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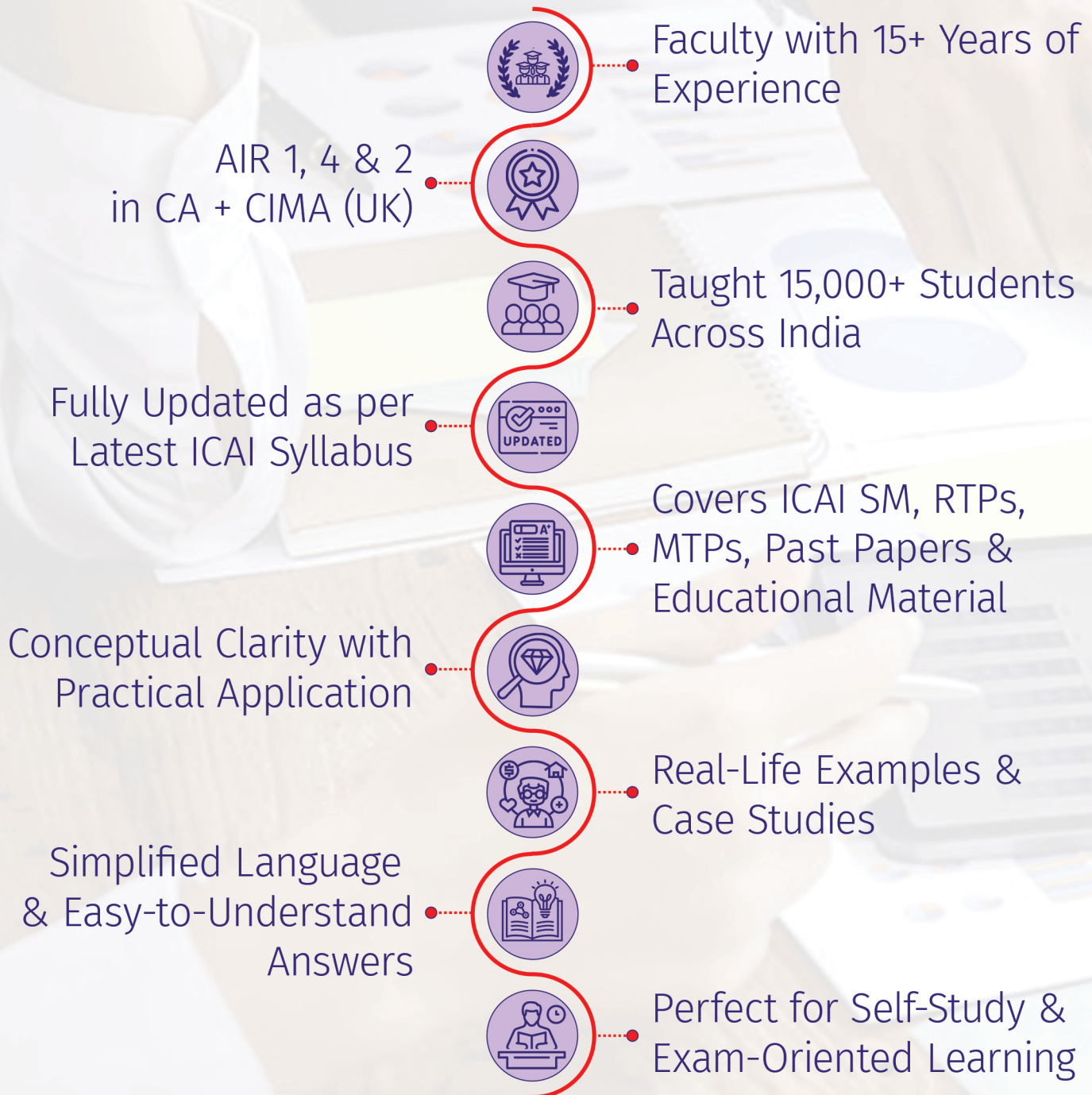
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CA SURAJ LAKHOTIA

(AIR 1,4,2)

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What Our Students have to say....

Sudeepta Benya

I took FR and AFM classes from 1FIN and secured good marks in both. I am deeply grateful to **Sriram Sir** and **Suraj Sir** for making my conceptual clarity very strong and making me fall in love with the subjects. I secured 70 marks in FR and 87 in AFM. Highly recommended.

AIR 27

Kanishka

Thank you so much Sir! I am excited to share that I have successfully cleared the CA Final exams and became A Chartered Accountant

Srinivasan

I really liked the way of teaching and conceptual clarity given by **Suraj Sir**

Bhoomi Makhecha

Suraj Sir's classes were comprehensive & helped me score 76 (Exemption) in FR

Priyanka Udeshi

Thank you **Suraj sir**! Have successfully cleared CA Final with exemption in 5 subjects

Venkata Naresh

Thank You IndigoLearn for the Conceptual Clarity and well illustrated Examples of the faculties, making my concepts very strong and assisted me in clearing my exams

Hannoch Matthew

1FIN is a perfect place for assistance in CA Exams. I had opted for FR and AFM. I found it well understandable and helped me to get through with the concepts. Their MCQ and material is very useful.

Himanshu Somani

Thank you so much to **Suraj** and **Sriram sir** for your support during my entire CA journey, will forever be grateful to you

Arun Kumar

I have watched SFM, FR and IDT classes from indigo learn I was using 1FIN platform from my CA Inter and I feel this platform is the only platform which focuses on concepts rather than focusing on only scoring marks.

Our Rankers

AIR 27



Sudeepta Benya
CA Final Nov-24

AIR 5



Sarthak Aggarwal
CA Inter May-23

AIR 19



Aman Mahajan
CA Inter Dec-21

AIR 33



Sundar B
CA Inter Dec-21

AIR 49



Ria Gupta
CA Inter May-22

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1. Illustration (ICAI SM, Dec-21, May25) [Joint & By-Product] ☆☆☆

In a manufacturing process of Mars Ltd, one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process are here under:

Item	Unit	Amount	Output	Closing Stock 31-03-X1
Raw material	14,500	1,50,000	MP 1-5,000 units	250
Wages	-	90,000	MP II - 4,000 units	100
Fixed overhead	-	65,000	BP- 2,000 units	
Variable overhead	-	50,000		

Average market price of MP1 and MP2 is Rs. 60 per unit and Rs. 50 per unit respectively, by- product is sold @ Rs. 20 per unit. There is a profit of Rs. 5,000 on sale of by-product after incurring separate processing charges of Rs. 8,000 and packing charges of Rs. 2,000, Rs. 5,000 was realised from sale of scrap.

Required: Calculate the value of closing stock of MP1 and MP2 as on 31-03-20X1.

Solution:

1) Calculation of NRV of By-product BP :

Selling price of by-product	2,000 units x 20 per unit	40,000
(-) Separate processing charges of by- product BP		(8,000)
Packing charges		(2,000)
Net realizable value of by-product BP		30,000

2) Calculation of cost of conversion for allocation between joint products MP1 and MP2:

Raw material		1,50,000
Wages		90,000
Fixed overhead		65,000
Variable overhead		50,000
Less: NRV of by-product BP	30,000	
Less: Sale value of scrap	<u>5,000</u>	(35,000)
Joint cost to be allocated between MP1 and MP2		3,20,000

The net realisable value of by product and scrap is reduced from joint cost.

3) Determination of "basis for allocation" and allocation of joint cost to MP1 and MP2:

Joint costs are allocated on the basis of relative sales value.



	<u>MP 1</u>	<u>MP 2</u>
Output in units (a)	5,000	4,000
Sales price per unit (b)	60	50
Sales value (a x b)	3,00,000	2,00,000
Ratio of allocation (based on sales)	3	2
Joint cost of ₹ 3,20,000 allocated in the ratio of 3:2 (c)	1,92,000	1,28,000
Cost per unit [c/a]	38.4	32

4) Determination of value of closing stock of MP1 and MP2:

Particulars	<u>MP 1</u>	<u>MP 2</u>
Closing stock in units	250 units	100 units
Cost per unit	38.4	32
Value of closing stock	9,600	3,200

2. Illustration (ICAI SM, Past exam) [Valuation when OS is given] ❄ ❄ ❄

Particulars		Kg	Rs.
Opening Inventory	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory	Raw Materials	900	
	Finished Goods	1,200	

The expected production for the year was 15,000 kg of finished product.

Due to fall in the market demand the sales price for the finished goods was Rs.20 per kg and the replacement cost for the raw material was Rs.9.50 per kg on the closing day.

You are required to calculate the closing inventory as on that date.

Solution:

As per Ind AS 2 – Inventories, inventories are to be valued at the **lower of cost and net realisable value (NRV)**.

Step 1: Computation of Quantity Produced

Opening finished goods inventory: 1,000 kg

Sales during the year: 10,000 kg

Closing finished goods inventory: 1,200 kg

Hence, total production during the year =

= Sales + Closing FG – Opening FG

= 10,000 + 1,200 – 1,000 = **10,200 kg**

Step 2: Computation of Cost of Production



Particulars	₹
Cost of Raw Materials (10,200 kg × ₹10)	1,02,000
Direct Labour	76,500
Fixed Overheads	
(Allocated based on normal capacity of 15,000 kg):	
₹75,000 × 10,200 / 15,000	51,000
Total Cost of Production	2,29,500
Cost per Unit (229,500/10200)	22.50
NRV	20

Since net realisable value is less than cost, closing inventory will be valued at ₹ 20.

As NRV of the finished goods is less than its cost, raw materials will be valued at replacement cost i.e. ₹ 9.50.

Therefore, value of closing inventory:

Finished Goods (1,200 × 20)	₹ 24,000
Raw Materials (900 × 9.50)	₹ 8,550
	₹ 32,550

Ind AS 16 PPE

3. Illustration

A shipping company is required by law to bring all ships into dry dock every five years for a major inspection and overhaul. A ship which cost ₹20 million with a 20-year life must have major overhaul every five years. The estimated cost of the overhaul at the five-year point is ₹5 million. However, the actual cost after 5 years turned out to be ₹6 million.

Solution:

Ind AS 16 requires **component accounting** where different components of an asset have different useful lives or consumption patterns. When **major inspections or overhauls** are required at regular intervals (e.g., dry-docking of ships), the **cost of such inspection/overhaul is capitalised as a separate component**, and the carrying amount of the replaced component is derecognised.



The depreciation charge for the first five years of the assets life will be as follows:

	Overhaul component (million)	Ship (other than overhaul component) (million)	Total
Cost	5	15	20
Years	5	20	
Depreciation per year	1	0.75	1.75
Depreciation for 5 years	5	3.75	8.75
Carrying Amount	Nil	11.25	11.25

Total accumulated depreciation for the first five years will be ₹ 8.75, and the carrying amount of the ship at the end of year 5 will be ₹ 11.25 million.

Assume, the actual overhaul costs incurred at the end of year 5 are ₹ 6 million. This amount will now be capitalised into the costs of the ship, to give a carrying amount of ₹ 17.25 million.

The depreciation charge for years 6 to 10 will be as follows:

	Overhaul component	Ship (other than overhaul component)
Cost	6	11.25
Years	5	15
Depreciation per year	1.2	0.75

Annual depreciation for years 6 to 10 will now be ₹ 1.95 million. This process will be continued for years 11 to 15 and years 16 to 20. By the end of year 20, the capital cost of ₹ 20 million will have been depreciated plus the actual overhaul costs incurred at years 5, 10 and 15.

4. Illustration

On 1st April, 20X1, Sun Ltd purchased some land for ₹10 million (including legal costs of ₹1 million) in order to construct a new factory. Construction work commenced on 1st May, 20X1. Sun Ltd incurred the following costs in relation with its construction

- Preparation and levelling of the land – ₹3,00,000.
- Purchase of materials for the construction ₹6.08 million in total.
- Employment costs of the construction workers – ₹2,00,000 per month.
- Overhead costs incurred directly on the construction of the factory – ₹1,00,000 per month.
- Ongoing overhead costs allocated to the construction project using the company's normal overhead allocation model – ₹50,000 per month.
- Income received during the temporary use of the factory premises as a car park during the construction period – ₹50,000.
- Costs of relocating employees to work at the new factory – ₹3,00,000
- Costs of the opening ceremony on 31st January, 20X2 – ₹1,50,000.

The factory was completed on 30th November, 20X1 (which is considered as substantial period of time as per Ind AS 23) and production began on 1st February, 20X2. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 30% of the total cost of the building.

At the end of the 40-year period, Sun Ltd has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The directors estimate that the cost of demolition in 40 years' time (based on prices prevailing at that time) will be ₹20 million. An annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of ₹1 payable in 40 years' time at an annual discount rate of 8% is ₹ 0.046.

The construction of the factory was partly financed by a loan of ₹17.5 million taken out on 1st April, 20X1. The loan was at an annual rate of interest of 6%. Sun Ltd received investment income of ₹100,000 on the temporary investment of the proceeds.



Required:

Compute the carrying amount of the factory in the Balance Sheet of Sun Ltd at 31st March, 20X2. You should explain your treatment of all the amounts referred to in this part in your answer.

Solution:

Under **Ind AS 16**, the cost of an item of PPE includes:

- Purchase price (including legal duties),
- Costs directly attributable to bringing the asset to the location and condition necessary for its intended use,
- Initial estimates of dismantling/restoration costs if there's a present obligation.

Under **Ind AS 23**, borrowing costs directly attributable to the acquisition/construction of a **qualifying asset** must be capitalised. Any income earned on temporary investment of funds shall be deducted from such costs.

Cost of Factory

Description	Amount	Included in PPE	Explanation
Land (incl. legal costs)	10,000	✓ Yes	Directly attributable
Preparation and levelling	300	✓ Yes	Site prep is necessary
Materials	6,080	✓ Yes	Direct cost
Construction workers (₹2,00,000 × 7 months)	1,400	✓ Yes	Construction period: May–Nov
Direct overheads (₹1,00,000 × 7 months)	700	✓ Yes	Direct to construction
Allocated overheads (₹50,000 × 7 months)	—	✗ No	Not directly attributable
Temporary car park income	—	✗ No	Income to be credited to P&L
Relocation costs	—	✗ No	Not directly attributable
Opening ceremony	—	✗ No	Post-ready-for-use cost
Borrowing costs (₹17.5m × 6% × 7*/12)	612.5	✓ Yes	Capitalised as per Ind AS 23
Less: Investment income	(100.0)	✓ Adjusted	Offset as per Ind AS 23
Restoration (₹20m × 0.046)	920.0	✓ Yes	Present value of legal obligation
Total	₹19,912.5		
Less: Depreciation	₹107.38		
Carrying Amount	₹19,805.12		

Depreciation calculation (4 months: Dec–Mar)

Component	Amount
Land	10,000
Depreciable Component (Excluding Land)	9,912.5
Roof (30%)	₹9,912.5 × 30% ÷ 20 × 4/12 = 49.56
Remainder (70%)	₹9,912.5 × 70% ÷ 40 × 4/12 = 57.82
Total Depreciation	107.38

5. Illustration

Original Cost	₹ 1,00,000
Useful Life	10 Years

Depreciation Model	Straight Line Cost
--------------------	--------------------

At the end of 4 years, entity applies revaluation model. After 4 years, the fair value of the machinery is ₹ 80,000. Show accounting treatment.

Solution:

Gross Approach

Particulars	Amount (₹)
Original Cost	1,00,000
Useful Life	10 years
Depreciation Method	Straight Line
Depreciation (4 years)	40,000 (10,000 × 4)
Carrying Amount (before revaluation)	60,000
Fair Value (Revalued Amount)	80,000
Increase in Carrying Amount	20,000
% Increase over Carrying Amount	33.33%

Revaluation Model – Gross Approach

Particulars	Original (₹)	% Increase	Adjusted (₹)
Gross PPE	1,00,000	+33.33%	1,33,333.33
Accumulated Depreciation	(40,000)	+33.33%	(53,333.33)
Net Book Value (Post Revaluation)	—	—	80,000

Balance Sheet Presentation

Equity & Liabilities	Before	After	Assets	Before	After
Equity	60,000	60,000	PPE		
OCI	0	20,000	Gross	1,00,000	133,333.33
			Depreciation	(40,000)	(53,333.33)
Total	60,000	80,000		60,000	80,000

PPE A/c Dr. ₹33,333.33

To Accumulated Depreciation A/c ₹13,333.33

To Revaluation Surplus (OCI) ₹20,000.00

PPE A/c			
Year 1 - To Bank	₹1,00,000.00		
Year 4 End		By bal c/d	1,33,333
To Revaluation Surplus	₹20,000.00		
To Acc. Dep	₹13,333.33		
Accumulated Depreciation			
End of Year 4		Year 1 to Year 4	
To bal c/d	53,333	By Depreciation	40,000
		By PPE A/c	13,333

Net Approach

PPE A/c Dr. ₹20,000



Balance Sheet Presentation

Equity & Liabilities	Before	After	Assets	Before	After
Equity	60,000	60,000	PPE		
OCI	0	20,000	Gross	1,00,000	1,20,000
			Depreciation	(40,000)	(40,000)
Total	60,000	80,000		60,000	80,000

6. Illustration – Change in estimates of decommissioning liability

H Limited purchased an item of PPE costing ₹ 100 million which has useful life of 10 year. The entity has a contractual decommissioning and site restoration obligation, estimated at ₹ 5 million to be incurred at the end of 10th year. The current market-based discount rate is 8%. The company follows SLM method of depreciation. H Limited follows the Cost Model for accounting of PPE.

Determine the carrying value of an item of PPE and decommissioning liability at each year end when:

- (a) There is no change in the expected decommissioning expenses, expected timing of incurring the decommissioning expense and / or the discount rate
- (b) At the end of Year 4, the entity expects that the estimated cash outflow on account of decommissioning and site restoration to be incurred at the end of the useful life of the asset will be ₹ 8 million (in place of ₹ 5 million, estimated in the past). Determine in case (b), how H Limited need to account for the changes in the decommissioning liability?

Solution:

The present value of such decommissioning and site restoration obligation at the end of 10th year is ₹2.3106 million [being $5 / (1.08)^{10}$].

H Limited will recognise the **present value of decommissioning liability of ₹ 2.3106 million as an addition to cost of PPE and will also recognize a corresponding decommissioning liability.** Further, the entity will recognise the unwinding of discount as finance charge.

- (a) PPE is recognised at ₹102.3106

The following table shows the relevant computations, if there is no change in the expected decommissioning expenses, expected timing of incurring the decommissioning expense and / or the discount rate: (₹ in million):

Year	Opening Amount of PPE (₹ lakh)	Depreciation Charge (SLM - 10 yrs) (₹ lakh)	Carrying Amount of PPE at year-end (₹ lakh)	Opening Decommissioning Liability (₹ lakh)	Unwinding of discount @ 8 % (₹ lakh)	Closing Decommissioning Liability (Op + Int) (₹ lakh)
1	102.3160	10.2316	92.0844	2.3160	0.1853	2.5012
2	92.0844	10.2316	81.8528	2.5012	0.2001	2.7013
3	81.8528	10.2316	71.6212	2.7013	0.2161	2.9175
4	71.6212	10.2316	61.3896	2.9175	0.2334	3.1508
5	61.3896	10.2316	51.1580	3.1508	0.2521	3.4029
6	51.1580	10.2316	40.9264	3.4029	0.2722	3.6751
7	40.9264	10.2316	30.6948	3.6751	0.2940	3.9692
8	30.6948	10.2316	20.4632	3.9692	0.3175	4.2867
9	20.4632	10.2316	10.2316	4.2867	0.3429	4.6296
10	10.2316	10.2316	0.0000	4.6296	0.3704	5.0000
Total	102.316	102.316			2.6840	

CAI has rounded off the PV of decommissioning liability to 2 digits.



(b) The changes to the estimate of expected decommissioning obligation:

- **Ind AS 16** requires any change in the **present value of a decommissioning (ARC) liability** to be added to, or deducted from, the **carrying amount of the related PPE** and depreciated **prospectively** over the asset's remaining useful life.
- **Ind AS 37** states that the provision is re-measured at the **current best estimate**;

Particulars	Amount (₹ million)
Present value of revised obligation at end of Year 4 (₹ 8 million payable after 6 years, discounted @ 8 %)	5.0414
Carrying amount of liability already recognised (closing Year 4 schedule)	3.1508
Increase in liability / cost of PPE	1.8905
New Carrying Amount of PPE at end of Y4 [61.3896 + 1.89]	63.2801
Depreciation per year considering 6 years balance life	10.5466

The journal entry will be:

PPE	Dr	₹1.8905 million	
To Provision for decommissioning liability			₹1.8905 million

- The following table shows the calculations for years 5 - 10:

Year	Opening Amount of PPE	Depreciation Charge (on SLM) for 10Years	Carrying Amount of PPE at the end of the year	Opening Decommissioning Liability	Unwinding of Interest @ 8%	Closing Decommissioning Liability
5	63.2801	10.5467	52.7334	5.0414	0.4033	5.4447
6	52.7334	10.5467	42.1867	5.4447	0.4356	5.8802
7	42.1867	10.5467	31.6400	5.8802	0.4704	6.3507
8	31.6400	10.5467	21.0934	6.3507	0.5081	6.8587
9	21.0934	10.5467	10.5467	6.8587	0.5487	7.4074
10	10.5467	10.5467	0.0000	7.4074	0.5926	8.0000
Total		63.2801				

- The asset should be tested for impairment as per Ind AS 36.

7. Illustration

An entity has a nuclear power plant and a related decommissioning liability. The nuclear power plant started operating on 1st April, 20X1. The plant has a useful life of 40 years. Its initial cost was ₹ 1,20,000. This included an amount for decommissioning costs of ₹ 10,000, which represented ₹ 70,400 in estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5 per cent. The entity's financial year ends on 31st March. Assume that a market-based discounted cash flow valuation of ₹ 1,15,000 is obtained at 31st March, 20X4. This valuation is after deduction of an allowance of ₹ 11,600 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. On 31st March, 20X5, the entity estimates that, as a result of technological advances, the present value of the decommissioning liability has decreased by ₹ 5,000. The entity decides that a full valuation of the asset is needed at 31st March, 20X5, in order to ensure that the carrying amount does not



differ materially from fair value. The asset is now valued at ₹ 1,07,000, which is net of an allowance for the reduced decommissioning obligation.

How the entity will account for the above changes in decommissioning liability if it adopts revaluation model?

Solution:

Particulars	Amount	
PPE		
Cost of PPE	1,20,000.00	
Less: Depreciation for 3 years	9,000.00	
[120000 x 3/40]		
Carrying amount as on 31st Mar 20X4 [1]	1,11,000.00	
Revalued amount (net of decomm. Liab)	1,15,000.00	
Add: Decomm. Liab	11,600.00*	
Revalued amount [2]	1,26,600.00	
Revaluation surplus [2-1]	15,600.00	
Depreciation per year after revaluation	3,420	1,26,600/37 = 3,421
Carrying amount as on 31 st March X5 [3]	1,23,180	1,26,600-3,420
Revalued Amount (net of obligation)	1,07,000	
Decommissioning liability	12,200	11,600 x 1.05 = 12,180
Reduction in Decommissioning Liability	(5,000)	
Revised Decommissioning liability	7,200	
Gross revalued amount of PPE [4]	114,200	107000 + 7200
Downward Revaluation [4-3]	(8,980)	123,180 – 114,200

31-Mar – x4

Accounting for Revaluation –

PPE A/c Dr. 15,600
 To Revaluation Surplus 15,600

31-Mar-X5

Depreciation A/c Dr. 3,420
 To Accumulated Depreciation 3,420

Accumulated Depreciation 3,420

 To PPE 3,420

(Transfer of accumulated depreciation balance to PPE Account)

Interest Exp Dr. 600
 To Prov. For decommissioning 600
 (Unwinding of discount)



Prov for decommissioning Dr. 5,000
 To Revaluation surplus 5,000
 (Reduction in liability accounted as revaluation gain)

Revaluation surplus A/c Dr. 8,980
 To PPE 8,980
 (Downward revaluation of PPE)

Reconciliation

	PPE	Decommissioning Liab	Revaluation Surplus
Balance on 31-Mar-X5	1,23,180	12,200	15,600
Reduction in Liab		(5,000)	5,000
Revaluation loss	(8,980)		(8,980)
Carrying amount	1,14,800	7,200	11,620

*The actual decommissioning liability works out to 11,576 which has been rounded off in the question to 11,600

8. Illustration [MTP]

Fly wing Airways Ltd is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries.

On 1 April 20X1, the company began the construction of a new production line in its aircraft parts manufacturing shed.

Costs relating to the production line are as follows ('000):

Costs of materials (list price less a 20% trade discount)	10,000
Recoverable GST not included in the purchase cost	1,000
Employment costs of the construction staff for the three months to 30 June 20X1	1,200
Other overheads directly related to the construction	900
Payments to external advisors relating to the construction	500
Expected dismantling and restoration costs	2,000

Additional Information:

The construction staff was engaged in the production line, which took two months to make ready for use and was brought into use on 31 May 20X1.

The other overheads were incurred in the two months period ended on 31 May 20X1. They included an abnormal cost of Rs.3,00,000 caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. At the end of that time Flywing Airways Ltd is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of Rs.2 million mentioned above is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate rate to use in any discounting calculations is 5%. The present value of Re.1 payable in eight years at a discount rate of 5% is approximately Re.0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is Rs.3 million. The Company computes its depreciation charge on a monthly basis.

No impairment of the plant had occurred by 31 March 20X2.

Analyze the accounting implications of costs related to production line to be recognized in the balance sheet and profit and loss for the year ended 31 March, 20X2.

Solution:

Statement showing Cost of production line:



Particulars	Amount (₹'000)
Purchase cost	10,000
Goods and services tax – recoverable goods and services tax not included	- 800
Employment costs during the period of getting the production line ready for use (1,200 x 2 months / 3 months)	600
Other overheads – abnormal costs	500
Payment to external advisors – directly attributable cost	1,360
Dismantling costs – recognized at present value where an obligation exists (2,000 x 0.68)	
Total	13,260

Carrying value of production line as on 31st March, 20X2:

Particulars	Amount (₹'000)
Cost of Production line	13,260
Less: Depreciation (W.N.1)	(1,694)
Net carrying value carried to Balance Sheet	11,566

Provision for dismantling cost:

Particulars	Amount (₹'000)
Non-current liabilities	1,360
Add: Finance cost (WN3)	57
Net book value carried to Balance Sheet	1,417

Extract of Statement of Profit & Loss:

Particulars	Amount (₹'000)
Depreciation (W.N.1)	1,694
Finance cost (W.N.2)	57
Amounts carried to Statement of Profit & Loss	1,751

Extract of Balance Sheet:

Particulars	Amount (₹'000)
Assets:	
Non-current assets	
Property, plant and equipment	11,566
Equity and liabilities:	
Non-current liabilities	
Other liabilities	
Provision for dismantling cost	1417

1. Calculation of depreciation charge:

Particulars	Amount (₹'000)
In accordance with Ind AS 16 the asset is split into two depreciable components: Out of the total capitalization amount of 13,260, Depreciation for 3,000 with a useful economic life of four years ($3,000 \times \frac{1}{4} \times \frac{10}{12}$). This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life	625
For balance amount, depreciation for 10,260 with an useful economic life (UEL) of eight years will be : $10,260 \times \frac{1}{8} \times \frac{10}{12}$	1,069
Total (To Statement of Profit & Loss for the year ended 31st March 20X2).	1,694

2. Finance costs:

Particulars	Amount (₹'000)
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Unwinding of discount (Statement of Profit and Loss – finance cost) $1,360 \times 5\% \times 10/12$	57
To Statement of Profit & Loss for the year ended 31st March 20X2.	57

Ind AS 38 Intangible Assets

9. Illustrations

X Limited engaged in the business of manufacturing fertilisers entered into a technical collaboration agreement with a foreign company Y Limited.

As a result, Y Limited would provide the technical know-how enabling X Limited to manufacture fertiliser in a more efficient way. X Limited paid Rs. 10,00,00,000 for the use of know-how for a period of 5 years.

X Limited estimates the production of fertiliser as follows:

Year	(In metric tons)
1	50,000
2	70,000
3	1,00,000
4	1,20,000
5	1,10,000

At the end of the 1st year, it achieved its targeted production. At the end of 2nd year, 65,000 metric tons of fertiliser was being manufactured, and X Limited considered to revise the estimates for the next 3 years.

The revised figures are 85,000, 1,05,000 and 1,15,000 metric tons for year 3, 4 & 5 respectively.

How will X Limited amortise the technical know-how fees as per Ind AS 38?

Solution:

As per **Ind AS 38**, the **cost of an intangible asset with a finite useful life** is amortised over its **useful life** on a **systematic basis**. The amortisation method should reflect the pattern in which the asset's future economic benefits are expected to be consumed. If that pattern cannot be determined reliably, the **straight-line method** is used.

One such acceptable method is the **units of production method**, where amortisation is based on the **actual usage/output** of the intangible asset relative to the **total expected output**.

The entity can amortise technical knowhow based on the estimated output over life. In year 1, the total estimated output over 5 years is 4,50,000 which is considered for amortisation.

In year 2, the output over Years 2-5 is revised to 3,70,000 (65,000 + 85,000 + 105,000 + 115,000).

Y	Cost / Opening WDV (₹)	Revised Total Estimated Output (MT)	Actual Output (MT)	Amortisation (₹)	Closing Carrying
---	------------------------	-------------------------------------	--------------------	------------------	------------------

					Amount (₹)
1	10,00,00,000	4,50,000	50,000	$\text{₹}10,00,00,000 \times 50,000 / 4,50,000 =$ 1,11,11,111	8,88,88,889
2	8,88,88,889	3,70,000	65,000	$\text{₹}8,88,88,889 \times 65,000 / 3,70,000 =$ 1,56,15,616	7,32,73,273
3	7,32,73,273	3,70,000	85,000	$\text{₹}8,88,88,889 \times 85,000 / 3,70,000 =$ 2,04,20,420	5,28,52,853
4	5,28,52,853	3,70,000	1,05,000	$\text{₹}8,88,88,889 \times 1,05,000 / 3,70,000 =$ 2,52,25,225	2,76,27,628
5	2,76,27,628	3,70,000	1,15,000	$\text{₹}8,88,88,889 \times 1,15,000 / 3,70,000 =$ 2,76,27,628	0

Note: Amortisation = Total Cost/Total expected output x Output for the year.

10. Illustrations

X Pharmaceutical Ltd. seeks your opinion in respect of following accounting transactions:

1. Acquired a 4 year license to manufacture a specialised drug at a cost of Rs. 1,00,00,000 at the start of the year. Production commenced immediately.
 2. Also purchased another company at the start of year. As part of that acquisition, X Pharmacy Ltd. acquired a brand with a fair value of Rs. 3,00,00,000 based on sales revenue. The life of the brand is estimated at 15 years.
 3. Spent Rs. 1,00,00,000 on an advertising campaign during the first six months. Subsequent sales have shown a significant improvement and it is expected this will continue for 3 years.
 4. It has commenced developing a new drug 'Drug-A'. The project cost would be Rs. 10,00,00,000. Clinical trial proved successful and such drug is expected to generate revenue over the next 5 years.
- Cost incurred (accumulated) till 31st March, 20X1 is Rs. 5,00,00,000.
 - Balance cost incurred during the financial year 20X1-20X2 is Rs. 5,00,00,000.
5. It has also commenced developing another drug 'Drug B'. It has incurred Rs. 50,00,000 towards research expenses till 31st March, 20X2. The technological feasibility has not yet been established.

How the above transactions will be accounted for in the books of account of X Pharmaceutical Ltd?

Solution:

As per **Ind AS 38**, an intangible asset shall be recognised if:

- It is **identifiable** (either separable or arising from contractual/legal rights),
- The entity **controls** the future economic benefits,
- It is **probable** that future economic benefits will flow to the entity, and
- The **cost** can be **measured reliably**.

For **internally generated intangible assets**, **research expenditure** is always **expensed off**, while **development expenditure** can be **capitalised** only after meeting certain condition



S. No.	Transaction	Analysis	Accounting Treatment
1	Acquired license for 4 years – ₹1,00,00,000	✓ Meets recognition criteria: identifiable (contractual right), control, future economic benefit, reliable cost	📘 Recognise as intangible asset at ₹1 crore. Amortise over 4 years based on pattern of economic benefits.
2	Brand acquired via business combination – ₹3,00,00,000	✓ Brand has identifiable fair value and future benefits. Acquired in business combination	📘 Recognise brand at ₹3 crore. Amortise over 15 years . If not separable, include under Goodwill .
3	Advertising campaign – ₹1,00,00,000	✗ Advertising is considered part of promotional cost. Future benefits cannot be directly linked or controlled	📌 Expense off ₹1 crore in the year incurred. Not eligible for capitalisation.
4	Development of 'Drug-A' – total ₹10,00,00,000, with clinical success	✓ Assumed to be in development phase (technological feasibility established). Meets capitalisation criteria under Ind AS 38	📘 Capitalize entire ₹10 crore as intangible asset. Amortise over 5 years from date available for use.
5	Development of 'Drug-B' – ₹50,00,000 (research phase)	✗ Only research stage so far. No technological feasibility.	📌 Expense ₹50 lakhs as it does not qualify for recognition.

11. Illustration (May 21)

Super Sounds Limited had the following transactions during the Financial Year 2019–2020:

- On 1st April 2019, the company purchased the net assets of Music Limited for ₹13,20,000. The fair value of Music Limited's identifiable net assets was ₹10,00,000. Super Sounds Limited believes that due to the popularity of Music Limited's product, the life of goodwill is 10 years.
- On 4th May 2019, Super Sounds Limited purchased a Franchise to organize musical shows from Armaan TV for ₹80,00,000 with an annual fee of 2% of the musical shows' revenue. The franchise expires after 5 years. The musical shows' revenue for 2019–2020 was ₹10,00,000. Projected revenue is ₹25,00,000 for 2020–2021 and ₹30,00,000 per year for the remaining 3 years.
- On 4th July 2019, the company was granted a copyright applied for by Music Limited. During the year, Super Sounds Limited incurred ₹2,50,000 as legal costs to register the copyright and ₹7,00,000 to successfully prosecute a copyright infringement suit. The copyright is valid for 10 years.

Super Sounds Limited amortizes all intangible assets on a straight-line basis (SLM) over the maximum period permitted by Ind AS, taking a full year's amortization in the year of acquisition.

Required:

- Prepare a schedule showing the Intangible Assets section in the Balance Sheet as of 31st March 2020.
- Prepare a schedule of related expenses to appear in the Statement of Profit and Loss for the year ended 31st March 2020.



Solution:

(i) Balance Sheet (Extract)

Super Sounds Limited

As on 31st March 2020

	Note	₹
Assets		
(1) Non-current assets Intangible Asseets	1	69,45,000

Notes to Accounts (Intangible Assets):

Particulars	Openin g Balance	Gross Additions	Closing Balance	Openin g Balance	Depre. Additions	Closing Balance	Net Opening Balance	Net Closing Balance
Goodwill		3,20,000	3,20,000		-		-	3,20,000
Franchise		80,00,000	80,00,000		16,00,000		16,00,000	64,00,000
Copyright		2,50,000	2,50,000		25,000		25,000	2,25,000
Total		85,70,000	85,70,000		16,25,000		16,25,000	69,45,000

(ii) Statement of Profit and Loss (Extract)

Super Sounds Limited

For the year ended 31st March 2020

	Note No.	Amount
Revenue from Operations		10,00,000
Expenses		
(1) Amortization expenses	2	16,25,000
(2) Other expenses	3	7,20,000
Total Expenses		23,45,000

Notes to Expenses:

1. Amortization Expenses:

Particulars Amount (₹)

Franchise 16,00,000

Copyright 25,000

Total 16,25,000

2. Other Expenses:

Particulars

Amount (₹)

Legal cost on copyright

7,00,000

Franchise fee (2% of revenue of ₹10,00,000) 20,000

Total

7,20,000

Working Notes:

1. Goodwill:

Cost of acquiring Music Limited: ₹13,20,000



Less: Fair value of net assets acquired: ₹10,00,000

Goodwill: ₹3,20,000

As per Ind AS 36, goodwill is not amortized but subject to annual impairment testing.

2. **Franchise:**

Cost of acquisition: ₹80,00,000

Amortization over 5 years: ₹80,00,000 ÷ 5 = ₹16,00,000 per year

Balance to be shown in the Balance Sheet: ₹80,00,000 - ₹16,00,000 = ₹64,00,000

3. **Copyright:**

Legal registration cost: ₹2,50,000

Amortization over 10 years: ₹2,50,000 ÷ 10 = ₹25,000 per year

Balance to be shown in the Balance Sheet: ₹2,50,000 - ₹25,000 = ₹2,25,000

Irrespective of whether there is any indication of impairment, an entity shall test goodwill acquired in a business combination for impairment annually. This implies that goodwill is not amortised annually but is subject to annual impairment, if any.

As per the information in the question, the limiting factor in the contract for the use is time i.e., 5 years and not the fixed total amount of revenue to be generated.

Therefore, an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate and amortisation based on time can only be applied.

Ind AS 40 Investment Property

12. Illustration

X Ltd. is engaged in the construction industry and prepares its financial statements up to 31st March each year. On 1st April, 20X1, X Ltd. purchased a large property (consisting of land) for Rs. 2,00,00,000 and immediately began to lease the property to Y Ltd. on an operating lease. Annual rentals were Rs.20,00,000.

On 31st March, 20X5, the fair value of the property was Rs.2,60,00,000. Under the terms of the lease, Y Ltd. was able to cancel the lease by giving six months' notice in writing to X Ltd. Y Ltd. gave this notice on 31st March, 20X5 and vacated the property on 30th September, 20X5. On 30th September, 20X5, the fair value of the property was Rs.2,90,00,000.

On 1st October, 20X5, X Ltd. immediately began to convert the property into ten separate flats of equal size which X Ltd. intended to sell in the ordinary course of its business. X Ltd. spent a total of Rs. 60,00,000 on this conversion project between 30th September, 20X5 to 31st March, 20X6. The project was incomplete at 31st March, 20X6 and the directors of X Ltd. estimate that they need to spend a further Rs.40,00,000 to complete the project, after which each flat could be sold for Rs.50,00,000.

Examine and show how the three events would be reported in the financial statements of X Ltd. for the year ended 31st March, 20X6 as per Ind AS. (SM)

Solution:

Rental Income

- Lease active for 6 months (Apr–Sep 20X5): ₹20L per annum → ₹10L for half-year.



Bank A/c / Y Ltd. A/c Dr. ₹10,00,000
To Rental Income A/c ₹10,00,000

Presentation: Shown as **income in P&L** under "Other Income".

2. Reclassification – Investment Property → Inventory (Ind AS 40 Para 57)

- Reclassification occurs **only when there is a change in use**.
- On 1-Oct-20X5, the company **commences development with a view to sell** → qualifies for transfer to **Inventory (Ind AS 2)**.
- As per **Ind AS 40 Para 60**, reclassification is done **at carrying amount**, i.e., **₹2.90 Cr** (fair value on 30-Sep-20X5).

No gain/loss is recorded on reclassification.

Inventory A/c Dr. ₹2,00,00,000
To Investment Property A/c ₹2,00,00,000

Cost of Conversion (Ind AS 2 – Inventory Cost)

- ₹60L spent on conversion from 1-Oct-20X5 to 31-Mar-20X6 is capitalized as part of inventory cost.

Inventory A/c Dr. ₹60,00,000
To Bank/Creditors A/c ₹60,00,000

4. Inventory Valuation (Ind AS 2 – Lower of Cost and NRV)

Particulars	Amount
Total Cost	₹2.00 Cr (property) + ₹0.60 Cr (conversion) = ₹2.60 Cr
NRV	(10 flats × ₹50L = ₹5 Cr) – ₹0.40 Cr (cost to complete) = ₹4.60 Cr
Valuation	Inventory to be valued at ₹2.60 Cr (Cost)

13. Illustration

Shaurya Limited owns a Building A which is specifically used for the purpose of earning rentals. The Company has not been using the building A or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building A for the year ending 31st March, 20X2:

Building A was initially purchased at the cost of Rs.10 crores. At that time, the useful life of the building was estimated to be 20 years; out of which 5 years have been expired as on 1st April, 20X1. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 20X1 at the cost of Rs.2 crores. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year 20X1-20X2 the company earned/ incurred following direct operating expenditure relating to Building A and Building B:

Rental income from Building A = Rs. 75 lakhs

Rental income from Building B = Rs. 25 lakhs



Sales promotion expenses	=	Rs. 5 lakhs
Fees & Taxes	=	Rs. 1 lakhs
Ground rent	=	Rs. 2.5 lakhs
Repairs & Maintenance	=	Rs. 1.5 lakhs
Legal & Professional	=	Rs. 2 lakhs
Commission and brokerage	=	Rs. 1 lakhs

The company does not have any restrictions and contractual obligations against Property - A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of Rs. 50 - Rs. 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weighted discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at Rs. 10.50 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian accounting standards.

What would be the treatment of Building A and Building B in the balance sheet of Shaurya Limited? Provide detailed disclosures and computations in line with relevant Indian accounting standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the balance sheet. (SM)

Solution:

Disclosure of Investment Property in Balance Sheet (Rs. In lakhs)

Gross amount			Depreciation			Opening Balance	Closing Balance
Opening	Addition	Closing	Opening	Addition	Closing		
1000	200	1200	250	55 (50+5)	305	750	895

Disclosure for items recognized in Profit and Loss

Particular	Amount (₹ Lakhs)
Rental Income	100.00 (75 + 25)
Direct Operating Expenses	13.00 (Break-up below)
→ Sales Promotion Expenses	5.00
→ Fees & Taxes	1.00
→ Ground Rent	2.50
→ Repairs & Maintenance	1.50
→ Legal & Professional Fees	2.00



→ Commission & Brokerage	1.00
Net Profit from Investment Property (before depreciation & indirect expenses)	87.00
Net Profit (after depreciation)	32.00 (87 – 55)

Disclosure related to fair value of Investment Property

- Description
- Fair value
- Valuation by independent valuer
- Method of valuation by independent valuer
- Key assumption to arrive at fair value
- Restriction, if any

Disclosure Note on Investment Properties acquired by the entity

- The investment properties consist of Property A and Property B. As at March 31, 20X2, the fair value of the properties is Rs. 10.50 crores.
- The valuation is performed by independent valuers, who are specialists in valuing investment properties.
- A valuation model as recommended by International Valuation Standards Committee has been applied.
- The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc, to determine classification of assets as investment properties.
- The company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	Significant observable inputs	Range (Weighted Average)
Discounted cash flow (DCF) method	• Estimated rental value per sq. ft, per month • Rent growth per annum • Discount rate	• Rs. 50 to 60 • 10% every 3 years • 12% to 13%

Ind AS 23 Borrowing Cost

14. Illustration

K Ltd. began construction of a new building at an estimated cost of ₹ 7 lakh on 1st April, 20X1. To finance construction of the building it obtained a specific loan of ₹ 2 lakh from a financial institution at an interest rate of 9% per annum.

The company's other outstanding loans were:

Amount	Rate of Interest per annum
₹ 7,00,000	12%
₹ 9,00,000	11%

The expenditure incurred on the construction was:

April, 20X1	₹ 1,50,000
August, 20X1	₹ 2,00,000



October, 20X1	₹ 3,50,000
January, 20X2	₹ 1,00,000

The construction of building was completed by 31st January, 20X2. Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 20X2.

Solution:

Step 1: Calculate Capitalisation Rate for General Borrowings

Loan Amount (₹)	Interest Rate	Interest (₹)
₹7,00,000	12%	₹84,000
₹9,00,000	11%	₹99,000
Total = ₹16,00,000		₹1,83,000

Capitalisation Rate = ₹1,83,000 / ₹16,00,000 = 11.4375%

Date	Amount (₹)	Type	Rate	Period	Interest (₹)
01-Apr-20X1	₹1,50,000	Specific	9%	10 months	₹11,250
01-Aug-20X1	₹2,00,000	₹50k Specific, ₹1.5L General	9% / 11.4375%	6 months	₹3,750 + ₹8,578
01-Oct-20X1	₹3,50,000	General	11.4375%	4 months	₹13,344
01-Jan-20X2	₹1,00,000	General	11.4375%	1 month	₹953
Total	₹8,00,000				₹37,875
				Capitalise	₹8,37,875

Interest = Amount x Rate x Period/12

Date	Particulars	Dr (₹)	Cr (₹)
Various Dates	CWIP A/c Dr.	8,00,000	
	To Bank A/c		8,00,000
	Being amount incurred for construction of building recorded under Capital Work in Progress.		
31-Jan-20X2	Interest Expense A/c Dr.	37,875	
	To Interest Payable A/c		37,875
	Being borrowing cost accrued on specific and general borrowings.		
31-Jan-20X2	Building A/c Dr.	8,37,875	
	To CWIP A/c		8,00,000
	To Interest Expense A/c		37,875
	Being completed building capitalised including borrowing cost.		
Single Entry			
	Building A/c Dr.	8,37,875	
	To Bank A/c		8,00,000
	To Interest payable / Bank		37,875



	Being completed building capitalised including borrowing cost.		
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15. Illustration

In a group with Parent Company "P" there are 3 subsidiaries with following business:

"A" – Real Estate Company

"B" – Construction Company

"C" – Finance Company

- Parent Company has no operating activities of its own but performs management functions for its subsidiaries.
- Financing activities and cash management in the group are coordinated centrally.
- Finance Company is a vehicle used by the group solely for raising finance.
- All entities in the group prepare Ind AS financial statements.

The following information is relevant for the current reporting period 20X1-20X2:

Real Estate Company

- Borrowings of ₹ 10,00,000 with an interest rate of 7% p.a.
- Expenditures on qualifying assets during the period amounted to ₹ 15,40,000.
- All construction works were performed by Construction Company. Amounts invoiced to Real Estate Company included 10% profit margin.

Construction Company

- No borrowings during the period.
- Financed ₹ 10,00,000 of expenditures on qualifying assets using its own cash resources.

Finance Company

- Raised ₹ 20,00,000 at 7% p.a. externally and issued a loan to Parent Company for general corporate purposes at the rate of 8%.

Parent Company

- Used loan from Finance Company to acquire a new subsidiary.
- No qualifying assets apart from those in Real Estate Company and Construction Company.
- Parent Company did not issue any loans to other entities during the period.

What is the amount of borrowing costs eligible for capitalisation in the financial statements of each of the four entities for the current reporting period 20X1-20X2?

Solution:

Following is the treatment as per Ind AS 23:

Entity	Analysis	Borrowing Costs Eligible for Capitalization
Finance Company	- The Finance Company did not incur any expenditures on qualifying assets. - Therefore, it cannot capitalize any borrowing costs.	₹ 0
Real Estate Company	- The total interest cost is ₹ 70,000 (₹ 10,00,000 × 7%). - Expenditures on qualifying assets (₹ 15,40,000) exceed borrowings (₹ 10,00,000). - Thus, the entire interest cost of ₹ 70,000 can be capitalized.	₹ 70,000



Construction Company	- The Construction Company has no borrowings, hence no interest costs are incurred. - Therefore, it cannot capitalize any borrowing costs .	₹ 0
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Calculation Table for Parent Company (Consolidated Borrowing Costs)

Particulars	Amount (₹)
Total Borrowings	₹ 30,00,000
Borrowings by Real Estate Company	₹ 10,00,000
Borrowings by Finance Company	₹ 20,00,000
Total Interest Expenditures for the Group	₹ 2,10,000
Interest on ₹ 10,00,000 (Real Estate Co.)	₹ 70,000 (₹ 10,00,000 × 7%)
Interest on ₹ 20,00,000 (Finance Co.)	₹ 1,40,000 (₹ 20,00,000 × 7%)
Expenditures on Qualifying Assets	₹ 24,00,000
Real Estate Company (after eliminating profit margin)	₹ 14,00,000 (₹ 15,40,000 ÷ 1.1)
Construction Company	₹ 10,00,000
Capitalization Rate	7%
Borrowing Costs Eligible for Capitalization	₹ 1,68,000 (₹ 24,00,000 × 7%)
Borrowing Costs Capitalized	₹ 1,68,000
Remaining interest costs to be expensed	₹ 42,000 (₹ 2,10,000 – ₹ 1,68,000)

16. Illustration

LT Ltd. is in the process of constructing a building. The construction process is expected to take about 18 months from 1st January 20X1 to 30th June 20X2. The building meets the definition of a qualifying asset. LT Ltd. incurs the following expenditure for the construction:

1st January, 20X1	₹5 crores
30th June, 20X1	₹ 20 crores
31st March, 20X2	₹ 20 crores
30th June, 20X2	₹ 5 crores

On 1st July 20X1, LT Ltd. issued 10% Redeemable Debentures of ₹50 crores. The proceeds from the debentures form part of the company's general borrowings, which it uses to finance the construction of the qualifying asset, ie, the building. LT Ltd. had no borrowings (general or specific) before 1st July 20X1 and did not incur any borrowing costs before that date. LT Ltd. incurred ₹25 crores of construction costs before obtaining general borrowings on 1st July 20X1 (pre-borrowing expenditure) and ₹25 crores after obtaining the general borrowings (post-borrowing expenditure).

For each of the financial years ended 31st March 20X1, 20X2 and 20X3, calculate the borrowing cost that LT Ltd. is permitted to capitalize as a part of the building cost.

Solution:

Borrowing costs can be capitalized when a qualifying asset is being constructed, and all three conditions are met:

1. Expenditure on the qualifying asset.
2. Borrowing costs are incurred.
3. Activities to prepare the asset for its intended use or sale are in progress.



Financial Year 20X0-20X1

Expenditure Date	Amount (₹)	Capitalization Period (current year)	Weighted Average Accumulated Expenditure (₹)
1 st Jan X1	5 crore	0	NIL

- **Borrowing Costs Eligible for Capitalization: ₹ 0**
- **Reason:** Borrowing costs were not incurred before 1st July 20X1.

Financial Year 20X1-20X2

Expenditure Date	Amount (₹)	Capitalization Period (current year)	Weighted Average Accumulated Expenditure (₹)
1 st Jan X1	5 crore	9/12	3.75 crore
30 th Jun X1	20 crore	9/12	15 crore
31 st Mar X2	20 crore	0/12	NIL
Total	25 crore		18.75 crore

- **Borrowing Costs Eligible for Capitalization: ₹ 1.875 crore** (18.75 crore × 10%).

Financial Year 20X2-20X3

Expenditure Date	Amount (₹) crores	Capitalization Period (current year)	Weighted Average Accumulated Expenditure (₹)
1 st Jan X1	5	3/12	1.25
30 th Jun X1	20	3/12	5
31 st Mar X2	20	3/12	5
31 st Mar X2	1.875	3/12	0.47
30 th Jun X2	5	0/12	NIL
Total			11.72
Alternatively			
Opening WIP	45	3/12	11.25
Int in WIP	1.875	3/12	0.47
30th June, 20X2	5	0/12	NIL
Total			11.72 crore

- **Borrowing Costs Eligible for Capitalization: ₹ 1.172 crore** (11.72 crore × 10%).

17. Illustration (RTP May 22)

X Ltd. commenced the construction of a plant (qualifying asset) on 1st September, 20X1, estimated to cost ₹ 10 crores. For this purpose, X has not raised any specific borrowings, rather it intends to use general borrowings, which have a weighted average cost of 11%. Total borrowing costs incurred during the period, viz., 1st September, 20X1 to 31st March, 20X2 were ₹ 0.5 crore.

The other relevant details are as follows: (₹ in crore)

Month	Cost of construction Accrued	Cash outflows (paid in advance at the start of each month)
September	1.50	3.00
October	0.50	1.70
November	1.50	2.50
December	0.50	-
January	1.80	1.00



February	0.70	-
March	3.00	1.50

Based on the above information, discuss the treatment of borrowing cost as per cash outflow basis and accrual basis and also suggest the appropriate amount of interest that should be capitalised to the cost of the plant in the financial statements for the year ended 31st March, 20X2?

Solution:

Paragraph 14 of Ind AS 23 explains that when an entity borrows funds generally to acquire a qualifying asset, it must determine the borrowing costs eligible for capitalization by applying a *capitalization rate* to the expenditures on that asset. This rate is the weighted average of the borrowing costs from all borrowings outstanding during the period. Borrowing costs from loans specifically taken for a qualifying asset are excluded from this calculation until the asset is substantially ready for its intended use or sale. Additionally, the total amount capitalized in any given period cannot exceed the total borrowing costs actually incurred in that period.

In applying this principle, one key question is whether the *expenditure* on which the capitalization rate is applied should be measured based on **costs accrued** or **actual cash outflows**. The following section provides a comparative illustration of borrowing cost calculations under both approaches.

Month	Cost of construction on Accrued	Average capital expenditure	Cash outflows (paid in advance at the start of each month)	Average capital expenditure
September	1.50	$1.50 \times 7/12 = 0.875$	3.00	$3.00 \times 7/12 = 1.75$
October	0.50	$0.50 \times 6/12 = 0.25$	1.70	$1.70 \times 6/12 = 0.85$
November	1.50	$1.50 \times 5/12 = 0.625$	2.50	$2.50 \times 5/12 = 1.04$
December	0.50	$0.50 \times 4/12 = 0.17$	-	-
January	1.80	$1.80 \times 3/12 = 0.45$	1.00	$1 \times 3/12 = 0.25$
February	0.70	$0.70 \times 2/12 = 0.12$	-	-
March	3.00	$3.00 \times 1/12 = 0.25$	1.50	$1.50 \times 1/12 = 0.125$
	9.50	2.74	9.70	4.02

1. Different Methods, Different Results

- Using **accrued costs** (₹2.74 crore) as the basis for calculating borrowing costs gives a capitalizable amount of ₹0.30 crore (₹2.74 crore $\times$ 11%).
- Using **actual cash outflows** (₹4.02 crore) yields ₹0.44 crore (₹4.02 crore $\times$ 11%).
- This sizable difference (₹0.30 crore vs. ₹0.44 crore) highlights how the chosen method significantly affects the capitalizable borrowing cost—especially for large projects where advance payments do not immediately translate into accrued expenses.

2. Ind AS 23 Guidance (Paragraph 18)

- Only expenditures involving **actual outflow of cash**, transfers of other assets, or assumption of interest-bearing liabilities qualify for capitalization.
- Such expenditures are reduced by any progress payments or grants related to the asset.
- In most cases, the **average carrying amount** of the asset during the period (including any previously capitalized borrowing costs) is a suitable approximation for applying the capitalization rate.



3. Cash Paid Before Costs Accrue

- If cash is paid in advance, interest starts accruing from the date of payment, not from when the cost is formally recognized.
- Therefore, **actual cash flows** should form the basis for calculating interest eligible for capitalization, provided all other Ind AS 23 conditions are satisfied.
- In this scenario, computing interest based on **cash outflows** (₹0.44 crore) is appropriate, rather than using accrued costs (₹0.30 crore).

4. Overall Limit on Capitalization

- The total borrowing costs capitalized in a period cannot exceed the **actual borrowing costs incurred** in that period.
- Since the actual borrowing costs here total ₹0.50 crore, **the maximum that can be capitalized** is ₹0.50 crore, ensuring compliance with the standard.

Ind AS 20 Government Grants

18. Illustration

An entity opens a new factory and receives a government grant of Rs. 15,000 in respect of capital equipment costing Rs. 1,00,000. It depreciates all plant and machinery at 20% per annum on straight-line basis.

Show the statement of profit and loss and balance sheet extracts in respect of the grant for first year under both the methods as per Ind AS 20.

Solution:

Deferred Income Approach

Statement of Profit and Loss (Year 1)

Particulars	Amount (₹)
Other Income (Grant amortised: ₹15,000 × 20%)	3,000
Expenses – Depreciation (₹1,00,000 × 20%)	20,000

Balance Sheet Extracts (End of Year 1)

Particulars	Amount (₹)
Assets	
Property, Plant & Equipment	1,00,000
Less: Accumulated Depreciation	(20,000)
Net PPE	80,000
Non-Current Liabilities	
Deferred Government Grant (15,000 – 3,000 – 3,000)	9,000
Current Liabilities	
Portion of Grant due to be recognised next year	3,000

Reduction from Cost of Asset Approach

Working Note



Particulars

Amount (₹)

Cost of Property, Plant & Equipment (PPE)	1,00,000
Less: Government Grant	(15,000)
Net Book Value of PPE	85,000
Depreciation @ 20% on ₹85,000	17,000

Statement of Profit and Loss (Year 1)

Particulars	Amount (₹)
Expenses – Depreciation (₹85,000 × 20%)	17,000

Balance Sheet Extracts (End of Year 1)

Particulars	Amount (₹)
Assets	
Property, Plant & Equipment (Net of Grant)	85,000
Less: Accumulated Depreciation	(17,000)
Net PPE	68,000

19. Illustration

Entity A is awarded a government grant of Rs.60,000 receivable over three years (Rs.40,000 in year 1 and Rs.10,000 in each of years 2 and 3), contingent on creating 10 new jobs and maintaining them for three years.

The employees are recruited at a total cost of Rs.30,000, and the wage bill for the first year is Rs. 1,00,000, rising by Rs.10,000 in each of the subsequent years.

Calculate the grant income and deferred income to be accounted for in the books for year 1, 2 and 3 in the following scenarios :

- There is a reasonable assurance that the entity will comply with the conditions related to the grant and that the grant would be received.
- There is no reasonable assurance that the grant would be received

Solution:

- If there is a reasonable assurance that the conditions will be complied and the grant would be received, the entity will account for the grant of Rs. 60,000 as a receivable.

Grant Receivable A/c Dr. 60,000
To Deferred Grant Income 60,000

As per **Ind AS 20**, if there is **reasonable assurance** that the entity will comply with the conditions attached to the grant and that the grant will be received, the entity should **recognize the grant income on a systematic basis** over the period in which the related expenses (wages) are incurred.

Workings for Grant Income Allocation

Total Cost = ₹1,30,000 + ₹1,10,000 + ₹1,20,000 = ₹3,60,000

Total Grant Receivable = ₹60,000

Grant income is recognised in proportion to cost incurred each year.



1	1,30,000	$60,000 \times 130,000 / 360,000 = \mathbf{21,667}$	$60,000 - 21,667 = \mathbf{38,333}$
2	1,10,000	$60,000 \times 110,000 / 360,000 = \mathbf{18,333}$	$38,333 - 18,333 = \mathbf{20,000}$
3	1,20,000	$60,000 \times 120,000 / 360,000 = \mathbf{20,000}$	$20,000 - 20,000 = \mathbf{0}$
Total	3,60,000	60,000	

The grant income will be recognised in each year in ratio of labour costs incurred. The balance amount in Deferred Income will be recognised in Balance Sheet as a liability.

b) If there is no reasonable assurance that the grant would be received, the deferred income will be credited with the amount of government grant received.

Year 1 – on receipt of grant

Bank A/c Dr. Rs. 40,000
 To Deferred Grant Income Rs. 40,000

Year 2 & Year 3

Bank A/c Dr. Rs. 10,000
 To Deferred Grant Income Rs. 10,000

	Year 1	Year 2	Year 3	Total	Deferred Grant Closing
Cost (₹)	130,000	110,000	1,20,000	360,000	
Ratio	13	11	12	36	
Grant Received	40,000	10,000	10,000	60,000	
Grant Income					
Year 1	$40,000 \times 13/36 = 14,445$			14,445	$40,000 - 14,445 = 25,555$
Year 2	$40,000 \times 11/36 = 12,222$	$10,000 \times 11/23 = 4,783$		17,005	$25,555 + 10,000 - 17,005 = 18,550$
Year 3	$40,000 \times 12/36 = 13,333$	$10,000 \times 12/23 = 5,217$	10,000	28,550	0
			–		

Grant Income = Cost in respective year x Grant Amount

Total Cost

Deferred Income Balance = Total Grant received till date - amount transferred to other income.

20. Illustration

A Ltd. has received a grant of Rs. 10,00,00,000 in the year 20X1-20X2 from local government in the form of subsidy for selling goods at lower price to lower income group population in a particular area for two years.

A Ltd. had accounted for the grant as income in the year 20X1-20X2. While accounting for the grant in the year 20X1-20X2, A Ltd. was reasonably assured that all the conditions attached to the grant will be complied with.



How should A Ltd. reflect repayable grant in its financial statements ending 20X5-20X6?

Since the entire grant was **already recognised as income** in 20X1–20X2 and **no deferred income exists**, the **full refund** will now be **charged to Profit & Loss** in 20X5–20X6

To Bank A/c	₹10,00,00,000
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	Grant reduced from Cost of Asset		
Year	Opening Balance	Depreciation	WDV at end
1	3,00,000	60,000	2,40,000
2	2,40,000	60,000	1,80,000
	Carrying amount at end of Year 2		1,80,000
	Add: Refund of Grant		2,00,000
	Carrying amount		3,80,000
	Less: Additional Depreciation		80,000
	Revised carrying amount		3,00,000
	Plant A/c Dr		
		2,00,000	
	To Bank		2,00,000
	Depreciation charged less		
	Depreciation based on original cost		2,00,000
	Depreciation on reduced cost		1,20,000
	Depreciation to be recognised now		80,000
	-	-	-
	Depreciation A/c Dr	80,000.00	
	To Acc. Depreciation		80,000

A Limited is engaged in the manufacturing of certain specialized chemicals. During the manufacturing process, certain wastewater is produced which is released by A Limited in the



nearby river. To reduce pollution of the rivers, the state government has introduced a scheme with the following salient features:

- If a manufacturer installs certain pre-approved wastewater treatment plant, the government will provide an interest free loan equal to 50% of the cost of the plant;
- Such loan will be repayable to the government in 5 years from the date of disbursal;
- The manufacturer availing the benefit of this scheme must treat the wastewater of its factory using the specified plant before releasing it to the river. If this condition is violated, the entire loan shall become immediately repayable to the government along with a penalty of Rs. 10 lakh.

Cost of the wastewater treatment plant to be installed to avail the benefit of the scheme is Rs. 50 lakh. A Limited decided to utilise this scheme because, if it were to obtain the similar loan from a bank, it would be available at a market interest rate of 12% per annum. Accordingly, A Limited applied for and obtained the government loan of Rs. 25 lakh on 1st April, 20X1. A Limited purchased and installed the plant such that it became ready for use on the same date.

A Limited has an accounting policy of recognising government grant in relation to depreciable assets in the proportion of depreciation expense. It has determined that the plant will be depreciated over a period of 5 years using straight-line method. In the month of March, 20X3, government officials conducted a surprise audit, and it was found that A Limited was not using the wastewater treatment plant as prescribed. Accordingly, on 31st March, 20X3, the government ordered A Limited to repay the entire loan along with penalty. A Limited repaid the loan with interest and penalty as per the order on 31st March, 20X3.

Measure the amount of government grant as on 1st April, 20X1. Determine the nature of the government grant and its accounting treatment (principally) for the year ended 31st March, 20X2. Also determine the impact on profit or loss if any, on account of revocation of government grant as on 31st March, 20X3.

Solution:

Initial Recognition of Government Grant (As on 01-Apr-20X1)

As per Ind AS 20, a loan at a below-market interest rate is considered a **government grant**. The grant is measured as the difference between the **fair value of the loan** and **proceeds received**.

Particulars	Amount (₹)
Loan received from government	25,00,000
Fair value of loan (PV factor @12% for 5 years = 0.567)	14,17,500
Government grant (difference)	10,82,500

Journal Entry (01-Apr-20X1)

Date	Particulars	Debit (₹)	Credit (₹)
01-Apr-20X1	Bank A/c	25,00,000	
	To Loan A/c		14,17,500
	To Deferred Grant Income		10,82,500
	(Being government loan recognized at fair value and grant recognized separately)		



Accounting Treatment for FY 20X1-20X2

- Depreciation (Straight-line method): ₹ 50,00,000 ÷ 5 years = ₹ 10,00,000 per year
- Grant Recognition per year (matching depreciation): ₹ 10,82,500 ÷ 5 = ₹ 2,16,500 per year

Journal Entries for FY 20X1-20X2 (31-Mar-20X2)

Date	Particulars	Debit (₹)	Credit (₹)
31-3-X2	Depreciation A/c	10,00,000	
	To PPE A/c / Accumulated Dep A/c (Being depreciation provided for the year)		10,00,000
31-3-X2	Deferred Grant Income A/c	2,16,500	
	To Profit or Loss A/c (Being grant recognized in profit or loss proportionate to depreciation)		2,16,500

Deferred Grant Income Ledger Movement

Year	Opening Balance (₹)	Adjustment (₹)	Closing Balance (₹)
31-Mar-20X2	10,82,500	(2,16,500)	8,66,000

Impact of Government Grant Revocation (31-Mar-20X3)

- The company violated the **government's conditions**, leading to **full loan repayment + ₹ 10 lakh penalty**.
- As per **Ind AS 20** a government grant that becomes repayable **is treated as a change in estimate** and adjusted **against deferred grant income first**, with any excess recognized **as an expense in Profit or Loss**.

Journal Entries for Repayment (31-Mar-20X3)

Date	Particulars	Debit (₹)	Credit (₹)
31-Mar-20X3	Deferred Grant Income A/c	2,16,500	
	To Profit or Loss A/c (Being deferred income adjusted)		2,16,500
31-Mar-20X3	Loan A/c	17,78,112	
	Deferred Grant Income A/c	6,49,500	
	Profit or Loss A/c (bal fig)	72,388	
	To Government Grant Payable A/c (Being refund of government loan due to non-compliance)		25,00,000
31-Mar-20X3	Profit or Loss A/c	10,00,000	
	To Government Grant Payable A/c (Being penalty payable due to non-compliance)		10,00,000
31-Mar-20X3	Govt Grant Payable A/c Dr.	35,00,000	
	To Bank A/c		35,00,000

Impact on Profit or Loss for FY 20X2-20X3

Particulars	Amount (₹)
Expense Due to Loan Revocation	72,388
Penalty Imposed	10,00,000
Total Impact on Profit or Loss	10,72,388



Working Notes

Loan Amortization Schedule (At Market Rate 12%)

Year	Opening Loan Balance (₹)	Interest @ 12% (₹)	Closing Balance (₹)
31-Mar-20X2	14,17,500	1,70,100	15,87,600
31-Mar-20X3	15,87,600	1,90,512	17,78,112

Deferred Grant Income Schedule

Year	Opening Balance (₹)	Adjustment (₹)	Closing Balance (₹)
31-Mar-20X2	10,82,500	(2,16,500)	8,66,000
31-Mar-20X3	8,66,000	(2,16,500)	6,49,500

If Grant is reduced from Cost of Asset

Cost of Plant	50,00,000
Less: Government Grant	10,82,500
Net Amount of PPE	39,17,500
Depreciation for 2 years (Useful life 5 years)	$39,17,500 \times \frac{2}{5} = 15,67,000$
Carrying amount on date of repayment of grant	23,50,500
(+) Refund of Grant	10,82,500
Revised Carrying Amount	34,33,000
Shortfall in depreciation for 2 years	$20,00,000 - 15,67,000 = 4,33,000$
Carrying Amount after Refund	30,00,000

Loan A/c Dr.	17,78,112	
Plant A/c Dr.	10,82,500	
P&L A/c Dr.	72,388	
To Bank		25,00,000
To Acc. Depreciation		4,33,000

Ind AS 36 Impairment of Assets

22. Illustration

Mars Ltd. gives the following estimates of cash flows relating to property, plant and equipment on 31st March, 20X4. The discount rate is 15%

Year	Cash Flow (₹ in lakh)
20X4-20X5	2,000
20X5-20X6	3,000
20X6-20X7	3,000
20X7-20X8	4,000
20X8-20X9	2,000
Residual Value at 31st March, 20X9	500

- Property, plant & equipment was purchased on 1st April, 20X1 for ₹ 20,000 lakh
- Useful Life was 8 Years
- Residual Value estimated at the end of 8 years - ₹ 500 lakh
- Fair value less cost to disposal - ₹ 10,000 lakh



Calculate impairment loss, if any on the property, plant and equipment. Also calculate the revised carrying amount and revised depreciation of property, plant and equipment

Solution:

(a) Calculation of carrying amount as on 31.03.20x4:

	₹
Original cost on 1st April X1	20,000
Less: Residual value	500
Depreciation amount	19,500
Depreciation per year ($\frac{₹.19500}{8 \text{ years}}$)	2437.5
Depreciation for three years (₹. 2437.5* 3 years)	7312.5
Carrying amount as on 31 March 20x4 (₹.20,000-₹.7312.5)	12687.5

(b) Calculation of value in use:

Year	Cash Flow (₹ in lakh)	P.V.	Amount (₹)
20X4-20X5	2,000	0.869	1,738
20X5-20X6	3,000	0.756	2,268
20X6-20X7	3,000	0.658	1,974
20X7-20X8	4,000	0.572	2,288
20X8-20X9	2,000	0.497	994
Residual Value at 31st March, 20X9	500	0.497	1,242
Total			9,510

(c) Calculation of Recoverable amount:

Recoverable amount= "Value in use" or "fair value less cost of disposal" whichever is higher

Value in use = ₹. 9,510

Fair value less cost of disposal = ₹. 10,000

Recoverable amount = ₹. 10,000

(d) Calculation of Impairment Loss

= Carrying Amount – Recoverable Amount

= 12,687.5 – 10,000 = 2,687.5

(e) Calculation of Revised Carrying Amount:

Particulars	₹
Carrying amount	12,687
Less: Impairment Loss	(2,687)
Revised carrying amount	10,000

(f) Calculation of Revised Depreciation:

= $\frac{\text{Revised carrying amount} - \text{Residual value}}{\text{Remaining life}}$

= $\frac{10,000 - 500}{5} = 1,900$

23. Illustration

PQR Ltd. is the company which has performed well in the past but one of its major assets, an item of equipment, suffered a significant and unexpected deterioration in performance. Management expects to use the machine for a further four years after 31st March 20X6, but at a reduced level. The equipment will be scrapped after four years. The financial accountant for PQR Ltd. has produced a set of cash-flow projections for the equipment for the next four years, ranging from optimistic to pessimistic. CFO thought that the projections were too conservative, and he intended to use the highest figures each year. These were as follows:

	₹ '000
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Year ended 31st March 20X7	276
Year ended 31st March 20X8	192
Year ended 31st March 20X9	120
Year ended 31st March 20Y0	114

The above cash inflows should be assumed to occur on the last day of each financial year. The pre-tax discount rate is 9%. The machine could have been sold at 31st March 20X6 for ₹ 6,00,000 and related selling expenses in this regard could have been ₹ 96,000. The machine had been revalued previously, and at 31st March 20X6 an amount of ₹ 36,000 was held in revaluation surplus in respect of the asset. The carrying value of the asset at 31st March 20X6 was ₹ 6,60,000. The Indian government has indicated that it may compensate the company for any loss in value of the assets up to its recoverable amount.

Calculate impairment loss, if any and revised depreciation of asset. Also suggest how Impairment loss, if any would be set off and how compensation from government be accounted for?

Solution:

a. Calculation of value in use:

Year	Cash Flow	PVF (@9%)	PV of CF
31st March X7	2,76,000.00	0.9174	2,53,202.40
31st March X8	1,92,000.00	0.8417	1,61,606.40
31st March X9	1,20,000.00	0.7722	92,664.00
31st March Y0	1,14,000.00	0.7084	80,757.60
Value in Use			5,88,230.40

b. Calculation of Recoverable amount as on 31st March 20x6

Recoverable amount= "Value in use" or "fair value less cost of disposal" whichever is higher

Value in use = ₹. 5,88,230.4

Fair value less cost of disposal = ₹. 6,00,000 - ₹. 5,04,000= ₹. 96,000

Recoverable amount = ₹. 5,88,230.4

c. Computation of Impairment loss:

	Particulars	₹
(i)	Recoverable amount	5,88,230.40
(ii)	Carrying amount	6,60,000
(iii)	Impairment loss [(i) – (ii)]	71,769.60

d. Treatment of revaluation surplus:

As per Ind AS 36, impairment loss (whether of an individual asset of a CGU) is recognised in the following manner:

- **Impairment loss of a revalued asset:** It is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset. The balance, if any, is recognised as an expense in the statement of profit and loss.
- **Impairment loss of other assets:** Impairment loss of any other asset should be recognised as an expense in the statement of profit and loss.

Since, the asset in question has been revalued upwards, the impairment loss will be adjusted first against the revaluation surplus of ₹.36,000 . The balance amount of ₹. 35,769 (71,769-36,000) will be recognised as an expense in the profit and loss account.

e. Calculation revised depreciation of assets:

(i)	Revised carrying amount	₹. 5,88,230.40
(ii)	Remaining useful life	4 years
(iii)	Depreciation $\left(\frac{(i)}{(ii)}\right)$	₹. 1,47,057.60

24. Illustration

Assets	Carrying Amount	Fair Value less cost of disposal	Impairment	Revised carrying amount
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Plant & Machinery	1,00,000	50,000		
Building	80,000	85,000		
Electric Equipment	40,000	-		
Goodwill	50,000	NA		
Patents	20,000	NA		
Other Monetary assets	60,000	60,000		
Total	3,50,000			
Recoverable amount	2,00,000			

Solution:

Calculation of impairment loss:

Total assets	3,50,000
Less: Recoverable amount	2,00,000
Impairment loss	1,50,000
Less: Goodwill impaired	50,000
Balance impairment loss	1,00,000
Less: impairment loss allocated to plant and machinery (Note 1)	50,000
Balance impairment loss	50,000

Allocation of impairment loss to Electric equipment and patents:

- Electric equipment = ₹. 50,000 * $\frac{40,000}{60,000}$ = ₹. 33,333.33
- Patents = ₹. 50,000 * $\frac{20,000}{60,000}$ = ₹. 16,666.67.

Computation of Revised carrying amount:

Assets	Carrying Amount	Fair Value less cost of disposal	Impairment	Revised carrying amount
Plant & Machinery	1,00,000	50,000	50,000	50,000
Building	80,000	85,000	-	80,000
Electric Equipment	40,000	-	33,333.33	6,666.67
Goodwill	50,000	NA	50,000	0
Patents	20,000	NA	16,666.67	3,333.33
Other Monetary assets	60,000	60,000	-	60,000

Note 1

Allocation of impairment loss to plant and machinery:

- Plant and machinery = ₹. 1,00,000 * $\frac{1,00,000}{1,00,000+40,000+20,000}$ = ₹. 62,500.

Since the Fair value less cost of disposal is ₹. 50,000, the carrying amount after impairment cannot be less than ₹. 50,000. Hence the maximum impairment loss allocated to Plant and machinery is ₹. 50,000

25. Illustration – Corporate Asset

ABC Ltd. has three cash-generating units: A, B and C, the carrying amounts of which as on 31st March, 20X1 are as follows:

Cash-generating units	Carrying amount	(₹ in crore) Remaining useful life
A	500	10
B	750	20
C	1,100	20

ABC Ltd. also has two corporate assets having a remaining useful life of 20 years

	(₹ in crore)
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Corporate asset	Carrying amount	Remarks
X Y	600 200	The carrying amount of X can be allocated on a reasonable basis (i.e., pro rata basis) to the individual cash-generating units. The carrying amount of Y cannot be allocated on a reasonable basis to the individual cash-generating units.

Recoverable amount as on 31st March, 20X1 is as follows:

Cash-generating units	Recoverable amount (₹ in crore)
A	600
B	900
C	1,400
ABC Ltd.	3,200

Calculate the impairment loss, if any. Ignore decimals.

Solution:

Allocation of corporate assets

The carrying amount of X is allocated to the carrying amount of each individual cash-generating unit. A weighted allocation basis is used because the estimated remaining useful life of A's cash-generating unit is 10 years, whereas the estimated remaining useful lives of B and C's cash-generating units are 20 years.

	(₹ In crore)		
Particulars	A	B	C
Carrying Amount of CGU Assets	500	750	1,100
Remaining useful life	10	20	20
Weight based on useful life	1	2	2
Carrying amount (After assigning weight)	500	1,500	2,200
Pro-rata allocation of X	0	0	1
	(500/4200)	(1500/4200)	(2200/4200)
Allocation of carrying amount of X	72	216	312
Carrying amount (after allocation of X)	572	966	1,412

Calculation of impairment loss:

Step I: Impairment losses for individual cash-generating units and its allocation

(a) Impairment loss of each cash-generating units:

	(₹ In crore)		
Particulars	A	B	C
Carrying amount after allocation of X	572	966	1,412
Recoverable amount	600	900	1,400
impairment loss	-	66	12

(b) Allocation of the impairment loss

	(Rs. In crore)			
Allocation to	B		C	
		66 *		
	15	$\frac{216}{966}$	3	$12 * \frac{312}{1412}$



Other assets in cash-generating units	51	$66 * \frac{750}{966}$	9	$66 * \frac{1100}{1412}$
Impairment loss	66		12	

Step II: Impairment losses for the larger cash-generating unit, i.e., ABC Ltd. as a whole

	(& In crore)					
Particulars	A	B	C	X	Y	ABC Ltd
Carrying amount	500	750	1,100	600	200	3,150
impairment loss (step 1)	-	(51)	(9)	(18)	-	(78)
Carrying amount	500	699	1,091	582	200	3,072
Recoverable amount						3,200
Impairment loss for the larger CGU						Nil

26. Illustration

Elia limited is a manufacturing company which deals in to manufacturing of cold drinks and beverages. It is having various plants across India. There is a Machinery A in the Baroda plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also sold independently in the open market.

Machinery B cannot be sold in isolation and without clubbing with Machine A it cannot produce output as well. The Company considers this group of assets as a Cash Generating Unit and an Inventory amounting to ₹ 2 Lakh and Goodwill amounting to ₹ 1.50 Lakhs is included in such CGU. Machinery A was purchased on 1st April 2013 for ₹ 10 Lakhs and residual value is ₹ 50 thousands. Machinery B was purchased on 1st April, 2015 for ₹ 5 Lakhs with no residual value. The useful life of both Machine A and B is 10 years. The Company expects following cash flows in the next 5 years pertaining to Machinery A. The incremental borrowing rate of the company is 10%.

Year	Cash Flows from Machinery A
1	1,50,000
2	1,00,000
3	1,00,000
4	1,50,000
5	1,00,000 (excluding Residual Value)
Total	6,00,000

On 31st March, 2018, the professional valuers have estimated that the current market value of Machinery A is ₹ 7 lakhs. The valuation fee was ₹ 1 lakh. There is a need to dismantle the machinery before delivering it to the buyer. Dismantling cost is ₹ 1.50 lakhs. Specialised packaging cost would be ₹ 25 thousand and legal fees would be ₹ 75 thousand.

The Inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is ₹ 10 Lakh as on 31st March, 2018. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is ₹ 11 Lakhs ie on 31st March, 2019. The Recoverable value of Machine A is ₹ 4,50,000 and combined Machine A and B is ₹ 7,60,000 as on 31st March, 2019

Required:

- Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2018 by providing all the relevant working notes to arrive at such calculation.
- Compute the prospective depreciation for the year 2018-2019 on the above assets.
- Compute the carrying value of CGU as at 31st March, 2019.



Solution:

I. Computation of carrying amount as on 31.03.2018

Particulars	Machine A (2013)	Machine B (2015)
Cost	10,00,000	5,00,000
Residual value	50,000	-
Depreciable amount	9,50,000	5,00,000
Useful life (years)	10	10
Depreciation per year	95,000	50,000
No of years elapsed	5	3
Accumulated depreciation	4,75,000	1,50,000
Carrying Amount (31.03.18)	5,25,000	3,50,000

II. Computation of Recoverable Amount for Machine A

A. Computation of value in use

Years	Cashflow	PVF (10%)	PV of Cashflows
1	1,50,000	0.909	1,36,365
2	1,00,000	0.827	82,650
3	1,00,000	0.751	75,140
4	1,50,000	0.683	1,02,465
5	1,00,000	0.621	62,100
5(Residual value)	50,000	0.621	31,050
	Value in use for Machine A		4,89,770

B. Computation of Fair value less cost of disposal:

Estimated Fair value	7,00,000
Less: Cost of disposal	
1. Dismantling Costs	1,50,000
2. Packaging	25,000
3. Legal fees	75,000
Total cost of disposal	2,50,000
FV less Cost of disposal	4,50,000

C. Computation of Recoverable amount:

Recoverable amount is higher of Fair value less cost of disposal and value in use. Hence, the recoverable amount is ₹. 4,89,770.

III. Computation of carrying amount of Machine A after impairment loss:

Particulars	₹
Recoverable amount	4,89,770



Less: Carrying Amount of Machine A as on 31st March 2018 (Note 1)	5,25,000
Impairment loss	35230
Carrying amount of Machine A (Note I)	5,25,000
Less: Impairment loss	35,230
carrying amount of Machine A after impairment loss	4,89,770

IV. Computation of revised carrying amount:

	Carrying Amount	Impairment loss	Revised Carrying Amount
Machine - A	489770	0	489770
Machine - B	350000	39770	310230
Inventory	200000	0	200000
Goodwill	150000	150000	0
Carrying Amount of CGU	1189770	189770	1000000
Recoverable Amount of CGU	1000000		
Impairment loss	189770		
Less: Goodwill	150000		
Balance	39770		

V. Computation of carrying amount as on 31.03.2019

	Machine A	Machine B
Carrying Amount (31.03.18)	4,89,770	3,10,230
Residual value	50,000	-
Depreciable Amount	4,39,770	3,10,230
Remaining life	5	7
Depreciation	87,954	44,319.47
Carrying Amount (31.03.19)	4,01,816	2,65,911.53

VI. Computation of impairment loss/excess:

Particulars	₹
Machine A	4,01,816.00
Machine B	2,65,911.43
Inventory	2,00,000.00
Goodwill	-
Total Carrying Amount of CGU	8,67,727.43
Recoverable amount	11,00,000.00
Excess	2,32,272.57

VII. Reversal of impairment loss:

Particulars	Machine A	Machine B	Inventory
Carrying amount before Impairment loss (31.03.18)	5,25,000.00	3,50,000.00	
Less: Depreciation on original cost basis	95,000.00	50,000.00	
Carrying Amount without impairment	4,30,000.00	3,00,000.00	2,00,000.00



Carrying Amount after impairment (Note V)	4,01,816.00	2,65,911.43	2,00,000.00
Reversal of impairment loss	28,184.00	34,088.57	-

27. Illustration (Students are advised to revisit this question after completing Ind AS 103)

A Ltd acquires 80% shares of a subsidiary B Ltd. for ₹ 3,200 thousand. At the date of acquisition, B Ltd.'s identifiable net assets is ₹ 3,000 thousand. A elects to measure NCI at proportionate share of net identifiable assets. It recognizes

	₹ in '000
Purchase Consideration	3,200
NCI (3,000 x 20%)	600
	3,800
Less: Net Assets	(3,000)
Goodwill	800

At the end of next financial year, B Ltd.'s carrying amount is reduced to ₹ 2,700 thousand (excluding goodwill).

Recoverable amount of B Ltd.'s assets is

Case (i) ₹ 2,000

Case (ii) ₹ 2,800

Calculate impairment loss allocable to Parent and NCI in both the cases.

Solution:

Note 1: Calculation of Goodwill

Particulars	Amount
Purchase Consideration	3,200
Add: NCI Share in net assets (20% of 3,000)	600
	3,800
Less: Net Assets	3,000
Goodwill (80%)	800
Notional Goodwill (20%)	200

Case (i) → Recoverable amount is ₹ 2,000

Carrying amount of goodwill as at the end of financial year:

	Other Assets	Goodwill	Total
Carrying Amount	2,700	800	3,500
Add: Notional Goodwill for NCI	0	200	200
Total Carrying Amount	2,700	1,000	3,700

Calculation of impairment loss:

	Other Assets	Goodwill	Total
Carrying Amount	2,700	1,000	3,700
Recoverable amount			2,000



Impairment loss		-	1,700
-----------------	--	---	-------

Allocation:

	Parent [80%]	NCI [20%]	Total
Goodwill	800	200	1,000
Other Net Assets	560	140	700
Total	1,360	340	1,700

Case (ii)→ Recoverable amount is ₹ 2,800

Carrying amount of goodwill as at the end of financial year:

	Other Assets	Goodwill	Total
Carrying Amount	2,700	800	3,500
Add: Notional Goodwill for NCI	0	200	200
Total Carrying Amount	2,700	1,000	3,700

Calculation of impairment loss:

	Other Assets	Goodwill	Total
Carrying Amount	2,700	1,000	3,700
Recoverable amount			2,800
Impairment loss		-	900

Allocation:

	Parent [80%]	NCI [20%]	Total
Goodwill	720	180	900
Total	720	180	900

28. Illustration

A freehold property was originally acquired for Rs.40,00,000. Some years later, after cumulative depreciation of Rs.11,00,000 has been recognised, an impairment loss of Rs.3,50,000 is recognised, taking the carrying amount to Rs.25,50,000, which represents the estimated value in use of the property. Shortly thereafter, as a consequence of a proposed move to new premises, the freehold property is classified as held for sale.

At the time of classification as held for sale:

- carrying amount is Rs.25,50,000; and
- fair value less costs to sell is assessed at Rs.25,00,000.



At the reporting date fair value less costs to sell is 26,50,000. After 6 months the fair value less cost to sell increases to 30,00,000.

Solution

Step 1: Initial Recognition & Impairment

Particulars	Amount (Rs.)
Original Cost	40,00,000
Less: Accumulated Depreciation	(11,00,000)
Carrying Amount Before Impairment	29,00,000
Less: Impairment Loss Recognised	(3,50,000)
Carrying Amount After Impairment	25,50,000

- The impairment loss of **Rs.3,50,000** is recognised, bringing the carrying amount to **Rs.25,50,000**, which reflects its value in use.

Step 2: Classification as Held for Sale

Particulars	Amount (Rs.)
Carrying Amount Before Classification	25,50,000
Fair Value Less Costs to Sell	25,00,000
Initial Write-Down on Classification	(50,000)
Carrying Amount After Classification	25,00,000

- Since **Fair Value Less Costs to Sell (Rs.25,00,000)** is lower than **Carrying Amount (Rs.25,50,000)**, a further write-down of **Rs.50,000** is recorded.
- Depreciation ceases** from this point as per Ind AS 105.
- Cumulative impairment loss is 3,50,000 + 50,000 = 4,00,000**

Step 3: Reassessment at the Next Reporting Date

Particulars	Amount (Rs.)
Fair Value Less Costs to Sell (Revised)	26,50,000
Previous Carrying Amount	25,00,000
Impairment Reversal	1,50,000
Updated Carrying Amount	26,50,000

- Since the market value has increased, **Rs.1,50,000 of the previous impairment loss is reversed**, subject to the impairment loss reversal limit.

Step 4: Further Increase in Fair Value After 6 Months

Particulars	Amount (Rs.)
Fair Value Less Costs to Sell (Revised Again)	30,00,000
Previous Carrying Amount	26,50,000
Increase in value	3,50,000
Further Impairment Reversal (Restricted to total impairment recognised earlier less reversals)	2,50,000
[4,00,000 – 1,50,000]	
Updated Carrying Amount	29,00,000



- **Another Rs.2,50,000 impairment reversal** is recognised as the market value further increases, ensuring total reversal does not exceed earlier impairment loss.

Step 5: Final Sale Transaction

Particulars	Amount (Rs.)
Final Sale Price	30,00,000
Carrying Amount Before Sale	29,00,000
Gain on Sale Recognised	1,00,000

- Since the property is finally sold at **Rs.30,00,000**, a **gain of Rs.1,00,000** is recognised in the income statement.

29. Illustrations

Following is the extract of the consolidated financial statements of A Ltd. for the year ended on:

Asset/ (liability)	Carrying amount as on 31st March, 20X1 (In '000)
Attributed goodwill	200
Intangible assets	950
Financial asset measured at fair value through other comprehensive income	300
Property, plant & equipment	1100
Deferred tax asset	250
Current assets – inventory, receivables, and cash balances	600
Current liabilities	(850)
Non-current liabilities – provisions	(300)
Total	2,250

On 15th September 20X1, Entity A decided to sell the business. It noted that the business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with that standard.

The disposal group is stated at the following amounts immediately prior to reclassification as held for sale.

Asset/ (liability)	Carrying amount as on 15th September 20X1 (In '000)
Attributed goodwill	200
Intangible assets	930



Financial asset measured at fair value through other comprehensive income	360
Property, plant & equipment	1020
Deferred tax asset	250
Current assets – inventory, receivables, and cash balances	520
Current liabilities	(870)
Non-current liabilities – provisions	(250)
Total	2160

Entity A proposed to sell the disposal group at Rs.19,00,000. It estimates that the costs to sell will be Rs.70,000. This cost consists of professional fee to be paid to external lawyers and accountants.

As at 31st March 20X2, there has been no change to the plan to sell the disposal group and entity A still expects to sell it within one year of initial classification. Mr. X, an accountant of Entity A remeasured the following assets/ liabilities in accordance with respective standards as on 31st March 20X2:

Available for sale:	(In '000)
Financial assets	410
Deferred tax assets	230
Current assets- Inventory, receivables, and cash balances	400
Current liabilities	900
Non- current liabilities- provisions	250

The disposal group has not been trading well and its fair value less costs to sell has fallen to 16,50,000.

Required:

What would be the value of all assets/ liabilities within the disposal group as on the following dates in accordance with Ind AS 105?

(a) 15 September, 20X1 and

(b) 31st March, 20X2

Answers:

(a) As at 15 September, 20X1

The disposal group should be measured at Rs. 18,30,000 (19,00,000-70,000). The impairment write down of Rs. 3,30,000 (Rs. 21,60,000 – Rs. 18,30,000) should be recorded within profit from continuing operations.

The impairment of Rs. 3,30,000 should be allocated to the carrying values of the appropriate noncurrent assets.



Asset/ (liability)	Carrying amount as on 15th September 20X1 (In '000)	Impairment	Revised carrying value as per IND AS 105
Attributed goodwill	200	(200)	-
Intangible assets	930	(62)	868
Financial asset measured at fair value through other comprehensive income	360	-	360
Property, plant & equipment	1020	(68)	952
Deferred tax asset	250	-	250
Current assets – inventory, receivables, and cash balances	520	-	520
Current liabilities	(870)	-	(870)
Non-current liabilities – provisions	(250)	-	(250)
	2160	(330)	1830

The impairment loss is allocated first to goodwill and then pro rata to the other assets of the disposal group within Ind AS 105 measurement scope.

Following assets are not in the measurement scope of the standard

- financial asset measured at other comprehensive income,
- the deferred tax asset or the current assets.

In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

(b) As on 31 March, 20X2

All of the assets and liabilities, outside the scope of measurement under Ind AS 105, are remeasured in accordance with the relevant standards.

The assets that are remeasured in this case under the relevant standards are the Financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset/ (liability)	Carrying amount as on 15 September, 20X1	Carrying Amount as on 31 st March 20X2	Impairment	Revised carrying value as per Ind AS105
Attributed goodwill	-	-	-	-
Intangible assets	868	868	(29)	839
Financial asset	360	410	-	410



measured at fair value through other				
Property, plant & Equipment	952	952	(31)	921
Deferred tax asset	250	230	-	230
Current assets " inventory, receivables and cash balances	520	400	-	400
Current liabilities	(870)	(900)	-	(900)
Non-current liabilities "provisions	(250)	(250)	-	(250)
Total	1,830	1710	(60)	1,650

The carrying amount of disposal group is 17,10,000 and the fair value less costs to sell is 1650,000. Hence an impairment loss of 60,000 is recognised in ratio of carrying amount of intangible asset and PPE.

30. Illustration

On 1st June, 20X1, entity X plans to sell a group of assets and liabilities, which is classified as a disposal group. On 31st July, 20X1, the Board of Directors approves and becomes committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity Y.

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 30th November, 20X1 and the sale is expected to be completed by 31st March, 20X2. Entity X follows December year end.

The assets and liabilities attributable to this manufacturing unit are as under:

Particulars	Carrying value as on 31st December, 20X0	Carrying value as on 31st July, 20X1
Goodwill	500	500
Plant and Machinery	1,000	900
Building	2,000	1,850
Debtors	850	1,050
Inventory	700	400
Creditors	(300)	(250)
Loans	(2,000)	(1,850)
	2,750	2,600

The fair value of the manufacturing unit as on 31st December, 20X0 is 2,000 and as on 31st July, 20X1 is 1,850. The cost to sell is 100 on both these dates. The disposal group is not sold at the period end i.e., 31st December, 20X1. The fair value as on 31st December, 20X1 is lower than the carrying value of the disposal group as on that date.

Required:



1. Assess whether the manufacturing unit can be classified as held for sale and reasons there for. If yes, then at which date?
2. The measurement of the manufacturing unit as on the date of classification as held for sale.
3. The measurement of the manufacturing unit as at the end of the year.

Solution:

Assessing whether the manufacturing unit can 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 must be classified as held for sale is 31st July, 20X1, 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, 20X2, i.e., within one year from the date of classification.

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, 20X1 is determined at ₹. 2,600. The difference between the carrying value as on 31st December, 20X0 and 31st July, 20X1 is accounted for as per the relevant Ind AS.

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, 20X1 is ₹.1,750 (i.e. ₹.1,850 - ₹.100). This is lower than the carrying value of ₹.2,600. Thus, an impairment loss needs to be recognised and allocated first towards goodwill and thereafter pro-rata between non-current 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:

Particulars	Carrying value – 31 st July, 20X1	Impairment	Carrying value as per Ind AS 105 – 31 st July, 20X1
Goodwill	500	(500)	-
Plant and Machinery	900	(115)	785



Building	1850	(235)	1615
Debtors	1050	-	1050
Inventory	400	-	400
Creditors	(250)	-	(250)
Loans	(1850)	-	(1850)
	2600	(850)	1750

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.

Ind AS 116 Leases

31. Illustration

Given,

- Lease Term – 10.00 years
- Annual Lease Payment (beginning) Rs.2,00,000
- First lease payment before commencement of lease:
 - Initial direct cost (Lessee) Rs.20,000
 - Reimbursement of IDC by Lessor Rs.5,000
- Implicit rate of return in lease is not readily determinable
 - Incremental borrowing rate @ 6%

Show accounting in books of lessee at commencement of lease

Answer:

Computation of lease liability:

= Annual payment * PVF (6%, 9 years)

= ₹ 2,00,000 * 6.8017 = ₹ 13,60,338

Computation of ROU Asset

Particulars	₹
Lease liability	13,60,338
Add: Initial direct cost	20,000
Add Lease payment before commencement	2,00,000
Less: Lease incentive	5,000
ROU Asset	15,75,338

Journal Entry

Lessor's A/c	Dr.	2,00,000	
To Bank A/c			2,00,000



(₹ 2,00,000 paid as an advance before commencement)		
ROU Asset Dr.	15,80,338	
To Lease liability A/c		13,60,338
To Bank A/c (Initial Direct cost)		20,000
To Lessor's A/c		2,00,000
(Entry made for ROU Asset)		
Bank A/c Dr.	5,000	
To ROU Asset		5,000
(Reimbursement of Initial Direct Cost)		

32. Illustration

Entity W entered into a contract for lease of retail store with Entity J on January 01/01/20X1. The initial term of the lease is 5 years with a renewal option of further 3 years.

The annual payments for initial term and renewal term is Rs. 100,000 and Rs. 110,000 respectively. The annual lease payment will increase based on the annual increase in the CPI at the end of the preceding year. For example, the payment due on 01/01/20X2 will be based on the CPI available at 31/12/20X1.

Entity W's incremental borrowing rate at the lease inception date and as at 01/01/20X4 is 5% and 6% respectively and the CPI at lease commencement date and as at 01/01/20X4 is 120 and 125 respectively.

At the lease commencement date, Entity W did not have a significant economic incentive to exercise the renewal option. In the first quarter of 20X4, Entity W installed unique lease improvements into the retail store with an estimated five-year economic life.

Entity W determined that it would only recover the cost of the improvements if it exercises the renewal option, creating a significant economic incentive to extend.

Is Entity W required to remeasure the lease in the first quarter of 20X4?

Answer:

Since Entity W is now reasonably certain that it will exercise its renewal option, it is required to remeasure the lease in the first quarter of 20X4.

The following table summarizes information pertinent to the lease remeasurement.

Remeasured lease term	5 years; 2 years remaining in the initial term plus 3 years in the renewal period
Entity W's incremental borrowing rate on the remeasurement date	6%
CPI available on the remeasurement date	125
Right-of-use asset immediately before the remeasurement	₹ 1,81,840 (Refer note 1)
Lease liability immediately before the remeasurement	₹ 1,95,244 (Refer note 1)

To remeasure the lease liability, Entity W would first calculate the present value of the future lease payments for the new lease term (using the updated discount rate of 6%). The following table shows the present value of the future lease payments based on an updated CPI of 125. Since the initial lease payments were based on a CPI of 120, the CPI has increased



by 4.167% approx. As a result, Entity W would increase the future lease payments by 4.167%. As shown in the table, the revised lease liability is ₹ 4,91,376.

Year	4	5	6	7	8	Total
Lease payment	1,04,167	1,04,167	1,14,583	1,14,583	1,14,583	5,52,083
Discount @ 6%	1	0.943	0.890	0.840	0.792	
Present value	1,04,167	98,230	1,01,979	96,250	90,750	4,91,376

To calculate the adjustment to the lease liability, Entity W would compare the recalculated and

original lease liability balances on the remeasurement date.

Revised lease liability	4,91,376
Original lease liability	(1,95,244)
	2,96,132

Entity W would record the following journal entry to adjust the lease liability.

ROU Asset Dr.	2,96,132	
To Lease liability		2,96,132
Being lease liability and ROU asset adjusted on account of remeasurement.		

Working Notes:

1. Calculation of ROU asset before the date of remeasurement

Year beginning	Lease Payment (A)	Present value factor @ 5% (B)	Present value of lease payments (A x B=C)
1	1,00,000	1.000	1,00,000
2	1,00,000	0.952	95,200
3	1,00,000	0.907	90,700
4	1,00,000	0.864	86,400
5	1,00,000	0.823	82,300
Lease liability as at commencement date			4,54,600

2. Calculation of Lease Liability and ROU asset at each year end

Year	Lease Liability				ROU asset		
	Initial value	Lease payments	Interest expense @ 5%	Closing balance	Initial Value	Depreciation	Closing balance
	a	b	c = a x 5%	d = a-b + c	e	f	g
1	4,54,600	1,00,000	17,730	3,72,330	4,54,600	90,920	3,63,680
2	3,72,330	1,00,000	13,617	2,85,947	3,63,680	90,920	2,72,760



3	2,85,947	1,00,000	9,297	1,95,244	2,72,760	90,920	1,81,840
4	1,95,244				1,81,840		2,20,770

33. Illustration

Lessee enters into a 10-year lease for 5,000 square metres of office space. The annual lease payments are Rs. 1,00,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined.

Lessee's incremental borrowing rate at the commencement date is 6% p.a.

At the beginning of Year 7, Lessee and Lessor agree to amend the original lease by extending the contractual lease term by four years. The annual lease payments are unchanged (i.e., Rs. 1,00,000 payable at the end of each year from Year 7 to Year 14).

Lessee's incremental borrowing rate at the beginning of Year 7 is 7% p.a.

How should the said modification be accounted for?

Answer:

At the effective date of the modification (at the beginning of Year 7), Lessee remeasures the lease liability based on:

- (a) An eight-year remaining lease term
- (b) Annual payments of ₹ 1,00,000 and
- (c) Lessee's incremental borrowing rate of 7% p.a.

The modified lease liability equals ₹ 5,97,100 (W.N.1).

The lease liability immediately before the modification (including the recognition of the interest expense until the end of Year 6) is ₹ 3,46,355 (W.N.3).

Lessee recognises the difference between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification (i.e., ₹ 2,50,745) (W.N. 4) as an adjustment to the ROU Asset.

Working Notes:

1. Calculation of modified lease liability:

PV of lease liability = 1,00,000 x PVAF (7%, 8 years)

1,00,000 x 5.971



=5,97,100

2. Calculation of Lease liability as at commencement date:

PV of lease liability = 1,00,000 x PVAF (6%, 10 years)

= 1,00,000 x 7.359

= 7,35,900

3. Calculation of Lease liability immediately before modification date:

Year	Initial value	Lease payments	Interest expense @ 6%	Closing balance
	a	b	c = a x 6%	d = a-b + c
1	7,35,900	100,000	44,154	6,80,054
2	6,80,054	100,000	40,803	6,20,857
3	3,10,429	100,000	37,251	5,58,108
4	5,58,108	100,000	33,486	4,91,594
5	4,91,594	100,000	29,496	4,21,090
6	4,21,090	100,000	25,265	3,46,355
				3,46,355

4. Adjustment to ROU asset:

Modified Lease liability	5,97,100
Original Lease liability as at modification date	(3,46,355)
Adjustment to ROU asset	2,50,745

The ROU asset will be increased by ₹ 2,50,745 on the date of modification.

34. Illustration

Lessee enters into a 10-year lease for 5,000 square metres of office space. The annual lease payments are Rs. 50,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6% p.a.

At the beginning of Year 6, Lessee and Lessor agree to amend the original lease to reduce the space to only 2,500 square metres of the original space starting from the end of the first quarter of Year 6. The annual fixed lease payments (from Year 6 to Year 10) are Rs. 30,000. Lessee's incremental borrowing rate at the beginning of Year 6 is 5% p.a.

How should the said modification be accounted for?

Answer:



Note: First we reduce the ROU asset and Lease liability proportionately in ratio of reduction in area and then remeasure liability.

Step 1: Initial Lease Liability and ROU Asset Calculation

Entity Lessee enters into a 10-year lease for 5,000 sq. metres of office space, with annual lease payments of ₹ 50,000 payable at year-end. Since the implicit rate is not available, the incremental borrowing rate of 6% is used.

Calculation of Lease Liability and ROU Asset at Commencement

- PVA at 6% for 10 years = 7.3600
- Lease Payment = ₹ 50,000 per year
- Present Value of Lease Payments = ₹ 50,000 × 7.3600 = ₹ 3,68,000
- Initial Lease Liability = ₹ 3,68,000
- Initial ROU Asset = ₹ 3,68,000

Step 2: Pre-Modification Lease Liability and ROU Asset Balances

At the beginning of Year 6, before modification, the lease liability and ROU asset balances are:

ROU Asset Balance Calculation

- ROU Asset at commencement = ₹ 3,68,000
- Depreciation for 5 years (Straight-line basis) = ₹ 3,68,000 / 10 × 5 = ₹ 1,84,000
- ROU Asset at the beginning of Year 6 = ₹ 1,84,000
- 50% of remaining ROU Asset = ₹ 92,000

Lease Liability Amortization Schedule (Years 1-5)

Year	Opening Balance (₹)	Interest @ 6% (₹)	Lease Payment (₹)	Closing Balance (₹)
1	3,68,000.00	22,080.00	(50,000.00)	3,40,080.00
2	3,40,080.00	20,404.80	(50,000.00)	3,10,484.80
3	3,10,484.80	18,629.09	(50,000.00)	2,79,113.89
4	2,79,113.89	16,746.83	(50,000.00)	2,45,860.72
5	2,45,860.72	14,751.64	(50,000.00)	2,10,612.36

Calculation of Lease Liability for Remaining 5 Years

- PV of ₹ 50,000 for 5 years @ 6% = ₹ 2,10,615
- PV of ₹ 25,000 for 5 years @ 6% = ₹ 1,05,308 (considering 50% of space)

Thus, the lease liability before modification is ₹ 2,10,615.

Step 3: Lease Modification Adjustment

At the beginning of Year 6, the lease is modified to reduce office space to 2,500 sq. metres, reducing the annual lease payment to ₹ 30,000 for the remaining 5 years. The new incremental borrowing rate is 5%.

Proportionate Reduction

- ROU Asset Reduction (50% of ₹ 1,84,000) = ₹ 92,000
- Lease Liability Reduction (50% of ₹ 2,10,615) = ₹ 1,05,308
- Gain on modification (Lease Liability Reduction - ROU Asset Reduction)
= ₹ 1,05,308 - ₹ 92,000 = ₹ 13,308



Journal Entry for Lease Reduction

Lease Liability A/c Dr. ₹ 1,05,308
 To ROU Asset A/c ₹ 92,000
 To Profit & Loss A/c ₹ 13,308

(To record lease modification gain and reduce ROU Asset)

Step 4: Reassessment of Lease Liability Post-Modification [Consider new rent with new rate]

Since the **remaining lease liability (₹ 1,05,308)** is **lower** than the **new lease liability (₹ 1,29,870)**, the difference of **₹ 24,562** is adjusted in the ROU Asset.

Revised Lease Liability Calculation (5 Years, 5% Discount Rate)

Year	Lease Payment (₹)	Discount Factor @ 5%	Present Value (₹)
6	30,000	0.952	28,560
7	30,000	0.907	27,210
8	30,000	0.864	25,920
9	30,000	0.823	24,690
10	30,000	0.784	23,520
Total	1,50,000		1,29,870

Thus, **new lease liability after modification = ₹ 1,29,870.**

Journal Entry for Lease Adjustment

ROU Asset A/c Dr. ₹ 24,562
 To Lease Liability A/c ₹ 24,562

(To adjust ROU Asset for revised lease liability)

35. Illustration

Lessee enters into a 10-year lease for 5,000 square metres of office space. At the beginning of Year 6, Lessee and Lessor agree to amend the original lease for the remaining five years to reduce the lease payments from Rs. 1,00,000 per year to Rs. 95,000 per year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6% p.a. Lessee's incremental borrowing rate at the beginning of Year 6 is 7% p.a. The annual lease payments are payable at the end of each year.

How should the said modification be accounted for?

Answer:

Step 1: Initial Lease Liability and ROU Asset Calculation at Lease Commencement

Calculation of Lease Liability and ROU Asset at commencement

PVAF (6%, 10 years) 7.36
Lease payments 1,00,000.00
PV of Lease payments at beg of Y1 7,36,000.00



Step 2: Lease Liability Before Modification (Years 1-5)

Year	Opening bal	Int @ 6%	Payment	Closing
1	7,36,000	44,160	(1,00,000)	6,80,160
2	6,80,160	40,810	(1,00,000)	6,20,970
3	6,20,970	37,258	(1,00,000)	5,58,228
4	5,58,228	33,494	(1,00,000)	4,91,721
5	4,91,721	29,503	(1,00,000)	4,21,225

Step 3: Remeasuring Lease Liability After Modification

At the **beginning of Year 6**, the lease is modified with the following changes:

- Remaining lease term: 5 years
- New annual lease payment: ₹ 95,000
- New incremental borrowing rate: 7%
- PVAF 7%, 5 Years = 4.100

Calculation of Lease Liability Post-Modification = $95,000 \times 4.1 = 389,500$

Step 4: Adjustment to ROU Asset

The difference between **modified lease liability (₹ 3,89,500)** and the **pre-modification lease liability (₹ 4,21,224)** ₹ 31,724 is adjusted against the ROU Asset.

Lease Liability A/c Dr. ₹ 31,724
To ROU Asset A/c ₹ 31,724

(To adjust ROU Asset for revised lease liability due to lease modification)

36. Illustration

Lessee enters into a 10-year lease for 2,000 square metres of office space. The annual lease payments are Rs. 1,00,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6% p.a.

At the beginning of Year 6, Lessee and Lessor agree to amend the original lease to:

- include an additional 1,500 sq. mtr of space in the same building starting from the beginning of Year 6 and
- reduce the lease term from 10 years to eight years. The annual fixed payment for the 3,500 square metres is Rs. 1,50,000 payable at the end of each year (from Year 6 to Year 8).

Lessee's incremental borrowing rate at the beginning of Year 6 is 7% p.a.

The consideration for the increase in scope of 1,500 square metres of space is not commensurate with the stand-alone price for that increase adjusted to reflect the circumstances of the contract. Consequently, Lessee does not account for the increase in scope that adds the right to use an additional 1,500 square metres of space as a separate lease.



How should the said modification be accounted for?

Answer:

Step 1: Initial Lease Liability and ROU Asset Calculation at Lease Commencement

Calculation of Lease Liability and ROU Asset at commencement

PVAF (6%, 10 years)	7.36
Lease payments	1,00,000.00
PV of Lease payments at beg of Y1	7,36,000.00

Step 2: Lease Liability Before Modification (Years 1-5)

Year	Opening bal	Int @ 6%	Payment	Closing
1	7,36,000	44,160	(1,00,000)	6,80,160
2	6,80,160	40,810	(1,00,000)	6,20,970
3	6,20,970	37,258	(1,00,000)	5,58,228
4	5,58,228	33,494	(1,00,000)	4,91,721
5	4,91,721	29,503	(1,00,000)	4,21,225

Step 3: Lease Modification Adjustments (Reduction in term)

Lease liability for original 2000 Sq meters as at beg of Y6 for 3 years

Lease Payments	1,00,000
PVAF (6%, 3 Years)	2.6730
Lease Liability for 2000 Sq meters at beg of Y6.	2,67,300

Particulars	Lease Liability	ROU Asset
Carrying amount at end of Y5 (for 5 years)	421,225	368,000 [7,36,000 x 5/10]
Recomputed for 2000 Sqm	2,67,300	220,800 [368000 x 3/5]
Difference	153,925	147200

Journal Entry

Lease Liability Dr.	Rs. 153,925	
To ROU Asset		Rs. 147,200
To P&L		Rs. 6,725

Step 4: Lease Modification Adjustments (increase in scope/area)



Lease Payments	1,50,000
PVAF (7%, 3 Years)	2.6243
Lease Liability for 2000 Sq meters at beg of Y6.	393,645
Lease Liability recomputed above	2,67,300
Difference (Adjust to ROU)	1,26,345

ROU Asset A/c Dr. Rs. 1,26,345

To Lease Liability Rs. 1,26,345

Breakup of changes on account of modification				
	Existing lease payments		Liability	
	Lease Payments	1,00,000		
	PVAF(6%,3Y)	2.6730	2,67,300	
	PVAF(7%,3Y)	2.6243	2,62,430	
			4,870	Reduction
	Increase in Lease Liability due to increase in space			
	Lease Payments	50,000		
	PVAF(7%,3Y)	2.6243	1,31,215	Increase
	Net Increase		1,26,345	

37. Illustration

A Dealer-Lessor enters into a 10-year lease of equipment with Lessee. The equipment is not specialised in nature and is expected to have alternative use to Lessor at the end of the 10-year lease term. Under the lease:

- Lessor receives annual lease payments of Rs 15,000, payable at the end of the year. Lessor expects the residual value of the equipment to be Rs 50,000 at the end of the 10-year lease term.
- Lessee provides a residual value guarantee that protects Lessor from the first Rs 30,000 of loss for a sale at a price below the estimated residual value at the end of the lease term (i.e., Rs 50,000).
- The equipment has an estimated remaining economic life of 15 years, a carrying amount of Rs.1,00,000 and a fair value of Rs 1,11,000.
- The lease does not transfer ownership of the underlying asset to Lessee at the end of the lease term or contain an option to purchase the underlying asset.
- The interest rate implicit in the lease is 10.078%.

How should the Lessor account for the same in its books of accounts?



Lessor shall classify the lease as a FINANCE LEASE because the sum of the present value of lease payments amounts to substantially all of the fair value of the underlying asset.

At lease commencement, Lessor accounts for the finance lease, as follows:

Net investment in the lease	₹ 1,11,000(a)	
Cost of goods sold	₹ 92,340(b)	
Revenue		₹ 1,03,340(c)
Property held for lease		₹ 1,00,000(d)

To record the net investment in the finance lease and derecognise the underlying asset.

- i. The net investment in the lease consists of:
 - (i) the present value of 10 annual payments of ₹ 15,000 plus the guaranteed residual value of ₹ 30,000, both discounted at the interest rate implicit in the lease, which equals ₹ 1,03,340 (i.e., the lease payment) (Refer note 1) AND
 - (ii) the present value of unguaranteed residual asset of ₹ 20,000, which equals ₹ 7,660 (Refer note 2).
- ii. Cost of goods sold is the carrying amount of the equipment of ₹ 1,00,000 (less) the present value of the unguaranteed residual asset of ₹ 7,660.
- iii. Revenue equals the lease receivable
- iv. The carrying amount of the underlying asset.

Computation of selling profit

Lease Payment	1,03,340
Cost of Goods Sold	1,00,000 – 7,660 = 92,340
Profit	11,000

Year 1 [Journal entry for a finance lease]

Cash	Dr.	₹ 15,000(e)	
Net investment in the lease			₹ 3,813(f)
Interest income			₹ 11,187(g)

- v. Receipt of annual lease payments at the end of the year
- vi. Reduction of the net investment in the lease for lease payments received of ₹ 15,000, net of interest income of ₹ 11,187
- vii. Interest income is the amount that produces a constant periodic discount rate on the remaining balance of the net investment in the lease. Please refer the computation below:

The following table summarises the interest income from this lease and the related amortisation of the net investment over the lease term:

Year	Annual Rental Payment	Annual Interest Income (h)	Net investment at the end of the year
Initial net investment	-	-	1,11,000
1	15,000	11,187	1,07,187
2	15,000	10,802	1,02,989
3	15,000	10,379	98,368
4	15,000	9,914	93,282
5	15,000	9,401	87,683
6	15,000	8,837	81,520
7	15,000	8,216	74,736
8	15,000	7,532	67,268
9	15,000	6,779	59,047



10	15,000	5,953	50,000(i)
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viii. Interest income equals 10.078% of the net investment in the lease at the beginning of each year. For e.g., Year 1 annual interest income is calculated as ₹ 1,11,000 (initial net investment) x 10.078%.

ix. The estimated residual value of the equipment at the end of the lease term.

Working Notes:

1 Calculation of net investment in lease:

Year	Lease Payment (A)	Present value factor @ 10.078% (B)	Present value of lease payments (A x B = C)
1	15,000	0.908	13,620
2	15,000	0.825	12,375
3	15,000	0.750	11,250
4	15,000	0.681	10,215
5	15,000	0.619	9,285
6	15,000	0.562	8,430
7	15,000	0.511	7,665
8	15,000	0.464	6,960
9	15,000	0.421	6,315
10	15,000	0.383	5,745
10	30,000	0.383	11,480*
			1,03,340

* Figure has been rounded off for equalization of journal entry

2 Calculation of present value of unguaranteed residual asset

Year	Lease Payment (A)	Present value factor @ 10.078% (B)	Present value of lease payments (A x B = C)
10	20,000	0.383	7,660

38. Illustration

Entity X (lessee) entered into a contract with Entity Y (lessor) to lease an office equipment for a period of 5 years.

The following is the information about the lease and the leased assets at lease inception.

Lease term 5 years (no renewal option held by either party)

Purchase option None

Annual lease payments INR 1,95,000

Payment date Annually on April 1

Fair value of the leased equipment INR 12,00,000

Entity Y's carrying amount of the leased equipment INR 12,00,000

Estimated RV INR 4,00,000

INR 3,00,000



Implicit rate in the lease 5%

Economic life of the leased equipment 10 years

Other Title to the asset remains with Entity Y.

At the end of year 1 of the lease, Entity X and Entity Y agree to modify the lease to shorten the lease term by two years.

The relevant information at the modification is given below

Modification date Beginning of year 2

Remaining modified lease term 2 years

Remaining economic life of the leased equipment 7 years

Purchase option None

Annual lease payments INR 1,90,000

Payment date Annually on April 1

Fair value of the leased equipment INR 10,00,000

Estimated residual value at the end of next 2 years INR 7,00,000

Residual value guarantee at the end of next 2 years INR 3,50,000

Interest Rate implicit lease 5.43%

Answer:

Lease schedule - Lessor					
Year	Opening bal	Payment	Bal for Int	Interest 5%	Closing bal
1	12,00,000	1,95,000	10,05,000	50,250	10,55,250

Paragraph 79 of Ind AS 116 states as follows:

"A lessor shall account for a modification to a finance lease as a separate lease if both:

- (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and



- (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Further, paragraph 80 of Ind AS 116 states as follows:

“For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:

(a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:

- (i) account for the lease modification as a new lease from the effective date of the modification; and
- (ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

(b) otherwise, the lessor shall apply the requirements of Ind AS 109.

In accordance with above, Entity Y accounts for the lease modification as below:

(i) Determine if the lease modification is to be accounted for as a separate new lease

Since there is no increase in scope of lease, Entity Y would not account for the modification as a new lease, separate from the original five-year lease. Entity Y would account for a single, modified lease as at the beginning of year 2.

(ii) Reassess lease classification based on the terms of the modified lease

Entity Y would classify the modified lease as an operating lease because it does not transfer substantially all the risks and rewards incidental to ownership of the underlying asset.

PV of lease payments			
		PV @ 5.43%	PV
Fixed LP	1,95,000.00	1.9484	3,79,938.00
GRV	3,50,000.00	0.8996	3,14,860.00
(end of Y3)			6,94,798.00
FV of Asset			10,00,000
	PV/FV		69%

(iii) Account for the modified lease

Entity Y would account for the modified lease by derecognising the net investment in the lease of INR 10,55,201 and recognising the equipment at the same amount.

Dr. PPE 10,55,201

Cr. Net Investment lease 10,55,201

If collectability of the lease payments is probable, Entity Y would recognise the remaining lease payments on a straight-line basis over the two-year modified lease term and record depreciation on the equipment.



39. Illustration – Lease modification (Operating Lease)

Entity X (lessee) enters into an arrangement with Entity Y to lease 10,000 square feet of office space for a period of 10 years. The annual lease payments are INR 1,00,000 in the first year, increased by 5 percent each year thereafter, payable in arrears. The economic life of office space is 40 years.

The present value of office space is not substantially all of the fair value of the office space. Furthermore, the title does not transfer to Entity X as a consequence of the lease and the lease does not contain an option for Entity X to purchase the office space.

At the beginning of Year 6, Entity X and Entity Y agree to amend the original lease for the remaining 5 years to include an additional 10,000 square feet of office space in the same building for an additional annual fixed payment of INR 1,50,000.

How would Entity Y account for the modification in the lease contract?

Answer:

Step 1: Determine If It's a Separate Lease

- Since the **change in lease pricing is not commensurate** with a **stand-alone price**, this is **NOT a separate lease**.
- Entity Y (lessor) must **account for the modification prospectively**.

Step 2: Lease rental to be recognised based on original terms.

Lease payment schedule				
Year	Fixed Lease	Income	Balance	Cumulative
1	1,00,000.00	1,25,779	25,779	25,779
2	1,05,000.00	1,25,779	20,779	46,558
3	1,10,250.00	1,25,779	15,529	62,087
4	1,15,762.50	1,25,779	10,016	72,103
5	1,21,550.63	1,25,779	4,228	76,332
6	1,27,628.16	1,25,779	-1,849	74,482
7	1,34,009.56	1,25,779	-8,231	66,252
8	1,40,710.04	1,25,779	-14,931	51,321
9	1,47,745.54	1,25,779	-21,967	29,354
10	1,55,132.82	1,25,779	-29,354	0

Step 3: Accounting post modification

Years	Original Pmt	Addn Pmt	Total	Income	Diff
6	1,27,628		2,77,628		
		1,50,000		2,75,779	(1,849)
7	1,34,010		2,84,010		
		1,50,000		2,75,779	(8,231)



8	1,40,710	1,50,000	2,90,710	2,75,779	(14,931)
9	1,47,746	1,50,000	2,97,746	2,75,779	(21,967)
10	1,55,133	1,50,000	3,05,133	2,75,779	(29,354)
	Total receivable		14,55,226		(76,332)
	Less: Lease receivable Y5 (accrued already)		(76,332)		
	Balance		13,78,895		
	Income on SLM basis		2,75,779		

40. Illustration – Sale and Leaseback

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of Rs. 30,00,000. Immediately before the transaction, the building is carried at a cost of Rs. 15,00,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 20 years, with annual payments of Rs. 2,00,000 payable at the end of each year.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a performance obligation is satisfied in Ind AS 115 'Revenue from Contracts with Customers'.

The fair value of the building at the date of sale is Rs. 27,00,000. Initial direct costs, if any, are to be ignored. The interest rate implicit in the lease is 12% p.a., which is readily determinable by Seller-lessee.

Buyer-lessor classifies the lease of the building as an operating lease.

How should the said transaction be accounted by the Seller-lessee and the Buyer-lessor?

Answer:

This is a **sale and leaseback** transaction covered by **Ind AS 116**.

- Sale satisfies **Ind AS 115** → transfer qualifies as a **sale**
- Sale consideration ≠ fair value → **off-market transaction**
- Excess of sale price over fair value is treated as **additional financing**
- Buyer-lessor classifies lease as **operating lease**

Key Facts

Particulars	Amount (₹)	Note
Carrying amount of building	15,00,000	
Fair value of building	27,00,000	
Sale consideration	30,00,000	
Excess over fair value (Additional Financing)	3,00,000	This is the opening balance of liability



Gain on sale	12,00,000	27,00,000 – 15,00,000
Annual lease payment	2,00,000	
Lease term	20 years	
Discount rate	12% p.a.	
PVAF (12%, 20 years)	7.4700	
PV of payments	14,94,000	
Lease Liability (PV of Lease payments)	11,94,000	PV of Payments – Finance Liability (Loan)

Annual payment of ₹2,00,000 is split **proportionately** between:

- Lease component
- Financing component

Particulars	Total	Retained (ROU Portion)	Transferred Portion
Fair Value of Asset (₹)	27,00,000	11,94,000	15,06,000
Proportion (%)	100%	44.22% (11.94/27)	55.78% (15.06/27)
Carrying Amount (₹)	15,00,000	6,63,333 [15,00,000 × 44.22%]	8,36,667 [15,00,000 × 55.78%]
Total Gain (₹)	12,00,000	5,30,667	6,69,333

ROU Asset = (PV of lease payments / FV) × Carrying amount

$$= (11,94,000 / 27,00,000) \times 15,00,000$$

$$= 6,63,333$$

Gain to be recognised – 6,69,333

Bank A/c Dr.	30,00,000
Right of Use Asset A/c Dr.	6,63,333
To Lease Liability A/c	11,94,000
To Financial Liability A/c	3,00,000
To Building A/c	15,00,000
To Profit on Sale of Asset A/c	6,69,333

Accounting by Buyer-Lessor

- Building recognised at **fair value**
- Excess treated as **financial asset**
- Lease classified as **operating lease**



Building A/c Dr.	27,00,000
Financial Asset A/c Dr.	3,00,000
To Bank A/c	30,00,000

Subsequent Measurement			
Financial Asset			
Opening balance	3,00,000		
Interest	36,000	Income	
Receipt	40,161		
Closing balance	2,95,839		

41. Illustration

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

a.

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

Solution

Scenario:

- Company leases retail store on 1st April 20X1 for 10 years.
- Annual lease rental: ₹ 56,000 (payable in arrears).
- Incremental borrowing rate at inception: 9.5% p.a.
- Lease liability recognized at inception: ₹ 3,51,613
- Lease rental adjusted every 2 years for inflation, using the Income Tax Inflation Index.
- Inflation index:
 - Base Year (FY 20X1-20X2): 280
 - New Index (FY 20X3-20X4): 301
- Revised lease rental from Year 3: $\text{New Lease Rental} = (56,000 \times 301 / 280) = ₹ 60,200$
- New incremental borrowing rate at Year 3: 8% p.a. (Not applicable for remeasurement as per Ind AS 116)

Step 1: Re-measuring the Lease Liability at Year 3

- As per Para 27(b) of Ind AS 116, variable lease payments linked to an index are initially measured using the index at the commencement date.
- As per Para 43, the lease liability is remeasured at the present value of remaining 8 lease payments of ₹ 60,200 discounted at the original discount rate of 9.5% p.a.



Year	Revised Lease Rental (₹)	Discount Factor @ 9.5%	Present Value (₹)
3	60,200	0.913	54,963
4	60,200	0.834	50,207
5	60,200	0.762	45,872
6	60,200	0.696	41,899
7	60,200	0.635	38,277
8	60,200	0.580	34,916
9	60,200	0.530	31,906
10	60,200	0.484	29,137
Total			₹ 3,27,127

Step 2: Compute Lease Liability Before Modification

Year	Opening Balance (₹)	Interest @ 9.5% (₹)	Lease Payment (₹)	Closing Balance (₹)
1	3,51,613	33,403	(56,000)	3,29,016
2	3,29,016	31,257	(56,000)	3,04,273

- Closing lease liability before modification: ₹ 3,04,273
- Revised Lease Liability after modification: ₹ 3,27,127
- Increase in Lease Liability = ₹ 22,854 (3,27,127 – 3,04,273)

Journal Entry for Lease Remeasurement (Year 3)

Right-of-Use Asset A/c Dr. ₹ 22,854
 To Lease Liability A/c ₹ 22,854

(Adjusting the increase in lease liability due to inflation-based rental adjustment.)

Ind AS 37 Provisions, CL & CA

42. Illustration

Marico has an obligation to restore environmental damage in the area surrounding its factory. Expert advice indicates that the restoration will be carried out in two distinct phases; the first phase requiring expenditure of ₹ 2 million to remove the contaminated soil from the area and the second phase, commencing three years later from the end of first phase, to replant the area with suitable trees and vegetation. The estimated cost of replanting is ₹ 3.5 million. Marico uses a cost of capital (before taxation) of 10% and the expenditure, when incurred, will attract tax relief at the company's marginal tax rate of 30%. Marico has not recognised any provision for such costs in the past and today's date is 31 March 20X2. The first phase of the clean up will commence in a few months time and will be completed on 31 March 20X3 when the first payment of ₹ 2 million will be made. Phase 2 costs will be paid three years later from the end of first phase. Calculate the amount to be provided at 31 March 20X2 for the restoration costs.

Sol:

Year	Cash flow	PVF (10%)	PV
20x2-20x3	20,00,000	0.909	18,18,000
20x5-20x6	35,00,000	0.683	23,90,500
Provision required at 31 March 20X2			42,08,500

The provision is calculated using the pre-tax costs and a pre-tax cost of capital. The fact that the eventual payment will attract tax relief will be reflected in the recognition of a deferred



tax asset for the deductible temporary difference (assuming that the recognition criteria for deferred tax assets are met.)

43. Illustration

Sun Limited has entered into a binding agreement with Moon Limited to buy a custom-made machine for ₹ 4,00,000. At the end of 2017-18, before delivery of the machine, Sun Limited had to change its method of production. The new method will not require the machine ordered which is to be scrapped after delivery. The expected scrap value is nil. Given that the asset is yet to be delivered, should any liability be recognized for the potential loss? If so, give reasons for the same, the amount of liability as well as the accounting entry.

Sol:

An **executory contract** is a contract in which **neither party has performed their obligations** or **both parties have partially performed their obligations to an equal extent**. Ind AS 37 applies to **executory contracts only if they are onerous**.

A contract is **onerous** when the **unavoidable costs** of fulfilling the contract **exceed the expected economic benefits**. In such cases, a **provision must be recognized** for the least net cost of fulfilling or exiting the contract.

Analysis

Sun Ltd. entered into a **binding agreement** with Moon Ltd. to purchase a **custom-made machine** for ₹4,00,000. However, before delivery, Sun Ltd. changed its production method, rendering the machine **useless**. Since the **machine has not been delivered yet**, the contract remains **executory**.

- Sun Ltd. **cannot cancel the contract** and must **accept delivery**.
- The machine **must be scrapped immediately** upon receipt, with **zero scrap value**.
- This means that the company **incurs a full loss of ₹4,00,000** without any future benefit.

Since the **cost of fulfilling the contract exceeds the economic benefits (which are nil)**, the contract qualifies as **onerous**, and a **provision of ₹4,00,000 must be recognized**.

Conclusion

Sun Ltd. must **recognize an onerous contract provision** of ₹4,00,000 for the **full purchase cost** of the machine. The accounting entry is:

		₹	₹
Onerous Contract Provision Expense A/c	Dr.	4,00,000	
To Provision for Onerous Contract Liability A/c			4,00,000
(Being asset to be received due to binding agreement recognized)			
Profit and Loss Account	Dr.	4,00,000	
To Onerous Contract Provision Expense A/c			4,00,000



(Being loss due to onerous contract recognized and asset derecognised)			
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44. Illustration

Vishnu Company has at its financial year ended 31st March, 2017, fifteen law suits outstanding none of which has been settled by the time the accounts are approved by the directors.

The directors have estimated the possible outcomes as below:

Result	Probability	Amount of loss
For first ten cases		
Win	0.6	
Loss-low damages	0.3	90,000
Loss-High damages	0.1	1,60,000
For remaining five cases		
Win	0.5	
Loss-low damages	0.3	60,000
Loss-High damages	0.2	95,000

The directors believe that the outcome of each case is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss.

Sol:

- Calculation of expected loss in first ten cases:

Amount of loss	Probability	Expected loss (in ₹)
0	0.6	0
90,000	0.3	27,000
1,60,000	0.1	16,000
Total		43,000

Expected loss for 10 cases = $43,000 \times 10 = 4,30,000$

- Calculation of expected loss in remaining five cases:

Amount of loss	Probability	Expected loss (in ₹)
0	0.5	0
60,000	0.3	18,000
95,000	0.1	19,000
Total		37,000

Expected loss for 5 cases = $37,000 \times 5 = 1,85,000$

- Total contingent liability to be disclosed is ₹. 6,15,000.

45. Illustration

XYZ Ltd. offers a six-month warranty on its small to medium sized equipment, which can be put to use by the customer with no installation support. The warranty comes with the equipment and the customer cannot purchase it separately. This equipment is typically sold at a gross margin of 40%. XYZ Ltd. has made a provision of ₹ 30,000 during the year ended 31st March, 20X2, which is approximately 1% of its gross margin on the sale of these



equipment. Based on past experience, it is expected that 1% of equipment sold have been returned as faulty within the warranty period. Faulty equipment returned to XYZ Ltd. during the warranty period are scrapped and the sale value is fully refunded to the customer.

Assuming that sales occurred evenly during the year, how should XYZ Ltd. evaluate whether any additional warranty provision is required on equipment sold in the past as at 31st March, 20X2? Had the warranty period been 2 years instead of six months, what additional criteria would XYZ Ltd. need to consider?

Solution

Ind AS 37 states that a **provision for warranty should be recognized** when:

1. **A present obligation exists** due to past sales.
2. **It is probable** that an outflow of economic resources will be required to settle the warranty claims.
3. **A reliable estimate** of the warranty obligation can be made.

The provision should be based on **historical data, expected failure rates, and refund policies**. If the warranty period extends beyond one year, **discounting should be applied**.

Analysis

XYZ Ltd. provides a **six-month warranty** with a **refund policy** for faulty equipment, meaning customers receive a **full refund** for defective products. The company **scraps returned goods**, meaning **no recovery from suppliers** is expected.

Given that **sales occur evenly throughout the year**, equipment sold in the **last six months of the year** is still **under warranty at year-end**.

- The company has already **recognized ₹30,000** as a warranty provision, which is **1% of its annual gross margin**.
- The **actual exposure** is higher, as the provision should be based on **the total sales price** rather than the gross margin.
- The provision should be adjusted for the **remaining equipment under warranty**.

Computation of Additional Warranty Provision

Particulars	% of Sales	Amount (₹)	Product under Warranty at 31st March 20X2 (₹)	% Expected to be Returned	Required Provision (₹)
Gross Margin	40%	30,00,000	-	-	-
Selling Price	100%	75,00,000	37,50,000 (6 months)	1%	37,500

Thus, the **required provision** is **₹37,500**, but XYZ Ltd. has already recognized **₹30,000**, so the **additional provision required** is **₹7,500**.

Since the provision is expected to be **utilized within six months**, **no discounting** is required.

If the Warranty Period is 2 Years

In the case of a **2-year warranty**, the company must account for:

- **Time value of money** (discounting is required).
- **Extended coverage period**, increasing the probability of claims.



Revised Warranty Provision Calculation for 2-Year Warranty

Particulars	% of Sales	Amount (₹)	Product under Warranty at 31st March 20X2 (₹)	% Expected to be Returned	Required Provision (₹)
Gross Margin	40%	30,00,000	-	-	-
Selling Price	100%	75,00,000	75,00,000	1%	75,000

Since the provision required is ₹75,000 and ₹30,000 has already been recognized, an additional provision of ₹45,000 must be made.

Additionally, discounting must be applied as per Para 45 and 47 of Ind AS 37, using a pre-tax discount rate that reflects current market assessments.

Conclusion

- For a 6-month warranty, XYZ Ltd. should increase the provision by ₹7,500.
- For a 2-year warranty, XYZ Ltd. should increase the provision by ₹45,000 and apply discounting to reflect the time value of money.

46. Illustration

HVCL manufactures heavy equipment for construction industry. An order for supply of 90 equipment was received from ABIL. The unit price of the equipment was agreed at ₹ 190 lakhs each. 64 equipment was supplied during the year 20X1-20X2 and balance quantity remaining to be supplied as on 31.3.20X2. HVCL has 5 equipment in its inventory as on 31.3.20X2. HVCL considered that the contract was an onerous contract and therefore, the net realisable value of inventory has been taken as value of inventory as on 31.3.20X2.

The management of HVCL contends that costs incurred towards administrative overheads, finance charges, R & D expenses, sales overhead, head quarter expenditure etc., are considered as period cost and hence not considered for creation of provision. Hence, the same have not been included in the computation of unavoidable cost.

The management of HVCL has submitted the details of costs that have been considered for creation of provision towards onerous contract:

- Material cost - includes cost of material procured, cost of freight & insurance incurred for material procurement and handling, loading and unloading charges incurred.
- Labour cost/ Factory Overheads - includes salaries and other expenses of direct production department, and also expenses allocated from indirect departments to direct department.
- Material Overheads - Includes salaries and other expenses (including expenses allocated from other departments) booked under departments linked with materials like purchases, stores and quality control.

Accordingly, provision has been made considering the above costs only. The value of provision created for 21 remaining equipment to be produced is as per the working shown below:

Particulars	Value (₹ in lakh)
(i) Cost of production (which includes material cost, labour cost/factory overhead and material overhead)	199.00
(ii) Selling price	(190.00)



(iii) Differential cost per equipment	<u>9.00</u>
(iv) Differential cost of ₹ 9 Lakh per equipment for 21 equipment	189.00

Whether the company's accounting treatment of cost for creation of provision towards onerous contracts is in line with the provisions of Ind AS 37?

Solution

Provisions (Ind AS 37)

As per Ind AS 37, an **onerous contract** is a contract in which the **unavoidable costs of fulfilling the obligations exceed the economic benefits** expected to be received. The unavoidable cost of a contract is the **least net cost of exiting from the contract**, which is the **lower of**:

- The **cost of fulfilling the contract**, or
- Any **compensation or penalties arising from failure to fulfill the contract**.

As per Ind AS 37, the **cost of fulfilling a contract** includes:

1. **Incremental costs directly related to fulfilling the contract**, such as:
 - Direct labour
 - Direct materials
2. **Allocation of other directly attributable costs**, such as:
 - Depreciation on assets used for contract execution
 - Overheads that are linked directly to production

Costs that are **not directly linked to fulfilling the contract**, such as **administrative expenses, finance charges, research & development (R&D) costs, and sales overheads**, should not be **included** in the computation of an onerous contract provision.

Analysis

HVCL received an order from ABIL for **90 equipment** at a **unit price of ₹ 190 lakhs each**. Out of these, **64 units were supplied**, leaving **21 equipment pending production as of 31st March 20X2**. The company considered the contract as **onerous** and has included **only relevant costs** (materials, direct labour, and material overheads) while creating the provision.

Computation of Onerous Contract Provision

Particulars	Amount (₹ in lakh)
Cost of production per unit (Material, Direct Labour & Overheads)	199.00
Selling price per unit	(190.00)
Loss per unit	9.00
Total loss for 21 pending units (9.00 × 21)	189.00

HVCL **excluded** the following **period costs**, which are **not directly related to the contract**:

- **Administrative overheads**
- **Finance costs**
- **R&D costs**
- **Sales overheads**
- **Headquarter expenses**

Conclusion

HVCL's **accounting treatment is correct** as per Ind AS 37 because:

- **Only directly attributable costs** related to fulfilling the contract are included.



- **Period costs** (administrative, finance, R&D, etc.) are correctly **excluded**, as they are not directly incremental to the contract.
- The **provision of ₹ 189 lakhs** is based on the **net unavoidable loss** for the remaining 21 units.

Thus, HVCL has **correctly applied the provisions of Ind AS 37** in **recognizing and measuring** the provision for **onerous contracts**.

Ind AS 19 Employee Benefits

47. Illustration

Mr. Niranjan is working for Infotech Ltd. Consider the following particulars:

	20X0-X1	20X1-X2
Annual salary	30,00,000	30,00,000
Working days	300 days	300 days
Leave allowed	10 days	10 days
Leave taken	7 days	13 days
Leave unutilized carried forward to next year	3 days	NIL

Scenario I

Based on past experience, Infotech Ltd. assumes that Mr. Niranjan will avail the unutilized leaves of 3 days of 20X0-20X1 in 20X1-20X2.

Infotech Ltd. contends that it will record Rs. 30,00,000 as employee benefits expense in each of the years 20X0-20X1 and 20X1-20X2, stating that the leaves will, in any case, be utilized by 20X1-20X2.

Comment on the accounting treatment proposed to be followed by Infotech Ltd. Also pass journal entries for both the years.

Scenario II

Based on past experience, Infotech Ltd. assumes that Mr. Niranjan will avail the unutilized leaves of 2 days of 20X0-20X1 subsequently. However, in 20X1-20X2, Mr. Niranjan availed in actual all 3 days of brought forward leave.

Compute the expense to be recognised in 20X0-20X1 and 20X1-20X2. Also pass journal entries for both the years.

Answer:

Scenario - I

Infotech Ltd. assumes that unutilized leaves from **20X0-X1 (3 days)** will be used in **20X1-X2**.

Under **Ind AS 19**, **expense should be recognized in the period in which the benefit accrues**, rather than when the leave is taken.

The expenditure to be recognized will be as under:

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

Scenario-II

The expenditure to be recognized will be as under:

Particulars	Year 20X0-20X1	Year 20X1-20X2
Annual salary (A)	₹. 30,00,000	₹. 30,00,000
No. of working days (B)	300 days	300 days
Salary cost per day (A ÷ B)	₹. 10,000 per day	₹. 10,000 per day
Expense to be recognised:	₹ 30,20,000	
In 20X0-20X1: ₹ 30,00,000 + [₹ 10,000 per day x 2 days (leaves unutilized expected to be utilized subsequently)]		
In 20X1-20X2: ₹ 30,00,000 – [₹ 10,000 per day x 3 days (excess leave utilized in 20X1- 20X2)] + ₹ 10,000 (additional expense due to change in accounting estimate)		₹ 29,80,000

The additional ₹. 10,000 booked as an expense in 20X1-20X2 represents a change in accounting estimate (i.e. as against the entity's estimation that 2 days of unutilized leave would be utilized subsequently, actually 3 days were utilized subsequently), for which a prospective effect needs to be given, in line with Para 36 of Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Journal Entry for 20X0-20X1

Employee Benefits Expense Account	Dr.	30,20,000	
To Bank Account			30,00,000
To Provision for Leave Encashment			30,000

Journal Entry for 20X1-20X2

Employee Benefits Expense Account	Dr.	29,80,000	
Provision for Leave Encashment Account	Dr.	20,000	
To Bank Account			30,00,000

48. Illustration

RKA Private Ltd is an old company established in 19XX. The company started with a very small capital base and today it is one of the leading companies in India in its industry. The company has an annual turnover of Rs.11,000 crores and planning to get listed in the next year.

The company has a large employee base. The company provided a defined benefit plan to its employees. Following is the information relating to the balances of the fund's assets and liabilities as on 1st April X1 and 31st March X2 (Rs. Lacs)

Particulars	1 st April	31 st March
Present Value of benefit obligation	1,400	1,580
Fair Value of plans assets	1,140	1,275

For the financial year ended 31st March, 20X2, service cost was Rs. 55 lacs. The company made a contribution of an amount of Rs. 111 lacs to the plan. No benefits were paid during the year.

Consider a discount rate of 8%.

You are required to -

- Compute the balance(s) of the company to be included its balance sheet as on 31st March, 20X2 and amounts to be recognized in the statement of profit and loss and other comprehensive income for the year ended 31st March, 20X2.
- Give the journal entries in respect of amount(s) to be recognized.



Solution:

(a) Extract of the Balance Sheet of RKA Private Ltd as at 31st March, 20X2:

Closing net defined liability [(1,580 – 1,275) lacs] = ₹. 305 lacs

Extract of the Statement of Profit or Loss of RKA Private Ltd for the year ended 31st March, 20X2

Particulars	₹ in lacs
Service cost	55
Net interest (Refer W.N.1)	21
Profit or loss	96
Other comprehensive income:	
Remeasurements (Refer W.N.2)	80
Total	156

(b) Journal entries in the books of RKA Private Ltd

	₹ in lacs	₹ in lacs
Profit & Loss Dr	76	
Other comprehensive income Dr	80	
To Cash (Contribution)		111
To Net defined benefit liability (Refer WN 3)		45

Working Notes:

- Computation of Net interest taken to the Statement of Profit or Loss
 = Discount rate x Opening net defined benefit liability
 = 8% x (1,400 – 1,140) lacs
 = 8% x 260 lacs
 = ₹ 21 lacs (Rounded off to nearest lacs)
- Computation of Remeasurements

Defined Benefit Obligation Account

Particulars	₹	Particulars	₹
To Balance c/d (given)	1,580	By Balance b/d (given)	1,400
		By Current Service Cost	55
		By Interest on Opening Liability (1,400 x 8%)	112
		By Actuarial loss (bal. figure)	13
	1580		1580

Plan Assets Account

Particulars	₹	Particulars	₹
To Balance b/d (given)	1,140	By Balance c/d	1,275
To Bank Account (contribution for the year)	111		
To Surplus / Actual Return	24		
	1,275		1,275

Net interest on opening balance of plan asset = ₹ 91 lacs (i.e. ₹ 1,140 lacs x 8%)
 (Rounded off to nearest lacs)

Hence there is a decrease in plan assets due to remeasurement for which computation is as follows:

= Actual Return – Net interest on opening plan asset

= ₹ 24 lacs – ₹ 91 lacs = ₹ 67 lacs.

Net remeasurement would be computed as follows:

Actuarial loss on liability + Loss on return = 13 lacs + 67 lacs = 80 lacs.

- Computation of increase/ decrease in net defined benefit liability:

Particulars	₹ in lacs
Opening net liability (₹ 1,400 lacs – ₹ 1,140 lacs)	260



Closing net liability (₹ 1,580 lacs – ₹ 1,275 lacs)	305
Increase in liability	45

Alternate working note

Particulars	Obligation	Plan Assets	Net
Opening balance 1st April	1,400.00	1,140.00	260.00
Add: Interest cost/ Exp. Return @ 8%	112.00	91.20	20.80
Add: Service Cost	55.00		55.00
Add: Contribution		111.00	(111.00)
Expected closing bal on 31st Mar	1,567.00	1,342.20	224.80
Actual Closing bal on 31st Mar	1,580.00	1,275.00	305.00
Actuarial Gains/(Losses)	(13.00)		(13.00)
Loss on Remeasurement of PA		(67.20)	
Total Loss to be debited to OCI			(80.20)

Ind AS 1

49. Illustration

Entity A has undertaken various transactions in the financial year ended March 31, 20X1. Identify and present the transactions in the financial statements as per Ind AS 1.

Remeasurement of defined benefit plans	2,57,000
Current service cost	1,75,000
Changes in revaluation surplus	1,25,000
Gains and losses arising from translating the monetary assets in foreign currency	75,000
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
Income tax expense	35,000
Share based payments cost	3,35,000

Hint: Items impacting (a) P&L – Service cost, translation gains/losses on forex, income tax, share based payments cost (b) OCI – Remeasurement, changes in surplus, translation gains / losses from foreign operations, gains / losses from investments.

Solution:

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

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 ()

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

50. Illustration

XYZ Limited (the 'Company') is into the manufacturing of tractor parts and mainly supplying components to the Original Equipment Manufacturers (OEMs). The Company does not have any subsidiary, joint venture or associate company. During the preparation of financial statements for the year ended March 31, 20X1, the accounts department is not sure about the treatment/presentation of below mentioned matters. Accounts department approached you to advice on the following matters.

S. No.	Matters
(i)	There are qualifications in the audit report of the Company with reference to two Ind AS.
(ii)	Is it mandatory to add the word "standalone" before each of the components of financial statements?
(iii)	The Company is Indian Company and preparing and presenting its financial statements in Rs. Is it necessary to write in the financial statements that the financial statements has been presented in Rs.
(iv)	The Company had sales transactions with 10 related party parties during previous year. However, during current year, there are no transactions with 4 related parties out of aforesaid 10 related parties. Hence, Company is of the view that it need not disclose sales transactions with these 4 parties in related party disclosures because with these parties there are no transactions during current year.

Evaluate the above matters with respect to preparation and presentation of general-purpose financial statement.

Hint: (i) Yes (ii) No (iii) Yes (iv) No

Solution:

i) Yes, an entity whose financial statements comply with Ind AS shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind AS. (Refer Para 16 of Ind AS 1)

ii) No, but need to disclose in the financial statement that these are individual financial statements of the Company. (Refer Para 51(b) of Ind AS 1)

iii) Yes, Para 51(d) of Ind AS 1 inter alia states that an entity shall display the presentation currency, as defined in Ind AS 21 prominently, and repeat it when necessary for the information presented to be understandable.



iv) No, as per Para 38 of Ind AS 1, except when Ind AS permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

Ind AS 7 – Cash Flow Statements

51. Illustration

Following is the balance sheet of Kuber Limited for the year ended 31 March, 20X2

	20X2 ₹ in lakhs	20X1 ₹ in lakhs
Assets		
Non-Current assets		
Property, plant and equipment	13,000	12,500
Intangible assets	50	30
Other financial assets	145	170
Deferred Tax Asset (net)	855	750
Other non-current assets	800	770
Total non-current assets	14,850	14,220
Current assets		
Financial assets		
Investments	2,300	2,500
Cash and cash equivalents	220	460
Other current assets	195	85
Total current assets	2,715	3,045
Total assets	17,565	17,265
EQUITY AND LIABILITIES		
Equity		
Equity share capital	300	300
Other equity	12,000	8,000
Total equity	12,300	8,300
Liabilities		
Non-current liabilities		
Financial liabilities		
Long-term borrowings	2,000	5,000
Other non-current liabilities	2,740	3,615
Total non-current liabilities	4,740	8,615
Current liabilities		
Financial liabilities		
Trade payables	150	90
Bank overdraft	75	60
Other current liabilities	300	200
Total current liabilities	525	350
Total liabilities	5,265	8,965
Total equity and liabilities	17,565	17,265

Additional Information:

(1) Profit after tax for the year ended March 31, 20X2 - ₹ 4,450 lacs



- (2) Interim dividend paid during the year - ₹ 450 lacs
- (3) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under
 - (a) Property, Plant and Equipment - ₹ 500 lacs
 - (b) Intangible Assets - ₹ 20 lacs
- (4) During the year ended March 31, 20X2 two machineries were sold for ₹ 70 lacs. The carrying amount of these machineries as on March 31, 20X2 is ₹ 60 lacs.
- (5) Income taxes paid during the year ₹ 105 lacs
- (6) Other non-current / current assets and liabilities are related to operations of Kuber Ltd. and do not contain any element of financing and investing activities.

Using the above information of Kuber Limited, construct a statement of cash flows under indirect method.

Solution:

Cash flow statement of Kuber Ltd for Y.E. 31st March of 20X2 - Indirect method				
			Amt in Lacs	Amt in Lacs
Cash flow from Operating Activities				
Net profit after taxes			4,450	
Add: Tax expense - Current			105	
Less: DTA Credited to P&L			(105)	
Profit before taxes				4,450
Add: Depreciation			500	
Add: Amortisation			20	
Less: Gain on sale of machinery			(10)	
Cash flow from ops. Before changes in op assets/liabilities				510
				4,960
Adj. for changes in Op. Assets/Liabilities				
Decrease in Fin. Assets			25	
Increase in other NCA			(30)	
Increase in OCA			(110)	
Decrease in Other NCL			(875)	
Increase in Trade payables			60	
Increase in Other CL			100	
				(830)
Cash generated from operations				4,130
Less: Income Tax Paid				(105)
Net cash generated from Operations			A	4,025
Cash flow from Investing Activities				
Proceeds from sale of PPE - Machinery			70	
Purchase of PPE			(1,060)	
Purchase of IA			(40)	
Investments sold			200	
Net Cash used in Investing Activity			B	(830)



Cash flow from financing activity				
Dividends paid			(450)	
Repayment of LTB			(3,000)	
Net cash used in financing activity			C	(3,450)
Net increase in cash and cash equivalents				(255)
Opening cash and cash eq. [460-60]				400
Closing cash and cash eq. [220-75]				145
Property, Plant and Equipment A/c				
To Bal b/d	12,500.00		By Disposal of PPE	60
To Bank	1,060.00		By Depreciation	500
			By Bal C/d	13,000
	13,560.00			13,560

52. Illustration

The relevant extracts of consolidated financial statements of A Ltd. are provided below:
Consolidated Statement of cash flows

	For the year ended (₹ in Lakhs)	
	31st March 20X2	31st March 20X1
Assets		
Non-Current Assets		
Property, Plant and Equipment	4,750	4,650
Investment in Associate	800	-
Financial Assets	2,150	1,800
Current Assets		
Inventories	1,550	1,900
Trade Receivables	1,250	1,800
Cash and Cash Equivalents	4,650	3,550
Liabilities		
Current Liabilities		
Trade Payables	1,550	3,610

Extracts from Consolidated Statement of Profit and Loss
for the year ended 31st March 20X2

Particulars	₹ in Lakhs
Revenue	12,380
Cost of goods sold	(9,860)
Gross Profit	2,520



Other Income	300
Operating Expenses	(450)
Other expenses	(540)
Interest expenses	(110)
Share of Profit of Associate	120
Profit before Tax	1,840

The below information is relevant for A Ltd Group.

1. A Ltd had spent ₹ 30 Lac on renovation of a building. A Ltd charged the entire renovation cost to profit and loss account.
2. On 1st April 20X1, A Ltd acquired 100% shares in S Ltd, for cash of ₹ 300 Lac. Fair value of the assets acquired and liabilities assumed under the acquisition are as under:

Property, Plant and Equipment	140 Lakhs
Inventories	60 Lakhs
Trade receivables	30 Lakhs
Cash and cash equivalents	20 Lakhs
Total Assets	250 Lakhs
Less: Trade Payables	(50 Lakhs)
Net Assets on acquisition	200 Lakhs

3. A Ltd.'s property, plant and equipment comprise the following:

Carrying amount on 1st April 20X1	4,650 Lakhs
Addition (at cost) including assets in S Ltd	800 Lakhs
Revaluation Surplus	80 Lakhs
Disposal (Sale) of Assets	(490 Lakhs)
Depreciation for the year	(290 Lakhs)
Carrying Amount on 31st March 20X2	4,750 Lakhs

A Ltd constructed a machine that is a qualifying asset and incurred construction costs of ₹ 40 Lakhs that has been charged to other expenses. Of the interest cost of ₹ 110 Lakhs charged to profit or loss statement, ₹ 10 Lakhs includes interest cost on specific borrowings that need to be capitalized.

Property, plant and equipment was sold at 630 Lac. Gain on disposal is adjusted against operating expenses.

4. A Ltd. purchased 30% interest in an Associate (G Ltd) for cash on 1st April 20X1. The associate reported profit after tax of ₹ 400 Lac and paid a dividend of ₹ 100 Lac for the year.
5. Impairment test was conducted on 31st March 20X2. The following were impaired as under:

Goodwill impairment loss	₹ 265 Lakhs
Intangible Assets impairment loss	₹ 900 Lakhs

The goodwill impairment relates to 100% subsidiaries.

Assume that interest cost is all paid in cash.

You are required to determine cash generated from operations for group reporting purposes for the year ended 31st March 20X2.

Solution:

Cash flow from operating activities - Consolidated				
Profit before taxes				1,920.00
Add/Less				



Share of profits from associate			(120)	
Depreciation for the year			290	
Gain on disposal of asset			(140)	
Interest cost		Financing	100	
Impairment losses				
	Goodwill		265	
	Intangible assets		900	1,295.00
Cash flow before adjustments to op assets/liab				3,215.00
Adjustments to op assets/liabilities				
Change in inventories		Decrease	410	
Change in Trade Receivables		Decrease	580	
Change in Trade Payables		Decrease	(2,110)	(1,120.00)
Cash flow from operations				2,095.00
W.N 1 Profit before taxes				
As reported in P&L			1,840	
Add: Renovation expenses			30	
Add: Cost of qualifying asset			40	
Add: Borrowing cost to be capitalised			10	
Correct PBT			1,920	
W N 2				
Investment in Associates				
Investment at Cost			710	
Add: Share of Profit			120	
Less: Dividends received			(30)	
Closing balance			800	

IndAS 115 – Revenue

53.

Illustration (SM) Contract Modification

Growth Ltd enters into an arrangement with a customer for infrastructure outsourcing deal. Based on its experience, Growth Ltd determines that customising the infrastructure will take approximately 200 hours in total to complete the project and charges ₹ 150 per hour. After incurring 100 hours of time, Growth Ltd and the customer agree to change an aspect of the project and increases the estimate of labour hours by 50 hours at the rate of ₹ 100 per hour. Determine how contract modification will be accounted as per Ind AS 115?

Solution:

Considering that the remaining goods or services are not distinct, the modification will be accounted for on a cumulative catch up basis, as given below:

Particulars	Hours	Rate (₹)	Amount (₹)
Initial contract amount	200	150	30,000
Modification in contract	50	100	5000
Contract amount after modification	250	140*	35,000
Revenue to be recognized	100	140	14,000
Revenue already booked	100	150	15,000
Adjustment in revenue			(1,000)

$$*35,000 / 250 = 140$$

54. Illustration (SM) – Variable Consideration

AST Limited enters into a contract with a customer to build a manufacturing facility. The entity determines that the contract contains one performance obligation satisfied over time.

Construction is scheduled to be completed by the end of the 36th month for an agreed-upon price of ₹ 25 crore.

The entity has the opportunity to earn a performance bonus for early completion as follows:

- 15 percent bonus of the contract price if completed by the 30th month (25% likelihood)
- 10 percent bonus if completed by the 32nd month (40% likelihood)
- 5 percent bonus if completed by the 34th month (15% likelihood)

In addition to the potential performance bonus for early completion, AST Limited is entitled to a quality bonus of ₹ 2 crore if a health and safety inspector assigns the facility a gold star rating as defined by the agency in the terms of the contract. AST Limited concludes that it is 60% likely that it will receive the quality bonus.

Determine the transaction price.

Solution:

To determine the **transaction price**, AST Limited estimates the **variable consideration** separately for each element of variability:



1. Early Completion Bonus:

- The contract provides performance bonuses for early completion, ranging from **5% to 15%** of the contract price.
- Since there are multiple possible outcomes and AST Limited has experience with similar contracts, the **expected value method** is applied to estimate this component.
- The expected early completion bonus is calculated as follows:

table:

Bonus %	Amount of bonus (₹ in crore)	Probability	Probability-weighted amount (₹ in crore)
15%	3.75	25%	0.9375
10%	2.50	40%	1.00
5%	1.25	15%	0.1875
0%	-	20%	-
			2,125

2. Quality Bonus:

- AST Limited is eligible for an additional **₹ 2 crore** if the facility receives a **gold star rating**.
- Since there are only **two possible outcomes** (₹ 2 crore or nil), the **most likely amount method** is used.
- The entity concludes that it is **60% likely** to receive this quality bonus, making ₹ 2 crore the most likely estimate for this component.

Final Transaction Price Calculation:

Component	Amount (₹ in Crore)
Fixed Consideration	25.00
Expected Early Completion Bonus	2.125
Most Likely Quality Bonus	2.00
Total Transaction Price	₹ 29.125 crore

Thus, the **transaction price** for the contract is **₹ 29.125 crore**, considering the estimated variable considerations.

55. Illustration (SM) 0 Sale with a right to return

An entity enters into 1,000 contracts with customers. Each contract includes the sale of one product for ₹ 50 (1,000 total products × ₹ 50 = ₹ 50,000 total consideration). Cash is received when control of a product transfers. The entity's customary business practice is to allow a customer to return any unused product within 30 days and receive a full refund. The entity's cost of each product is ₹ 30.

The entity applies the requirements in Ind AS 115 to the portfolio of 1,000 contracts because it reasonably expects that, in accordance with paragraph 4, the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio. Since the contract allows a customer to return the products, the consideration received from the customer is variable. To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value method (see paragraph 53(a) of Ind AS 115) because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled. Using the expected value method, the entity estimates that 970 products will not be returned.



The entity estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

Determine the amount of revenue, refund liability and the asset to be recognised by the entity for the said contracts.

Solution

Provision under Ind AS 115:

Ind AS 115 requires that if a contract includes a right of return, the consideration received from the customer is considered **variable**. The entity should estimate the amount of revenue to be recognized based on expected returns, applying the **expected value method** when it provides the best prediction of the consideration to be received. Additionally, the entity must recognize a **refund liability** for the expected returns and an **asset** for the right to recover products expected to be returned.

Analysis of the Case:

The entity enters into **1,000 contracts**, selling **one product per contract** at **₹50 per unit**, resulting in **₹50,000 total consideration**. Customers are allowed to return unused products within **30 days** for a full refund. The entity estimates that **970 products will not be returned**, and **30 products will be returned**. The cost per product is **₹30**, and returned products can be **resold at a profit**.

Since returns introduce **variability in consideration**, the entity applies the **expected value method** to estimate revenue. Given its past experience and the **short return window of 30 days**, the entity concludes that it is highly probable that a **significant reversal** of recognized revenue will not occur.

Conclusion:

Upon transferring control of the **1,000 products**, the entity recognizes:

1. **Revenue** = ₹48,500 (₹50 × 970 products not expected to be returned)
2. **Refund Liability** = ₹1,500 (₹50 × 30 products expected to be returned)
3. **Asset for Right to Recover Products** = ₹900 (₹30 × 30 products expected to be returned)

56. Illustration (SM) – financing component

ST Limited enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (i.e. the performance obligation will be satisfied at a point in time). The contract includes two alternative payment options:

- 1) Payment of ₹ 5,000 in two years when the customer obtains control of the asset or
- 2) Payment of ₹ 4,000 when the contract is signed. The customer elects to pay ₹ 4,000 when the contract is signed.

ST Limited concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer, as well as the prevailing interest rates in the market.

The interest rate implicit in the transaction is 11.8 per cent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the entity determines that, the rate that should be used in adjusting the promised consideration is 6%, which is the entity's incremental borrowing rate.



Pass journal entries showing how the entity would account for the significant financing component

Solution:

Journal Entries showing accounting for the significant financing component

(a) Recognize a contract liability for the 4,000 payment received at contract inception:

Cash	Dr.	₹. 4,00,000	
To Contract liability			₹. 4,00,000

(b) During the two years from contract inception until the transfer of the asset, the entity adjusts the promised amount of consideration and accretes the contract liability by recognizing interest on ₹. 4,000 at 6% for two years:

Interest expense	Dr.	₹. 494	
To Contract liability			₹. 494
₹. 494 = ₹. 4,000 contract liability × (6% interest per year for two years).			

(c) Recognize revenue for the transfer of the asset:

Contract liability	Dr.	₹. 4,494	
To Revenue			₹. 4,494

57. Illustration (Jan 21 – 12 Marks)

A Ltd. is a company which is in the business of manufacturing engineering machines and providing after sales services. The company entered into a contract with Mr. Anik to supply and install a machine, namely 'model pi' on 1st April 2018 and to service this machine on 30th September 2018 and 1st April 2019. The cost of manufacturing the machine to A Ltd. was Rs. 1,60,000.

It is possible for a customer to purchase both the machine 'model pi' and the maintenance services separately. Mr. Anik is contractually obliged to pay A Ltd Rs. 4,00,000 on 1st April, 2019.

The prevailing rate for one-year credit granted to trade customers in the industry is 5 percent per six-month period. As per the experience, the servicing of the machine 'model pi' sold to Mr. Anik is expected to cost A Ltd. Rs. 30,000 to perform the first service and Rs. 50,000 to perform the second service. Assume actual costs equal expected costs. When A Ltd. provides machine services to customers in a separate transaction it earns a margin of 50 % on cost. On 1st April, 2018, the cash selling price of the machine 'model pi' sold to Mr. Anik is Rs. 2,51,927.

The promised supply of machine 'model pi' and maintenance service obligations are satisfactorily carried out in time by the company.

You are required to:

- Segregate the components of the transaction that A Ltd. shall apply to the revenue recognition criteria separately as per Ind AS 115
- Calculate the amount of revenue which A Ltd. must allocate to each component of the transaction
- Prepare journal entries to record the information set out above in the books of accounts of A Ltd. for the years ended 31st March-2019 and 31st March 2020; and
- Draft an extract showing how revenue could be presented and disclosed in the financial statements of A Ltd. for the year ended 31st March 2019 and 31st March 2020.



Solution:

Identification of Performance Obligations

As per **Ind AS 115**, a contract must be separated into distinct performance obligations if:

- The **customer can benefit** from each component separately.
- The company's promise to transfer goods or services is **separately identifiable**.

Based on this, the contract has **three distinct elements**:

1. **Sale of the machine (Model Pi)** – This is a separate obligation since the customer can purchase the machine without availing maintenance services.
2. **Rendering of after-sales services** – Maintenance services on **30th September 2018** and **1st April 2019** are independent from the machine sale.
3. **Financing component** – Since payment is deferred until **1st April 2019**, there is a **significant financing component**.

(i) Calculation and allocation of revenue to each component of the transaction

Date	Opening balance	Finance income	Goods	Services	Payment received	Closing balance
1 st April, 2018	-	-	2,51,927	-	-	2,51,927
30th September, 2018	2,51,927	12,596 (Note 1)	-	45,000	-	3,09,523
31st March 2019	3,09,523	15,477 (Note 2)	-	-	-	3,25,000
1 st April, 2019	3,25,000	-	-	75,000	(4,00,000)	

Notes:

1. Calculation of finance income as on 30th September, 2018 = $5\% \times 2,51,927 = ₹ 12,596$

2. Calculation of finance income as on 31st March, 2019 = $5\% \times 3,09,523 = ₹ 15,477$

(ii) Journal Entries

Date	Particulars		Dr.	Cr.
1 st April, 2018	Mr. Anik	Dr.	2,51,927	
	To Revenue - sale of goods (Profit or loss A/c)			2,51,927
	(Being revenue recognised from the sale of the machine on credit)			
	Cost of goods sold (Profit or loss)	Dr.	1,60,000	
	To Inventories			1,60,000
30th September 2018	Mr. Anik	Dr.	12,596	
	To Finance Income (Profit or loss)			12,596
	(Being finance income recognised)			



	Mr. Anik	Dr.	45,000	
	To Revenue- rendering of services (Profit or loss)			45,000
	(Being revenue from the rendering of maintenance services recognised)			
	Cost of services (Profit or loss)	Dr.	30,000	
	To Cash/Bank or payables			30,000
	(Being the cost of performing maintenance services recognised)			
31st March 2019	Mr. Anik	Dr.	15,477	
	To Finance Income (Profit or loss)			15,477
	(Being finance income recognised)			
1st April, 2019	Mr. Anik	Dr.	75,000	
	To Revenue- rendering of services (Profit or loss)			75,000
	(Being revenue from the rendering of maintenance services recognised)			
	Cost of services (Profit or loss)	Dr.	50,000	
	To Cash/Bank or payables			50,000
	(Being the cost of performing maintenance services recognised)			
	Cash/Bank	Dr.	4,00,000	
	To Mr. Anik			4,00,000
	(Being the receipt of cash from the customer recognised)			

- (iii) Extract of Notes to the financial statements for the year ended 31st March, 2019 and 31st March, 2020
Note on Revenue

	2019-2020	2018-2019
Sale of goods	-	2,51,927
Rendering of machine - maintenance services	75,000	45,000
Finance income	-	28,073
	75,000	3,25,000



Company X enters into an agreement on 1st January, 20X1 with a customer for renovation of hospital and install new air-conditioners for total consideration of ₹ 50,00,000. The promised renovation service, including the installation of new air-conditioners is a single performance obligation satisfied over time. Total expected costs are ₹ 40,00,000 including ₹ 10,00,000 for the air conditioners.

Company X determines that it acts as a principal in accordance with paragraphs B34-B38 of Ind AS 115 because it obtains control of the air conditioners before they are transferred to the customer. The customer obtains control of the air conditioners when they are delivered to the hospital premises.

Company X uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation.

As at 31st March, 20X1, other costs incurred excluding the air conditioners are ₹ 6,00,000.

Whether Company X should include cost of the air conditioners in measure of its progress of performance obligation? How should revenue be recognised for the year ended March 20X1?

Solution:

As per **Ind AS 115**, when revenue is recognized over time, only costs that reflect actual progress should be considered. **Company X is acting as a principal**, and it measures progress using an **input method based on costs incurred**.

Key Considerations

- **Total Contract Price** = ₹ 50,00,000
- **Total Expected Costs** = ₹ 40,00,000 (including ₹ 10,00,000 for air conditioners)
- **Performance Obligation** = Single obligation for **renovation and installation**
- **Air Conditioners' Role** = Purchased as is, without modification
- **Ind AS 115 Guidance** = **Procurement cost does not reflect progress**, hence excluded

Revenue Recognition Approach

Since **air conditioners do not contribute to progress**, their cost (**₹ 10,00,000**) is excluded from performance measurement. Instead, revenue for air conditioners is recognized separately **at zero margin** when delivered.

Computation of Revenue Recognition

Particulars	Amount (₹)
Total Contract Price	50,00,000
Less: Air Conditioner Cost (excluded from progress measurement)	(10,00,000)
Adjusted Revenue for Renovation Work	40,00,000
Cost Incurred (excluding ACs) till 31st March 20X1	6,00,000
Percentage of Completion	$6,00,000 / 30,00,000 = 20\%$
Revenue Recognized from Renovation Work	$20\% \times 40,00,000 = 8,00,000$
Revenue for Air Conditioners (recognized separately at zero margin)	10,00,000
Total Revenue Recognized (March 31, 20X1)	18,00,000
Less: Total Cost Incurred (₹ 6,00,000 + ₹ 10,00,000)	(16,00,000)
Profit for the Year	



59. Illustration – Loyalty Points

For every ₹ 100 of sale, entity awards 10. If total sales are ₹ 1,00,000. Each point is worth ₹ 1. Entity expects that only 9,500 points would be redeemed.

At the end of year 1, 4500 points were redeemed.

At the end of year 2, 4000 points were redeemed.

At the end of year 2, entity expects that 9,700 points would be redeemed.

Determine the revenue to be recognised in each year.

Step 1: Allocation of Transaction Price

- The entity awards **10 points for every ₹100 of sales**.
- **Total sales = ₹1,00,000** → **Total points awarded = $(1,00,000 / 100) \times 10 = 10,000$ points.**
- Each point is worth ₹1, but the entity expects **only 9,500 points to be redeemed**.
- **Total estimated liability for loyalty points = $9,500 \times ₹1 = ₹9,500$.**
- **Total Standalone Selling Price = ₹1,09,500.**
- The total transaction price (₹1,00,000) is allocated based on the standalone selling price:

Performance Obligation	Standalone Selling Price (₹)	% Allocation	Allocated Revenue (₹)
Sale of Product	1,00,000	91.32%	91,324.20
Loyalty Points	9,500	8.68%	8,675.80
Total	1,09,500	100%	1,00,000

At the time of sale, **₹91,324.20** is recognized as revenue and **₹8,675.80** is deferred as a liability for future redemption.

Step 2: Recognizing Revenue When Points Are Redeemed

Revenue is recognized for loyalty points **as and when they are redeemed**, based on the expected redemption rate.

At the End of Year 1

- **4,500 points redeemed.**
- Revenue recognized = $(4,500/9,500) \times 8,675.80$.

Year	Points Redeemed	Total Expected Redemptions	Revenue Recognized for Points (₹)	Remaining Deferred Revenue (₹)
Year 1	4,500	9,500	₹4,109.59	$₹8,675.80 - ₹4,109.59 = ₹4,566.21$

At the End of Year 2

- **Additional 4,000 points redeemed.**
- Cumulative redemption = **8,500 points.**
- The entity revises its estimate and now expects **9,700 points to be redeemed.**
- **Revised revenue allocation = $(8,500/9,700) \times 8,675.80$.**



- Revenue to be recognized in Year 2 = ₹7,602.50 - ₹4,109.59.

Year	Cumulative Points Redeemed	Revised Expected Redemptions	Total Revenue Recognized for Points (₹)	Revenue Recognized in Current Year (₹)	Remaining Deferred Revenue (₹)
Year 2	8,500	9,700	₹7,602.50	₹3,492.92	₹8,675.80 - ₹7,602.50 = ₹1,073.30

Thus, ₹3,492.92 is recognized in Year 2, leaving a balance deferred revenue of ₹1,073.30, which will be recognized as remaining points are redeemed

60. Illustration

A Ltd. is in the business of the infrastructure and has two divisions under the same; (I) Toll Roads and (II) Wind Power.

The brief details of these business and underlying project details are as follows:

- I. Bhilwara-Jabalpur Toll Project - The Company has commenced the construction of the project in the current year and has incurred total expenses aggregating to ₹ 50 crore as on 31st December, 20X1. Under IGAAP, the Company has recorded such expenses as Intangible Assets in the books of account. The brief details of the Concession Agreement are as follows:
 - Total Expenses estimated to be incurred on the project ₹ 100 crore;
 - Fair Value of the construction services is ₹ 110 crore;
 - Total Cash Flow guaranteed by the Government under the concession agreement is ₹ 200 crore;
 - Finance revenue over the period of operation phase is ₹ 15 crore;
 - Other income relates to the services provided during the operation phase.
- II. Kolhapur- Nagpur Expressway - The Company has also entered into another concession agreement with Government of Maharashtra in the current year. The construction cost for the said project will be ₹ 110 crore. The fair value of such construction cost is approximately ₹ 200 crore. The said concession agreement is Toll based project and the Company needs to collect the toll from the users of the expressway. Under IGAAP, UK Ltd. has recorded the expenses incurred on the said project as an Intangible Asset.
 - (i) What would be the classification of Bhilwara-Jabalpur Toll Project as per applicable Ind AS? Give brief reasoning for your choice.
 - (ii) What would be the classification of Kolhapur-Nagpur Expressway Toll Project as per applicable Ind AS? Give brief reasoning for your choice.
 - (iii) Also, suggest suitable accounting treatment for preparation of financial statements as per Ind AS for the above 2 projects.

Solution

(i) Here the operator has a contractual right to receive cash from the grantor. The grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator. Hence, the operator recognizes a financial asset to the extent it has a contractual right to receive cash.

(ii) Here the operator has a contractual right to charge users of the public services. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. Therefore, the



operator shall recognize an intangible asset to the extent it receives the right (a licence) to charge users of the public service.

(iii) Accounting treatment for preparation of financial statements

Bhilwara-Jabalpur Toll Project

Journal Entries

	Particulars	Dr. (₹. In crore)	Cr. (₹. In crore)
1	Financial asset A/c Dr.	110	
	To Construction revenue		110
	[To recognize revenue relating to construction services, to be settled in case]		
2	Cost of construction (profit or loss) Dr.	100	
	To Bank A/c (As and when incurred)		100
	[To recognize costs relating to construction services]		
	During the operation phase:		
3	Financial asset Dr.	15	
	To Finance revenue (As and when received or due to receive)		15
	[To recognize interest income under the financial asset model]		
4	Financial asset Dr.	75	
	To Revenue [(200-110) – 15]		75
	[To recognize revenue relating to the operation phase]		
5	Bank A/c Dr.	200	
	To Financial asset		200
	[To recognize cash received from the grantor]		

Kolhapur-Nagpur Expressway -Intangible asset

Journal Entries

	Particulars	Dr. (₹. In crore)	Cr. (₹. In crore)
	During construction:		
1	Cost of construction (profit or loss) Dr.	110	
	To Bank A/c (As and when incurred)		110
	[To recognize costs relating to construction services]		
2	Intangible asset Dr	200	
	To Revenue		200
	[To recognize revenue relating to construction services provided for non-cash consideration]		
	During the operation phase:		
3	Amortisation expense Dr.	200	
	To Intangible asset (accumulated amortisation)		200
	[To recognize amortisation expense relating to the operation phase over the period of operation]		
4	Bank A/c Dr.	-	



	To Revenue		-
	[To recognize revenue relating to the operation phase]		

Note: Amount in entry 4 is kept blank as no information in this regard is given in the question.

61. Illustration (SM)

An entity has a fixed fee contract for Rs. 1 million to develop a product that meets specified performance criteria. Estimated cost to complete the contract is Rs. 9,50,000. The entity will transfer control of the product over five years, and the entity uses the cost-to-cost input method to measure progress on the contract. An incentive award is available if the product meets the following weight criteria:

Weight (kg)	Award % of fixed fee	Incentive fee
951 or greater	0%	—
701–950	10%	Rs. 100,000
700 or less	25%	Rs. 250,000

The entity has extensive experience creating products that meet the specific performance criteria. Based on its experience, the entity has identified five engineering alternatives that will achieve the 10 percent incentive and two that will achieve the 25 percent incentive. In this case, the entity determined that it has 95 percent confidence that it will achieve the 10 percent incentive and 20 percent confidence that it will achieve the 25 percent incentive.

Based on this analysis, the entity believes 10 percent to be the most likely amount when estimating the transaction price. Therefore, the entity includes only the 10 percent award in the transaction price when calculating revenue because the entity has concluded it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved due to its 95 percent confidence in achieving the 10 percent award.

The entity reassesses its production status quarterly to determine whether it is on track to meet the criteria for the incentive award. At the end of the year four, it becomes apparent that this contract will fully achieve the weight-based criterion. Therefore, the entity revises its estimate of variable consideration to include the entire 25 percent incentive fee in the year four because, at this point, it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when including the entire variable consideration in the transaction price.

Evaluate the impact of changes in variable consideration when cost incurred is as follows:

Year	Rs.
1	50,000
2	1,75,000
3	4,00,000
4	2,75,000
5	50,000

Solution

Note: For simplification purposes, the table calculates revenue for the year independently based



on costs incurred during the year divided by total expected costs, with the assumption that total

expected costs do not change.

Fixed Consideration	A	1,000,000				
Estimated costs to complete*	B	950,000				
		Year 1	Year 2	Year 3	Year 4	Year 5
Total estimated variable amount	C	100,000	100,000	100,000	250,000	250,000
Fixed revenue	$D=A \times H/B$	52,632	184,211	421,053	289,474	52,632
Variable revenue	$E=C \times H/B$	5,263	18,421	42,105	72,368	13,158
Cumulative revenue adjustment	F (see below)	-	-	-	99,370	-
Total revenue	$G=D+E+F$	57,895	202,632	463,158	461,212	65,790
Costs	H	50,000	175,000	400,000	275,000	50,000
Operating profit	$I=G-H$	7,895	27,632	63,158	186,212	15,790
Margin (rounded off)	$J=I/G$	14%	14%	14%	40%	24%

* For simplicity, it is assumed there is no change to the estimated costs to complete throughout the contract period.

* In practice, under the cost-to-cost measure of progress, total revenue for each period is determined by multiplying the total transaction price (fixed and variable) by the ratio of cumulative cost incurred to total estimated costs to complete, less revenue recognized to date.

Calculation of cumulative catch-up adjustment:			
Updated variable consideration	L		250,000
Percent complete in Year 4: (rounded off)	$M=N/O$		95%
Cumulative costs through Year 4	N	900,000	
Estimated costs to complete	O	950,000	
Cumulative variable revenue through Year 4:	P		138,157
Cumulative catch-up adjustment	$F=L \times M - P$		99,343

62. Illustration (SM)

An entity manufactures and sells computers that include an assurance-type warranty for the first 90 days. The entity offers an optional 'extended coverage' plan under which it will repair or replace any defective part for three years from the expiration of the assurance-type warranty.

Since the optional 'extended coverage' plan is sold separately, the entity determines that the three years of extended coverage represent a separate performance obligation (i.e., a service-



type warranty). The total transaction price for the sale of a computer and the extended warranty is Rs. 36,000. The entity determines that the stand-alone selling prices of the computer and the extended warranty are Rs. 32,000 and Rs. 4,000, respectively. The inventory value of the computer is Rs. 14,400.

Furthermore, the entity estimates that, based on its experience, it will incur Rs. 2,000 in costs to repair defects that arise within the 90-day coverage period for the assurance-type warranty.

Pass required journal entries.

Solution:

The entity will record the following journal entries:

Particulars		₹	₹
Cash/Trade Receivable	Dr	36,000	
Warranty Expense	Dr	2,000	
To Accrued warranty costs (assurance-type warranty)			2,000
To Revenue			32,000
To Contract Liability (Service-type warranty)			4,000
(To record revenue and contract liabilities related to warranties)			
Cost of Goods Sold	Dr.	14,000	
To Inventory			14,000
(To derecognize inventory and recognize cost of goods sold)			

The entity derecognizes the accrued warranty liability associated with the assurance-type warranty as actual warranty costs are incurred during the first 90 days after the customer receives the computer.

The entity recognizes the contract liability associated with the service type warranty as revenue during the contract warranty period and recognizes the costs associated with providing the service-type warranty as they are incurred.

The entity had to determine whether the repair costs incurred are applied against the warranty reserve already established for claims that occur during the first 90 days or recognized as an expense as incurred.

63. Illustration (SM)

An entity enters into a contract with a customer for two intellectual property licences (Licences A and B), which the entity determines to represent two performance obligations each satisfied at a point in time. The stand-alone selling prices of Licences A and B are Rs. 1,600,000 and Rs. 2,000,000, respectively. The entity transfers Licence B at inception of the contract and transfers Licence A one month later. Case A – Variable consideration allocated entirely to one performance obligation The price stated in the contract for Licence A is a fixed amount of Rs. 1,600,000 and for Licence B the consideration is three per cent of the customer's future sales of products that use Licence B. For purposes of allocation, the entity estimates its sales-based royalties (ie the variable consideration) to be Rs. 2,000,000. Allocate the transaction price. Case



B – Variable consideration allocated on the basis of stand-alone selling prices The price stated in the contract for Licence A is a fixed amount of Rs. 600,000 and for Licence B the consideration is five per cent of the customer's future sales of products that use Licence B. The entity's estimate of the sales-based royalties (i.e., the variable consideration) is Rs. 3,000,000. Here, Licence A is transferred 3 months later. The royalty due from the customer's first month of sale is Rs. 4,00,000. Allocate the transaction price and determine the revenue to be recognised for each licence and the contract liability, if any.

Case A – Variable Consideration Allocated Entirely to One Performance Obligation

The contract involves two intellectual property licenses, **Licence A** (₹16,00,000) and **Licence B** (₹20,00,000). The consideration for **Licence A** is fixed at ₹16,00,000, while for **Licence B**, it is a **3% sales-based royalty**, estimated to be ₹20,00,000.

As per **Ind AS 115**, variable consideration should be allocated to a **specific performance obligation** if:

- The variable payment **relates specifically** to the obligation (here, Licence B is linked to the customer's future sales).
- The allocation is **consistent with the stand-alone selling price** of the licenses.

Since the estimated royalty of ₹20,00,000 aligns with Licence B's selling price, the entity **allocates the entire royalty to Licence B** and ₹16,00,000 to Licence A.

- Upon transferring **Licence B**, no revenue is recognized initially because it is based on **future sales-based royalties**. Revenue will be recognized when actual sales occur.
- Upon transferring **Licence A** (one month later), revenue of ₹16,00,000 is recognized immediately.

Case B – Variable Consideration Allocated on the Basis of Stand-Alone Selling Prices

In this case, **Licence A** has a fixed price of ₹6,00,000, and **Licence B** has a **5% sales-based royalty**, estimated at ₹30,00,000. Since **Licence A** is transferred three months later, the allocation must reflect stand-alone selling prices.

Applying **Ind AS 115**, variable consideration should only be allocated entirely to one obligation if it reflects the stand-alone price. Here, allocating ₹6,00,000 to Licence A and ₹30,00,000 to Licence B does not match their relative stand-alone prices (₹16,00,000 and ₹20,00,000, respectively). Thus, allocation is done using **relative stand-alone selling price**.

Product	Stand-alone Price (₹)	Allocation Basis (%)	Allocated Fixed Price (₹6,00,000)
Licence A	16,00,000	$(16,00,000 \div 36,00,000)$	₹2,66,667
Licence B	20,00,000	$(20,00,000 \div 36,00,000)$	₹3,33,333
Total	36,00,000	100%	6,00,000

- When **Licence B** is transferred, the entity recognizes revenue of ₹3,33,333.
- When **Licence A** is transferred three months later, revenue of ₹2,66,667 is recognized.

For **royalty recognition**, the **first month's royalty payment** is ₹4,00,000. The allocation is based on **stand-alone selling price**:

Product	Royalty Allocation (%)	Royalty Revenue Recognized (₹)
Licence B (Transferred)	$(20,00,000 \div 36,00,000)$	₹2,22,222
Licence A (Not Yet Transferred)	$(16,00,000 \div 36,00,000)$	₹1,77,778 (Contract Liability)



Since **Licence A is not yet transferred**, the **₹1,77,778 royalty is recorded as a contract liability** and recognized only when Licence A is delivered.

64. Illustration (SM)

An entity regularly sells Products X, Y and Z individually, thereby establishing the following stand-alone selling prices:

Product	Stand-alone selling price Rs.
Product X	50,000
Product Y	25,000
Product Z	45,000
Total	1,20,000

In addition, the entity regularly sells Products Y and Z together for Rs. 50,000.

Case A—Allocating a discount to one or more performance obligations

The entity enters into a contract with a customer to sell Products X, Y and Z in exchange for Rs. 100,000. The entity will satisfy the performance obligations for each of the products at different points in time; or Product Y and Z at same point of time. Determine the allocation of transaction price to Product Y and Z.

Case B—Residual approach is appropriate

The entity enters into a contract with a customer to sell Products X, Y and Z as described in Case A. The contract also includes a promise to transfer Product Alpha. Total consideration in the contract is Rs. 130,000. The stand-alone selling price for Product Alpha is highly variable because the entity sells Product Alpha to different customers for a broad range of amounts (Rs. 15,000 – Rs. 45,000). Determine the stand-alone selling price of Products, X, Y, Z and Alpha using the residual approach.

Case C—Residual approach is inappropriate

The same facts as in Case B apply to Case C except the transaction price is Rs. 1,05,000 instead of Rs. 130,000.

Solution

The contract includes a **₹20,000 discount** on the overall transaction price of **₹100,000**. Using the **relative stand-alone selling price method**, this discount would typically be **proportionately allocated** to all three products (X, Y, and Z). However, since the entity **regularly sells Products Y and Z together for ₹50,000**, it has evidence that the **entire discount of ₹20,000 should be allocated to Products Y and Z**.

- If **Products Y and Z are transferred at the same time**, the entity can account for them as a **single performance obligation**, allocating **₹50,000 to Product X** and recognizing revenue of **₹50,000 when Products Y and Z are delivered**.
- If **Products Y and Z are transferred separately**, the **₹50,000 allocated to them** is further split based on their **relative stand-alone selling prices**:



Product	Allocated Transaction Price (₹)	Calculation
Product Y	₹17,857	$(₹25,000 \div ₹70,000) \times ₹50,000$
Product Z	₹32,143	$(₹45,000 \div ₹70,000) \times ₹50,000$
Total	₹50,000	

Case B – Residual Approach is Appropriate

The contract now includes **Product Alpha**, and the **total consideration is ₹130,000**. The **stand-alone selling price of Product Alpha is highly variable**, ranging from **₹15,000 to ₹45,000**.

Since **Products X, Y, and Z have observable selling prices** (₹50,000 for Product X and ₹50,000 for Products Y and Z after discount), the residual approach is used to allocate the remaining transaction price to **Product Alpha**.

Product	Stand-alone Selling Price (₹)	Method Used
Product X	₹50,000	Directly Observable
Products Y & Z	₹50,000	Directly Observable (with Discount)
Product Alpha	₹30,000	Residual Approach (₹130,000 - ₹100,000)
Total	₹130,000	

Since **₹30,000 falls within the expected range (₹15,000 – ₹45,000)**, the residual approach is **appropriate** for allocating the price to Product Alpha.

Case C – Residual Approach is Inappropriate

The transaction price is now **₹105,000**, and applying the residual approach would allocate **₹5,000 to Product Alpha** (₹105,000 - ₹100,000 for Products X, Y, and Z). However, this **does not faithfully depict the expected consideration**, as **₹5,000 is significantly lower** than the observed selling range (₹15,000 – ₹45,000).

Since the residual approach **produces an unrealistic allocation**, the entity **cannot use it**. Instead, the entity must use **another method, such as the relative stand-alone selling price method**, to allocate the **₹105,000 transaction price** across all products **X, Y, Z, and Alpha**.

Thus, in this case, the **transaction price must be allocated based on relative stand-alone selling prices** following **Ind AS 115 guidelines (Paragraphs 73-80)** instead of the residual approach.

Ind AS 102 – Share Based Payment

65. Illustration – Liability / SAR

An entity which follows its financial year as per the calendar year grants 1,000 share appreciation rights (SARs) to each of its 40 management employees as on 1st January 20X5. The SARs provide the employees with the right to receive (at the date when the rights are exercised) cash equal to the appreciation in the entity's share price since the grant date. All of the rights vest on 31st December 20X6; and they can be exercised during 20X7 and 20X8. Management estimates that, at grant date, the fair value of each SAR is Rs. 11; and it estimates that overall 10% of the employees will leave during the two-year period.

The fair values of the SARs at each year end are shown below:

Year	Fair value at year end
31 December 20X5	12
31 December 20X6	8
31 December 20X7	13



10% of employees left before the end of 20X6. On 31st December 20X7 (when the intrinsic value of each SAR was Rs. 10), six employees exercised their options; and the remaining 30 employees exercised their options at the end of 20X8 (when the intrinsic value of each SAR was equal to the fair value of Rs. 12).

How much expense and liability is to be recognized at the end of each year? Pass Journal entries. (SM)

Solution:

Particulars	31st Dec X5	31st Dec X6	31st Dec X7	31st Dec X8
No of SARs expected to vest/vested	36,000	36,000	36,000	30,000
Less: Settled			6,000	30,000
Balance SARs			30,000	-
FV per SARs	12	8	13	12
Intrinsic Value			10	12
Total FV of SARs expected to vest	4,32,000	2,88,000		
Expense to be recognised	2,16,000	72,000		
	[4,32,000 / 2]	[288-216]		
Payment when rights are exercised			60,000	
Balance in liability - before remeasurement			2,28,000	3,90,000
FV of remaining SAR			3,90,000	3,60,000
Expense to be recognised			1,62,000	(30,000)
Dec X5				
Employee benefit Expense Dr.	2,16,000			
To SPB Liability		2,16,000		
Dec X6				
Employee benefit Expense Dr.	72,000			
To SPB Liability		72,000		
Dec X7				
SBP Liability	60,000			



To Cash/Bank		60,000		
Remeasurement of liability				
Employee benefit Expense Dr.	1,62,000			
To SPB Liability		1,62,000		
Dec X8				
SPB Liability Dr.	30,000.00			
TO Employee benefit expense		30,000		
Payment				
SBP Liability Dr.	3,60,000			
TO Bank		3,60,000		

66. Illustration

The following particulars in respect of stock options granted by a company are available:

No. of Employees covered	400	Nominal Value per share	₹ 100
No. of options per Employee	60	Exercise price per share	₹ 125

Shares offered were put in three groups. Group I was for 20% of shares offered with vesting period one- year. Group II was for 40% of shares offered with vesting period two- years. Group III was for 40% of shares offered with vesting period three-years. Fair value of option per share on grant date was ₹ 10 for Group I, ₹ 12.50 for Group II and ₹ 14 for Group III.

Position on 1st Year	Position on 2nd Year	Position on 3rd Year
- No. of employees left = 40 - Estimate of employees to leave in Year 2 = 36 - Estimate of employees to leave in Year 3 = 34 - Employees exercising Options in Group I = 350	- Employees left = 35 - Estimate of employees to leave in Year 3 = 30 - Employees exercising Options in Group II = 319	- Employees left = 28 - Employees exercising Options in Group III = 295

Options not exercised immediately on vesting, were forfeited. Compute expenses to recognise in each year and show important accounts in the books of the company.

Solution

Group	Vesting Period	% of Options	No. of Options per Employee	Fair Value per Option (₹)
Group I	1 Year	20%	12	₹10
Group II	2 Years	40%	24	₹12.50
Group III	3 Years	40%	24	₹14

Total number of options per employee = 60

Group = No. of Options	Group I = 12 Options	Group II = 24 Options	Group III = 24 Options
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	1	1	2	1	2	3
(a) Employees at year end = [Opening No. of Employees - Forfeiture]	400 - 40 = 360	400 - 40 = 360	360 - 35 = 325	400 - 40 = 360	360 - 35 = 325	325 - 28 = 297
(b) Expected to leave in future	NA	36	NA	36 + 34 = 70	30	NA
(c) No. of employees eligible (a - b)	360	324	325	290	295	297
(d) Options expected to Vest = [(c) x No. of Shares]	(360 x 12 sh.) 4,320	(324 x 24 sh.) 7,776	(325 x 24 sh.) 7,800	(290 x 24 sh.) 6,960	(295 x 24 sh.) 7,080	(297 x 24 sh.) 7,128
(e) FV per option	₹ 10	₹ 12.50	₹ 12.50	₹ 14	₹ 14	₹ 14
(f) Value of Total Options = [d x e]	₹ 43,200	₹ 97,200	₹ 97,500	₹ 97,440	₹ 99,120	₹ 99,792
(g) Total Cumulative Cost of Options = [(f) x Completed Yrs/ Total Yrs]	₹ 43,200	[(f) x 1/2] ₹ 48,600	[(f) x 2/2] ₹ 97,500	[(f) x 1/3] ₹ 32,480	[(f) x 2/3] ₹ 66,080	[(f) x 3/3] ₹ 99,792
(h) Less: Recognized in last years	0	0	₹ 48,600	0	₹ 32,480	₹ 66,080
(i) Expenses to be recognized	₹ 43,200	₹ 48,600	₹ 48,900	₹ 32,480	₹ 33,600	₹ 33,712
(j) Employees not exercising ESOP	10 Employees	325 - 319 = 6 Employees		297 - 295 = 2 Employees		
(k) Total Expenses for- Year 1 Year 2 Year 3	₹ 43,200 (Gr. 1) + ₹ 48,600 (Gr.2) + ₹ 32,480 (Gr. 3) = ₹ 1,24,280 ₹ 48,900 (Gr. 2) + ₹ 33,600 (Gr. 3) = ₹ 82,500 ₹ 33,712 (Gr. 3 only)					

Employees Benefit Expenses A/c			
Year 1			
	₹		₹
To Share-based Payment Reserve A/c	1,24,280	By Profit and Loss A/c	1,24,280
	1,24,280		1,24,280
Year 2			
To Share-based Payment Reserve A/c	82,500	By Profit and Loss A/c	82,500



	82,500		82,500
Year 3			
To Share-based Payment Reserve A/c	33,712	By Profit and Loss A/c	33,712
	33,712		33,712
Share-based Payment Reserve A/c			
Year 1			
	₹		₹
To Retained Earnings [(360 - 350) Emp x 12 Options x ₹ 10]	1,200	By Employees Benefit Expenses A/c	1,24,280
To Share Capital (350 Emp x 12 Options x ₹ 100)	4,20,000	By Bank A/c. (350 Emp x 12 Options x ₹ 125)	5,25,000
To Securities Premium (350 Emp x 12 Options x ₹ 35)	1,47,000		
To balance c/d	81,080		
	6,49,280		6,49,280
Year 2			
To Retained Earnings [(325 - 319) Emp x 24 Options x ₹ 12.50]	1,800	By balance b/d.	81,080
To Share Capital (319 Emp x 24 Options x ₹ 100)	7,65,600	By Employees Benefit Expenses A/c	82,500
To Securities Premium (319 Emp x 24 Options x ₹ 37.50)	2,87,100	By Bank A/c. (319 Emp x 24 Options x ₹ 125)	9,57,000
	66,080		
To balance c/d	11,20,580		11,20,580
Year 3			
To Retained Earnings [(297 - 295) Emp x 24 Options x ₹ 14]	672	By balance b/d.	66,080
To Share Capital (295 Emp x 24 Options x ₹ 100)	7,08,000	By Employees Benefit Expenses A/c	33,712
To Securities Premium (295 Emp x 24 Options x ₹ 39)	2,76,120	By Bank A/c. (295 Emp x 24 Options x ₹ 125)	8,85,000
	9,84,792		9,84,792

	Group I	Group II	Group III
	Year 1	Year 2	Year 3
Exercise Price received per share	125.00	125.00	125.00



Value of service received per share, being the FV of the Options	<u>10.00</u>	<u>12.50</u>	<u>14.00</u>
Total Consideration received per share	135.00	137.50	139.00
Less: Nominal Value per share	<u>(100.00)</u>	<u>(100.00)</u>	<u>(100.00)</u>
Securities Premium per share	<u>35.00</u>	<u>37.50</u>	<u>39.00</u>

Ind AS 41 – Agriculture

67. Illustration

XYZ Ltd., on 1st December, 20X3, purchased 100 sheep from a market for Rs. 5,00,000. The transaction cost of 2% on the market price of the sheep was incurred which was paid by the seller. Sheep's fair value increased from Rs. 500,000 to Rs. 600,000 on 31st March, 20X4. Transaction cost of 2% would have to be incurred by the seller to get the sheep to the relevant market.

Determine the fair value on the date of purchase and the reporting date and pass necessary journal entries thereon.

Hint: Loss on initial recognition – Rs.10,000; Gain – Change in fair value Rs.98,000

Solution:

Initial Recognition on 1st Dec X3		
Fair Value	5,00,000	
Less: Costs to Sell - 2%	10,000	
Initial Recognition	4,90,000	
Biological Asset Dr.	4,90,000	
Profit & Loss Dr.	10,000	
To Cash/Bank		5,00,000
Subsequent Measurement on 31st March X4		
Fair Value	6,00,000	
Less: Costs to Sell - 2%	12,000	
Carrying Amount on 31st March	5,88,000	
Initial recognition	4,90,000	
Gain to be recognised	98,000	
Biological Asset Dr.	98,000	
To Profit and Loss		98,000

68. Illustration

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

Purchase price at 30th June 20X1 Rs. 1,00,000

Costs of transporting the cattle back to the entity's farm Rs. 1,000

Sales price of the cattle at 31st March, 20X2 Rs. 1,10,000

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

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



Hint: Fair value less costs to sell Rs.1,06,800

Solution:

Initial Recognition		30th Jun X1	
Fair Value		1,00,000	
Less: Costs to Sell			
-		1,000	
Transportation			
- Auctioneer Fees		2,000	
Fair value less cost to sell		97,000	
Amount paid by the entity			
Price of cattle		1,00,000	
Transportation cost		1,000	
Auctioneer's fees		2,000	
	Total outflow	1,03,000	
	Difference loss	6,000	
Dr. Biological Asset		97,000	
Dr. P&L		6,000	
Cr. Cash/Bank			1,03,000
ON 31st March			
Fair value		1,10,000	
Less: Cost to sell			
- Transport		(1,000)	
-Auctioneer's Fee		(2,200)	
Fair value less cost to sell		1,06,800	
Initial Recognition		97,000	
Gain		9,800	
Dr. Biological Asset		9,800	
Cr. P&L			9,800

69. Illustration

XY Ltd. is a farming entity where cows are milked on a daily basis. Milk is kept in cold storage immediately after milking and sold to retail distributors on a weekly basis. On 1 April 20X1, XY Ltd. had a herd of 500 cows which were all three years old.

During the year, some of the cows became sick and on 30 September 20X1, 20 cows died. On 1 October 20X1, XY Ltd. purchased 20 replacement cows from the market for Rs. 21,000 each. These 20 cows were all one year old when they were purchased.

On 31 March 20X2, XY Ltd. had 1,000 litres of milk in cold storage which had not been sold to retail distributors. The market price of milk at 31 March 20X2 was Rs. 20 per litre. When selling the milk to distributors, XY Ltd. incurs selling costs of Rs. 1 per litre. These amounts did not change during March 20X2 and are not expected to change during April 20X2.

Information relating to fair value and costs to sell is given below:

Date	Fair value of a dairy cow (aged)				Costs to sell a cow
	1 year	1.5 years	3 years	4 years	
1st April 20X1	20,000	22,000	27,000	25,000	1,000



1st October 20X1	21,000	23,000	28,000	26,000	1,000
31st March 20X2	21,500	23,500	29,000	26,500	1,100

You can assume that fair value of a 3.5 years old cow on 1st October 20X1 is Rs. 27,000.

Pass necessary journal entries of above transactions with respect to cows in the financial statements of XY Ltd. for the year ended 31st March, 20X2? Also show the amount lying in inventory if any.

Hint: Loss on death of 20 cows – Rs.5,20,000 ; Loss on initial recognition of 20 new cows – Rs.20,000; loss on remeasurement of old cows – 2,88,000; Biological Asset on 31st Mar 20X2 – 480 4years : Rs.1,21,92,000 and 20 1.5 years : Rs.4,48,000.

Solution:

Date	<u>Age</u>	No of Cows	FV	Costs to Sell	FV Less Cost	Total FV
01 Apr X1	3	500	27,000	1,000	26,000	1,30,00,000
30 Sep X1	3.50	(20)	27,000	1,000	26,000	(5,20,000)
1st Oct X1	1	20	21,000	1,000	20,000	4,00,000
Carrying Amount 31st March X2						1,28,80,000
Fair Value on 31st March X2						
	4	480	26,500	1,100	25,400	1,21,92,000
	1.50	20	23,500	1,100	22,400	4,48,000
						1,26,40,000
					Loss	(2,40,000)
				Loss on Old Cows		(2,40,000)
Journal Entries				Gain on new Cows		48,000
30th Sep X1						
Loss on Death of Cow (P/L) Dr.			5,20,000			
To Biological Asset				5,20,000		
1st Oct X1						
Biological Asset			4,00,000			
Loss on Initial rec. (P&L)			20,000			
To Bank				4,20,000		
31st March X2						
Loss on Old Cows Dr			2,40,000			



To Biological Asset				2,40,000		
Biological Asset			48,000			
To Profit on new cows				48,000		
		Litres	FV	Cost to Sell	FV - Cost to sel	Value of inventory
Inventory Value		1,000	20	1	19	19,000

Ind AS 12 – Income Taxes

70. Illustration

On 1st April 20X1, S Ltd. leased a machine over a 5 year period. The present value of lease liability is Rs. 120 Cr (discount rate of 8%) and is recognized as lease liability and corresponding Right of Use (RoU) Asset on the same date. The RoU Asset is depreciated under straight line method over the 5 years. The annual lease rentals are Rs. 30 Cr payable starting 31st March 20X2. The tax law permits tax deduction on the basis of payment of rent. Assuming tax rate of 30%, you are required to explain the deferred tax consequences for the above transaction for the year ended 31st March 20X2 .

Solution:

Lease payments		30		
Term		5		
Implicit Rate		8%		
	PV	(120)		
ROU Asset Dr.		120		
Lease Liability Cr.			120	
Year	Op Bal	Int	Payment	Closing bal
1	120.00	9.60	30	99.60
2	99.60	7.97	30	77.57
3	77.57	6.21	30	53.77
4	53.77	4.30	30	28.08
5	28.08	2.25	30	0.32



	Interest Expenses	30.32		
	Depreciation	120		
		Carrying Amount	Tax Base	
ROU Asset		96.00	-	
Lease Liability		99.60	-	
Net Liability		3.60	-	
Deductible Temp Diff.		DTA	1.08	DTA
First year tax deduction		30.00		
First year accounting expense		33.60		

71. Illustration

A Ltd. acquired B Ltd. The following assets and liabilities are acquired in a business combination:

'000

	Fair Value	Carrying amount	Temporary Difference
Plant and Equipment	250	260	(10)
Inventory	120	125	(5)
Debtors	200	210	(10)
	570	595	(25)
9% Debentures	(100)	(100)	
	470	495	
Consideration paid	500	500	
Goodwill	30	5	(25)

Calculate Deferred Tax Asset.

Solution:

In this case there is a Deferred Tax Asset as the Tax base of assets acquired is higher by 25,000. DTA would be ₹ 7,500 (25,000 x 30%)

Journal entry:

Plant and equipment	Dr	250	
Inventory	Dr	120	
Debtors	Dr	200	
Goodwill	Dr	22.5 (30- 7.5)	
DTA	Dr	7.5	
To 9% Debentures			100
To Bank			500



72. Illustration

X Ltd. prepares consolidated financial statements to 31st March each year. During the year ended 31st March 2018, the following events affected the tax position of the group:

(i) Y Ltd., a wholly owned subsidiary of X Ltd., made a loss adjusted for tax purposes of Rs. 30,00,000. Y Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow Y Ltd. to transfer the tax loss to other group companies. However, it allows Y Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of X Ltd. do not consider that Y Ltd. will make taxable profits in the foreseeable future.

(ii) Just before 31st March, 2018, X Ltd. committed itself to closing a division after the year end, making a number of employees redundant. Therefore, X Ltd. recognised a provision for closure costs of Rs. 20,00,000 in its statement of financial position as at 31st March, 2018. Income-tax Act allows tax deductions for closure costs only when the closure actually takes place. In the year ended 31st March 2019, X Ltd. expects to make taxable profits which are well in excess of Rs. 20,00,000. On 31st March, 2018, X Ltd. had taxable temporary differences from other sources which were greater than Rs. 20,00,000.

(iii) During the year ended 31st March, 2017, X Ltd. capitalised development costs which satisfied the criteria in paragraph 57 of Ind AS 38 'Intangible Assets'. The total amount capitalised was Rs. 16,00,000. The development project began to generate economic benefits for X Ltd. from 1st January, 2018. The directors of X Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 2018.

(iv) On 1st April, 2017, X Ltd. borrowed Rs. 1,00,00,000. The cost to X Ltd. of arranging the borrowing was Rs. 2,00,000 and this cost qualified for a tax deduction on 1st April, 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March, 2020 will be Rs. 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of Rs. 30,43,800 will be claimable when the loan is repaid on 31st March, 2020.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of X Ltd. group at 31st March, 2018 as per Ind AS. Assume the rate of corporate income tax is 20%.

Solution:

			Carrying amount		
Year	Op Bal	Interest @10%	Closing Bal	Amt deductible	Tax Base
1	98,00,000	9,80,000	1,07,80,000	7,80,000	1,00,00,000
2	1,07,80,000	10,78,000	1,18,58,000	18,58,000	1,00,00,000
3	1,18,58,000	11,85,800	1,30,43,800		
		Year ended 31st March 2018			
	Temporary diff	7,80,000			
	DTA	1,56,000			

73. Illustration

A Ltd prepares financial statements to 31 March each year. The rate of income tax applicable to A Ltd is 25%. The following information relates to transactions, assets and liabilities of A Ltd during the year ended 31 March 20X2:



(i) A Ltd has a 40% shareholding in L Ltd. A Ltd purchased this shareholding for Rs. 45 Cr. The shareholding gives A Ltd significant influence over L Ltd but not control and therefore A Ltd. accounts for its interest in L Ltd using the equity method. The equity method carrying value of A Ltd's investment in L Ltd was Rs. 70 Cr on 31 March 20X1 and Rs. 75 Cr on 31 March 20X2. In the tax jurisdiction in which A Ltd operates, profits recognised under the equity method are taxed if and when they are distributed as a dividend or the relevant investment is disposed of.

(ii) A Ltd. measures its head office building using the revaluation model. The building is revalued every year on 31 March. On 31 March 20X1, carrying value of the building (after revaluation) was Rs. 40 Cr and its tax base was Rs. 22 Cr. During the year ended 31 March 20X2, A Ltd charged depreciation in its statement of profit or loss of Rs. 2 Cr and claimed a tax deduction for tax depreciation of Rs. 1.25 Cr. On 31 March 20X2, the building was revalued to Rs. 45 Cr. In the tax jurisdiction in which A Ltd operates, revaluation of property, plant and equipment does not affect taxable income at the time of revaluation.

Basis the above information, you are required to compute:

- The deferred tax liability of A Ltd at 31 March 20X2
- The charge or credit to both profit or loss and other comprehensive income relating to deferred tax for the year ended 31 March 20X2

Solution:

Investments in Associate - Ltd	31st March X2	31st March X1
Carrying Amount	75	70
Tax Base	45	45
Temporary Difference (Taxable)	30.00	25.00
Deferred Tax Liability (25%)	7.50	6.25
Increase in DTL	1.25	Debited to P&L
Income Tax expense Deferred (PL)	1.25	
To DTL		1.25
Office Building - PPE		
	31st March X2	31st March X1
Carrying Amount	45	40
Tax Base	20.75	22.00
Taxable Temp. Diff	24.25	18.00
DTL @ 25%	6.06	4.50
Increase in DTL	1.56	
Carrying Amount on 31st March X1	40	
Less: Depreciation	(2)	
Carrying amount before revaluation	38	
Tax Base	20.75	
Taxable Temp diff on 31st March X2	17.25	DTL @ 25%



		4.31
Taxable Temp diff on 31st March X1	18.00	
Reversal of taxable temp diff	0.75	
Deferred Tax Liability to be reversed	0.19	0.19
Revalued amount	45	
Tax Base	20.75	DTL
Difference	24.25	6.06
		1.75
Revaluation Surplus	7	
DTL on revaluation surplus created	1.75	Created
	1.56	Net
Deferred Tax Liability Dr.	0.19	
To Income Tax Benefit -Deff/PL		0.19
PPE Dr.	7	
To Revaluation Surplus/OCI		7
Revaluation surplus/OCI	1.75	
To DTL		1.75
	1.75	

74. Illustration – Nov 22 [8 Marks]

Following is the summarized Statement of Profit and Loss of New Age Ltd. as per Ind AS for the year ended 31.3.2022:

Particulars	Rs. in lakhs
Revenue from operations	1,450.00
Other income	70.00
(A) Total income	1,520.00
Purchase of stock in trade	50.00
Changes in inventories of stock in trade	20.00
Employee benefit expenses	145.00
Finance costs	180.00
Other expenses	375.00
(B) Total expenses	770.00
(C) Profit before tax (A - B)	750.00
(D) Current tax expense	211.65
(E) Profit after tax (C - D)	538.35

Additional information:



- (1) Consider that Income tax rate applicable to New Age Ltd. in India is 30%.
- (2) 'Other expenses' include the following expenses which are not deductible for income tax purposes:
 - (i) Penalties Rs. 1.50 lakh
 - (ii) Donations Rs. 55.00 lakhs
 - (iii) Impairment of goodwill Rs. 7.00 lakhs
- (3) 'Other expenses' also include expenditure on Scientific Research amounting to Rs. 10 lakhs in respect of which a 150% weighted deduction is available under income tax laws.
- (4) 'Other income' includes:
 - (i) Dividends of Rs. 5 lakhs, which is exempt from tax.
 - (ii) Long term capital gains of Rs. 12 lakhs which are taxable at the rate of 10%.
- (5) 'Profit before tax of Rs. 750 lakhs' includes:
 - (i) Agriculture income of Rs. 65 lakhs which is exempt from tax; and
 - (ii) Profit of Rs. 75 lakhs earned in USA on which New Age Ltd. has paid tax at the rate of 20%.

During review of financial statements of New Age Ltd., the CFO multiplied profit before tax by the income tax rate and arrived at Rs. 225 lakhs as the tax expenses. However, the actual income tax expenses appearing in the summarized Statement of Profit and Loss is Rs. 211.65 lakhs.

You are required to help the CFO of the company in reconciling the difference between the tax expense amount.

Solution:

	Income	Tax Rate	Tax	
Profit before tax as given	750	30%	225	
Add: Expenses not allowed				
1. Penalties	1.50	30%	0.45	
2. Donations	55.00	30%	16.50	
3. Impairment of goodwill	7.00	30%	2.10	
Tax Impact of expenses not allowed.			19.05	A
Less: Weighted deduction				
1. Scientific research	-5.00	30%	-1.50	
Tax Impact of extra deduction			-1.50	B
Less: exempt income				
1. Dividend income	-5.00	30%	-1.50	
2. Agri income	-65.00	30%	-19.50	
Tax impact of exempt income			-21.00	C
Less: Tax Impact of difference in rates				
1. LTCG	12	-20%	-2.40	
2. US Income	75	-10%	-7.50	
Tax impact of difference in rates			-9.90	D
Tax expense as per Income tax			211.65	
Taxable Income	738.50			
Tax on special rate income				
1. LTCG	12	10%	1.20	
2. US Income	75	20%	15.00	
3. Other income at 30%	651.50	30%	195.45	



Ind AS 21 – Foreign Exchange

75. Illustration

On 30th January, 20X1, A Ltd. purchased a machinery for \$ 5,000 from USA supplier on credit basis. A Ltd.'s functional currency is Rupees. The exchange rate on the date of transaction is 1 \$ = Rs. 60. The fair value of the machinery determined on 31st March, 20X1 is \$ 5,500. The exchange rate on 31st March, 20X1 is 1\$ = Rs. 65. The payment to overseas supplier done on 31st March 20X2 and the exchange rate on 31st March 20X2 is 1\$ = Rs. 67. The fair value of the machinery remain unchanged for the year ended on 31st March 20X2. Prepare the Journal entries for the year ended on 31st March 20X1 and year 20X2 according to Ind AS 21. Tax rate is 30%. A Ltd. follows Revaluation method in respect of Plant & Machinery. (SM)

Solution:

30th Jan X1	\$	Exchange Rate	INR
Cost of Purchase	5,000	60	3,00,000
Machinery A/c - PPE Dr.	3,00,000		
To Creditor		3,00,000	
31st Mar X1	\$		
Revalued Amount - PPE	5,500	65	3,57,500
Carrying Amount			3,00,000
Revaluation - OCI			57,500
DTL	30%		17,250
Amount payable to Creditor	5,000.00	65.00	3,25,000
Carrying Amount			3,00,000
Exchange difference loss			25,000.00
Machinery A/C - PPE	57,500		
To OCI		57,500	
OCI Dr.	17,250		
To Deferred Tax Liability		17,250	
Exchange Diff. Loss Dr.	25,000		
To Creditors		25,000	
31st March X2			
Machinery A/C - PPE	11,000		
To OCI		11,000	
[(67-65) x 5,500]			
OCI Dr.	3,300.00		
To DTL		3,300	
(11,000 x 30%)			



Payment to creditor			
Creditor Dr.	3,25,000.00		
Exchange Loss Dr	10,000.00		
To Bank - [5,000 x 67]		3,35,000	

76. Illustration

On 1st January, 2018, P Ltd. purchased a machine for \$ 2 lakhs. The functional currency of P Ltd. is Rupees. At that date the exchange rate was \$1= Rs. 68. P Ltd. is not required to pay for this purchase until 30th June, 2018. Rupees strengthened against the \$ in the three months following purchase and by 31st March, 2018 the exchange rate was \$1 = Rs. 65. CFO of P Ltd. feels that these exchange fluctuations wouldn't affect the financial statements because P Ltd. has an asset and a liability denominated in rupees. which was initially the same amount. He also feels that P Ltd. depreciates this machine over four years so the future year-end amounts won't be the same.

Examine the impact of this transaction on the financial statements of P Ltd. for the year ended 31st March, 2018 as per Ind AS. (SM)

Solution:

As per **Ind AS 21**, foreign currency transactions must be recorded at the spot exchange rate on the date of the transaction. At each reporting date:

- **Monetary items** (like payables) must be translated using the **closing rate**.
- **Non-monetary items** (like PPE) are not retranslated if measured at historical cost.

Initial Recognition

Particulars	USD	Rate (₹)	INR Amount	Closing Balance
Cost of Machine	2,00,000	68	₹1,36,00,000	₹1,36,00,000
Depreciation ₹1,36,00,000 x 3/12 x 1/4			₹8,50,000	(₹8,50,000)
Carrying Amount				₹1,27,50,000
Payable (Liability)	2,00,000	68	₹1,36,00,000	₹1,30,00,000
Closing Balance	2,00,000	65	₹1,30,00,000	
Gain			₹6,00,000	

The CFO's understanding is incorrect. As per Ind AS 21:

- The machine will be initially recognised at INR 1,36,00,000 on 1st Jan 2018 and a corresponding liability of same amount will be recognised
- **PPE (non-monetary asset)** remains at historical cost (₹68/\$).
- **Payable (monetary item)** must be retranslated at closing rate (₹65/\$).
- Resultant **exchange gain** of ₹6,00,000 is recognised in **profit or loss**.
- There is no matching in rupee terms at reporting date — **exchange differences do impact financials**.

77. Illustration

Supplier, A Ltd., enters into a contract with a customer, B Ltd., on 1st January, 2018 to deliver goods in exchange for total consideration of USD 50 million and receives an upfront payment of USD 20 million on this date. The functional currency of the supplier is INR. The goods are delivered and revenue is recognised on 31st March, 2018. USD 30 million is received on 1st April, 2018 in full and final settlement of the purchase consideration.



State the date of transaction for advance consideration and recognition of revenue. Also state the amount of revenue in INR to be recognized on the date of recognition of revenue. The exchange rates on 1st January, 2018 and 31st March, 2018 are Rs. 72 per USD and Rs. 75 per USD respectively. (SM)

[Ans: Amount of revenue to be recognised on date of revenue (31st March 2018) – ₹ 3,690 million]

Solution:

Particulars	Recognition	USD (Mio)	Rate	INR (Mio)
Advance (Contract Liability)	01-Jan-18	20	72	1,440
Revenue	31-Mar-18			
1. Derecognition of Contract Liability and recognition of Revenue				
		20	72	1,440
2. Recognition of balance 30 Mio revenue		30	75	2,250
				3,690
Dr. Contract Liability	1,440			
Cr. Revenue		1,440		
Dr. Account Receivable	2,250.00			
Cr. Revenue		2,250.00		

78. Illustration

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

- 1st April, 20X1 - FCY 1 = Rs. 2.50.
- 31st March, 20X2 - FCY 1 = Rs. 2.75.
- Average rate for the year ended 31st March, 20X2 - FCY 1 = Rs. 2.42. The functional currency of the group is Indian Rupee.

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

[Ans: Initial measurement amount – ₹ 1,45,00,000; Finance cost for year – ₹ 16,84,320; Closing balance – ₹ 1,62,14,000; Exchange loss – ₹ 16,79,860]

Solution:

	FCY	Exch. Rate	INR	Date
Initial Recognition	58,00,000	2.50	1,45,00,000	1-Apr-X1
Add: Interest @ 12%	6,96,000	2.42	16,84,320	31-Mar-X2
Payment	6,00,000	2.75	16,50,000	31-Mar-X2
Closing Balance	58,96,000	2.75	1,45,34,320	Restated
Closing balance after restatement			1,62,14,000	
			16,79,680	Exchange loss



79. Illustration

Functional currency of parent P is EURO while the functional currency of its subsidiary S is USD. P sells inventory to S and a transaction for the same was made for USD 300 during the year. At the year end, a balance of the same amount is outstanding as receivable from S. It has been observed that such balance amount has been continuing as receivable from S year on year and even though the payments in respect of these balances are expected to be received in the foreseeable future but if we look at the year-end then we see this balance as outstanding every year.

In addition to the trading balances between P and S, P has lent an amount of USD 500 to S that is not expected to be repaid in the foreseeable future. Should the exchange difference, if any, be recognised in the profit and loss? (SM)

Modifying the above illustration, suppose that for tax reasons, the 'permanent' funding (i.e. loan amount) extended to S is made via another entity in group, T, rather than from P directly. That is, on directions of P, T gives loan to S. T is also a subsidiary of P. Where should exchange difference, if any, be recognised? (SM)

Solution:

Ind AS 21 distinguishes between **trading balances** and **net investment in a foreign operation** for exchange difference treatment.

1. **Trade Receivable from S (USD 300)**
 - Since this is a **normal trading balance** expected to be settled, it **does not** qualify as net investment.
 - **Exchange differences should be recognized in profit or loss.**
2. **Loan from P to S (USD 500) – Permanent Funding**
 - As repayment is **not expected in the foreseeable future**, this qualifies as **net investment in a foreign operation**.
 - **Exchange differences should be recognized in:**
 - **P&L in P's standalone financials.**
 - **OCI in P's consolidated financials.**
3. **Loan Routed Through T Instead of Direct Loan**
 - Since **T is a subsidiary of P**, the loan remains **net investment in S** from a group perspective.
 - **Exchange differences should be:**
 - **Recognized in P&L in T's standalone financials.**
 - **Recognized in OCI in P's consolidated financials.**

Thus, **trading balances affect P&L**, while **exchange differences on net investment are recorded in OCI in consolidated financials**.

80. Illustration

M Ltd is engaged in the business of manufacturing of bottles for pharmaceutical companies and non-pharmaceutical companies. It has a wholly owned subsidiary, G Ltd, which is engaged in the business of pharmaceuticals. G Ltd purchases the pharmaceutical bottles from its parent company. The demand of G Ltd is very high and hence to cater to its shortfall, G Ltd also purchases the bottles from other companies. Purchases are made at the competitive prices.

M Ltd sold pharmaceuticals bottles to G Ltd for Euro 12 lacs on 1st February, 20X1. The cost of these bottles was Rs. 830 lacs in the books of M Ltd at the time of sale. At the year-end i.e. 31st March, 20X1, all these bottles were lying as closing stock and payable with G Ltd.

Euro is the functional currency of G Ltd. while Indian Rupee is the functional currency of M Ltd. Following additional information is available:

Exchange rate on 1st February, 20X1 1 Euro = Rs. 83

Exchange rate on 31st March, 20X1 1 Euro = Rs. 85



Provide the accounting treatment for the above in books of M Ltd. and G Ltd. Also show its impact on consolidated financial statements. Support your answer by Journal entries, wherever necessary, in the books of M Ltd. (SM)

Solution:

M Ltd	Holding	INR	
G Ltd	Sub	EUR	

Particulars	Amount (EUR in lacs)	(₹/EUR)	Amount (INR in lacs)
Sales by M Ltd to G Ltd	12	83	996
Cost of Goods Sold	–	–	830
Profit on Sale	–	–	166
Closing Receivable	12	85	1,020
Forex Gain (Unrealised)	–	–	24

In Books of M Ltd (INR)

G Ltd A/c Dr.	996
To Sales A/c	
(Being intra-group sale recorded)	
G Ltd A/c Dr.	24
To Forex Gain	
(Being forex gain on closing balance)	

In the books of G Ltd (EUR)

Inventory A/c Dr.	12
To M Ltd	
(Being purchase of inventory)	

Translation of financial from EUR to INR

Particulars	EUR (in lacs)	Exchange Rate (₹/EUR)	INR (in lacs)
Inventory	12	85	1,020
Trade Payables	12	85	1,020

Extracts of Parent company's (M) BS

Assets	₹ (in lacs)
Trade Receivable (G Ltd)	1,020
Equity & Liabilities	₹ (in lacs)
Profit on Sale	166
Forex Gain (Unrealised)	24
Other Equity & Liabilities	830
Total	1,020

Accounting treatment in the consolidated financial statements

- Receivable and payable in respect of above mentioned sale / purchase between M Ltd and G Ltd will get eliminated.
- The closing stock of G Ltd will be recorded at lower of cost or NRV.

Particulars	Working	Value
Cost (₹) to G Ltd		996 lacs
NRV	12 x 85	1,020 lacs
Lower of cost or NRV → ₹996 lacs		No write down

- The inventory will be shown at 830 in consolidated financial statements being cost to the parent. The unrealised profits will be eliminated.

Consolidated P&L A/c Dr.	166
To Inventory	
(Being intra-group sale recorded)	



81. Illustration

Infotech Global Ltd. (a stand-alone entity) has a functional currency of USD and needs to translate its financial statements into the presentation currency (INR). The following is the draft financial statements of Infotech Global Ltd. prepared in accordance with its functional currency.

Balance Sheet

Particulars	31st March, 20X3 (USD)	31st March, 20X2 (USD)
Property, plant and equipment	50,000	55,000
Trade Receivables	68,500	56,000
Inventory	8,000	5,000
Cash	40,000	35,000
Total assets	1,66,500	1,51,000
Share Capital	50,000	50,000
Retained earnings	29,500	18,000
Total Equity	79,500	68,000
Trade payables	40,000	38,000
Loan	47,000	45,000
Total liabilities	87,000	83,000
Total equity and liabilities	1,66,500	1,51,000

Statement of Profit and Loss

Particulars	USD
Revenue	1,77,214
Cost of sales	1,13,100
Gross Profit	64,114
Distribution costs	2,400
Administrative expenses	18,000
Other expenses	11,000
Finance costs	12,000
Profit before tax	20,714
Income tax expense	6,214
Profit for the year	14,500

Extracts from Statement of Changes in Equity

Particulars	31st March, 20X3 (USD)
Retained earnings at the beginning of the year	18,000
Profit for the year	14,500
Dividends	(3,000)
Retained earnings at the end of the year	29,500

Additional Information:

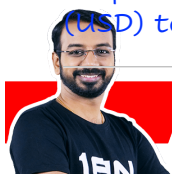
- Share capital was issued when the exchange rate was **USD 1 = INR 70**.
- Retained earnings on 1st April, 20X1 was **INR 4,00,000**.
- At 31st March, 20X2, a cumulative gain of **INR 4,92,000** was recognized in the foreign exchange reserve.
- The entity paid a dividend of **USD 3,000** at an exchange rate of **USD 1 = INR 73.5**.
- Profit for the year 20X1-20X2 of **USD 8,000**, translated at **INR 5,72,000**.
- Profit for the year 20X2-20X3 of **USD 14,500**, translated at **INR 10,72,985**.

Exchange Rates:

- 31st March, 20X2: **USD 1 = INR 73**
- 31st March, 20X3: **USD 1 = INR 75**

Required:

Prepare financial statements of **Infotech Global Ltd.** translated from functional currency (USD) to presentation currency (INR).



Solution: As per paragraph 39 of Ind AS 21, all assets and liabilities are translated at the closing exchange rate:

- 31st March, 20X2: USD 1 = INR 73
- 31st March, 20X3: USD 1 = INR 75

The share capital is translated at the historical exchange rate (USD 1 = INR 70) and remains unchanged.

Retained Earnings Calculation:

Particulars	31st March, 20X3 (INR)	31st March, 20X2 (INR)
Opening retained earnings	9,72,000	4,00,000
Profit for the year	10,72,985	5,72,000
Dividends paid (USD 3,000 x 73.5)	(2,20,500)	-
Closing retained earnings	18,24,485	9,72,000

Translated Balance Sheet (INR)

Particulars	31st March, 20X3 (USD)	Rate	31st March, 20X3 (INR)	31st March, 20X2 (USD)	Rate	31st March, 20X2 (INR)
Property, plant and equipment	50,000	75	37,50,000	55,000	73	40,15,000
Trade Receivables	68,500	75	51,37,500	56,000	73	40,88,000
Inventory	8,000	75	6,00,000	5,000	73	3,65,000
Cash	40,000	75	30,00,000	35,000	73	25,55,000
Total assets	1,66,500		1,24,87,500	1,51,000		1,10,23,000
Share Capital	50,000	70	35,00,000	50,000	70	35,00,000
Retained earnings (Refer note 1)	29,500		18,24,485	18,000		9,72,000
Foreign Exchange Reserve (Balancing Figure)			6,38,015			4,92,000
Total Equity	79,500		59,62,500	68,000		49,64,000
Trade payables	40,000	75	30,00,000	38,000	73	27,74,000
Loan	47,000	75	35,25,000	45,000	73	32,85,000
Total Liabilities	87,000		65,25,000	83,000		60,59,000
Total Equity and Liabilities	1,66,500		1,24,87,500	1,51,000		1,10,23,000

Other Comprehensive Income (OCI)

Exchange differences on translation:

- Foreign exchange reserve movement = 6,38,015 - 4,92,000 = INR 1,46,015

Statement of Changes in Equity (INR)

Particulars	Share Capital	Retained Earnings	Foreign Exchange Reserve	Total Equity
Balance at 1st April, 20X2	35,00,000	9,72,000	4,92,000	49,64,000
Dividends	-	(2,20,500)	-	(2,20,500)
Profit for the year	-	10,72,985	-	10,72,985
Exchange difference (transferred to OCI)	-	-	1,46,015	1,46,015
Balance at 31st March, 20X3	35,00,000	18,24,485	6,38,015	59,62,500

Ind AS 33 – Earnings Per Share

82. Illustration



On 31 March, 20X2, the issued share capital of a company consisted of Rs. 100,000,000 in ordinary shares of Rs. 25 each and Rs. 500,000 in 10% cumulative non-redeemable preference shares (classified as equity) of Re 1 each. On 1 October, 20X2, the company issued 1,000,000 ordinary shares fully paid by way of capitalisation of reserves in the proportion 1:4 for the year ended 31 March, 20X3.

Profit for 20X1-20X2 and 20X2-20X3 is Rs. 450,000 and Rs. 550,000 respectively.

Calculate the basic EPS for 20X1-20X2 and 20X2-20X3..

Solution:

Calculation of Basic Earnings per share as on 31st March 20X2 reported in FS of 20X1-X2			
Net Profit		450000	
Less: Cumulative Pref. Dividends		50000	
Earnings available to ordinary equity holders		4,00,000.00	A
No of Eq. Shares outstanding		40,00,000	B
EPS		0.10	A/B
Calculation of Basic EPS as on 31st March 20X3 and 20X2 for FS of 20X2-X3			
		20X2-X3	20X1-X2
Net Profit		5,50,000	4,50,000.00
Less: Cumulative pref. dividend		50,000	50,000
Earnings available to ordinary equity holders		5,00,000	4,00,000
Weighted Avg. No of equity shares o/s		50,00,000	50,00,000
EPS		0.1	0.08
EPS reported in 20X1-X2 x Adj factor			0.08
W.N 1			
No of shares outstanding			
			Weighted Average
No of Shares before bonus issue		40,00,000	12/12
Bonus issue 1 for 4		10,00,000	12/12
Total no of share o/s		50,00,000	
Adjustment factor	Bonus issue		
No of shares before bonus		4	
No of shares after bonus		5	
	Bonus Adj factor	4/5	
		0.80	

83. Illustration

At 31 December 20X1, the issued share capital of a company consisted of 1.8 million ordinary shares of Rs. 10 each, fully paid. The profits for the year ended 31 December 20X1 and 20X2



amounted to Rs. 630,000 and Rs. 875,000 respectively. On 31 March 20X2, the company made a rights issue on a 1 for 4 basis at Rs. 30. The market price of the shares immediately before the rights issue was Rs. 60.

Calculate EPS..

Solution:

Step 1

Theoretical Ex-rights price	$\frac{N \times \text{CMP} + 1 \times \text{Rights issue price}}{N+1}$			
		$\frac{4 \times 60 + 1 \times 30}{4+1}$		
		54.00		
Step 2 - Right Adjustment factor	$\frac{\text{MP before Rights TERP}}{60/54}$			60/54
				10/9
		1.111111		
EPS		20X2	20X1	
Net profit		8,75,000	630000	
WANES outstanding		2187500	1800000	
WANES outstanding after bonus element			2000000	
EPS as computed in 20X1			0.35	As computed in 20X1
EPS for reporting in 20X2	0.40		0.315	
Restated EPS for 20X1			EPS as computed / RAF	
			0.315	
WN 1				
WANES outstanding			RAF	
	Shares	No of months	Adjusment	Weighted Average
Opening Balance	1800000	3	1.11	18,00,000 x 3/12 x 10/9
			(10/9)	
After rights issue	2250000	9.00	1	22,50,000 x 9/12
Rights issue	4,50,000.00			21,87,500.00

84. Illustration

An entity issues 2,000 convertible bonds at the beginning of Year1. The bonds have a three-year term and are issued at par with a face value of Rs. 1,000 per bond, giving total proceeds Rs. 2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity



has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 per cent. At the issue date, the market price of one ordinary share is Rs. 3. Income tax is ignored.

Calculate basic and diluted EPS when Profit attributable to ordinary equity holders of the parent entity Year 1 Rs. 1,000,000

Ordinary shares outstanding	1,200,000
Convertible bonds outstanding	2,000

Solution:

Particulars					
No of Bonds		2,000			
No of shares per bond		250			
Face value of bonds		1,000.00			
Coupon Rate		6%			
Year	Cash flow		PVF	PV	
1	1,20,000.00	Interest	0.9174	1,10,091	
2	1,20,000.00	Interest	0.8417	1,01,001	
3	1,20,000.00	Interest	0.7722	92,664	
				303,756	Liability comp
				16,96,244	Equity Comp
Liability Component					
Year	Op bal	Int @ 9%	Payment	Closing bal	
1	3,03,756.00	27,338	120000	2,11,094.04	
2	2,11,094.04	18,998	120000	1,10,092.50	
3	1,10,092.50	9,908	120000	0.83	
Basic EPS					
Profit available to ordinary shareholders		10,00,000.00			
No of shares		12,00,000			
	Basic EPS	0.83			
Diluted Earnings per share					
Profit available to ordinary shareholders		10,27,338	[10,00,000 + 27,338]		
No of Ordinary shares		17,00,000			
	Diluted EPS	0.60			

85. Illustration



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

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

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

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

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

Compute the following:

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

Solution:

		All amounts in '000		
PV of debentures (liability) considering discount of 8%				
			PVF/PVAF	PV
Redemption value	1,80,000.00		0.74	1,33,200.00
Interest payments	10,800.00		3.31	35,748.00
		Liability Component		1,68,948.00
		Total proceeds		1,80,000.00
		Equity component		11,052.00
Calculation of interest expense and closing balance of liability				
Date	Op bal	Int @ 8%	payment	Closing bal
1/Apr/X1	1,68,948.00	13,515.84	10,800.00	1,71,663.84
1/Apr/X2	1,71,663.84	13,733.11	10,800.00	1,74,596.95
Basic earnings per share				
Profit attributable to owners of parent		39,000.00		
Less: Preference dividends (0.05 per share)		4,000		



	Earnings available to equity holders	35,000.00		
	Weighted avg no of shares			
Date	No of shares	Weight	Weighted avg	
1/Apr/X2	200000	3/12	50,000.00	
1/Jul/X2	250000	9/12	1,87,500.00	
			2,37,500.00	
	Basic EPS		0.1474	
	Diluted earnings per share			
	Profit available for ordinary share holders	35,000.00		
	Add: Interest savings (net of tax)	10,299.83	[13,733.11 x 75%]	
	Profit for computing diluted earnings	45,299.83		
	Weighted average no of shares	3,37,500.00		
	Diluted EPS	0.1342		

Ind AS 34

86. Illustration

ABC Limited manufactures automobile parts. ABC Limited has shown a net profit of Rs. 20,00,000 for the third quarter of 20X1.

Following adjustments are made while computing the net profit:

- Bad debts of Rs. 1,00,000 incurred during the quarter. 50% of the bad debts have been deferred to the next quarter.
- Additional depreciation of Rs. 4,50,000 resulting from the change in the method of depreciation.
- Exceptional loss of Rs. 28,000 incurred during the third quarter. 50% of exceptional loss have been deferred to next quarter.
- Rs. 5,00,000 expenditure on account of administrative expenses pertaining to the third quarter is deferred on the argument that the fourth quarter will have more sales; therefore fourth quarter should be debited by higher expenditure. The expenditures are uniform throughout all quarters.

Analysis and ascertain the correct net profit to be shown in the Interim Financial Report of third quarter to be presented to the Board of Directors.

Solution:

Particulars	Treatment by Company	Ind AS 34 Analysis	Adjustment to Q3 Profit
(i) Bad debts – ₹1,00,000	50% deferred to next quarter	Entire expense incurred in Q3 must be recognised in the same quarter. Deferral not permitted.	(₹50,000)
(ii) Additional depreciation – ₹4,50,000	Fully recognised in Q3	Correct treatment. Change in depreciation method affects current period and must be recognised immediately.	Nil



(iii) Exceptional loss – ₹28,000	50% deferred to next quarter	Entire loss relates to Q3 and must be recognised in the same quarter. Partial deferral violates Ind AS 34.	(₹14,000)
(iv) Administrative expenses – ₹5,00,000	Deferred on ground of higher Q4 sales	Expenses are uniform across quarters. Seasonality of revenue does not justify deferral. Conditions of Para 39 not satisfied.	(₹5,00,000)

Computation of Correct Net Profit (Q3)

Particulars	Amount (₹)
Net profit as reported	20,00,000
Less: Bad debts deferred	(50,000)
Less: Exceptional loss deferred	(14,000)
Less: Administrative expenses deferred	(5,00,000)
Correct net profit for Q3	14,36,000

Ind AS 101

87. Illustration

H Ltd. has the following assets and liabilities as at March 31, 20X1, prepared in accordance with previous GAAP:

Particulars	Notes	Amount (Rs.)
Property, Plant & Equipment	1	1,34,50,000
Investments in S. Ltd.	2	48,00,000
Trade Receivables		2,00,000
Advances for purchase of inventory		50,00,000
Inventory		8,00,000
Cash		49,000
Total assets		2,42,99,000
VAT deferral loan	3	60,00,000
Creditors		30,00,000
Short term borrowing		8,00,000
Provisions		12,00,000
Total liabilities		1,10,00,000
Share capital		1,30,00,000
Reserves:		2,99,000
Cumulative translation difference	4	1,00,000
ESOP reserve	4	20,000
Retained Earnings		1,79,000
Total Equity		1,32,99,000
Total Equity and Liabilities		2,42,99,000

The following GAAP differences were identified by the Company on first-time adoption of Ind AS with effect from April 1, 20X1:

- In relation to property, plant and equipment, the following adjustments were identified:
 - Property, plant and equipment comprise land held for capital appreciation purposes costing Rs. 4,50,000 and was classified as investment property as per Ind AS 40.



- Exchange differences of Rs. 1,00,000 were capitalised to depreciable property, plant and equipment on which accumulated depreciation of Rs. 40,000 was recognised.
 - There were no asset retirement obligations.
 - The management intends to adopt deemed cost exemption for using the previous GAAP carrying values as deemed cost as at the date of transition for PPE and investment property.
2. The Company had made an investment in S Ltd. (subsidiary of H Ltd.) for Rs. 48,00,000 that carried a fair value of Rs. 68,00,000 as at the transition date. The Company intends to recognise the investment at its fair value as at the date of transition.
3. Financial instruments:
- **VAT deferral loan Rs. 60,00,000 :**
The VAT deferral loan of Rs. 60,00,000 was obtained on March 31, 20X1, for setting up a business in a backward region with a condition to create certain defined targets for employment of local population of that region. The loan does not carry any interest and is repayable in full at the end of 5 years. In accordance with Ind AS 109, the discount factor on the loan is to be taken as 10%, being the incremental borrowing rate. Accordingly, the fair value of the loan as at March 31, 20X1, is Rs. 37,25,528. The entity chooses to exercise the option given in paragraph B11 of Ind AS 101, i.e., the entity chooses to apply the requirements of Ind AS 109, Financial Instruments and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, retrospectively as required information had been obtained at the time of initially accounting for VAT deferral loan
4. The retained earnings of the Company contained the following:
- **ESOP reserve of Rs. 20,000:**
The Company had granted 1,000 options to employees out of which 800 have already vested. The Company followed an intrinsic value method for recognition of ESOP charge and recognised Rs. 12,000 towards the vested options and Rs. 8,000 over a period of time as ESOP charge and a corresponding reserve. If fair value method had been followed in accordance with Ind AS 102, the corresponding charge would have been Rs. 15,000 and Rs. 9,000 for the vested and unvested shares respectively. The Company intends to avail Ind AS 101 exemption for share-based payments for not restating the ESOP charge as per previous GAAP for vested options.
 - **Cumulative translation difference :**
The Company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of Rs. 1,00,000 as part of reserves. On first-time adoption of Ind AS, the Company intends to avail Ind AS 101 exemption of resetting the cumulative translation difference to zero.

Prepare transition date Ind AS balance sheet of Company H showing adjustments to the values of assets and liabilities. (SM)

Solution:

	Particulars	Prev. GAAP	Adjustments	Ind AS
	Non Current Assets			
	Property, Plant & Equipment	1,34,50,000	(4,50,000)	1,30,00,000
	Investment Property	-	4,50,000	4,50,000
	Current Assets			
	Inventory	8,00,000	-	8,00,000
	Financial Assets			
	Investments in S Ltd	48,00,000	20,00,000	68,00,000



	Trade receivables	2,00,000	-	2,00,000
	Cash	49,000	-	49,000
	Other current assets			
	Advance for purchase of Inventory	50,00,000	-	50,00,000
	Total	2,42,99,000	20,00,000	2,62,99,000
	Share Capital	1,30,00,000	-	1,30,00,000
	Other Equity			
	Cumulative Translation diff	1,00,000	(1,00,000)	-
	ESOP reserve	20,000	1,000	21,000
	Retained Earnings	1,79,000	20,99,000	22,78,000
	Total Equity	1,32,99,000	20,00,000	1,52,99,000
	Non-Current Liability			
	Financial Liability			
	VAT Deferral Loan	60,00,000	(22,74,472)	37,25,528
	Deferred Govt Grant	-	22,74,472	22,74,472
	Current Liabilities			
	Creditors	30,00,000	-	30,00,000
	Short term borrowings	8,00,000	-	8,00,000
	Provisions	12,00,000	-	12,00,000
	Total Liabilities	1,10,00,000	-	1,10,00,000
	Total equity and liabilities	2,42,99,000	20,00,000	2,62,99,000
WN 1	Retained Earnings	1,79,000	20,99,000	22,78,000
	Investments in subsidiary		20,00,000	
	Cumulative translation diff		1,00,000	



	ESOP Reserve		(1,000)	
WN 2	VAT Deferral Loan			
	Amount of Loan	60,00,000	31-Mar-X1	
	Repayment value	60,00,000	31-Mar-X6	
	Tenure	5 years		
		Principal	37,25,528	
		Interest - Implied	22,74,472	
	Government Grant Component		22,74,472	
	Repayment after 5 years	Principal + Interest		

Ind AS 8,10,24,108 & 113

Read through the final answer for each case as and when time permits. Once you are comfortable with the concepts, most answers are to be done in same manner.

