

PAPER –1: FINANCIAL REPORTING

PART I

RELEVANT AMENDMENTS, NOTIFICATIONS AND ANNOUNCEMENTS

A. Not Applicable for November, 2021 Examination

1. Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities has been withdrawn on 6th July, 2020 by the Institute. Hence, the same has been removed from the list of Guidance Notes applicable for November, 2021. Students are advised not to study the same for November, 2021 examination.
2. Amendments issued by MCA and notified by the Central Government on 24th March, 2021 w.r.t Amendments to Division I of Schedule III to the Companies Act, 2013 has not been made applicable for November, 2021 Examination.
3. Also, the Announcement relating to 'Revision in Criteria for classification of non-company entities for applicability of Accounting Standards' (decision of the Council of the ICAI, taken at its 400th meeting, held on March 18-19, 2021) has not been made applicable for November, 2021 Examination.
4. Any relevant amendment notified by the statute after 30th April, 2021 is not applicable for November, 2021 examination.

B. Applicable for November, 2021 Examination

1. Significant amendments in certain Ind AS notified by the MCA on 24th July, 2020

Headings	Details
Definition of 'Material' in Ind AS 1	<p>Earlier definition of Material has been improvised as follows:</p> <p>“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”</p> <p>Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.</p> <p>Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or</p>

	<p>misstating that information. The following are examples of circumstances that may result in material information being obscured:</p> <ul style="list-style-type: none"> (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear; (b) information regarding a material item, transaction or other event is scattered throughout the financial statements; (c) dissimilar items, transactions or other events are inappropriately aggregated; (d) similar items, transactions or other events are inappropriately disaggregated; and (e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material. <p>Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.</p> <p>Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.</p>
<p>Definition of 'Business' in Ind AS 103</p>	<p>Currently, Ind AS 103 defines business as 'an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants'.</p>

	<p>As per the revised definition,</p> <p>Business is 'an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities'.</p> <p>Related amendment has been made to the definition of 'output' as an element of business.</p> <ul style="list-style-type: none">- Elements of a business: The three elements of a business as defined under Ind AS 103 include, inputs, processes applied to those inputs and outputs. Although businesses usually have outputs, outputs are not essential for an integrated set of activities and assets to qualify as a business. <p>In order to be considered as a business, the amendments have clarified that an integrated set of activities and assets must include, at a minimum, an input and a <i>substantive process</i> that together significantly contribute to the ability to create output. Further, if an acquired set of activities and assets has outputs, continuation of revenue does not on its own indicate that both an input and a substantive process have been acquired.</p> <ul style="list-style-type: none">- Optional concentration test: The amendments include an election to use a 'concentration test'. This is a simplified assessment that would result in an acquisition to qualify as an asset acquisition. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. <p>An entity may elect to apply, or not to apply, the concentration test. Such an election can be made separately for each transaction or other event.</p> <p>If the concentration test is not met or if the entity elects not to apply the test, then it assesses whether the set of assets and activities meet the definition of a business, such that it consists of an input and a substantive process that together significantly contribute to the ability to create outputs.</p>
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	<ul style="list-style-type: none">- Assessment of a substantive acquired process: The amendments prescribe how to assess whether an acquired process is substantive in the following situations:<ul style="list-style-type: none">- <i>A set of activities and assets do not have outputs at the acquisition date:</i> An example of an acquired set of activities and assets that do not have outputs at the acquisition date is an early-stage entity that has not started generating revenues. Accordingly, in such cases, an acquired process or a group of processes would be considered substantive only if both the given criteria are met:<ul style="list-style-type: none">a. It is critical to the ability to develop or convert an acquired input(s) into outputs andb. The inputs acquired include both an organised workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs that the organised workforce could develop or convert into outputs. Those other inputs could include:<ul style="list-style-type: none">i. Intellectual property that could be used to develop a good or serviceii. Other economic resources that could be developed to create outputs oriii. Rights to obtain access to necessary materials or rights that enable the creation of future outputs.- <i>A set of activities and assets have outputs at the acquisition date:</i> An acquired set of activities and assets would be considered to have outputs at the acquisition date, if it was generating revenue at that date, irrespective of the fact that subsequently it will no longer generate revenue from external customers as it will be integrated by the acquirer. Accordingly, in such cases, an acquired process or a group of processes would be considered <i>substantive only if, when applied to an acquired input or inputs, it:</i><ul style="list-style-type: none">a. Is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with
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	<p>the necessary skills, knowledge, or experience to perform that process (or group of processes) or</p> <p>b. Significantly contributes to the ability to continue producing outputs and:</p> <p>i. Is considered unique or scarce or</p> <p>ii. Cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.</p>
<p>Practical expedient permitting lessees not to account for COVID - 19 related rent concessions as a lease modification</p>	<p><u>Position before amendment:</u></p> <p>Ind AS 116 defines a lease modification as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. If a change in lease payments results from a lease modification, then unless the change meets particular criteria to be accounted for as a separate lease, a lessee is required to remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The amendment does not affect lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.</p> <p><u>Amendment:</u></p> <p>Under Ind AS 116, rent concessions often meet the definition of a lease modification. The accounting for lease modifications can be complex. For instance, the lessee may be required to calculate lease liabilities using a revised discount rate and adjust right-of-use assets. To address the challenge, in line with IASB, MCA has issued amendment to Ind AS 116 and introduces a practical expedient for lessees which allows a lessee not to account rent concessions as a direct consequence of COVID-19 as lease modifications.</p> <p>Following amendments have been made with respect to accounting of COVID-19 related rent concessions such as rent holidays and temporary rent reductions:</p> <p><i>As a practical expedient, a lessee may elect not to assess a rent concession as a lease modification only if <u>all</u> of the following conditions are met:</i></p>

	<p>a) <i>the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;</i></p> <p>b) <i>any reduction in lease payments affects only payments originally due on or before the 30th June, 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before the 30th June, 2021 and increased lease payments that extend beyond the 30th June, 2021); and</i></p> <p>c) <i>there is no substantive change to other terms and conditions of the lease.</i></p> <p><i>A lessee that makes this election shall account for any change in lease payments resulting from the rent concession as if the change were not a lease modification.</i></p> <p>Note: <i>The above practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and needs to be disclosed in the financial statements.</i></p>
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2. The Companies (Indian Accounting Standards) Second Amendments Rules, 2019 notified on 30th March, 2019

Headings	Details
Appendix C, Uncertainty over Income Tax Treatments, to Ind AS 12	<p>MCA has inserted a new Appendix C to Ind AS 12, <i>Uncertainty over Income Tax Treatments</i>. The appendix explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:</p> <ul style="list-style-type: none"> ➤ how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty; ➤ that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. detection risk should be ignored; ➤ that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment; ➤ that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending

	<p>on which method better predicts the resolution of the uncertainty; and</p> <ul style="list-style-type: none"> ➤ that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.
Amendments to Ind AS 12 – Income tax consequences of payments on financial instruments classified as equity	<p>The amendments clarify that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends. Previously, it was unclear whether the income tax consequences of dividends should be recognised in profit or loss, or in equity, and the scope of the existing guidance was ambiguous</p>
Amendments to Ind AS 19 – Plan amendment, curtailment or settlement	<p>The amendments to Ind AS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:</p> <ul style="list-style-type: none"> ➤ calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; ➤ any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling; and ➤ separately recognise any changes in the asset ceiling through other comprehensive income.
Amendments to Ind AS 23 – Borrowing costs eligible for capitalisation	<p>In computing the capitalisation rate for generally borrowed funds, the entity should exclude borrowing costs on borrowings which are specifically used for the purpose of obtaining a qualifying asset until that specific asset is ready for its intended use or sale. Once such specific asset is ready for its intended use or sale, borrowing costs related to borrowings of such asset shall be considered as part of general borrowing costs of the entity and be used for computation of capitalisation rate on general borrowings.</p>

<p>Amendment to Ind AS 28 - Long-term Interests in Associates and Joint Ventures</p>	<p>An entity's net investment in associate or joint venture includes investment in ordinary shares, other interests that are accounted using the equity method, and other long-term interests, such as preference shares and long-term receivables or loans, the settlement of which is neither planned nor likely to occur in the foreseeable future. These long-term interests are not accounted for in accordance with Ind AS 28, instead they are governed by the principles of Ind AS 109.</p> <p>As per para 10 of Ind AS 28, the carrying amount of entity's investment in its associate and joint venture increases or decreases (as per equity method) to recognise the entity's share of profit or loss of its investee associate and joint venture.</p> <p>Para 38 of Ind AS 38 further states that the losses that exceed the entity's investment in ordinary shares are applied to other components of the entity's interest in the associate or joint venture in the reverse order of their superiority.</p> <p>In this context, the amendments to Ind AS 28 clarify that the accounting for losses allocated to long-term interests would involve the dual application of Ind AS 28 and Ind AS 109. The annual sequence in which both standards are to be applied can be explained in a three step process:</p> <p>Step 1: Apply Ind AS 109 independently</p> <p>Apply Ind AS 109 (such as impairment, fair value adjustments etc.) ignoring any adjustments to carrying amount of long-term interests under Ind AS 28 (such as allocation of losses, impairment etc.)</p> <p>Step 2: True-up past allocations</p> <p>If necessary, prior years' Ind AS 28 loss allocation is trued up in the current year, because Ind AS 109 carrying value may have changed. This may involve recognizing more prior year's losses, reversing these losses or re-allocating them between different long-term interests.</p> <p>Step 3: Book current year equity share</p> <p>Any current year Ind AS 28 losses are allocated to the extent that the remaining long-term interest balance allows. Any current year Ind AS 28 profits reverse any unrecognized prior years' losses and then allocations are made against long-term interests.</p>
<p>Amendment to Ind AS 103 –</p>	<p>When a party to a joint operation, obtains control of a joint operation business, the transaction will be considered as a business combination</p>

Control over a joint operation achieved in stages	achieved in stages. The acquirer should re-measure its previously held interest in the joint operation at fair value at the acquisition date.
Amendment to Ind AS 109 – Prepayment Features with Negative Compensation	<p>Some prepayment options could result in other party being forced to accept negative compensation – e.g. the lender receives an amount less than the unpaid amounts of principal and interest if the borrower chooses to prepay.</p> <p>Earlier, these instruments were measured at FVTPL. However, now after amendment, such financial assets could be measured at amortised cost or at FVOCI if they meet the other relevant requirements of Ind AS 109. In other words, to qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.</p> <p>To be eligible for the exception, the fair value of the prepayment feature would have to be insignificant on initial recognition of the asset. If this is impracticable to assess based on the facts and circumstances that existed on initial recognition of the asset, then the exception would not be available. Also financial assets prepayable at current fair value would be measured at FVTPL.</p>
Amendment to Ind AS 111 – Joint control over a joint operation achieved in stages	The amendments clarify that the entity, who is a party to joint operation but was not having joint control earlier, now obtains joint control of a business that is a joint operation should not re-measure its previously held interest in the joint operation.

3. 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 ‘VII. 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.**

4. 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.

5. 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. **(Refer Annexure IV for overview of Ind AS 115)**
- 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.

6. 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.
7. **Notification of Ind AS 116 and withdrawal of Ind AS 17 alongwith the consequential amendments in other Ind AS and other amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 30th March, 2019. (Refer Annexure V for overview of Ind AS 116)**

Annexure IV**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	AS 7 and AS 9 do not provide any such overarching principle to

		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'.	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. 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,	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

		excluding amounts collected on behalf of third parties.	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	Ind AS 115 gives guidance on service concession	AS does not provide such

	Concession Arrangements	arrangements and disclosures thereof	guidance.
8.	Disclosure Requirements	Ind AS 115 contains detailed disclosure requirements.	Less disclosure requirements are prescribed in AS

Annexure V

Overview of Ind AS 116 “Leases”

Objective

Ind AS 116 sets out the principles for the recognition, measurement, presentation and disclosure of leases and faithful representation of the transactions by lessees and lessors. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Scope

The standard applies to all leases, including leases of right-of-use assets in a sublease, except for:

- (a) Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;
- (b) Leases of biological assets within the scope of Ind AS 41, Agriculture held by a lessee;
- (c) Service concession arrangements within the scope of Appendix D, Service Concession Arrangements of Ind AS 115, Revenue from Contracts with Customer;
- (d) Licences of intellectual property granted by a lessor within the scope of Ind AS 115, Revenue from Contracts with Customers; and
- (e) Rights held by a lessee under licensing agreements within the scope of Ind AS 38, Intangible Assets for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

A lessee may, but is not required to, apply Ind AS 116 to leases of intangible assets other than those described in point (e) above.

This Standard specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply this Standard to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements would not differ materially.

Recognition exemption

In addition to the above scope exclusions, a lessee can elect not to apply the recognition, measurement and presentation requirements of Ind AS 116 to short-term leases; and low value leases.

If a lessee elects for the exemption, then it shall recognise the lease payments associated with those leases as an expense on either a straight line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

The election for short-term leases shall be made by class of underlying asset to which the right of use relates. The low value lease exemption can be applied on a lease-by-lease basis.

The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for exemption regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value.

If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset. Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones.

If an entity applies either exemption, it must disclose that fact and certain information to make the effect of the exemption known to users of its financial statements. (Refer – Disclosure)

Identifying a lease

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.



Separating component of contract

For a contract that contains a lease component, an entity accounts for each lease component within the contract separately from non-lease components. A lessee shall allocate the total contract consideration to each lease component on the basis of relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. A lessee shall account for non-lease components applying other applicable Standards.

As a practical expedient, a lessee may elect not to separate non-lease components from the lease components. Instead it may account for the entire contract including non-lease components as a single lease component.

The practical expedient shall not be applied to embedded derivatives that meet the criteria given Ind AS 109, Financial Instruments.

Lease term

If a contract is, or contains, a lease, the lease term needs to be determined.

The lease term begins on the commencement date (i.e. the date on which the lessor makes the underlying asset(s) available for use by the lessee) and includes any rent-free or reduced rent periods. It comprises:

- (a) The non-cancellable period of the lease;
- (b) Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- (c) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option

A lease is no longer enforceable when the lessee and the lessor each have the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

An entity shall revise the lease term if there is a change in the non-cancellable period of a lease.

Recognition and Measurement of lease in the books of Lessee

On the commencement of the lease, lessee needs to recognise the right-of use asset and measure it at cost. Lessee should also recognise a lease liability and measure it at the present value of the lease payments that are not paid at that date. The lease payments should be

discounted using the interest rate implicit in the lease, if readily determinable or else using the lessee's incremental borrowing rate.

A Cost = Lease Liability + Lease payments made – lease incentives received + initial direct costs + estimated dismantling and restoration costs.

Lease Payments = Fixed payments (including in-substance fixed lease payments) – lease incentives + variable payments + expected guaranteed residual value + exercise price of purchase option (if reasonably certain to be exercised) + penalties for termination (if reasonably certain to be terminated).

In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable.

Subsequent measurement

Subsequently, the right-of-use asset shall be measured by applying a cost model or revaluation model if the underlying asset belongs to the class of assets to which the entity applies revaluation model as per Ind AS 16, Property, Plant and Equipment.

Cost model

Lessee shall measure the right-of-use asset at cost less accumulated depreciation and any accumulated impairment losses.

Lessees adjust the carrying amount of the right-of-use asset for remeasurement of the lease liability, unless the carrying amount has already been reduced to zero or the change in the lease liability relates to a variable lease payment that does not depend on an index or rate.

Subsequent measurement of lease liability

After initial recognition, the lease liability is measured at amortised cost using the effective interest method and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Reassessment of lease liability

After the commencement date, a lessee shall remeasure the lease liability in accordance with the standard to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

Presentation

The right-of-use assets should be either presented separately from other assets in the balance sheet or disclosed in the notes. If not presented separately, they should be presented in the

appropriate line item of the balance sheet as if they were owned and disclose in the notes the line items which include such assets.

The lease liabilities should be presented either separately from other liabilities in the balance sheet or disclose in the notes the line items which include the lease liabilities.

Right-of-use assets that meet the definition of investment property are presented within investment property.

In the statement of profit and loss, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs requires to be presented separately in the statement of profit and loss.

In the statement of cash flows, a lessee shall classify:

- a) cash payments for the principal portion of the lease liability within financing activities;
- b) cash payments for the interest portion of the lease liability within financing activities applying the requirements in Ind AS 7, Statement of Cash Flows, for interest paid; and
- c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Accounting in the books of Lessor

Classification of leases

A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The standard also provides examples of situations that individually or in combination would/could normally lead to a lease being classified as a finance lease.

Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

Finance lease and Operating lease**Recognition and measurement**

Particulars	Finance lease	Operating lease
Balance Sheet impact	Derecognised the underlying asset	Continue to present the underlying asset
	Present lease receivable at an amount equal to the net investment in lease	Add any initial direct costs incurred in connection with obtaining the lease to the carrying amount of the underlying asset
Statement of profit and loss	lessor shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease	Lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished
Statement of profit and loss: In case manufacturer or dealer is lessor	revenue being the fair value of the underlying asset, or, if lower, the present value of the lease payments accruing to the lessor, discounted using a market rate of interest	Recognise depreciation expense over the useful life of asset
	the cost of sale being the cost, or carrying amount if different, of the underlying asset less the present value of the unguaranteed residual value	
	selling profit or loss in accordance with its policy for outright sales to which Ind AS 115 applies	

A lessor initially measures a finance lease receivable at the present value of the future lease payments plus any unguaranteed residual value accruing to the lessor. The lessor discounts these amounts using the rate implicit in the lease.

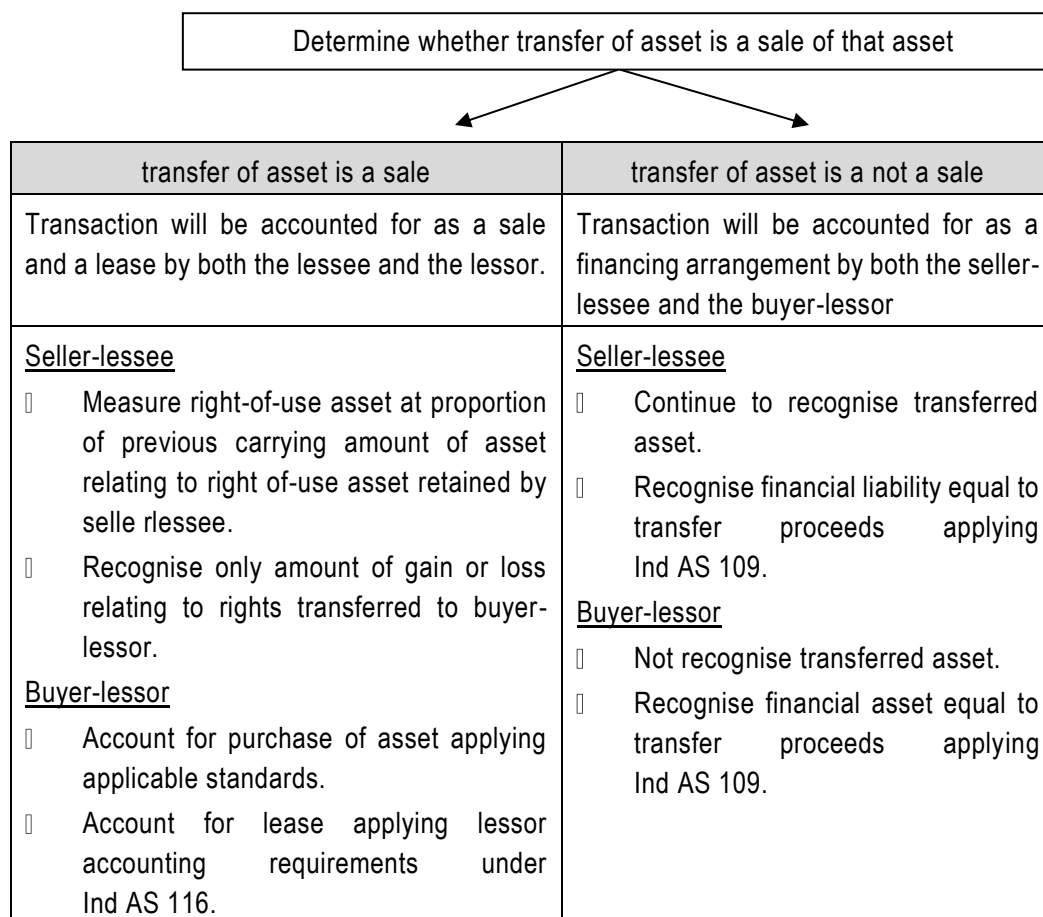
A lessor includes the following lease payments in the measurement of the finance lease receivable:

- fixed payments (including in-substance fixed payments), less lease incentives payable;
- variable payments that depend on an index or rate;
- residual value guarantees provided to the lessor at the guaranteed amount;
- the exercise price of purchase options if the lessee is reasonably certain to exercise; and
- termination penalties payable in accordance with the expected lease term.

Presentation

Lessor shall present underlying assets subject to operating leases in its balance sheet according to the nature of the underlying asset.

Sale and lease back – recognition and measurement



Transition date accounting**Definition of lease**

On the date of initial application of Ind AS 116, companies have an option not to reassess its previously identified leases contracts (as per Ind AS 17, Leases) and apply the transition provisions of this standard to those leases.

Also, they have an option not to apply this Standard to contracts that were not previously identified as containing a lease applying Ind AS 17.

If an entity chooses the above options then it shall disclose that fact and apply the practical expedient to all of its contracts.

Transition accounting: In the books of Lessee

A lessee is permitted to:

- adopt the standard retrospectively; or
- follow a modified retrospective approach.

A lessee applies the election consistently to all of its leases.

Modified retrospective approach

Lessee shall not restate comparative information and recognise the cumulative effect of initially applying Ind AS 116 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

For leases previously classified as operating leases and finance Leases, the following may be noted:

Operating lease	Lease liability	Measure at the present value of the remaining lease payments, discounted using lessee's incremental borrowing rate at the date of initial application
	Right-of-use asset	Retrospective calculation, using a discount rate based on lessee's incremental borrowing rate at the date of initial application. or Amount of lease liability (adjusted by the amount of any previously recognised prepaid or accrued lease payments relating to that lease).

		Lessee can choose one of the alternatives on a lease-by-lease basis.
Finance lease	Lease liability	Carrying amount of the lease liability immediately before the date of initial application.
	Right-of-use asset	Carrying amount of the lease asset immediately before the date of initial application.
	Application of Ind AS 116	Apply the provisions of this standard to Right of Use asset and lease liability from the date of initial application.

The standard also prescribes certain practical expedients under Modified retrospective approach to leases previously classified as operating leases applying Ind AS 17.

Transition accounting: In the books of Lessor

Except for sub-leases and sale-and-leaseback transactions, a lessor does not make any adjustments on transition:

Sales and leaseback transaction

Sale and leaseback transactions entered into before the date of initial application shall not be reassessed to determine whether the transfer of the underlying asset satisfies the requirements in Ind AS 115 to be accounted for as a sale.

For a sale-and-leaseback transaction accounted for as a sale and finance lease in accordance with Ind AS 17, the seller-lessee:

- accounts for the leaseback in the same way as for any finance lease that exists at the date of initial application; and
- continues to amortise any gain on the sale over the lease term

For a sale-and-leaseback transaction accounted for as a sale and operating lease in accordance with Ind AS 17, the seller-lessee:

- accounts for the leaseback in the same way as for any other operating lease that exists at the date of initial application; and
- adjusts the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognised in the statement of financial position immediately before the date of initial application.

Major change in Ind AS 116 vis-à-vis IFRS 16 not resulting in carve out

1. With regard to subsequent measurement, paragraph 34 of IFRS 16 provides that if lessee applies fair value model in IAS 40 to its investment property, it shall apply that fair value model to the right-of use assets that meet the definition of investment property. Since Ind AS 40, Investment Property, does not allow the use of fair value model, paragraph 34 has been deleted in Ind AS 116.
2. Paragraph 50(b) of IFRS 16 requires to classify cash payments for interest portion of lease liability applying requirements of IAS 7, Statement of Cash Flows. IAS 7 provides option of treating interest paid as operating or financing activity. However, Ind AS 7 requires interest paid to be treated as financing activity only. Accordingly, paragraph 50(b) has been modified in Ind AS 116 to specify that cash payments for interest portion of lease liability will be classified as financing activities applying Ind AS 7.

Major Changes in Ind AS 116 vis-à-vis AS 19

S. No.	Particular	Ind AS 116	AS 19
1.	Lease definition	Under Ind AS 116, the definition of lease is similar to that in AS 19. But, in Ind AS 116, there is substantial change in the guidance of how to apply this definition. The changes primarily relate to the concept of 'control' used in identifying whether a contract contains a lease or not.	No such guidance given therein
2.	Modifications	Ind AS 116 brings in comprehensive prescription on accounting of modifications in lease contracts.	No such guidance given therein
3.	Scope:	Ind AS 116 has no such scope exclusion.	AS 19 excludes leases of land from its scope.
4.	Inception of lease and commencement of lease	Ind AS 116 makes a distinction between 'inception of lease' and 'commencement of lease'	No such distinction is there
5	Classification	Ind AS 116 eliminates the requirement of classification of leases as either operating leases	AS 19 requires a lessee to classify leases as either

		or finance leases for a lessee and instead, introduces a single lessee accounting model which requires lessee to recognise assets and liabilities for all leases unless it applies the recognition exemption applies.	finance leases or operating leases.
6	Sale & Leaseback transactions	<p>In Ind AS 116, the approach for computation of gain/loss for a completed sale is different. The amount of gain/loss should reflect the amount that relates to the right transferred to the buyer-lessor.</p> <p>Ind AS 116 requires a seller-lessee and a buyer-lessor to use the definition of a sale as per Ind AS 115, Revenue from Contracts with Customers to determine whether a sale has occurred in a sale and leaseback transaction. If the transfer of the underlying asset satisfies the requirements of Ind AS 115 to be accounted for as a sale, the transaction will be accounted for as a sale and a lease by both the lessee and the lessor. If not, then the seller-lessee shall recognise a finance liability and the buyer-lessor will recognise a financial asset to be accounted for as per the requirements of Ind AS 109, Financial Instruments.</p>	<p>As per AS 19, if a sale and leaseback transaction results in a finance lease, excess, if any, of the sale proceeds over the carrying amount shall be deferred and amortised by the seller-lessee over the lease term in proportion to depreciation of the leased asset.</p> <p>AS 19 does not contain such specific requirement.</p>

7.	For lessor, the treatment of initial direct costs -Finance lease lessor accounting		
	Non-manufacturer/Non-dealer	Interest rate implicit in the lease is defined in such a way that the initial direct costs included automatically in the finance lease receivable.	Either recognised as expense immediately or allocated against the finance income over the lease term.
	Manufacturer/dealer	Same as per AS 19.	Recognised as expense immediately.
	Operating lease-Lessor accounting	Added to the carrying amount of the leased asset and recognised as expense over the lease term on the same basis as lease income.	Either deferred and allocated to income over the lease term in proportion to the recognition of rent income or recognized as expense in the period in which incurred.
8.	Interest rate implicit in the lease'	Definition of the term 'interest rate implicit in the lease' has been modified	Different definition given
9.	Presentation	As a consequence of introduction of single lease model for lessees, there are many changes in the presentation in the three components of financial statements viz. Balance sheet, Statement of P&L, Statement of Cash flows.	Difference in presentation requirement
10.	Disclosure	There are a number of changes in the disclosure relating to qualitative aspects of leasing transactions. For eg. Entities are required to disclose the nature and risks arising from leasing transactions. Also, in case of lessor, there are changes in the disclosure of maturity analysis of leases payments receivable.	Difference in disclosure requirement

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

AS 1

1. (a) XYZ Company is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claims/petitions in a Special Court. XYZ has accepted Inter-Corporate Deposits (ICDs) and, it is making its best efforts to settle the dues. There were claims at varied rates of interest, from lenders, from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non-provision of interest on the due date to date of repayment was affected in the financial statements. On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt", and the same has been disclosed by way of a note in the accounts instead of making a provision in the profit and loss account. State whether the treatment done by the Company is correct or not.

AS 2

- (b) A company purchased 20,000 kg of certain material at ₹ 140 per kg. Purchase price includes the GST of ₹ 1,00,000, in respect of which full input tax credit is admissible. The company availed full GST input tax credit. Freight inward incurred ₹ 1,20,000. Unloading charges ₹ 32,000. Normal loss during transit is 8%. The enterprise actually received 18,200 kg and consumed 16,500 kg. Compute Cost of inventory as per AS 2 and also allocate material cost.

AS 3

2. (a) The following figures have been extracted from the books of A Limited for the year ended on 31.3.2021. You are required to prepare the Cash Flow Statement as per AS 3 using indirect method.
- (i) Net profit before taking into account income tax and income from lawsuits but after taking into account the following items was ₹ 30,00,000:
- (a) Depreciation on Property, Plant & Equipment ₹ 7,50,000.
 - (b) Discount on issue of Debentures written off ₹ 45,000.
 - (c) Interest on Debentures paid ₹ 5,25,000.
 - (d) Book value of investments ₹ 4,50,000 (Sale of Investments for ₹ 4,80,000).
 - (e) Interest received on investments ₹ 90,000.
- (ii) Compensation received ₹ 1,35,000 by the company in a suit filed.

- (iii) Income-tax paid during the year ₹ 15,75,000.
- (iv) 22,500, 10% preference shares of ₹ 100 each were redeemed on 2.4.2020 at a premium of 5%.
- (v) Further the company issued 75,000 equity shares of ₹ 10 each at a premium of 20% on 30.3.2021 (Out of 75,000 equity shares, 25,000 equity shares were issued to a supplier of machinery)
- (vi) Dividend for FY 2019-2020 on preference shares were paid at the time of redemption.
- (vii) Dividend on Equity shares paid on 31.1.2021 for the year 2019-2020 ₹ 7,50,000 and interim dividend paid ₹ 2,50,000 for the year 2020-2021.
- (viii) Land was purchased on 2.4.2020 for ₹ 3,00,000 for which the company issued 22,000 equity shares of ₹ 10 each at a premium of 20% to the land owner and balance in cash as consideration.
- (ix) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

	As on 1.4.2020	As on 31.3.2021
	₹	₹
Inventory	18,00,000	19,77,000
Trade receivables	3,87,000	3,79,650
Cash in hand	3,94,450	16,950
Trade payables	3,16,500	3,16,950
Outstanding expenses	1,12,500	1,22,700

AS 4

- (b) The financial statements of PQ Ltd. for the year 2020-2021 approved by the Board of Directors on 15th July, 2021. The following information was provided:
- (i) A suit against the company's advertisement was filed by a party on 20th April, 2021, claiming damages of ₹ 25 lakhs.
- (ii) The terms and conditions for acquisition of business of another company have been decided by March, 2021. But the financial resources were arranged in April, 2021 and amount invested was ₹ 50 lakhs.
- (iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2021 but was detected on 16th July, 2021.
- (iv) Company sent a proposal to sell an immovable property for ₹ 40 lakhs in March, 2021. The book value of the property was ₹ 30 lakhs on 31st March, 2021.

However, the deed was registered on 15th April, 2021.

- (v) A major fire had damaged the assets in a factory on 5th April, 2021. However, the assets were fully insured.

With reference to AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", state whether the above-mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

AS 5

3. (a) State whether the following items are examples of Change in Accounting Policy / Change in Accounting Estimates / Extraordinary Items / Prior Period Items / Ordinary Activity:
- (i) Actual bad debts turning out to be more than provisions.
 - (ii) Change from cost model to revaluation model for measurement of carrying amount of PPE.
 - (iii) Government grant receivable as compensation for expenses incurred in previous accounting period.
 - (iv) Treating operating lease as finance lease.
 - (v) Capitalisation of borrowing cost on working capital.
 - (vi) Legislative changes having long term retrospective application.
 - (vii) Change in the method of depreciation from straight line to WDV.
 - (viii) Government grant becoming refundable.
 - (ix) Applying 10% depreciation instead of 15% on furniture.
 - (x) Change in useful life of PPE.

AS 7

- (b) The following data is provided for M/s. Raj Construction Co.
- (i) Contract price - ₹ 85 lakh
 - (ii) Materials issued - ₹ 21 lakh out of which materials costing ₹ 4 lakh is still lying unused at the end of the period.
 - (iii) Labour expenses for workers engaged at site - ₹ 16 lakh (out of which ₹ 1 lakh is still unpaid)
 - (iv) Specific contract costs = ₹ 5 lakh

(v) Sub-contract costs for work executed - ₹ 7 lakh, advances paid to sub-contractors - ₹ 4 lakh

(vi) Further cost estimated to be incurred to complete the contract - ₹ 35 lakh

You are required to compute the percentage of completion, the contract revenue and cost to be recognized as per AS 7.

AS 9

4. (a) A Limited sells goods with unlimited right of return to its customers. The following pattern has been observed in the return of sales:

Time frame of return from date of purchase	% of cumulative sales
Between 0-1 month	6%
Between 1-2 months	7%
Between 2-3 months	8%

The Company has made sales of ₹ 36 lakh in the month of January, ₹ 48 lakh in the month of February and of ₹ 60 lakh in the month of March. The total sales for the financial year have been ₹ 400 lakh and the cost of sales was ₹ 320 lakh.

You are required to determine the amount of provision to be made and revenue to be recognized as on 31st March.

AS 10

- (b) A Ltd. had following assets:
- (i) Machinery purchased for ₹ 10,00,000 on 1st April, 2016 and residual value after useful life of 5 years, based on 2016 prices is ₹ 10,00,000.
 - (ii) Land for ₹ 50,00,000.
 - (iii) A Machinery is constructed for ₹ 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2020, but the company does not begin using the machine until 31st March, 2021.
 - (iv) Machinery purchased on 1st April, 2018 for ₹ 50,000 with useful life of 5 years and residual value is NIL. On 1st April, 2020, management decided to use this asset for further 2 years only.

Calculate depreciation for the year ended 31st March, 2021 for each asset as per AS 10 (Revised).

AS 11

5. (a) Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.3.2021
- (i) Debtors include amount due from Mr. S ₹ 9,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US \$ 1 = ₹ 72.00.
US \$ 1 = ₹ 73.50 on 31st March, 2021
US \$ 1 = ₹ 72.50 on 1st April, 2020.
- (ii) Long term loan taken on 1st April, 2020 from a U.S. company amounting to ₹ 75,00,000. ₹ 5,00,000 was repaid on 31st December, 2020, recorded at US \$ 1 = ₹ 70.50. Interest has been paid as and when debited by the US company.
US \$ 1 = ₹ 73.50 on 31st March, 2021
US \$ 1 = ₹ 72.50 on 1st April, 2020.

AS 13

- (b) A Limited invested in the shares of XYZ Ltd. on 1st December, 2020 at a cost of ₹ 50,000. Out of these shares, ₹ 25,000 shares were purchased with an intention to hold for 6 months and ₹ 25,000 shares were purchased with an intention to hold as long-term Investment.

A Limited also earlier purchased Gold of ₹ 1,00,000 and Silver of ₹ 30,00,000 on 1st April, 2020. Market value as on 31st March, 2021 of above investments are as follows:

Shares	₹ 47,500 (Decline in the value of shares is temporary)
Gold	₹ 1,80,000
Silver	₹ 30,55,000

How will the above investments be shown in the books of accounts of A Limited for the year ended 31st March, 2021 as per the provisions of AS 13?

AS 15

6. (a) Rockstar 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. In this, 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.

Assuming the following:

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

Rock star Ltd. estimates the shares of unamortized service cost that relates to the part of the obligation that is estimated at 10% of ₹ 180 at ₹ 18. Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet.

AS 16

- (b) First Ltd. began construction of a new factory building on 1st April, 2020. It obtained ₹ 2,00,000 as a special loan to finance the construction of the factory building on 1st April, 2020 at an interest rate of 8% per annum. Further, expenditure on construction of the factory building was financed through other non-specific loans. Details of other outstanding non-specific loans were:

Amount (₹)	Rate of Interest per annum
4,00,000	9%
5,00,000	12%
3,00,000	14%

The expenditures that were made on the factory building construction were as follows:

Date	Amount (₹)
1 st April, 2020	3,00,000
31 st May, 2020	2,40,000
1 st August, 2020	4,00,000
31 st December, 2020	3,60,000

The construction of factory building was completed by 31st March, 2021. As per the provisions of AS 16, you are required to:

- (1) Calculate the amount of interest to be capitalized.
- (2) Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory building.

AS 17

7. (a) The Senior Accountant of AMF Ltd. gives the following data regarding its five segments: (₹ in lakhs)

Particulars	P	Q	R	S	T	Total
	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)
Segment Assets	80	30	20	20	10	160
Segment Results	(190)	10	10	(10)	30	(150)
Segment Revenue	620	80	60	80	60	900

The Senior Accountant is of the opinion that segment "P" alone should be reported. Is he justified in his view? Examine his opinion in the light of provision of AS 17 'Segment Reporting'.

AS 18

- (b) (i) Khushi Limited enter into an agreement with Mr. Happy for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Happy, while all financial and operating policy decisions are taken by the Board of Directors of the Company. Mr. Happy does not own any voting power in Khushi Limited.
- (ii) Shri Bhanu a relative of key management personnel received remuneration of ₹ 3,50,000 for his services in the company for the period from 1st April, 2020 to 30th June, 2020. On 1st July, 2020, he left the service.

You are required to suggest how the above transactions will be treated as at the closing date i.e. on 31st March, 2021 for the purposes of AS 18 'Related Party Disclosures'.

AS 19

8. (a) X Ltd. sold machinery having WDV of ₹ 300 lakh to Y Ltd. for ₹ 400 lakh and the same machinery was leased back by Y Ltd. to X Ltd. The lease back arrangement is operating lease.

Give your comments in the following situations:

- (i) Sale price of ₹ 400 lakh is equal to fair value

- (ii) Fair value is ₹ 450 lakh
- (iii) Fair value is ₹ 350 lakh and the sale price is ₹ 250 lakh
- (iv) Fair value is ₹ 300 lakh and sale price is ₹ 400 lakh
- (v) Fair value is ₹ 250 lakh and sale price is ₹ 290 lakh.

AS 20

- (b) (i) Explain the concept of 'weighted average number of equity shares outstanding during the period'. State how would you compute, based on AS 20, the weighted average number of equity shares in the following case:

		No. of shares
1 st April, 2020	Balance of equity shares	7,20,000
31 st August, 2020	Equity shares issued for cash	2,40,000
1 st February, 2021	Equity shares bought back	1,20,000
31 st March, 2021	Balance of equity shares	8,40,000

- (ii) Compute adjusted earnings per share and basic EPS based on the following information:

Net profit 2019-2020	₹ 7,20,000
Net profit 2020-2021	₹ 24,00,000
No. of equity shares outstanding until 31 st December, 2020	8,00,000

Bonus issue on 1st January, 2021, 2 equity shares for each equity share outstanding at 31st December, 2020.

AS 22

9. (a) Sheetal Ltd. has provided the following information for the year ended 31st March, 2021:

Particulars	Amount (₹)
Accounting profit	9,00,000
Book profit as per MAT	5,25,000
Profit as per Income-tax Act	95,000
Tax rate	30%
MAT rate	7.5%

You are required to calculate the deferred tax asset/liability as per AS 22 and amount of tax to be debited to the profit and loss account for the year.

AS 24

- (b) Rohini Limited is in the business of manufacture of passenger cars and commercial vehicles. The Company is working on a strategic plan to close the production of passenger cars and to produce only commercial vehicles over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its prospective plan it will reduce the production of passenger cars by 20% annually. It also plans to establish another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner. You are required to comment:
- (i) Whether mere gradual phasing out itself can be considered as a 'discounting operation' within the meaning of AS 24?
 - (ii) If the Company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24?
 - (iii) Would your answer to the above be different if the Company resolves to sell the assets of the passenger car division in a phased but time bound manner?

AS 26

10. (a) A Company acquired for its internal use a software on 1.3.2020 from U.K. for ₹ 1,50,000. The exchange rate on the date was as ₹ 100 per £. The seller allowed trade discount @ 2.5%. The other expenditures were:
- (i) Import duty 10%
 - (ii) Additional import duty 5%
 - (iii) Entry tax 2% (Recoverable later from tax department).
 - (iv) Installation expenses ₹ 1,50,000.
 - (v) Professional fees for clearance from customs ₹ 50,000.

Compute the cost of software to be capitalized as per relevant AS.

AS 28

- (b) Light Ltd. is a multi-product manufacturing company, having its corporate office in a big building. As the area of building is large, Light Ltd. has let out 1/3 area of the building at a monthly rent of ₹ 100 lakhs, the lease agreement with tenant is for next 5 years. Is the building cash-generating unit? If not what is the cash-generating unit of the building?

AS 29

- (c) With reference to AS 29, how would you deal with the following in the Annual Accounts of the company at the Balance Sheet date:
- (i) The company operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Eighty five percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and fifteen percent arise through the extraction of oil. At the balance sheet date, rig has been constructed but no oil has been extracted.
 - (ii) The Government introduces a number of changes to the taxation laws. As a result of these changes, the company will need to train a large proportion of its accounting and legal workforce in order to ensure continued compliances with tax law regulations. At the balance sheet date, no retraining of staff has taken place.

Ind AS vs IFRS

11. Explain revision in Accounting Estimates including recognition in Financial Statement as per Ind AS 8.

Accounting for Corporate Restructuring

12. The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

Particulars	Notes	Black Limited (₹ in 000)	White Limited (₹ in 000)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		<u>600</u>	<u>360</u>
Total		<u>7,680</u>	<u>4,620</u>
Assets			
Non-current assets			
Property, Plant and Equipment		3,600	2,400

Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		7,680	4,620

Notes to Accounts

No.	Particulars	Black Limited (₹ in 000)	White Limited (₹ in 000)
1.	Share Capital		
	Equity Shares of ₹ 100 each	6,000	3,600
2.	Reserves and Surplus		
	General Reserve	360	180
	Profit and Loss Account	<u>720</u>	<u>480</u>
	Total	<u>1,080</u>	<u>660</u>

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of ₹ 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property, Plant and Equipment, during April-June, 2020.

Estimated profit of Black Limited during these 3 months was ₹ 4,80,000 after charging proportionate depreciation @ 10% p.a. on Property, Plant and Equipment.

Both the companies have declared and paid 10% dividend within this 3 months' period.

Goodwill of White Limited is valued at ₹ 2,40,000 and Property, Plant and Equipment are valued at ₹ 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par. Ignore income tax.

You are required to:

- (i) Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.
- (ii) Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.
- (iii) Give balance of Profit or Loss of Black Limited as on 1st July, 2020
- (iv) Give balance of Property, Plant and Equipment as on 1st July, 2020 after takeover.

Consolidated Financial Statements of Group Companies

13. On 31st March, 2020, the summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

	H Ltd.	S Ltd.
	₹	₹
Shareholders' Fund		
Issued and subscribed		
Equity shares of ₹ 10 each	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit & Loss Account	2,40,000	60,000
Secured Loans		
12% Debentures	1,00,000	-
Current Liabilities		
Trade Payables	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
Total	25,20,000	6,16,800
Assets		
Non-Current Assets		
(a) Property, Plant & Equipment		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
(b) Investments		
Investments in S Ltd. (19,200 shares at ₹ 20 each)	3,84,000	-
Current Assets		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bill Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000
Total	25,20,000	6,16,800

The following information is also provided to you:

- (a) H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2019, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at ₹ 60,000 and ₹ 36,000 respectively.
- (b) Machinery (Book value ₹ 2,40,000) and Furniture (Book value ₹ 48,000) of S Ltd were revalued at ₹ 3,60,000 and ₹ 36,000 respectively on 1st April, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives:
Machinery 10%, Furniture 15%).
- (c) On 31st March, 2020, Bills payable of ₹ 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020.

Financial Instruments

14. On 25th March, 2021 an entity entered into an agreement to purchase a Financial Asset for ₹ 1,00,000, which is the fair value on that date.

On Balance Sheet date i.e., 31st March, 2021 the fair value is ₹ 1,05,000 and on settlement date i.e., on 10th April, 2021 fair value is ₹ 1,07,000.

Pass necessary journal entries on trade date and settlement date basis when the asset acquired is measured at FVTPL. (Narrations need not be given).

Employee Share Based Payments

15. At the beginning of the year 1, Harmony Limited grants 600 options to each of its 1,000 employees. The contractual life of option granted is 6 years.

Other relevant information is as follows:

Vesting Period	3 years
Exercise period	3 years
Expected Life	5 years
Exercise Price	₹ 100
Market Price	₹ 100
Expected Forfeitures per year	3%

The option granted vest according to a graded schedule of 25% at the end of year 1, 25% at the end of year 2 and the remaining 50% at the end of year 3.

You are required to calculate total compensation expenses for the options expected to vest and cost and cumulative cost to be recognized at the end of all the three years assuming that expected forfeiture rate does not change during the vesting period when the Intrinsic value of the options at the grant date is ₹ 7 per options.

Mutual Funds

16. On 1st April, 2021, Fair Return Mutual Fund has the following assets and prices at 3.00 p.m.

Shares of	No. of shares	Market price per share (₹)
P Ltd.	5,000	19.70
Q Ltd.	25,000	482.60
R Ltd.	5,000	264.40
S Ltd.	50,000	674.90
T Ltd.	15,000	25.90
No. of units of fund		4,00,000 units

Calculate:

- NAV of the Fund.
- Assuming Mr. Mohan, send a cheque of ₹ 25,00,000 to the Fund on 1st April, 2021 and Fund Manager purchases 9,000 shares of R Ltd. and balance is held in bank. What will be the new position of the fund?
- Now suppose on 2nd April 2021, at 3.00 p.m. the market price of shares is as follows:

Shares	₹
P Ltd.	20.30
Q Ltd.	513.70
R Ltd.	290.80
S Ltd.	671.90
T Ltd.	44.20

Calculate the new NAV?

NBFC

17. Siddharth Auto Financiers Limited is a NBFC providing finance for purchasing of Auto Rickshaws. The following information is extracted from its books for the year 31st March, 2021:

Interest overdue but recognised in Profit and Loss Account		Net book value of assets outstanding
Period Overdue	Interest Amount (₹ in crore)	(₹ in crore)
Up to 12 months	750.00	30,000
For 24 months	200.00	4,000
For 30 months	200.00	3,750
For 45 months	250.00	3,000
For 60 months	500.00	10,000

You are required to calculate the amount of provision to be made.

Valuation of Shares

18. The summarized balance sheets of Precious Ltd. as on 31st March, 2021 is as follows:

Liabilities	₹	Assets	₹
Share capital (in shares of ₹ 100 each)		Goodwill	1,50,000
4,500 Equity shares	4,50,000	Freehold property	3,75,000
1,500, 6% Preference shares	1,50,000	Plant and machinery (less depreciation)	1,50,000
Profit and loss A/c	7,50,000	Quoted investments	3,00,000
5% Debentures	3,00,000	Current assets:	
Sundry creditors	2,39,250	Stock	2,70,000
		Debtors (net)	2,99,250
		Bank balance	<u>3,45,000</u>
	<u>18,89,250</u>		<u>18,89,250</u>

Profits for the three years 2018-2019, 2019-2020 and 2020-2021 after charging debenture interest and tax but before providing for preference dividend were ₹ 2,20,500, ₹ 3,22,500 and ₹ 2,40,000 respectively.

- Preference shares are payable at par on liquidation.
- The purchaser wants to acquire all the 4,500 equity shares.
- The price for equity shares is to be based on the following assumptions:
 - The normal return of 10% on net assets (at revised valuation) attributable to equity shares.

2. Debentures will be redeemed at a discount of 25% prior to the sale of the business. In order to provide funds for this purpose, investments will be sold out.
3. The value of freehold property is agreed to be ascertained on the basis of 8% return. The current annual rental value is ₹ 50,400.
4. A claim of ₹ 8,250 was omitted to be provided in the year 2020-2021.
5. Market value of quoted investments was ₹ 3,75,000.
6. Non - recurring profits are to be eliminated. 10% of the profits for 2019-2020 referred above arose from a transaction of a non- recurring nature.
7. A provision of 5% on sundry debtors was made in 2020-2021 which is no longer required (the provision when made was taken into account for purposes of Income-tax @ 50%).

Calculate the value of the of the company's shares (from the point of view of purchaser) after taking into account the revised values of assets and liabilities and value the goodwill based on three year's purchase of the super profit based on the average profit of the last three years.

Value Added Statement

19. The following data is given in respect of Prosperous Ltd. for the year ended 31.3.2021:

Abstract of Statement of Profit & Loss for the year ended 31.3.2021

	₹ in '000	₹ in '000
<u>Income</u>		
Sale	2,380	
Other Income	<u>370</u>	<u>2,750</u>
<u>Expenditure</u>		
Operating Cost	1,855	
Administrative Expenses	150	
Interest Cost	215	
Depreciation	<u>240</u>	<u>2,460</u>
Profit before tax		290
Provision for tax		87
Profit after tax		203

Credit balance as per last balance sheet		<u>60</u>
		<u>263</u>

Other Information:

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

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

- (a) GVA to Material Cost Ratio (Industry average 0.80)
- (b) GVA to Employee Cost Ratio (Industry average 3.82)
- (c) GVA to Sales Ratio (Industry average 0.70)
- (d) GVA to Capital Employed Ratio (Industry average 0.30)

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

Economic Value Added

20. You are given the following information about Ram Ltd.:

- (i) Beta for the year 2020-2021 1.05
(ii) Risk Free Rate 12%
(iii) Long Range Market Rate (based on BSE Sensex) 15.14%
(iv) Extracts from the liability side of Balance Sheet as at 31st March, 2021.

	(₹ in lakhs)
Equity	29,160
Reserves and surplus	<u>43,740</u>
Shareholder's fund	72,900
Loan funds	<u>8,100</u>
Total funds (long-term)	81,000

- (v) Profit after tax ₹ 20,394.16 lakhs
(vi) Interest deducted from profit ₹ 487.00 lakhs
(viii) Effective tax rate (i.e. (Provision for Tax/PBT) x 100) 24.45%

Calculate economic value added of Ram Ltd. as on 31st March 2021.

SUGGESTED ANSWERS

1. (a) Para 17 of AS 1 'Disclosure of Accounting Policies' recognises 'prudence' as one of the major considerations governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

Also as per para 10 of AS 1, 'accrual' is one of the fundamental accounting assumptions. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be replaced in a disadvantageous position for non-payment of interest in respect of overdue amount. From the aforesaid, it is apparent that the company has an obligation on account of the overdue interest. In this situation, the company should provide for the liability (since

it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case. However, in respect of the overdue interest amounts, which are settled, the liability should be accrued to the extent of amounts settled. Non-provision of the overdue interest liability amounts to violation of accrual basis of accounting. Therefore, the treatment, done by the company, of not providing the interest amount from due date to the date of repayment is not correct.

- (b) **Computation of cost of inventory and allocation of material cost as per AS 2 is shown below:** (Normal cost per Kg.)

	₹
Purchase price (20,000 x ₹ 140)	28,00,000
Less: Input Tax Credit	(1,00,000)
	27,00,000
Add: Freight and unloading charges (1,20,000 + 32,000)	1,52,000
A. Total material cost	28,52,000
B. Number of units normally received =92% of 20,000 kgs	18,400 Kg
C. Normal cost per kg. (A/B)	₹ 155

Allocation of material cost

	Kg.	₹/Kg.	₹
Materials consumed	16,500	155	25,57,500
Cost of inventory (bal. fig.)	1,700	155	2,63,500
Abnormal loss (18,400 – 18,200)	200	155	31,000
Total material cost	18,400		28,52,000

2. (a) **A Ltd.**

Cash Flow Statement

for the year ended 31st March, 2021

	₹	₹
Cash flow from Operating Activities:		
Net profit before income tax and extraordinary items		30,00,000

Adjustments for:		
Depreciation on Property, plant and equipment	7,50,000	
Discount on issue of debentures	45,000	
Interest on debentures paid	5,25,000	
Interest on investments received	(90,000)	
Profit on sale of investments	<u>(30,000)</u>	<u>12,00,000</u>
Operating profit before working capital changes		42,00,000
Adjustments for:		
Increase in inventory (19,77,000 – 18,00,000)	(1,77,000)	
Decrease in trade receivable (3,87,000 - 3,79,650)	7,350	
Increase in trade payables (3,16,950 – 3,16,500)	450	
Increase in outstanding expenses (1,22,700 – 1,12,500)	<u>10,200</u>	<u>(1,59,000)</u>
		40,41,000
Income tax paid		<u>(15,75,000)</u>
Cash flow from ordinary items		24,66,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		<u>1,35,000</u>
Cash generated from operations		26,01,000
Cash flow from Investing Activities:		
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	
Purchase of land [3,00,000 – (22,000 x 10 x 120%)]	<u>(36,000)</u>	
Net cash flow from investing activities		5,34,000
Cash flow from Financing Activities:		
Proceeds of issue of equity shares at 20% premium [(75,000 – 25,000) x 10 x 120%]	6,00,000	
Redemption of preference shares at 5% premium (22,500 x 100 x 105%)	(23,62,500)	
Preference dividend paid for 2019-2020	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000 + 2,50,000)	<u>(10,00,000)</u>	
Net cash used in financing activities		<u>(35,12,500)</u>
Net decrease in cash and cash equivalents during the year		(3,77,500)

Add: Cash and cash equivalents as on 31.3.2020	3,94,450
Cash and cash equivalents as on 31.3.2021	<u>16,950</u>

- (b) (i) Suit filed against the company is a contingent liability but it was not existing as on balance sheet date as the suit was filed on 20th April, 2021 after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.
- (ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2021. This is clearly an event occurring after the balance sheet date but before approval of financial statements. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2021.
- (iii) Only those significant events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16th July, 2021 after approval of financial statements by the Board of Directors, hence no treatment is required.
- (iv) Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations not started) on the balance sheet date. Therefore, no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31st March, 2021.
- (v) The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.

3. (a) **Classification of given items is as follows:**

Sr. No.	Particulars	Classification
(i)	Actual bad debts turning out to be more than provisions	Change in Accounting Estimates
(ii)	Change from Cost model to Revaluation model for measurement of carrying amount of PPE	Change in Accounting Policy

(iii)	Government grant receivable as compensation for expenses incurred in previous accounting period	Extra -ordinary Items
(iv)	Treating operating lease as finance lease.	Prior- period Items
(v)	Capitalisation of borrowing cost on working capital	Prior-period Items (as interest on working capital loans is not eligible for capitalization)
(vi)	Legislative changes having long term retrospective application	Ordinary Activity
(vii)	Change in the method of depreciation from straight line to WDV	Change in Accounting Estimates
(viii)	Government grant becoming refundable	Extra -ordinary Items
(ix)	Applying 10% depreciation instead of 15% on furniture	Prior- period Items
(x)	Change in useful life of PPE	Change in Accounting Estimates

(b) Computation of contract cost

		₹ in lakh
Material cost incurred on the contract (net of closing stock)	(21 – 4)	17
Add: Labour cost incurred on the contract (including outstanding amount)		16
Specified contract cost	given	5
Sub-contract cost (advances has not been considered)		<u>7</u>
Cost incurred (till date)		45
Add: Further cost to be incurred		<u>35</u>
Total estimated contract cost		<u>80</u>

$$\begin{aligned}
 \text{Percentage of completion} &= \text{Cost incurred till date} / \text{Estimated total cost} \\
 &= ₹ 45,00,000 / ₹ 80,00,000 \\
 &= 56.25\%
 \end{aligned}$$

Contract revenue and costs to be recognized

$$\text{Contract revenue (₹ 85,00,000 x 56.25\%)} = ₹ 47,81,250$$

$$\text{Contract costs} = ₹ 45,00,000$$

4. (a) **Amount of provision**

The goods are sold with a right to return. The existence of such right gives rise to a present obligation on the company as per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets'. According to the standard, a provision should be created on the Balance Sheet date, for sales returns after the Balance Sheet date, at the best estimate of the loss expected, along with any estimated incremental cost that would be necessary to resell the goods expected to be returned.

Sales during	Sales value (₹ in lakh)	Sales value (cumulative) (₹ in lakh)	Likely returns (%)	Likely returns (₹ in lakh)	Provision @ 20% (₹ in lakh) (Refer W.N.)
March	60	60	6%	3.60	0.720
February	48	108	7%	7.56	1.512
January	36	144	8%	<u>11.52</u>	<u>2.304</u>
Total				<u>22.68</u>	<u>4.536</u>

Revenue to be recognized

Revenue in respect of sale of goods is recognized fully at the time of sale itself assumed that the company has complied with the conditions stated in AS 9 relating to recognition of revenue in the case of sale of goods. As per AS 9, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

- (i) seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. AS 9 also provides that in case of retail sales offering a guarantee of 'money back, if not completely satisfied, it may be appropriate to recognize the sale but to make a suitable provision for returns based on previous experiences.

Therefore, sale of ₹ 36 lakh, ₹ 48 lakh and ₹ 60 lakh made in the months of January, February and March will be recognized at full value. Thus, total revenue to be recognized for ₹ 400 lakh for the year.

Working Note:

Calculation of Profit % on sales

	(₹ in lakh)
Sales for the year	400
Less: Cost of sales	<u>(320)</u>
Profit	<u>80</u>
Profit mark up on sales $(80 / 400) \times 100 = 20\%$	

(b) Computation of amount of depreciation as per AS 10

	₹
(i) Machinery purchased on 1.4.2016 for ₹ 10,00,000 (having residual value of ₹ 10,00,000) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	Nil
(ii) Land (₹ 50,00,000) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii) Machinery constructed for own use (₹ 5,00,000 / 10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1 st April, 2020. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv) Machinery having revised useful life Reason: The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e. (₹ 50,000 / 5 years). On 1 st April, 2020 the asset's net book value is [50,000 – (10,000 x 2)] i.e. ₹ 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at ₹ 15,000 per annum i.e. (30,000 / 2 years).	15,000

5. (a) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

However, at the option of an entity, exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a non-depreciable capital asset can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long-term asset / liability, by recognition as income or expense in each of such periods.

	<i>Foreign Currency Rate</i>	₹
Debtors		
Initial recognition US \$ 12,500 (9,00,000 / 72)	1 US \$ = ₹ 72	9,00,000
Rate on Balance sheet date	1 US \$ = ₹ 73.50	
Exchange Difference Gain US \$ 12,500 x (73.50 - 72)		18,750
Treatment: Credit Profit and Loss A/c by ₹ 18,750		
Long term Loan		
Initial recognition US \$ 1,03,448.28 (75,00,000 / 72.50)	1 US \$ = ₹ 72.50	75,00,000
Rate on Balance sheet date	1 US \$ = ₹ 73.50	
Exchange Difference Loss after adjustment of exchange gain on repayment of ₹ 5,00,000		67,987.48*
Treatment: Credit Loan A/c and Debit FCMITD A/C or Profit and Loss A/c by ₹ 67,987.48		

Thus, Exchange Difference on Long term loan amounting ₹ 67,987.48 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on debtors amounting ₹ 18,750 is required to be transferred to Profit and Loss A/c.

Working Note:**1. Computation of net exchange difference loss**

		₹
Loss due to exchange difference on outstanding amount	(US \$ 96,356.08 x ₹ 73.50 - ₹ 70,00,000)	82,171.88
Gain on repayment of ₹ 5,00,000	[US \$ 7,092.20 (5,00,000 / 70.50) x ₹ 2]	<u>(14,184.40)</u>
Net exchange difference loss		<u>67,987.48</u>

(b) As per AS 13 'Accounting for Investments',

For investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and carried at lower of cost and fair value. Accordingly, in the given case, ₹ 25,000 shares held as current investment will be carried in the books at ₹ 23,750 (₹ 47,500 / 2).

If equity shares are acquired with an intention to hold for long term period (more than one year), then they are considered as long-term investment and shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognize a decline (only if the decline is other than temporary) in the value of the investments. Since, in the given case, the decline in the value of shares is temporary, shares held as long-term investment will be carried in the books at cost of ₹ 25,000 only.

For investment in Gold and silver - Gold and silver are generally purchased with an intention to hold them for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st April, 2020) should continue to be shown at cost as on 31st March, 2021 i.e. Gold will be valued in the books at ₹ 1,00,000 and Silver at ₹ 30,00,000.

6. (a) Gain from curtailment is estimated as under

	₹
Reduction in gross obligation	600
Less: Proportion on 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	5,400
Less: Fair value of plan assets	<u>(5,100)</u>
	300
Less: Unamortised past service cost	<u>(162)</u>
Liability to be recognised in the balance sheet	<u>138</u>

(b) (i) Computation of average accumulated expenses

	₹
₹ 3,00,000 x 12 / 12 =	3,00,000
₹ 2,40,000 x 10 / 12 =	2,00,000
₹ 4,00,000 x 8 / 12 =	2,66,667
₹ 3,60,000 x 3 / 12 =	<u>90,000</u>
	<u>8,56,667</u>

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (₹)	Rate of interest	Amount of interest (₹)
4,00,000	9%	= 36,000
5,00,000	12%	= 60,000
3,00,000	14%	= 42,000
		<u>1,38,000</u>
Weighted average rate of interest $\left(\frac{1,38,000}{12,00,000} \times 100 \right)$		= 11.5%

(iii) Amount of interest to be capitalized

	₹
Interest on average accumulated expenses:	
Specific borrowings (₹ 2,00,000 x 8%) =	16,000

Non-specific borrowings (₹ 6,56,667* x 11.5%)	=	75,517
Amount of interest to be capitalised	=	91,517

(iv) Total expenses to be capitalised for building

	₹
Cost of building ₹ (3,00,000 + 2,40,000 + 4,00,000 + 3,60,000)	13,00,000
Add: Amount of interest to be capitalized	91,517
	13,91,517

(v) Journal Entry

Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.2021	Building A/c Dr.	13,91,517	
	To Building WIP** A/c		13,00,000
	To Borrowing costs A/c		91,517
	(Being amount of cost of building and borrowing cost thereon capitalised)		

7. (a) As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if either of the following criteria is satisfied:

- (i) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue - external and internal of all segments; or
- (ii) Its segment result whether profit or loss is 10% or more of:
 - (1) The combined result of all segments in profit; or
 - (2) The combined result of all segments in loss, whichever is greater in absolute amount; or
- (iii) Its segment assets are 10% or more of the total assets of all segments.

Accordingly,

- (a) On the basis of revenue from sales criteria, segment P is a reportable segment.

* (₹ 8,56,667 – ₹ 2,00,000)

** Considering that ₹ 13,00,000 was debited to Building WIP A/c earlier.

- (b) On the basis of the result criteria, segments P & T are reportable segments (since their results in absolute amount is 10% or more of ₹ 200 Lakhs).
- (c) On the basis of asset criteria, all segments except T are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with AS 17. Hence, the opinion of chief accountant that only segment 'P' is reportable segment is wrong.

- (b) (i) Mr. Happy will not be considered as a related party of Khushi Limited in view of provisions of AS 18 "Related Party Disclosures" which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual are related parties".

In the given case, in the absence of share ownership, Mr. Happy would not be considered to exercise significant influence on Khushi Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. Happy does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

- (ii) According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Shri Bhanu, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31st March, 2021 as he received remuneration for his services in the company for the period from 1st April, 2020 to 30th June, 2020.

- 8. (a) Following will be the treatment in the given cases:
 - (i) When sale price of ₹ 400 lakhs is equal to fair value, X Ltd. should immediately recognise the profit of ₹ 100 lakhs (i.e. 400 – 300) in its books.
 - (ii) When fair value is ₹ 450 lakhs then also profit of ₹ 100 lakhs should be immediately recognised by X Ltd.
 - (iii) When fair value of leased machinery is ₹ 350 lakhs & sales price is ₹ 250 lakhs, then loss of ₹ 50 lakhs (300 – 250) to be immediately recognised by X Ltd. in its books provided loss is not compensated by future lease payment.
 - (iv) When fair value is ₹ 300 lakhs & sales price is ₹ 400 lakhs then, profit of ₹ 100 lakhs is to be deferred and amortised over the lease period.
 - (v) When fair value is ₹ 250 lakhs & sales price is ₹ 290 lakhs, then the loss of ₹ 50 lakhs (300 - 250) to be immediately recognised by X Ltd. in its books and profit of ₹ 40 lakhs (290 - 250) should be amortised/deferred over lease period.

- (b) (i) As per para 16 of AS 20, “Earnings Per Share”, the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders’ capital may have varied during the period as a result of a larger or less number of shares outstanding at any time. For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

Weighted average number of equity shares

7,20,000 x 5/12	= 3,00,000 shares
9,60,000 x 5/12	= 4,00,000 shares
8,40,000 x 2/12	<u>= 1,40,000 shares</u>
	<u>= 8,40,000 shares</u>

- (ii) Equity per share

Basic EPS 2020-2021 = ₹ 24,00,000/24,00,000 = ₹ 1

Adjusted EPS 2019-2020 = ₹ 7,20,000/24,00,000 = ₹ 0.30

Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2019-2020, the earliest period reported.

9. (a) Tax as per accounting profit 9,00,000×30%= ₹ 2,70,000
 Tax as per Income-tax Profit 95,000×30% = ₹ 28,500
 Tax as per MAT 5,25,000×7.50%= ₹ 39,375

Tax expense = Current Tax +Deferred Tax

₹ 2,70,000 = ₹ 28,500+ Deferred tax

Deferred Tax liability as on 31st March, 2021

= ₹ 2,70,000 – ₹ 28,500 = ₹ 2,41,500

Amount of tax to be debited in Profit and Loss account for the year 31st March, 2021

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= ₹ 28,500 + ₹ 2,41,500 + ₹ 10,875 (39,375 – 28,500)

= ₹ 2,80,875

- (b) (i) As per AS 24, a discontinuing operation is a component of an enterprise:
- (a) that the enterprise, pursuant to a single plan, is:
 - (i) disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or
 - (ii) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or
 - (iii) terminating through abandonment; and
 - (b) that represents a separate major line of business or geographical area of operations; and
 - (c) that can be distinguished operationally and for financial reporting purposes.
- Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'. Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:
- (a) Gradual or evolutionary phasing out of a product line or class of service;
 - (b) Shifting of some production or marketing activities for a particular line of business from one location to another; and
 - (c) Closing of a facility to achieve productivity improvements or other cost savings.
- (ii) In this case, it cannot be considered as Discontinuing Operation as per AS 24 as the companies' strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e. commercial vehicle production line in a new factory has not started.
- No, the resolution is silent about stoppage of the Car segment in definite time period. Though, sale of some assets and some transfer proposal were passed through a resolution to the new factory, but the closure road map and new segment starting roadmap are missing.
- Hence, AS 24 will not be applicable and it cannot be considered as Discontinuing operations.
- (iii) Yes, phased and time bound program resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap.
- Hence, this action will attract compliance of AS 24 and it will be considered as Discontinuing Operations as per AS 24.

10. (a) Calculation of cost of software (intangible asset) acquired for internal use

Purchase cost of the software	£ 1,50,000
Less: Trade discount @ 2.5%	<u>£ (3,750)</u>
	<u>£ 1,46,250</u>
Cost in ₹ (UK £1,46,250 x ₹ 100)	146,25,000
Add: Import duty on cost @ 10% (₹)	<u>14,62,500</u>
	160,87,500
Add: Additional import duty @ 5% (₹)	<u>8,04,375</u>
	168,91,875
Add: Installation expenses (₹)	1,50,000
Add: Professional fee for clearance from customs (₹)	<u>50,000</u>
Cost of the software to be capitalized (₹)	<u>170,91,875</u>

Note: Since entry tax has been mentioned as a recoverable / refundable tax, it is not included as part of the cost of the asset.

- (b) As per para 66 of AS 28 'Impairment of Assets', the cash-generating unit is smallest group of asset that includes the asset and that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets.

In the instant case, the primary purpose of the building is to serve as a corporate office of Light Ltd., which is engaged in multiproduct manufacturing activities. Therefore, the building as a whole cannot be considered to generate cash inflows which are largely independent of the cash flows for the company as a whole. The building is not held as an investment; therefore, it would be inappropriate to determine 'value in use' of the building based on future market rent.

Hence, building is not a cash generating unit. The cash-generating unit for the building is Light Ltd., the company as a whole.

- (c) (i) The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of 85% of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig.

However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date. 15% of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

- (ii) As per AS 29, a provision for restructuring costs is recognized only when the recognition criteria for provisions are met. A restructuring provision does not include costs as of retraining or relocating continuing staff.

The expenditures of training the staff related to the future conduct of the business are not liabilities for restructuring at the balance sheet date. Such expenditures are recognized on the same basis as if they arose independently of restructuring. At the balance sheet date, no such expenditure has been incurred hence no provision is required.

11. Revision in Accounting Estimates

An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

A change in accounting estimate is

- An adjustment of the carrying amount of an asset or a liability, or
- The amount of the periodic consumption of an asset

That results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

Recognizing in Financial Statements

The effect of a change in an accounting estimate shall be recognised prospectively by including it in profit or loss in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

12. (i) Number of shares to be issued by Black Ltd. to White Ltd. against purchase consideration

<i>White Ltd.</i>	₹	₹
Goodwill		2,40,000
Property, plant and equipment	24,00,000	
Less: Depreciation [24,00,000 × 10 % × 3/12]	<u>(60,000)</u>	
	23,40,000	
Add: Appreciation	<u>1,20,000</u>	24,60,000
Inventory		7,20,000
Trade receivables		10,80,000
Cash and Bank balances	4,20,000	
Add: Profit after depreciation	2,40,000	
Add: Depreciation (non-cash)	<u>60,000</u>	3,00,000
Less: Dividend [36,00,000 × 10%]	<u>(3,60,000)</u>	<u>3,60,000</u>
		48,60,000
Less: Trade payables		<u>(3,60,000)</u>
Purchase Consideration		<u>45,00,000</u>
Number of shares to be issued by Black Ltd. @ ₹ 100 each		45,000 shares

(ii) Calculation of Net Current Assets as on 1.7.2020

	₹	<i>Black Ltd.</i> ₹		<i>White Ltd.</i> ₹
Current assets:				
Inventory		9,60,000		7,20,000
Trade receivables		16,80,000		10,80,000
Cash and Bank	14,40,000		4,20,000	
Less: Dividend	(6,00,000)		(3,60,000)	
Add: Profit after depreciation	4,80,000		2,40,000	
Add: Depreciation being non-cash	<u>90,000</u>	<u>14,10,000</u>	<u>60,000</u>	<u>3,60,000</u>
		40,50,000		21,60,000

Less: Trade payables		<u>(6,00,000)</u>	<u>(3,60,000)</u>
		<u>34,50,000</u>	<u>18,00,000</u>

(iii) Profit and Loss Account balance of Black Ltd. as on 1.7.2020

	₹
P & L A/c balance as on 31.3.2020	7,20,000
Less: Dividend paid	<u>(6,00,000)</u>
	1,20,000
Add: Estimated profit for 3 months after charging depreciation	<u>4,80,000</u>
	<u>6,00,000</u>

(iv) Property, plant and equipment as on 1.7.2020

Property, plant and equipment of Black Ltd. as on 31.3.2020		36,00,000
Less: Depreciation for 3 months $[36,00,000 \times 10\% \times 3/12]$		<u>(90,000)</u>
		35,10,000
Property, plant and equipment of White Ltd. Taken over as on 31.3.2020	24,00,000	
Less: Proportionate depreciation for 3 months on fixed assets	<u>(60,000)</u>	
	23,40,000	
Add: Appreciation above the estimated book value	<u>1,20,000</u>	<u>24,60,000</u>
Total Property, plant and equipment as on 1.7.2020		<u>59,70,000</u>

13. Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.**as at 31st March, 2020**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	13,40,000
(b) Reserves and Surplus	2	8,27,040
(2) Minority Interest		1,15,560

(3) Non-Current Liabilities		
(a) 12% Debentures		1,00,000
(4) Current Liabilities		
(a) Trade Payables	3	3,84,800
(b) Short term Borrowings (Bank overdraft)		1,00,000
	Total	28,67,400
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	14,34,600
(b) Intangible assets	5	28,800
(2) Current assets		
(a) Inventory (6,00,000 + 2,00,000)		8,00,000
(b) Trade Receivables	6	5,08,000
(c) Cash and Cash equivalents		96,000
	Total	28,67,400

Notes to Accounts

			₹
1.	Share Capital		
	Equity share capital		
	1,34,000 shares of ₹ 10 each fully paid up		13,40,000
2.	Reserves and Surplus		
	Reserves	4,80,000	
	<i>Add: 4/5th share of S Ltd.'s post-acquisition reserves (W.N.3)</i>	<u>96,000</u>	5,76,000
	Profit and Loss Account	2,40,000	
	<i>Add: 4/5th share of S Ltd.'s post-acquisition profits (W.N.4)</i>	<u>11,040</u>	<u>2,51,040</u>
			<u>8,27,040</u>
3.	Trade Payables		
	H Ltd.	2,00,000	
	S Ltd.	<u>1,22,000</u>	3,22,000

	Bills Payables			
	H Ltd.	60,000		
	S Ltd.	<u>14,800</u>	<u>74,800</u>	
			3,96,800	
	<i>Less: Mutual Owings</i>		<u>(12,000)</u>	3,84,800
4.	Property Plant and Equipment			
	Machinery			
	H. Ltd.		7,20,000	
	S Ltd.	2,40,000		
	<i>Add: Appreciation</i>	<u>1,20,000</u>		
		3,60,000		
	<i>Less: Depreciation (3,60,000 x 10%)</i>	<u>(36,000)</u>	3,24,000	
	Furniture			
	H. Ltd.		3,60,000	
	S Ltd.	48,000		
	<i>Less: Decrease in value</i>	<u>(12,000)</u>		
		36,000		
	<i>Less: Depreciation (36,000 x 15%)</i>	<u>5,400</u>	<u>30,600</u>	14,34,600
5.	Intangible assets			
	Goodwill [WN 6]			28,800
6.	Trade receivables			
	H Ltd.	3,00,000		
	S Ltd.	<u>90,000</u>	3,90,000	
	Bills Receivables			
	H Ltd.	1,00,000		
	S Ltd.	<u>30,000</u>	<u>1,30,000</u>	
			5,20,000	
	<i>Less: Mutual Owings</i>		<u>(12,000)</u>	5,08,000

Working Notes:

1. Pre-acquisition profits and reserves of S Ltd.	₹
Reserves	60,000
Profit and Loss Account	<u>36,000</u>
	<u>96,000</u>
H Ltd.'s = $\frac{4}{5}$ (or 80%) \times 96,000	76,800
Minority Interest = $\frac{1}{5}$ (or 20%) \times 96,000	19,200
2. Profit on revaluation of assets of S Ltd.	
Profit on Machinery ₹ (3,60,000 – 2,40,000)	1,20,000
Less: Loss on Furniture ₹ (48,000 – 36,000)	<u>(12,000)</u>
Net Profit on revaluation	<u>1,08,000</u>
H Ltd.'s share $\frac{4}{5} \times 1,08,000$	86,400
Minority Interest $\frac{1}{5} \times 1,08,000$	21,600
3. Post-acquisition reserves of S Ltd.	
Total reserves	1,80,000
Less: Pre- acquisition reserves	<u>(60,000)</u>
Post-acquisition reserves	<u>1,20,000</u>
H Ltd.'s share $\frac{4}{5} \times 1,20,000$	96,000
Minority interest $\frac{1}{5} \times 1,20,000$	24,000
4. Post -acquisition profits of S Ltd.	
Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 60,000 – 36,000)	24,000
Add: Excess depreciation charged on furniture @ 15% on ₹ 12,000 i.e. (48,000 – 36,000)	<u>1,800</u>
	25,800
Less: Under depreciation on machinery @ 10% on ₹ 1,20,000 i.e. (3,60,000 – 2,40,000)	<u>(12,000)</u>
Adjusted post-acquisition profits	<u>13,800</u>
H Ltd.'s share $\frac{4}{5} \times 13,800$	11,040
Minority Interest $\frac{1}{5} \times 13,800$	2,760
5. Minority Interest	
Paid-up value of (24,000 – 19,200) = 4,800 shares held by outsiders i.e. 2,40,000 \times 20%	48,000

	<i>Add:</i> 1/5th share of pre-acquisition profits and reserves		19,200
	1/5th share of profit on revaluation		21,600
	1/5th share of post-acquisition reserves		24,000
	1/5th share of post-acquisition profit		<u>2,760</u>
			<u>1,15,560</u>
6.	Cost of Control or Goodwill		
	Price paid by H Ltd. for 19,200 shares	(A)	3,84,000
	<i>Less:</i> Intrinsic value of the shares		
	Paid-up value of shares held by H Ltd. i.e. 2,40,000 X 80%		1,92,000
	<i>Add:</i> 4/5th share of pre-acquisition profits and reserves		76,800
	4/5th share of profit on the revaluation		<u>86,400</u>
	Intrinsic value of shares on the date of acquisition	(B)	<u>3,55,200</u>
	Cost of control or Goodwill	(A – B)	28,800

14. (i) Financial Asset at FVTPL– As per Trade Date Accounting Basis

<i>Dates</i>	<i>Journal Entry</i>	<i>Amount</i>	<i>Amount</i>
		(₹)	(₹)
25/3/2021	Financial Asset Dr. To Payables	1,00,000	1,00,000
31/3/2021	Financial Asset Dr. To P&L	5,000	5,000
10/4/2021	Financial Asset Dr. To P&L	2,000	2,000
	Payables Dr. To Cash	1,00,000	1,00,000

(ii) Financial Asset at FVTPL– As per Settlement Date Accounting Basis

<i>Dates</i>	<i>Journal Entry</i>	<i>Amount</i>	<i>Amount</i>
		(₹)	(₹)
25/3/2021	No Entry		
31/3/2021	Fair Value Change Dr. To P&L	5,000	5,000

10/4/2021	Fair Value Change	Dr.	2,000	
	To P&L			2,000
	Financial Asset	Dr.	1,07,000	
	To Cash			1,00,000
	To Fair Value Change			7,000

15. Since the options granted have a graded vesting schedule, the enterprise segregates the total plan into different groups, depending upon the vesting dates and treats each of these groups as a separate plan. The enterprise determines the number of options expected to vest under each group as below:

Vesting Date (Year-end)		Options expected to vest
1	600 options x 1,000 employees x 25% x 0.97	1,45,500 options
2	600 options x 1,000 employees x 25% x 0.97 x 0.97	1,41,135 options
3	600 options x 1,000 employees x 50% x 0.97x0.97x0.97	<u>2,73,802 options</u>
<i>Total options expected to vest</i>		<u>5,60,437 options</u>

In case of intrinsic value method, total compensation expense for the options expected to vest would be

Vesting Date (End of year)	Expected Vesting (No. of Options)	Value per Option (Rs.)	Compensation Expense (₹)
1	1,45,500	7	10,18,500
2	1,41,135	7	9,87,945
3	<u>2,73,802</u>	7	<u>19,16,614</u>
	<u>5,60,437</u>		<u>39,23,059</u>

Total compensation expense of ₹ 39,23,059, determined at the grant date, would be attributed to the years 1, 2 and 3 as below:

Vesting Date (End of year)	Cost to be recognized		
	Year 1	Year 2	Year 3
1	10,18,500		
2	4,93,972	4,93,973	

3	<u>6,38,871</u>	<u>6,38,871</u>	<u>6,38,872</u>
Cost for the year	<u>21,51,343</u>	<u>11,32,844</u>	<u>6,38,872</u>
Cumulative cost	21,51,343	32,84,187	39,23,059

16. (a) NAV of the Fund on 1st April, 2021 = $\frac{\text{Net Assets}}{\text{No. of Units of fund}}$

$$= \frac{\text{₹ } 98,500 + \text{₹ } 1,20,65,000 + \text{₹ } 13,22,000 + \text{₹ } 3,37,45,000 + \text{₹ } 3,88,500}{4,00,000 \text{ units}}$$

$$= \frac{\text{₹ } 4,76,19,000}{4,00,000 \text{ units}} = \text{₹ } 119.0475$$

(b) The revised position of fund

Shares	No. of shares	Price	Amount (₹)
P Ltd.	5000	19.70	98,500
Q Ltd.	25000	482.60	1,20,65,000
R Ltd.	(5,000+9,000) 14,000	264.40	37,01,600
S Ltd.	50,000	674.90	3,37,45,000
T Ltd.	15,000	25.90	3,88,500
Cash	[25,00,000 - (9,000 x 264.40)]		<u>1,20,400</u>
			<u>5,01,19,000</u>

(c) No. of units of fund = $4,00,000 + \frac{25,00,000}{119.0475} = 4,21,000 \text{ units}$

Calculation the NAV of fund on 2nd April, 2021

Shares	No. of shares	Price	Amount (₹)
P Ltd.	5,000	20.30	1,01,500
Q Ltd.	25,000	513.70	1,28,42,500
R Ltd.	14,000	290.80	40,71,200
S Ltd.	50,000	671.90	3,35,95,000
T Ltd.	15,000	44.20	6,63,000
Cash			<u>1,20,400</u>
			<u>5,13,93,600</u>

NAV as on 2nd April 2021 = $\frac{5,13,93,600}{4,21,000 \text{ units}} = \text{₹ } 122.075 \text{ per unit}$

17. On the basis of the information, in respect of financed assets, provision shall be made as under:

(₹ in crore)		
(a) Where hire charges are overdue upto 12 months	Nil	-
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 4,000	400
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 3,750	1,500
(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 3,000	2,100
(e) Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value (100% x 10,000)	10,000
	Total	14,000

18. Valuation of a share of Precious Ltd.

Particulars	
Net trading assets (W.N. 2)	₹ 16,08,750
Add: Goodwill (W.N. 3)	₹ 2,67,375
Less: Preference capital	<u>₹ (1,50,000)</u>
Net assets available to equity share holders	<u>₹ 17,26,125</u>
Number of equity shares	4,500 shares
Value per equity share	₹ 383.58

Working Note :

1. A. Future maintainable profit

Particulars	2018- 2019 ₹	2019- 2020 ₹	2020- 2021 ₹
Profit after interest and tax but before preference dividend	2,20,500	3,22,500	2,40,000
Less: Profit from non- recurring activity		(32,250)	

Less: Claims not recorded (net of tax) (W.N.4)			(4,125)
Add: Provision no longer required (net of tax) (W.N.4)			<u>7,875</u>
Adjusted profits	<u>2,20,500</u>	<u>2,90,250</u>	<u>2,43,750</u>
Simple average of the profits (as profits are fluctuating)			2,51,500
Adjustments for items which will not be reflected in future			7,500
Add: Debenture interest (debenture redeemed) (net of tax) (W.N.5)			
Total future maintainable profit			<u>2,59,000</u>

B. Future Maintainable Profit available for equity shareholders

Particulars	₹
Total future maintainable profits	2,59,000
Less: Dividend payable to preference share holders	<u>(9,000)</u>
Future maintainable profit available for equity shareholders	<u>2,50,000</u>

2. Computation of capital employed:

Particulars	₹	₹
Sundry assets:		
(i) Freehold property (₹ 50,400 ÷ 8%)	6,30,000	
(ii) Plant and machinery	1,50,000	
(iii) Stock	2,70,000	
(iv) Debtors (₹ 2,99,250 ÷ 95%)	3,15,000	
(v) Bank Balance (3,45,000+3,75,000-2,25,000)	<u>4,95,000</u>	18,60,000
Less: Outside liabilities:		
(i) Creditors	2,39,250	
(ii) Omitted liability (claim)	8,250	
(iii) Tax provision (W.N. 6)	<u>3,750</u>	<u>(2,51,250)</u>
Capital employed		<u>16,08,750</u>

Note: Assets and liabilities are recorded at realizable value or fair value. In the absence of information, book values are assumed to be fair values.

3. Calculation of goodwill

Particulars	₹
Capital employed	
Net assets (W.N. 2)	<u>16,08,750</u>
Normal profit @ 10% of capital employed	1,60,875
Future Maintainable Profit (W.N.1B)	2,50,000
Super profits (FMP-NP)	89,125
Number of years of purchase	3 years
Goodwill (₹ 89,125 x 3 years)	2,67,375

4. Provision no longer required

The debtors as per balance sheet is after considering provision for doubtful debts.

Provision made in 2020-2021	= 5 % of debtors = ₹ 2,99,250 × $\frac{5}{95}$ = ₹ 15,750
Less : Tax @ 50%	= <u>(₹ 7,875)</u>
Provision no longer required	= <u>₹ 7,875</u>

5. Since debentures will be redeemed; the interest thereon will no longer be payable in future. This is to be added back because the given profits were after charging debenture interest.

6. Calculation of tax provision

	Particulars	₹
(i)	Provision for bad debts not required	15,750
(ii)	Omitted claim (assuming tax deductible)	<u>(8,250)</u>
(iii)	Net incremental profit on which tax is payable	7,500
(iv)	Tax provision @ 50%	3,750

19.

Prosperous Ltd.

Value Added Statement for the year ended 31st March, 2021

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

Application of Gross Value Added

	(₹ in '000)	(₹ in '000)	%
To Pay Employees:			
Wages/ Salaries to Administrative Staff		330	0.28
To Pay Directors:			
Directors' Remuneration		55	0.05
To Pay Government:			
Local taxes including cess	70		
Provision for tax	<u>87</u>	157	0.14
To Pay Providers of Capital			
Interest on Debentures		180	0.15
To Provide for maintenance			
Depreciation	240		
Retained Profit	<u>203</u>	<u>443</u>	<u>0.38</u>
		<u>1,165</u>	<u>1.00</u>

Ratios

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

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

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

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

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

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

$$(d) \text{ Gross Value Added to Capital Employed Ratio}$$

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

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

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

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

$$\text{Gross Value Added to Capital Employed Ratio}$$

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

$$= \frac{1165}{(1,500+600+263+1,800)} = 0.28$$

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

20. We know that $EVA = NOPAT - \text{Cost of Capital Employed}$

Where $EVA = \text{Economic Value Added}$

$NOPAT = \text{Net Operating Profit After Tax}$

Required calculation are as follows:

(i) **NOPAT**

Profit After Tax	₹ 20,394.16 lakhs
Add Interest Net of Tax [₹ 487 lakhs (1-0.2445)]	₹ <u>367.93 lakhs</u>
NOPAT	₹ <u>20,762.09 lakhs</u>

(ii) **Cost of Equity:**

$$\begin{aligned} \text{Cost of Equity} &= \text{Risk free Rate} + \text{Beta} [\text{Market Rate} - \text{Risk Free Return}] \\ &= 12\% + 1.05 \times (15.14 - 12.00) \\ &= 12\% + 3.30\% = 15.30\% \end{aligned}$$

(iii) **Cost of Debt**

$$\text{Cost of Debt} = \frac{\text{Interest on Loan Funds (1 - Tax Rate)}}{\text{Loan funds}} \times 100$$

$$\text{Cost of Debt} = \frac{487 \times (1 - 0.2445)}{8,100} \times 100 = 4.54\%$$

(iv) **Weighted Average Cost of Capital (WACC)**

	Amount (₹ in lakhs)	Weight	Cost	WACC %
Equity	72,900	.90	15.30	13.77
Debt	8,100	.10	4.54	0.454
	81,000	1.00		14.224

(v) **Cost of Capital Employed = ₹ 81,000 x 14.224% = ₹ 11,521.44 lakhs**

(vi) **EVA = NOPAT – Cost of Capital Employed**

$$= ₹ 20,762.09 \text{ lakhs} - ₹ 11,521.44 \text{ lakhs} = ₹ 9,240.65 \text{ lakhs}$$