

PAPER –1: FINANCIAL REPORTING

PART – I : RELEVANT AMENDMENTS, NOTIFICATIONS AND ANNOUNCEMENTS

A. Applicable for May, 2019 Examination

1. Amendment in Schedule III notified by MCA on 12.10.2018

Following amendments have been made in Schedule III to the Companies Act, 2013

(a) In Division I which covers formats and instructions for financial statements drawn as per Accounting Standards ie Indian GAAP

Following amendments have been made

- (i) Clause (ii) of paragraph 4 under 'General instructions for preparation of Balance Sheet and Statement of Profit and Loss of a company', states uniform use of unit of measurement in the financial statements. In the given sentence the word 'shall' has been replaced with the word 'should' through this notification. Hence, now the clause (ii) of paragraph 4 shall be read as follows:
*"Once a unit of measurement is used, it **should** be used uniformly in the Financial Statements."*

- (ii) Underneath Part I in the format of Balance Sheet, under the heading "II Assets" sub-heading "Non-current assets", **the words "Fixed assets" should be replaced as "Property, Plant and Equipment"**. This amendment has been done since the title of revised AS 10 is now 'Property, Plant and Equipment' instead of 'Fixed Assets'.

Similar substitution has been done in Point W of the "Notes" under the heading "General Instructions for preparation of Balance Sheet".

- (iii) Point 6B of the "Notes", under the heading "General Instructions for preparation of Balance Sheet" deals with the classification of Reserves and Surplus. One of the category was 'Securities Premium Reserve'. As per the amendment, the word 'Reserve' after Securities Premium has been omitted. Now it should be read as '**Securities Premium**' only.

(b) In Division II which covers formats and instructions for financial statements drawn as per Indian Accounting Standards ie Ind AS

Following amendments have been made

- (i) In Part I which specifies the format of Balance Sheet, under the heading 'Equity and Liabilities', Trade Payables (both under 'non-current liabilities' and 'current liabilities') shall further be classified as

"(A) total outstanding dues of micro enterprises and small enterprises; and

- (B) total outstanding dues of creditors other than micro enterprises and small enterprises.”;
- (ii) In the table (format) for ‘Other Equity’ under the ‘Statement of Changes in Equity’, “Securities Premium Reserve” is substituted as “Securities Premium”. Also below the table on ‘Other Equity’ a note has been given which shall be renumbered as ‘(i)’ and further a note has been added as follows:
“(ii) A description of the purposes of each reserve within equity shall be disclosed in the Notes.”
- (iii) Paragraph 6A and 6B of “General Instructions for Preparation of Balance Sheet” is on ‘Non-current assets’ and ‘current assets’ respectively.
- (A) Under point ‘VI. Trade Receivables’ of 6A and ‘III. Trade Receivables’ of 6B, sub point (i) has been substituted as follows:
“(i) Trade Receivables shall be sub-classified as:
(a) Trade Receivables considered good - Secured;
(b) Trade Receivables considered good - Unsecured;
(c) Trade Receivables which have significant increase in Credit Risk; and
(d) Trade Receivables - credit impaired.”
- (B) Under point ‘VIII. Loans’ of 6A and ‘V. Loans’ of 6B, sub point (ii) is substituted as follows:
“(ii) Loans Receivables shall be sub-classified as:
(a) Loans Receivables considered good - Secured;
(b) Loans Receivables considered good - Unsecured;
(c) Loans Receivables which have significant increase in Credit Risk; and
(d) Loans Receivables - credit impaired,”
- (iv) After paragraph F of “General Instructions for Preparation of Balance Sheet” paragraph FA shall be inserted as follows:
“FA. Trade Payables
The following details relating to micro, small and medium enterprises shall be disclosed in the notes:
(a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;

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

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

- (v) In paragraph 9, after the words “For instance,”, the words “plain vanilla” has been inserted. This amendment has been done to bring clarity to the treatment of redeemable preference shares ie which redeemable preference shares should fall in the category of ‘borrowings’. Accordingly, the last sentence of para 9 will be read as follows:

*“For instance, **plain vanilla** redeemable preference shares shall be classified and presented under ‘non-current liabilities’ as ‘borrowings’ and the disclosure requirements in this regard applicable to such borrowings shall be applicable mutatis mutandis to redeemable preference shares.”*

(c) Division III (newly notified division applicable for NBFCs)

Through this notification, MCA added/notified Division III in the Schedule III which is applicable to Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015. **However, this Division III has not been made applicable for CA Final Students.**

2. Amendment in Ind AS 20 notified by MCA in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 20th September 2018

Amendment has been made in Ind AS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’. The amendment provides entities the option for

recording non-monetary government grants at a nominal amount and presenting government grants related to assets by deducting the grant from the carrying amount of the asset.

3. Notification of Ind AS 115 and withdrawal of Ind AS 11 and Ind AS 18 alongwith the consequential amendments in other Ind AS and other amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 28th March, 2018

The Rules have brought in the following significant amendments to Ind AS:

- New revenue standard Ind AS 115 has been notified which supersedes Ind AS 11, Construction Contracts and Ind AS 18, Revenue. **(Summary of Ind AS 115 has been given as 'Annexure' at the end of this Part-1.)**
- Appendix B, Foreign Currency Transactions and Advance Consideration to Ind AS 21, The Effects of Changes in Foreign Exchange Rates has been notified. The appendix applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used for initial recognition of the related asset, expense or income. Ind AS 21 requires an entity to use the exchange rate at the 'date of the transaction', which is defined as the date when the transaction first qualifies for initial recognition.

Here, the question arises that whether the date of the transaction is the date when the asset, expense or income is initially recognised, or an earlier date on which the advance consideration is paid or received, resulting in recognition of a prepayment or deferred income.

The appendix provides guidance for when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

- **Single payment/receipt** The appendix states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, should be the date on which an entity initially recognises the non-monetary asset or liability arising from an advance consideration paid/received.
- **Multiple receipts/payments** The appendix states that, if there are multiple payments or receipts in advance of recognising the related asset, income or expense, the entity should determine the date of the transaction for each payment or receipt.
- Amendment to Ind AS 40, Investment Property stating that when assets are transferred to, or from, investment properties. The amendment states that to transfer to, or from, investment properties there must be a change in use supported by evidence. A change in intention, in isolation is not enough to support a transfer.

The amendment has re-described the list of evidence of change in use as a non-exhaustive list of examples and scope of these examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Examples of evidence of a change in use include:

- a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;
 - b) commencement of development with a view to sale, for a transfer from investment property to inventories;
 - c) end of owner-occupation, for a transfer from owner-occupied property to investment property;
 - d) inception of an operating lease to another party, for a transfer from inventories to investment property.
- Amendments to Ind AS 12, Income Taxes elucidate the existing guidance in Ind AS 12. They do not change the underlying principles of recognition of deferred tax asset. As per the amendment:
 - Existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value in the books of the holder for which the tax base remains at cost gives rise to a deductible temporary difference. This is regardless of whether the holder expects to collect all the contractual cash flows of the debt instrument.
 - Determining the existence and amount of temporary differences and estimating future taxable profit against which deferred tax assets can be utilised are two separate steps. Recovering assets for more than their carrying amounts is inherent in an expectation of taxable profits and should therefore be included in estimated taxable profit if there is sufficient evidence to conclude that it is probable that the entity will recover the asset for more than its carrying amount. For example, an entity should assume that a debt investment measured at fair value will be recovered for more than its carrying value when that outcome is probable even if carrying value is below its tax base (original investment cost).
 - Recoverability of deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply (for example where capital losses can be set off

- against capital gains), deferred tax assets are assessed in combination only with other deferred tax assets of the same type.
- When comparing deductible temporary differences against future taxable profits, the determination of future taxable profits shall exclude tax deductions resulting from reversal of these deductible temporary differences.
 - Amendment to Ind AS 28, Investments in Associates and Joint Ventures and Ind AS 112, Disclosure of Interests in Other Entities stating that:
 - Disclosures requirement of Ind AS 112 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of Ind AS 112).
 - In Ind AS 28, the option available with venture capital organisations, mutual funds, unit trusts and similar entities to measure their investments in associates or joint ventures at fair value through profit or loss (FVTPL) is available for each investment in an associate or joint venture.
 - Consequential amendments to other Ind AS due to notification of Ind AS 115 and other amendments discussed above
 - (i) **Ind AS 101, First-time Adoption of Indian Accounting Standards:** The Rules introduce two additional exemptions in Ind AS 101 related to Ind AS 115 and Appendix B to Ind AS 21. These are:
 - Ind AS 115: A first-time adopter can apply the transition provisions in paragraphs C5 and C6 of Ind AS 115 (related to practical expedients when applying Ind AS 115 retrospectively) at the date of transition to Ind AS. Further, a first-time adopter is not required to restate contracts that were completed before the earliest period presented.
 - Appendix B to Ind AS 21: A first-time adopter need not apply Appendix B to Ind AS 21 to assets, expenses and income in the scope of the appendix initially recognised before the date of transition to Ind AS.
 - (ii) **Ind AS 2, Inventories:** Costs of services by a service provider that does not give rise to inventories will need to be accounted for as costs incurred to fulfil a contract with customer in accordance with Ind AS 115. Such costs can be capitalised under Ind AS 115 if they
 - (1) relate directly to the contract,
 - (2) enhance the resources of the entity to perform under the contract and relate to satisfying a future performance obligation, and
 - (3) are expected to be recovered.

Earlier paragraph 8 of Ind AS 2 which stated that in case of a service provider, inventories include costs of the service, for which the entity has not yet recognised the related revenue, has been deleted.

- (iii) **Ind AS 16, Property, Plant and Equipment, Ind AS 38, Intangible Assets and Ind AS 40, Investment Property:** These standards have been amended to require use of principles of Ind AS 115 for recognition of a gain or loss on the transfer of non-financial assets i.e. property, plant and equipment, intangible asset and investment property, that are not an output of an entity's ordinary activities. Although a gain or loss on this type of sale generally does not meet the definition of revenue, an entity should apply the guidance in Ind AS 115 related to the transfer of control and measurement of the transaction price including the constraint on variable consideration, to evaluate the timing and amount of the gain or loss recognised.

Further, since Ind AS 115 deals with accounting for contract assets, Ind AS 38 has been amended to add a scope exclusion for such contract assets.

- (iv) **Ind AS 37, Provisions, Contingent Assets and Contingent Liabilities:** Ind AS 115 does not have any specific requirement to address the accounting of contracts with customers that are, or have become, onerous. Previously, depending upon type of contract, such onerous contracts were accounted under Ind AS 11 or Ind AS 37. With the omission of Ind AS 11, a consequential amendment has been made to Ind AS 37 to bring all onerous revenue contracts within the scope of the Ind AS 37. Ind AS 37 defines onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.
- (v) **Ind AS 109, Financial Instruments:** Amendments to Ind AS 109 are discussed below:
- (i) The current Ind AS 109 states that an entity shall measure trade receivables at their transaction price. Due to notification of Ind AS 115, an entity is required to measure trade receivables at their transaction price if the trade receivables do not contain a significant financing component in accordance with Ind AS 115.
 - (ii) An entity shall have an accounting policy choice to measure loss allowance on trade receivables or contracts assets within the scope of Ind AS 115 containing a significant financing component at an amount equal to life time expected credit losses (simplified approach) or using the general model (3 stage).

- (iii) Entities shall now consider the principles of Ind AS 115 for subsequent measurement of financial guarantee and loan commitments.

4. Applicability of Amendments to Ind AS 7 and Ind AS 102 issued by the MCA dated 17th March 2017

To align Ind AS with IFRS, the recent amendments made in IAS 7 and IFRS 2 by the IASB have been incorporated in Ind AS 7 'Statement of Cash Flows' and Ind AS 102 'Share-based Payment' by way of a notification issued by the Ministry of Corporate Affairs on 17th March, 2017.

I. Amendments in Ind AS 7 'Statement of Cash Flows'- Disclosure requirements

The amendments made to Ind AS 7 require certain additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

In addition to the above, the disclosure is required for changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

As per the amendment, one of the way for disclosure is providing a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified, by linking items included in the reconciliation to the balance sheet and the statement of cash flows for the sake of information to the users.

If an entity provides disclosures of changes in other assets and liabilities besides changes in liabilities arising from financing activities, it shall disclose the later changes separately from changes in those other assets and liabilities.

II. Amendments in Ind AS 102 'Share-based Payment'

The amendments cover following accounting areas:

Measurement of cash-settled share-based payments

Under Ind AS 102, the measurement basis for an equity-settled share-based payment should not be 'fair value' in accordance with Ind AS 113, 'Fair value measurement'. However, 'fair value' was not defined in connection with a cash-settled share-based payment. The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. Market-based performance conditions and non-vesting conditions are reflected in the 'fair value', but non-market performance conditions and service conditions are reflected in the estimate of the number of awards expected to vest.

The amendment to Ind AS 102 with respect to measurement of cash-settled awards

has most impact where an award vests (or does not vest) based on a non-marketing condition. Absent this clarification, it may be argued that the fair value of a cash-settled award is to be determined using the guidance in Ind AS 113 and reflecting the probability that non-market and service vesting conditions would be met. The amendment clarifies that non-market and service vesting conditions are ignored in the measurement of fair value.

Classification of share-based payments settled net of tax withholdings

Tax laws or regulations may require the employer to withhold some of the shares to which an employee is entitled under a share-based payment, and to remit the tax payable on it to the tax authority.

Ind AS 102 would require such share based payment to be split into a cash settled component for the tax payment and an equity settled component for the net shares issued to the employee. The amendment now adds an exception that requires the share based payment to be treated as equity-settled in its entirety. The cash payment to the tax authority is treated as if it was part of an equity settlement. The exception would not apply to any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment.

Accounting for a modification of a share-based payment from cash-settled to equity-settled

As per the amendment, if the terms and conditions of a cash-settled share-based payment transactions are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification. Specifically:

- o The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date. The equity-settled share-based payment transaction is recognised in equity on the modification date to the extent to which goods or services have been received.
- o The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date.
- o Any difference between the carrying amount of the liability derecognised and the amount of equity recognised on the modification date is recognised immediately in profit or loss.
- o The amendment requires any change in value to be dealt with before the change in classification. Accordingly, the cash-settled award is remeasured, with any difference recognised in the statement of profit and loss before the remeasured liability is reclassified into equity.

5. Relevant Sections of the Companies Act, 2013

The relevant Sections of the Companies Act, 2013 notified up to 31st October, 2018 are applicable for May, 2019 Examination.

Annexure

Overview of Ind AS 115, Revenue from Contracts with Customers

The objective of Ind AS 115 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The standard applies to all contracts with customers, except the lease contracts within the scope of Ind AS 17, Leases; insurance contracts within the scope of Ind AS 104, Insurance Contracts; financial instruments and other contractual rights or obligations; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The core principle of Ind AS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue shall be recognised by an entity in accordance with this core principle by applying the following five steps:

- 1. Identify contract with a customer:** This Standard defines a 'contract' and a 'customer' and specifies five mandatory criteria to be met for identification of a contract.
- 2. Identify performance obligations in contract:** At contract inception, assess the goods or services promised and identify as a performance obligation each promise to transfer to the customer either:
 - (a) a good or service (or a bundle of goods or services) that is distinct; or
 - (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
- 3. Determine transaction price:** This Standard uses transaction price approach instead of fair value approach in Ind AS 18 while determining amount of consideration. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised may include fixed amounts, variable amounts, or both. If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for

transferring the promised goods or services to a customer. Estimate amount of variable consideration by using either the expected value method or the most likely amount method. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component for any consideration payable to the customer.

4. **Allocate the transaction price to the performance obligations in the contract:** An entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. The requirements specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations in the contract. Any subsequent changes in the transaction price shall be allocated to the performance obligations on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.
5. **Recognise revenue when the entity satisfies a performance obligation:** An entity recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognised is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time or over time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time. For performance obligations satisfied over time, an entity recognises revenue over time by selecting an appropriate method (output methods and input methods) for measuring the entity's progress towards complete satisfaction of that performance obligation.

Treatment of Contract Costs

Ind AS 115 specifies the following requirements for contract costs:

1. *Incremental costs of obtaining a contract:*

Those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. An entity shall recognise these costs as an asset if the entity expects to recover those costs. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

2. *Costs to fulfil a contract:*

If costs incurred in fulfilling a contract are not within scope of another Standard, entity shall recognise an asset from the costs incurred to fulfil a contract only if some specified

criteria are met. If costs incurred in fulfilling a contract are within scope of another Standard, entity shall account for those costs in accordance with those other Standards.

Contract costs recognised as an asset shall be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

An impairment loss shall be recognised in profit or loss to the extent that the carrying amount of contract costs recognised as an asset exceeds the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates after deducting the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

Presentation

When either party to a contract has performed, an entity shall present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

- If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e. a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier).
- If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable.
- An entity shall present any unconditional rights to consideration separately as a receivable.

Sale with a right of return

To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following:

- revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);
- a refund liability; and
- an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

Warranties

If customer has the option to purchase warranty separately, the warranty is a distinct service because the entity promises to provide the service to the customer in addition to the product that has the functionality described in the contract. In that case, entity shall account for the

promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation.

Principal versus agent considerations

When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer. If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

Repurchase agreements

Repurchase agreements generally come in three forms viz (i) an entity's obligation to repurchase the asset (a forward); (ii) an entity's right to repurchase the asset (a call option); and an entity's obligation to repurchase the asset at the customer's request (a put option).

Bill-and-hold arrangements

A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but retains physical possession of the product until it is transferred to the customer at a point in time in the future. Ind AS 115 specifies four criteria that must be fulfilled for a customer to have obtained control of a product in a bill-and-hold arrangement.

Disclosure

The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

- its contracts with customers
- the significant judgements, and changes in the judgements, made in applying this Standard to those contracts and
- any assets recognised from the costs to obtain or fulfil a contract with a customer

Appendix D of Ind AS 115 gives guidance on the accounting by operators for public-to-private service concession arrangements. This Appendix applies to both (a) infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement. Infrastructure within the scope of this Appendix shall not be

recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator.

Carve out in Ind AS 115 from IFRS 15

As per IFRS

IFRS 15 provides that all types of penalties which may be levied in the performance of a contract should be considered in the nature of variable consideration for recognising revenue.

Carve out

Ind AS 115 has been amended to provide that penalties shall be accounted for as per the substance of the contract. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration, otherwise the same should not be considered for determining the consideration and the transaction price shall be considered as fixed.

Significant differences in Ind AS 115 from AS 7 and AS 9

S. No.	Particular	Ind AS 115	AS 7 and AS 9
1.	Framework of Revenue Recognition	Ind AS 115 gives a framework of revenue recognition within a standard. It specifies the core principle for revenue recognition which requires the 'revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services'.	AS 7 and AS 9 do not provide any such overarching principle to fall upon in case of doubt.
2.	Comprehensive Guidance on Recognition and Measurement of Multiple Elements within a Contract with Customer:	Ind AS 115 gives comprehensive guidance on how to recognise and measure multiple elements within a contract with customer.	AS 7 and AS 9 do not provide comprehensive guidance on this aspect.
3.	Coverage	Ind AS 115 comprehensively deals with all types of performance obligation contract with customer.	AS 7 covers only revenue from construction contracts which is measured at

		However, it does not deal with revenue from 'interest' and 'dividend' which are covered in financial instruments standard.	consideration received / receivable. AS 9 deals only with recognition of revenue from sale of goods, rendering of services, interest, royalties and dividends.
4.	Measurement of Revenue	As per Ind AS 115, revenue is measured at transaction price, i.e., the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.	As per AS 9, Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. As per AS 7, revenue from construction contracts is measured at consideration received / receivable and to be recognised as revenue as construction progresses, if certain conditions are met.
5.	Recognition of Revenue	As per Ind AS 115, revenue is recognised when the control is transferred to the customer.	As per AS 9, revenue is recognised when significant risks and rewards of ownership is transferred to the buyer. As per AS 7, revenue is recognised when the outcome of a construction contract can be estimated reliably, contract revenue should be recognised by reference to the stage of completion of the contract activity at the reporting date.

6.	Capitalisation of Costs	Ind AS 115 provides guidance on recognition of costs to obtain and fulfill a contract, as asset	AS 7 and AS 9 do not deal with such capitalisation of costs.
7.	Guidance on Service Concession Arrangements	Ind AS 115 gives guidance on service concession arrangements and disclosures thereof	AS does not provide such guidance.
8.	Disclosure Requirements	Ind AS 115 contains detailed disclosure requirements.	Less disclosure requirements are prescribed in AS

PART – II : QUESTIONS AND ANSWERS
QUESTIONS

AS 2

1. (a) Sun Ltd. has fabricated special equipment (solar power panel) during 2017-2018 as per drawing and design supplied by the customer. However, due to a liquidity crunch, the customer has requested the company for postponement in delivery schedule and requested the company to withhold the delivery of finished goods products and discontinue the production of balance items.

As a result of the above, the details of customer balance and the goods held by the company as work-in-progress and finished goods as on 31.3.2019 are as follows:

Solar power panel (WIP)	₹ 85 lakh
Solar power panel (finished products)	₹ 55 lakh
Sundry Debtor (solar power panel)	₹ 65 lakh

The petition for winding up against the customer has been filed during 2018-2019 by Sun Ltd. Comment with explanation on provision to be made of ₹ 205 lakh included in Sundry Debtors, Finished goods and work-in-progress in the financial statements of 2018-2019 as per AS 2.

AS 7

- (b) Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2019 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crore with an escalation clause. You are given the following information for the year ended 31.03.2019:

Cost incurred upto 31.03.2019	₹ 4 crore
Cost estimated to complete the contract	₹ 6 crore

Escalation in cost was by 5%. Hence, the contract price is also increased by 5%. You are required to ascertain the stage of completion and compute the amount of revenue and profit to be recognized for the year as per AS 7.

AS 9

2. (a) Mithya Ltd. entered into agreement with Satya Ltd. for sale of goods of ₹ 8 lakh at a profit of 20% on cost. The sale transaction took place on 1st February, 2019. On the same day, Satya Ltd. entered into another agreement with Mithya Ltd. to resell the same goods at ₹ 10.80 lakh on 1st August, 2019. State the treatment of this transaction in the financial statements of Mithya Ltd. as on 31.03.2019. The pre-determined re-selling price covers the holding cost of Satya Ltd. Give the Journal Entries as on 31.03.2019 in the books of Mithya Ltd.

AS 10

- (b) MS Ltd. has acquired a heavy machinery at a cost of ₹ 1,00,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, one of the major components, the turbine requires replacement, as further maintenance is uneconomical. The remainder of the machine is perfect and is expected to last for the next four years. The cost of a new turbine is ₹ 45,00,000. The discount rate assumed is 5%.

Can the cost of the new turbine be recognised as an asset, and, if so, what treatment should be used?

AS 13

3. (a) An unquoted long term investment is carried in the books at a cost of ₹ 2 lakh. The published accounts of the unlisted company received in May, 2018 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31st March, 2018?

AS 15

- (b) Peter Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. If the benefits are determined

based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

Peter Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at ₹ 18 (10% of ₹ 180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Peter Ltd. on the basis of given information:

- (a) Immediately before the curtailment, gross obligation is estimated at ₹ 6,000 based on current actuarial assumption.
- (b) The fair value of plan assets on the date is estimated at ₹ 5,100.
- (c) The unamortized past service cost is ₹ 180.
- (d) Curtailment reduces the obligation by ₹ 600, which is 10% of the gross obligation.

AS 16

4. (a) How will interest be capitalized when qualifying assets are funded by borrowings in the nature of bonds that are issued at a discount?

X Ltd. issued in year 1, a 3 year 10% p.a. (interest paid annually) bond with a face value of ₹ 1,00,000 at a price of ₹ 90,000 to finance a qualifying asset which is ready for intended use at the end of year 2. Compare the amount of borrowings costs to be capitalized if the company uses for amortization of discount

- (i) straight line basis, or
- (ii) effective interest rate method by applying 14.33% of EIR.

AS 17

- (b) Prepare a segmental report to be presented by All-rounder Ltd., from the following details of the company's three divisions and the head office:

	₹ ('000)
Forging Shop Division	
Sales to Bright Bar Division	4,575
Other Domestic Sales	90
Export Sales	<u>6,135</u>
	<u>10,800</u>
Bright Bar Division	
Sales to Fitting Division	45
Export Sales to Rwanda	<u>300</u>
	<u>345</u>

Fitting Division				
Export Sales to Maldives				<u>270</u>
Particulars	Head Office ₹ ('000)	Forging Shop Division ₹ ('000)	Bright Bar Division ₹ ('000)	Fitting Division ₹ ('000)
Pre-tax operating result		240	30	(12)
Head office cost reallocated		72	36	36
Interest costs		6	8	2
Fixed assets	75	300	60	180
Net current assets	72	180	60	135
Long-term liabilities	57	30	15	180

AS 18

5. (a) Will transactions with related parties, for services provided/received free of cost, be required to be disclosed?

A Limited has a corporate communications department, which centralises the public relations function for the whole group of A Limited and its subsidiaries. No charges are, however, levied by A Limited on its subsidiaries and accordingly, these transactions are not given accounting recognition. Would these constitute related party transactions requiring disclosure under AS 18 in the standalone financial statements of A Limited?

AS 19

- (b) Light Limited leased a machine to Thunder Limited on the following terms:

		(₹ in lakh)
(i)	Fair value of the machine	48.00
(ii)	Lease term	5 years
(iii)	Lease rental per annum	8.00
(iv)	Guaranteed residual value	1.60
(v)	Expected residual value	3.00
(vi)	Internal rate of return	15%

Discounted rates for 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718, and 0.4972 respectively.

Ascertain Unearned Finance Income.

AS 20

6. (a) XYZ Limited has a wholly owned subsidiary BC Limited. The Group prepares consolidated Financial Statements for the year ended 31st March, 2019. XYZ Limited (in its separate financial statements) has incurred a loss of ₹ 2 crore during the year, while the consolidated profit for the group during the year is ₹ 40 lakh.

XYZ Limited has 5,00,000 shares outstanding as at 31st March, 2019. Further, it has granted options to issue equity shares as at that date. In respect of such options, 1,00,000 shares are considered to be the shares issued for no consideration. There are no changes in income or expenses that are expected from the issue of equity shares on exercise of these options.

Calculate Basic and Diluted EPS for XYZ Limited for separate financial statements and for the Group.

AS 22

- (b) ABC Ltd. prepares its accounts annually on 31st March. On 1st April, 2017, it purchases a machine at a cost of ₹ 1,50,000. The machine has a useful life of three years and an expected scrap value of zero. Although it is eligible for a 100% first year depreciation allowance for tax purposes, the straight line method is considered appropriate for accounting purposes. ABC Ltd. has profits before depreciation and taxes of ₹ 2,00,000 each year and corporate tax rate is 40 percent each year.

The purchase of machine at a cost of ₹ 1,50,000 in 2017 gives rise to a tax saving of ₹ 60,000. Assume that the corporate tax rate has been assumed to be same in each of the three years. Calculate deferred tax and pass necessary journal entries.

What will be the amount of deferred tax, if the substantively enacted tax rates for 2017, 2018 and 2019 are 40%, 35% and 38% respectively.

AS 23

7. (a) An enterprise invested ₹ 1,00,000 to acquire 10 percent stake (Investment I) in another enterprise and later invested ₹ 3,00,000 to acquire additional 20 per cent (Investment II). The net asset value of the associate at the respective investment dates was ₹ 7,50,000 and ₹ 12,50,000 respectively. Calculate goodwill arising on the acquisition of the associate.

AS 25

- (b) Faithful Ltd. is dealing in seasonal product sales pattern of the product, quarter wise is as follows:

1 st quarter 30 th June	10%
2 nd quarter 30 th September	10%
3 rd quarter 31 st December	60%
4 th quarter 31 st March	20%

Information regarding the 1st quarter ending on 30th June, 2018 is as follows:

Sales	80 crore
Salary and other expenses	60 crore
Advertisement expenses (routine)	4 crore
Administrative and selling expenses	8 crore

While preparing interim financial report for first quarter Faithful Ltd. wants to defer ₹ 10 crore expenditure to third quarter on the argument that third quarter is having more sales therefore third quarter should be debited by more expenditure. Considering the seasonal nature of business and the expenditures are uniform throughout all quarters, calculate the result of the first quarter as per AS 25. Also give a comment on the company's view.

AS 26

8. During 2018-2019, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (₹)
Completion of detailed programme and design	25,000
Coding and Testing for establishing technical feasibility	20,000
Other coding costs	42,000
Testing costs	12,000
Product masters for training materials	13,000
Duplication of computer software and training materials, from product masters (2,000 units)	40,000
Packing the product (1,000 units)	11,000

What amount should be capitalized as software costs in the books of the company, on the Balance Sheet date?

AS 29

9. (a) During the year, QA Ltd. delivered manufactured products to customer K. The products were faulty and on 1st October, 2018 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, QA Ltd. discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1st December, 2018, the Company commenced legal action against F claiming damages in respect of the supply of defective raw materials.

QA Ltd. has estimated that its probability of success of both legal actions, the action of K against QA Ltd. and action of QA Ltd. against F, is very high.

On 1st October, 2018, QA Ltd. has estimated that the damages it would have to pay K would be ₹ 5 crore. This estimate was revised to ₹ 5.2 crore as on 31st March, 2019 and ₹ 5.25 crore as at 15th May, 2019. This case was eventually settled on 1st June, 2017, when the Company paid damages of ₹ 5.3 crore to K.

On 1st December, 2018, QA Ltd. had estimated that it would receive damages of ₹ 3.5 crore from F. This estimate was revised to ₹ 3.6 crore as at 31st March, 2019 and ₹ 3.7 crore as on 15th May, 2019. This case was eventually settled on 1st June, 2017 when F paid ₹ 3.75 crore to QA Ltd. QA Ltd. had, in its financial statements for the year ended 31st March, 2019, provided ₹ 3.6 crore as the financial statements were approved by the Board of Directors on 26th April, 2019.

- (i) Whether the Company is required to make provision for the claim from customer K as per applicable AS? If yes, please give the rationale for the same.
- (ii) If the answer to (a) above is yes, what is the entry to be passed in the books of account as on 31st March, 2019?
- (iii) What will the accounting treatment of the action of QA Ltd. against supplier F as per applicable AS?

Corporate Financial Reporting

- (b) X Ltd. has taken a five-year loan. The loan contains certain debt covenants, e.g., filing of quarterly information, failing which the bank can recall the loan and demand repayment thereof. The company has not filed such information in the last quarter; as a result of which the bank has the right to recall the loan. However, based on the past experience and/or based on the discussions with the bank the management believes that default is minor and the bank will not demand the repayment of loan.
 - (i) What will be the classification of the loan in the financial statements of X Ltd.?
 - (ii) What if the bank has recalled the loan before the date of approval of the accounts on breach of a loan covenant that occurred before the year-end?
 - (iii) What if the loan is repayable on demand from day one but the lender has not demanded repayment of the loan at any time?

Indian Accounting Standards (Ind AS)

10. (a) State the carve out in Ind AS 115 from IFRS 15.
 - (b) What are the significant differences in Ind AS 115 from AS 7 and AS 9?

Accounting for Corporate Restructuring

11. Heart Ltd. and Brain Ltd. both engaged in the same chemical business since 2016. As part of its expansion strategy Heart Ltd. proposes to absorb the business of Brain Ltd.. The summarized Balance Sheets of Heart Ltd. and Brain Ltd. as on 31st March, 2019 are as follows:

Particulars	Heart Ltd.	Brain Ltd.
	(₹)	(₹)
(I) Equity and Liabilities		
(1) Shareholders fund		
(a) Share capital		
Equity shares of ₹ 10 each	28,80,000	14,40,000
10% Preference share capital of ₹ 100 each	9,60,000	
12% Preference share capital of ₹ 100 each		4,80,000
(b) Reserves and surplus		
Statutory reserve	80,000	80,000
General reserve	20,00,000	13,60,000
(2) Non-current liabilities		
Secured loans		
15% Debentures	4,00,000	
12% Debentures		4,00,000
(3) Current liabilities		
Trade payables	<u>8,80,000</u>	<u>10,40,000</u>
Total	<u>72,00,000</u>	<u>48,00,000</u>
(II) Assets		
(a) Non-current assets		
Property, Plant and Equipment	40,00,000	24,00,000
Non-current investments	4,00,000	4,00,000
(b) Current assets		
Inventories	14,40,000	9,60,000
Trade receivables	12,40,000	9,68,000
Cash at bank	<u>1,20,000</u>	<u>72,000</u>
Total	<u>72,00,000</u>	<u>48,00,000</u>

The following terms and conditions were agreed for absorption:

- (a) 12% preference shareholders of Brain Ltd. will receive 10% preference shares of Heart Ltd. in sufficient number to increase their present income by 20%.
- (b) The equity shareholders of Brain Ltd. will receive equity shares in Heart Ltd. on the following terms:
 - (i) The equity share of Brain Ltd. will be valued at ₹ 24 per share.
 - (ii) The market price of equity shares of Heart Ltd. is ₹ 40 per share.
 - (iii) The number of shares to be issued to equity shareholders of Brain Ltd. will be based on the 80% of market price.
- (c) 12% Debentures holders of Brain Ltd. are to be paid at 8% premium by 15% Debentures in Heart Ltd. issued at a discount of 10%.
- (d) Trade Payables of Brain Ltd. include ₹ 16,000 due to Heart Ltd.
- (e) ₹ 12,800 is to be paid by Heart Ltd. to Brain Ltd. for liquidation expenses.
- (f) Property, plant and Equipment of both the companies are to be valued at 20% above book value. Inventory in trade is taken over at 10% less than their book value.
- (g) Statutory reserve has to be maintained for two more years.

You are required to:

- (1) Find out the purchase consideration.
- (2) Prepare Balance Sheet of Heart Ltd. as at 31st March, 2019 after absorption, as per Schedule III to the Companies Act, 2013 with Notes to the accounts.

Consolidated Financial Statements

12. Rose Ltd. holds 80% share in Marigold Ltd., its subsidiary. Share capital of Marigold Ltd. is ₹ 25,00,000 and reserves being ₹ 5,00,000 on the date of acquisition 31.3.2015.

Following is the results of Marigold Ltd.:

Year ended	Profit/(Loss)	Net worth (₹ in lakh)
31.3.2016	(15,00,000)	+15.00
31.3.2017	(20,00,000)	(5.00)
31.3.2018	4,00,000	(1.00)
31.3.2019	5,00,000	+4.00

Calculate minority interest for the period from 2014-2015 to 2018-2019 as per AS 21.

Accounting and Reporting of Financial Instruments

13. (i) A Ltd. (the 'Company') makes a borrowing for ₹ 10 lakh from RBC Bank, with bullet

repayment of ₹ 10 lakh and an annual interest rate of 12% per annum. Now, Company defaults at the end of 5th year and consequently, a rescheduling of the payment schedule is made beginning 6th year onwards. The Company is required to pay ₹ 13,00,000 at the end of 6th year for one-time settlement, in lieu of defaults in payments made earlier.

- (a) Does the above instrument meet definition of financial liability? Please explain.
 - (b) Analyse the differential amount to be exchanged for one-time settlement.
- (ii) B Ltd writes an option contract for sale of shares of Target Ltd. at a fixed price of ₹ 100 per share to C Ltd. Market price is ₹ 120. This option is exercisable anytime for a period of 90 days ('American option'). Evaluate this under the definition of financial instrument.

Accounting for Share Based Payments

14. At the beginning of year 1, an enterprise grants stock options to each of its 100 employees working in the sales department. The stock options will vest at the end of year 3, provided that the employees remain in the employment of the enterprise, and provided that the volume of sales of a particular product increases by at least an average of 5 per cent per year. If the volume of sales of the product increases by an average of between 5 per cent and 10 per cent per year, each employee will receive 100 stock options. If the volume of sales increases by an average of between 10 per cent and 15 per cent each year, each employee will receive 200 stock options. If the volume of sales increases by an average of 15 per cent or more, each employee will receive 300 stock options.

On the grant date, the enterprise estimates that the stock options have a fair value of ₹ 20 per option. The enterprise also estimates that the volume of sales of the product will increase by an average of between 10 per cent and 15 per cent per year, and therefore expects that, for each employee who remains in service until the end of year 3, 200 stock options will vest. The enterprise also estimates, on the basis of a weighted average probability, 20 per cent of employees will leave before the end of year 3.

By the end of year 1, seven employees have left and the enterprise still expects that a total of 20 employees will leave by the end of year 3. Hence, the enterprise expects that 80 employees will remain in service for the three-year period. Product sales have increased by 12 per cent and the enterprise expects this rate of increase to continue over the next 2 years.

By the end of year 2, a further five employees have left. The enterprise now expects that only three more employees will leave during year 3. Product sales have increased by 18 per cent, resulting in an average of 15 per cent over the two years to date. The enterprise now expects that sales increase will average 15 percent or more over the three-year period, and hence expects each sales employee to receive 300 stock options at the end of year 3.

By the end of year 3, a further two employees have left. The sales of the enterprise have increased by an average of 16 percent over the three years. Therefore, each of the 86 employees receives 300 stock options.

Calculate the amount of employee compensation expenses to be recognized each year for ESOPs granted.

Mutual Funds

15. A Mutual Fund raised 100 lakh on 1st April, 2018 by issue of 10 lakh units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakh. The initial expenses amounted to ₹ 7 lakh. During April, 2018, the fund sold certain securities of cost ₹ 38 lakh for ₹ 40 lakh and purchased certain other securities for ₹ 28.20 lakh. The fund management expenses for the month amounted to ₹ 4.50 lakh of which ₹ 0.25 lakh was in arrears. The dividend earned was ₹ 1.20 lakh. 75% of the realized earnings were distributed. The market value of the portfolio on 30th April, 2018 was ₹ 101.90 lakh.

Determine NAV per unit.

Non-Banking Financial Companies

16. A Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31.3.2017. Few machines were sold on hire purchase basis. The hire purchase price was set as ₹ 100 lakh as against the cash price of ₹ 80 lakh. The amount was payable as ₹ 20 lakh down payment and balance in 5 equal instalments. The hire vendor collected first instalment as on 31.3.2018, but could not collect the second instalment which was due on 31.3.2019. The company was finalising accounts for the year ending 31.3.2019. Till 15.5.2019, the date on which the Board of Directors signed the accounts, the second instalment was not collected. Presume IRR to be 10.42%.

Required:

- (i) What should be the principal outstanding on 1.4.2018? Should the company recognize finance charge for the year 2018-2019 as income?
- (ii) What should be the net book value of assets as on 31.3.2019 so far A Ltd. is concerned as per NBFC prudential norms requirement for provisioning?
- (iii) What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI?

Valuation of Brand

17. Unique Limited is a manufacturer-cum-dealer of 'F-Route' brand of track suits. With passage of time, its brand has been well accepted in the market. The company has been approached by a foreign company engaged in the same trade to enter as partner in its

business. Unique Ltd., in order to negotiate the deal wants to get its brand valued. The following information based on market research is available:

- (i) Garment industry of which Unique Ltd. is a constituent, is expected to grow by 9% per annum during the next five years. The present market size of the industry is ₹ 7,500 crore.
- (ii) There are other brands both national and international in the market. The existence of duplicate brands is unavoidable. The share of such players is estimated to be 63% of the total industry market. The market share of other national brands will increase @ 0.25% year on year basis in the next 5 years. The share of international brands is expected to grow 1.5 times of national brands. But the existence of duplicate brands is to fall by 2.5% over the period of next 5 years, spread equally.
- (iii) The expected foreign partner needs the production line of the company to be re-engineered which will lead to an increase in the yield of the company by 3% after one year over the present yield of 10% followed thereafter by further increase of 5% year on year.

Following the market oriented approach, determine the brand value to be used for negotiation with the foreign company, considering the discount factor for 1st five years as 0.909; 0.826; 0.751; 0.683 and 0.621 (Monetary values in crores to be rounded off to nearest 2 decimal places).

Value Added Statement

18. On the basis of the following Profit and Loss Account of Sony Limited and the supplementary information provided thereafter, prepare Gross Value Added Statement of the company for the year ended 31st March, 2019. Also prepare another statement showing reconciliation of Gross Value Added with Profit before Taxation.

Profit and Loss Account of Sony Limited for the year ended 31st March, 2019.

	Amount (₹ in lakh)	Amount (₹ in lakh)
Income		
Sales		5,010
Other Income		<u>130</u>
		5,140
Expenditure		
Production and Operational Expenses	3,550	
Administrative Expenses	185	
Interest	235	
Depreciation	<u>370</u>	<u>(4,340)</u>

Profit before Taxation		800
Provision for Taxation		<u>(280)</u>
Profit after Taxation		520
Credit Balance as per last Balance Sheet		<u>40</u>
		<u>560</u>
Appropriations		
Transfer to General Reserve		100
Preference Dividend		100
Equity Dividend		300
Balance carried to Balance Sheet		<u>60</u>
		<u>560</u>
Supplementary Information		
Production and Operational Expenses consist of:		
Raw Materials and Stores consumed		1,900
Wages, Salaries and Bonus		610
Local Taxes including Cess		220
Other Manufacturing Expenses		<u>820</u>
		<u>3,550</u>
Administrative Expenses consist of:		
Salaries and Commission to Directors		60
Audit Fee		24
Provision for Bad and Doubtful Debts		20
Other Administrative Expenses		<u>81</u>
		<u>185</u>
Interest is on:		
Loan from Bank for Working Capital		35
Debentures		<u>200</u>
		<u>235</u>

Economic Value Added

19. From the following information of Vinni Ltd., compute the economic value added:

(i)	Share capital	₹ 2,000 lakh
(ii)	Reserve and surplus	₹ 4,000 lakh
(iii)	Long-term debt	₹ 400 lakh
(iv)	Tax rate	30%
(v)	Risk free rate	9%
(vi)	Market rate of return	16%

(vii) Interest	₹ 40 lakh
(viii) Beta factor	1.05
(ix) Profit before interest and tax	₹ 2,000 lakh

Human Resource Accounting

20. A company has a capital base of ₹ 1 crore and has earned profits to the tune of ₹ 11 lakh. The Return on Investment (ROI) of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by ₹ 2.5 lakh over and above the target profit.

Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

ANSWERS

1. (a) From the fact given in the question it is obvious that Sun Ltd. is a manufacturer of solar power panel. As per Ind AS 2 'Inventories', inventories are assets (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services. Therefore, solar power panel held in its stock will be considered as its inventory. Further, as per the standard, inventory at the end of the year are to be valued at lower of cost or NRV.

As the customer has postponed the delivery schedule due to liquidity crunch, the entire cost incurred for solar power panel which were to be supplied has been shown in Inventory. The solar power panel are in the possession of the Company which can be sold in the market. Hence company should value such inventory as per principles laid down in AS 2 i.e. lower of Cost or NRV. Though, the goods were produced as per specifications of buyer the Company should determine the NRV of these goods in the market and value the goods accordingly. Change in value of such solar power panel should be provided for in the books. In the absence of the NRV of WIP and Finished product given in the question, assuming that cost is lower, the company shall value its inventory as per AS 2 for ₹ 140 lakh [i.e solar power panel (WIP) ₹ 85 lakh + solar power panel (finished products) ₹ 55 lakh].

Alternatively, if it is assumed that there is no buyer for such fabricated solar power panel, then the NRV will be Nil. In such a case, full value of finished goods and WIP will be provided for in the books.

As regards Sundry Debtors balance, since the Company has filed a petition for winding up against the customer in 2018-2019, it is probable that amount is not recoverable from the party. Hence, the provision for doubtful debts for ₹ 65 lakh shall be made in the books against the debtor's amount.

(b)

	₹ in crore
Cost of construction of bridge incurred upto 31.3.2019	4.00
Add: Estimated future cost	<u>6.00</u>
Total estimated cost of construction	<u>10.00</u>
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

$$= (4/10) \times 100 = 40\%$$

Revenue and Profit to be recognized for the year ended 31st March, 2018 as per AS 7:

Proportion of total contract value recognized as revenue

$$= \text{Contract price} \times \text{percentage of completion}$$

$$= ₹ 12.60 \text{ crore} \times 40\% = ₹ 5.04 \text{ crore}$$

Profit for the year ended 31st March, 2019 = ₹ 5.04 crore – ₹ 4 crore = 1.04 crore.

2. (a) In the given case, Mithya Ltd. concurrently agreed to repurchase the same goods from Satya Ltd. on 1st February, 2019. Also the re-selling price is pre-determined and covers purchasing and holding costs of Satya Ltd. Hence, the transaction between Mithya Ltd. and Satya Ltd. on 1st February, 2019 should be accounted for as financing rather than sale. The resulting cash flow of ₹ 9.60 lakh received by Mithya Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition".

Journal Entries in the books of Mithya Ltd.

		₹ in lakh
1.2.2019	Bank Account Dr.	9.60
	To Advance from Satya Ltd*.	9.60

* The balance of Satya Ltd.'s account will be disclosed as an advance under the heading liabilities in the balance sheet of Mithya Ltd. as on 31st March, 2019.

	(Being advance received from Satya Ltd. amounting [₹ 8 lakh + 20% of ₹ 8 lakh = 9.60 lakh] under sale and re-purchase agreement)			
31.3.2019	Financing Charges Account	Dr.	0.40	
	To Satya Ltd.			0.40
	(Financing charges for 2 months [(10.80 – 9.60) x 2/6])			
31.3.2019	Profit and Loss Account	Dr.	0.40	
	To Financing Charges Account			0.40
	(Being amount of finance charges transferred to P& L Account)			

- (b) The new turbine will produce economic benefits to MS Ltd., and the cost is measurable. Hence, the item should be recognised as an asset. The original invoice for the machine did not specify the cost of the turbine; however, the cost of the replacement ₹ 45,00,000 can be used as an indication (usually by discounting) of the likely cost, six years previously.

Statement showing cost of new turbine and machine after 6th year

			₹
Cost of machines recognized on purchase			1,00,00,000
Less: Depreciation charged for 6 years	$[(1,00,00,000 / 10) \times 6]$		<u>(60,00,000)</u>
			40,00,000
Less: Current cost of turbine to be derecognized:			
Cost of Turbine before 6 years	$[45,00,000 \times \{1 / (1.05)^6\}]$	33,57,900	
Less: Depreciation for 6 years	$[(33,57,900 / 10) \times 6]$	<u>(20,14,740)</u>	(13,43,160)
Add: Cost of new turbine to be recognised			<u>45,00,000</u>
Revised carrying amount of machine			<u>71,56,840</u>

3. (a) As it is stated in the question that financial statements for the year ended 31st March, 2018 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On these bases, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to ₹ 20,000 in the financial statements for the year ended 31st March, 2018.

(b) Gain from curtailment is estimated as under:

	₹
Reduction in gross obligation	600
Less: Proportion of unamortised past service cost	<u>(18)</u>
Gain from curtailment	<u>582</u>

The liability to be recognised after curtailment in the balance sheet is estimated as under:

	₹
Reduced gross obligation (90% of ₹ 6,000)	5,400
Less: Fair value of plan assets	<u>(5,100)</u>
	300
Less: Unamortised past service cost (90% of ₹ 180)	<u>(162)</u>
Liability to be recognised in the balance sheet	<u>138</u>

4. (a) As per AS 16, "Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds". Further, as per para 4 (b) of the standard, "amortization of discounts or premiums relating to borrowings" as a component of borrowing costs. Thus, the borrowing costs comprise the periodic interest payable on the bonds in question and the amount of discount amortised during the period.

Paragraph 6 of the Statement, inter-alia, states that "Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset".

Further, paragraph 19 states that "Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete". Thus, only that portion of the amortised discount should be capitalised as part of the cost of a qualifying asset which relates

to the period during which acquisition, construction or production of the asset takes place.

(i) Straight line basis

(Amount in ₹)

Years	Interest	Amortisation of discount	Total borrowing costs
Year 1	10,000	3,333	13,333
Year 2	10,000	3,333	13,333
Year 3	10,000	3,334	13,334

In the above case, the amount of borrowing costs capitalized would be ₹ 13,333 in Year 1 and Year 2. The borrowing costs of ₹ 13,334 incurred in Year 3 would be expensed since the asset is ready for its intended use at the end of Year 2. The borrowing costs of ₹ 13,334 incurred in the year 3 would be expensed since the asset is ready for its intended use at the end of Year 2.

(ii) Effective interest rate method

The effective interest rate method is a method of calculating amortisation using the effective interest rate of a financial asset or a financial liability. The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity to the current net carrying amount of the financial asset or financial liability. That computation should include all fees paid or received between parties to the contract. The effective interest rate is sometimes termed the level yield to maturity, and is the internal rate of return of the financial asset or financial liability for that period.

Year	Opening cost	% on opening cost	Total borrowing cost (yield)	Interest	Amortisation	Closing cost
1	2	3	4 = 2x3	5	6 = (4-5)	7 = 2+6
1	90,000	14.33%	12,897	10,000	2,897	92,897
2	92,897	14.33%	13,312	10,000	3,312	96,209
3	96,209	14.33%	13,791	10,000	3,791	1,00,000

As per this method, the amount of borrowing costs to be capitalised in Year 1 and Year 2, would be ₹ 12,897 and ₹ 13,312, respectively. The borrowing costs of ₹ 13,791 incurred in Year 3 would be expensed.

Clearly, the pattern of amortisation is different when computed as per the above methods. However, as the effective interest rate method captures the 'yield altering' nature of the discount/premium more appropriately, it is more reflective of borrowing costs over the life of the borrowing.

(b)

All-rounder Ltd.
Segmental Report

(₹ '000)

Particulars	Divisions			Inter Segment Eliminations	Consolidated Total
	Forging shop	Bright Bar	Fitting		
Segment revenue					
Sales:					
Domestic	90	—	—	—	90
Export	<u>6,135</u>	<u>300</u>	<u>270</u>	—	<u>6,705</u>
External Sales	6,225	300	270	—	6,795
Inter-segment sales	<u>4,575</u>	<u>45</u>	<u>—</u>	<u>4,620</u>	<u>—</u>
Total revenue	<u>10,800</u>	<u>345</u>	<u>270</u>	<u>4,620</u>	<u>6,795</u>
Segment result (given)	240	30	(12)		258
Head office expenses					<u>(144)</u>
Operating profit					114
Interest expense					<u>(16)</u>
Profit before tax					<u>98</u>
Information in relation to assets and liabilities:					
Fixed assets	300	60	180	—	540
Net current assets	<u>180</u>	<u>60</u>	<u>135</u>	—	<u>375</u>
Segment assets	<u>480</u>	<u>120</u>	<u>315</u>	—	915
Unallocated corporate assets (75 + 72)	—	—	—	—	<u>147</u>
Total assets					<u>1,062</u>
Segment liabilities	30	15	180	—	225
Unallocated corporate liabilities					<u>57</u>
Total liabilities					<u>282</u>

Sales Revenue by Geographical Market

	Home Sales	Export Sales (by forging shop division)	Export to Rwanda	Export to Maldives	(₹ '000) Consolidated Total
External sales	90	6,135	300	270	6,795

5. (a) These transactions would require disclosure under AS 18 in the standalone financial statements of A Limited. As per paragraph 10 of AS 18, a related party transaction is “a transfer of resources or obligations between related parties, regardless of whether or not a price is charged”. In the given situation, there is a transfer of resources from A Limited to its subsidiaries, though no price is charged for the same. Hence, it will constitute as related party transaction and will require disclosure in the financial statements of A Ltd.
- (b) As per AS 19 on Leases, **unearned finance income** is the difference between (a) the **gross investment** in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Where:

- (a) **Gross investment** in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

$$\begin{aligned} \text{Gross investment} &= \text{Minimum lease payments} + \text{Unguaranteed residual value} \\ &= [\text{Total lease rent} + \text{Guaranteed residual value (GRV)}] + \text{Unguaranteed residual value (URV)} \\ &= [(\text{₹ } 8,00,000 \times 5 \text{ years}) + \text{₹ } 1,60,000] + \text{₹ } 1,40,000 = \text{₹ } 43,00,000 \text{ (a)} \end{aligned}$$

- (b) Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	MLP inclusive of URV ₹	Internal rate of return (Discount factor @ 15%)	Present Value ₹
1	8,00,000	0.8696	6,95,680
2	8,00,000	0.7561	6,04,880
3	8,00,000	0.6575	5,26,000
4	8,00,000	0.5718	4,57,440
5	8,00,000	0.4972	3,97,760

	1,60,000 (GRV)	0.4972	79,552
	41,60,000		27,61,312 (i)
	1,40,000 (URV)	0.4972	69,608 (ii)
	<u>43,00,000</u>	(i)+ (ii)	<u>28,30,920(b)</u>

Unearned Finance Income (a) - (b) = ₹ 43,00,000 – ₹ 28,30,920 = ₹ 14,69,080.

6. (a) Computation of earnings per share

Particulars	Consolidated financial statements	Standalone financial statements of XYZ Limited
Basic earnings/(loss) per share	₹ 8 [40,00,000/5,00,000]	(₹ 40) [2,00,00,000/5,00,000]
Diluted earnings/(loss) per share	₹ 6.66 [40,00,000/ 6,00,000]	(₹ 40) [2,00,00,000/ 5,00,000]

As per paragraph 39 of AS 20 "Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations.

In the above case, if the exercise of options was considered for separate financial statements of XYZ Limited, the diluted loss per share would have reduced to ₹ 33.33 [2,00,00,000/6,00,000]. As this is antidilutive, the options would not be treated as potentially dilutive equity shares. Accordingly, in the separate financial statements of XYZ Limited, the Diluted EPS would be same as Basic EPS.

- (b) If the cost of machine is spread over three years of its life for accounting purposes, the amount of the tax saving should also be spread over the same period as shown below:

Statement of Profit and Loss

(for the three years ending 31st March, 2017, 2018, 2019)

		(₹ in thousand)		
		2017	2018	2019
	Profit before depreciation and taxes	200	200	200
Less:	Depreciation for accounting purposes	<u>50</u>	<u>50</u>	<u>50</u>
	Profit before taxes	<u>150</u>	<u>150</u>	<u>150</u>
Less:	Tax expense			
	Current tax:			
	0.40 x (200 -150)	20		

0.40 x 200		80	80
Deferred tax:			
Tax effect of timing differences originating during the year leading to DTL			
0.40 (150-50)	40		
Tax effect of timing differences reversing during the year			
0.40 (0-50)	-	(20)	(20)
Tax expense	<u>60</u>	<u>60</u>	<u>60</u>
Profit after tax	<u>90</u>	<u>90</u>	<u>90</u>
Net timing differences	<u>100</u>	<u>50</u>	<u>0</u>
Deferred tax liability balance	<u>40</u>	<u>20</u>	<u>0</u>

In 2017, the amount of depreciation allowed for tax purposes exceeds the amount of depreciation charged for accounting purpose by ₹ 1,00,000 and, therefore, taxable income is lower than the accounting income. This gives rise to a deferred tax liability of ₹ 40,000. In 2018 and 2019 accounting income is lower than taxable income because the amount of depreciation charged for accounting purposes exceeds the amount of depreciation allowed for tax purposes by ₹ 50,000 each year. Accordingly, deferred tax liability is reduced by ₹ 20,000 each in both the years. As may be seen, tax expense is based on the accounting income of each period.

In 2017, the profit and loss account is debited and deferred tax liability account is credited with the amount of tax on the originating timing difference of ₹ 1,00,000 while in each of the following two years, deferred tax liability account is debited and profit and loss account is credited with the amount of tax on the reversing timing difference of ₹ 50,000.

The following Journal entries will be passed:

Year 2017			
Profit and Loss A/c	Dr.	20,000	
To Current tax A/c			20,000
(Being the amount of taxes payable for the year 2017 provided for)			

Profit and Loss A/c To Deferred tax liability A/c (Being the deferred tax liability created for originating timing difference of ₹ 1,00,000)	Dr.	40,000	40,000
Year 2018			
Profit and Loss A/c To Current tax A/c (Being the amount of taxes payable for the year 2018 provided for)	Dr.	80,000	80,000
Deferred tax liability A/c To Profit and Loss A/c (Being the deferred tax liability adjusted for reversing timing difference of ₹ 50,000)	Dr.	20,000	20,000
Year 2019			
Profit and Loss A/c To Current tax A/c (Being the amount of taxes payable for the year 2019 provided for)	Dr.	80,000	80,000
Deferred tax liability A/c To Profit and Loss A/c (Being the deferred tax liability adjusted for reversing timing difference of ₹ 50,000)	Dr.	20,000	20,000

Presentation:

In the year 2017, the balance of deferred tax account i.e. ₹ 40,000 would be shown separately from the current tax payable for the year in terms of paragraph 30 of AS 22. In the year 2018, the balance of deferred tax liability account would be ₹ 20,000 and be shown separately from the current tax payable for the year as in year 2017. In year 2019, the balance of deferred tax liability account would be nil.

If the rate of tax changes, it would be necessary for the enterprises to adjust the amount of deferred tax liability carried forward by applying the tax rate that has been enacted or substantively enacted by the balance sheet date on accumulated timing differences at the end of the accounting year

The amount of deferred tax liability would be computed as follows:

The deferred tax liability carried forward each year would appear in the balance sheet as under:

$$31^{\text{st}} \text{ March, 2017} = 0.40 (1,00,000) = ₹ 40,000$$

31st March, 2018 = 0.35 (50,000) = ₹ 17,500

31st March, 2019 = 0.38 (Zero) = ₹ Zero

Accordingly, the amount debited (credited) to the profit and loss account (with corresponding credit or debit to deferred tax liability) for each year would be as under:

31st March, 2017 Debit = ₹ 40,000

31st March, 2018 (Credit) = ₹ (22,500)

31st March, 2019 (Credit) = ₹ (17,500)

7. (a) The goodwill arising on the acquisition of the associate will be computed as follows:

Investment I		₹ 1,00,000
Share of net assets	(10 percent of ₹ 7,50,000)	<u>(₹ 75,000)</u>
Goodwill (A)		<u>₹ 25,000</u>
Investment II		₹ 3,00,000
Share of net assets	(20 percent of ₹ 12,50,000)	<u>(₹ 2,50,000)</u>
Goodwill (B)		<u>₹ 50,000</u>
Total goodwill (A + B)		<u>₹ 75,000</u>

- (b) According to AS 25 the Income and Expense should be recognized when they are earned and incurred respectively. Therefore, seasonal incomes will be recognized as and when they occur. Thus, the company's view is not as per AS 25.

Correct Statement of Profit or Loss for the quarter ending on 30th June, 2018 would be

Particulars	(₹ in crore)	
Result of first quarter ending 30 th June, 2018		
Turnover	80	
Other Income	<u>Nil</u>	
Total (a)		<u>80</u>
Less: Changes in inventories		Nil
Salaries and other cost		60
Administrative and selling Expenses (4+8)		<u>12</u>
Total (b)		<u>72</u>
Profit (a)-(b)		<u>8</u>

Sheet date since the loan is not actually demanded by the bank at any time prior to the date on which the Financial Statements are approved.

- (ii) In case a bank has recalled the loan before the date of approval of the accounts on breach of a loan covenant that occurred before the year-end, the loan will have to be classified as current.
- (iii) If a loan is repayable on demand from day one, even when the lender does not demand repayment of the loan at any time, the same would have to be continued to be classified as “current”.

10. (a) As per IFRS

IFRS 15 provides that all types of penalties which may be levied in the performance of a contract should be considered in the nature of variable consideration for recognising revenue.

Carve out

Ind AS 115 has been amended to provide that penalties shall be accounted for as per the substance of the contract. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration, otherwise the same should not be considered for determining the consideration and the transaction price shall be considered as fixed.

(b) Significant differences in Ind AS 115 from AS 7 and AS 9

S. No.	Particular	Ind AS 115	AS 7 and AS 9
1.	Framework of Revenue Recognition	Ind AS 115 gives a framework of revenue recognition within a standard. It specifies the core principle for revenue recognition which requires the ‘revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services’.	AS 7 and AS 9 do not provide any such overarching principle to fall upon in case of doubt.
2.	Comprehensive Guidance on Recognition and	Ind AS 115 gives comprehensive guidance on how to recognise and measure multiple elements	AS 7 and AS 9 do not provide comprehensive guidance on this aspect.

	Measurement of Multiple Elements within a Contract with Customer:	within a contract with customer.	
3.	Coverage	Ind AS 115 comprehensively deals with all types of performance obligation contract with customer. However, it does not deal with revenue from 'interest' and 'dividend' which are covered in financial instruments standard.	AS 7 covers only revenue from construction contracts which is measured at consideration received / receivable. AS 9 deals only with recognition of revenue from sale of goods, rendering of services, interest, royalties and dividends.
4.	Measurement of Revenue	As per Ind AS 115, revenue is measured at transaction price, i.e., the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.	As per AS 9, Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. As per AS 7, revenue from construction contracts is measured at consideration received / receivable and to be recognised as revenue as construction progresses, if certain conditions are met.

5.	Recognition of Revenue	As per Ind AS 115, revenue is recognised when the control is transferred to the customer.	As per AS 9, revenue is recognised when significant risks and rewards of ownership is transferred to the buyer. As per AS 7, revenue is recognised when the outcome of a construction contract can be estimated reliably, contract revenue should be recognised by reference to the stage of completion of the contract activity at the reporting date.
6.	Capitalisation of Costs	Ind AS 115 provides guidance on recognition of costs to obtain and fulfill a contract, as asset	AS 7 and AS 9 do not deal with such capitalisation of costs.
7.	Guidance on Service Concession Arrangements	Ind AS 115 gives guidance on service concession arrangements and disclosures thereof	AS does not provide such guidance.
8.	Disclosure Requirements	Ind AS 115 contains detailed disclosure requirements.	Less disclosure requirements are prescribed in AS

11. (i) **Computation of Purchase Consideration**

	₹
<u>For Preference Shareholders</u>	
Present income of preference shareholders of Brain Ltd. (4,80,000 × 12%)	57,600
Add: Required 20% increase	<u>11,520</u>
	<u>69,120</u>
10% Preference share capital to be issued (69,120/10x100)	6,91,200

<u>For Equity Shareholders</u>	
Valuation of Equity Shares of Brain Ltd. = Number of shares x Value of one share = 1,44,000 x 24 = ₹ 34,56,000	
Issue of Equity Shares	
No. of equity shares to be issued at 80% of market price i.e. 80% of ₹ 40 = ₹ 32	
$\frac{34,56,000}{32} = 1,08,000$ shares	
Equity share capital = 1,08,000 x ₹ 10 = ₹ 10,80,000	
Securities premium = 1,08,000 x ₹ 22 = ₹ 23,76,000	34,56,000
	<u>41,47,200</u>

(ii) **Balance Sheet of Heart Ltd (after absorption of Brain Ltd.)**
as on 31.3.2019

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's fund		
(a) Share capital	1	56,11,200
(b) Reserves and surplus	2	52,43,200
(2) Non-current liabilities		
Long-term borrowings	3	8,80,000
(3) Current liabilities		
Trade payables	4	19,04,000
Total		<u>1,36,38,400</u>
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		
i. Tangible assets	5	76,80,000
ii. Intangible assets	6	4,35,200
(b) Non-current investments	7	8,00,000
(c) Other non-current assets	8	48,000

(2) Current assets		
(a) Inventory	9	23,04,000
(b) Trade receivables	10	21,92,000
(c) Cash and cash equivalents [1,20,000 + 72,000-12,800]		1,79,200
Total		1,36,38,400

Note: In the above solution, discount on issue of debentures have been deferred for amortization over the tenure of the borrowings. However, one may adjust the same from Securities Premium Account as per section 52 of the Companies Act, 2013. In such a situation, the balance of Securities Premium Account will be ₹ 23,28,000, total of Reserves and Surplus will be ₹ 52,88,000 and total of Balance Sheet will be ₹ 1,36,83,200.

Notes to Accounts

		₹	₹
1. Share capital			
3,96,000 Equity shares of ₹ 10 each fully paid up (Out of the above, 1,08,000 shares have been allotted as fully paid-up for consideration other than cash)		39,60,000	
10%,1,65,120 Preference shares of ₹ 100 each fully paid up (Out of the above, 6,912 preference shares of ₹ 100 each have been allotted as fully paid up for consideration other than cash)		<u>16,51,200</u>	56,11,200
2. Reserves and surplus			
Statutory reserve [80,000 + 80,000]		1,60,000	
Revaluation reserve		8,00,000	
General reserve (20,00,000 – 12,800)		19,87,200	
Securities premium		23,76,000	
Amalgamation Adjustment Reserve		<u>(80,000)</u>	52,43,200
3. Long-term borrowings			
Secured borrowings			
15% Debentures (₹ 4,00,000 + ₹ 4,80,000)			8,80,000
4. Trade payables (8,80,000 + 10,40,000 - 16,000)			19,04,000

5.	Tangible assets (₹ 48,00,000+₹ 28,80,000)	76,80,000
6.	Intangible assets	
	Goodwill	4,35,200
7.	Non-current investment	
	Investment (₹ 4,00,000+₹ 4,00,000)	8,00,000
8.	Other non-current assets	
	Discount on issue of debentures	48,000
9.	Inventory	
	Inventory (₹ 14,40,000+₹ 8,64,000)	23,04,000
10.	Trade receivables (12,40,000 + 9,68,000 – 16,000)	21,92,000

Working Notes:**1. Computation of Goodwill/Capital Reserve on absorption:**

	₹	₹	₹
Purchase consideration			41,47,200
Property, Plant and Equipment taken over	24,00,000		
Add: Increase by 20%	<u>4,80,000</u>	28,80,000	
Investment		4,00,000	
Current assets:			
Inventory	9,60,000		
Less: Reduction in value by 10%	<u>(96,000)</u>		
	8,64,000		
Trade Receivables	9,68,000		
Cash at bank	<u>72,000</u>	19,04,000	
		51,84,000	
Less: Outside liabilities:			
12% Debentures at premium	4,32,000		
Trade Payables	<u>10,40,000</u>	(14,72,000)	37,12,000
Goodwill			<u>4,35,200</u>

2. Calculation of Debentures to be issued by Heart Ltd.

	₹
Debenture holders of Brain Ltd.	4,00,000
Add: 8% Premium on redemption	<u>32,000</u>
	<u>4,32,000</u>

Debentures are to be redeemed by issue of debentures in Heart Ltd. @ 10% discount $(4,32,000/90) \times 100$	4,80,000
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12. As per AS 21 “Consolidated Financial Statements”, the losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly,

Year	Details	Minority Interest (MI) (20%)	Minority's Share of losses borne by Rose Ltd.	Balance
Minority Interest at the time of acquisition i.e. on 31.3.2015		6,00,000 (W.N.)		
2015-2016 on 31.3.2016	(15,00,000 x 20%)	<u>(3,00,000)</u>		
2016-2017	(20,00,000 x 20%)	<u>(4,00,000)</u>		
		<u>(1,00,000)</u>		
	Loss amounting ₹ 1,00,000 of minority borne by majority shareholders on application of AS 21	<u>1,00,000</u>		1,00,000
on 31.3.2017		<u>Nil</u>		
2017-2018	(4,00,000 x 20%)	80,000		
	On application of AS 21, profit transferred to majority shareholders	<u>(80,000)</u>		(80,000)
on 31.3.2018		<u>Nil</u>		20,000
2018-2019	(5,00,000 x 20%)	1,00,000		
	On application of AS 21, profit transferred to majority shareholders to the extent earlier	<u>(20,000)</u>		(20,000)

on 31.3.2019	loss was borne by majorityshare holders	80,000	Nil
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Working Note:**Calculation of Minority Interest as on 31.3.2015**

	Total Amount (100%) (₹)	Minority Interest (20%) (₹)
Share Capital (20%)	25,00,000	5,00,000
Add: Share in Reserves (20%)	5,00,000	<u>1,00,000</u>
		<u>6,00,000</u>

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

(a) The amount required to be settled and any differential arising upon one-time settlement at the end of 6th year –

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

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

- (ii) B Ltd has written an option, which if exercised by C Ltd. will result in B Ltd. selling equity shares of Target Ltd. for fixed cash of ₹ 100 per share. Such option will be exercised by C Ltd. only if the market price of shares of Target Ltd. increases beyond ₹ 100, thereby resulting in contractual obligation over B Ltd. to settle the contract under potential unfavorable terms.

If the market price is already ₹ 120 which means that if option is exercised by C Ltd, then B Ltd shall buy shares from the market at ₹ 120 per share and sell at ₹ 100, thereby resulting in a loss or exchange at unfavorable terms to B Ltd. Hence, it meets the definition of financial liability in books of B Ltd.

The additional question that arises here is the nature of this financial liability and if it meets the definition of derivative. A derivative is a financial instrument that meets following conditions:

- (a) Its value changes in response to change in specified variable like interest rate, equity index, commodity price, etc. If the variable is non-financial, it is not specific to party to the contract
- (b) It requires no or little initial net investment
- (c) It is settled at a future date.

Evaluating the above instrument, B Ltd. has written an option whose value changes based on change in market price of equity share, it requires no initial net investment and is settled at a future date (anytime in 90 days). Hence, it meets definition of derivative financial liability in books of B Ltd.

14. Since the number of options varies depending on the outcome of a performance condition that is not a market condition, the effect of that condition (i.e., the possibility that the number of stock options might be 100, 200 or 300) is not taken into account when estimating the fair value of the stock options at grant date. Instead, the enterprise revises the transaction amount to reflect the outcome of that performance condition, as illustrated below.

Year	Calculation	Compensation expense for period (₹)	Cumulative compensation expense (₹)
1.	80 employees × 200 options × ₹ 20 × 1/3	1,06,667	1,06,667
2.	(85 employees × 300 options × ₹ 20 × 2/3) – ₹ 1,06,667	2,33,333	3,40,000
3.	(86 employees × 300 options × ₹ 20 × 3/3) – ₹ 3,40,000	1,76,000	5,16,000

- 15.

	₹ in lakh	₹ in lakh	
Opening bank balance [₹ (100 – 90 - 7) lakh]	3.00		
Add: Proceeds from sale of securities	40.00		
Dividend received	<u>1.20</u>	44.20	
Less: Cost of securities	28.20		
Fund management expenses [₹ (4.50–0.25) lakh]	4.25		

Capital gains distributed [75% of ₹ (40.00 – 38.00) lakh]	1.50		
Dividends distributed (75% of ₹ 1.20 lakh)	<u>0.90</u>	<u>(34.85)</u>	
Closing bank balance		9.35	
Closing market value of portfolio		<u>101.90</u>	
		<u>111.25</u>	
Less: Arrears of expenses		<u>(0.25)</u>	
Closing net assets		<u>111.00</u>	
Number of units			10,00,000
Closing Net Assets Value (NAV)			₹ 11.10

16. (i) Since, the hire-purchaser paid the first instalment due on 31.3.2017, the notional principal outstanding on 1.4.2018 was ₹ 50.25 lakh (refer W.N.).

In the year ended 31.3.2019, the instalment due of ₹ 16 lakh has not been received. However, it was due on 31.3.2019 i.e. on the balance sheet date, and therefore, it will be classified as standard asset. A Ltd. will recognise ₹ 5.24 lakh as interest income included in that due instalment as this should be treated as finance charge.

- (ii) **The net book value of the assets as on 31.3.2019**

	₹ in lakh
Overdue instalment	16.00
Instalments not due (₹ 16 lakh x 3)	<u>48.00</u>
	64.00
Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52)	<u>(8.51)</u>
	55.49
Less: Provision as per NBFC prudential norms (Refer point (iii))	<u>7.49</u>
Net book value of assets for A Ltd.	<u>48.00</u>

- (iii) **Amount of Provision**

	₹ in lakh
Overdue instalment	16.00
Instalments not due (₹ 16 lakh x 3)	<u>48.00</u>
	64.00

Less: Finance charge not matured and hence not credited to Profit and loss account (4.11 + 2.88 + 1.52)	(8.51)
	55.49
Less: Depreciated value (cash price less depreciation for two years on SLM @ 20%*)	(48.00)
Provision to be created as per NBFC prudential norms	<u>7.49</u>

Since, the instalment of ₹ 16 lakh not paid, was due on 31.3.2019 only, the asset is classified as standard asset. Therefore, no additional provision has been made for it.

Working Note:

It is necessary to segregate the instalments into principal outstanding and interest components by using I.R.R. @ 10.42%. (₹ in lakh)

Time	Opening outstanding amount (a)	Cash flow (b)	Interest @ 10.42% (c) = (a x 10.42%)	Principal repayment (d) = (b - c)	Closing outstanding (e) = (a - d)
31.3.2017		(60)	----	---	60.00
31.3.2018	60.00	16	6.25	9.75	50.25
31.3.2019	50.25	16	5.24	10.76	39.49
31.3.2020	39.49	16	4.11	11.89	27.60
31.3.2021	27.60	16	2.88	13.12	14.48
31.3.2022	14.48	16	1.52	14.48	0.00

17. Market Share of Unique Ltd.

Calculation of last year's market share = $100\% - 63\% = 37\%$

Increase or decrease in market share of other players $[0.25 + (.25 \times 150\%) - 2.5/5] = 0.125\%$ i.e. increase in others' market share every year over the period of 5 years. Hence, market share of Unique Ltd. is expected to decrease by 0.125% every year over the period of 5 years, from the current level of 37%.

* As per NBFC prudential norms laid down by the RBI.

Brand Valuation under Market Approach

Year	Market Size (₹ in crore)	Market Share of Unique Ltd.	Market Share (₹ in crore)	Expected Profit (₹ in crore)	Discount Factor	Discounted Cash Flow (₹ in crore)
1	7500 x 109% = 8,175	36.875%	3014.53	@ 10% = 301.45	0.909	274.02
2	8,175 x 109% = 8910.75	36.75%	3274.70	@ 13% = 425.71	0.826	351.64
3	8,910.75 x 109% = 9712.72	36.625%	3557.28	@18% = 640.31	0.751	480.87
4	9,712.72 x 109% = 10,586.86	36.5%	3864.20	@23% = 888.77	0.683	607.03
5	10,586.86 x 109% = 11,539.68	36.375%	4197.56	@28% = 1,175.32	0.621	<u>729.87</u>
	Brand Value					<u>2,443.43</u>

Brand Value of Unique Ltd. under Market Oriented Approach is ₹ 2,443.43 crore.

18.

Gross Value Added Statement of Sony Ltd.**for the year ended 31st March, 2019**

		(₹ in lakh)	(₹ in lakh)
Sales			5,010
Less:	Cost of raw materials, stores and other services consumed	2,720	
	Administrative expenses	125	
	Interest on loan from bank for working capital	<u>35</u>	<u>(2,880)</u>
Value added by manufacturing and trading activities			2,130
Add:	Other income		<u>130</u>
Total value added			<u>2,260</u>

Application of Value Added

	(₹ in lakh)	(₹ in lakh)	%
To pay employees			
Wages, salaries and bonus		610	26.99
To pay directors			
Salaries and commission to Directors		60	2.66

To pay Government			
Local taxes including cess	220		
Income tax	<u>280</u>	500	22.12
To pay providers of capital			
Interest on debentures	200		
Preference dividend	100		
Equity dividend	<u>300</u>	600	26.55
To provide for the maintenance and expansion of the company:			
Depreciation	370		
Transfer to general reserve	100		
Retained profit ₹ (60 – 40) lakh	<u>20</u>	<u>490</u>	<u>21.68</u>
		<u>2,260</u>	<u>100.00</u>

**Statement showing Reconciliation between
Gross Value Added with Profit before Taxation**

	(₹ in lakh)	(₹ in lakh)
Profit before taxation		800
Add back:		
Wages, salaries and bonus	610	
Salaries and commission to Directors	60	
Local taxes including cess	220	
Interest on debentures	200	
Depreciation	<u>370</u>	<u>1,460</u>
Gross Value Added		<u>2,260</u>

19.

Vinni Limited

Computation of Economic Value Added

Economic Value Added	₹ in Lakh
Net Operating Profit after Tax (Refer Working Note 5)	1,372.00
Add: Interest on Long-term Fund after tax (Refer Working Note 2)	<u>28.00</u>
	1,400.00

Less: Cost of Capital ₹ 6,400 lakh × 15.77% (Refer working notes 3 and 4)	(1,009.28)
Economic Value Added	<u>390.72</u>

Working Notes:

1. **Cost of Equity** = Risk free Rate + Beta Factor (Market Rate – Risk Free Rate)

$$9\% + 1.05 (16 - 9) = 9\% + 7.35\% = 16.35\%$$

2. **Cost of Debt**

Interest ₹ 40 lakh

Less: Tax (30%) (₹ 12 lakh)

Interest after Tax ₹ 28 lakh

$$\text{Cost of Debt} = \frac{28}{400} \times 100 = 7\%$$

3. **Weighted Average Cost of Capital**

Cost of Equity ₹ 6,000 lakh × 16.35% (W.N.1) ₹ 981 lakh

Cost of Debt ₹ 400 lakh × 7% (W.N.2) ₹ 28 lakh

₹ 1,009 lakh

$$\text{WACC} = \frac{1,009}{6,400} \times 100 = 15.77\% \text{ (approx.)}$$

4. Capital Employed

	(₹ in lakh)
Share Capital	2,000
Reserves and Surplus	4,000
Long term debts	<u>400</u>
	<u>6,400</u>

5. **Net Operating Profit after Tax**

	(₹ in lakh)
Profit before Interest and Tax	2,000
Less: Interest	<u>(40)</u>
	1,960
Less: Tax @ 30% on 1,960 Lakh	<u>(588)</u>
Net Operating Profit after Tax	<u>1,372</u>

20. Capital Base	= ₹ 1,00,00,000
Actual Profit	= ₹ 11,00,000
Target Profit @ 12.5%	= ₹ 12,50,000

Expected Profit on employing the particular executive

$$= ₹ 12,50,000 + ₹ 2,50,000 = ₹ 15,00,000$$

Additional Profit = Expected Profit – Actual Profit

$$= ₹ 15,00,000 - ₹ 11,00,000 = ₹ 4,00,000$$

$$\text{Maximum bid price} = \frac{\text{Additional Profit}}{\text{Rate of Return on Investment}} = \frac{4,00,000}{12.5} \times 100 = 32,00,000$$

Maximum salary that can be offered = 12.5% of ₹ 32,00,000 i.e., ₹ 4,00,000

Maximum salary can be offered to that particular executive upto the amount of additional profit i.e., ₹ 4,00,000.