

MOCK TEST PAPER 1
FINAL (NEW) COURSE
PAPER 1: FINANCIAL REPORTING
ANSWERS

1. (a) Consolidated Balance Sheet of DEF Ltd. and its subsidiary, XYZ Ltd. as on 31st March, 20X2

Particulars	Note No.	Rs.
I. Assets		
(1) Non-current assets		
(i) Property Plant & Equipment	1	86,00,000
(2) Current Assets		
(i) Inventories	2	17,14,000
(ii) Financial Assets		
(a) Trade Receivables	3	9,98,000
(b) Cash & Cash equivalents	4	<u>2,25,000</u>
Total Assets		<u>1,15,37,000</u>
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital	5	50,00,000
(ii) Other Equity	6	49,92,000
(2) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	7	7,45,000
(b) Short term borrowings	8	<u>8,00,000</u>
Total Equity & Liabilities		<u>1,15,37,000</u>

Notes to Accounts

		Rs.
1.	Property Plant & Equipment	
	Land & Building	43,00,000
	Plant & Machinery (W.N. 7)	<u>43,00,000</u>
		86,00,000
2.	Inventories	
	DEF Ltd.	12,00,000
	XYZ Ltd.	<u>5,14,000</u>
		17,14,000
3.	Trade Receivables	
	DEF Ltd.	5,98,000
	XYZ Ltd.	<u>4,00,000</u>
		9,98,000
4.	Cash & Cash equivalents	
	DEF Ltd.	1,45,000
	XYZ Ltd.	<u>80,000</u>
		2,25,000

7.	Trade payable		
	DEF Ltd.	4,71,000	
	XYZ Ltd.	<u>2,74,000</u>	7,45,000
8.	Shorter-term borrowings		
	Bank overdraft		8,00,000

Statement of Changes in Equity:

5. Equity share Capital

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
50,00,000	0	50,00,000

6. Other Equity

	Share application money pending allotment	Equity component of compound financial instrument	Reserves & Surplus			Total
			Capital reserve	Retained Earnings	Other Reserves	
Balance at the beginning				0	24,00,000	24,00,000
Total comprehensive income for the year			0	5,72,000		5,72,000
Dividends			0	(2,00,000)		(2,00,000)
Total comprehensive income attributable to parent			0	3,35,000		3,35,000
Gain on Bargain purchase			18,85,000			18,85,000
Balance at the end of reporting period			<u>18,85,000</u>	<u>7,07,000</u>	<u>24,00,000</u>	<u>49,92,000</u>

It is assumed that there exists no clear evidence for classifying the acquisition of the subsidiary as a bargain purchase and, hence, the bargain purchase gain has been recognized directly in capital reserve. If, however, there exists such a clear evidence, the bargain purchase gain would be recognized in other comprehensive income and then accumulated in capital reserve. In both the cases, closing balance of capital reserve will be Rs. 18,85,000.

Working Notes:**1. Adjustments of Fair Value**

The Plant & Machinery of XYZ Ltd. would stand in the books at Rs. 14,25,000 on 1st October, 20X1, considering only six months' depreciation on Rs. 15,00,000 total depreciation being Rs. 1,50,000. The value put on the assets being Rs. 20,00,000 there is an appreciation to the extent of Rs. 5,75,000.

2. Acquisition date profits of XYZ Ltd.**Rs.**

Reserves on 1.4. 20X1	10,00,000
Profit & Loss Account Balance on 1.4. 20X1	3,00,000
Profit for 20X2: Total Rs. 8,20,000 less Rs. 1,00,000 (3,00,000 – 2,00,000) i.e. Rs. 7,20,000; for 6 months i.e. up to 1.10.20X1	3,60,000
Total Appreciation including machinery appreciation (10,00,000 + 1,50,000 + 5,75,000 – 1,00,000)	<u>16,25,000</u>
Share of DEF Ltd.	<u>32,85,000</u>

3. Post-acquisition profits of XYZ Ltd.**Rs.**

Profit after 1.10. 20X1 [8,20,000-1,00,000]x 6/12	3,60,000
Less: 10% depreciation on Rs. 20,00,000 for 6 months less depreciation already charged for 2 nd half of 20X1-20X2 on Rs. 15,00,000 (1,00,000-75,000)	<u>(25,000)</u>
Share of DEF Ltd.	<u>3,35,000</u>

4. Consolidated total comprehensive income**Rs.**

<i>DEF Ltd.</i>	
Retained earnings on 31.3.20X2	5,72,000
Less: Retained earnings as on 1.4.20X1 Profits for the year 20X1-20X2	<u>(0)</u>
	5,72,000
Less: Elimination of intra-group dividend	<u>(2,00,000)</u>
Adjusted profit for the year	3,72,000
<i>XYZ Ltd.</i>	
Adjusted profit attributable to DEF Ltd. (W.N.3)	<u>3,35,000</u>
Consolidated profit or loss for the year	<u>7,07,000</u>

5. No Non-controlling Interest as 100% shares of XYZ Ltd. are held by DEF Ltd.**6. Gain on Bargain Purchase****Rs.**

Amount paid for 20,000 shares		34,00,000
Par value of shares	20,00,000	
DEF Ltd.'s share in acquisition date profits of XYZ Ltd.	<u>32,85,000</u>	<u>(52,85,000)</u>
Gain on Bargain Purchase		<u>18,85,000</u>

7. Value of Plant & Machinery**Rs.**

DEF Ltd.		24,00,000
XYZ Ltd.	13,50,000	
Add: Appreciation on 1.10. 20X1	<u>5,75,000</u>	

Add: Depreciation for 2nd half charged on pre-revalued value	19,25,000	
	75,000	
Less: Depreciation on Rs. 20,00,000 for 6 months	<u>(1,00,000)</u>	<u>19,00,000</u>
		<u>43,00,000</u>

(b) Accounting treatment for:

1. First Grant

The first grant for 'Clear River Project' involving research into effects of various chemicals waste from the industrial area in Madhya Pradesh, seems to be unconditional as no details regarding its refund has been mentioned. Even though the research has not been started nor any major steps have been completed by Rainbow Limited to commence the research, yet the grant will be recognised immediately in profit or loss for the year ended 31st March, 20X2.

Alternatively, in case, the grant is conditional as to expenditure on research, the grant will be recognised in the books of Rainbow Limited over the years the expenditure is being incurred.

2. Second Grant

The second grant related to commercial development of a new equipment is a grant related to depreciable asset. As per the information given in the question, the equipment will be available for sale in the market from April, 20X3. Hence, by that time, grant relates to the construction of an asset and should be initially recognised as deferred income.

The deferred income should be recognised as income on a systematic and rational basis over the asset's useful life.

The entity should recognise a liability on the balance sheet for the years ending 31st March, 20X2 and 31st March, 20X3. Once the equipment starts being used in the manufacturing process, the deferred grant income of Rs. 100,000 should be recognised over the asset's useful life to compensate for depreciation costs.

Alternatively, as per Ind AS 20, Rainbow Limited would also be permitted to offset the deferred income of Rs. 100,000 against the cost of the equipment in April, 20X3.

3. For flood related compensation

Rainbow Limited will be able to submit an application form only after 31st May, 20X2 ie in the year 20X2-20X3. Although flood happened in September, 20X1 and loss was incurred due to flood related to the year 20X1-20X2, the entity should recognise the income from the government grant in the year when the application form related to it is submitted and approved by the government for compensation.

Since, in the year 20X1-20X2, the application form could not be submitted due to adoption of financials with respect to sales figure before flood occurred, Rainbow Limited should not recognise the grant income as it has not become receivable as on 31st March, 20X2.

2. (a)

Cheery Limited

Extract from the Statement of profit and loss

	(Restated)	
	20X4-X5	20X3-X4
	Rs.	Rs.
Sales	1,04,000	73,500
Cost of goods sold	<u>(80,000)</u>	<u>(60,000)</u>

Profit before income taxes	24,000	13,500
Income taxes	(7,200)	(4,050)
Profit	<u>16,800</u>	<u>9,450</u>
Basic and diluted EPS	3.36	1.89

Cheery Limited

Statement of Changes in Equity

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

Extract from the Notes

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

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

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

- (b) (a) Entity I is likely to provide a price concession and accept an amount less than Rs. 2 million in exchange for the machinery. The consideration is therefore variable. The transaction price in this arrangement is Rs. 1.75 million, as this is the amount which entity I expects to receive after providing the concession and it is not constrained under the variable consideration guidance. Entity I can also conclude that the collectability threshold is met for Rs. 1.75 million and therefore contract exists.
- (b) The transaction price is Rs. 90 per container based on entity J's estimate of total sales volume for the year, since the estimated cumulative sales volume of 2.8 million containers would result in a price per container of Rs. 90. Entity J concludes that based on a transaction price of Rs. 90 per container, it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty is resolved. Revenue is therefore recognised at a selling price of Rs. 90 per container as each container is sold. Entity J will recognise a liability for cash received in excess of the transaction price for the first 1 million containers sold at Rs. 100 per container (that is,

Rs. 10 per container) until the cumulative sales volume is reached for the next pricing tier and the price is retroactively reduced.

For the quarter ended 31st March, 20X8, entity J recognizes revenue of Rs. 63 million (700,000 containers x Rs. 90) and a liability of Rs. 7 million [700,000 containers x (Rs. 100 - Rs. 90)].

Entity J will update its estimate of the total sales volume at each reporting date until the uncertainty is resolved.

- (c) Entity K records sales to the retailer at a transaction price of Rs. 47.50 (Rs. 50 less 25% of Rs. 10). The difference between the per unit cash selling price to the retailers and the transaction price is recorded as a liability for cash consideration expected to be paid to the end customer. Entity K will update its estimate of the rebate and the transaction price at each reporting date if estimates of redemption rates change.
- (d) The transaction price is Rs. 950, because the expected reimbursement is Rs. 50. The expected payment to the retailer is reflected in the transaction price at contract inception, as that is the amount of consideration to which the manufacturer expects to be entitled after the price protection. The manufacturer will recognise a liability for the difference between the invoice price and the transaction price, as this represents the cash that it expects to refund to the retailer. The manufacturer will update its estimate of expected reimbursement at each reporting date until the uncertainty is resolved.

3. (a) As per Ind AS 10, the treatment of stated issues would be as under:

- (i) **Adjusting event:** It is an adjusting event as it is the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. Even though winning of award is favorable to the company, it should be accounted in its books as receivable since it is an adjusting event.
- (ii) **Adjusting event:** The sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period, hence it is an adjusting event as per Ind AS 10. Zoom Limited should value its inventory at Rs. 40,00,000. Hence, appropriate provision must be made for Rs. 15 lakh.
- (iii) **Adjusting event:** As per Ind AS 10, the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.

The bankruptcy of a customer that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period.

(iv) Non – adjusting event:

Announcing or commencing the implementation of a major restructuring after reporting period is a non-adjusting event as per Ind AS 10. Though this is a non-adjusting event occurred after the reporting period, yet it would result in disclosure of the event in the financial statements, if restructuring is material.

This would not require provision since as per Ind AS 37, decision to restructure was not taken before or on the reporting date. Hence, it does not give rise to a constructive obligation at the end of the reporting period to create a provision.

- (b) Ind AS 108 'Operating Segments' requires operating segments to be aggregated to present a reportable segment if the segments have similar economic characteristics, and the segments are similar in each of the following aggregation criteria:
 - (a) The nature of the products and services
 - (b) The nature of the production process

- (c) The type or class of customer for their products and services
- (d) The methods used to distribute their products or provide their services
- (e) If applicable, the nature of the regulatory environment

While the products and services are similar, the customers for those products and services are different.

In Segment 1, the decision to award the contract is in the hands of the local authority, which also sets prices and pays for the services. The company is not exposed to passenger revenue risk, since a contract is awarded by competitive tender.

On the other hand, in the inter-city segment, the customer determines whether a bus route is economically viable by choosing whether or not to buy tickets. T Ltd sets the ticket prices but will be affected by customer behavior or feedback. T Ltd is exposed to passenger revenue-risk, as it sets prices which customers may or may not choose to pay.

Operating Segment provides information that makes the financial statements more useful to investors. In making the investment decisions, investors and creditors consider the returns they are likely to make on their investment. This requires assessment of the amount, timing and uncertainty of the future cash flows of T Ltd as well as of management's stewardship of T Ltd's resources. How management derives profit is therefore relevant information to an investor.

Inappropriately aggregating segments reduces the usefulness of segment disclosures to investors. Ind AS 108 requires information to be disclosed that is not readily available elsewhere in the financial statements, therefore it provides additional information which aids an investor's understanding of how the business operates and is managed.

In T Ltd.'s case, if the segments are aggregated, then the increased profits in segment 2 will hide the decreased profits in segment 1. However, the fact that profits have sharply declined in segment 1 would be of interest to investors as it may suggest that future cash flows from this segment are at risk.

- (c) Investment property is held to earn rentals or for capital appreciation or both. Ind AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with the requirement of Ind AS 16 for cost model.

The measurement and disclosure of Investment property as per Ind AS 40 in the balance sheet would be depicted as follows:

INVESTMENT PROPERTIES:

Particulars	Period ended 31 st March, 20X2 (Rs. in crore)
Gross Amount:	
Opening balance (A)	10.00
Additions during the year (B)	<u>2.00</u>
Closing balance (C) = (A) + (B)	<u>12.00</u>
Depreciation:	
Opening balance (D)	2.50
Depreciation during the year (E) (0.5 + 0.05)	<u>0.55</u>
Closing balance (F) = (D) + (E)	<u>3.05</u>
Net balance (C) - (F)	<u>8.95</u>

The changes in the carrying value of investment properties for the year ended 31st March, 20X2 are as follows:

Amount recognised in Profit and Loss with respect to Investment Properties

Particulars	Period ending 31 st March, 20X2 (Rs. in crore)
Rental income from investment properties (0.75 + 0.25)	1.00
Less: Direct operating expenses generating rental income (5+1+2.5+1.5+2+1)	<u>(0.13)</u>
Profit from investment properties before depreciation and indirect expenses	0.87
Less: Depreciation	<u>(0.55)</u>
Profit from earnings from investment properties before indirect expenses	<u>0.32</u>

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist Property A and Property B. As at 31st March, 20X2, the fair value of the properties is Rs.10.50 crore. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

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

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

4. (a) The preference shares provide the holder with the right to receive a predetermined amount of annual dividend out of profits of the company, together with a fixed amount on redemption.

Whilst the legal form is equity, the shares are in substance debt. The fixed level of dividend is interest and the redemption amount is equivalent to the repayment of a loan.

Under Ind AS 32 'Financial Instruments: Presentation' these instruments should be classified as financial liabilities because there is a contractual obligation to deliver cash. The preference shares should be accounted for at amortised cost using the effective interest rate of 18%.

Year	1 April, 20X5 Rs.	Interest @18% Rs.	Paid at 4% Rs.	31 March, 20X6 Rs.
20X5-20X6	480,000	86,400	(19,200)	547,200

Accordingly, the closing balance of Preference shares at year end i.e. 31st March, 20X6 would be Rs. 5,47,200.

Accountant has inadvertently debited interest of Rs. 19,200 in the profit and loss. However, the interest of Rs. 86,400 should have been debited to profit and loss as finance charge.

Similarly, amount of Rs. 5,47,200 should be included in borrowings (non-current liabilities) and consequently, Equity should be reduced by Rs. 480,000 proceeds of issue and Rs. 67,200 (86,400 – 19,200) i.e. total by 5,47,200.

Necessary adjusting journal entry to rectify the books of accounts will be:

		Rs.	Rs.
Preference share capital (equity) (Balance sheet)	Dr.	4,80,000	
Finance costs (Profit and loss)	Dr.	86,400	
To Equity – Retained earnings (Balance sheet)			19,200
To Preference shares (Long-term Borrowings) (Balance sheet)			5,47,200

(b) According to paragraph 35 of Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

In such a situation, the revised carrying amount of the machinery will be as follows:

Gross carrying amount	Rs. 250	[(200/120) x 150]
Net carrying amount	<u>Rs. 150</u>	
Accumulated depreciation	<u>Rs. 100</u>	(Rs. 250 – Rs. 150)

Journal entry

Plant and Machinery (Gross Block) Dr.	Rs. 50	
To Accumulated Depreciation		Rs. 20
To Revaluation Reserve		Rs. 30

Depreciation subsequent to revaluation

Since the Gross Block has been restated, the depreciation charge will be Rs. 25 per annum (Rs. 250/10 years).

Journal entry

Accumulated Depreciation Dr.	Rs. 25 p.a.	
To Plant and Machinery (Gross Block)		Rs. 25 p.a.

(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset. The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with the paragraphs 39 and 40 of Ind AS 16.

In this case, the gross carrying amount is restated to Rs. 150 to reflect the fair value and accumulated depreciation is set at zero.

Journal entry

Accumulated Depreciation	Dr.	Rs. 80	
To Plant and Machinery (Gross Block)			Rs. 80
Plant and Machinery (Gross Block)	Dr.	Rs. 30	
To Revaluation Reserve			Rs. 30

Depreciation subsequent to revaluation

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of Rs. 25 per annum as per Option A (Rs. 150 / 6 years).

Journal entry

Accumulated Depreciation	Dr.	Rs. 25 p.a.	
To Plant and Machinery (Gross Block)			Rs. 25 p.a.

- (c) Para 36 of Ind AS 7 inter alia states that when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Accordingly, the transactions are analysed as follows:

Particulars	Amount (in crore)	Activity
Sale Consideration	100	Investing Activity
Capital Gain Tax	(20)	Investing Activity
Business profits	30	Operating Activity
Tax on Business profits	(3)	Operating Activity
Dividend Payment	(20)	Financing Activity
Dividend Distribution Tax	(2)	Financing Activity
Income Tax Refund	<u>1.5</u>	Operating Activity
Total Cash flow	<u>86.5</u>	

Activity wise	Amount (in crore)
Operating Activity	28.5
Investing Activity	80
Financing Activity	<u>(22)</u>
Total	<u>86.5</u>

- (d) (i) Various categories of capital are:

- ◆ Financial
- ◆ Manufactured
- ◆ Intellectual
- ◆ Human
- ◆ Social and Relationship
- ◆ Natural

Organizations preparing an integrated report are not required to adopt this categorization or to structure their report along the above lines of the capitals.

- (ii) The Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.
- (iii) An integrated report may be prepared in response to existing compliance requirements. For example, an organization may be required by local law to prepare a management commentary or other report that provides context for its financial statements. If that report is also prepared in accordance with this Framework, it can be considered an integrated report. If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.

5. (a)

Journal of Enterprise Ltd.

(Rs. in crores)

			Dr.	Cr.
(1)	Loan Funds	Dr.	300	
	Current Liabilities	Dr.	400	
	Provision for Depreciation	Dr.	400	
	To Property, Plant and Equipment			500
	To Current Assets			500
	To Capital Reserve			100
	(Being division Mobiles along with its assets and liabilities sold to Turnaround Ltd. for Rs. 25 crores)			

Notes :

- (1) Any other alternative set of entries, with the same net effect on various accounts, may be given by the students.
- (2) In the given scenario, this demerger will meet the definition of common control transaction. Accordingly, the transfer of assets and liabilities will be derecognized and recognized as per book value and the resultant loss or gain will be recorded as capital reserve in the books of demerged entity (Enterprise Ltd).

Enterprise Ltd.

Balance Sheet after reconstruction

(Rs. R in crores)

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		25
Current assets		
Other current assets		200
		<u>225</u>
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs. 10 each)		25
Other equity (Surplus)		175
Liabilities		

Current liabilities		
Current liabilities		25
		<u>225</u>

Notes to Accounts

		<i>(Rs. in crores)</i>
1. Other Equity		
Surplus (175-100)		75
Add: Capital Reserve on reconstruction		100
		<u>175</u>

Notes to Accounts: Consequent on transfer of Division Mobiles to newly incorporated company Turnaround Ltd., the members of the company have been allotted 1 crore equity shares of Rs. 10 each at a premium of Rs. 15 per share of Turnaround Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

Balance Sheet of Turnaround Ltd.

(Rs. in crores)

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		100
Current assets		
Other current assets		500
		<u>600</u>
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs. 10 each)	1	10
Other equity	2	(110)
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings		300
Current liabilities		
Current liabilities		400
		<u>600</u>

Notes to Accounts

		<i>(Rs. in crores)</i>
1. Share Capital:		
Issued and Paid-up capital		
1 crore Equity shares of Rs. 10 each fully paid up		10
(All the above shares have been issued for consideration other than cash, to the members of Enterprise Ltd. on takeover of Division		

	Mobiles from Enterprise Ltd.)	
2.	Other Equity:	
	Securities Premium	15
	Capital reserve [25- (600 – 700)]	(125)
		(110)

Working Note:

In the given case, since both the entities are under common control, this will be accounted as follows:

- All assets and liabilities will be recorded at book value
- Identity of reserves to be maintained.
- No goodwill will be recorded.
- Securities issued will be recorded as per the nominal value.

(b) On Initial recognition

	Debit (Rs.)	Credit (Rs.)
Financial asset-FVOCI Dr.	1,000	
To Cash		1,000

On Impairment of debt instrument

	Debit (Rs.)	Credit (Rs.)
Impairment expense (P&L) Dr.	30	
Other comprehensive income Dr.	20	
To Financial asset-FVOCI		50

The cumulative loss in other comprehensive income at the reporting date was Rs. 20. That amount consists of the total fair value change of Rs. 50 (that is, Rs. 1,000-Rs. 950) offset by the change in the accumulated impairment amount representing 12-month ECL, that was recognized (Rs. 30).

On Sale of debt instrument

	Debit (Rs.)	Credit (Rs.)
Cash	950	
To Financial asset –FVOCI		950
Loss on sale (P&L)	20	
To Other comprehensive income		20

(c) Calculation of capitalization rate on borrowings other than specific borrowings

Nature of general borrowings	Period of outstanding balance	Amount of loan (Rs.)	Rate of interest p.a.	Weighted average amount of interest (Rs.)
	<i>a</i>	<i>b</i>	<i>c</i>	$d = [(b \times c) \times (a/12)]$
9% Debentures	12 months	30,00,000	9%	2,70,000
Bank overdraft	9 months	4,00,000	12%	36,000

	2 months	4,00,000	15%	10,000
	1 month	<u>8,00,000</u>	15%	<u>10,000</u>
		<u>46,00,000</u>		<u>3,26,000</u>

Weighted average cost of borrowings

$$= \{30,00,000 \times (12/12)\} + \{4,00,000 \times (11/12)\} + \{8,00,000 \times (1/12)\}$$

$$= 34,33,334$$

Capitalisation rate = (Weighted average amount of interest / Weighted average of general borrowings) x 100

$$= (3,26,000 / 34,33,334) \times 100 = 9.50\% \text{ p.a.}$$

6. (a) Calculation of the value in use of the machine owned by East Ltd. (East) includes the projected cash inflow (i.e. sales income) from the continued use of the machine and projected cash outflows that are necessarily incurred to generate those cash inflows (i.e cost of goods sold). Additionally, projected cash inflows include Rs. 80,000 from the disposal of the asset in March, 20X8. Cash outflows include routing capital expenditures of Rs. 50,000 in 20X5-X6

As per Ind AS 36, estimates of future cash flows shall not include:

- Cash inflows from receivables
- Cash outflows from payables
- Cash inflows or outflows expected to arise from future restructuring to which an entity is not yet committed
- Cash inflows or outflows expected to arise from improving or enhancing the asset's performance
- Cash inflows or outflows from financing activities
- Income tax receipts or payments.

Hence in this case, cash flows do not include financing interest (i.e. 10%), tax (i.e. 30%) and capital expenditures to which East has not yet committed (i.e. Rs. 100 000). They also do not include any savings in cash outflows from these capital expenditure, as required by Ind AS 36.

The cash flows (inflows and outflows) are presented below in nominal terms. They include an increase of 3% per annum to the forecast price per unit (B), in line with forecast inflation. The cash flows are discounted by applying a discount rate (8%) that is also adjusted for inflation.

Note: Figures are calculated on full scale and then rounded off to the nearest absolute value.

Year ended	20X3-X4	20X4-X5	20X5-20X6	20X6-X7	20X7-X8	Value in use
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Quantity (A)	10,000	10,500	11,025	11,576	12,155	
Price per unit(B)	200	206	212	219	225	
Estimated cash inflows (C=A x B)	20,00,000	21,63,000	23,37,300	25,35,144	27,34,875	
Misc. cash inflow disposal proceeds (D)					80 000	
Total	20,00,000	21,63,000	23,37,300	25,35,144	28,14,875	

estimated cash inflows (E=C+D)						
Cost per unit (F)	160	162	165	168	171	
Estimated cash outflows (G = A x F)	(16,00,000)	(17,01,000)	(18,19,125)	(19,44,768)	(20,78,505)	
Misc. cash outflow: maintenance costs (H)			(50,000)			
Total estimated cash outflows (I=G+H)	(16,00,000)	(17,01,000)	(18,69,125)	(19,44,768)	(20,78,505)	
Net cash flows (J=E-I)	4,00,000	4,62,000	4,68,175	5,90,376	7,36,370	
Discount factor 8% (K)	0.9259	0.8573	0.7938	0.7350	0.6806	
Discounted future cash flows (L=J x K)	3,70,360	3,96,073	3,71,637	4,33,926	5,01,173	20,73,169

- (b) The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

The fair value of consideration (cash price equivalent) of the sale of goods is calculated as follows:

Rs.

Year	Consideration (Installment)	Present value factor	Present value of consideration
Time of sale	3,33,333	-	3,33,333
End of 1 st year	3,33,333	0.949	3,16,333
End of 2 nd year	<u>3,33,334</u>	0.901	<u>3,00,334</u>
	10,00,000		9,50,000

The Company that agrees for deferring the cash inflow from sale of goods will recognise the revenue from sale of goods and finance income as follows:

Initial recognition of sale of goods		Rs.	Rs.
Cash	Dr.	3,33,333	
Trade Receivable	Dr.	6,16,667	
To Sale			9,50,000
Recognition of interest expense and receipt of second installment			
Cash	Dr.	3,33,333	
To Interest Income			33,053

To Trade Receivable			3,00,280
Recognition of interest expense and payment of final installment			
Cash	Dr.	3,33,334	
To Interest Income (Balancing figure)			16,947
To Trade Receivable			3,16,387

Statement of Profit and Loss (extracts)
for the year ended 31st March, 20X2 and 31st March, 20X3

Rs.

	As at 31 st March, 20X2	As at 31 st March, 20X3
Income		
Sale of Goods	9,50,000	-
Other Income (Finance income)	33,053	16,947

Balance Sheet (extracts) as at 31st March, 20X2 and 31st March, 20X3 Rs.

	As at 31 st March, 20X2	As at 31 st March, 20X3
Assets		
Current Assets		
<u>Financial Assets</u>		
Trade Receivables	3,16,387	-

(c) **Either**

Functional currency is the currency of the primary economic environment in which the entity operates. In this regard, the primary economic environment will normally be the one in which it primarily generates and expends cash i.e. it operates. The functional currency is normally the currency of the country in which the entity is located. It might, however, be a different currency.

The following are the factors that influence determination of an appropriate functional currency:

1. Primary indicators:

- (a) the currency:
 - i. that mainly influences sales prices for its goods and services. This will often be the currency in which sales prices are denominated and settled; and
 - ii. of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
 - iii. the currency that mainly influences labour, material and other costs of providing goods and services. This will often be the currency in which these costs are denominated and settled.

2. Secondary indicators: Other factors that may provide supporting evidence to determine an entity's functional currency are-

- (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and
- (b) the currency in which receipts from operating activities are usually retained.

OR

Basic EPS is Rs. 0.50 per share (ie 500,000/1,000,000)

The earnings per incremental share for the convertible bonds is calculated as follows:

Earnings effect = No. of bonds x nominal value x interest cost x (1 – applicable tax rate)

= 1,000 x 100 x 10% x (1- 0.21) = Rs. 7,900.

Incremental shares calculation

Assume all bonds are converted to shares, even though this converts Rs. 100 worth of bonds into 20 shares worth only Rs. 90 and is therefore not economically rational.

This gives 1000 x 20 = 20,000 additional shares.

Earnings per incremental share = Rs. 7,900 / 20,000 = Rs. 0.395

Diluted EPS = (Rs. 500,000 + Rs. 7,900) / (1,000,000 + 20,000) = Rs. 0.498 per share.