FINAL COURSE

PAPER – 1

FINANCIAL REPORTING

[RELEVANT FOR MAY, 2025 EXAMINATION AND ONWARDS]

BOOKLET ON CASE SCENARIOS

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This booklet has been prepared by the faculty of the Board of Studies. The objective of the booklet is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Joint Director, Board of Studies.

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PREFACE

Under the New Scheme of Education and Training which began from 1st July, 2023, 30% of the examination assessment is by the way of Objective Type Questions at Intermediate and Final level. Therefore, to provide hands on practice for such type of questions, BOS launched MCQ Paper Practice Portal on 1st July, 2023. This online portal carried independent MCQs as well as case scenario based MCQs both for conceptual clarity and practice of the students.

In continuation to this handholding initiative and to provide quality academic inputs to the students to help them grasp the intricate aspects of the subject, the Board of studies had brought forth subject-wise booklets on Case Scenarios at Intermediate and Final level. These booklets are meticulously designed to assist Chartered Accountancy (CA) students in their preparation of the CA course.

At Final level, the **'Booklet on Case Scenarios for Financial Reporting'** carries integrated case scenarios involving more than one Indian Accounting Standards. It covers a wide range of scenarios covering various provisions of Indian Accounting Standards, ensuring that students gain a thorough and diverse understanding of the subject. These case scenarios based MCQs are all application oriented and arise from the facts of the case. One need to apply the provisions of Ind AS to the facts of the case to choose the correct option. At the end of each Case Scenario followed by MCQs, we have also provided detailed solutions and explanations for each MCQ which will enable students to evaluate their performance and identify areas requiring further attention.

However, you are advised that before working out the case scenarios based MCQs in this booklet, be thorough with the concepts and provisions of Indian Accounting Standards as discussed in the study material. After attaining the conceptual clarity, you will be able to apply the concepts learnt in answering the case scenario based MCQs. The process of learning concepts and provisions of Indian Accounting Standards will help you attain conceptual clarity and hone your application and analytical skills so that you approach the examination with confidence and a positive attitude.

We are confident that this booklet will serve as a valuable companion in your preparation journey. We encourage students to make the most of this resource by engaging deeply with the scenarios, reflecting on the MCQs, and embracing the learning process.

Best wishes for your studies and success in the CA Final Examination!

CASE SCENARIO 1

A Ltd. is engaged in the business of manufacturing a number of products including moulds, dies and machinery. They have a wide customer base both within India and abroad. Typically, a contract is entered into for sale of each product and consideration is received on the event of delivery of goods to the customer place. The cost of each mould is ₹ 400 and the selling price is ₹ 450. The terms of the contract entitle the customer to return any unused moulds within 30 days and receive a full refund. The Company estimates that the costs of recovering the mould will be immaterial and expects that the returned moulds can be resold at a profit. The company has sold a total of 10,000 moulds during the month ended 31st March, 20X4. From past experience, A Ltd expects that 3% of the moulds will be returned during the current year.

MULTIPLE CHOICE QUESTIONS

1. The consideration received from the customer is

   (a) Variable

   (b) Fixed

   (c) Both variable and fixed

   (d) There is no consideration

2. Upon transfer of control of the 10,000 moulds, the entity will recognise revenue for

   (a) 10,000 moulds

   (b) 300 moulds

   (c) 9,700 moulds

   (d) 10,300 moulds

3. The entity recognises revenue of

   (a) ₹ 45,00,000

(b) ₹ 43,65,000

(c) ₹ 1,35,000

(d) ₹ 1,20,000

4. The entity recognises a refund liability of

(a) ₹ 45,00,000

(b) ₹ 43,65,000

(c) ₹ 1,35,000

(d) ₹ 1,20,000

5. The entity recognises a return asset of

(a) ₹ 45,00,000

(b) ₹ 43,65,000

(c) ₹ 1,35,000

(d) ₹ 1,20,000

6. The journal entry for the above would be

(a)	Trade Receivables (Customer) Dr.	₹ 45,00,000	
	To Revenue		₹ 45,00,000
(b)	Trade Receivables (Customer) Dr.	₹ 43,65,000	
	To Revenue		₹ 43,65,000
(c)	Trade Receivables (Customer) Dr.	₹ 1,35,000	
	To Refund liability		₹ 1,35,000
(d)	Trade Receivables (Customer) Dr.	₹ 45,00,000	
	To Revenue		₹ 43,65,000
	To Refund liability		₹ 1,35,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a) : Variable**

   Reason:

   Since the contract allows a customer to return the products, the consideration received from the customer is variable.

2. **Option (c) : 9,700 moulds**

   Reason:

   Upon transfer of control of the 10,000 moulds, the entity does not recognise revenue for the 300 moulds that it expects to be returned.

3. **Option (b): ₹ 43,65,000**

   Reason:

   Revenue of ₹ 43,65,000 (₹ 450 × 9,700 moulds not expected to be returned).

4. **Option (c) : ₹ 1,35,000**

   Reason:

   A refund liability of ₹ 1,35,000 (₹ 450 refund × 300 moulds expected to be returned).

5. **Option (d) : ₹ 1,20,000**

   Reason:

   A return asset of ₹ 1,20,000 (₹ 400 × 300 moulds for its right to recover products from customers on settling the refund liability).

6. **Option (d) :**

		₹	₹
Trade Receivables (Customer)	Dr.	45,00,000	
To Revenue			43,65,000
To Refund liability			1,35,000

CASE SCENARIO 2

All Limited holds 35% of total equity shares of M Limited, an associate company. The value of investments in M Limited on 31st March 20X3 is ₹ 3,00,00,000 in the consolidated financial statements of All Limited. All Limited sold goods worth ₹ 3,50,000 to M Limited. The cost of goods sold is ₹ 3,00,000. Out of these goods costing ₹ 1,00,000 to M Limited were in the closing stock of M Limited. M Limited declared a dividend of ₹ 75,00,000 to the equity shareholders of the Company. During the year ended 31st March 20X4 the statement of profit and loss of M Limited showed a profit of ₹ 1,50,00,000.

MULTIPLE CHOICE QUESTIONS

1. What is the share of All Limited in the post-acquisition profit of M Limited?

    (a) ₹ 1,50,00,000

    (b) ₹ 52,50,000

    (c) ₹ 75,00,000

    (d) ₹ 26,25,000

2. Compute unrealised gain on unsold inventory for All Limited.

    (a) ₹ 5,000

    (b) ₹ 16,667

    (c) ₹ 50,000

    (d) ₹ 5,833

3. What is the share of All Limited in the dividend declared from M Limited?

    (a) ₹ 75,00,000

    (b) ₹ 50,00,000

(c) ₹ 26,25,000

(d) ₹ 52,50,000

4. What is the value of investment in M Limited as on 31st March, 20X4 as per equity method in the consolidated financial statements of All Limited?

(a) ₹ 3,26,25,000

(b) ₹ 3,52,50,000

(c) ₹ 3,52,45,000

(d) ₹ 3,26,20,000

5. What is the approximate gross margin on goods sold by All Limited to M Limited?

(a) 14.29%

(b) 16.67%

(c) 50%

(d) 5%

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) : ₹ 52,50,000

Reason:

1,50,00,000 x 35% = ₹ 52,50,000.

2. Option (a) : ₹ 5,000

Reason:

[{(50,000/3,50,000) x 1,00,000} x 35%] = ₹ 5,000.

3. Option (c) : ₹ 26,25,000

Reason:

(75,00,000 x 35%) = ₹ 26,25,000.

4. **Option (d) : ₹ 3,26,20,000**

   Reason:

   ₹ 3,00,00,000 + ₹ 52,50,000 - ₹ 5,000 - ₹ 26,25,000 = ₹ 3,26,20,000.

5. **Option (a) : 14.29%**

   Reason:

   (50,000 / 3,50,000) x 100 = 14.29%.

CASE SCENARIO 3

A Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X2 and are facing issues in the following transactions while finalization of financial statements:

(i) A Ltd. owns 250 ordinary shares in X Ltd., an unquoted company. X Ltd. has a total share capital of 5,000 shares with nominal value of ₹ 10. X Ltd.'s after-tax maintainable profits are estimated at ₹ 70,000 per year. An appropriate price/earnings ratio determined from published industry data is 15 (before lack of marketability adjustment). A Ltd.'s management estimates that the discount for the lack of marketability of X Ltd.'s shares and restrictions on their transfer is 20%. A Ltd. values its holding in X Ltd.'s shares based on earnings.

(ii) A Ltd. has a telecom segment. It entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that A Ltd. will provide 1,00,000 minutes of talk time to employees of B Ltd. in exchange for getting power equivalent to 20,000 units. A Ltd. normally charges ₹ 0.50 per minute and B Ltd. charges ₹ 2.5 per unit.

(iii) A Ltd. began construction of a new building at an estimated cost of ₹ 7 lakh on 1st April, 20X1. To finance construction of the building it obtained a specific loan of ₹ 2 lakh from a financial institution at an interest rate of 9% per annum.

The company's other outstanding loans were:

Amount	Rate of Interest per annum
₹ 7,00,000	12%
₹ 9,00,000	11%

The expenditure incurred on the construction was:

April, 20X1	₹ 1,50,000
August, 20X1	₹ 2,00,000
October, 20X1	₹ 3,50,000
January, 20X2	₹ 1,00,000

The construction of building was completed by 31st January, 20X2.

The construction of the building started on 1st April, 20X1 and all the expenditures on construction of building had been incurred at the beginning of the respective month.

MULTIPLE CHOICE QUESTIONS

1. What is the value of the shares of X Ltd.?

   (a) ₹ 8,40,000

   (b) ₹ 10,50,000

   (c) ₹ 8,00,000

   (d) ₹ 10,00,000

2. What is the fair value of A Ltd.'s investment in X Ltd.'s shares?

   (a) ₹ 50,000

   (b) ₹ 42,000

   (c) ₹ 10,50,000

   (d) ₹ 10,00,000

3. By what amount the revenue be measured and recognised by A Ltd. in the case of telecom segment?

   (a) ₹ 10,000

   (b) ₹ 2,50,000

   (c) ₹ 2,00,000

   (d) ₹ 50,000

4. What will be the capitalization rate for computation of borrowing cost on the building based on general borrowings?

   (a) 9%

   (b) 11%

   (c) 11.4375%

   (d) 12%

5. What will be the total amount of borrowing cost on specific borrowing?

   (a) ₹ 11,250

   (b) ₹ 13,500

   (c) ₹ 15,000

   (d) ₹ 37,875

6. What will be the total amount of borrowing cost on general borrowing?

   (a) ₹ 22,875

   (b) ₹ 15,000

   (c) ₹ 37,875

   (d) ₹ 13,500

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) : ₹ 8,40,000

2. Option (b) : ₹ 42,000

Reason for 1 & 2:

An earnings-based valuation of A Ltd.'s holding of shares in X Ltd. could be calculated as follows:

Particulars	
X Ltd.'s after-tax maintainable profits (A)	₹ 70,000
Price/Earnings ratio (B)	15

Adjusted discount factor (C) (1- 0.20)	0.80
Value of X Ltd. (A) x (B) x (C)	₹ 8,40,000

Value of a share of X Ltd. = ₹ 8,40,000 ÷ 5,000 shares = ₹ 168

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

3. **Option (d) : ₹ 50,000**

4. **Option (c) : 11.4375%**

5. **Option (c) : ₹ 15,000**

Reason for 3-5:

Revenue recognized by A Ltd. will be the consideration in the form of power units that it expects to be entitled for talktime sold, i.e. ₹ 50,000 (20,000 units x ₹ 2.5). The revenue recognized by B Ltd. will be the consideration in the form of talk time that it expects to be entitled for the power units sold, i.e., ₹ 50,000 (1,00,000 minutes x ₹ 0.50).

6. **Option (a) : ₹ 22,875**

Reason:

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

Amount of loan (₹)	***Rate of interest***	***Amount of interest (₹)***
7,00,000	12%	84,000
9,00,000	11%	99,000
16,00,000		1,83,000
Weighted average rate of interest (1,83,000/16,00,000) x 100		11.4375%

(ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	***Amount spent***	***Financed through***	***Calculation***	₹
1st April, 20X1	1,50,000	Specific borrowing	1,50,000 x 9% x 10/12	11,250
1st August, 20X1	2,00,000	Specific borrowing	50,000 x 9% x 10/12	3,750
		General borrowing	1,50,000x11.4375% x 6/12	8,578.125
1st October, 20X1	3,50,000	General borrowing	3,50,000x11.4375% x 4/12	13,343.75
1st January, 20X2	1,00,000	General borrowing	1,00,000x11.4375% x 1/12	953.125
				37,875

CASE SCENARIO 4

H Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31st March 20X2, it requires insights and accounting suggestions on the following transactions:

(i) H Ltd. holds 12% of the voting shares in Z Ltd. Z Ltd.'s board comprises of eight members and two of these members are appointed by H Ltd. casting significant influence. Each board member has one vote at the meeting.

(ii) H Ltd. holds 10% of the voting power of G Ltd. The balance 90% voting power is held by nine other investors each holding 10%.

The decisions about the relevant activities (except decision about taking borrowings) of G Ltd. are taken by the members holding majority of the voting power. The decisions about taking borrowings are required to be taken by unanimous consent of all the investors. Further, decisions about taking borrowing are not the decisions that most significantly affect the returns of G Ltd.

(iii) H Ltd. is also engaged in the business of pharmaceuticals. It has invested in the share capital of Y Ltd. and is holding 15% of Y Ltd.'s total voting power.

Y Ltd. is engaged in the business of producing packing materials for pharmaceutical entities. One of the incentives for H Ltd. to invest in Y Ltd. was the fact that Y Ltd. is engaged in the business of producing packing materials which is also useful for H Ltd. Since last many years, almost 90% of the output of Y Ltd. is procured by H Ltd.

MULTIPLE CHOICE QUESTIONS

1. What is the relationship of Z Ltd. with H Ltd.?

   (a) Z Ltd. is a subsidiary of H Ltd.

   (b) Z Ltd. is an associate of H Ltd.

   (c) Z Ltd. is in joint arrangement with H Ltd.

   (d) H Ltd. has invested in Z Ltd. with no further relationship as subsidiary, associate or joint arrangement.

2. What is the relationship of G Ltd. with H Ltd.?

   (a) G Ltd. is a subsidiary of H Ltd.

   (b) G Ltd. is an associate of H Ltd.

   (c) G Ltd. is in joint arrangement with H Ltd.

   (d) H Ltd. has invested in G Ltd. with no further relationship as subsidiary, associate or joint arrangement.

3. What is the relationship of Y Ltd. with H Ltd.?

   (a) Y Ltd. is a subsidiary of H Ltd.

   (b) Y Ltd. is an associate of H Ltd.

   (c) Y Ltd. is in joint arrangement with H Ltd.

   (d) H Ltd. has invested in Y Ltd. with no further relationship as subsidiary, associate or joint arrangement.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) : Z Ltd. is an associate of H Ltd.

Reason:

Z Ltd is an associate of H Ltd as significant influence is demonstrated by the presence of directors on the board and the relative voting rights at meetings.

2. **Option (b) : G Ltd. is an associate of H Ltd.**

Reason:

In this case, though H Ltd. is holding less than 20% of the voting power of the investee, H Ltd.'s consent is required to take decisions about taking borrowings, which is one of the relevant activities. Further, since the decisions about taking borrowing are not the decisions that most significantly affect the returns of the investee, it cannot be said that all the investors have joint control over the investee. Hence, it can be said that H Ltd. has significant influence over the investee.

3. **Option (b) : Y Ltd. is an associate of H Ltd.**

Reason:

Since 90% of the output of Y Ltd. is procured by H Ltd., Y Ltd. would be dependent on H Ltd. for the continuation of its business. Hence, even though H Ltd. holds only 15% of the voting power of Y Ltd. it has significant influence over Y Ltd.

CASE SCENARIO 5

Joy Ltd. wishes to calculate tax base of its assets and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of the Assets part of the Balance Sheet as on 31st March 20X5 is as follows:

ASSETS	₹
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets:	
Product Development Costs	60,000
Investment In Subsidiary - Pall Ltd.	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	1,80,000
TOTAL ASSETS	**30,18,000**

Notes:

(a) Depreciation expense for the year 20X4-20X5 allowable in accordance with tax laws is ₹ 2,06,000. Accounting depreciation included in operating costs is ₹ 1,70,000. The cost of PPE is ₹ 16,00,000 and Joy Ltd has deducted expenses of ₹ 4,16,000 in its tax returns prior to the financial year 20X4-20X5. Moreover, as on 31st March 20X5, Joy Ltd for the first time revalued its property, plant and equipment to fair value of ₹ 12,00,000 (revaluation surplus = ₹ 88,000).

(b) In 20X1-20X2, Joy Ltd incurred product development costs of ₹ 1,00,000. These costs were recognized as an asset and being amortized over a useful period of 10 years. For tax purposes, Joy Ltd deducted full product development costs in 20X1-20X2.

(c) Trade investments were acquired in 20X3-20X4 with a cost of ₹ 2,30,000. These investments are classified at fair value through profit and loss and thus recognized at their fair value. Fair value adjustments are not tax deductible.

Assuming the tax rate of 32% for the year 20X4-20X5.

MULTIPLE CHOICE QUESTIONS

1. With respect to point (a), determine the tax base of property, plant and equipment for the year 20X4-20X5.

   (a) ₹ 12,00,000

   (b) ₹ 9,78,000

   (c) ₹ 13,94,000

   (d) ₹ 11,84,000

2. With respect to point (a), determine defer tax on property, plant and equipment for the year 20X4-20X5.

   (a) DTL ₹ 71,040

   (b) DTA ₹ 71,040

   (c) DTL ₹ 28,160

   (d) DTA ₹ 28,160

3. With respect to point (b), determine the tax base of Product Development Cost for the year 20X4-20X5.

   (a) ₹ 60,000

   (b) ₹ 1,00,000

   (c) ₹ 40,000

   (d) Nil

4. With respect to point (b), determine defer tax on Product Development Cost for the year 20X4-20X5.

   (a) DTL ₹ 32,000

   (b) DTA ₹ 32,000

(c) DTL ₹ 19,200

(d) DTA ₹ 19,200

5. With respect to point (c), determine the tax base of Trade Investment for the year 20X4-20X5.

(a) ₹ 2,30,000

(b) ₹ 2,08,000

(c) ₹ 22,000

(d) Nil

6. With respect to point (c), determine defer tax on Trade Investment for the year 20X4-20X5.

(a) DTL ₹ 66,560

(b) DTA ₹ 66,560

(c) DTL ₹ 7,040

(d) DTA ₹ 7,040

7. Determine the net defer tax asset / liability of Joy Ltd. for the year 20X4-20X5.

(a) DTL ₹ 83,200

(b) DTA ₹ 83,200

(c) DTL ₹ 97,280

(d) DTA ₹ 44,800

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) : ₹ 9,78,000

Reason:

Property Plant & Equipment as per tax records

	₹
Cost of PPE	16,00,000
Less: Current Tax Depreciation	(2,06,000)

Less: Previous year Tax Depreciation	(4,16,000)
Tax base	9,78,000

2. Option (a) : DTL ₹ 71,040

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Property Plant & Equipment	12,00,000	9,78,000	2,22,000	Taxable	(71,040)

3. Option (d) : Nil

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Product Development Costs	60,000	0	60,000	Taxable	(19,200)

4. **Option (c) : DTL ₹ 19,200**

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Product Development Costs	60,000	0	60,000	Taxable	(19,200)

5. **Option (a) : ₹ 2,30,000**

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA/ (DTL) at 32%
Trading investments	208,000	2,30,000	(22,000)	Deductible	7,040

6. **Option (d) : DTA ₹ 7,040**

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Trading investments	208,000	2,30,000	(22,000)	Deductible	7,040

7. **Option (a) : DTL ₹ 83,200**

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Property Plant & Equipment	12,00,000	9,78,000	2,22,000	Taxable	(71,040)
Product Development Costs	60,000	0	60,000	Taxable	(19,200)
Trading investments	208,000	2,30,000	(22,000)	Deductible	7,040
Deferred tax asset – total					7,040
Deferred tax liability – total					(90,240)
Net Deferred Tax Liability					(83,200)

CASE SCENARIO 6

Joy Ltd. wishes to calculate tax base of its assets and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of the Assets part of the Balance Sheet as on 31st March 20X5 is as follows:

ASSETS	**₹**
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets:	
Product Development Costs	60,000
Investment In Subsidiary - Pall Ltd.	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	1,80,000
TOTAL ASSETS	**30,18,000**

Notes:

(a) Bad debt provision amounts to ₹ 1,30,000 and relates to 2 debtors:

Debtor A ₹ 80,000 (receivable originated in 20X2-20X3 and 100% provision was recognized in 20X3-20X4) and

Debtor B - ₹ 50,000 (receivable originated in 20X3-20X4 and 100% provision was recognized in 20X4-20X5).

Tax law allows deduction of 20% of provision for debtors overdue for more than 1 year, another 30% for debtors overdue for more than 2 years and remaining 50% for debtors overdue for more than 3 years.

(b) Joy Ltd accounts for inventory obsolescence provision. The new provision created in 20X4-20X5 was ₹ 10,800 (total provision: ₹ 18,000). This provision is not tax deductible, as it is a general provision.

Assume the tax rate of 32% for the year 20X4-20X5.

MULTIPLE CHOICE QUESTIONS

1. With respect to point (a), determine the tax base of Trade Receivables for the year 20X4-20X5.

   (a) ₹ 7,16,000

   (b) ₹ 7,46,000

   (c) ₹ 7,56,000

   (d) ₹ 7,06,000

2. With respect to point (a), determine defer tax on Trade Receivables for the year 20X4-20X5.

   (a) DTA ₹ 28,800

   (b) DTA ₹ 41,600

   (c) DTA ₹ 25,600

   (d) DTA ₹ 41,600

3. With respect to point (b), determine the tax base of Inventories for the year 20X4-20X5.

   (a) ₹ 3,04,000

   (b) ₹ 3,22,000

   (c) ₹ 3,14,800

   (d) Nil

4. With respect to point (b), determine defer tax on Inventories for the year 20X4-20X5.

   (a) DTA ₹ 5,760

   (b) DTA ₹ 3,456

(c) Nil

(d) DTA ₹ 18,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d) : ₹ 7,06,000**

Reason:

Trade receivables – Provision for doubtful debts:

		₹
Calculation of Cost for tax records		
Carrying amount		6,26,000
Add back: Bad debt provision		1,30,000
Cost A		7,56,000
Debtor A – ₹ 80,000 from 20X2-20X3		
>1 year – 20% deducted in 20X3-20X4	16,000	
>2 years – 30% deducted in 20X4 -20X5	24,000	
Already deducted for tax:	40,000	
Debtor B – ₹ 50,000 from 20X4		
>1 year – 20% deducted in 20X5	10,000	
Total deducted for tax purposes B		50,000
Tax base of trade receivables: A-B		7,06,000

2. **Option (c) : DTA ₹ 25,600**

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	**Carrying amount**	**Tax base**	**Temporary Difference**	**Taxable/ Deductible**	**DTA / (DTL) at 32%**
Trade receivables	6,26,000	7,06,000	(80,000)	Deductible	25,600

3. Option (b) : ₹ 3,22,000

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760

4. Option (a) : DTA ₹ 5,760

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760

CASE SCENARIO 7

Joy Ltd. wishes to calculate tax base of its liabilities and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of equity and liabilities portion of the Balance Sheet as on 31st March 20X5 is as follows:

EQUITY & LIABILITIES	**₹**
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438
Revaluation Surplus	88,000
Long-term Liabilities	
Deferred Income - Government Grants	40,000
Liability for Product Warranty Costs	16,000
Deferred Tax Liability (From 20X3-20X4)	22,162
Current Liabilities	
Trade Payables	7,64,000
Health Care Benefits for Employees	70,000
Current Tax Liability	80,400
TOTAL EQUITY & LIABILITIES	30,18,000

Notes:

(a) Government grants are not taxable. Government grants received in 20X4-20X5 is appearing in the balance sheet.

(b) In 20X4-20X5, Joy Ltd made a further provision for product warranty of ₹ 5,000. Such provisions for product warranty costs are not tax deductible until the claims are paid or settled. During the year 20X4-20X5, warranty claims were paid/settled for ₹ 6,200.

(c) During the year 20X4-20X5, Joy Ltd introduced health care benefits for employees. The expenses are allowable as a deduction in tax only when benefits are paid but in line with Ind AS 19, such liability is recognized in profit or loss when employees provide service.

Assume the tax rate of 32% for the year 20X4-20X5.

MULTIPLE CHOICE QUESTIONS

1. With respect to point (a), determine the tax base of Government grants for the year 20X4-20X5.

   (a) Nil

   (b) ₹ 40,000

   (c) ₹ 12,800

   (d) ₹ 27,200

2. With respect to point (a), determine defer tax on Government grants for the year 20X4-20X5.

   (a) Nil

   (b) DTA ₹ 40,000

   (c) DTL ₹ 12,800

   (d) Deferred income - government grant will not be taxable.

3. With respect to point (b), determine the tax base of liability for product warranty costs for the year 20X4-20X5.

   (a) Nil

   (b) ₹ 5,000

   (c) ₹ 16,000

   (d) ₹ 6,200

4. With respect to point (b), determine defer tax on Liability for product warranty costs for the year 20X4-20X5.

   (a) Nil

   (b) DTA ₹ 5,120

(c) DTL ₹ 5,120

(d) Liability for product warranty costs will not be taxable.

5. With respect to point (c), determine the temporary difference, as per Ind AS 12, on account of Health care benefits for employees for the year 20X4-20X5.

(a) ₹ 70,000

(b) ₹ 80,400

(c) ₹ 22,162

(d) Nil

6. With respect to point (c), determine defer tax on Health care benefits for employees for the year 20X4-20X5.

(a) Nil

(b) DTL ₹ 22,400

(c) DTA ₹ 22,400

(d) Health care benefits for employees will not be taxable.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a) : Nil**

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Deferred income – Government grants	(40,000)	0	(40,000)	Excluded	0

2. **Option (d) : Deferred income - government grant will not be taxable.**

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Deferred income – Government grants	(40,000)	0	(40,000)	Excluded	0

3. **Option (a) : Nil**

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Liability for product warranty costs	(16,000)	0	(16,000)	Deductible	5,120

4. **Option (b) : DTA ₹ 5,120**

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Liability for product warranty costs	(16,000)	0	(16,000)	Deductible	5,120

5. Option (a) : ₹ 70,000

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Health care benefits for employees	(70,000)	0	(70,000)	Deductible	22,400

6. Option (c) : DTA ₹ 22,400

Reason:

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Health care benefits for employees	(70,000)	0	(70,000)	Deductible	22,400

CASE SCENARIO 8

A Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual consolidated financial statements under Indian Accounting Standards.

The central finance team has been working on closing the books of accounts and generating consolidated financial statements for the year ended 31st March 20X3. You are the Finance Controller and your assistants want your views on following transactions for finalization of financial statements:

(i) B Ltd., one of the subsidiaries of A Ltd., reported net income of ₹ 25 lakhs, which equals the company's comprehensive income. The company has no outstanding debt. Following is the information from the comprehensive balance sheet (₹ in lakhs) related to cash flows:

Extract of Balance Sheet	31.03.20X2	31.03.20X3
Equity share capital	100	100
Further issue of equity shares	100	140
Retained earnings	100	115
Total shareholders' equity	300	355

(ii) A Limited also operates in the travel industry and incurs costs unevenly through the financial year. Advertising costs of ₹ 40 lakhs were incurred on 1st July, 20X2, and staff bonuses are paid at year-end based on sales. Staff bonuses are expected to be around ₹ 400 lakhs for the year; of that a sum of ₹ 60 lakhs would relate to the period ending 30th September 20X2.

(iii) An item of equipment X was acquired by A Ltd. on 1st April 20X1 for ₹ 1,00,000 having an estimated useful life of 10 years, with a residual value of zero. The asset is depreciated on a straight-line basis. The asset was revalued to ₹ 1,04,000 on 31st March 20X3.

(iv) A Ltd. has spent ₹ 15,00,000 in developing a new product during the year ended 31st March, 20X3. The development costs incurred were recognised as an intangible asset as per Ind AS 38. For the purposes of computing the taxable income, these expenses are allowable in full in the year of incurring the expenses. At the year end, the Company recognised an impairment loss of ₹ 75,000 against the intangible asset.

(v) The company has issued preference shares that are redeemable at the option of the holder. Three months before the end of the year, it was probable that the holders would require redemption.

MULTIPLE CHOICE QUESTIONS

1. What cashflow should B Ltd. report, as financing activity in the statement of cash flows?

   (a) Issuance of equity shares ₹ 240 lakhs; dividends paid ₹ 10 lakhs

   (b) Issuance of equity shares ₹ 100 lakhs; dividends paid ₹ 10 lakhs

   (c) Issuance of equity shares ₹ 140 lakhs; dividends paid ₹ 10 lakhs

   (d) Issuance of equity shares ₹ 40 lakhs; dividends paid ₹ 10 lakhs

2. With respect to point (ii), what costs should be included in the entity's financial report for the quarter ended 30th September 20X2?

   (a) Advertising costs ₹ 40 lakhs; staff bonuses ₹ 100 lakhs

   (b) Advertising costs ₹ 10 lakhs; staff bonuses ₹ 100 lakhs

   (c) Advertising costs ₹ 10 lakhs: staff bonuses ₹ 60 lakhs

   (d) Advertising costs ₹ 40 lakhs; staff bonuses ₹ 60 lakhs

3. What will be the annual depreciation charge on equipment X for years 3 to 10 and the amount of the revaluation surplus that can be transferred to retained earnings annually?

   (a) Annual depreciation charge will be ₹ 10,000 and an annual transfer of ₹ 3,000 can be made from revaluation surplus to retained earnings

(b) Annual depreciation charge will be ₹ 10,000, however, annual transfer from revaluation surplus to retained earnings is not permitted

(c) Annual depreciation charge will be ₹ 13,000 and an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings

(d) Annual depreciation charge will be ₹ 13,000, however, annual transfer from revaluation surplus to retained earnings is not permitted

4. With respect to point (iv), What is the tax base of the intangible asset?

(a) ₹ 15,00,000

(b) ₹ 75,000

(c) ₹ 14,25,000

(d) Nil

5. Which one of the following is the appropriate classification for the annual payment of ₹ 12,000 to preference shareholders at year-end?

(a) Dividend ₹ 12,000

(b) Interest expense ₹ 12,000

(c) Dividend ₹ 3,000, interest expense ₹ 9,000

(d) Dividend ₹ 9,000, interest expense ₹ 3,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : Issuance of equity shares ₹ 40 lakhs; dividends paid ₹ 10 lakhs

Reason:

Issuance of equity shares including further issue of equity shares (240 – 200) = ₹ 40 lakhs

Dividends paid worked out as under:

Particulars	₹ in lakhs
Opening retained earnings	100
Add: Net income	25
Less: Cash dividend paid (balancing figure)	(10)
Closing retained earnings	115

Hence, cash dividend paid ₹ 10 lakhs.

2. **Option (d) : Advertising costs ₹ 40 lakhs; staff bonuses ₹ 60 lakhs**

Reason:

As per para 39 of Ind AS 34 'Interim Financial Reporting', costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

A bonus is anticipated for interim reporting purposes if and only if,

(a) The bonus is a legal obligation or past practice would make the bonus a constructive obligation for which the entity has no realistic alternative but to make the payments and

(b) a reliable estimate of the obligation can be made.

Accordingly, in the given case, while advertising costs cannot be deferred, bonus expenses are accrued relating to the period to which they relate.

3. **Option (c) : Annual depreciation charge will be ₹ 13,000 and an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings.**

Reason:

The annual depreciation charge for years 3 to 10 will be ₹ 13,000 (i.e. 104,000/ 8). The amount that may be transferred from revaluation surplus to retained earnings in accordance with para 41 of

Ind AS 16 will be the difference between the depreciation expense based on historic cost (i.e.,

₹ 10,000), and the depreciation expense based on the revalued amount (i.e., ₹ 13,000). So an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings as the asset is used by an entity.

4. Option (d) : Nil

Reason:

As per para 7 of Ind AS 12 'Income Taxes', the tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset.

In the given case, since the entire cost of intangible asset is fully allowed as expense for tax purposes, the tax base will be nil.

5. Option (b) : Interest expense ₹ 12,000

Reason:

Under Ind AS 32, the redeemable preference shares are classified as a liability from the date of issue because the holder has the right to demand redemption. Therefore, the instruments are a liability and the payment for the year is classified as interest. The probability of conversion makes no difference to the classification of the instruments.

CASE SCENARIO 9

U Ltd. is engaged in mining and many other industries and prepares its financial statements following Indian Accounting Standards and follows April-March as their financial year. During the year 20X2-20X3, the company has faced some issues and for their solution seeks your professional advice.

(i) U Ltd. and F Ltd. are partners of a joint operation engaged in the business of mining precious metals. The entity uses a jointly owned drilling plant in its operations. During the year ended 31st March 20X3, an inspection was conducted by the government authorities in the mining fields. The inspection authorities concluded that adequate safety measures were not followed by the entity. As a consequence, a case was filed and a penalty of ₹ 50 crores has been demanded from U Ltd.

The legal counsel of the company has assessed the demand and opined that appeals may not be useful, and the appeal orders will be unfavourable to the joint arrangement. Out of ₹ 50 crores (to be paid by U Ltd.), ₹ 30 crore will be reimbursed by F Ltd. later, as per the terms of the Joint Operation Agreement. At the year end, actual reimbursement was not received from F Ltd.

(ii) U Ltd. has issued 10,00,000, 9% cumulative preference shares. The Company has arrears of ₹ 15 crores of preference dividend as on 31st March 20X3, it includes current year arrears of ₹ 1.75 crores. The Company did not declare any dividend for equity shareholders as well as for preference shareholders.

Further U Ltd. has also issued certain optionally convertible debentures, which are outstanding as at the year end.

(iii) On 1st January, 20X3, U Ltd. acquired 30% of the shares of T Ltd. The investment was accounted for as an associate in U Ltd.'s consolidated financial statements. Both U Ltd. and T Ltd. have an accounting year end of 31st March 20X3. U Ltd. has no other investments in associates.

Net profit for the year in T Ltd.'s income statement for the year ended 31st March 20X3 was ₹ 0.23 crores. It declared and paid dividend of ₹ 0.1 crore on 1st March 20X3. No other dividends were paid in the year.

(iv) On 1st January, 20X3, U Ltd. also acquired a 60% stake in S Ltd. The cash consideration payable was ₹ 1 crore to be paid immediately, and ₹ 1.21 crores after two years. The fair value of net assets of S Ltd. at acquisition date was ₹ 3 crores. U Ltd. has calculated that its cost of capital is 10%. Non-controlling interest is measured at the proportionate share of identifiable net assets.

MULTIPLE CHOICE QUESTIONS

1. With respect to a joint operation engaged in the business of mining precious metals, how will the liability be disclosed in the books of U Ltd.?

    (a) Provision for ₹ 20 crores and a contingent liability for ₹ 30 crores

    (b) Contingent liability for ₹ 50 crores

    (c) Provision for ₹ 30 crores and a contingent liability for ₹ 20 crores

    (d) Provision for ₹ 50 crores.

2. What is the amount of preference dividend to be reduced from profit or loss for the year for calculating Basic Earnings Per Share?

    (a) ₹ 15 crores

    (b) ₹ 1.75 crores

    (c) ₹ 13.25 crores

    (d) Nothing, as no dividend has been declared by the entity.

3. What amount will be shown as an inflow in respect of earnings from the associate in the statement of cash flows of U Ltd. for the year ended 31st March 20X3?

    (a) ₹ 0.020 crores

    (b) ₹ 0.026 crores

(c) ₹ 0.030 crores

(d) ₹ 0.046 crores

4. Calculate the amount of goodwill / gain on bargain purchase arising upon acquisition of S Ltd.

(a) ₹ 1 crore gain on bargain purchase

(b) ₹ 80 lakhs gain on bargain purchase

(c) ₹ 20 lakhs goodwill

(d) ₹ 41 lakhs goodwill

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : Provision for ₹ 50 crores

Reason:

As per para 53 of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', when some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision. In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

In the given case, U Ltd. will record provision by ₹ 50 crores in its books and ₹ 30 crores will be reimbursed by F Ltd. Hence ₹ 50 crore will be recognised as provision and ₹ 30 crore is disclosed as a contingent asset, if it is virtually certain that reimbursement will be received if the entity settles the obligation.

2 **Option (b) : ₹ 1.75 crores**

Reason:

As per para 14(b) of Ind AS 33 'Earnings per Share', the after-tax amount of preference dividends that is deducted from profit or loss is the after-tax amount of the preference dividends for cumulative preference shares required for the period, whether the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

In the given case, the amount of preference dividends of ₹ 1.75 crore declared for the year ended 31^{st} March 20X3 (i.e. the current period) is to be deducted from profit or loss for calculating EPS.

3. **Option (c) : ₹ 0.03 crores**

Reason:

As per para 37 of Ind AS 7, when accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

Accordingly,

Dividend paid by associate T Ltd.	= ₹ 0.10 crores
U Ltd.'s share of dividend 30% x ₹ 0.10 lakhs	= ₹ 0.030 crores

This is the amount that should appear in the statement of cash flows of U Ltd. as this is the share of U Ltd.'s dividend from the associate T Ltd.

4. **Option (c) : ₹ 20,00,000 goodwill**

Reason:

Total consideration paid:

Cash	1 cr
PV of deferred consideration (1.21 x 0.826)	1 cr
	2 cr
NCI by Proportionate Share Method 3 cr x 40% =	1.20 cr

Calculation of goodwill:

Proportionate Share Method			**(₹ in crore)**
Net Identifiable Assets	Dr.	3.00	
Goodwill (Balancing figure)	Dr.	0.20	
To Consideration payable			2.00
To Non–controlling Interest			1.20

CASE SCENARIO 10

G Ltd. is a multi-national company and prepares and presents its financial statements following Indian Accounting Standards as its securities are listed on National Stock Exchange. G Ltd. has a number of business segments.

(i) H Ltd. is one of the recently acquired Indian subsidiary of G Ltd. It has to adopt Ind AS for the first time as at 31st March, 20X4, with 1st April, 20X2 as the date of transition. As at 31st March, 20X2, the value of raw material inventories was incorrectly reported due to an error. The amounts are significant.

(ii) G Ltd. is also engaged in software development. It enters into a contract with a customer to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. G Ltd. sells the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

(iii) G Ltd. sells a 20% interest in a wholly owned subsidiary K Ltd. to outside investors for ₹ 100 lakh in cash. The carrying value of K Ltd.'s net assets is ₹ 300 lakh, including goodwill of ₹ 65 lakh from the subsidiary's initial acquisition.

MULTIPLE CHOICE QUESTIONS

1. With respect to H Ltd., state whether the error should be reported in the Ind AS financial statements and how to rectify it.

   (a) H Ltd. shall report the impact of the error as a correction to Statement of Profit and Loss for the comparative period i.e., the year ended 31st March, 20X3.

(b) The correction shall be reflected in a reconciliation as at the end of the first Ind AS reporting period i.e., as at 31st March, 20X3.

(c) The impact of the correction is significant and it shall be amortized on a rational and systematic basis in the first two periods of Ind AS reporting i.e., years ended 31st March, 20X3 and 31st March, 20X4.

(d) The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 20X2.

2. How many performance obligations G Ltd. has, with respect to the contract with the customer to transfer software license?

(a) 4 performance obligations

(b) 3 performance obligations

(c) 2 performance obligations

(d) 1 performance obligation

3. What is the amount of gain on sale of interest in subsidiary K Ltd.?

(a) ₹ 100 lakhs

(b) ₹ 60 lakhs

(c) ₹ 53 lakhs

(d) ₹ 40 lakhs

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 20X2.

Reason:

Refer para 26 of Ind AS 101 which states that if an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.

2. Option (a) : 4 performance obligations

Reason:

The entity assesses the goods and services promised to the customer to determine which goods and services are distinct. The entity observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. Thus, the entity concludes that the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available.

The entity also considers the factors of Ind AS 115 and determines that the promise to transfer each goods and service to the customer is separately identifiable from each of the other promises. In particular, the entity observes that the installation service does not significantly modify or customise the software itself and, as such, the software and the installation service are separate outputs promised by the entity instead of inputs used to produce a combined output.

On the basis of this assessment, the entity identifies four performance obligations in the contract for the following goods or services:

1. The software license
2. An installation service
3. Software updates
4. Technical support

3. Option (d) : ₹ 40 lakhs

Reason:

	₹ in lakhs	
	Dr.	Cr.
Cash Dr.	100	
To Non-controlling interest (20% x 300 lakh)		60
To Other Equity (Gain on sale of interest in subsidiary)		40

As per para B96 of Ind AS 110, where proportion of the equity of NCI changes, then group shall adjust controlling and non-controlling interest and any difference between amount by which NCI (₹ 60 lakh) is adjusted and fair value of consideration received (₹ 100 lakh) to be attributed to parent in other equity ie. ₹ 40 lakh.

CASE SCENARIO 11

ABC Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X3 and are facing issues in the following transactions while finalization of financial statements:

(i) One of the businesses of ABC Ltd. is manufacturing sugar and chemicals. The Company has taken a term loan for ₹ 5 crores from State Bank to buy certain plant and machinery during the year ended 31st March 20X2. The loan is repayable over a period of 5 years. The terms and conditions of the loan agreement requires the company to maintain a current ratio of 1.33 : 1 and debt-equity ratio of 1 : 2. If these loan covenants fall below this level, then the bank has a right to recall the entire loan.

The loan outstanding as on 31st March, 20X3 was ₹ 4.25 crores. The current ratio of ABC Ltd. was 1 : 1 and debt equity ratio was 0.5 : 2. State Bank sent a notice on 5th April, 20X3 demanding repayment of loan, on account of breach of terms of the loan agreement. The financials were signed on 10th May, 20X3.

On receiving the notice, the CFO of ABC Ltd. negotiated with the bank and ensured to rectify the breach. As a result, on 25th April, 20X3, the Bank has agreed not to recall the loan and allowed the Company to achieve the contracted current and debt-equity ratio by 20X5.

(ii) ABC Ltd. has inventory of raw material Y of 10,000 units as at 31st March, 20X4 with a carrying amount of ₹ 100 each. The current market value of that raw material is ₹ 95 each. ABC Ltd. will use raw material to manufacture a component for a customer. The conversion cost for making the finished goods would be ₹ 130 each. ABC Ltd. estimates costs to completion and sale of ₹ 50 each and a selling price for the component is estimated to be ₹ 290 each.

(iii) ABC Ltd. sold machinery Z for ₹ 900 thousand to a new customer. To get into long term relationship with the customer, the terms of sales also include after sales service to be provided for next three years free of cost. The company also sells the sales service contract separately where the customer buys it after the initial warranty period at ₹ 100 thousand.

MULTIPLE CHOICE QUESTIONS

1. How long-term loan from State Bank has to be classified in the financials for the year ended 31st March 20X3 in case ABC Ltd. has not negotiated with the bank for rectification of breach?

   (a) Other current liabilities

   (b) Current financial liability

   (c) Non-current financial liability

   (d) Other non-current liability

2. After negotiation with State Bank, how long-term loan has to be classified in the financials for the year ended 31st March 20X3?

   (a) Other current liabilities

   (b) Current financial liability

   (c) Non-current financial liability

   (d) Other non-current liability

3. At what value the raw material Y be measured in the books of ABC Ltd. as per applicable Ind AS?

   (a) ₹ 950 thousand.

   (b) ₹ 1,100 thousand.

   (c) ₹ 1,000 thousand.

   (d) ₹ 1,600 thousand.

4. How should the revenue be recognised in the books of account for the sale of machinery Z?

   (a) ₹ 900 thousand is to be recognised as revenue in the year of sale.

(b) ₹ 900 thousand is to be recognised at the end of three years after sale.

(c) ₹ 900 thousand is to be recognised in the year of sale and ₹ 100 thousand to be spread over next three years.

(d) ₹ 810 thousand is to be recognised in the year of sale and ₹ 90 thousand to be spread over next three years.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b) : Current financial Liability**

2. **Option (c) : Non-Current financial Liability**

Reason for 1 & 2:

Para 74 of Ind AS 1 "Presentation of Financial Statements" states that when an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

3. **Option (c) : ₹ 1,000 thousand**

Reason:

As per para 32 of Ind AS 2, materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

Here, the NRV of each unit of finished goods is ₹ 240 (ie ₹ 290 – ₹ 50), which is more than the cost of finished goods ie ₹ 230 (ie. ₹ 100 + ₹ 130). Hence the raw material will be valued at cost ie ₹ 100 each. Thus, the total cost of raw material will be ₹ 10,00,000 (ie ₹ 10,000 x ₹ 100)

4. **Option (d) : ₹ 810 thousand is to be recognised in the year of sale and ₹ 90 thousand to be spread over next three years.**

Reason:

As per para B29 of Ind AS 115, if a customer has the option to purchase a 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 those circumstances, an entity shall account for the promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation based on stand-alone selling prices as follows:

Total value after including sales service

= ₹ 900 thousand + ₹ 100 thousand

= ₹ 1,000 thousand

Sales price of machinery recognised immediately

= ₹ 900 thousand x (₹ 900 / 1,000)

= ₹ 810 thousand

Sales service recognised over three years

= ₹ 900 thousand x (₹ 100 / 1,000)

= ₹ 90 thousand

CASE SCENARIO 12

DEF Ltd. is a globally diversified business conglomerate with operations spanning across various business sectors worldwide. The company adheres to Indian Accounting Standards for maintaining its financial records and annually releases its financial statements. As the finance team progresses towards finalizing the financial statements for the fiscal year ending on 31st March 20X3, the team is stuck up in the accounting of the following transactions:

(i) On 1st June, 20X2, DEF Ltd. decided to dispose of the business and current and non-current assets of one of its divisions related to the specialty chemicals business which it had acquired several years ago. This disposal does not involve DEF Ltd. withdrawing from a particular market sector. The carrying values on 1st June, 20X2 of the assets to be disposed of were as follows:

Particulars	**₹ in Million**
Goodwill	10.0
Property, Plant and Equipment	20.0
Patents and trademarks	8.0
Inventories	15.0
Trade Receivables	10.0

None of the assets of the business had suffered impairment as at 1st June, 20X2. At that date the inventories and trade receivables of the business were already stated at no more than their recoverable amounts.

DEF Ltd. offered the business for sale at a price of ₹ 46.5 million, which was considered to be reasonably achievable. DEF Ltd. estimated that the direct costs of selling the business would be ₹ 5,00,000. These estimates have not changed since 1st June, 20X2 and DEF Ltd. estimates that the business will be sold by 31st March, 20X3 at the latest.

(ii) The government provided DEF Ltd. with a grant of ₹ 21 million to assist it in the development of the factory.

This grant was provided in two parts:

(1) ₹ 6 million of the grant was a payment by the government as an inducement to DEF Ltd. to begin developing the factory. No conditions were attached to this part of the grant.

(2) ₹ 15 million of the grant related to the construction of the factory at a cost of ₹ 60 million. The ₹ 60 million is depreciable over the estimated 40 year useful life of the factory without adjustment of grant amount from the cost of the factory.

MULTIPLE CHOICE QUESTIONS

1. Compute the value of Specialty chemical division's Goodwill at the date of classification after re-measurement.

   (a) ₹ 7.3 million

   (b) ₹ 10 Million

   (c) ₹ Nil

   (d) ₹ 8 million

2. Calculate the closing balance of Specialty chemical division's asset – Property, Plant and Equipment at the period end.

   (a) ₹ 21 million

   (b) ₹ 17.36 million

   (c) ₹ 6 million

   (d) ₹ 15 million

3. What amount of grant out of ₹ 15 million with respect to construction of factory be transferred to profit and loss account in the year 20X3-20X4?

   (a) ₹ 15 million

   (b) ₹ 0.375 million

   (c) ₹ 1.5 million

   (d) ₹ 0.125 million

4. What would be the treatment of grant of ₹ 6 million received from the government as an inducement to DEF Ltd. to begin developing the factory?

   (a) Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit and Loss.

   (b) ₹ 0.15 million amount is to be credited each year in the income statement over 40 year period.

   (c) ₹ 1.2 million amount is to be credited each year in the income statement over 40 year period.

   (d) Net off the grant received against the cost of the asset and depreciate the net figure over its useful economic life.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c) : ₹ Nil**

2. **Option (d) : ₹ 15 million**

   Reason for 1 & 2:

   Pursuant to the provisions of *Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'* the business would be regarded as held for sale from 1st June, 20X2. The held for sale criteria apply because the business is being actively marketed at a reasonable price and the sale is expected to be completed within one year of the date of classification. Given this classification, Ind AS 105 requires that the assets be separately classified under current assets in the balance sheet. No further depreciation would be charged on these assets.

   The assets will be measured at the lower of their current carrying amounts at the date of classification and their fair value less costs to sell. In this case, the total carrying amount after re-measurement will be ₹ 46 million (₹ 46·5 million – ₹ 0·5 million).

   The impairment loss of ₹ 17 million (₹ 63 million – ₹ 46 million) will first be allocated to goodwill taking its carrying amount to nil.

   None of the remaining impairment loss will be allocated to inventories or trade receivables since their recoverable amounts are at least equal to their existing carrying amounts.

The remaining impairment loss of ₹ 7 million (₹ 17 million – ₹ 10 million) will be allocated to the property, plant and equipment and the patents on a pro-rata basis.

The closing carrying amounts of the property, plant and equipment and the patents will be ₹ 15 million and ₹ 6 million respectively.

3. Option (d) : ₹ 0.125 million

Reason:

The grant of ₹ 15 million in respect of the plant and equipment should be recognized over the 40-year life of the factory

Since the amount of grant will be considered as deferred credit, it would be released to the Statement of Profit and Loss over the same 40-year period as the asset is depreciated. So, the amount included in the Statement of Profit and Loss for the current year 20X3-20X4 would be ₹ 0.125 million (15 million x 1/40).

4. Option (a) : Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit and Loss

Reason:

Accounting for government grants is dealt with by Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. The basic principle of Ind AS 20 is that grants should be recognized as income over the periods necessary to match them with the related costs for which they are intended to compensate, on a systematic basis. That part of the grant relating to an inducement to begin developing the factory (₹ 6 million) was received without any conditions and so can be recognized immediately in the Statement of Profit and Loss.

CASE SCENARIO 13

HIJ Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31st March 20X2, it requires insights and accounting suggestions on the following transactions:

(i) On 1st October 20X1, HIJ Ltd. subscribed for 40 million ₹ 1 loan notes in Z Ltd. The loan notes were issued at 90 paise and were redeemable at ₹ 1.20 on 30th September 20X6. Interest is payable on 30th September in arrears at 4% of par value. This represents an effective annual rate of return for HIJ Ltd. of 9.9%. HIJ Ltd.'s intention is to hold the loan notes until redemption.

(ii) On 1st April 20X1, HIJ Ltd. commenced joint construction of a property with G Ltd. For this purpose, an agreement has been entered into that provides for joint operation and ownership of the property. All the ongoing expenditure, comprising maintenance plus borrowing costs, is to be shared equally. The construction was completed on 30th September 20X1 and utilisation of the property started on 1st January, 20X2 at which time the estimated useful life of the same was estimated to be 20 years.

Total cost of the construction of the property was ₹ 40 crores. Besides internal accruals, the cost was partly funded by way of loan of ₹ 10 crores taken on 1st January, 20X1. The loan carries interest at an annual rate of 10% with interest payable at the end of year on 31st December each year. The company has spent ₹ 4,00,000 on the maintenance of such property.

The company has recorded the entire amount paid as investment in Joint Venture in the books of accounts. Suggest the suitable accounting treatment of the above transaction as per applicable Ind AS.

MULTIPLE CHOICE QUESTIONS

1. What would be the initial measurement of financial instruments as subscription of loan notes in Z Ltd.?

   (a) ₹ 40 million

   (b) ₹ 37.782 million

   (c) ₹ 38.4 million

   (d) ₹ 36 million

2. What would be the closing balance of financial instruments (as subscription of loan notes in Z Ltd.) as on 31st March 20X2?

   (a) ₹ 37.6 million

   (b) ₹ 34.218 million

   (c) ₹ 37.782 million

   (d) ₹ 36.182 million

3. With respect to point (ii), what is the nature of the agreement?

   (a) Agreement is in the nature of Joint venture

   (b) Agreement is in the nature of Joint Operations

   (c) Agreement is in the nature of Holding subsidiary relationship

   (d) Agreement is in the nature of Associates

4. What will the initial cost of PPE appearing in the books of HIJ Ltd.?

   (a) ₹ 40,50,00,000

   (b) ₹ 40,00,00,000

   (c) ₹ 20,25,00,000

   (d) ₹ 20,00,00,000

5. Calculate the depreciation charge for the year ended 31st March 20X2 to be charged by G Ltd. in its books?

   (a) ₹ 50,62,500

(b) ₹ 1,01,25,000

(c) ₹ 1,00,00,000

(d) ₹ 50,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : ₹ 36 million

2. Option (c) : ₹ 37.782 million

Reason for 1 and 2:

In accordance with Ind AS 109 '*Financial Instruments*' entities are required to measure financial assets at either amortized cost or fair value depending on the reason for holding them and the nature of the expected returns from the asset.

In the instant case, amortized cost should be used because Johansen Ltd.'s objective is to hold the assets to collect the contractual cash flows associated with it and those cash flows consist solely of the repayment of principal and interest by Carlton Ltd.

The asset will initially be measured at ₹ 36 million (₹ 40 million x 90 paise).

The finance income for the six months to 31st March 20X2 will be ₹ 1·782 million (₹ 36 million x 9·9% x 6/12).

The closing asset will be ₹ 37·782 million (₹ 36 million + ₹ 1·782 million).

3. Option (b) : Agreement is in the nature of Joint Operations

4. Option (c) : ₹ 20,25,00,000

5. Option (a) : ₹ 50,62,500

Reason for 3, 4 & 5:

As provided in Ind AS 111 'Joint Arrangements', this is a joint arrangement because two or more parties have joint control of the property under a contractual arrangement. The arrangement will be regarded as a joint operation because HIJ Ltd. and G Ltd. have rights to the assets and obligations for the liabilities of this joint arrangement. This means that the company and the other investor will each recognise 50% of the cost of constructing the asset in property, plant and equipment.

The borrowing cost incurred on constructing the property should under the principles of Ind AS 23 'Borrowing Costs', be included as part of the cost of the asset for the period of construction.

In this case, the relevant borrowing cost to be included is ₹ 50,00,000 (₹ 10,00,00,000 x 10% x 6/12).

The total cost of the asset is ₹ 40,50,00,000 (₹ 40,00,00,000 + ₹ 50,00,000) ₹ 20,25,00,000 crores is included in the property, plant and equipment of HIJ Ltd. and the same amount in the property, plant and equipment of G Ltd.

The depreciation charge for the year ended 31st March 20X2 will therefore be ₹ 1,01,25,000

(₹ 40,50,00,000 x 1/20 x 6/12) ₹ 50,62,500 will be charged in the statement of profit and loss of the company and the same amount in the statement of profit and loss of G Ltd.

The other costs relating to the arrangement in the current year totalling ₹ 54,00,000 (finance cost for the second half year of ₹ 50,00,000 plus maintenance costs of ₹ 4,00,000) will be charged to the statement of profit and loss of HIJ Ltd. and G Ltd. in equal proportions - ₹ 27,00,000 each.

CASE SCENARIO 14

FA Ltd. is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries. Following are the details of some of the transactions entered into by the company:

i. On 1st April 20X2, the company began the construction of a new production line in its aircraft parts manufacturing shed.

Costs relating to the production line are as follows:

Details	**Amount ₹ in lakhs**
Costs of the basic materials (list price ₹ 12.5 lakhs less 20% trade discount)	10.00
Recoverable goods and services tax incurred but not included in the purchase cost	1.00
Employment costs of the construction staff for three months till 30th June, 20X2	1.20
Other overheads directly related to the construction	0.90
Payments to external advisors relating to the construction	0.50
Expected dismantling and restoration costs	2.00

The production line took two months to make ready for use and was brought into use on 31st May, 20X2.

The other overheads were incurred during the two-month period ended on 31st May, 20X2. They included an abnormal cost of ₹ 0.3 lakhs caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. After 8 years, FA Ltd. is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of ₹ 2 lakhs included in the cost estimates is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate discount rate is 5%. The present value of ₹ 1 payable in 8 years at a discount rate of 5% is approximately ₹ 0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is ₹ 3 lakhs.

No impairment of the plant had occurred by 31st March 20X3.

ii. During the year ended 31st March 20X3, FA Ltd. provided consultancy services to a customer regarding the installation of a new production system related to aircraft parts. The system has caused the customer considerable problems, so the customer has taken legal action against the Company for the loss of profits that has arisen as a result of the problems with the system. The customer has claimed damages to the tune of ₹ 1.6 lakhs.

The legal department of FA Ltd. considers that there is a 25% chance the claim can be successfully defended. The legal department further stated that they are reasonably confident the Company is covered by insurance against these types of loss. The accountant feels nothing needs to be provided for this claim as the Company is suitably covered against any possible losses.

iii. FA Ltd. has an associate company, Flynet Limited. Following are the information of Flynet Limited for the year ended 31st March 20X3:

Particulars	**₹ in lakhs**
Net Income after taxes	120
Decrease in accounts receivables	20
Depreciation	25
Increase in inventory	10
Increase in accounts payable	7
Decrease in wages payable	5
Tax charge for the year (deferred tax liabilities)	15
Profit from sale of land	2

MULTIPLE CHOICE QUESTIONS

1. Which of the following items need to be capitalized in determining the cost of Production Line?

   (a) Abnormal cost of ₹ 0.3 lakhs

   (b) Recoverable GST of ₹ 1 lakhs

   (c) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 2 lakhs

   (d) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs

2. Calculate the company's associate Flynet Ltd.'s cash flow from operations.

   (a) ₹ 158 lakhs

   (b) ₹ 170 lakhs

   (c) ₹ 174 lakhs

   (d) None of the above

3. What accounting treatment should be done in FA Ltd.'s books for the year ending 31st March 20X3, as the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system?

   (a) Nothing needs to be provided for claim instituted by the customer as the Company is suitably covered against any possible losses.

   (b) Provision of ₹ 1.6 lakhs should be recognised with a corresponding charge to profit or loss.

   (c) Provision of ₹ 0.4 lakhs as per best possible outcome should be recognised with a corresponding charge to profit or loss.

   (d) Contingent Liability would be disclosed in the 31st March 20X3 financial statements. Charge to profit or loss if any would be recognised in the period when the claim is settled.

4. Compute the total amount to be charged to the Statement of Profit and Loss with respect to Production Line for the year ending 31st March 20X3 and the balance of Provision for Dismantling Cost carried to Balance Sheet.

   (a) ₹ 1.70 lakhs; ₹ 1.36 lakhs

   (b) ₹ 1.42 lakhs; ₹ 1.70 lakhs

   (c) ₹ 1.76 lakhs; ₹ 1.42 lakhs

   (d) ₹ 1.42 lakhs; ₹ 1.76 lakhs

5. Compute the cost of the production Line to be capitalized initially on 31st May, 20X2.

   (a) ₹ 13.26 lakhs

   (b) ₹ 14.60 lakhs

   (c) ₹ 13.96 lakhs

   (d) ₹ 15.76 lakhs

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d): Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs

Reason:

As per para 16(c) of Ind AS 16, elements of cost of PPE includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

2. Option (b): ₹ 170 lakhs

Reason:

Cash flow from operating activities – Indirect method

Particulars	₹ in lakhs
Net Income after taxes	120
Add /(Less) No- cash or non-operating item:	
Depreciation	25
Profit from sale of land	(2)
Tax charges for the year (deferred tax liabilities)	15
	158
Decrease in accounts receivables	20
Increase in inventory	(10)
Increase in accounts payable	7
Decrease in wages payable	(5)
Cash flow from operations	170

3. Option (b): Provision of ₹ 1.6 lakhs should be recognized with a corresponding charge to profit or loss.

Reason:

In accordance with Ind AS 37 '*Provisions, Contingent Liabilities and Contingent Assets*', the claim made by the customer needs to be recognised as a liability in the financial statements for the year ended 31st March 20X3.

The standard stipulates that a provision should be made when, at the reporting date:

– An entity has a present obligation arising out of a past event.

– There is a probable outflow of economic benefits.

– A reliable estimate can be made of the outflow.

Since all three of the above conditions are satisfied here, a provision is required to be made.

The provision should be measured at the amount the entity would rationally pay to settle the obligation at the reporting date.

Where there is a range of possible outcomes, the individual most likely outcome is often the most appropriate measure to use.

In this case, a provision of ₹ 1.6 lakhs seem appropriate, with a corresponding charge to profit or loss.

4. **Option (c): ₹ 1.76 lakhs; ₹ 1.42 lakhs**

5. **Option (a): ₹ 13.26 lakhs**

Reason for 4 & 5:

Statement showing computation of cost of production line

Particulars	**₹ in lakhs**
Purchase cost	10.00
GST – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use [(1.2/3 month) x 2 month]	0.80
Other overheads – abnormal costs of ₹ 0.3 lakhs have been excluded (0.90- 0.30)	0.60
Payment to external advisors – directly attributable cost	0.50
Dismantling costs – recognized at present value (2 lakhs x 0.68)	1.36
Total	13.26

Provision for dismantling cost carried to Balance Sheet

Particulars	**₹ in lakhs**
Non-current liabilities (₹ 2 lakhs x 0.68)	1.36
Add: Finance cost (₹ 1.36 x 5% x 10/12)	0.06
Net book value – carried to Balance Sheet	1.42

Extract of Statement of Profit and Loss

Particulars	₹ in lakhs
Depreciation (W.N.)	1.70
Finance cost (1.36 x 5% x 10/12)	0.06
Amounts carried to Statement of Profit & Loss	1.76

Working Note:

Calculation of depreciation charge

Particulars	₹ in lakhs
The asset is split into two depreciable components out of the total capitalization amount of ₹ 13.26 lakhs:	
Depreciation for ₹ 3 lakhs with a useful economic life of four years (3 lakhs x ¼ x 10/12).	0.63
(This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life)	
Depreciation for ₹ 10.26 lakhs (13.26 – 3.00) with a useful economic life of eight years will be: ₹ 10.26 lakhs x 1/8 x 10/12	1.07
Total depreciation to be charged to Statement of Profit and Loss for the year ended 31st March 20X3	1.70

CASE SCENARIO 15

HS Limited (HSL) is a car manufacturing company. During the year, HSL has entered into many transactions, details of which are given below.

i. With the intention to expand, HSL has entered into a Share Purchase Agreement ("SPA") with the shareholders of FM Limited to purchase 30% stake in FM Limited as at 1st June, 20X2 at a price of ₹ 30 per share. As per the terms of SPA, HSL has an option to purchase an additional 25% stake in FM Limited on or before 15th June, 20X2 at a price of ₹ 30 per share. Similarly, the selling shareholder has an option to sell additional 25% stake in FM Limited on or before 15th June, 20X2 to HSL at a price of ₹ 30 per share. The decisions on relevant activities of FM Limited are made in Annual General Meeting / Extraordinary General Meeting (AGM / EGM). A resolution in AGM / EGM is passed when more than 50% votes are cast in favour of the resolution. An AGM / EGM can be called by giving atleast 21 days advance notice to all shareholders.

ii. During the year, HSL issued Compulsory Convertible Debentures ("CCDs") on a private placement basis for ₹ 100 lakh. Each CCD is convertible into 5 shares at the end of 4 years from the date of issue and an annual interest is payable at the rate of 6% p.a. At initial recognition, HSL recognized a liability component of compound instrument at ₹ 20,79,063. HSL also incurred expenses of ₹ 2,00,000 in connection with the issue of the instrument. Nature of expenses includes fees paid to legal advisors, registration and regulatory fees.

iii. HSL acquired a 40% stake in NM Limited as at 1st January, 20X2 for ₹ 8,00,000 and classified the investment in NM Limited as an associate. As at 1st January, 20X2, the carrying amount and fair value of plant & equipment of NM Limited is ₹ 3,00,000 and ₹ 5,00,000 respectively with remaining useful life of 5 years (i.e. 20 quarters). From 1st January, 20X2 to 31st March, 20X2, NM Limited generated a profit of ₹ 50,000.

MULTIPLE CHOICE QUESTIONS

1. At what amount HSL shall carry its investments in NM Limited in its consolidated financial statements as at 31st March, 20X2?

   (a) ₹ 8,00,000

   (b) ₹ 8,20,000

   (c) ₹ 8,16,000

   (d) ₹ 8,10,000

2. What shall be the accounting treatment of directly attributable expenses of ₹ 2 lakh incurred in connection with the issue of Compulsory Convertible Debentures?

   (a) Entire ₹ 2,00,000 shall be recognized as expenses in the statement of profit and loss in the current year.

   (b) Entire ₹ 2,00,000 shall be reduced from equity in the current year.

   (c) A proportion of ₹ 1,58,419 shall be reduced from equity and Balance of ₹ 41,581 shall be recognized as interest cost over the period of 4 years using an effective interest method.

   (d) Entire ₹ 2,00,000 shall be recognized as interest cost over the period of 4 years using effective interest method.

3. With more acquisitions, at the end of the year, HSL has investments in 2 subsidiaries, 3 associates and 1 joint venture. Which of the following statements is correct in relation to accounting of these investments in separate financial statements?

   (a) HSL is required to measure all such investments at cost.

   (b) HSL has an option to account for the investments in associates and joint ventures using the equity method of accounting and carry the investments in subsidiaries at cost.

   (c) HSL has an option for each investment to measure either at cost or in accordance with Ind AS 109.

(d) HSL has an option to measure all such investments either at cost or in accordance with Ind AS 109. The option is available for each category of investments separately (i.e. subsidiaries, associates and joint venture).

4. With respect to the SPA entered by HSL, determine the date when HSL gained control over FM Limited

(a) 1st June, 20X2.

(b) 15th June, 20X2.

(c) On the date of AGM/EGM

(d) On the date when the resolution for AGM/EGM is issued.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c): ₹ 8,16,000**

Reason:

As per para 10 of Ind AS 28, under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

Accordingly,

Cost of investment for 40% stake on acquisition date	₹ 8,00,000
Add: Share of post-acquisition profit and loss (50,000 x 40%)	₹ 20,000
Less: Share of post-acquisition loss due to additional depreciation [{(5,00,000 – 3,00,000)/20} x 40%]	(₹ 4,000)
	₹ 8,16,000

2. **Option (c): A proportion of ₹ 1,58,419 shall be reduced from equity and balance of ₹ 41,581 shall be recognised as interest cover over the period of 4 years using effective interest method**

Reason:

Compulsory convertible debentures with annual interest payout is a compound financial instrument. As per the information given in the question the liability element to be initially recognised is ₹ 20,79,063. Hence the equity element would be ₹ 79,20,937 (1,00,00,000 – 20,79,063). Transaction cost of ₹ 2,00,000 will be apportioned in equity and liability component in the ratio of 79,20,937 : 20,79,063, which would be as follows:

Transaction cost attributable to equity = 2,00,000 x (79,20,937/ 1,00,00,000) = ₹ 1,58,419

Transaction cost attributable to liability = 2,00,000 x (20,79,063/ 1,00,00,000) = ₹ 41,581

3. **Option (d): HSL has an option to measure all such investments either at cost or in accordance with Ind AS 109. The option is available for each category of investments separately (i.e. subsidiaries, associates, and joint venture)**

Reason:

As per para 10 of Ind AS 27, when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either: (a) at cost, or (b) in accordance with Ind AS 109. The entity shall apply the same accounting for each category of investments.

In the present case, investment in subsidiaries, associates and joint ventures are considered to be different categories of investments. Further, Ind AS 27 requires accounting for the investment in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109 for each category of Investment. Thus, an entity can carry its investments in subsidiaries at cost and its investments in associates or joint ventures as financial assets in accordance with Ind AS 109 in its separate financial statements.

4. Option (a): 1st June, 20X2

Reason:

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

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

Further, the decisions on relevant activities of FM Ltd. are made in AGM / EGM. An AGM / EGM can be called by giving atleast 21 days advance notice. A resolution in AGM / EGM is passed when more than 50% votes are cast in favour of the resolution. Thus, the existing shareholders of FM Ltd. are unable to change the existing policies over the relevant activities before the exercise of option by HSL. HSL can exercise the option and get voting rights more than 50% at the date of AGM / EGM. Accordingly, the option contract gives HSL the current ability to direct the relevant activities even before the option contract is settled. Therefore, HSL controls FM Ltd. as at 1st June, 20X2.

CASE SCENARIO 16

NM Ltd. is an Ind AS compliant multinational company which is engaged in various businesses. On 1st April 20X1, NM Ltd. issues a new instrument with the following characteristics:

- Face value 100, issue price 90.
- Cumulative dividend payable at 5% per annum for 10 years. After 10 years, the dividend is payable at the discretion of the issuer.
- The holder of the note has the option to convert to ordinary shares of NM Ltd. after 10 years, and conversion will be 10 ordinary shares for each instrument.
- The holder can demand redemption for the face value at any time, with six months' notice up until the end of 10 years. After 10 years, redemption is at the discretion of the issuer.
- There is no fixed maturity date.

S Limited is a subsidiary of H Limited which is an associate of T Ltd. T Ltd. is an associate of NM Limited. S Limited's functional and presentation currency is INR, while the functional currency of its parent is USD and its presentation currency is EUR. S Limited has a firm commitment to buy a commodity in EUR. It has entered into a forward contract to hedge the firm commitment against foreign exchange risk. It has to prepare its financial statements for the purpose of consolidation with its parent.

NM Limited is a huge machine manufacturer. It has to overhaul its machinery every 3 years. It has purchased machinery worth ₹ 50,00,000. It is estimated that the overhaul costs will be ₹ 5,00,000. It is expected that the machine will have a useful life of 10 years.

MULTIPLE CHOICE QUESTIONS

1. How should the instrument be classified by NM Ltd. in the first 10 years in accordance with Ind AS 32? Select which one of the following is correct.

   (a) As equity

(b) As a liability

(c) As either equity or liability

(d) As a compound financial instrument

2. How can S Limited account for a hedge relationship for the purpose of preparing H Limited's consolidated financial statements?

(a) Cash flow hedge

(b) Fair value hedge

(c) Option to designate under cash flow hedge or fair value hedge

(d) Net investment hedge

3. How should NM Limited initially recognise the purchase of its machinery?

(a) Recognise the machine at its cost of ₹ 50,00,000 and depreciate over 10 years.

(b) Recognise two assets - the machine worth ₹ 45,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 5,00,000 to be depreciated over 3 years.

(c) Recognise two assets - the machine worth ₹ 50,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 5,00,000 to be depreciated over 3 years.

(d) Recognise an asset for ₹ 45,00,000 to be depreciated over 10 years and expense ₹ 5,00,000 immediately.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : As a compound financial instrument

Reason:

The new instrument creates an obligation to deliver cash for 10 years. Such an obligation meets the definition of financial liability. Further the holder has the option to convert to 10 ordinary shares of NM Limited after 10 years. Thus, the instrument is convertible to fixed number of shares. Thus, the instrument meets the definition of equity instrument. Therefore, the instrument contains both a liability component and an equity component. Accordingly, NM Limited shall classify the instrument as compound financial instrument.

2. **Option (c) : Option to designate under cash flow hedge or fair value hedge**

Reason:

As per Ind AS 109, a hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or a cash flow hedge. This is because firm commitments against foreign currency risk affects both the cash flows and the fair value of the hedged item and hence has a dual character.

3. **Option (b) : Recognize two assets – the machine worth ₹ 45,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 5,00,000 to be depreciated over 3 years.**

Reason:

The initial recognition and depreciation charge for the first three years of the asset's life will be as follows:

	Overhaul component	**Machinery (other than overhaul component)**
Cost	5,00,000	45,00,000
Years	3	10
Depreciation per year	1,66,667	4,50,000

CASE SCENARIO 17

A Limited is engaged in the manufacturing of certain specialized chemicals. During the manufacturing process, certain wastewater is produced which is released by A Limited in the nearby river. In order to reduce pollution of the rivers, the state government has introduced a scheme with the following salient features:

If a manufacturer installs certain pre-approved wastewater treatment plant, the government will provide an interest free loan equal to 50% of the cost of the plant;

Such loan will be repayable to the government in 5 years from the date of disbursal;

The manufacturer availing the benefit of this scheme must treat the wastewater of its factory using the specified plant before releasing it to the river. If this condition is violated, the entire loan shall become immediately repayable to the government along with a penalty of ₹ 10 lakh.

Cost of the wastewater treatment plant to be installed to avail the benefit of the scheme is ₹ 50 lakh. A Limited decided to utilise this scheme because, if it were to obtain the similar loan from a bank, it would be available at a market interest rate of 12% per annum. Accordingly, A Limited applied for and obtained the government loan of ₹ 25 lakh on 1st April, 20X1. A Limited purchased and installed the plant such that it became ready for use on the same date.

A Limited has an accounting policy of recognising government grant in relation to depreciable assets in the proportion of depreciation expense. It has determined that the plant will be depreciated over a period of 5 years using straight-line method.

MULTIPLE CHOICE QUESTIONS

1. What is the fair value of the loan to be initially recorded in the books of A Ltd., on 1st April, 20X1?

   (a) ₹ 50,00,000

(b) ₹ 25,00,000

(c) ₹ 10,82,500

(d) ₹ 14,17,500

2. What is the amount of grant to be recognised initially in the books of A Ltd., on 1st April, 20X1?

(a) ₹ 50,00,000

(b) ₹ 25,00,000

(c) ₹ 10,82,500

(d) ₹ 14,17,500

3. What is the amount of depreciation to be recognised for the year 20X1-20X2 on wastewater treatment plant?

(a) ₹ 10,00,000

(b) ₹ 5,00,000

(c) Nil

(d) ₹ 2,16,500

4. What is the amount of grant income to be recognised in the books for the year 20X1-20X2?

(a) ₹ 1,70,100

(b) ₹ 1,90,512

(c) ₹ 2,16,500

(d) ₹ 25,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d): ₹ 14,17,500

Reason:

Fair value of the loan to be initially recorded in the books of A Limited as on 1st April, 20X1:

Fair value of loan = ₹ 25,00,000 x 0.567 (PVF @ 12%, 5th year)

= ₹ 14,17,500

2. Option (c): ₹ 10,82,500

Reason:

A Limited will initially recognize ₹ 10,82,500 (25,00,000 – 14,17,500) as government grant, in its books as on 1st April, 20X1.

3. Option (a): ₹ 10,00,000

Reason:

Depreciation for the year (20X1-20X2) = ₹ 50,00,000 / 5 years = ₹ 10,00,000.

4. Option (c): ₹ 2,16,500

Reason:

Since the depreciation is provided on straight line basis by A Limited, it will credit ₹ 2,16,500 (10,82,500 / 5) equally to its statement of profit and loss over the 5 years.

CASE SCENARIO 18

A Limited is engaged in the manufacturing of certain specialized chemicals. During the manufacturing process, certain wastewater is produced which is released by A Limited in the nearby river. In order to reduce pollution of the rivers, the state government has introduced a scheme with the following salient features:

If a manufacturer installs certain pre-approved wastewater treatment plant, the government will provide an interest free loan equal to 50% of the cost of the plant;

Such loan will be repayable to the government in 5 years from the date of disbursal;

The manufacturer availing the benefit of this scheme must treat the wastewater of its factory using the specified plant before releasing it to the river. If this condition is violated, the entire loan shall become immediately repayable to the government along with a penalty of ₹ 10 lakh.

Cost of the wastewater treatment plant to be installed to avail the benefit of the scheme is ₹ 50 lakh. A Limited decided to utilise this scheme because, if it were to obtain the similar loan from a bank, it would be available at a market interest rate of 12% per annum. Accordingly, A Limited applied for and obtained the government loan of ₹ 25 lakh on 1st April, 20X1. A Limited purchased and installed the plant such that it became ready for use on the same date.

A Limited has an accounting policy of recognising government grant in relation to depreciable assets in the proportion of depreciation expense. It has determined that the plant will be depreciated over a period of 5 years using straight-line method. In the month of March 20X3, government officials conducted a surprise audit, and it was found that A Limited was not using the wastewater treatment plant as prescribed. Accordingly, on 31st March, 20X3, the government ordered A Limited to repay the entire loan along with penalty. A Limited repaid the loan with interest and penalty as per the order on 31st March 20X3.

MULTIPLE CHOICE QUESTION

1. The government grant that becomes repayable should be accounted for as

   (a) Change in accounting policy

   (b) Change in accounting estimate

   (c) Error

   (d) Should not be accounted at all

2. What is the amount of finance cost to be recognised in the books for the year 20X1-20X2 and 20X2-20X3 respectively?

   (a) ₹ 1,70,100; ₹ 1,90,512

   (b) ₹ 1,90,512; ₹ 1,70,100

   (c) ₹ 2,16,500; ₹ 5,00,000

   (d) ₹ 25,00,000; ₹ 10,00,000

3. What is the amount that becomes repayable to the government on revocation of grant on 31st March, 20X3?

   (a) ₹ 35,00,000

   (b) ₹ 25,00,000

   (c) ₹ 10,00,000

   (d) ₹ 10,82,500

4. What is the balance of deferred grant income account on 31st March, 20X3, after crediting the grant income to Profit and loss account at the end of 20X2-20X3?

   (a) ₹ 10,82,500

   (b) ₹ 25,00,000

   (c) ₹ 8,66,000

   (d) ₹ 6,49,500

5. On refund of grant, out of grant of ₹ 25,00,000, what amount of grant income to be debited from Profit and loss account as on 31st March, 20X3? (Ignore finance cost)

   (a) ₹ 1,70,100

   (b) ₹ 1,90,512

   (c) ₹ 2,16,500

   (d) ₹ 72,388

6. What will be the total impact on profit and loss account on revocation of government grant on 31st March, 20X3? (Ignore finance cost)

   (a) ₹ 72,388

   (b) ₹ 10,72,388

   (c) ₹ 10,00,000

   (d) ₹ 25,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b): Change in accounting estimate

Reason:

As per para 32 of Ind AS 20, a government grant that becomes repayable shall be accounted for as a change in accounting estimate.

2. Option (a): ₹ 1,70,100; ₹ 1,90,512

Reason:

Since the fair value of loan = ₹ 25,00,000 x 0.567 (PVF @ 12%, 5th year) = ₹ 14,17,500. Therefore, the amount of finance cost will be calculated for the year 20X1-20X2 and 20X2-20X3 as below:

Year	Opening balance of Loan	Interest @ 12%	Closing balance of Loan
31.03.20X2	14,17,500	1,70,100	15,87,600
31.03.20X3	15,87,600	1,90,512	17,78,112

3. Option (a): ₹ 35,00,000

Reason:

The amount that become repayable to the government on revocation of grant as on 31st March, 20X3 will be

Amount payable to Government on account of principal loan	₹ 25,00,000
Amount payable to Government on account of penalty	₹ 10,00,000
	₹ 35,00,000

4. Option (d): ₹ 6,49,500

Reason:

Deferred Grant Income

Year	Opening balance	Adjustment	Closing balance
31.03.20X2	10,82,500	2,16,500	8,66,000
31.03.20X3	8,66,000	2,16,500	6,49,500

5. Option (d): ₹ 72,388

Reason:

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.20X3	Loan account	Dr.	17,78,112	
	Deferred grant income	Dr.	6,49,500	
	Profit or Loss	Dr.	72,388	
	To Government grant payable			25,00,000

6. Option (b): ₹ 10,72,388

Reason:

Total impact on profit or loss on account of revocation of government grant as on 31st March, 20X3 will be ₹ 10,72,388 (10,00,000 + 72,388).

CASE SCENARIO 19

FF Limited (the Company) is into manufacturing and retailing of FMCG products listed on stock exchanges in India. The Company and its one of subsidiaries have entered into various transactions, the accounting of which needs to be analysed in detail from the perspective of Ind AS implications. You being an Ind AS expert, CFO of the Company have appointed you to analyse the transaction based on following details:

The Company has entered into a lease agreement for its retail store as on 1st April, 20X2 for a period of 10 years. A lease rental of ₹ 56,000 per annum is payable in arrears. The Company recognized a lease liability of ₹ 3,51,613 at inception using an incremental borrowing rate of 9.5% p.a. as at 1st April 20X2. As per the terms of the lease agreement the lease rental shall be adjusted every 2 years to give effect of inflation. Inflation cost index as notified by the Income tax department shall be used to derive the lease payments. The inflation cost index was 280 for financial year 20X2-20X3 and 301 for financial year 20X4-20X5. The current incremental borrowing rate is 8% p.a.

Vikash Retail Private Limited, a subsidiary of the Company, had suffered heavy losses in previous periods. These losses are accumulated and eligible for setoff from future taxable income while calculating tax liabilities for future periods. However, there is no convincing evidence available which conveys that sufficient taxable profits will be available against which tax losses can be utilized.

The Company has also launched a share-based payment plan under which it will grant Stock Appreciation Rights (SAR) to the employees of its subsidiary, Vikash Retail Private Limited. As per the terms of the plan, the Company (i.e. parent) will pay an amount per SAR which is the difference between the current stock price of the Company and stock price of the Company after 3 years. The amount will be paid by the Company directly to those employees of the subsidiary who complete 3 years from the launch of the plan.

To ensure the availability of funds at the time of settlement of the scheme, the Company purchases its own shares from the open market. The Company will sell these shares in the market after 3 years when the Company will be required to pay cash to the employees of the subsidiary.

The Company has issued share capital of ₹ 1 crore divided into 10,00,000 equity shares of ₹ 10 each. As of 1st June, 20X3, the Company had issued 3,60,000 convertible warrants of ₹ 10 each. 6 warrants will be converted into 1 equity share of the Company at the end of 18 months from issue date. Warrants will not be redeemed.

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements correctly describe the accounting of lease arrangement for the retail store?

   (a) Increase in lease liability by ₹ 22,820 with corresponding debit to profit or loss.

   (b) Increase in lease liability by ₹ 22,820 with corresponding increase in right of use asset.

   (c) Increase in lease liability by ₹ 41,675 with corresponding debit to profit or loss.

   (d) Increase in lease liability by ₹ 41,675 with corresponding increase in right of use asset.

2. What shall be the right accounting of tax losses accumulated by Vikash Retail Private Limited in its separate financial statements?

   (a) The entity shall recognize the deferred tax asset on accumulated tax losses.

   (b) The entity shall not recognize the deferred tax asset on accumulated tax losses nor it shall disclose in financial statements.

   (c) The entity shall not recognize the deferred tax asset on accumulated tax losses however it shall disclose in financial statements the amount of accumulated tax losses and period by which it expires.

   (d) The entity shall recognize the deferred tax asset on accumulated losses and shall also provide the justification in financial statements for recognition of deferred tax assets.

3. What shall be the accounting treatment of share appreciation rights given, in standalone financial statements of parent and subsidiary?

   (a) Parent and subsidiary both shall account it as equity settled share-based transaction with corresponding debit / credit in profit or loss.

   (b) Parent shall account it as cash settled share-based payment transaction with corresponding debit to investment in subsidiary. Subsidiary shall account it as equity settled share-based payment transaction with corresponding credit to equity.

   (c) Parent shall account it as equity settled share-based payment transaction with corresponding debit to investment in subsidiary. The subsidiary shall account it as cash settled share-based payment transaction with corresponding credit to equity.

   (d) Parent and subsidiary both shall account it as cash settled share-based transaction with corresponding debit/ credit in profit or loss.

4. Which of the following statements is correct for calculation of earnings per share of the Company for the year ended 31st March, 20X4?

   (a) 10,50,000 shares shall be used as denominator for calculation of both basic and diluted earnings per share.

   (b) 10,00,000 shares shall be used as denominator for calculation of basic earnings per share however 10,50,000 shares shall be used as denominator for calculation of diluted earnings per share.

   (c) 10,60,000 shares shall be used as denominator for calculation of both basic and diluted earnings per share.

   (d) 10,00,000 shares shall be used as denominator for calculation of basic earnings per share however 10,60,000 shares shall be used as denominator for calculation of diluted earnings per share.

5. How should the Company account for the amount invested in its own shares and profit earned or loss incurred on those shares while selling back in the market (to settle the SAR scheme)?

   (a) The Company shall recognize the amount invested as 'investment in equity shares' and measure it at fair value. The Company has an option to recognize the fair value gain/loss either in statement of profit and loss or in other comprehensive income.

(b) The Company shall reduce the amount invested from equity. Any gain earned or loss incurred on those shares shall also be adjusted directly in equity.

(c) Either (A) or (B) at the option of the Company.

(d) The Company shall recognize the amount invested as 'investment in equity shares'. Any gain earned or loss incurred on those shares shall be adjusted directly in equity.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b) : Increase in lease liability by ₹ 22,820 with corresponding increase in right of use asset**

Reason:

As per para 27 (b) of Ind AS 116, variable lease payments that depend on an index or a rate, are initially measured using the index or rate as at the commencement date.

At the beginning of the third year, Lessee remeasures the lease liability at the present value of eight payments of ₹ 60,200 discounted at an unchanged discount rate of 9.5% per annum as per para 43.

Year	Revised lease rental	Discount factor @ 9.5%	Present value (calculations made at full scale)
3	[(56,000 / 280) x 301] = 60,200	0.913	54,977
4	60,200	0.834	50,207
5	60,200	0.762	45,852
6	60,200	0.696	41,874
7	60,200	0.635	38,241
8	60,200	0.580	34,923
9	60,200	0.530	31,893

10	60,200	0.484	29,126
			3,27,093

Table showing amortised cost of lease liability

Year	Opening balance	Interest @ 9.5%	Rental paid	Closing balance
1	3,51,613	33,403	56,000	3,29,016
2	3,29,016	31,257	56,000	3,04,273

Difference of ₹ 22,820 (3,27,093– 3,04,273) will increase the lease liability with corresponding increase in ROU Asset as per para 39 of Ind AS 116.

2. **Option (c) : The entity shall not recognise the deferred tax asset on accumulated tax losses however, it shall disclose in financial statements the amount of accumulated tax losses and period by which it expires.**

Reason:

As per para 36 of Ind AS 12, to the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

As per para 81e of Ind AS 12 states to disclose, the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet.

3. **Option (b) : Parent shall account it as cash settled share based payment transaction with corresponding debit to investment in subsidiary. Subsidiary shall account it as equity settled share-based payment transaction with corresponding credit to equity.**

Reason:

The subsidiary does not have an obligation to settle the transaction with its employees. Therefore, the subsidiary shall account for the transaction with its employees as equity-settled (as per para 43B of Ind AS 102) and recognise a corresponding increase in equity as a contribution from its parent with corresponding debit to employee expenses.

Since the parent has an obligation to settle the transaction with the employees, and the consideration is cash, the parent (and the consolidated group) shall measure its obligation in accordance with the requirements applicable to cash-settled share-based payment transactions in paragraph 43C.

4. **Option (a) : 10,50,000 shares shall be used as denominator for calculation of both basic and diluted earnings per share.**

Reason:

As per para 23 of Ind AS 33, mandatorily convertible instruments are included in the calculation of basic earnings per share from the date the contract is entered into. Therefore, it will be assumed that the company issued 60,000 (3,60,000 warrants divided by 6) equity shares at 1st June, 20X3.

As per para 19, for the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.

Accordingly, Weighted Average Shares

$$= [10,00,000 + \{(3,60,000 / 6) \times 10/12\} = 10,50,000$$

5. **Option (b) : The company shall reduce the amount invested from equity. Any gain earned or loss incurred on those shares shall also be adjusted directly in equity.**

Reason:

As per para 33 of Ind AS 32, if an entity reacquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received shall be recognised directly in equity.

CASE SCENARIO 20

HS Limited ("the Company") is a car manufacturing company. During the year, the Company has entered into many transactions, details of which are given below. Finance controller of HS Limited requires your assistance in determining the accounting treatment of these transactions in accordance with Ind AS.

During the year, the Company had issued Compulsory Convertible Debentures ("CCDs") on a private placement basis for ₹ 100 lakh. Each CCD is convertible into 5 shares at the end of 4 years from the date of issue and an annual interest is payable at the rate of 6% p.a. At initial recognition, the Company has recognized a liability component of compound instrument at ₹ 20,79,063. The Company also incurred expenses of ₹ 2,00,000 in connection with the issue of the instrument. Nature of expenses includes fees paid to legal advisors, registration and regulatory fees.

The Company acquired a 40% stake in NM Limited as at 1st October, 20X2 for ₹ 8,00,000 and classified the investment in NM Limited as an associate. As at 1st October, 20X2, the carrying amount and fair value of plant & equipment of NM Limited is ₹ 3,00,000 and ₹ 5,00,000 respectively with remaining useful life of 5 years (i.e. 20 quarters). From 1st October, 20X2 to 31st December 20X2, NM Limited generated a profit of ₹ 50,000.

MULTIPLE CHOICE QUESTIONS

1. At what amount the Company shall carry its investments in NM Limited in its consolidated financial statements as at 31st December 20X2?

   (a) ₹ 8,00,000

   (b) ₹ 8,20,000

   (c) ₹ 8,16,000

   (d) ₹ 8,10,000

2. What shall be the accounting treatment of directly attributable expenses of ₹ 2 lakh incurred in connection with the issue of Compulsory Convertible Debentures?

   (a) Entire ₹ 2,00,000 shall be recognized as expenses in the statement of profit and loss in current year.

   (b) Entire ₹ 2,00,000 shall be reduced from equity in current year.

   (c) A proportion of ₹ 1,58,419 shall be reduced from equity and Balance of ₹ 41,581 shall be recognized as interest cost over the period of 4 years using effective interest method.

   (d) Entire ₹ 2,00,000 shall be recognized as interest cost over the period of 4 years using effective interest method.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c) : ₹ 8,16,000**

   Reason:

   As per para 10 of Ind AS 28, under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

   Accordingly,

Cost of investment for 40% stake on acquisition date	₹ 8,00,000
Add: Share of post-acquisition profit and loss (50,000 x 40%)	₹ 20,000
Less: Share of post-acquisition loss due to additional depreciation	
[{(5,00,000 – 3,00,000)/20} x 40%]	(₹ 4,000)
	₹ 8,16,000

2. **Option (c) : A proportion of ₹ 1,58,419 shall be reduced from equity and balance of ₹ 41,581 shall be recognised as interest cost over the period of 4 years using effective interest method**

Reason:

Compulsory convertible debentures with annual interest payout is a compound financial instrument. As per the information given in the question the liability element to be initially recognised is ₹ 20,79,063. Hence, the equity element would be ₹ 79,20,937 (1,00,00,000 – 20,79,063).

Transaction cost of ₹ 2,00,000 will be apportioned in equity and liability component in the ratio of 79,20,937 : 20,79,063, which would be as follows:

Transaction cost attributable to equity = 2,00,000 x (79,20,937 / 1,00,00,000) = ₹ 1,58,419

Transaction cost attributable to liability = 2,00,000 x (20,79,063 / 1,00,00,000) = ₹ 41,581

CASE SCENARIO 21

New Age Technology Limited is an IT infrastructure Company which provides customize IT solutions to its customers.

New Age Technology Limited issued additional shares on 31st March, 20X3. Cost associated with the issue of equity were ₹ 50,00,000 and recorded directly in equity. Under Indian tax laws, deduction can be claimed over five year period from the date of share issue. Assuming a tax rate of 30%.

New Age Technology Limited is engaging with several investors to invest funds into the Company. As part of the negotiations several instruments are being considered depending on the yield each instrument would provide to the investor. New Age Technology Limited enters into a barter transaction to exchange its existing server for new high-end laptop with its vendor, Sunshine Limited. The server has a fair value of ₹ 2,00,000 and a carrying amount of ₹ 1,75,000. Whereas, the high-end laptop has a fair value of ₹ 2,50,000 and carrying amount of ₹ 2,10,000 in the books of Sunshine Limited.

New Age Technology Limited acquired copyrights for certain patented software on 1st April, 20X1 for ₹ 50,00,000. The software would assist the Company to develop an entire new range of IT solutions to its customers. Management basis its internal assessment, determined the useful life of the acquired software to be 10 years from the date of purchase. Further management performed a fair value assessment of the acquired software based on the active market and determined it to be ₹ 48,00,000 as at 31st March, 20X2 and ₹ 43,00,000 as at 31st March, 20X3.

MULTIPLE CHOICE QUESTIONS

1. What would be the amount of Deferred Tax Asset or Liability that the Company should recognize as on 31st March, 20X3 on the cost incurred on the issue of equity shares during the year?

   (a) No DTA or DTL should be recognized

(b) DTA of ₹ 15,00,000

(c) DTL of ₹ 15,00,000

(d) DTA of ₹ 50,00,000

2. What would be carrying amount of the acquired software in the books of accounts of New Age Technology Limited as at 31st March, 20X3?

(a) ₹ 43,00,000

(b) ₹ 45,00,000

(c) ₹ 40,00,000

(d) ₹ 48,00,000

3. At what value should New Age Technology Limited record the high-end laptop purchased in exchange for its existing server in its books of accounts?

(a) ₹ 2,00,000

(b) ₹ 1,75,000

(c) ₹ 2,50,000

(d) ₹ 2,10,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (B) : DTA of ₹ 15,00,000

Reason:

Since the cost of issue of shares has a tax base and no carrying amount, it leads to Deductible Temporary Difference. Hence, it will result into Deferred Tax Asset of ₹ 15,00,000 (₹ 50,00,000 x 30%).

2. Option (A) : ₹ 43,00,000

Reason:

Since the fair value of the intangible asset is assessed with reference to active market its fair value as on 31st March, 20X3 would be ₹ 43,00,000.

3. Option (A) : ₹ 2,00,000

Reason:

Ind AS 16 *inter alia* states that if an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

CASE SCENARIO 22

Buildings & Co. Limited with a financial year ending at 31st March, entered into a contract with its customer, Radar Company Limited, to build a manufacturing facility. Buildings & Co. Limited determines that the contract contains one performance obligation satisfied over time. Construction is scheduled to be completed by the end of the 36th month for an agreed upon price of ₹ 25 crore. Buildings & Co. Limited has the opportunity to earn a performance bonus for early completion as follows:

- 15% bonus of the contract price if contract is completed by 30th month (25% likelihood).
- 10% bonus of the contract price if contract is completed by 32nd month (40% likelihood).
- 5% bonus of the contract price if contract is completed by 34th month (15% likelihood).

In addition to the potential performance bonus for early completion, Buildings & Co. Limited is entitled to a quality bonus of ₹ 2 crore if a health and safety inspector assigns the facility a gold star rating as defined by Radar Company Limited in terms of the contract. Buildings & Co. Limited concludes that it is 60% likely that it will receive the quality bonus.

Buildings & Co. Limited has prepared interim financial statements for the third quarter ended 31st December, 20X2 for the purposes of submission to banks. The interim financial statements show a net profit of ₹ 20 crore for the third quarter ended 31st December, 20X2. Following adjustments have been made while computing the net profit:

Bad debts of ₹ 1 crore were incurred during the quarter ended 31st December, 20X2. 50% of the bad debt have been deferred to next quarter.

Additional depreciation of ₹ 45,00,000 resulting from change in the method of depreciation.

₹ 5 crore expenditure on account of administrative expenses pertaining to the third quarter 31st December, 20X2 is deferred on the argument that the fourth quarter will have more sales; therefore, fourth quarter should be debited by higher expenditure. The expenditures are uniform all throughout the quarters.

MULTIPLE CHOICE QUESTIONS

1. Determine the amount of variable consideration Building & Co. Limited should recognize in its contract with Radar Company Limited to build a manufacturing facility.

   (a) ₹ 2.13 crore

   (b) ₹ 4.13 crore

   (c) ₹ 2 crore

   (d) ₹ 3.94 crore.

2. The CFO of the Company has requested you to review the interim financial statements of the third quarter ended 31st December, 20X2 to ascertain the correct net profit to be presented to the Board of Directors. What is the correct amount of profit to be reported in the interim financial statements?

   (a) ₹ 14.75 crore

   (b) ₹ 18.25 crore

   (c) ₹ 14.84 crore

   (d) ₹ 14.50 crore.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b) : ₹ 4.13 crore**

   Reason:

   In determining the transaction price, AST Limited separately estimates variable consideration for each element of variability i.e. the early completion bonus and the quality bonus.

   AST Limited decides to use the expected value method to estimate the variable consideration associated with the early completion bonus because there is a range of possible outcomes, and the entity has experience with a large number of similar contracts that provide a reasonable basis to predict future outcomes. Therefore, the entity expects this method to best predict the amount of variable consideration associated with the early completion bonus. AST's best estimate of the early completion bonus is ₹ 2.13 crore, calculated as shown in the following table:

Bonus %	**Amount of bonus (₹ in crore)**	**Probability**	**Probability-weighted amount (₹ in crore)**
15%	3.75	25%	0.9375
10%	2.50	40%	1.00
5%	1.25	15%	0.1875
0%	-	20%	-
		100%	2.125

AST Limited decides to use the most likely amount to estimate the variable consideration associated with the potential quality bonus because there are only two possible outcomes (₹ 2 crore or Nil) and this method would best predict the amount of consideration associated with the quality bonus. AST Limited believes the most likely amount of the quality bonus is ₹ 2 crore.

Therefore, total variable consideration will be ₹ 4.13 crore (₹ 2.13 crore + ₹ 2 crore).

2. Option (d) : ₹ 14.50 crore

Reason:

In the instant case, the quarterly net profit has not been correctly stated. As per Ind AS 34, *Interim Financial Reporting*, the quarterly net profit should be adjusted and restated as follows:

(i) The treatment of bad debts is not correct as the expenses incurred during an interim reporting period should be recognised in the same period. Accordingly, ₹ 0.5 crore should be deducted from ₹ 20 crore.

(ii) Recognising additional depreciation of ₹ 0.45 crore in the same quarter is correct and is in tune with Ind AS 34.

(iii) As per Ind AS 34 the income and expense should be recognised when they are earned and incurred respectively. As per Ind AS 34, the costs should be anticipated or deferred only when:

  (i) it is appropriate to anticipate or defer that type of cost at the end of the financial year, and

  (ii) costs are incurred unevenly during the financial year of an enterprise.

Therefore, the treatment done relating to deferment of ₹ 5 crore is not correct as expenditures are uniform throughout all quarters.

Thus, considering the above, the correct net profits to be shown in Interim Financial Report of the third quarter shall be ₹ 14.5 crore (₹ 20 crore - ₹ 0.5 crore - ₹ 5 crore).

CASE SCENARIO 23

While preparing the annual financial statements for the year ended 31st March 20X2, Buildings & Co. Limited charged certain expenses as finance cost (assume the expenses to be material on overall level). While preparing the annual financial statements for the year ended 31st March 20X3, management discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The management restated the comparative amount for the prior period presented i.e. for the year ended 31st March, 20X2.

On 15th November, 20X2, Buildings & Co. Limited acquired Concrete Mixers Private Limited for a purchase consideration of ₹ 10 crore. Concrete Mixers Private Limited is in the process of setting up a plant to make ready mix-concrete· and expects the plant to become operational by 30th April, 20X3. Other than the plant in construction, there are no other operations in the Concrete Mixers Private Limited.

Buildings & Co. Limited has taken a loan of USD 15,00,000 as on 1st April 20X2 taken for construction of its fabrication plant at an interest rate of 6% per annum payable on annual basis. On 1st April, 20X2, the exchange rate between the currencies i.e. USD vs. Rupees was ₹ 72 per USD. The exchange rate on the reporting date i.e. 31st March, 20X3 is ₹ 76 per USD. The corresponding amount could have been borrowed by Buildings & Co. Limited from and Indian bank in Rupees at an interest rate of 11% per annum as on 1st April, 20X2.

MULTIPLE CHOICE QUESTIONS

1. Would the error of classifying certain other expenses instead of finance costs in the comparative amounts (31st March, 20X2) be considered as correction of an error? Would the entity need to present a third balance sheet in its financial statements for the year ended 31st March, 20X3?

   (a) Reclassifications of previous year numbers is permissible in case of both balance sheet and statement of profit and loss and is not considered as an error.

(b) Reclassifications of previous year numbers shall be considered as an error and in case of an error it is mandatory to present a third balance sheet at the beginning of the period.

(c) Reclassifications of previous year numbers shall be considered as an error and since the retrospective restatement in statement of profit and loss has no impact on the information in balance sheet at the beginning of the preceding year i.e. 1st April, 20X1, the entity is not required to present the third balance sheet.

(d) Reclassifications of previous year numbers is permissible in case of only statement of profit and loss and is not considered as an error.

2. The CFO of the Company has requested you to evaluate whether the acquisition of Concrete Mixers Private Limited will be covered in Ind AS 103 'Business combinations' or whether the under-construction plant should be accounted for as an asset acquisition? What factors will you consider in your evaluation?

   (a) Whether Concrete Mixers Private Limited has begun planned principal activities or is pursuing a plan to produce outputs.

   (b) Will the entity be able to obtain access to customers that will purchase the outputs.

   (c) Whether Concrete Mixers Private Limited has employees, intellectual property and other inputs and processes that could be applied to those inputs.

   (d) All of the above.

3. In case of the foreign currency borrowing obtained by Buildings & Co. Limited, what is the amount of borrowing cost eligible for capitalization for the construction of the fabrication plant (assume eligibility conditions related to capitalization of borrowing cost are met)?

   (a) ₹ 1,18,80,000

   (b) ₹ 68,40,000

   (c) ₹ 1,25,40,000

   (d) ₹ 1,28,40,000.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c) : Reclassifications of previous year numbers shall be considered as an error and since the retrospective restatement in statement of profit and loss has no impact on the information in balance sheet at the beginning of the preceding year i.e. 1st April, 20X1, the entity is not required to present the third balance sheet.**

   Reason:

   The reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March, 20X3, the comparative amounts for the year ended 31st March, 20X2 would be restated to reflect the correct classification.

   Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

   In the given case, the retrospective restatement of relevant items in statement of profit and loss has no effect on the information in the balance sheet at the beginning of the preceding period (1st April, 20X1). Therefore, the entity is not required to present a third balance sheet.

2. **Option (d) : All of the above**

   Reason:

   The above is based on the definition of Business in Ind AS 103. The three elements of a business are input, process and output. The options given in the question covers these elements. Hence all have to be considered for evaluation purposes.

3. Option (a) : ₹ 1,18,80,000

Reason:

An entity can borrow funds in its functional currency (₹) @ 11%. It borrows $ 15,00,000 @ 6% on 1st April, 20X2 when $ 1 = ₹ 72.

The equivalent amount in functional currency is ₹ 10,80,00,000.

Interest is payable on 31st March, 20X3. The loan is not due for repayment.

On 31st March, 20X3, exchange rate is $ 1 = ₹ 76.

The exchange loss in this case is ₹ 60,00,000 [$ 15,00,000 x (₹ 76- ₹ 72)].

The borrowing cost is ₹ 68,40,000 ($ 15,00,000 x 6% x ₹ 76).

Had the entity borrowed in functional currency the borrowing cost would have been ₹ 1,18,80,000 (₹ 10,80,00,000 x 11%).

The entity will treat exchange difference upto ₹ 50,40,000 (₹ 1,18,80,000 – ₹ 68,40,000) as a borrowing cost that may be eligible for capitalisation under this Standard.

Thus, the total eligible borrowing cost is ₹ 1,18,80,000 (₹ 68,40,000 + ₹ 50,40,000) equivalent to the cost of borrowing cost in functional currency.

CASE SCENARIO 24

Sun Enterprise Limited (SEL), whose functional currency FC is engaged in the business of manufacturing various items from metals. It prepares its financial statements as per Ind AS.

It is considering raising funds for the expansion of its production capacity. However, its debt-equity ratio is under pressure. It has the following options before it:

(i) SEL issues 6% cumulative, non-redeemable preference shares (6% CNRPS) with discretionary dividends that are subject to availability of distributable reserves. The directors of SEL can decide at each period end whether and the extent to which a dividend will be paid on the preference share. The terms of the preference shares provide that if no dividend is paid on the preference shares, then no dividend is paid on SEL ordinary shares.

(ii) SEL issues 6% discretionary non-cumulative, non-redeemable preference shares (6% NCNRPS) that are subject to availability of distributable reserves. The directors of SEL can decide at each period end whether and the extent to which a dividend will be paid on the preference shares. The payment of dividends on SEL ordinary shares is also discretionary. The terms of the preference shares provide that if dividend is to be paid on SEL's ordinary shares, then a dividend must be paid on the preference shares.

MULTIPLE CHOICE QUESTIONS

1. Whether 6% CNRPS can be classified as:

   (a) Equity in its entirety

   (b) Liability in its entirety

   (c) Either of the above with disclosure

   (d) Compound Financial Instruments.

2. Whether 6% NCNRPS can be classified as:

   (a) Equity in its entirety

   (b) Liability in its entirety

   (c) Either of the above with disclosure

   (d) Compound Financial Instrument.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) : Equity in its entirety

2. Option (a) : Equity in its entirety

Reason for 1 and 2:

In this case, appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments.

The classification of a preference shares as an equity instrument or a financial liability is not affected by, for example:

(a) a history of making distributions

(b) an intention to make distributions in the future

(c) a possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares)

(d) the amount of the issuer's reserves

(e) an issuer's expectation of a profit or loss for a period; or

(f) an ability or inability of the issuer to influence the amount of its profit or loss for the period.

Hence, the contractual terms determine the nature of instrument. Any historical trend or ability of the Issuer does not affect the classification of an instrument as 'equity' or 'financial liability'.

CASE SCENARIO 25

Sun Enterprise Limited (SEL), whose functional currency FC is engaged in the business of manufacturing various items from metals. It prepares its financial statements as per Ind AS.

It is considering raising funds for the expansion of its production capacity. However, its debt-equity ratio is under pressure. It has the following options before it:

SEL issues 6% non - redeemable, fixed cumulative mandatory dividend preference shares (6% NRCMP). If earnings are not sufficient in any given year, such dividends will be paid in future years. Additional dividends may be declared but only if dividends of the same amount are declared on the other classes of shares.

SEL issues 2000 convertible bonds with a 3-year term at a face value of FC 1,000 per bond resulting into a total proceed of FC 2.0 million. Interest is payable annually @ 6.00% per annum. Each bond is convertible, at the holder's discretion, at any time upto maturity into 250 shares. When the bonds are issued, the market interest rate for similar debt instrument without the conversion option is 9% per annum;

SEL issues a 2-year mandatorily convertible instruments for FC 1 million. The instrument requires SEL to make cash coupon payments of FC 50,000 each at the end of year 1 and year 2. At the end of year 2, the instrument will mandatorily convert into 5,000 ordinary shares.

MULTIPLE CHOICE QUESTIONS

1. Whether 6% NRCMP can be classified as:

   (a) Compound financial instrument

   (b) Equity in its entirety

   (c) Liability in its entirety

   (d) Either (B) or (C) at the discretion of SEL.

2. If SEL issues 2,000 convertible bonds of FC 1,000 per bond, assuming no transaction costs, on initial recognition:

   (a) There is no equity component

   (b) The equity component is FC 1,51,878

   (c) The equity component is FC 2,00,000

   (d) None of the above.

3. If SEL issues the 2 year mandatorily convertible instruments for FC 1.0 million, assuming no transaction costs and market interest rate for similar debt instrument without conversion option is 8% per annum, on initial recognition:

   (a) There is no equity component

   (b) There is no liability component

   (c) The equity component is FC 9,10,837

   (d) The equity component is FC 6,87,435.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) : Compound financial instrument

Reason:

In cases where the preference shares are not redeemable, it is like an equity instrument. But if they are entitled to a dividend which is payable such that entity does not have an unconditional right to defer payment, then this provides the shareholders with a lender's return on the amount invested. This obligation is also not negated if the entity is unable to pay such dividend for lack of funds or insufficient distributable profits. Therefore, the obligation to pay dividend meets the definition of financial liability. The instrument in such cases shall have two components – financial liability represented by dividend and equity component represented by the issue price, such instruments are overall classified as 'compound financial instruments' and each of the components as mentioned above are accounted separately.

2. **Option (b) : The equity component is FC 151,878**

Reason:

The values of the liability and equity components are calculated as follows:

Present value of principal payable at the end of 3 years (₹ 20 lakhs discounted at 9% for 3 years) = ₹ 15,44,367

Present value of interest payable in arrears for 3 years (₹ 1,20,000 discounted at 9% for each of 3 years) = ₹ 3,03,755

Total financial liability = ₹ 18,48,122 (3,03,755 + 15,44,367)

Therefore, equity component = Fair value of compound instrument, ₹ 20,00,000 - financial liability component i.e. ₹ 18,48,122 = ₹ 1,51,878 (approx.)

3. **Option (c) : The equity component is FC 910,837**

Reason:

The values of the liability and equity components are calculated as follows:

Principal value is to be mandatorily converted into ordinary shares. Hence, it is equity.

Present value of interest payable in arrears for 2 years would only be the financial liability (₹ 50,000 discounted at 8% for each of 2 years) = ₹ 89,163

Therefore, equity component = Fair value of compound instrument, ₹ 10,00,000 - financial liability component ₹ 89,163 = ₹ 9,10,837 (approx.)

CASE SCENARIO 26

Mr. Deepak Goel, a chartered accountant with 10 years of experience was earlier working with a big Indian practicing firm having clientele of IND AS and auditing assurance. Recently he left his job and started his own consultancy firm. He has received certain Ind AS based projects wherein his opinion and guidance on applicability of Ind AS has been sought for on following issues:

1. Narayan Ltd. requires to calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income:

	₹
Estimated Gross Annual Income	33,00,000
(inclusive of Estimated Capital Gains of ₹ 8,00,000)	
Estimated Income of Quarter I	7,00,000
Quarter II	8,00,000
Quarter III (including estimated Capital Gain of ₹ 8,00,000)	12,00,000
Quarter IV	6,00,000

Tax Rates:

On Capital Gains		12%
On Other Income:	First ₹ 5,00,000	30%
	Balance Income·	40%

2. C Ltd. is a construction company. It enters into a contract with Customer E to build an asset. Depending on when the asset is completed, C will receive either ₹ 1,10,000 or ₹ 1,30,000.

Outcome	Consideration (₹)	Probability
Project completes on time	1,30,000	90%
Project is delayed	1,10,000	10%

3. In the financial year 20X1-20X2, X Ltd. incurred the following expenditure in acquiring property consisting of 6 identical houses each with separate legal title including the land on which it is built.

The expenditure incurred on various dates is given below:

On 1st April, 20X1 - Purchase cost of the property ₹ 1,80,00,000.

On 1st April, 20X1 – Non-refundable transfer taxes ₹ 20,00,000 (not included in the purchase cost).

On 2nd April, 20X1- Legal cost related to property acquisition ₹ 5,00,000.

On 6th April, 20X1- Advertisement campaign to attract tenants ₹ 3,00,000.

On 8th April, 20X1 - Opening ceremony function for starting business ₹ 1,50,000.

Throughout 20X1-20X2, incurred ₹ 1,00,000 towards day-to-day repair maintenance and other administrative expenses.

X Limited uses one of the six houses for office and accommodation of its few staffs. The other five houses are rented to various independent third parties.

How X Limited will account for all the above-mentioned expenses in the books of account?

MULTIPLE CHOICE QUESTIONS

1. What will be the weighted average annual income tax rate for Narayan Ltd.?

    (a) 29%

    (b) 38%

    (c) 30%

    (d) 40%

2. What will be the tax expense for quarter III and quarter IV?

    (a) ₹ 2,66,000; ₹ 3,04,000

    (b) ₹ 3,04,000; ₹ 2,48,000

(c) ₹ 2,48,000; ₹ 2,28,000

(d) ₹ 2,28,000; ₹ 10,46,000

3. What will be the transaction price for C Ltd.?

(a) ₹ 1,10,000

(b) ₹ 1,20,000

(c) ₹ 1,17,000

(d) ₹ 1,30,000

4. What will be the total cost of the property to X Ltd.?

(a) ₹ 2,05,00,000

(b) ₹ 2,09,50,000

(c) ₹ 1,85,00,000

(d) ₹ 1,89,50,000

5. What will be the cost of the investment property to be reflected in the balance sheet of X Ltd.?

(a) ₹ 2,05,00,000

(b) ₹ 2,09,50,000

(c) ₹ 1,70,83,333

(d) ₹ 34,16,667

6. What will be the cost of the owner-occupied property to be reflected in the balance sheet of X Ltd.?

(a) ₹ 2,05,00,000

(b) ₹ 2,09,50,000

(c) ₹ 1,70,83,333

(d) ₹ 34,16,667

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) : 38%

Reason:

	₹
Estimated annual income exclusive of estimated capital gain (33,00,000 – 8,00,000) (A)	25,00,000
Tax expense on other income:	
30% on ₹ 5,00,000	1,50,000
40% on remaining ₹ 20,00,000	8,00,000
(B)	9,50,000
Weighted average annual income tax rate $= \frac{B}{A} = \frac{9,50,000}{25,00,000} = 38\%$	

2. Option (c) : ₹ 2,48,000; ₹ 2,28,000

Reason:

As per para 30(c) of Ind AS 34 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

If different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries) to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income.

Tax expense to be recognised in each of the quarterly reports

		₹
Quarter I - ₹ 7,00,000 x 38%		2,66,000
Quarter II - ₹ 8,00,000 x 38%		3,04,000
Quarter III - ₹ (12,00,000 - 8,00,000) x 38%	1,52,000	

₹ 8,00,000 x 12%	96,000	2,48,000
Quarter IV - ₹ 6,00,000 x 38%		2,28,000
		10,46,000

3. Option (d) : ₹ 1,30,000

Reason:

Since there are only two possible outcomes under the contract, C Ltd. should determine that using the most likely amount provides the best prediction of the amount of consideration to which it will be entitled. Hence, C Ltd. should estimate the transaction price to be ₹ 1,30,000, which is the single most likely amount.

4. Option (a) : ₹ 2,05,00,000

5. Option (c) : ₹ 1,70,83,333

6. Option (d) : ₹ 34,16,667

Reason for 4, 5 and 6:

The cost of the property = ₹ (1,80,00,000 + 20,00,000 + 5,00,000)

= ₹ 2,05,00,000.

Since five houses out of six are being rented, 5/6th of the property cost will be accounted for as an investment property and 1/6th of the property cost will be accounted for as owner-occupied property.

Cost of the investment property = ₹ 2,05,00,000 x 5/6

= ₹ 1,70,83,333

Cost of the owner-occupied property = ₹ (2,05,00,000 - 1,70,83,333)

= ₹ 34,16,667.

CASE SCENARIO 27

G Ltd. (herein after referred to as 'the Company') is currently engaged in different business segments and is also looking to expand its operations overseas. The Company is also exploring investment from an overseas investor to carry out the expansion plan. The functional currency of G Ltd. is Rupees. The Company is required to submit its financial statements for the year ended 31st March, 20X2 as per Ind AS.

On 30th September, 20X1, the Company acquired 70% of the share capital of M Ltd., an entity registered as company in Germany. The fair value of the net assets of M Ltd. was 23 million EURO and the purchase consideration paid was 17.5 million EURO on 30th September, 20X1. The exchange rates as at 30th September, 20X1 was ₹ 82 / EURO and at 31st March, 20X2 was ₹ 84 / EURO. NCI is valued at proportionate share of fair value of net assets of M Limited.

G Ltd has made an interest-free security deposit against a lease of 5 years redeemable at the end of the lease term, when the market interest rate for a deposit for similar period was 12% per annum. Following are the details of the deposit made by G Ltd.:

Particulars	Details
Date of Security Deposit (Starting Date)	1st April, 20X1
Date of Security Deposit (Finishing Date)	31st March, 20X6
Discount rate	12.00%
Security deposit	10,00,000
Present value factor at the end of 5th year	0.567427

The accountant of the company is facing a challenge in the accounting treatment of the above issues.

MULTIPLE CHOICE QUESTIONS

1. What will be the value of goodwill on the acquisition of M Ltd., in Euro, as on 30th September, 20X1?

   (a) 5.5 million EURO

   (b) 2 million EURO

   (c) 1.4 million EURO

   (d) Nil

2. What will be the value of goodwill to be recognised in the financial statements of G Ltd. as on 31st March, 20X2?

   (a) ₹ 117.6 million

   (b) ₹ 114.8 million

   (c) ₹ 451 million

   (d) ₹ 462 million

3. What will be the initial amount of prepaid lease payment in the lease contract to be recognised by G Ltd.?

   (a) ₹ 5,67,427

   (b) ₹ 4,32,573

   (c) ₹ 10,00,000

   (d) Nil

4. What will be the amount of interest income on security deposit to be recognised in the financial statements of G Ltd. as on 31st March, 20X2?

   (a) ₹ 1,20,000

   (b) ₹ 68,091

   (c) ₹ 51,909

   (d) Nil

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c) : 1.4 million EURO**

2. **Option (a) : ₹ 117.6 million**

Reason for 1 and 2:

Para 47 of Ind AS 21 requires that goodwill arose on business combination as on 30th September, 20X1, shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42. In this case the amount of goodwill in EURO will be as follows:

Net identifiable asset	Dr. 23 million EURO	
Goodwill (bal. fig.)	Dr. 1.4 million EURO	
To Bank		17.5 million EURO
To NCI (23 x 30%)		6.9 million EURO

Thus, goodwill on reporting date 31st March, 20X2 would be 1.4 million EURO x ₹ 84 =₹ 117.6 million

3. **Option (b) : ₹ 4,32,573**

4. **Option (b) : ₹ 68,091**

Reason for 3 and 4:

The security deposit is an interest free deposit redeemable at the end of lease term for ₹ 10,00,000. Hence, this involves collection of contractual cash flows and shall be accounted for at amortised cost.

Upon initial measurement

Particulars	Details
Security deposit (A)	10,00,000
Total Lease Period (Years)	5
Discount rate	12.00%
Present value factor of 5th year end	0.56743

Present value of deposit at beginning (B)	5,67,427
Prepaid lease payment at beginning (A-B)	4,32,573

This prepaid lease rent would be shown as ROU asset.

Subsequently, every annual reporting year, interest income shall be accrued @ 12% per annum and prepaid expenses shall be amortised on straight line basis over the lease term.

At the end of year 1, the interest @ 12% on security deposit will be recognised as income in the books. Accordingly, the interest income would be ₹ 5,67,427 x 12% = ₹ 68,091.

CASE SCENARIO 28

X Ltd. is a listed entity in India and prepares consolidated financial statements as per the requirements of Ind AS. X Ltd. has a wholly owned subsidiary A Ltd. which is an unlisted entity with a net worth of ₹ 280 crore. A Ltd. is not in the process of listing any of its instruments in public market. A Ltd. has two wholly owned subsidiaries B Ltd. and C Ltd.

MULTIPLE CHOICE QUESTIONS

1. State which of the following is true for A Ltd. as per the requirements of Ind AS 110?

   (a) Since A Ltd. is an unlisted entity, it is mandatory for it to prepare Consolidated Financial Statements (CFS)

   (b) Even if X Ltd. does not object to A Ltd. for not preparing CFS, A Ltd. has to mandatory prepare CFS

   (c) Even if A Ltd. is an unlisted entity and X Ltd. objects A Ltd. for not preparing CFS, A Ltd. is not required to prepare CFS

   (d) Since A Ltd. is not a listed entity and if X Ltd. does not object to A Ltd. for not preparing CFS, A Ltd. will not be required to prepare CFS.

2. Assume the same facts as given in the scenario for wholly owned subsidiaries A Ltd., X Ltd. is a foreign entity and is listed in stock exchange of a foreign country and it prepares its financial statements as per the generally accepted accounting principles (GAAP) applicable to that country. Now state which of the following is true for A Ltd. as per the requirements of Ind AS 110?

   (a) Since A Ltd. is an unlisted entity, preparation of CFS is not mandatory to it

   (b) Since X Ltd. is not preparing CFS under Ind AS, A Ltd. is mandatorily required to prepare CFS under Ind AS

(c) Even if X Ltd. does not object to A Ltd. for not preparing CFS, A Ltd. is not required to mandatory prepare CFS

(d) Even if A Ltd. is an unlisted entity and X Ltd. objects A Ltd. for not preparing CFS, A Ltd. is not required to prepare CFS

3. Assume the same facts as given in the scenario except that 100% of the investment in A Ltd. is held by Mr. X (an individual) instead of X Ltd. Now state which of the following is true for A Ltd. as per the requirements of Ind AS 110?

(a) A Ltd. is not required to prepare CFS as it is an unlisted entity

(b) Even if Mr. X is an individual, A Ltd. is not mandatorily required to prepare CFS under Ind AS

(c) A Ltd. will prepare consolidated financial statements under AS and not Ind AS

(d) Even if A Ltd. is an unlisted entity, it is mandatorily required to prepare CFS

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : Since A Ltd. is not a listed entity and if X Ltd. does not object to A Ltd. for not preparing consolidated financial statements, A Ltd. will not be required to prepare CFS.

Reason:

In this case, A Ltd. satisfies all the conditions for not preparing consolidated financial statements i.e. it is not a listed entity, nor it is in the process of listing, the parent of A Ltd. prepares consolidated financial statements as per Ind AS which is available for public use and parent of A Ltd. does not object A Ltd. not preparing consolidated financial statements.

Hence, A Ltd. is not required to prepare consolidated financial statements.

2. **Option (b) : Since X Ltd. is not preparing CFS under Ind AS, A Ltd. is mandatorily required to prepare CFS under Ind AS**

   Reason:

   In this case, the consolidated financial statements of parent of A Ltd. are not prepared under Ind AS. Hence, A Ltd. cannot avail the exemption from preparation of consolidated financial statements even though it is an unlisted entity since its net worth is more than ₹ 250 crore.

3. **Option (d) : Even if A Ltd. is an unlisted entity, it is mandatorily required to prepare CFS**

   Reason:

   In this case, Mr. X (an individual) would not be preparing its financial statements as per the requirements of Ind AS which is available for public use.

   Hence, A Ltd. cannot avail exemption from preparation of consolidated financial statements even though it is an unlisted entity since its net worth is more than ₹ 250 crore.

CASE SCENARIO 29

Deepak started a new company S Pvt. Ltd. with T Ltd. wherein investment of 55% is done by T Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company S Pvt. Ltd. formed was the subsidiary of T Ltd. with two directors, and Deepak eventually becomes one of the directors of company. The company, S Pvt. Ltd. was incorporated on 1st April 20X1. The financials of T Ltd. are prepared as per Ind AS. However, S Pvt. Ltd. is preparing its financial statements as per Accounting Standards.

Further, Deepak has started using accounting software and other tools to automate manual processes in S Pvt. Ltd. He is evidencing major change in accounting due to automation of the accounting process. However, at the same time, he also realised that automation comes with its own set of potential drawbacks and challenges.

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements is true with respect to preparation of financial statements?

   (a) S Pvt. Ltd. has to mandatorily prepare its financial statements as per Ind AS

   (b) S Pvt. Ltd. is not at all required to prepare its financial statements as per Ind AS

   (c) S Pvt. Ltd. has to prepare its financial statements both as per AS and Ind AS

   (d) T Ltd. has to prepare its financial statements as per AS.

2. State which of the following is the challenge of the automation process:

   (a) Software can automatically categorize transactions into the appropriate accounts

(b) Optical character recognition (OCR) or barcode recognition technology, is automating the entry of data from source documents such as receipts and invoices.

(c) Automation process enables accountants to focus on higher-level tasks such as analysis and planning instead of routine manual entry

(d) Automation requires ongoing training and education to keep up with the latest technology

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a) : S Pvt. Ltd. has to mandatorily prepare its financial statements as per Ind AS**

   Reason:

   If Ind AS is applicable to any company, then Ind AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of set of standards on such companies.

   In the given case it has been mentioned that the financials of T Ltd. are prepared as per Ind AS. Accordingly, the results of its subsidiary S Pvt. Ltd. should also have been prepared as per Ind AS. However, the financials of S Pvt. Ltd. have been presented as per accounting standards (AS).

   Hence, it is necessary to revise the financial statements of S Pvt. Ltd. as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

2. **Option (d)** : **Automation requires ongoing training and education to keep up with the latest technology**

   Reason:

   Since, in the field of information technology, often advancement takes place. Therefore, with major shift in the technology, training and education of staff is required.

CASE SCENARIO 30

Medicines India Limited (MIL) incorporated under the Companies Act, 1956 is a pharmaceutical company. It has its manufacturing plant at Pune in Maharashtra. Besides domestic sales, it also exports the medicines to various countries. Its net worth exceeded ₹ 1,000 crore as per the audited accounts for the year ended 31st March 20X1 & has remained above that since then. When preparing and finalizing the financial statements as at and for the year ended 31st March 20X7, the following issues required attention:

MIL during the year ended 31st March 20X7 had invested in a 12-year bond with a face value of ₹ 6,00,000 by paying ₹ 2,31,500. The effective rate of interest is 10%. MIL recognizes proportionate interest income in its statement of profit and loss over the period of bond. MIL is not in the business of dealing in securities.

MIL has a legal claim for damages filed by its customer of ₹ 2.50 million. There is a 40% chance that the entity will win the case, and no cost will be involved. However, there is a 60% chance that the decision will not be in the favour of the entity, and it will have to pay for the damages.

MIL entered into a contract to supply 10,00,000 million strips of a particular medicine for ₹ 2 million. An increase in the cost of inputs has resulted into an increase in the cost of sales to ₹ 2.5 million. The penalty for non-performance of the contract is expected to be ₹ 0.25 million.

The Finance & Accounts department had drawn the following calendar for finalization, approval & submission of financial statements for the year ended 31st March 20X7:

Completion of preparation of financial statements	28th May, 20X7
Review & recommendation for approval by the Audit Committee	15th June, 20X7
Review & approval for issue by the Board of Directors	19th June, 20X7
Available to shareholders	1st July, 20X7

Annual General Meeting	15th September, 20X7
Filing with regulatory authority	6th October, 20X7

The calendar was duly adhered.

MULTIPLE CHOICE QUESTIONS

1. With respect to investment in bonds, interest income during the currency of the bond, in the cash flow statement will be treated as:

   (a) Financing activity

   (b) Investing activity

   (c) Either a or b with disclosure

   (d) Non-cash item.

2. How the maturity proceeds of bonds will be treated in the cash flow statement?

   (a) Investing activity

   (b) Financing activity

   (c) Operating activity

   (d) Any of the above with disclosure.

3. With respect to legal claim for damages filed by its customer, MIL should recognize a provision of

   (a) Nil

   (b) ₹ 2.5 million

   (c) ₹ 1.5 million

   (d) ₹ 1 million.

4. The contract to supply 10,00,000 strips requires a provision of

   (a) Nil

   (b) ₹ 0.25 million

(c) ₹ 0.50 million

(d) ₹ 0.125 million.

5. What is the date of approval for issue of-the financial statements?

(a) 15th June, 20X7

(b) 19th June, 20X7

(c) 1st July, 20X7

(d) 15th September, 20X7.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : Non-cash item

Reason:

The company is using effective interest rate and is recognising interest income on proportionate basis. It appears that no interest is received and the payment on redemption of bond will be received in bullet. Hence, there will be no cash flow in these years because no cash has been received.

2. Option (a) : Investing activity

Reason:

Receipt of ₹ 6,00,000 will be classified as investment activity with a bifurcation of interest income & money received on redemption of bond.

3. Option (b) : ₹ 2.5 million

Reason:

In this case the outcome will either be zero cost or a cost of ₹ 2.5 million. As per paragraph 40 of Ind AS 37, where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. Here, the provision should be measured at the most likely outcome which is ₹ 2.5 million. When the provision relates to a single event, or a small number of events, expected value is not a valid technique.

4. Option (b) : ₹ 0.25 million

Reason:

It is an onerous contract as cost of meeting the contract exceeds the economic benefits. Therefore, the provision should be recognised at the best estimate of the unavoidable cost, which is lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, i.e., at ₹ 0.25 million [lower of ₹ 0.25 million and ₹ 0.5 million (2.5 million – 2 million)].

5. Option (b) : 19th June, 20X7

Reason:

The date of approval is the date on which the financial statements are approved by the Board of Directors of the company i.e; 19th June, 20X7.

CASE SCENARIO 31

On 1st October, 20X1, Skywalk Ltd. signed a contract to purchase a machine from a foreign supplier on 31st March, 20X2.

The purchase price of the machine, payable in cash on 31st March, 20X2, was USD 2 million. On 1st October, 20X1, Skywalk Ltd. entered into a forward contract to purchase USD 2 million on 31st March, 20X2 for ₹ 140.0 million. On 31st December, 20X1, a contract to buy USD 2 million on 31st March, 20X2 would have required a payment of ₹ 150·0 million. On 31st March, 20X2, the spot rate of exchange was ₹ 70 = USD 1. The forward contract was settled by the other party making a payment of ₹ 15 million to Skywalk Ltd. on that date.

Skywalk Ltd. estimated that the useful economic life of the machine was five years from 31st March, 20X2, with no residual value. Skywalk Ltd. uses hedge accounting whenever permitted by Ind AS 109. The currency contract fully complies with the criteria and conditions for hedge accounting as set out in Ind AS 109.

MULTIPLE CHOICE QUESTIONS

1. Show the amount to be recognized in balance sheet at 31st December, 20X1 of property, plant and equipment for purchases of machine from foreign supplier.

   (a) ₹ 10 million

   (b) ₹ 140 million

   (c) ₹ 150 million

   (d) Nil

2. Calculate the gain on revaluation of the derivative for the year ended 31st December, 20X2.

   (a) ₹ 5 million

   (b) ₹ 10 million

(c) ₹ 15 million

(d) ₹ 11.25 million

3. Calculate the net carrying amount of property, plant and equipment (machine purchased from foreign supplier) as at 31st December, 20X2.

(a) ₹ 119.00 million

(b) ₹ 127.50 million

(c) ₹ 106.25 million

(d) ₹ 121.25 million

4. At which time the hedging instrument as derivative in this case is to be derecognized from books?

(a) When the property, plant and equipment has been purchased

(b) When the forward contract is settled

(c) When the company starts charging depreciation to property, plant and equipment

(d) At the end of relevant financial year when the contract is entered.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : Nil

2. Option (a) : ₹ 5 million

3. Option (c) : ₹ 106.25 million

Reason for 1, 2 and 3:

Note-1: Explanation and supporting calculations – year ended 31st December, 20X1

The property, plant and equipment is not recognised in the year ended 31st December, 20X1 because the contract to purchase is an executory one.

At 31st December, 20X1 the derivative will be shown on the balance sheet under current assets at its fair value of ₹ 10 million.

The derivative has a nil cost so a gain in fair value of ₹ 10 million will be reported in the statement of other comprehensive income. Since, the derivative is designated as a hedging instrument, this will be taken to other comprehensive income rather than Statement of profit and loss.

Note-2: Explanation and supporting calculations – year ended 31st December, 20X2

Between 1st January, 20X2 and 31st March, 20X2, a further gain on revaluation of the derivative of ₹ 5 million (₹ 15 million – ₹ 10 million) will be recognised in other comprehensive income.

On 31st March, 20X2, the machine will be recognised in property, plant and equipment at cost. The initial amount recognised will be ₹ 140 million (USD 2 million x ₹ 70).

The gain of ₹ 15 million in other comprehensive income must be recognised in profit and loss.

This is done by adjusting the carrying value of the asset at the date of recognition.

Accordingly, depreciation for the current period is ₹ 18.750 million [(₹ 140 million – ₹ 15 million) x 1/5 x 9/12]. Hence, the closing balance in property, plant and equipment is ₹ 106.25 million (₹ 140 million – ₹ 15 million – ₹ 18.750 million).

4. Option (b) : When the forward contract is settled

Reason:

The financial asset will be removed from the balance sheet of Skywalk Ltd. when the contract is settled on 31st March, 20X2.

CASE SCENARIO 32

Mr. H is a Chartered Accountant and is working in GHI & Co., Chartered Accountants as a Manager. GHI & Co. has recently been approached by A Ltd. for providing advice on certain accounting matters (discussed below). A Ltd. is an automotive supplier having a registered office in New Delhi and is listed on the Bombay Stock Exchange (BSE).

(i) A Ltd. has a machinery costing ₹ 15,00,000 having a useful life 10 years. Estimated cost of major overhaul planned after 3 years is ₹ 2,00,000.

(ii) A Ltd. received a subsidy of ₹ 15,00,000 from the Government in north-east India in return for setting up approved industrial activities in those states. One of the key conditions of the subsidy is that A Ltd. needs to employ the locals staying in those states for a period of 5 years.

(iii) A Ltd. offers 400 shares to each of its 1000 staff if they stay with them for 3 years. The fair value of the shares on the date of offer was ₹ 50. At the end of year 1, 20 employees left and the entity estimates that total 25% of the employees at the beginning of the grant of shares will left at the end of the vesting period. During the second year, a further 20 employees left and the entity further revises its estimate of total departures over the vesting period from 25% to 28%. During the third year, a further 20 employees leave the entity.

MULTIPLE CHOICE QUESTIONS

1. Considering the principles of Ind AS, determine the accounting for machinery held by A Ltd.?

   (a) Machinery of ₹ 15,00,000 should be depreciated over a period of 10 years.

   (b) Machinery of ₹ 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of ₹ 2,00,000 should be depreciated over a period of 3 years.

(c) Machinery of ₹ 15,00,000 should be depreciated over a period of 10 years and cost of major overhaul of ₹ 2,00,000 should be recognised at the end of third year.

(d) Machinery of ₹ 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of ₹ 2,00,000 should be recognised at the end of third year.

2. How should A Ltd. account for the subsidy received from the Government for setting up approved industrial activities in north-east states?

(a) Subsidy received should be recognised on the date of receipt.

(b) Subsidy received should be recognised at the end of year 5, i.e., when the condition relating to employment is met.

(c) Subsidy received should be recognised over the period of 5 years, i.e., ₹ 3,00,000 per annum.

(d) Subsidy received should be recognised on the date of notification issued by the Government in this regard.

3. Determine the amounts to be recognised in the statement of profit and loss in relation to share-based payments?

(a) Expense in year 1 = ₹ 50,00,000; expense in year 2 = ₹ 50,00,000 and expense in year 3 = ₹ 50,00,000

(b) Expense in year 1 = ₹ 62,66,667; expense in year 2 = ₹ 62,66,667 and expense in year 3 = ₹ 62,66,667

(c) Expense in year 1 = ₹ 50,00,000; expense in year 2 = ₹ 46,00,000 and expense in year 3 = ₹ 92,00,000

(d) Expense in year 1 = ₹ 63,33,333; expense in year 2 = ₹ 64,00,000 and expense in year 3 = ₹ 60,66,667

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b): Machinery of ₹ 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of ₹ 2,00,000 should be depreciated over a period of 3 years.**

   Reason:

   Cost of each significant item of property, plant and equipment having different useful life should be recognised and depreciated separately.

2. **Option (c): Subsidy received should be recognised over the period of 5 years, i.e., ₹ 3,00,000 per annum.**

   Reason:

   The income related grant should be matched with the costs of meeting the grants over the balance period of employing the locals. So each year a portion of the grant received should be deferred over the balance portion of the 5 year condition attached to the grant.

3. **Option (c): Expense in year 1 = ₹ 50,00,000; expense in year 2 = ₹ 46,00,000 and expense in year 3 = ₹ 92,00,000**

   Reason:

   Fair value on grant date = 400 x 1,000 x 50 = ₹ 2,00,00,000

   Cumulative charge

   Year 1- ₹ 2,00,00,000 x 75% x (1/3) = ₹ 50,00,000

   Year 2- ₹ 2,00,00,000 x 72% x (2/3) = ₹ 96,00,000

   Year 3- 940 x 50 x 400 = ₹ 1,88,00,000

   Expense for the period

   Year 1 = ₹ 50,00,000

   Year 2 = ₹ 46,00,000 (₹ 96,00,000 – ₹ 50,00,000)

   Year 3 = ₹ 92,00,000 (₹ 1,88,00,000 – ₹ 96,00,000)

CASE SCENARIO 33

Mr. H is a Chartered Accountant and is working in GHI & Co., Chartered Accountants as a Manager. GHI & Co. has recently been approached by A Ltd. for providing advice on certain accounting matters (discussed below). A Ltd. is an automotive supplier having a registered office in New Delhi and is listed on the Bombay Stock Exchange (BSE).

(i) As on 1st April 20X1, A Ltd. has opening shares of 10,00,000. On 31st May, A Ltd. issued 2,00,000 shares. On 30th November, A Ltd. made a bonus issue of 1 for every 3 shares held. On 28th February, 20X2, A Ltd. issued another 2,50,000 shares.

(ii) A Ltd. has agreed in a directors' meeting to sell a building and has tentatively started looking for a buyer for the building. The price of the building has been fixed at ₹ 4 crore and a surveyor has valued the building based on market prices at ₹ 3.6 crore. A Ltd. will continue to use the building until another building has been found with equivalent facilities, and in a suitable location for the office staff, who will not be relocated until the new building has been found.

MULTIPLE CHOICE QUESTIONS

1. Determine the weighted average number of shares which would be used in the calculation of basic EPS under Ind AS?

    (a) 14,50,000 shares

    (b) 15,76,389 shares

    (c) 18,50,000 shares

    (d) 13,20,834 shares

2. How should A Ltd. classify the building as given in the scenario?

    (a) Property, plant and equipment

    (b) Inventory

(c) Investment property

(d) Asset held for sale

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b): 15,76,389 shares

Reason:

	Weighted average number of shares	
1^{st} April – 31^{st} May	10,00,000 x 2/12 x 4/3	2,22,222
1^{st} June – 30^{th} November	12,00,000 x 6/12 x 4/3	8,00,000
1^{st} December – 28^{th} February	16,00,000 x 3/12	4,00,000
1^{st} March – 31^{st} March	18,50,000 x 1/12	1,54,167
		15,76,389

2. Option (a): Property, plant and equipment

Reason:

The building will not be classified as held-for-sale as it is not available for immediate sale because, until new premises have been found, the office staff will remain in the existing building. Also, the directors have only tentatively started looking for a buyer which may indicate that the entity is not committed to the sale. Additionally, the price being asked for the building is above the market price and is not reasonable compared to that price. It is unlikely that the entity will sell the building for that price.

CASE SCENARIO 34

DEF Ltd. is a diversified business group operating in multiple business segments across different parts of the world with multiple subsidiaries. It maintains its books of accounts and publishes its annual financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X1 and are facing issues in the following transactions while finalization of financial statements:

(i)

Profit attributable to ordinary equity holders of the parent entity for year 20X1	₹ 1,200,000
Weighted average number of ordinary shares outstanding during year 20X1	5,00,000 shares
Average market price of one ordinary share during year 20X1	₹ 20.00
Weighted average number of shares under option during year 20X1	100,000 shares
Exercise price for shares under option during year 20X1	₹ 15.00

(ii) DEF Ltd. enters into a contract to buy 100 tonnes of cocoa beans at 1,000 per tonne for delivery in 12 months. On the settlement date, the market price for cocoa beans is 1,500 per tonne. The contract cannot be settled net in cash and is entered for delivery of cocoa beans in line with DEF Ltd.'s expected purchase/ usage requirements.

(iii) DEF Ltd. invests in compulsorily convertible preference shares (CCPS) issued by its subsidiary B Ltd. at ₹ 1,000 each (₹ 10 face value + ₹ 990 premium). Under the terms of the instrument, each CCPS is compulsorily convertible into one equity share of B Ltd at the end of

5 years. Such CCPS carry dividend @ 12% per annum, payable only when declared at the discretion of B Ltd.

MULTIPLE CHOICE QUESTIONS

1. Based on the facts given in scenario (i), what will be basic EPS of the entity?

   (a) ₹ 2.29

   (b) ₹ 2.40

   (c) ₹ 2.00

   (d) ₹ 1.77

2. Based on the facts given in scenario (i), what will be diluted EPS of the entity?

   (a) ₹ 2.29

   (b) ₹ 2.40

   (c) ₹ 2.00

   (d) ₹ 1.77

3. What is the nature of the contract entered into for cocoa beans?

   (a) Cash contract

   (b) Non-executory and derivative contract

   (c) Derivative contract

   (d) Executory and non-derivative contract

4. What is the nature of the financial instrument mentioned in point (iii)?

   (a) Financial Asset

   (b) Financial Liability

   (c) Equity

   (d) Not a financial instrument

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) : ₹ 2.40

2. Option (a) : ₹ 2.29

Reason for 1 and 2:

Calculation of earnings per share

	Earnings	***Shares***	***Per share***
Profit attributable to ordinary equity holders of the parent entity for year 20X1	₹ 1,200,000		
Weighted average shares outstanding during year 20X1		500,000	
Basic earnings per share			**₹ 2.40**
Weighted average number of shares under option		100,000	
Weighted average number of shares that would have been issued at average market price: (100,000 × ₹ 15.00) ÷ ₹ 20.00	Refer Note	(75,000)	
Diluted earnings per share	**₹1,200,000**	**525,000**	**₹ 2.29**

Note: Earnings have not increased because the total number of shares has increased only by the number of shares (25,000) deemed to have been issued for no consideration.

3. Option (d) : Executory contract and non-derivative contract

Reason:

If the contract cannot be settled net in cash and this contract is entered for delivery of cocoa beans in line with DEF Ltd.'s expected purchase/ usage requirements, then own-use exemption applies.

In such case, the contract is considered to be an executory contract outside the scope of Ind AS 109 and hence shall not be accounted as a derivative.

4. Option (c) : Equity

Reason:

B Ltd. has issued CCPS which provide for –

(a) Conversion into fixed number of equity shares, i.e., one equity share for every CCPS

(b) Non-cumulative dividends.

Applying the definition of 'equity' under Ind AS 32 –

(a) There is no contractual obligation to deliver cash or other financial asset. Dividends are payable only when declared and hence, at the discretion of the Issuer – B Ltd., thereby resulting in no contractual obligation over B Ltd.

(b) Conversion is into a fixed number of equity shares.

Hence, it meets definition of equity instrument and shall be classified as such in books of B Ltd.

CASE SCENARIO 35

PQR Ltd. is required to adopt Ind AS from 1st April, 20X1, with comparatives for one year, i.e., for 20X0-20X1. On 1st April, 20X1, PQR Ltd. acquired 30% of the voting ordinary shares of XYZ Ltd. for ₹ 8,000 crore. PQR Ltd. accounts its investment in XYZ Ltd. using equity method as prescribed under Ind AS 28. At 31st March, 20X2, PQR Ltd. recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

	(₹ in crore)
Share of profit or loss	700
Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50

The carrying amount of the investment in the associate on 31st March, 20X2 was therefore ₹ 8,850 crore (8,000 + 700 + 100 + 50).

On 1st April, 20X2, PQR Ltd. acquired the remaining 70% of XYZ Ltd. for cash ₹ 25,000 crore. The following additional information is relevant at that date:

	(₹ in crore)
Fair value of the 30% interest already owned	9,000
Fair value of XYZ's identifiable net assets	30,000

MULTIPLE CHOICE QUESTIONS

1. What is the fair value of the total consideration transferred by PQR Ltd. to XYZ Ltd.?

   (a) ₹ 34,000 crores

   (b) ₹ 33,850 crores

   (c) ₹ 33,000 crores

   (d) ₹ 25,000 crores

2. What is the amount of goodwill in the said business combination?

   (a) ₹ 3,000 crores

   (b) ₹ 4,000 crores

   (c) ₹ 2,150 crores

   (d) ₹ 3,850 crores

3. What is the gain on previously held interest in XYZ Ltd. recognised in profit or loss?

   (a) ₹ 150 crores

   (b) ₹ 100 crores

   (c) ₹ 250 crores

   (d) Nil

4. What is the transition date for PQR Ltd. for adopting Ind AS?

   (a) 1st April, 20X0

   (b) 1st April, 20X1

   (c) 1st April, 20X2

   (d) 1st April, 20X3

5. PQR Ltd. present its comparatives financial statements for the year-

   (a) 20X1-20X2

   (b) 20X2-20X3

   (c) 20X0-20X3

   (d) 20X0-20X1

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) : ₹ 34,000 crores

2. Option (b) : ₹ 4,000 crores

3. Option (c) : ₹ 250 crores

Reason for 1 to 3:

Paragraph 42 of Ind AS 103 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in statement of profit and loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

Notes:

1. Calculation of Goodwill

	₹ in crore
Cash consideration	25,000
Add: Fair value of previously held equity interest in XYZ Ltd.	9,000
Total consideration	34,000
Less: Fair value of identifiable net assets acquired	(30,000)
Goodwill	4,000

2. The credit to retained earnings represents the reversal of the unrealized gain of ₹ 50 crore in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.

3. The gain on the previously held equity interest in XYZ Ltd. is calculated as follows:

	₹ in crore
Fair Value of 30% interest in XYZ Ltd. at 1st April, 20X2	9,000

Carrying amount of interest in XYZ Ltd. at 1st April, 20X2	(8,850)
	150
Unrealised gain previously recognised in OCI	100
Gain on previously held interest in XYZ Ltd. recognised in profit or loss	250

4. **Option (a) : 1st April, 20X0**

5. **Option (d) : 20X0-20X1**

Reason for 4 & 5:

The date of transition for PQR Ltd. will be 1st April, 20X0 being the beginning of the earliest comparative period presented. To explain it further, PQR Ltd. is required to adopt an Ind AS from 1st April, 20X1 (i.e. year 20X1-20X2), and it will give comparatives as per Ind AS for 20X0-20X1. Accordingly, the beginning of the comparative period will be 1st April, 20X0 which will be considered as date of transition.