Test Series: October, 2022

MOCK TEST PAPER 2

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWERS

1. (a) **Identification of the contract (by applying para 9 of Ind AS 116)**

(a) Identified asset

Feel Fresh Ltd. (a customer company) enters into a long-term purchase contract with M/s Radhey (a manufacturer) to purchase a particular type and quality of soaps for 10 year period.

Since for the purpose of the contract M/s Radhey has to buy a customized machine as per the directions of Feel Fresh Ltd. and also the machine cannot be used for any other type of soap, the machine is an identified asset.

(b) Right to obtain substantially all of the economic benefits from use of the asset throughout the period of use

Since the machine cannot be used for manufacture of soap for any other buyer, Feel Fresh Ltd. will obtain substantially all the economic benefits from the use of the asset throughout the period of use.

(c) Right to direct the use

Feel Fresh Ltd. controls the use of machine and directs the terms and conditions of the contract with respect to recovery of fixed expenses related to machine.

Hence the contract contains a lease.

Lease term

The lease term shall be 10 years assuming reasonable certainty. Though the lessee is not contractually bound till 10th year, i.e., the lessee can refuse to make payment anytime without lessor's permission but, it is assumed that the lessee is reasonably certain that it will not exercise this option to terminate.

Identification of lease payment

Lease payments are defined as payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the following:

(a) fixed payments (including in-substance fixed payments), **less** any lease incentives

(b) variable lease payments that depend on an index or a rate

(c) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option

(d) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

Here in-substance fixed payments in the given lease contract are ₹ 1,74,015 p.a. The present value of lease payment which would be recovered in 8 years @ 8% would be ₹ 10,00,000 (approx.)

Variable lease payments that do not depend on an index or rate and are not, in substance, fixed are not included as lease payments. Instead, they are recognised in profit or loss in the period in which the event that triggers the payment occurs (unless they are included in the carrying amount of another asset in accordance with other Ind AS).

Hence, lease liability will be recognized by ₹ 10,00,000 in the books of Feel Fresh Ltd. Since there are no payments made to lessor before commencement date less lease incentives received from lessor or initial direct costs incurred by lessee or estimate of costs for restoration / dismantling of underlying asset, the right of use asset is equal to lease liability.

Journal Entries

On initial recognition

ROU Asset	Dr.	10,00,000	
To Lease Liability			10,00,000
To initially recognise the Lease Liability and the corresponding ROU Asset			

At the end of the first year

Interest Expense	Dr.	80,000	
To Lease Liability			80,000
To record interest expense and accrete the lease liability using the effective interest method (₹ 10,00,000 x 8%)			
Depreciation Expense (10,00,000 / 10 years)	Dr.	1,00,000	
To ROU Asset			1,00,000
To record depreciation on ROU using the straight-line method (₹ 10,00,000 / 10 years)			
Lease Liability	Dr.	1,74,015	
To Bank / M/s. Radhey			1,74,015
To record lease payment			
Cost of soap	Dr.	24,75,000	
To Bank / M/s. Radhey {5,50,000 x (4 + 0.5)}			24,75,000
To record variable expenses paid as cost of the goods purchased			

(b) Paragraph 10 of Ind AS 110 'Consolidated Financial Statements', states that an investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns.

As per the facts given in the question, High Speed Ltd. has 15 days to exercise the option to purchase 25% additional stake in Fast Move Ltd. which will give it majority voting rights of 55% (30% + 25%). This is a substantive potential voting rights which is currently exercisable.

Further, the decisions on relevant activities of Fast Move Ltd. are made in AGM / EGM. An AGM/ EGM can be called by giving atleast 21 days advance notice. A resolution in AGM / EGM is passed when more than 50% votes are casted in favour of the resolution. Thus, the existing shareholders of Fast Move Ltd. are unable to change the existing policies over the relevant activities before the exercise of option by High Speed Ltd.

High Speed Ltd. can exercise the option and get voting rights of more than 50% at the date of AGM/ EGM. Accordingly, the option contract gives High Speed Ltd. the current ability to direct the relevant activities even before the option contract is settled. Therefore, High Speed Ltd. controls Fast Move Ltd. as at 1st June, 20X1.

2. (a) **Cheery Limited**

Extract from the Statement of Profit and Loss

		(Restated)
	20X4-20X5	**20X3-20X4**
	₹	**₹**
Sales	1,04,000	73,500
Cost of goods sold	(80,000)	(60,000)
Profit before income taxes	**24,000**	**13,500**
Income tax @ 30%	(7,200)	(4,050)
Profit	**16,800**	**9,450**
Basic and diluted EPS	3.36	1.89

Cheery Limited

Statement of Changes in Equity

	Share capital	**Retained earnings**	**Total**
Balance at 31st March, 20X3	50,000	20,000	70,000
Profit for the year ended 31st March, 20X4 as restated		9,450	9,450
Balance at 31st March, 20X4	**50,000**	**29,450**	**79,450**
Profit for the year ended 31st March, 20X5		16,800	16,800
Balance at 31st March, 20X5	**50,000**	**46,250**	**96,250**

Extract from the Notes

Some products that had been sold in 20X3-20X4 were incorrectly included in inventory at 31st March, 20X4 at ₹ 6,500. The financial statements of 20X3-20X4 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below:

	Effect on 20X3-20X4
(Increase) in cost of goods sold	(6,500)
Decrease in income tax expenses (6,000 – 4,050)	1,950
(Decrease) in profit (14,000 – 9,450)	(4,550)
(Decrease) in basic and diluted EPS (2.8 – 1.89)	(0.91)
(Decrease) in inventory	(6,500)
Decrease in income tax payable	1,950
(Decrease) in equity	(4,550)

There is no effect on the balance sheet at the beginning of the preceding period i.e. 1st April, 20X3.

(b) Computation of amounts to be recognized in the P&L and OCI:

Particulars	*USD*	*Exchange rate*	*₹*
Cost of the bond	1,000	40	40,000
Interest accrued @ 10% p.a.	100	42	4,200

Interest received (USD 1,250 x 4.7%)	(59)	45	(2,655)
Amortized cost at year-end	1,041	45	46,845
Fair value at year end	1,060	45	47,700
Interest income to be recognized in P & L			4,200
Exchange gain on the principal amount [1,000 x (45-40)]			5,000
Exchange gain on interest accrual [100 x (45 - 42)]			300
Total exchange gain/loss to be recognized in P&L			5,300
Fair value gain to be recognized in OCI [45 x (1,060 - 1,041)]			855

Journal entry to recognize gain/loss

Bond (₹ 47,700 – ₹ 40,000)	Dr.	7,700	
Bank (Interest received)	Dr.	2,655	
To Interest Income (P & L)			4,200
To Exchange gain (P & L)			5,300
To OCI (fair value gain)			855

3. (a) Calculation of Investor Ltd.'s investment in XYZ Ltd. under equity method:

	₹	₹
Cost of investment		47,50,000
Acquisition of investment in XYZ Ltd.		
Share in book value of XYZ Ltd.'s net assets (35% of ₹ 90,00,000)	31,50,000	
Share in fair valuation of XYZ Ltd.'s net assets [35% of (₹ 1,10,00,000 – ₹ 90,00,000)]	7,00,000	38,50,000
Goodwill on investment in XYZ Ltd. (balancing figure)		**9,00,000**

Cost of investment		**47,50,000**
Profit during the year		
Share in the profit reported by XYZ Ltd. (35% of ₹ 8,00,000)	2,80,000	
Adjustment to reflect effect of fair valuation [35% of (₹ 20,00,000/10 years)]	(70,000)	
Share of profit in XYZ Ltd. recognised in income by Investor Ltd.		**2,10,000**
Long term equity investment		
FVTOCI gain recognised in OCI (35% of ₹ 2,00,000)		70,000
Dividend received by Investor Ltd. during the year [35% of ₹ 12,00,000]		(4,20,000)
Closing balance of Investor Ltd.'s investment in XYZ Ltd.		**46,10,000**

(b) Paragraph 27 of Ind AS 102 requires the entity to recognise the effects of repricing that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

If the repricing increases the fair value of the equity instruments granted paragraph B43(a) of Appendix B requires the entity to include the incremental fair value granted (ie the difference between the fair value of the repriced equity instrument and that of the original equity instrument, both estimated as at the date of the modification) in the measurement of the amount recognised for services received as consideration for the equity instruments granted.

If the repricing occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the repricing date until the date when the repriced equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

Accordingly, the amounts recognised in years 1 and 2 are as follows:

Year	Calculation	Compensation expense for period	Cumulative compensation expense
		₹	₹
1	[1,850 employees× 1,000 options × ₹ 1.20] × $^{1}/_{3}$	7,40,000	7,40,000
2	(1,840 employees× 1,000 options × [(₹1.20× $^{2}/_{3}$)+ {(₹1.05 - 0.90) ×0.5/1.5}] – 7,40,000	8,24,000	15,64,000

Note: Year 3 calculations have not been provided as it was not required in the question.

(c) (a) Because the unrealised gain on revaluation of the equity investment is not taxable until sold, there are no current tax consequences. The tax base of the investment is ₹ 2,00,000. The revaluation creates a taxable temporary difference of ₹ 40,000 (₹ 2,40,000 – ₹ 2,00,000).

This creates a deferred tax liability of ₹ 10,000 (₹ 40,000 x 25%). The liability would be non-current. The fact that there is no intention to dispose of the investment does not affect the accounting treatment. Since, the unrealised gain is reported in other comprehensive income, the related deferred tax expense is also reported in other comprehensive income.

(b) When K Ltd. sold the products to A Ltd., K Ltd. would have generated a taxable profit of ₹ 16,000 (₹ 80,000 – ₹ 64,000). This would have created a current tax liability for K Ltd and the group of ₹ 4,000 (₹ 16,000 x 25%). This liability would be shown as a current liability and charged as an expense in arriving at profit or loss for the period.

In the consolidated financial statements the carrying value of the unsold inventory would be ₹ 38,400 (₹ 64,000 x 60%). The tax base of the unsold inventory would be ₹ 48,000 (₹ 80,000 x 60%). In the consolidated financial statements there would be a deductible temporary difference of ₹ 9,600 (₹ 38,400 – ₹ 48,000) and a potential deferred tax asset of ₹ 2,400 (₹ 9,600 x 25%). This would be recognised as a deferred tax asset since A Ltd. is expected to generate sufficient taxable profits against which to utilise the deductible temporary difference. The resulting credit would reduce consolidated deferred tax expense in arriving at profit or loss.

(c) The receipt of revenue in advance on 1st October 20X1 would create a current tax liability of ₹ 50,000 (₹ 2,00,000 x 25%) as at 31st March 20X2. The carrying value of the revenue received in advance at 31st March 20X2 is ₹ 80,000 (₹ 2,00,000 – ₹ 120,000). Its tax base is nil. The deductible temporary difference of ₹ 80,000 would create a deferred tax asset of ₹ 20,000 (₹ 80,000 x 25%). The asset can be recognised because K Ltd. has sufficient taxable profits against which to utilise the deductible temporary difference.

4. (a) **<u>For the year 20X1-20X2</u>**

S Limited accounts for the promised bundle of goods and services as a single performance obligation satisfied over time in accordance with Ind AS 115. At the inception of the contract, S Limited expects the following:

Transaction price – ₹ 20,00,000

Expected costs – ₹ 11,00,000

Expected profit (45%) – ₹ 9,00,000

At contract inception, S Limited excludes the ₹ 2,50,000 bonus from the transaction price because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Completion of the heavy-duty equipment is highly susceptible to factors outside the entity's influence.

By the end of the first year, the entity has satisfied 65% of its performance obligation on the basis of costs incurred to date. Costs incurred to date are therefore ₹ 7,15,000 and

S Limited reassesses the variable consideration and concludes that the amount is still constrained. Therefore at 31st March, 20X2, the following would be recognised:

Revenue (A) – ₹ 13,00,000 (₹ 20,00,000 x 65%)

Costs (B) – ₹ 7,15,000 (₹ 11,00,000 x 65%)

Gross profit (C) i.e.(A-B) – ₹ 5,85,000

<u>For the year 20X2-20X3</u>

On 4th June, 20X2, the contract is modified. As a result, the fixed consideration and expected costs increase by ₹ 1,50,000 and ₹ 80,000, respectively.

The total potential consideration after the modification is ₹ 24,00,000 which is ₹ 21,50,000 fixed consideration + ₹ 2,50,000 completion bonus. In addition, the allowable time for achieving the bonus is extended by six months with the result that S Limited concludes that it is highly probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognised in accordance with Ind AS 115. Therefore, the bonus of ₹ 2,50,000 can be included in the transaction price.

S Limited also concludes that the contract remains a single performance obligation. Thus, S Limited accounts for the contract modification as if it were part of the original contract. Therefore, S Limited updates its estimates of costs and revenue as follows:

S Limited has satisfied 60.60% of its performance obligation (₹ 7,15,000 actual costs incurred compared to ₹ 11,80,000 total expected costs). The entity recognises additional revenue of ₹ 1,54,400 [(60.60% of ₹ 24,00,000) – ₹ 13,00,000 revenue recognised to date] at the date of modification i.e. on 4th June, 20X2 as a cumulative catch-up adjustment.

(b) The weighted average number of shares for calculation of EPS for the year 20X1-20X2 will be as follows:

S. No.	Date	Particulars	No of shares	No of days shares were outstanding	Weighted average no of shares
1	1st April, 20X1	Opening balance of outstanding equity shares	1,00,000	365	1,00,000
2	15th June, 20X1	Issue of equity shares	75,000	290	59,589
3	8th November, 20X1	Conversion of convertible preference shares in Equity	50,000	144	19,726

4	22nd February, 20X2	Buy back of shares	(20,000)	(38)*	(2,082)
5	31st March, 20X2	Closing balance of outstanding equity shares	2,05,000		1,77,233

* These shares had already been considered in the shares issued. The same has been deducted assuming that the bought back shares have been extinguished immediately.

(c) An intangible asset is an identifiable non-monetary asset without physical substance.

For considering an asset as an intangible asset, an entity must be able to demonstrate that the item satisfies the criteria of identifiability, control over a resource and existence of future economic benefits.

In the given case, the franchise right meets the identifiability criterion as it is arising from contract to purchase the franchise right for 10 years. In addition, X Ltd. will have future economic benefits and control over them from the franchise right. Accordingly, the franchise right meets the definition of intangible asset. The same can be recognised if the following recognition criteria laid down in para 21 of Ind AS 38 is met:

An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.

In the instant case, identifiability criterion is fulfilled, future economic benefits from franchise right are expected to flow to the entity and cost can also be measured reliably. Therefore, X Ltd. should recognise the franchise right as an intangible asset.

5. (a) Consolidated Balance Sheet of the Group as at 31st March, 20X2

Particulars	*Note No.*	*₹ in lakh*
ASSETS		
Non-current assets		
Property, plant and equipment	1	4,500.00
Current assets		
(a) Inventories	2	3,140.00
(b) Financial assets		
Trade receivables	3	2,305.00
Bills receivables	4	655.00
Cash and cash equivalents	5	1,325.00
Total assets		**11,925.00**
EQUITY & LIABILITIES		
Equity attributable to owners of parent		
Share Capital		3,400.00
Other Equity	6	2,893.10
Non-controlling interests (W.N.4)		1,216.90

LIABILITIES		
Non-current liabilities		Nil
Current liabilities		
(a) Financial Liabilities		
Trade payables	7	4,415.00
Total equity and liabilities		**11,925.00**

Notes to Accounts ***(₹ in lakh)***

1.	**Property Plant & Equipment**		
	LX Ltd.	1,500	
	MX Ltd.	1,600	
	NX Ltd.	1,400	4,500
2.	**Inventories**		
	LX Ltd.	1,230	
	MX Ltd.	730	
	NX Ltd.	1,180	3,140
3.	**Trade Receivables**		
	LX Ltd.	1,415	
	MX Ltd.	270	
	NX Ltd.	620	2,305
4.	**Bills Receivables**		
	LX Ltd.	650	
	MX Ltd. (60-55)	5	655
5.	**Cash & Cash equivalents**		
	LX Ltd.	1,085	
	MX Ltd.	90	
	NX Ltd.	150	1,325
6.	**Other Equity**		
	Reserve (W.N.5)	1,207.80	
	Retained earnings (W.N.5)	1,172.80	
	Capital Reserve (W.N.3)	512.50	2,893.10
7.	**Trade Payables**		
	LX Ltd.	2,920	
	MX Ltd.	690	
	NX Ltd.	805	4,415

Working Notes:

1. Analysis of Reserves and Surplus ***(₹ in lakh)***

	MX Ltd.		NX Ltd.
Reserves as on 1.4.20X1	760		520
Increase during the year 20X1-20X2 (580 - 520)		60	

Increase for the half year till 30.9.20X1		____		30
Balance on acquisition date	(A)	760		550
Total balance as on 31.3.20X2		810		580
Post-acquisition balance		50		30
Retained Earnings as on 1.4.20X1		480		150
Increase during the year 20X1-20X2 (310 - 150)			160	
Increase for the half year till 30.9.20X1		____		80
Balance on acquisition date	(B)	480		230
Total balance as on 31.3.20X2		600		310
Post-acquisition balance		120		80
Total balance on the acquisition date	(A+B)	1,240		780

2. Calculation of Effective Interest of LX Ltd. in NX Ltd.

Acquisition by LX Ltd. in MX Ltd. = 85%

Acquisition by MX Ltd. in NX Ltd. = 60%

Acquisition by Group in NX Ltd. (85% x 60%) = 51%

Non-controlling Interest = 49%

3. Calculation of Goodwill / Capital Reserve on the acquisition

	MX Ltd.	NX Ltd.
Investment or consideration	2,620.00	(1,350 x 85%) 1,147.50
Add: NCI at Fair value		
[(2,000 / 100) x 120 x 15%]	360.00	
[(1,600 / 100) x 125 x 49%]	-	980.00
	2,980.00	2,127.50
Less: Identifiable net assets (Share Capital + Increase in the Reserves and Surplus till acquisition date)	(2,000+760+480) (3,240.00)	(1,600+550+230) (2,380.00)
Capital Reserve	260.00	252.50
Total Capital Reserve (260 + 252.50)	512.50	

4. Calculation of Non-controlling Interest

	MX Ltd.	NX Ltd.
At Fair Value (See Note 3)	360.00	980.00
Add: Post Acquisition Reserves (W.N.1)	(50 x 15%) 7.50	(30 x 49%) 14.70
Add: Post Acquisition Retained Earnings (W.N.1)	(120 x 15%) 18.00	(80 x 49%) 39.20
Less: NCI share of investment in NX Ltd.	(1,350 x 15%) (202.50)*	-
	183.00	1,033.90
Total (183.00 + 1,033.90)		1,216.90

***Note:** The non-controlling interest in MX Ltd. will take its proportion in NX Ltd. Therefore, they have to bear their proportion in the investment by MX Ltd. (in NX Ltd.) also.

5. **Calculation of Consolidated Other Equity**

	Reserves	Retained Earnings
LX Ltd.	1,150.00	1,030.00
Add: Share in MX Ltd.	(50 x 85%) 42.50	(120 x 85%) 102.00
Add: Share in NX Ltd.	(30 x 51%) 15.30	(80 x 51%) 40.80
	1,207.80	1,172.80

(b) (i) **False**. An integrated report may be prepared in response to existing compliance requirements and may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication.

(ii) **True.** The Framework is written ***primarily*** in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

(iii) **True.** If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.

(iv) **False.** An integrated report should include all material matters, both positive and negative, in a balanced way and without material error. Both the increases and reductions in the value of the important capital should be reflected. Where the information is not perfectly accurate, estimates should be used and appropriate processes should be in place to insure that the risk of material misstatement is reduced.

6. (a) As per requirement of Ind AS 109, a financial instrument is initially measured and recorded at its fair value. Therefore, considering the market rate of interest of similar loan available to Simran is 12%, the fair value of the contractual cash flows shall be as follows: *Amount in ₹*

	Inflows					
Date	*Principal*	*Interest income 8%*	*Interest income 5%*	*Total inflow*	*Discount factor @ 12%*	*PV*
31.03.20X2	3,00,000	48,000	15,000	3,63,000	0.893	3,24,159
31.03.20X3	3,00,000	24,000	15,000	3,39,000	0.797	2,70,183
31.03.20X4	3,00,000	-	15,000	3,15,000	0.712	2,24,280
Total (fair value)						8,18,622

Benefit to Simran, to be considered as part of employee cost for Lovely Ltd. ₹ 81,378 (9,00,000 – 8,18,622).

The deemed employee cost is to be amortised over the period of loan i.e. the minimum period that Simran must remain in service.

The amortization schedule of the ₹ 8,18,622 loan is shown in the following table: *Amount in ₹*

Date	*Opening outstanding Loan*	*Total cash inflows (principal repayment + interest*	*Interest @ 12%*	*Closing outstanding Loan*
1.4.20X1	8,18,622			8,18,622
31.3.20X2	8,18,622	3,63,000	98,235	5,53,857
31.3.20X3	5,53,857	3,39,000	66,463	2,81,320
31.3.20X4	2,81,320	3,15,000	33,680*	Nil

* Difference is due to approximation of discounting factor and interest amount.

Journal Entries to be recorded at every period end:

a. **1st April, 20X1**

Particulars	*Dr. (₹)*	*Cr. (₹)*
Loan to employee A/c Dr.	8,18,622	
Pre-paid employee cost A/c Dr.	81,378	
To Bank A/c		9,00,000
(Being loan asset recorded at initial fair value)		

b. **31st March, 20X2**

Particulars	*Dr. (₹)*	*Cr. (₹)*
Bank A/c Dr.	3,63,000	
To Interest income A/c		98,235
To Loan to employee A/c		2,64,765
(Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)		
Employee benefit A/c Dr.	27,126	
To Pre-paid employee cost A/c		27,126
(Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost on straight line basis)		

c. On 31st March, 20X3, due to pre-payment of a part of loan by Simran, the carrying value of the loan shall be re-computed by discounting the future remaining cash flows by the original effective interest rate.

There shall be two sets of accounting entries on 31st March, 20X3, first the realisation of the contractual cash flow as shown below and then the accounting for the pre-payment of ₹ 1,00,000 included in (d) below:

31st March, 20X3

Particulars	*Dr. (₹)*	*Cr. (₹)*
Bank A/c Dr.	3,39,000	
To Interest income A/c		66,463
To Loan to employee A/c		2,72,537
(Being second instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)		
Employee benefit (profit and loss) A/c Dr.	27,126	
To Pre-paid employee cost A/c		27,126
(Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)		

Computation of new carrying value of loan to employee:

	Inflows				
Date	*Principal*	*Interest income 8%*	*Interest income 5%*	*Discount factor @12%*	*PV*
31.3.20X4	200,000	-	10,000	0.893	1,87,530
Total (revised carrying value)					1,87,530

Less: Current carrying value	(2,81,320)
Adjustment required	93,790

The difference between the amount of pre-payment and adjustment to loan shall be considered a gain, though will be recorded as an adjustment to pre-paid employee cost, which shall be amortised over the remaining tenure of the loan.

31st March, 20X3 prepayment

Particulars	*Dr. (₹)*	*Cr. (₹)*
Bank A/c Dr.	1,00,000	
To Pre-paid employee cost A/c		6,210
To Loan to employee A/c		93,790
(Being gain to Lovely Limited recorded as an adjustment to pre-paid employee cost)		

The amortisation schedule of the new carrying amount of loan shall be as follows:

Date	*Loan outstanding*	*Total cash inflows (principal repayment + interest)*	*Interest @ 12%*
31.3.20X3	1,87,530		
31.3.20X4	-	2,10,000	22,470

Amortisation of employee benefit cost shall be as follows:

Date	*Opening Balance*	*Amortised to P&L*	*Adjustment*	*Closing balance*
1.4.20X1	81,378			81,378
31.3.20X2	81,378	27,126		54,252
31.3.20X3	54,252	27,126	6,210	20,916
31.3.20X4	20,916	20,916		Nil

d. **31st March, 20X4 –**

Particulars	*Dr. (₹)*	*Cr. (₹)*
Bank A/c Dr.	2,10,000	
To Interest income (profit and loss) @ 12% A/c		22,470
To Loan to employee A/c		1,87,530
(Being last instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)		
Employee benefit (profit and loss) A/c Dr.	20,916	
To Pre-paid employee cost A/c		20,916
(Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)		

(b) **Either**

Note: Students may answer any 5 points out of the 11 points mentioned below.

S. No.	Particulars	Ind AS 24	AS 18
1.	*Definition of Relative*	Ind AS 24 uses the term "a close member of the family of a person".	AS 18 uses the term "relatives of an individual"
		Definition of close members of family as per Ind AS 24 includes those family members, who may be expected to influence, or be influenced by, that person in their dealings with the entity, including: (a) that person's children, spouse or domestic partner, brother, sister, father and mother; (b) children of that person's spouse or domestic partner; and (c) dependents of that person or that person's spouse or domestic partner. Hence, the definition as per Ind AS 24 is much wider.	AS 18 covers the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.
2.	*State Controlled Enterprise:*	Ind AS 24, there is extended coverage of Government Enterprises, as it defines a government-related entity as "an entity that is controlled, jointly controlled or significantly influenced by a government." Further, "Government refers to government, government agencies and similar bodies whether local, national or international."	AS 18 defines state-controlled enterprise as *"an enterprise which is under the control of the Central Government and/or any State Government(s)*".
3.	*Key Management Personnel*	Ind AS 24 covers KMP of the parent as well. Ind AS 24 also covers the entity, or any member of a group of which it is a part, providing key management personnel services to the reporting entity or to the parent of the reporting entity	AS 18 covers key management personnel (KMP) of the entity only
4.	*Related Parties in case of Joint Venture*	Under Ind AS 24 there is extended coverage in case of joint ventures. Two entities are related to each other in both their financial statements, if they are either co-	As per AS 18, co-venturers or co-associates are not related to each other.

		venturers or one is a venturer and the other is an associate.	
5.	*Effect of influences which do not lead to transactions*	Ind AS 24 does not specifically mention this.	AS 18 mentions that where there is an inherent difficulty for management to determine the effect of influences which do not lead to transactions, disclosure of such effects is not required
6.	*Post-employment Benefits*	Ind AS 24 specifically includes post-employment benefit plans for the benefit of employees of an entity or its related entity as related parties.	AS 18 does not specifically cover entities that are post-employment benefit plans, as related parties.
7.	*Next Most Senior Parent*	Ind AS 24 requires an additional disclosure as to the name of the next most senior parent which produces consolidated financial statements for public use.	AS 18 has no such requirement.
8.	*Disclosure for Compensation*	Ind AS 24 requires extended disclosures for compensation of KMP under different categories.	AS 18 does not specifically require
9.	*Disclosure of 'Amount of the Transactions' vs 'Volume of the Transactions*	Ind AS 24 requires "the amount of the transactions" need to be disclosed.	AS 18 gives an option to disclose the "Volume of the transactions either as an amount or as an appropriate proportion".
10.	*Government Related Entities:*	Ind AS 24 requires disclosures of certain information by the government related entities.	AS 18 presently exempts the disclosure of such information.
11.	*Clarification of Control, Substantial Interest and Significant Influence*	Ind AS 24 neither defines these terms nor it includes such clarificatory text and allows respective standards to deal with the same.	AS 18 includes definition and clarificatory text, primarily with regard to control, substantial interest (including 20% threshold), significant influence (including 20% threshold)

(b) **OR**

Equity: Equity claims are claims on the residual interest in the assets of the entity after deducting all its liabilities. In other words, they are claims against the entity that do not meet the definition of a liability.

Income and Expenses: Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.

Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.

Income and expenses are the elements of financial statements that relate to an entity's financial performance. Users of financial statements need information about both an entity's financial position and its financial performance. Hence, although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities.

Different transactions and other events generate income and expenses with different characteristics. Providing information separately about income and expenses with different characteristics can help users of financial statements to understand the entity's financial performance.