ in '000	*₹ in '000*
Income		
Sale	*2,380*	

Other Income	*370*	*2,750*
Expenditure		
Operating Cost	*1,855*	
Administrative Expenses	*150*	
Interest Cost	*215*	
Depreciation	*240*	*2,460*
Profit before tax		*290*
Provision for tax		*87*
Profit after tax		*203*
Credit balance as per last balance sheet		*60*
		263

Other Information:

		₹ in '000
1.	*Operating cost consists of:*	
	Material cost	*1,220*
	Wages, salaries & other benefits to employees	*330*
	Local taxes including cess	*70*
	Other manufacturing expenses	*235*
2.	*Administrative expenses consist of:*	
	Directors' Remuneration	*55*
	Audit Fee	*25*
	Provision for doubtful debts	*8*
	Others	*62*
3.	*Interest cost consists of:*	
	Interest on 10% debentures	*180*
	Interest on temporary bank overdraft	*35*
4.	*The capital structure of the company consists of:*	
	Equity share capital	*1,500*
	9% Preference share capital	*600*

You are required to prepare a Gross Value Added (GVA) statement and calculate the following ratios:

(a) GVA to Material Cost Ratio (Industry average 0.80)

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(b) GVA to Employee Cost Ratio (Industry average 3.82)

(c) GVA to Sales Ratio (Industry average 0.70)

(d) GVA to Capital Employed Ratio (Industry average 0.30)

Also comment on the utility of the above ratios in comparison to the Industry average.

(8 Marks)

Answer

(a) Calculation of Basic & Diluted EPS

		2015-2016	*2016-2017*
Profit before amortization of ESOP cost		58,65,000	76,45,000
Less: ESOP cost amortised (W.N. 2)		(19,80,000)	(18,70,000)
Net profit for shareholders		38,85,000	57,75,000
No. of shares outstanding	(A)	5,00,000	5,00,000
Basic EPS		7.77	11.55
Potential equity (W.N. 1)	(B)	19,250	52,500
Total number of equity shares	(A + B)	5,19,250	5,52,500
Diluted EPS		7.48	10.45

Working Notes:

1. Calculation of Potential Equity

		2015-2016	*2016-2017*
a.	Actual number of employees	770	700
b.	Options granted per employee	250	250
c.	No. of options outstanding (a x b)	1,92,500	1,75,000
d.	Unamortised ESOP cost per option (₹)	(22-22/2) 11	0
e.	Exercise price (₹)	70	70
f.	Expected exercise price to be received (c x e) (₹)	1,34,75,000	1,22,50,000
g.	Unamortised ESOP cost (c x d) (₹)	21,17,500	-
h.	Total proceeds (₹) (f + g)	1,55,92,500	1,22,50,000
i.	Fair value per share	90	100
j.	No. of shares issued for consideration (h / i)	1,73,250	1,22,500
k.	Potential Equity (c - j)	19,250	52,500

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2. Calculation of ESOP cost to be amortised

	2015-2016	*2016-2017*
Fair value of options per share	₹ 22	₹ 22
No. of options expected to/actually to vest under the scheme	(720 x 250) 1,80,000	(700 x 250) 1,75,000
Fair value of options	₹ 39,60,000	₹ 38,50,000
Value of options recognized as expenses	(₹ 39,60,000 / 2) 19,80,000	(₹ 38,50,000 – ₹ 19,80,000) 18,70,000

(b) Prosperous Ltd.

Value Added Statement for the year ended 31st March, 2017

		(in ₹ '000)
Sales		2,380
Less: Cost of Bought in Materials and Services:		
Operational Cost ₹ (1,220 + 235)	1,455	
Administrative Expenses ₹ (25+8+62)	95	
Interest cost	35	(1,585)
Value addition by manufacturing and trading activities		795
Add: Other Income		370
Gross Value Added		1,165

Application of Gross Value Added

	(₹ in '000)	*(₹ in '000)*	*%*
To Pay Employees:			
Wages/ Salaries to Administrative Staff		330	0.28
To Pay Directors:			
Directors' Remuneration		55	0.05
To Pay Government:			
Local taxes including cess	70		
Provision for tax	87	157	0.14
To Pay Providers of Capital			
Interest on Debentures		180	0.15

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To Provide for maintenance			
Depreciation	240		
Retained Profit	203	443	0.38
		1,165	1.00

Ratios

(a) Gross Value Added to Material Cost Ratio = $\frac{\text{Gross Value Added}}{\text{Material cost}} = \frac{1165}{1220} = 0.95$

Higher GVA ratio of Prosperous Ltd. in comparison to Industry shows that it has better material utilisation policy than industry's material utilisation policy.

(b) Gross Value Added to Employee Cost Ratio = $\frac{\text{Gross Value Added}}{\text{Employee cost}} = \frac{1165}{330} = 3.53$

Higher GVA ratio of Industry in comparison to Prosperous Ltd. shows that Industry's labour productivity or policy is better than Prosperous Ltd.'s labour productivity or policy.

(c) Gross Value Added to Sales Ratio = $\frac{\text{Gross Value Added}}{\text{Sales}} = \frac{1165}{2380} = 0.49$

Higher GVA ratio of Industry in comparison to Prosperous Ltd. shows that Industry's sales policy is better than Prosperous Ltd.'s sales policy.

(d) Gross Value Added to Capital Employed Ratio

$$= \frac{\text{Gross Value Added}}{\text{Equity share capital} + \text{Preference share capital} + \text{Retained Earnings}}$$

$$= \frac{1165}{(1500 + 600 + 263)} = 0.49$$

Higher GVA ratio of Prosperous Ltd. in comparison to Industry shows that managerial efficiency of Prosperous Ltd. is better than Industry. Prosperous Ltd. is able to efficiently utilise its capital in the generation of profit and in addition of value to its organisation.

Note: Capital Employed may also include Debentures ₹ 18,00,000 as per the concept of Value Added. In such a case, the ratio would be as follows:

Gross Value Added to Capital Employed Ratio

$$= \frac{\text{Gross Value Added}}{\text{Equity share capital} + \text{Preference share capital} + \text{Retained Earnings} + \text{Debentures}}$$

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$$= \frac{1,165}{(1,500 + 600 + 263 + 1,800)} = 0.24$$

Lower GVA ratio of Prosperous Ltd. in comparison to Industry shows that Prosperous Limited is marginally below the industry average.

Question 5

(a) Samay Ltd. is willing to commission a new project in December 2017 at a cost of ₹ 6,00,000. The funds for the new project are to be raised by issue of equity shares at a premium which will be based on the intrinsic value of the shares after taking into consideration the value of goodwill.

The following is the extract of Balance Sheet of Samay Ltd. as on 31-03-2017:

Liabilities	*₹*	*Assets*	*₹*
Equity share capital (₹ 10 each)	*8,00,000*	*Goodwill*	*3,04,000*
9% Preference share capital (₹ 100 each)	*2,10,000*	*Fixed Assets*	*10,40,000*
Reserves & Surplus	*9,80,000*	*Investments*	*2,95,000*
8% Debentures	*3,50,000*	*Inventories*	*3,15,000*
Current Liabilities	*3,16,000*	*Trade Receivable (Net)*	*5,22,000*
	-	*Cash & Bank Balance*	*1,80,000*
	26,56,000		*26,56,000*

The following further information is provided to you:

(i) The normal rate of return on net assets for equity share is 12%.

(ii) Goodwill is valued at four years purchase of the adjusted average super profit.

(iii) Profit after tax for the last four years before deducting preference share dividend is as follows:

	₹
31-03-2017	*3,10,000*
31-03-2016	*2,85,000*
31-03-2015	*3,72,000*
31-03-2014	*2,07,000*

(iv) In the year 2015, 15% of the profit (after tax) mentioned above was due to non-recurring transactions resulting in increase of profit. In 2014, profit (after tax) was understated by 10% due to wrong inventory valuation.

(v) The company is planning to redeem debentures at a discount of 20% in the beginning of the year (before commissioning new project). To finance the same,

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investments will be sold at its market value i.e. ₹ 2,53,550. Ignore tax effect on sale of investment.

(vi) On 31-03-2017, 10% of debts were written off as bad and charged to profit and loss account. 50% of the same are now recoverable. Tax rate applicable is 40%.

You are required to calculate how much premium should the company charge (fractions to be ignored) and also number of shares to be issued to finance the new project.

(12 Marks)

(b) *Explain major changes in IND AS 20 vis-à-vis Notified Accounting Standard (AS 12) on the following grounds:*

(i) Accounting for grant in respect of Non-depreciating Assets.

(ii) Accounting for grant related to asset including Non-monetary Grant.

(iii) Valuation of Non-monetary Grant given free or at a concessional rate. ***(4 Marks)***

Answer

(a) Value Per Equity Share

Net Assets attributable to equity shareholders (W.N.4)	₹ 15,21,950
Add: Goodwill (W.N.4)	₹ 4,19,664
	₹ 19,41,614

Number of Equity Shares = 80,000 shares

Value per share= ₹ 19,41,614 / 80,000 shares= ₹ 24.27 (approx.)

Since fraction is to be ignored, shares issued to finance the project would be at the rate of ₹ 24 only.

Premium charged by the company at the issue of shares for financing the project would be = ₹ 24 - ₹ 10 = ₹ 14 per share.

Number of shares to be issued to finance the project = ₹ 6,00,000 / ₹ 24 = 25,000 shares.

Working Notes:

1. Computation of net assets

Particulars	₹	₹
Sundry assets		
Fixed assets	10,40,000	
Inventory	3,15,000	
Trade receivables [(5,22,000 ÷ 90%) x 95%]	5,51,000	

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Bank balance (given balance 1,80,000 + Sale of investment 2,53,550 – Redemption of debentures 3,50,000 x 80%)	1,53,550	20,59,550
Less: Outside liabilities:		
Current Liabilities	3,16,000	
Tax provision (W.N. 2)	11,600	(3,27,600)
Net assets		17,31,950

2. Calculation of tax provision

	₹
Profit on reversal of provision for bad debts	29,000
Tax provision @ 40%	11,600

3. Computation of future maintainable profit for the year ended on 31st March

Particulars	*2014*	*2015*	*2016*	*2017*
Profit after tax	2,07,000	3,72,000	2,85,000	3,10,000
Less: 15% Profits on account of non- recurring transactions (after tax)	-	(55,800)	-	-
Add: Profit understated due to wrong inventory valuation	23,000	-	-	-
Add: Provision no longer required (net of tax) [5,22,000 x 10/90 x 50% x (1-40%)] or (29,000-11,600)	-	-		17,400
Adjusted profits after tax	2,30,000	3,16,200	2,85,000	3,27,400
Simple average of the profits (11,58,600/4)				2,89,650
Adjustments for items which will not be reflected in future				
Add: Debenture interest (net of tax) [3,50,000 x 8% x (1 – 40%)]				16,800
Future maintainable profit [for shareholders - both preference and equity]				3,06,450

4. Valuation of goodwill by Super profit method

Particulars	₹	₹
Net assets as computed in W.N.1	17,31,950	
Less: Preference share Capital	(2,10,000)	
		15,21,950

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Normal Rate of Return (NRR) to equity shareholders 12%		
Normal Profit available to equity shareholders (15,21,950 x 12%)		1,82,634
Future Maintainable Profits (FMP) to equity shareholders as computed in (W.N.3)	3,06,450	
Less: Preference dividend* (9% of 2,10,000)	(18,900)	2,87,550
Super profits available for equity shareholders		1,04,916
Goodwill (1,04,916 x 4)		4,19,664

*Since, NRR is given as percentage of net assets attributable to equity shareholders, preference share capital and preference share dividend have been deducted from the net assets and future maintainable profit respectively.

Note: For valuation purpose, though bad debts are recoverable yet provision on it has been made. However, in accounting, tax provision shall be made only when the debts are recovered.

(b) Major Changes in Ind AS 20 vis-à-vis AS 12

(i) ***Grant in respect of non-depreciable assets:*** AS 12 requires that in case the grant is in respect of non-depreciable assets, the amount of the grant should be shown as capital reserve which is a part of shareholders' funds. It further requires that if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. AS 12 also gives an alternative to treat such grants as a deduction from the cost of such asset.

As compared to the above, Ind AS 20, is based on the principle that all government grants would normally have certain obligations attached to them and these grants should be recognized as income over the periods which bear the cost of meeting the obligation. It, therefore, specifically prohibits recognition of grants directly in the shareholders' funds.

(ii) ***Accounting for grant related to assets including non-monetary grant:*** AS 12 gives an option to present the grants related to assets, including non-monetary grants at fair value in the balance sheet either by setting up the grant as deferred income or by deducting the grant from the gross value of asset concerned in arriving at its book value.

Ind AS 20 requires presentation of such grants in balance sheet only by setting up the grant as deferred income. Thus, the option to present such grants by deduction of the grant in arriving at its book value is not available under Ind AS 20.

(iii) ***Valuation of non-monetary grants given free or at a concessional rate:*** AS 12 requires that government grants in the form of non-monetary assets, given at a

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concessional rate, should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value.

Ind AS 20 requires to value non-monetary grants at their fair value, since it results into presentation of more relevant information and is conceptually superior as compared to valuation at a nominal amount.

Question 6

(a) On 1st April, 2014, Shelter Ltd. issued 5,000, 8% convertible debentures with a face value of ₹ 100 each maturing on 31st March, 2019. The debentures are convertible into equity shares of Shelter Ltd. at a conversion price of ₹ 105 per share. Interest is payable annually in cash. At the date of issue, Shelter Ltd. could have issued non-convertible debt with a 5 year term bearing a coupon interest rate of 12%. On 1st April, 2017, the convertible debentures have a fair value of ₹ 5,25,000. Shelter Ltd. makes a tender offer to debenture holders to repurchase the debentures for ₹ 5,25,000, which the holders accepted. At the date of repurchase, Shelter Ltd. could have issued non-convertible debt with a 2 year term bearing a coupon interest rate of 9%.

Show accounting entries in the books of Shelter Ltd. for recording of equity and liability component:

(i) At the time of initial recognition and

(ii) At the time of repurchase of the convertible debentures.

The following present values of ₹ 1 at 8%, 9% & 12% are supplied to you:

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5
8%	0.926	0.857	0.794	0.735	0.681
9%	0.917	0.842	0.772	0.708	0.650
12%	0.893	0.797	0.712	0.636	0.567

(8 Marks)

(b) The summarised Balance Sheet of Peach Ltd. on 31st March, 2017 is as under:

Liabilities	Amount ₹	Assets	Amount ₹
2,00,000 equity shares of ₹ 10 each, fully paid up	20,00,000	Goodwill Land & Building	1,24,000 16,53,000
General Reserve	5,20,000	Plant & Machinery	8,78,000
Profit & Loss A/c	2,32,000	12% Non-trading Investments	50,000
Trade Payables	1,13,000	Inventory	95,000
Bank Overdraft	58,000	Trade Receivables	1,65,000
Provision for Taxation	68,000	Cash in hand	26,000
	29,91,000		29,91,000

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Additional Information:

(i) The profit, for the last three years, is as follows:

2013-14- ₹ 1,98,600, 2014-15- ₹ 2,07,000, 2015-16- ₹ 2,85,000.

(ii) Income tax rate so far has been 40% and the above profits have been arrived at on the basis of such tax rate. For the accounting year 2016-17, the income tax rate should be taken at 30%.

(iii) In the year 2013-14, the company earned an extraordinary income of ₹ 25,000 due to a special contract. In the year 2015-16, company suffered loss due to riots amounting to ₹ 74,000.

(iv) 12% Non-Trading investments were purchased on 1st October, 2014.

(v) The company's shareholders in their general meeting have passed a resolution sanctioning the directors an additional remuneration of ₹ 20,000 per annum with effect from 1st April, 2017.

(vi) The company has secured a contract from which it can earn additional ₹ 1,50,000 per annum for the next 4 years.

(vii) The normal rate of return for the industry is 15%.

On the basis of above information, you are required to calculate the value of goodwill of Peach Ltd. at 4 years purchase of super profits, if any, earned by the company in the previous three accounting years. For calculation of Future Maintainable Profits weighted average is to be taken. ***(8 Marks)***

Answer

(a) (i) At the time of initial recognition

	₹
Liability component	
Present value of 5 yearly interest payments of ₹ 40,000, discounted at 12% annuity (40,000 x 3.605)	1,44,200
Present value of ₹ 5,00,000 due at the end of 5 years, discounted at 12%, compounded yearly (5,00,000 x 0.567)	2,83,500
	4,27,700
Equity component	
(₹ 5,00,000 – ₹ 4,27,700)	72,300
Total proceeds	5,00,000

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Note: Since ₹ 105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ ₹ 100 each only.

Journal Entry

	₹	₹
Bank Dr.	5,00,000	
To 8% Debentures (Liability component)		4,27,700
To 8% Debentures (Equity component)		72,300
(Being Debentures are initially recorded a fair value)		

(ii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 12%	*Fair Value @ 9%*	*Difference*
	₹	₹	₹
Liability component			
Present value of 2 remaining yearly interest payments of ₹ 40,000, discounted at 12% and 9%, respectively	67,600	70,360	
Present value of ₹ 5,00,000 due in 2 years, discounted at 12% and 9%, compounded yearly, respectively	3,98,500	4,21,000	
Liability component	4,66,100	4,91,360	(25,260)
Equity component (5,25,000 -4,91,360)	72,300	33,640*	38,660
Total	**5,38,400**	**5,25,000**	**13,400**

*(5,25,000 – 4,91,360) = 33,640

Journal Entries

	₹	₹
8% Debentures (Liability component) Dr.	4,66,100	
Profit and loss A/c (Debt settlement expense) Dr.	25,260	
To Bank A/c		4,91,360
(Being the repurchase of the liability component recognised)		

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8% Debentures (Equity component)	Dr.	72,300	
To Bank A/c			33,640
To Reserves and Surplus A/c			38,660
(Being the cash paid for the equity component recognised)			

(b) (1) Capital employed as on 31st March, 2017

		₹
Land and Building		16,53,000
Machinery		8,78,000
Inventory		95,000
Trade receivables		1,65,000
Cash in hand and at Bank		26,000
		28,17000
Less: Trade payables	1,13,000	
Bank overdraft	58,000	
Provision for taxation (net)	68,000	(2,39,000)
		25,78,000

2. Future Maintainable Profit (₹)

	2013-2014 ₹	2014-2015 ₹	2015-2016 ₹
Profit after tax (A)	1,98,600	2,07,000	2,85,000
Add: Tax @ 40% $\left(\frac{A}{60\%}\times 40\%\right)$	1,32,400	1,38,000	1,90,000
Profit before tax	3,31,000	3,45,000	4,75,000
Less: Extraordinary income due to special contract	(25,000)		
Add: Loss due to riots			74,000
Less: Income from non-trading investments		(3,000)	(6,000)
	3,06,000	3,42,000	5,43,000

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Total weighted profits (adjusted) for the last three years

= (₹ 3,06,000 x 1) + (₹ 3,42,000 x 2) + (₹ 5,43,000 x 3)

= ₹ 3,06,000 + ₹ 6,84,000 + ₹ 16,29,000 = ₹ 26,19,000.

Average trading profit before tax = ₹ 26,19,000/6	4,36,500
Add: Additional income from contract	1,50,000
Less: Additional remuneration to directors	(20,000)
	5,66,500
Less: Income tax @ 30%	(1,69,950)
Future Maintainable Profit	3,96,550

(3) Valuation of Goodwill on Super Profit Basis

	₹
Future maintainable profits	3,96,550
Less: Normal profits (15% of ₹ 25,78,000)	(3,86,700)
Super profits	9,850

Goodwill at 4 years' purchase of super profit = 9,850 x 4 = 39,400

Question 7

*Answer any **FOUR** of the following:*

(a) *A Mutual Fund has shown its NAV at ₹ 98.5 and ₹ 102.8 at the beginning and end of the period respectively. It has given the following two options to its investors:*

(i) *Receive ₹ 8.5 per unit as dividend and ₹ 7.25 per unit as capital gain, or*

(ii) *The said income can be reinvested at ₹ 105 per unit.*

Mr. A, who has invested in 1000 units of the Fund, seeks your advice as to which option would yield maximum return on investment.

(b) *C Ltd. received a specific grant of ₹ 360 lakh for acquiring the plant of ₹ 1,800 lakh during 2013-14 having useful life of 12 years. The grant received was credited to deferred income in the balance sheet. During 2016-17 and due to non-compliance of conditions laid down for the grant of ₹ 360 lakh, the company had to refund the grant to the Government. Balance in the deferred income on that date was ₹ 330 lakh and written down value of plant was ₹ 1,650 lakh.*

(i) *What should be the treatment of the refund of the grant and the effect on cost of the PPE and depreciation (SLM basis) to be charged during the year 2016-17 in profit and loss account?*

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(ii) What should be the treatment of the refund if grant was deducted from the cost of the plant during 2013-14?

(c) Differentiate the following items with reference to existing Accounting Standard and Ind AS.

(i) Extra ordinary items

(ii) Contingencies

(d) Indicate in each cash whether revenue can be recognised and when it will be recognised.

(i) Insurance agency commission for rendering services.

(ii) Trade discount and volume rebates received.

(iii) Where goods are sold to distributors, dealers or others for resale.

(iv) Where seller concurrently agrees to re-purchase the same goods at a later date.

(e) Explain any two major changes in Ind AS 101 (First Time Adoption of Indian Accounting Standards) vis-à-vis IFRS 1 resulting in carve outs. Reasons need not be given.

(4 x 4 = 16 Marks)

Answer

(a) (i) Return for the year (all changes on total units' basis)

Particulars	₹
Change in price (₹ 102.80 – ₹ 98.50) x 1,000 units	4,300
Dividend received ₹ 8.50 x 1,000 units	8,500
Capital gain distribution ₹ 7.25 x 1,000 units	7,250
Total Return	20,050
Total Investment at the beginning of the period (₹ 98.50 x 1,000 units)	98,500

Return on investment = $\frac{20,050}{98,500} \times 100$ = 20.36%

(ii) If all dividends and capital gain are reinvested into additional units at ₹ 105 per unit the position would be:

Total amount reinvested = ₹ (8.5 + 7.25) x 1,000 units = ₹ 15,750

Additional units added = $\frac{₹\ 15,750}{105.00}$ = 150 units

Value of 1,150 (1,000 + 150) units at end of the period = ₹ 1,18,220

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$$\text{Return} = \frac{₹\,1,18,220 - ₹\,98,500}{₹\,98,500} = \frac{₹\,19,720}{₹\,98,500}$$

= 20.02%

Conclusion: Since return is more in case of option (i) same should be opted for.

(b) (i) As per AS 12 "Accounting for Govt. Grants", amount refundable in respect of a grant related to revenue should be applied first against any unamortized deferred credit remaining in respect of the grant. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

In this case the grant refunded is ₹ 360 lakhs and balance in deferred income account is ₹ 330 lakhs. Therefore, ₹ 30 lakhs shall be charged to the profit and loss account for the year 2016-2017.

There will be no effect on the carrying value of the plant and depreciation charge on it will be same as charged in the earlier years.

(ii) As per AS 12, the amount refundable in respect of grant which was related to specific fixed assets should be recorded by increasing the book value of the assets by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

Therefore, in this case the book value of the plant shall be increased by ₹ 360 lakhs. The increased cost of ₹ 360 lakhs of the plant should be amortized over remaining 9 years. Depreciation charged during the year 2016-2017 shall be 1440/12 + 360/9 = ₹ 120 lakhs +₹ 40 lakhs= ₹ 160 lakhs.

(c)

Accounting Standards	Ind AS
Extraordinary Items	
Disclosure of the nature and amount of such item is required in the income statement to perceive the impact of current and future profits.	Ind AS 1 prohibits presentation of any items of income or expense as extraordinary in the Statement of Profit or Loss or in Notes.
Contingencies	
Contingent Liabilities are disclosed unless the probability of outflow is remote. Contingent gains are neither recognized nor disclosed.	Unrecognized possible losses and possible gains are disclosed. The contingent assets are disclosed in the financial statements if the inflow of economic benefits is probable.

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(d) **(i)** **Insurance agency commission for rendering services:** Insurance agency commission should be recognized on the effective commencement or renewal dates of the related policies.

(ii) **Trade discounts and volume rebates received:** Trade discounts and volume rebates received are not encompassed with in the definition of revenue, since they represent a deduction of cash.

(iii) **Where goods are sold to distributors, dealers or others for resale:** Revenue from such sales can generally be recognized if significant risks of ownership have passed. However, in some situations, the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(iv) **Where seller concurrently agrees to repurchase the same goods at a later date:** For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.

(e) Major Changes in Ind AS 101 (First Time Adoption of Indian Accounting Standards) vis-à-vis IFRS 1 resulting in Carve Outs

(i) **Definition of Previous GAAP under Ind AS 101*:*** IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS.

Carve out: Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used for its reporting requirement in India immediately before adopting Ind AS. The changes made it mandatory for Indian entities to consider the financial statements prepared in accordance with Accounting Standards (AS) as was applicable to them as previous GAAP when it transitions to Ind AS.

(ii) **Allowing the use of Carrying Cost of Property, Plant and Equipment (PPE) on the Date of Transition of Ind AS 101**: IFRS 1 First time adoption of International Accounting Standards provides that on the date of transition either the items of Property, Plant and Equipment shall be determined by applying IAS 16 'Property, Plant and Equipment' retrospectively or the same should be recorded at fair value.

***Carve out*:** Ind AS 101 provides an additional option to use carrying values of all items of property, plant and equipment on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

(iii) ***Long-term Foreign Currency Monetary Items**:* No provision is given in IFRS 1 regarding Long-term Foreign Currency Monetary Items.

Carve out: Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial

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reporting period as per the previous GAAP. Consequently, Ind AS 21 also provides that it does not apply to long-term foreign currency monetary items for which an entity has opted for the exemption given in Ind AS 101. Such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items.

Note: Any two carve outs (out of the above three) may be given.

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