

MOCK TEST PAPER 1
FINAL COURSE: GROUP – I
PAPER – 1: FINANCIAL REPORTING

ANSWERS

1. (a) Before any item can be recognised as an inventory, it should meet the definition of 'asset' as given in the Conceptual Framework for Financial Reporting under Ind AS, issued by the Institute of Chartered Accountants of India as follows:

"An asset is a present economic resource controlled by the entity as a result of past events and economic resource is a right that has the potential to produce economic benefits".

The orders in respect of Buyer Furnished Equipment's (BFEs) are directly placed by the buyer and payment in respect of them is made by the buyer. These are then supplied to the company for installing in the ship and the buyer pays installation charges which are included in the contract price. Thus, the company has neither incurred any cost on BFEs nor any amount is recoverable on account of such equipment except installation charges. Accordingly, such equipment are not 'assets' that may be considered as a part of its contract work-in progress.

In fact, after installation in the ship, BFEs are returned to the buyer after completion of the ship. Thus, these are only held by the company in the capacity of a bailee. Since, it cannot be considered as an 'asset', therefore, it can neither be considered as 'inventory' nor as 'work-in-progress'.

Further, it can also not be considered as a part of sale value or revenue of the company as no consideration would be receivable with respect to the cost of such equipment.

On the basis of the above, it can be concluded that:

- (i) The BFEs cannot be considered as inventories / Work- in- progress for Defense Innovators Limited.
 - (ii) The BFE's cost cannot be considered as part of sales value / contract revenue to Defense Innovators Limited.
- (b) **Step 1** - There is an 'option' to convert the loans into equity i.e. the loan note holders do not have to accept equity shares; they could demand repayment in the form of cash.

Ind AS 32 states that where there is an obligation to transfer economic benefits there should be a liability recognised. On the other hand, where there is not an obligation to transfer economic benefits, a financial instrument should be recognised as equity.

In the given case, we have both – 'equity' and 'debt' features in the instrument. There is an obligation to pay cash – i.e. interest at 8% per annum and a redemption amount – this is 'financial liability' or 'debt component'. The 'equity' part of the transaction is the option to convert. So it is a compound financial instrument.

Step 2- Debt element of the financial instrument so as to recognise the liability is the present value of interest and principal. The rate at which the same is to be discounted, is the rate of *equivalent* loan note *without* the conversion option would have carried interest at 10%, therefore this is the rate to be used for discounting

Step 3 - Calculation of the debt element of the loan note as follows:

8% Interest discounted at a rate of 10% Present Value (6,00,000 x 8%)

S. No	Year	Interest amount	PVF	Amount
Year 1	20X2	48,000	0.91	43,680
Year 2	20X3	48,000	0.83	39,840
Year 3	20X4	48,000	0.75	<u>36,000</u>
				1,19,520
Year 4	20X5	648,000	0.68	<u>4,40,640</u>
Amount to be recognised as a liability				5,60,160

Initial proceeds (6,00,000)

Amount to be recognised as equity 39,840

* In year 4, the loan note is redeemed therefore ₹ 6,00,000 + ₹ 48,000 = ₹ 6,48,000.

Step 4 The next step is to recognise the interest component equivalent to the loan that would carry if there was no option to cover. Therefore, the interest should be recognised at 10%. As on date ₹ 48,000 has been recognised in the statement of profit and loss i.e. 6,00,000 x 8% but we have discounted the present value of future interest payments and redemption amount using discount factors of 10%, so the finance charge in the statement of profit and loss must also be recognised at the same rate i.e. for the purpose of consistency.

The additional charge to be recognised in the income statement is calculated as:

Debt component of the financial instrument ₹ 5,60,160

Interest charge (5,60,160 x 10%)	₹ 56,016
Already charged to the income statement	<u>(₹ 48,000)</u>
Additional charge required	<u>₹ 8,016</u>

Journal Entries for recording additional finance cost for year ended 31 March 20X2

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Finance cost A/c Dr. To Debt component A/c (Being interest recorded for difference between amount recorded earlier and that to be recorded per Ind AS 32)	8,016	8,016

(c) (a) When grant is treated as deferred income

Statement of profit and loss – An extract

	₹
Depreciation (₹ 1,00,000 x 20%)	(20,000)
Government grant credit (W.N.1)	3,000

Balance Sheet - An extract

		₹
Non-current assets		
Property, plant and equipment	1,00,000	

Less: Accumulated depreciation	(1,00,000 x 20%) (20,000)	<u>80,000</u>
		<u>XX</u>
Non-current liabilities		
Government grant	[12,000 – 3,000 (current liability)]	9,000
Current liabilities		
Government grant	(15,000 x 20%)	<u>3,000</u>
		<u>XX</u>

Working Note:

1. Government grant deferred income account

	₹		₹
To Profit or loss (15,000 × 20%)	3,000	By Grant cash received	15,000
To Balance c/f	<u>12,000</u>		
	<u>15,000</u>		<u>15,000</u>

- (b) When grant is deducted from cost of the asset

Statement of profit and loss – An extract

	₹
Depreciation [(₹ 1,00,000 – 15,000) × 20%]	(17,000)

Balance Sheet – An extract

		₹
Non-current assets		
Property, plant and equipment	(1,00,000-15,000) 85,000	
Less: Accumulated depreciation	<u>(17,000)</u>	68,000

2. (a) The following table shows the amortisation of loan based on effective interest rate:

Date (1)	Opening Amortised cost (2)	Cash flows (Principal) (3)	Cash outflows (Interest @ 10% and fee) (4)	Total cash flows (3 + 4 = 5)	Interest @ EIR 10.80% (2 x 10.80% = 6)	Closing Amortised cost (2- 5+6= 7)
1 st April, 20X1		(95,00,000)	1,80,912			93,19,088
31 st March, 20X2	93,19,088	19,00,000	9,50,000	28,50,000	10,06,462	74,75,550
31 st March, 20X3	74,75,550	19,00,000	7,60,000	26,60,000	8,07,359	56,22,909
31 st March, 20X4	56,22,909	19,00,000	5,70,000	24,70,000	6,07,274	37,60,183
31 st March, 20X5	37,60,183	19,00,000	3,80,000	22,80,000	4,06,100	18,86,283
31 st March, 20X6	18,86,283	19,00,000	1,90,000	20,90,000	2,03,717*	

* Difference of ₹ 2 (2,03,719 – 2,03,717) is due to approximation.

(i) **On 1st April, 20X1**

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr. To Loan from bank A/c (Being loan recorded at its fair value less transaction costs on the initial recognition date)	93,19,088	93,19,088

(ii) **On 31st March, 20X2**

Particulars	Dr. (₹)	Cr. (₹)
Loan from bank A/c Dr. Interest expense Dr. To Bank A/c (Being first instalment of loan and payment of interest accounted for as an adjustment to the amortised cost of loan)	18,43,538 10,06,462	28,50,000

(iii) **On 31st March, 20X3– Before KUPA Ltd. approached the bank**

Particulars	Dr. (₹)	Cr. (₹)
Interest expense Dr. To Loan from bank A/c To Bank A/c (Being loan payment of interest recorded by the Company before it approached the Bank for deferment of principal)	8,07,359	47,359 7,60,000

Reason for treating the modification as a fresh loan:

Upon receiving the new terms of the loan, KUPA Ltd., re-computed the carrying value of the loan by discounting the new cash flows with the original effective interest rate and comparing the same with the current carrying value of the loan. As per requirements of Ind AS 109, any change of more than 10% shall be considered a substantial modification, resulting in fresh accounting for the new loan.

The following table shows the present value (PV) of new contractual cash flows and percentage of variation:

Date	Cash flows (principal)	Interest outflow @ 15%	Total cash outflow	Discounting factor @ 10.80%	PV of cash flows
31 st March, 20X3	(76,00,000)				
31 st March, 20X4	9,50,000	11,40,000	20,90,000	0.903	18,87,270
31 st March, 20X5	9,50,000	9,97,500	19,47,500	0.815	15,87,213
31 st March, 20X6	9,50,000	8,55,000	18,05,000	0.735	13,26,675
31 st March, 20X7	9,50,000	7,12,500	16,62,500	0.664	11,03,900
31 st March, 20X8	9,50,000	5,70,000	15,20,000	0.599	9,10,480
31 st March, 20X9	9,50,000	4,27,500	13,77,500	0.540	7,43,850

31 st March, 20Y1	9,50,000	2,85,000	12,35,000	0.488	6,02,680
31 st March, 20Y2	9,50,000	1,42,500	10,92,500	0.440	4,80,700
PV of new contractual cash flows discounted @ 10.80%					86,42,768
Carrying amount of loan (93,19,088 - 18,43,538 + 47,359)					<u>75,22,909</u>
Difference					<u>11,19,859</u>
Percentage of carrying amount					14.89%

Decision Making:

Considering a more than 10% change in PV of cash flows compared to the carrying value of the loan, the existing loan shall be considered to have been extinguished and the new loan shall be accounted for as a separate financial liability.

The accounting entries for the same are included below:

On 31st March, 20X3 – Accounting for extinguishment

Particulars	Dr. (₹)	Cr. (₹)
Loan from bank (old) A/c Dr.	75,22,909	
Finance cost Dr.	77,091	
To Loan from bank (new) A/c		76,00,000
(Being new loan accounted for at its principal amount in absence of any transaction costs directly related to such loan and corresponding derecognition of existing loan)		

(iv) On 31st March, 20X4

Particulars	Dr. (₹)	Cr. (₹)
Loan from bank A/c Dr.	9,50,000	
Interest expense Dr.	11,40,000	
To Bank A/c		20,90,000
(Being first instalment of the new loan and payment of interest accounted for as an adjustment to the amortised cost of loan)		

(b) Ind AS 102 defines grant date and measurement dates as follows:

- (a) **Grant date:** The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.
- (b) **Measurement date:** The date at which the fair value of the equity instruments granted is measured for the purposes of this Ind AS. For transactions with employees and others providing similar services, the measurement date is grant date. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.

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

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

3. (a) 1. Determination of larger entity out of Sun Ltd. and Moon Ltd.

The management of a larger entity (out of Sun Limited and Moon Limited) will take the control of the Sunmoon Ltd. Since, here Sun Ltd. and Moon Ltd. are not under common control and hence accounting prescribed under Ind AS 103 for business combination will be applied. As per the accounting guidance provided in Ind AS 103, sometimes the legal acquirer may not be the accounting acquirer. In the given scenario although Sunmoon Ltd. is issuing the shares but management of a larger entity out of Sun Ltd. and Moon Ltd. will have control of Sunmoon Ltd.

This can be determined by the following table:

(₹)

		Sun Ltd.	Moon Ltd.
Fair Value	A	2,20,00,000	2,80,00,000
Value per share	B	10	10
Number of shares	A/B = C	22,00,000	28,00,000
Total number of shares in Sunmoon Ltd. will be 50,00,000 shares (22,00,000 + 28,00,000)			
Thus, % held by each company in Sunmoon Ltd.	[(C/50,00,000) x 100]	44%	56%

Note: It is a case of Reverse Acquisition. Since post-merger, Moon Ltd. is bigger in size which is a clear indicator that Moon Ltd. will have control of Sunmoon Ltd. and will be considered as an accounting acquirer. Accordingly, Moon Ltd.'s assets and liabilities will be recorded at historical cost in the merged financial statements.

2. **Computation of Purchase Consideration and the manner in which it will be discharged**

Number of shares to be issued by Moon Ltd. to Sun Ltd. to maintain the same percentage i.e. 56%

Since 14,00,000 shares of Moon Ltd. (given in the balance sheet) represent 56%, the total number of shares would be 25,00,000 shares (14,00,000 shares / 56%).

This implies Moon Ltd. would need to issue 11,00,000 shares (25,00,000 – 14,00,000) to Sun Ltd.

Purchase Consideration = 11,00,000 shares x ₹ 20 per share (ie. 2,80,00,000 / 14,00,000 shares) = ₹ 2,20,00,000.

3. **Balance Sheet of Sunmoon Ltd. as on 1.4.20X1**

₹

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment (1,90,00,000 + 1,50,00,000)		3,40,00,000
Goodwill (Refer Working Note)		18,00,000
Financial assets		
Investment (21,00,000 + 11,00,000)		32,00,000
Current assets		
Inventory (26,00,000 + 55,00,000)		81,00,000
Financial assets		
Trade receivables (36,00,000 + 80,00,000)		1,16,00,000
Cash and Cash equivalent (9,00,000 + 8,00,000)		<u>17,00,000</u>
		<u>6,04,00,000</u>
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of ₹ 10 each)	1	2,50,00,000
Other equity	2	1,64,00,000
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings (12% Debentures) (60,00,000 + 80,00,000)	3	1,40,00,000
Current liabilities		
Financial liabilities		
Trade payables (20,00,000 + 30,00,000)		<u>50,00,000</u>
		<u>6,04,00,000</u>

Notes to Accounts

		(₹)	(₹)
1.	Share Capital		
	25,00,000 Equity Shares of ₹ 10 each (14,00,000 to Moon Ltd. and 11,00,000 as computed above, to Sun Ltd.)		2,50,00,000
2.	Other Equity		
	General reserve of Moon Ltd.	40,00,000	

	Profit and loss of Moon Ltd.	10,00,000	
	Export profit reserve of Moon Ltd.	2,00,000	
	Investment allowance reserve of Moon Ltd.	2,00,000	
	Security premium (11,00,000 shares x ₹ 10)	<u>1,10,00,000</u>	1,64,00,000
3.	Long Term Borrowings		
	12% Debentures		1,40,00,000

Working Note:

Computation of Goodwill

Assets:		₹
Property, plant and equipment		1,90,00,000
Investment		21,00,000
Inventory		26,00,000
Trade receivables		36,00,000
Cash & cash equivalent		<u>9,00,000</u>
Total assets		2,82,00,000
Less: Liabilities:		
Borrowings (12% Debentures)		(60,00,000)
Trade payables		<u>(20,00,000)</u>
Net assets	A	2,02,00,000
Purchase consideration	B	<u>2,20,00,000</u>
Goodwill		<u>18,00,000</u>
(B-A)		

3. (b)

	1 st April, 20X1 ₹	31 st March, 20X2 ₹	31 st March, 20X3 ₹
Equity alternative (1,500 x 102)	1,53,000		
Cash alternative (1,000 x 113)	1,13,000		
Equity option (1,53,000 – 1,13,000)	40,000		
Cash option (cumulative) (using period end fair value)		(1,000x120 x ½) 60,000	1,32,000
Equity option (cumulative)		(40,000 x ½) 20,000	40,000
Expense for the period			
Equity option		20,000	20,000
Cash Option		60,000	72,000
Total		80,000	92,000

Journal Entries

31 st March, 20X2		₹	
Employee benefits expenses	Dr.	80,000	
To Share based payment reserve (equity)*			20,000
To Share based payment liability			60,000
(Recognition of Equity option and cash settlement option)			
31 st March, 20X3			
Employee benefits expenses	Dr.	92,000	
To Share based payment reserve (equity)*			20,000
To Share based payment liability			72,000
(Recognition of Equity option and cash settlement option)			
Share based payment liability	Dr.	1,32,000	
To Bank/ Cash			1,32,000
(Settlement in cash)			

*The equity component recognized (₹ 40,000) shall remain within equity. By electing to receive cash on settlement, the employees forfeited the right to receive equity instruments. However, ABC Limited may transfer the share based payment reserve within equity, i.e. a transfer from one component of equity to another.

4. (a) The above issue needs to be examined in the umbrella of the provisions given in Ind AS 1 'Presentation of Financial Statements', Ind AS 16 'Property, Plant and Equipment' in relation to property '1' and '2' and Ind AS 40 'Investment Property' in relation to property '3'.

Property '1' and '2'

Para 6 of Ind AS 16 'Property, Plant and Equipment' defines:

"Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period."

Paragraph 29 of Ind AS 16 states that:

"An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment".

Further, paragraph 36 of Ind AS 16 states that:

"If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued".

Further, paragraph 39 of Ind AS 16 states that:

"If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss".

Further, paragraph 52 of Ind AS 16 states that:

“Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset’s residual value does not exceed its carrying amount”.

Property ‘3’

Ind AS 40 defines ‘Investment property’ as:

“Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or*
- (b) sale in the ordinary course of business”.*

Further, paragraph 30 of Ind AS 40 states that:

“An entity shall adopt as its accounting policy the cost model to all of its investment property”.

Further, paragraph 79 (e) of Ind AS 40 requires that:

“An entity shall disclose the fair value of investment property”.

Further, paragraph 54 (2) of Ind AS 1 ‘Presentation of Financial Statements’ requires that:

“As a minimum, the balance sheet shall include line items that present the following amounts:

- (a) property, plant and equipment;*
- (b) investment property;*

As per the facts given in the question, Venus Ltd. has

- (a) presented all three properties in balance sheet as ‘property, plant and equipment’;
- (b) applied different accounting policies to Property ‘1’ and ‘2’;
- (c) revaluation is charged in statement of profit and loss as profit; and
- (d) applied revaluation model to Property ‘3’ being classified as Investment Property.

This accounting treatment is neither correct nor in accordance with provision of Ind AS 1, Ind AS 16 and Ind AS 40.

Accordingly, Venus Ltd. shall apply the same accounting policy (i.e. either revaluation or cost model) to entire class of property being property ‘1’ and ‘2’. It also required to depreciate these properties irrespective of that, their fair value exceeds the carrying amount. The revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

There is no alternative of revaluation model in respect to property ‘3’ being classified as Investment Property and only cost model is permitted for subsequent measurement. However, Venus Ltd. is required to disclose the fair value of the property in the Notes to Accounts. Also the property ‘3’ shall be presented as separate line item as Investment Property.

Therefore, as per the provisions of Ind AS 1, Ind AS 16 and Ind AS 40, the presentation of these three properties in the balance sheet is as follows:

Case 1: Venus Ltd. has applied the Cost Model to an entire class of property, plant and equipment.

Balance Sheet (extracts) as at 31st March, 20X2

₹

Assets		
Non-Current Assets		
Property, Plant and Equipment		
Property '1'	13,500	
Property '2'	<u>9,000</u>	22,500
Investment Properties		
Property '3'		10,800

Case 2: Venus Ltd. has applied the Revaluation Model to an entire class of property, plant and equipment.

Balance Sheet (extracts) as at 31st March, 20X2

₹

Assets		
Non-Current Assets		
Property, Plant and Equipment		
Property '1'	16,000	
Property '2'	<u>11,000</u>	27,000
Investment Properties		
Property '3'		10,800

Equity and Liabilities		
Other Equity		
Revaluation Reserve		
Property '1' [16,000 – (15,000 – 1,500)]	2,500	
Property '2' [11,000 – (10,000 – 1,000)]	<u>2,000</u>	4,500

The revaluation reserve should be routed through Other Comprehensive Income (subsequently not reclassified to Profit and Loss) in Statement of Profit and Loss and shown in a separate column under Statement of Changes in Equity.

- (b) Inventory and debtors need to be classified in accordance with the requirement of Ind AS 1, which provides that an asset shall be classified as current if an entity expects to realise the same, or intends to sell or consume it in its normal operating cycle.
- (a) In this case, time lag between the purchase of inventory and its realisation into cash is 19 months [11 months + 8 months]. Both inventory and the debtors would be classified as current if the entity expects to realise these assets in its normal operating cycle.
- (b) No, the answer will be the same as the classification of debtors and inventory depends on the expectation of the entity to realise the same in the normal operating cycle. In this case,

time lag between the purchase of inventory and its realisation into cash is 28 months [15 months + 13 months]. Both inventory and debtors would be classified as current if the entity expects to realise these assets in the normal operating cycle.

- (c) As per Ind AS 23, Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Where, a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Accordingly, the treatment of Interest of ₹ 68.20 lacs occurred during the year 20X1-20X2 would be as follows:

(i) **When construction of asset completed on 30th April, 20X2**

The treatment for total borrowing cost of ₹ 68.20 lakh will be as follows:

Purpose	Nature	Interest to be capitalised	Interest to be charged to profit and loss account
		₹ in lakh	₹ in lakh
Modernisation and renovation of plant and machinery	Qualifying asset	$[68.20 \times (510/620)] = 56.10$	
Advance to suppliers for additional assets	Qualifying asset	$[68.20 \times (54/620)] = 5.94$	
Working Capital	Not a qualifying asset		$[68.20 \times (56/620)] = 6.16$
		<u>62.04</u>	<u>6.16</u>

(ii) **When construction of assets is completed by 28th February, 20X2**

When the process of renovation gets completed in less than 12 months, the plant and machinery and the additional assets will not be considered as qualifying assets (until and unless the entity specifically considers that the assets took substantial period of time for completing their construction). Accordingly, the whole of interest will be required to be charged off / expensed off to Profit and loss account.

5. (a) (i) Determination of how revenue is to be recognised in the books of ABC Ltd. as per expected value method

Calculation of probability weighted sales volume

Sales volume (units)	Probability	Probability-weighted sales volume (units)
9,000	15%	1,350
28,000	75%	21,000
36,000	10%	<u>3,600</u>
		<u>25,950</u>

Calculation of probability weighted sales value

Sales volume (units)	Sales price per unit (₹)	Probability	Probability-weighted sales value (₹)
9,000	90	15%	1,21,500

28,000	80	75%	16,80,000
36,000	70	10%	<u>2,52,000</u>
			<u>20,53,500</u>

Average unit price = Probability weighted sales value/ Probability weighted sales volume
= 20,53,500 / 25,950 = ₹ 79.13 per unit

Revenue is recognised at ₹ 79.13 for each unit sold. First 10,000 units sold will be booked at ₹ 90 per unit and liability is accrued for the difference price of ₹ 10.87 per unit (₹ 90 – ₹ 79.13), which will be reversed upon subsequent sales of 15,950 units (as the question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the expected value method for the financial year 20X1-20X2). For, subsequent sale of 15,950 units, contract liability is accrued at ₹ 0.87 (80 – 79.13) per unit and revenue will be deferred.

(ii) Determination of how revenue is to be recognised in the books of ABC Ltd. as per most likely method

Transaction price will be:

28,000 units x ₹ 80 per unit = ₹ 22,40,000

Average unit price applicable = ₹ 80

First 10,000 units sold will be booked at ₹ 90 per unit and liability of ₹ 1,00,000 is accrued for the difference price of ₹ 10 per unit (₹ 90 – ₹ 80), which will be reversed upon subsequent sales of 18,000 units (as question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the most likely method for the financial year 20X1-20X2).

(iii) Journal Entries in the books of ABC Ltd.

(when revenue is accounted for as per expected value method for financial year 20X1-20X2)

ft		₹	₹
1.	Bank A/c (10,000 x ₹ 90) Dr. To Revenue A/c (10,000 x ₹ 79.13) To Liability (10,000 x ₹ 10.87) (Revenue recognised on sale of first 10,000 units)	9,00,000	7,91,300 1,08,700
2.	Bank A/c [(25,950 x ₹ 80) - 9,00,000] Dr. Liability Dr. To Revenue A/c (15,950 x ₹ 79.13) (Revenue recognised on sale of remaining 15,950 units (25,950 - 10,000). Amount paid by the customer will be the balance amount after adjusting the excess paid earlier since, the customer falls now in second slab)	11,76,000 86,124	12,62,124
3.	Liability (1,08,700 – 86,124) Dr. To Revenue A/c [25,950 x (80-79.13)] (On reversal of liability at the end of the financial year 20X1-20X2 i.e. after completion of stipulated time)	22,576	22,576

Alternatively, in place of first two entries, one consolidated entry may be passed as follows:

Bank A/c (25,950 x ₹ 80)	Dr.	20,76,000	
To Revenue A/c (25,950 x ₹ 79.13)			20,53,424
To Liability (25,950 x ₹ 0.87)			22,576
(Revenue recognised on sale of 25,950 units)			

Note: In 2nd journal entry, it is assumed that the customer had paid balance amount of ₹ 11,76,000 after adjusting excess ₹ 1,00,000 paid with first lot of sale of 10,000 unit. However, one can pass journal entry with total sales value of ₹ 12,76,000 (15,950 units x ₹ 80 per unit) and later on pass third entry for refund. In such a situation, alternatively, 2nd and 3rd entries would be as follows:

Bank A/c (15,950 x ₹ 80)	Dr.	12,76,000	
To Revenue A/c (15,950 x ₹ 79.13)			12,62,124
To Liability			13,876
(Revenue recognised on sale of remaining 15,950 units (25,950 - 10,000))			
Liability (1,08,700 + 13,876)	Dr.	1,22,576	
To Revenue A/c [25,950 x (80-79.13)]			22,576
To Bank			1,00,000
(On reversal of liability at the end of the financial year 20X1-20X2 i.e. after completion of stipulated time and excess amount refunded)			

- (b) (i) An earnings-based valuation of Entity A's holding of shares in company XYZ could be calculated as follows:

Particulars	Unit
Entity XYZ's after-tax maintainable profits (A)	₹ 70,000
Price/Earnings ratio (B)	15
Adjusted discount factor (C) (1- 0.20)	0.80
Value of Company XYZ (A) x (B) x (C)	₹ 8,40,000

Value of a share of XYZ = ₹ 8,40,000 ÷ 5,000 shares = ₹ 168

The fair value of Entity A's investment in XYZ's shares is estimated at ₹ 42,000 (that is, 250 shares × ₹ 168 per share).

- (ii) Share price = ₹ 8,50,000 ÷ 5,000 shares = ₹ 170 per share.

The fair value of Entity A's investment in XYZ shares is estimated to be ₹ 42,500 (250 shares × ₹ 170 per share).

6. (a)

Description	Calculation or reason	₹
Purchase price	₹ 600,000 purchase price minus ₹ 50,000 refundable purchase taxes	550,000
Loan raising fee	Offset against the measurement of the liability	-

Transport cost	Directly attributable expenditure	20,000
Installation costs	Directly attributable expenditure	100,000
Environmental restoration costs	The obligation to dismantle and restore the environment arose from the installation of the equipment	100,000
Preparation costs	₹ 55,000 materials + ₹ 65,000 labour + ₹ 15,000 depreciation	135,000
Training costs	Recognised as expenses in profit and loss account. The equipment was capable of operating in the manner intended by management without incurring the training costs.	-
Cost of testing	₹ 21,000 materials (ie net of the ₹ 3,000 recovered from the sale of the scrapped output) + ₹ 16,000 labour	37,000
Operating loss	Recognised as expenses in profit and loss account	-
Borrowing costs	Recognised as expenses in profit and loss account	-
Cost of equipment		9,42,000

- (b) As per paragraph 8(b) of Ind AS 40, any land held for currently undetermined future use, should be classified as an investment property. Hence, in this case, the land would be regarded as held for capital appreciation. Hence the land property should be classified by X Ltd as investment property in the financial statements as at 31 March 20X1.

As per Para 57 of the Standard, an entity can change the classification of any property to, and from, an investment property when and only when evidenced by a change in use. A change occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. Mere management's intention for use of the property does not provide evidence of a change in use.

Accordingly, the property in different cases would be classified as under:

- Since X Ltd has commenced construction of office building on it for own use, the property should be reclassified from investment property to owner occupied as at 31 March 20X2.
- As per Para 59, transfers between investment property, owner occupied and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or disclosure purposes.
- No. The change in classification to, or from, investment properties is due to change in use of the property. No retrospective application is required and prior period's financial statements need not be re-stated.
- Mere management intentions for use of the property do not evidence change in use. Since X Ltd has no plans to commence construction of the office building during 20X1-20X2, the property should continue to be classified as an investment property by X Ltd. in its financial statements as at 31 March 20X2.

(c) Either

Ind AS 37 "*Provisions, Contingent Liabilities and Contingent Assets*" defines an 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.

Paragraph 68 of Ind AS 37 states that the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

In the instant case, cost of fulfilling the contract is ₹ 0.5 million (₹ 2.5 million – ₹ 2 million) and cost of exiting from the contract by paying penalty is ₹ 0.25 million.

In accordance with the above reproduced paragraph, it is an onerous contract as cost of meeting the contract exceeds the economic benefits.

Therefore, the provision should be recognised at the best estimate of the unavoidable cost, which is lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, i.e., at ₹ 0.25 million (lower of ₹ 0.25 million and ₹ 0.5 million).

(c) OR

A Ltd. will recognise a non-monetary contract liability amounting ₹ 1,440 million, by translating USD 20 million at the exchange rate on 1st January, 20X1 ie ₹ 72 per USD.

A Ltd. will recognise revenue at 31st March, 20X1 (that is, the date on which it transfers the goods to the customer).

A Ltd. determines that the date of the transaction for the revenue relating to the advance consideration of USD 20 million is 1st January, 20X1. Applying paragraph 22 of Ind AS 21, A Ltd. determines that the date of the transaction for the remainder of the revenue as 31st March, 20X1.

On 31st March, 20X1, A Ltd. will:

- derecognise the non-monetary contract liability of USD 20 million and recognise USD 20 million of revenue using the exchange rate as at 1st January, 20X1 ie ₹ 72 per USD; and
- recognise revenue and a receivable for the remaining USD 30 million, using the exchange rate on 31st March, 20X1 ie ₹ 75 per USD.
- the receivable of USD 30 million is a monetary item, so it should be translated using the closing rate until the receivable is settled.