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What Our Students have to say....

Sudeepta Benya

I took FR and AFM classes from 1FIN and secured good marks in both. I am deeply grateful to **Sriram Sir** and **Suraj Sir** for making my conceptual clarity very strong and making me fall in love with the subjects. I secured 70 marks in FR and 87 in AFM. Highly recommended.

AIR 27

Arun Kumar

I have watched SFM, FR and IDT classes from indigo learn I was using 1FIN platform from my CA Inter and I feel this platform is the only platform which focuses on concepts rather than focusing on only scoring marks.

Kanishka

Thank you so much Sir! I am excited to share that I have successfully cleared the CA Final exams and became A Chartered Accountant

Bhoomi Makhecha

Suraj Sir's classes were comprehensive & helped me score 76 (Exemption) in FR

Srinivasan

I really liked the way of teaching and conceptual clarity given by **Suraj Sir**

Venkata Naresh

Thank You Indigolearn for the Conceptual Clarity and well illustrated Examples of the faculties,making my concepts very strong and assisted me in clearing my exams

Yug Bhattad

From Foundation to Final, you have been a constant source of guidance. This journey would truly not have been possible without your support, belief, and mentorship. Your advice at every stage, whether academic or personal, gave me clarity and confidence when I needed it the most.

Himanshu Somani

Thank you so much to **Suraj and Sriram** sir for your support during my entire CA journey, will forever be grateful to you

Hannoch Matthew

1FIN is a perfect place for assistance in CA Exams. I had opted for FR and AFM. I found it well understandable and helped me to get through with the concepts. Their MCQ and material is very useful.

Priyanka Udeshi

Thank you **Suraj sir!** Have successfully cleared CA Final with exemption in 5 subjects

Our Rankers

AIR 1



Diksha Goyal
CA Final Jan-26

AIR 49



Hamsa Gayatri
CA Final Sep-25

AIR 27



Sudeepta Benya
CA Final Nov-24

AIR 5



Sarthak
CA Inter May-23

AIR 19



Aman Mahajan
CA Inter Dec-21

AIR 33



Sundar B
CA Inter Dec-21

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Q1. May 2025 Exam, 5 marks

In a manufacturing process of Milky Way Ltd., one by-product 'Universe' emerges besides two main products Galaxy 1 and Galaxy 2, apart from scrap. Details of cost of production process are hereunder:

Item	Unit	Amount (Rs.)	Output (Units)	Closing Stock as on 31st March, 2025
Raw Material	14,500	1,50,000	Galaxy 1: 5,000	Galaxy 1: 100
Wages		90,000	Galaxy 2: 4,000	Galaxy 2: 250
Fixed Overhead		65,000	Universe: 2,000	
Variable Overhead		50,000		

Average market price of Galaxy 1 and Galaxy 2 is Rs. 60 per unit and Rs. 50 per unit respectively, by-product is sold @Rs. 20 per unit. There is a profit of Rs. 5,000 on sale of by-product after incurring separate processing charges of Rs. 8,000 and packing charges of Rs. 2,000. Rs. 5,000 was realized from sale of scrap.

Calculate the value of closing stock of Galaxy 1 and Galaxy 2 as on 31st March, 2025.

Answer:

As per Ind AS 2 'Inventories', by-products as well as scrap or waste materials which are immaterial in nature, are measured at net realisable value and this value is deducted from the cost of the main product.

(1) Calculation of NRV of By-product Universe

		Rs.
Selling price of by-product	2,000 units x 20 per unit	40,000
Less: Separate processing charges of by-product Universe		(8,000)
Packing charges		(2,000)
Net realisable value of by-product Universe		30,000

(2) Calculation of cost of conversion for allocation between joint products Galaxy 1 and Galaxy 2

		Rs.
Raw material		1,50,000
Wages		90,000
Fixed overhead		65,000
Variable overhead		50,000
Less: NRV of by-product Universe (See calculation 1)	30,000	
Sale value of scrap	5,000	(35,000)
Joint cost to be allocated between Galaxy 1 and Galaxy 2		3,20,000

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(3) Determination of "basis for allocation" and allocation of joint cost to Galaxy 1 and Galaxy 2

	Galaxy 1	Galaxy 2
Output in units (a)	5,000	4,000
Sales price per unit (b)	Rs. 60	Rs. 50
Sales value (a x b)	Rs. 3,00,000	Rs. 2,00,000
Ratio of allocation	3	2
Joint cost of Rs. 3,20,000 allocated in the ratio of 3:2 (c)	Rs. 1,92,000	Rs. 1,28,000
Cost per unit [c/a]	Rs. 38.4	Rs. 32

(4) Determination of value of closing stock of Galaxy 1 and Galaxy 2

Particulars	Galaxy 1	Galaxy 2
Closing stock in units	100 units	250 units
Cost per unit	Rs. 38.4	Rs. 32
Value of closing stock	Rs. 3,840	Rs. 8,000

Q2. May 2023 Exam, 5 marks

Summer Solutions Limited is engaged in the manufacturing of customized gifts for its corporate customers. On
1st December, 2022, the company received an order from Rain Limited for the supply of 15,000 customized corporate gifts. On 4th December, 2022, to meet the order, Summer Solutions Limited purchased 20,000 kg
of certain material at ₹ 110 per kg. The purchase price includes GST of ₹ 10 per kg in respect of which full GST credit is admissible. Freight incurred amounted to ₹ 1,00,000.
During January, 2023, the company incurred the following expenses to design the corporate gift for Rain Limited:
• Fee to external designer ₹ 20,000
• Labour ₹ 8,000
After checking the sample of gift, the management of Rain Limited did not approve the design of gift and suggested some modifications. Consequently, the production team of Summer Solutions Limited made modifications to bring the inventories as per the conditions specified in the order.
Following costs were incurred during testing phase:
• Materials ₹ 45,000
• Labour ₹ 20,000
• Depreciation of plant used during testing phase ₹ 7,000
Some of the materials used during testing phase was scrapped and sold for ₹ 5,000.
During February, 2023, Summer Solutions Limited incurred the following additional costs in the manufacturing of customized corporate gifts:
• Consumable stores ₹ 1,25,000
• Labour ₹ 1,42,000
• Depreciation of plant used in manufacturing of customized corporate gifts: ₹ 38,000
On 15th March, 2023, the customized gifts were ready for delivery. There was no abnormal loss during the manufacturing process.
You are required to compute the cost of customized gifts. Your answer should be supported by appropriate reasons and calculations wherever necessary.

Answer

Statement showing computation of inventory cost

Particulars	₹	Reasons
Costs of purchase of raw material	21,00,000	Purchase price of raw material net of GST

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Costs of purchase of consumable stores	1,25,000 1,42,000	plus freight [{20,000 x (110-10)} + 1,00,000]
Costs of conversion	38,000	Purchase price of consumable stores
Production overheads	28,000	Direct costs — labour
Production overheads		Fixed costs — depreciation
	67,000	Product design costs and labour cost for
Other costs	25,00,000	specific customer
Total cost of inventories		Refer working note

Working Note:

Costs of testing product designed for specific customer:

₹ 40,000 material (net of ₹ 5,000 recovered from the sale of scrapped output) + ₹ 20,000 labour + ₹ 7,000 depreciation = ₹ 67,000

Q3. Dec 2021 Exam, 5 marks

In a manufacturing process of Saturn Limited, one by-product BP emerges besides two main products MP1 and MP2 and scrap. Details of cost of production process for financial year 2020-2021 are here under:

Item Amount	(₹)	Output (Units)	Closing Stock 31.3.2021
Raw Material	6,00,000	MP1- 20,000	1,000
Wages	3,60,000	MP2- 16,000	400
Fixed Overhead	2,60,000	BP- 8,000	
Variable Overhead	2,00,000		

Average Market Price of MP1 and MP2 is ₹ 45.00 per unit and ₹ 37.50 per unit respectively. Average Market Price of by-product BP is ₹ 10 per unit. All the units of by-product BP sold after incurring separate processing charges of ₹ 32,000 and packing charges of ₹ 8,000. ₹ 20,000 was realised from sale of scrap.

Calculate the value of closing stock of MP1 and MP2 as on 31.3.2021. Allocate Joint Cost based on the relative sales value of each product.

Answer

(1) Calculation of NRV of By-product BP

		₹
Selling price of by-product	8,000 units x 10 per unit	80,000
Less: Separate processing charges of by-product BP		(32,000)
Packing charges		(8,000)
Net realizable value of by-product BP		40,000

(2) Calculation of cost of conversion for allocation between joint products MP1 and MP2

		₹
Raw material		6,00,000
Wages		3,60,000
Fixed overhead		2,60,000
Variable overhead		2,00,000
		14,20,000
Less: NRV of by-product BP (See calculation 1)	40,000 20,000	(60,000)
Sale value of scrap		13,60,000
Joint cost to be allocated between MP1 and MP2		

(3) Determination of "basis for allocation" and allocation of joint cost to MP1 and MP2

	MP1	MP2
Output in units (a)	20,000	16,000
Sales price per unit (b)	₹ 45.00	₹ 37.50
Sales value (a x b)	9,00,000	6,00,000
Ratio of allocation	3	2
	₹ 8,16,000	₹ 5,44,000

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Joint cost of ₹ 13,60,000 allocated in the ratio of 3:2 (c) Cost per unit [c/a]	₹ 40.80	₹ 34.00

(4) Determination of value of closing stock of MP1 and MP2

Particulars	MP1	MP2
Closing stock in units	1,000	400 units
Cost per unit	units	₹ 34.00
Value of closing stock	₹ 40.80	₹ 13,600
	₹ 40,800	

Q4. Nov 2020 Exam, 4 marks

Sophia Ltd. has fabricated special equipment (Inverter panel) during the financial year 2018-2019 as per drawing and design supplied by the customer. However, due to aliquidity crunch, the customer has requested the company for postponement in delivery schedule and requested the company to withhold the delivery of finished products and discontinue the production of balance items.

As a result of the above, the details of customer balance and the goods held by the company as work-in-progress and finished goods as on 31 March 2020 are as follows:

Inverter panel (WIP) ₹ 255 lakhs

Inverter panel (Finished goods) ₹ 165 lakhs

Sundry Debtor (Inverter panel) ₹ 195 lakhs

The petition for winding up against the customer has been filed during the financial year 2019-2020 by Sophia Ltd.

You are required to Comment with explanation on provision to be made for ₹ 615 lakh included in Sundry Debtors, Finished goods and Work-in-Progress in the financial statement for the Financial year 2019-2020.

Answer

Sophia Ltd. is a manufacturer of inverter panel. As per Ind AS 2 'Inventories', inventories are assets (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services. Therefore, inverter panel held in its stock will be considered as its inventory. Further, as per the standard, inventory at the end of the year is to be valued at lower of cost or NRV.

As the customer has postponed the delivery schedule due to liquidity crunch the entire cost incurred for inverter panel which were to be supplied has been shown in Inventory. The inverter panel are in the possession of the Company which can be sold in the market. Hence company should value such inventory as per principle laid down in Ind AS 2 i.e. lower of Cost or NRV. Though, the goods were produced as per specifications of the buyer

the Company should determine the NRV of these goods in the market and value the goods accordingly. Change in value of such inverter panel should be provided for in the books.

In the absence of the NRV of WIP and Finished product given in the ques tion, assuming that cost is lower, the company shall value its inventory as per Ind AS 2 at ₹ 420 lakhs [i.e inverter panel (WIP) ₹ 255 lakhs + inverter panel (finished products) ₹ 165 lakhs].

Alternatively, if it is assumed that there is no buyer for such fabricated inverter panel, then the NRV will be Nil. In such a case, full value of finished goods and WIP will be provided for in the books.

As regards balance of Sundry Debtors, since the Company has filed a petition for winding up against the customer in 2019-2020, it is probable that amount is not recoverable from the party. Hence, the provision for doubtful debts for ₹ 195 lakhs shall be made in the books against the amount of debtors.

Q5. May 2019 Exam, 4 marks

(1) Vastra Ltd. has 3 lakh units of Certified Emission Reduction (CER) under validation stage and 1,20,000 units have been approved by UNFCCC. What is the treatment required for the above?

(2) 2,00,000 units of carbon credit (CER) has been produced by ACL Ltd. Currently the value of CER under different situations are as follows:

i. Cost @ ₹ 250 per unit i.e. CER
ii. Market Value @ ₹ 210 per unit i.e. CER
iii. Net Realization Value ₹ 200 per unit i.e. CER
iv. Disposal Value ₹ 190 per unit i.e. CER

Explain how income recognition will be done as per relevant and applicable Accounting Standards

Answer

1. CER does not come into existence unless it is validated by UNFCCC. Therefore, only 1,20,000 units will be accounted in the books. Even though CERs are intangible assets these should be accounted for as per the requirements of AS 2.

2. As per AS 9, income will be recognised as and when CERs will be sold. However, at present CERs will be recognised in the books of ACL Ltd. as inventory. The entityshould apply AS 2 to recognise CERs. Accordingly, CER should be valued at ₹ 200 per CER i.e. at NRV which is less than cost.

Q6. May 2018 Exam, 4 marks

XYZ Limited has a plant with the normal capacity to produce 10,00,000 units of a product per annum and the expected fixed overhead is ₹ 30,00,000, Fixed overhead, therefore based on normal capacity is ₹ 3 per unit.

Determine Fixed overhead as per Ind AS 2 'Inventories' if

i. Actual production is 7,50,000 units.
ii. Actual production is 15,00,000 units.

Answer

(i) Actual production is 7,50,000 units: Fixed overhead is not going to change with the change in output and will remain constant at ₹ 30,00,000, therefore, overheads on actual basis is ₹ 4 per unit (30,00,000 / 7,50,000).

Hence, by valuing inventory at ₹ 4 each for fixed overhead purpose, it will be overvalued and the losses of ₹ 7,50,000 will also be included in closing inventory leading to a higher gross profit then actually earned.

Therefore, it is advisable to include fixed overhead per unit on normal capacity to actual production (7,50,000 x 3) ₹ 22,50,000 and balance ₹ 7,50,000 shall be transferred to Profit & Loss Account.

(ii) Actual production is 15,00,000 units: Fixed overhead is not going to change with the change in output and will remain constant at ₹ 30,00,000, therefore, overheads on actual basis is ₹ 2 (30,00,000 / 15,00,000).

Hence by valuing inventory at ₹ 3 each for fixed overhead purpose, we will be adding the element of cost to inventory which actually has not been incurred. At ₹ 3 per unit, total fixed overhead comes to ₹ 45,00,000 whereas, actual fixed overhead expense is only ₹ 30,00,000. Therefore, it is advisable to include fixed overhead on actual basis (15,00,000 x 2) ₹ 30,00,000.

Q7. Jan 2026, RTP

An entity manufactures a equipment in three stages. There is a market for semi-finished product for each state, but the entity only sells the completed equipment. The following are details of the cost structure of the equipment as at the year-end:

	Conversion Cost/unit `	***Selling price /unit*** `
Stage 1	170	130
Stage 2 – Incremental cost	35	
	205	195
Stage 3- Incremental cost	62	
	267	275

Required:

Assuming that the selling cost are zero, what is the NRV of the semi-finished product in stage 1 and stage 2 at the year end?

Answer:

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No impact for lower of cost and NRV provision is made at stage 1 and stage 2 because the final equipment will be sold at a profit. The profit margin on the estimated cost of completion should, therefore, be considered when calculating the net realisable value of work in progress if the entity has the ability to dispose of the finished product at a price that exceeds the production cost. The net realisable value of the semi-finished product at stage 1 is:

	`
Selling price of completed product	275
Less: Stage 3 conversion costs	(62)
Less: Stage 2 conversion costs	(35)
Net realisable value at stage1	178

At stage 1, inventory will be valued at ` 170 (lower of cost i.e. ` 170 and NRV i.e. ` 178). The inventory at stage 1 will be valued at ` 170, though the selling price at stage 1 is ` 130.

Q8. May | Sep 2025, RTP

Following information have been provided for A Ltd. which account for its inventories by using FIFO cost formula:

a. Full capacity is 10,000 labour hours in a year.
b. Normal capacity is 7,500 labour hours in a year.
c. Actual labour hours for current period are 6,500 hours.
d. Total fixed production overhead is Rs. 1,500,
e. Total variable production overhead is Rs. 2,600.
f. Total opening inventory is 2,500 units.
g. Total units produced in a year are 6,500 units.
h. Total units sold in a year are 6,700 units.
i. Total closing inventory is 2,300 units.

Required

How will the overhead cost be allocated to inventory at normal capacity and at less than normal production for the current year based on the above information?

Answer:

Management should allocate fixed overhead costs and variable overhead costs to units produced at a rate of Rs. 0.2 per hour = (1500/7500) and Rs. 0.4 per hour = (2600/6500) respectively

Fixed production overhead absorption rate:

= Fixed production overhead / Labour hours under normal capacity

= Rs.1,500/7,500

= Rs.0.2 per hour

Therefore, Fixed production overhead allocated to 6,500 units produced during the year (one unit per hour) = 6,500 units x Rs. 0.2 = Rs. 1,300. The remaining Rs. 200 of overhead incurred that remains unallocated is recognized as an expense in the profit and loss.

The amount of fixed overhead allocated to inventory is not increased as a result of low production by using normal capacity to allocate fixed overhead.

Variable production overhead absorption rate:

= Variable production overhead / Actual hours for current period

= Rs. 2,600 / 6,500 units

= Rs. 0.4 per hour

The above rate results in the allocation of all variable overheads to units produced during the year.

As each unit has taken one hour to produce (6,500 hours /6,500 units produced), total fixed and variable production overhead recognized as part of cost of inventory:

= Number of units of closing inventory x number of hours to produce each unit x (fixed production overhead absorption rate + variable production overhead absorption rate)

= 2,300 x 1 x (Rs. 0.2+ Rs. 0.4) = Rs. 1,380

The remaining Rs. 2,720 {(Rs. 1,500 + Rs. 2,600) – Rs. 1,380} is recognized as an expense in the Statement of profit and loss as follows:

	Rs.
Absorbed in cost of goods sold (FIFO basis) (6,500- 2,300) = 4,200 x Rs. 0.6	2,520
Unabsorbed fixed overheads, also included in cost of goods sold	200
Total	2,720

Q9. May 2024, RTP

B Limited has valued its Stock held for distribution as free items on claim by customers (on offers) at zero. Customers have a right to claim the free item within 14 days from date of invoice. If the time limit of 14-day exceeds, the claim is foregone by the customer.

The majority of the free items require online registration by the buyers for participation in the contest conducted by the respective brand which needs to be done by the buyers within 3 days from the date of invoice.

Out of it, a few items under this category were found damaged. The replacement cost of such items would be Rs. 2,50,000.

Determine whether the entity has to book loss of inventory or provide for replacement cost of the goods that need to be given as free items to customers as per the principles of Ind AS.

Answer:

Ind AS 2 deals with write-off in value of inventory. The stock of free items is valued at zero by the company. The question of "Loss of Inventory Rs. 2,50,000" does not arise as the claim of free stock is subject to various conditions like claim within 14 days, online registration within 3 days, etc. which are all contingent in nature.

However, provision is to be made for goods to be distributed in case claims from customers are received since the customer can claim the free items within 14 days from the date of invoice. Hence provision of Rs. 2,50,000 is to be made for.

Q10. Nov 2023, RTP

A Ltd. began operations in the year 20X1-20X2. In 20X1-20X2, it incurred the following expenditures on purchasing the raw materials for its product:

a. Purchase price of the raw materials = ₹ 30,000;

b. Import duty and other non-refundable purchase taxes = ₹ 8,000;
c. Refundable purchase taxes = ₹ 1,000;
d. Freight costs for bringing the goods from the supplier to the factory's storeroom for raw materials = ₹ 3,000;
e. Costs of unloading the materials into the storeroom for raw materials = ₹ 20; and
f. Packaging = ₹ 2,000.

On 31st March, 20X2, A Ltd. received ₹ 530 volume rebate from a supplier for purchasing more than ₹ 15,000 from the supplier during the year.

A Ltd. incurred the following additional costs in the production run:

i. Salary of the machine workers in the factory = ₹ 5,000;
ii. Salary of factory supervisor = ₹ 3,000;
iii. Depreciation of the factory building and equipment used for production process = ₹ 600;
iv. Consumables used in the production process = ₹ 200;
v. Depreciation of vehicle used to transport the goods from the storeroom for raw materials to the machine floor = ₹ 400;
vi. Factory electricity usage = ₹ 300;
vii. Factory rental = ₹ 1,000; and
viii. Depreciation of the entity's vehicle used by the factory supervisor is ₹ 200.

During 20X1-20X2, A Ltd. incurred the following administrative expenses:

1. Depreciation of the administration building = ₹ 500;
2. Depreciation and maintenance of vehicles used by the administrative staff= ₹ 150; and
3. Salaries of the administrative personnel = ₹ 3,050.

Of the administrative expenses, 20% is attributable to administering the factory. Remaining expenses are attributable, in equal proportion, to the sales and other non -production operations (e.g financing, tax and corporate secretarial functions).

In 20X1-20X2, A Ltd. incurred the following selling expenses:

a. Advertising costs = ₹ 300;
b. Depreciation and maintenance of vehicles used by the sales staff = ₹ 100; and
c. Salaries of the administrative personnel = ₹ 6,000.

Pass necessary journal entries to record the cost of inventory in the books of A Ltd.

Answer

Journal Entries for the year 20X1-20X2

	₹	₹
Inventory A/c (W.N.1) Dr.	42,490	
To Cash/Bank A/c		42,490
(To recognise the cost of raw materials purchased)		
Inventory A/c (W.N.2) Dr.	11,240	
To Cash/Bank A/c (cost of direct labour)		5,000
To Property, plant and equipment (accumulated depreciation-factory equipment)		600
To Property, plant and equipment (accumulated depreciation-raw-materials delivery vehicle)		400 300
To Cash/Bank A/c (cost of electricity used)		200
To Property, plant and equipment (accumulated depreciation-factory supervisor's vehicle)		3,000 1,000
To Cash/Bank A/c (factory management's salaries)		610
To Cash/Bank A/c (factory rental)		
To Cash/Bank A/c (administrative salaries attributable to the factory)		100
To Property, plant and equipment (attributable portion of accumulated depreciation-		30

administration building) To Property, plant and equipment (attributable portion of accumulated depreciation-administration vehicles) (To recognise the costs of conversion)	200	200
Inventory A/c (W.N.2) Dr. To Inventory A/c (consumable stores) (To recognise the costs of consumable stores inventory consumed)		

The total cost of inventories = Costs of purchase + Costs of conversion
= ₹ 42,490 + ₹ 11,240 + ₹ 200
= ₹ 53,930

Working Notes:

1. Computation of costs of purchase

Description	**₹**
Purchase price	30,000
Import duty and other non-refundable purchase taxes	8,000
Freight costs for bringing the goods to the factory storeroom	3,000
Cost of unloading the raw materials into the storeroom	20
Packaging	2,000
Less: Trade discounts, rebates and subsidies	(530)
Cost of purchase	**42,490**

Note: Refundable taxes do not form part of the cost of inventories.

2. Computation of costs of conversion

Description	**₹**
Direct labour	5,000
Fixed production overheads	
Depreciation and maintenance of factory equipment	600
Depreciation of vehicle used for transporting the goods	400
Depreciation of vehicle used by factory supervisor	200
Factory electricity usage	300
Factory management	3,000
Factory rental	1,000
Other costs of administering the factory	
20% of depreciation of administration building	100
20% of depreciation of administration vehicles	30
20% of administrative staff costs	610
Variable production overheads	
Indirect material—consumables	200
Cost of conversion	**11,440**

Q11. May 2023, RTP

An entity has following details regarding cost and retail price of the goods purchased and unsold at the beginning of the year:

	Cost	**Retail Price**
Opening inventory	6,250	8,000
Purchases	19,500	34,000

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Inventory on hand		(23,000)
Sales for the period		19,000

Applying the retail method, compute the following:

a) Percentage of cost price over retail price;
b) Cost of closing inventory;
c) Value of cost of sales (at cost); and
d) Revenue earned during the year on sale of inventory

Ignore the impact of mark-ups or mark-downs on the selling price.

Answer

Table showing application of Retail method for calculation of the goods sold during the year and unsold inventory

S. No.	Particulars		₹
	Cost price of goods	6,250 + 19,500	25,750
	Retail price of goods	8,000 + 34,000	42,000
(a)	Cost percentage of retail price	25,750 / 42,000	61%
(b)	Closing inventory (at cost)	23,000 x 61%	14,030
(c)	Cost of sales for the period	[(6,250 + 19,500) - 14,030]	11,720
	Sales for the period		19,000
(d)	Revenue earned on sale of goods during the year	19,000 – 11,720	7,280

Q12. Nov 2022, RTP

i. A retailer company imported goods at a cost of ₹ 1,30,000 including ₹ 20,000 non-refundable import duties and ₹ 10,000 refundable purchase taxes. The risks and rewards of ownership of the imported goods were transferred to the retailer company upon collection of the goods from the harbour warehouse. The retailer company was required to pay for the goods upon collection. The retailer company incurred ₹ 5,000 to transport the goods to its retail outlet and a further ₹ 2,000 in delivering the goods to its customer. Further selling costs of ₹ 3,000 were incurred in selling the goods. State whether delivery charges and selling expenses will form part of the cost of inventory. If not, then why? Also calculate the cost of inventory.

ii. Company A incurred ₹ 20,000 as cost for restoring the site on which the item of PPE was located. This item was used for manufacturing of goods and the requirement for restoring will arise due to manufacturing of goods.

What will the treatment of this ₹ 20,000 in the books of Company A? Analyse on the basis of the provisions of relevant Ind AS.

Answer

(i) Calculation of Inventory cost:

Particulars	Amount (₹)
Purchase Price (1,30,000 – 20,000 – 10,000)	1,00,000
Non-refundable import duties	20,000
Transport cost	5,000
Total	**1,25,000**

Note: The cost of purchase excludes the refundable purchase taxes paid on acquisition of the goods as the ₹ 10,000 paid will be refunded to the retailer. Ind AS 2 specifically exclude selling cost from forming part of cost of inventory . However, selling and distribution costs are generally used as single term because both are related, as selling costs are incurred to effect the sale and the distribution costs are incurred by the seller to complete a sale transaction by making the goods available to the buyer from the point of sale to the point at which the buyer takes possession. Since these costs are not related to bringing the goods to their present location and condition, the same are not included in the cost of inventories. Accordingly, though the word 'distribution costs' is not specifically mentioned in Ind AS 2, these costs would continue to be excluded from the cost of inventories. Therefore, it excludes the selling expenses incurred (i.e., ₹ 2,000 delivery costs and ₹ 3,000 other selling costs).

(ii) Paragraph 16 of Ind AS 16, Property, Plant and Equipment, inter alia states that the cost of an item of property, plant and equipment comprises 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.

Further, paragraph 18 of Ind AS 16 states that an entity applies Ind AS 2 to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with Ind AS 2 or Ind AS 16 are recognised and
measured in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.

Paragraph 16 of Ind AS 16 clarifies that decommissioning costs that meet the recognition criteria under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, for a provision are added to the cost of an item of property, plant and equipment if such costs are not incurred through the asset's use to produce inventories. Paragraph 18 fills the gap by clarifying where such costs are incurred
through the asset's use to produce inventories, they are added to the cost of inventories.

Where the obligation to restore the asset arises due to the use of the asset to produce inventories but not due to the asset's installation, construction or acquisition, the costs are added to the costs of inventories.

Based on the above provisions and discussion, cost of restoring the site ₹ 20,000incurred during the period of production as a consequence of having used the item to produce inventories during that period should be added to the cost of inventories. However, later the inventories are measured at the lower of cost and net realisable value in accordance with paragraph 9 of Ind AS 2.

Q13. Nov 2021, RTP

Whether the following costs should be considered while determining the Net Realisable Value (NRV) of the inventories?

a) Costs of completion of work-in-progress;
b) Trade discounts expected to be allowed on sale; and
c) Cash discounts expected to be allowed for prompt payment

Answer

Ind AS 2 defines Net Realisable Value as the "estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale."

Costs of completion of work-in-progress are incurred to convert the work-in-progress into finished goods. Since these costs are in the nature of completion costs, in accordance with the above definition, the same should be deducted from the estimated selling price to determine the NRV of work-in-progress.

Trade Discount is "A reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment". Trade discount is allowed either expressly through an agreement or through prevalent commercial practices in the terms of the trade and the same is adjusted in arriving at the selling price. Accordingly, the trade discount expected to be allowed should be deducted to determine the estimated selling price.

Cash Discount is "A reduction granted by a supplier from the invoiced price in consideration of immediate payment or payment within a stipulated period." These types of costs are incurred to recover the sale proceeds immediately or before the end of the specified period or credit period allowed to the customer. In other words, these costs are not incurred to make the sale, therefore, the same should not be considered while determining NRV

Q14. May 2021, RTP

On 1 January 20X1 an entity accepted an order for 7,000 custom-made corporate gifts.

On 3 January 20X1 the entity purchased raw materials to be consumed in the production process for ₹ 5,50,000, including ₹ 50,000 refundable purchase taxes. The purchase price was funded by raising a loan of ₹ 5,55,000 (including ₹ 5,000 loan-raising fees). The loan is secured by the inventories.

During January 20X1 the entity designed the corporate gifts for the customer.
Design costs included:

- cost of external designer = ₹ 7,000; and
- labour = ₹ 3,000.

During February 20X1 the entity's production team developed the manufacturing technique and made further modifications necessary to bring the inventories to the conditions specified in the agreement. The following costs were incurred in the testing phase:

- materials, net of ₹ 3,000 recovered from the sale of the scrapped output = ₹ 21,000;
- labour = ₹ 11,000; and
- depreciation of plant used to perform the modifications = ₹ 5,000.

During February 20X1 the entity incurred the following additional costs in manufacturing the customised corporate gifts:

- consumable stores = ₹ 55,000;
- labour = ₹ 65,000; and
- depreciation of plant used to manufacture the customised corporate gifts = ₹ 15,000.

The customised corporate gifts were ready for sale on 1 March 20X1. No abnormal wastage occurred in the development and manufacture of the corporate gifts.
Compute the cost of the inventory? Substantiate your answer with appropriate reasons and calculations, wherever required.

Answer

Statement showing computation of inventory cost

Particulars	**Amount (₹)**	**Remarks**
Costs of purchase	5,00,000	Purchase price of raw material [purchase price (₹ 5,50,000) less refundable purchase taxes (₹ 50,000)]
Loan-raising fee	-	Included in the measurement of the liability
Costs of purchase	55,000	Purchase price of consumable stores
Costs of conversion	65,000	Direct costs—labour
Production overheads	15,000	Fixed costs—depreciation
Production overheads	10,000	Product design costs and labour cost for specific customer
Other costs	37,000	Refer working note
Borrowing costs	-	Recognised as an expense in profit or loss
Total cost of inventories	**6,82,000**	

Working Note:

Costs of testing product designed for specific customer:

₹ 21,000 material (ie net of the ₹ 3,000 recovered from the sale of the scrapped output) + ₹ 11,000 labour + ₹ 5,000 depreciation.

Q15. Nov 2020, RTP

A company normally produced 1,00,000 units of a high precision equipment each year over past several years. In the current year, due to lack of demand and competition, it produced only 50,000 units. Further information is as follows:

Material	= ₹ 200 per unit;
Labour	= ₹ 100 per unit;
Variable manufacturing overhead	= ₹ 100 per unit;
Fixed factory production overhead	=₹ 1,00,00,000;
Fixed factory selling overhead	= ₹ 50,00,000;

Variable factory selling overhead = ₹ 150 per unit.

Calculate the value of inventory per unit in accordance with Ind AS 2. What will be the treatment of fixed manufacturing overhead?

Answer

Calculation of Inventory value per unit as per Ind AS 2:

Particulars	Value per unit (₹)
Raw material	200
Labour	100
Variable manufacturing overhead	100
Fixed production overhead (1,00,00,000/1,00,000) 100	500

Fixed overheads are absorbed based on normally capacity level, i.e.; 1,00,000 units, rather than on the basis of actual production, i.e.; 50,000 units. Therefore, fixed manufacturing overhead on 50,000 units, will be absorbed as inventory value. The remaining fixed manufacturing overhead ₹ 50,00,000 (1,00,00,000 - 50,00,000) will be charged to P&L.

Note: Selling costs are excluded from the cost of inventories and recognised as expense in the period in which they are incurred.

Q16. May 2020, RTP

The following is relevant information for an entity :

- Full capacity is 10,000 labour hours in a year.
- Normal capacity is 7,500 labour hours in a year.
- Actual labour hours for current period are 6,500 hours.
- Total fixed production overhead is ₹ 1,500.
- Total variable production overhead is ₹ 2,600.
- Total opening inventory is 2,500 units.
- Total units produced in a year are 6,500 units.
- Total units sold in a year are 6,700 units.
- The cost of inventories is assigned by using FIFO cost formula.

How overhead costs are to be allocated to cost of goods sold and closing inventory?

Answer

Hours taken to produce 1 unit = 6,500 hours / 6,500 units = 1 hour per unit.

Fixed production overhead absorption rate:

= Fixed production overhead / labour hours for normal capacity

= ₹ 1,500 / 7,500

= ₹ 0.2 per hour

Management should allocate fixed overhead costs to units produced at a rate of ₹ 0.2 per hour. Therefore, fixed production overhead allocated to 6,500 units produced during the year (one unit per hour) = 6,500 units x1 hour x ₹ 0.2 = ₹ 1,300.

The remaining fixed overhead incurred during the year of ₹ 200 (₹ 1500 – ₹ 1300) that remains unallocated is recognised as an expense.

The amount of fixed overhead allocated to inventory is not increased as a result of low production by using normal capacity to allocate fixed overhead.

Variable production overhead absorption rate:

= Variable production overhead/actual hours for current period

= ₹ 2,600 / 6,500 hours = ₹ 0.4 per hour

Management should allocate variable overhead costs to units produced at a rate of ₹ 0.4 per hour. The above rate results in the allocation of all variable overheads to units produced during the year.

Closing inventory = Opening inventory + Units produced during year – Units sold during year

= 2,500 + 6,500 – 6,700 = 2,300 units

As each unit has taken one hour to produce (6,500 hours / 6,500 units produced), total fixed and variable production overhead recognised as part of cost of inventory:

= Number of units of closing inventory x Number of hours to produce each unit x (Fixed production overhead absorption rate + Variable production overhead absorption rate)

= 2,300 units x 1 hour x (₹ 0.2 + ₹ 0.4) = ₹ 1,380

The remaining ₹ 2,720 [(₹ 1,500 + ₹ 2,600) – ₹ 1,380] is recognised as an expense in the income statement as follows:

	₹
Absorbed in cost of goods sold (FIFO basis) (6,500 – 2,300) = 4,200 x ₹ 0.6	2,520
Unabsorbed fixed overheads, not included in the cost of goods sold	200
Total	2,720

Q17. May 2018, RTP

On 31 March 20X1, the inventory of ABC includes spare parts which it had been supplying to a number of different customers for some years. The cost of the spare parts was ₹ 10 million and based on retail prices at 31 March 20X1, the expected selling price of the spare parts is ₹ 12 million. On 15 April 20X1, due to market fluctuations, expected selling price of the spare parts in stock reduced to ₹ 8 million. The estimated selling expense required to make the sales would ₹ 0.5 million. Financial statements were
authorised by Board of Directors on 20th April 20X1.

As at 31st March 20X2, Directors noted that such inventory is still unsold and lying in the warehouse of the company. Directors believe that inventory is in a saleable condition and active marketing would result in an immediate sale. Since the market conditions have improved, estimated selling price of inventory is ₹ 11 million and estimated selling expenses are same ₹ 0.5 million.
What will be the value inventory at the following dates:

a) 31st March 20X1
b) 31st March 20X2

Answer

As per Ind AS 2 'Inventories', inventory is measured at lower of 'cost' or 'net realisable value'. Further, as per Ind AS 10: 'Events after Balance Sheet Date', decline in net realisable value below cost provides additional evidence of events occurring at the balance sheet date and hence shall be considered as 'adjusting events'.

(a) In the given case, for valuation of inventory as on 31 March 20X1, cost of inventory would be ₹ 10 million and net realisable value would be ₹ 7.5 million (i.e. Expected selling price ₹ 8 million-estimated selling expenses ₹ 0.5 million). Accordingly, inventory shall be measured at ₹ 7.5 million i.e. lower of cost and net realisable value. Therefore, inventory write down of ₹ 2.5 million would be recorded in income
statement of that year.

(b) As per para 33 of Ind AS 2, a new assessment is made of net realizable value in each subsequent period. It Inter alia states that if there is increase in net realizable value because of changed economic circumstances, the amount of write down is reversed so that new carrying amount is the lower of the cost and the revised net realizable value. Accordingly, as at 31 March 20X2, again inventory would be valued at cost or net realisable value whichever is lower. In the present case, cost is ₹ 1 million and net realisable value would be ₹ 10. 5 million (i.e. expected selling price ₹ 11 million –estimated selling expense ₹ 0.5 million). Accordingly, inventory would be recorded at₹ 10 million and inventory write down carried out in previous year for ₹ 2.5 million shall be reversed.

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Q1. Jan 2026 Exam, 8 marks

Kagaz Limited, Chennai purchased a modern offset manufacturing machine from a supplier at Mumbai for Rs. 20.00 lakhs being Maximum Retail Price (MRP) on the following terms and conditions:

- The supplier would buy-back the existing machine of Kagaz Limited. The carrying value of the existing machine is Rs. 6.60 lakhs.
- The supplier would give a special discount of 5%;
- A cash payment of Rs. 15 lakhs would be made by Kagaz Limited to the supplier;
- Kagaz Limited will purchase from local market all accessories required to operate the machine at Rs. 3.00 lakhs (inclusive of all taxes);
- The supplier will, however, deliver free of cost certain heavy-duty cables etc., having MRP of Rs. 2.00 lakhs, required to install and operate the machine;
- Transit insurance will be borne by Kagaz Limited @ 3% of MRP of the machine only;
- Freight and other incidentals of Rs. 1.00 lakh is borne by Kagaz Limited.

Compute as per applicable Ind AS :

- the cost of the new machine for Kagaz Limited;
- the profit (loss) incurred by Kagaz Limited on the buy-back arrangement.

Also pass necessary journal entries in the books of Kagaz Limited. Ignore any impact of GST.

Answer:

(i) Computation of cost of new machine

	Rs. *in lakhs*
MRP of Machine	20.00
Less: Special discount @ 5% of MRP	(1.00)
	19.00
Add: MRP of cables	2.00
Add: Accessories	3.00
Add: Transit Insurance Cost (3% of Rs. 20 lakh)	0.60
Add: Freight and other incidental amount	1.00
	25.60

(ii) Computation of Profit /Loss incurred on buy-back arrangement

	Rs. *in lakhs*
Discounted price of new machine (20.00 – 1.00)	19.00
Add: Fair value of heavy – duty cables	2.00
Fair value of the machine acquired	21.00
Less: Cash portion thereof	(15.00)
Total fair market value of new machine after deduction of cash consideration	6.00
Less: Book value thereof	(6.60)
Loss on Buy back	(0.60)

(iii) Journal Entries

	Rs. *in lakhs*	**Rs. *in lakhs***
New Machine A/c Dr.	19.60	
To Cash A/c		19.60
(Being the expenses incurred for purchase of New Machine – cash payment Rs. 15.00 lakh + accessory		

Rs. 3.00 lakh + transit insurance Rs. 0.60 lakh + freight Rs. 1.00 lakh)			
New Machine A/c Dr. Loss on buy back of old machine A/c Dr. To Old Machine A/c (Being the transfer of fair market value of Rs. 4.00 lakhs of old machine to new machine under buy-back scheme and recognition of loss on buy back)		6.00 0.60	 6.60

Note: It is assumed that the cash payment of Rs. 15.00 lakhs is the full and final payment to the supplier for the new machine.

Q2. May 2025 Exam, 6 marks

Chimney Ltd. purchased a machinery on 1.4.2019 for Rs. 18,00,000. The machinery has no residual value. It was reflected in its books at Rs. 14,40,000 on 1.4.2021. The Company charges depreciation on straight line method.

The Company had estimated an upward revaluation of 8% on 1.4.2021 to arrive at the fair value of the asset. Chimney Ltd. availed the option given by Ind AS of transferring some of the surplus, as the asset is used by the enterprise.

On 1.4.2023, the machinery was revalued downward by 10% and the company also re-estimated the machinery's remaining life to be 8 years.

On 31.3.2025 the machinery was sold for Rs. 8,98,780.

You are required to prepare machinery account in the books of Chimney Ltd. over its useful life to record the above transactions.

Answer:

In the books of Chimney Ltd.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.4.2019	To Bank/ Vendor	18,00,000	31.3.2020	By Depreciation (W.N.1)	1,80,000
				By Balance c/d	
			31.3.2020		16,20,000
		18,00,000			18,00,000
1.4.2020	To Balance b/d	16,20,000	31.3.2021	By Depreciation By	1,80,000
			31.3.2021	Balance c/d	14,40,000
		16,20,000			16,20,000
1.4.2021		14,40,000	31.3.2022	By Depreciation (W.N.2)	1,94,400
	To Balance b/d			By Balance c/d	
1.4.2021			31.3.2022		13,60,800
	To Revaluation Reserve	1,15,200			
		15,55,200			15,55,200
1.4.2022	To Balance b/d	13,60,800	31.3.2023	By Depreciation	1,94,400
			31.3.2023	By Balance c/d	11,66,400
		13,60,800			13,60,800
1.4.2023	To Balance b/d	11,66,400	1.4.2024	By Revaluation Reserve (W.N.4)	86,400
			31.3.2024	By Profit and Loss A/c	30,240

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			31.3.2024	(W.N.5) By Depreciation (W.N.3)	1,31,220
			31.3.2024	By Balance c/d	9,18,540
		11,66,400			11,66,400
1.4.2024	To Balance b/d	9,18,540	31.3.2025	By Depreciation By	1,31,220
31.3.2025	To Profit and Loss A/c (bal. fig.)	1,11,460	31.3.2025	Bank A/c	8,98,780
		10,30,000			10,30,000

Working Notes:

1. **Calculation of useful life of machinery on 1.4.2019**

Depreciation charge in 2 years = (18,00,000 – 14,40,000)	= Rs. 3,60,000
Depreciation per year as per Straight Line method	= 3,60,000/ 2 years
	= Rs. 1,80,000
Remaining useful life = Rs. 14,40,000/Rs. 1,80,000	= 8 years
Total useful life = 2 years + 8 years	= 10 years

2. **Depreciation after upward revaluation as on 1.4.2021**

Book value as on 1.4.2021	14,40,000
*Add:*8% Upward revaluation	1,15,200
Revalued amount	15,55,200
Remaining useful life 8 years (Refer W.N.1)	
Depreciation on revalued amount = 15,55,200 / 8 years =	Rs. 1,94,400

3. **Depreciation after downward revaluation as on 1.4.2023**

Book value as on 1.4.2023	11,66,400
*Less:*10% Downward revaluation	(1,16,640)
Revalued amount	10,49,760
Revised useful life 8 years	
Depreciation on revalued amount = 10,49,760 / 8 years	1,31,220

4. **Amount transferred from revaluation reserve**

Revaluation reserve on 1.4.2021 (A)	Rs. 1,15,200
Remaining useful life	8 years
Amount transferred every year (1,15,200 / 8)	Rs. 14,400
Amount transferred in 2 years (14,400 x 2) (B)	Rs. 28,800
Balance of revaluation reserve on 1.4.2023 (A-B)	Rs. 86,400

5. **Amount of downward revaluation to be charged to Profit and Loss Account**

Downward revaluation as on 1.4.2023 (W.N.3)	1,16,640
Less: Adjusted from Revaluation reserve (W.N.4)	(86,400)
Amount transferred to Profit and Loss Account	30,240

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Q3. Nov 2024 Exam, 5 marks

Creative Ltd. performed a revaluation of all of its plant and machinery at the beginning of 1st April, 2024. The following information relates to one of its Machinery:

	Amount in Rs.
Gross carrying amount	4,00,000
Accumulated depreciation (straight-line method)	1,60,000
Net carrying amount	2,40,000
Fair Value	3,00,000

The useful life of the machinery is 10 years, and the company uses Straight line method of depreciation. The revaluation was performed at the end of 4 years.

You are required to advise how the company should account for revaluation of plant and machinery and depreciation subsequent to revaluation. Also pass journal entries in relation to the above.

Answer:

According to paragraph 35 of Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to

the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(i) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

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

Gross carrying amount Rs. 5,00,000 [(4,00,000/2,40,000) x 3,00,000]

Less: Net carrying amount (Rs. 3,00,000)

Accumulated depreciation Rs. 2,00,000 (1,60,000 + 40,000)

Journal Entry

Plant and Machinery (Gross Block)	Dr.	Rs. 1,00,000	
To Accumulated Depreciation			Rs. 40,000
To Revaluation Reserve			Rs. 60,000
(Being the value of gross block of the asset restated to make it consistent with revalued amount)			

Depreciation subsequent to revaluation

Since the Gross Block has been restated, the depreciation charge will be revised to Rs. 50,000 per annum (Rs. 5,00,000 /10 years).

Journal Entry

Accumulated Depreciation	Dr.	Rs. 50,000	
To Plant and Machinery (Gross Block)			Rs. 50,000
(Being the revised depreciation after revalued charged)			

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(ii) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

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

In this case, the gross carrying amount is restated to Rs. 3,00,000 to reflect the fair value and accumulated depreciation is set at zero.

Journal Entry

Accumulated Depreciation Dr. To Plant and Machinery (Gross Block) (Being the asset brought down to the carrying value)	Rs. 1,60,000	 Rs.1,60,000
Plant and Machinery (Gross Block) Dr. To Revaluation Reserve (Being revaluation of the asset recognised)	Rs. 60,000	 Rs. 60,000

Depreciation subsequent to revaluation

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of Rs. 50,000 per annum as per Option A (Rs. 3,00,000 / 6 years).

Journal entry

Accumulated Depreciation Dr. To Plant and Machinery (Gross Block) (Being the revised depreciation charged to the Gross Block)	Rs. 50,000	 Rs. 50,000

Q4. Nov 2024 Exam, 6 marks

On 1st April, 2020, Peacock Ltd. started its manufacturing operations by installing a machine in the rented premises. The estimated life of the machine is 4 years. As per the terms of the rent agreement, Peacock Ltd. has a present obligation to dismantle the machine and restore the premises into its original shape. The company estimates to incur Rs. 6,00,000 at the end of 4th year to restore the premises into the original shape. The borrowing rate applicable to the company is 8%.

(Note: PV Factor for 4th year discounted @ 8% = 0.735) You are required to:

I. Advise the accounting treatment of the above; and
II. Pass necessary journal entries across all four years.

Answer:

(i) Accounting Treatment

The present value of such decommissioning and site restoration obligation at the end of 4th year is Rs. 4,41,000 [being 6,00,000 / (1.08)4]. Peacock Ltd. will recognize the present value of decommissioning liability of Rs. 4,41,000 as an addition to cost of PPE and will also recognize a corresponding decommissioning liability.

Further, the entity will recognize the unwinding of discount as finance charge every year till the estimated life of the machine.

(ii) Journal Entries

Date	Particular	Dr. (Rs.)	Cr. (Rs.)

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1st April, 2020	Machine A/c (PPE) Dr. To Provision for decommissioning liability (Being the present value of decommissioning liability of Rs. 4,41,000 recognized as an addition to cost of PPE with corresponding recognition to decommissioning liability)	4,41,000	4,41,000
31st March, 2021	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 1)	35,280	35,280
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	35,280	35,280
31st March, 2022	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 2)	38,102	38,102
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	38,102	38,102
31st March, 2023	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 3)	41,151	41,151
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	41,151	41,151
31st March, 2024	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 4)	44,467	44,467
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	44,467	44,467
	Provision for decommissioning liability Dr.	6,00,000	

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	To Bank A/c (Being decommissioning liability incurred at the end of the life of the machine i.e. 4th year)		6,00,000

Working Note:

The following table shows the unwinding of discount

Year	Opening Decommissioning Liability	Unwinding of Interest @ 8%	Closing Decommissioning Liability
1	4,41,000	35,280	4,76,280
2	4,76,280	38,102	5,14,382
3	5,14,382	41,151	5,55,533
4	5,55,533	44,467*	6,00,000

*Difference of Rs. 24 (44,467- 44,443) is due to rounding off.

Q5. May 2023 Exam, 8 marks

A shipping company is required by law to bring all its ships into dry dock every 5 years for a major inspection and overhaul. Overhaul expenditure might at first sight seem to be repair to the ships but is actually a cost incurred in getting the ship back into a seaworthy condition. As such the costs must be capitalised.

A ship that cost Rs. 40 Crore with 20-year life must have a major overhaul every 5 years. The estimated cost of the first overhaul is Rs. 10 Crores.

Calculate:

the depreciation charged for first five years;

the carrying amount at the end of 5th year.

Answer:

Computation of depreciation charged for the first 5 years

The depreciation charge for the first five years of the asset's life will be as follows:

	Overhaul component (Rs. in crores)	Ship (other than overhaul component) (Rs. in crores)
Cost	10	30
Years	5	20
Depreciation per year	2	1.50

Total accumulated depreciation for the first five years will be -

= (Rs. 2 crores + Rs. 1.50 crores) x 5 years

= Rs. 17.50 crores

Computation of carrying amount of the ship at the end of 5th year

Carrying amount of the ship at the end of 5th year = Rs. 40 crores - Rs. 17.50 crores

= Rs. 22.50 crores

Q6. May 2023 Exam, 8 marks

On 1st May, 2022, Sanskar Limited purchased ₹42,00,000 worth of land for construction of a new warehouse for stocking new products.

The land purchased had an old temporary structure which was to be demolished for thepurpose of construction of warehouse. The salvaged material from the demolition was to be sold as scrap.

The company started the construction work of the warehouse on 1st June, 2022. Following costs were incurred by the company with regard to purchase of land and construction of warehouse:

Particulars	Amount (₹)
Legal fees for purchase contract of land and recording ownership	1,50,000
Architect and consultant's fee	2,70,000
Cost of demolishing existing structure on the purchased land	1,35,000
Site preparation charges for the warehouse	1,00,000
	15,00,000

Purchase of cement and other materials for the construction (including GST of ₹1,00,000 and GST credit is 50% of the payment)	8,00,000
Employment costs of the construction workers	30,000 per month
General overhead costs allocated to the construction work	35,000 per month
Overhead costs incurred directly on the construction of warehouse	80,000
Income received from land used as temporary parking during construction phase	

Additional Information:

• Receipt of ₹35,000 being proceeds from sale of salvaged and scrapped materials from demolition of existing structure.

• Materials costing ₹40,000 was wasted and further ₹1,20,000 was spent to rectify the wrong design work.

• The employment costs are for 10 months i.e. from 1st June 2022 till 31st March, 2023.

• The construction of factory was completed on 28th February, 2023 (which is considered as substantial period of time as per Ind AS 23)

• The use of warehouse commenced on 1st March, 2023.

• The overall useful life of factory building was estimated at 25 years from the date of completion; however, it is estimated that the roof of the warehouse will need tobe replaced 15 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

• At the end of the 25-year period, Sanskar Limited is legally bound to demolish the factory and restore the site to its original condition.

The directors of the company estimate that the cost of demolition in 25 years' time (based on prices prevailing at

that time) will be ₹80,00,000. An annual risk adjusted discount rate which is appropriate to this project is 10% per annum. The present value of ₹1 payable in 25 years' time at an annual discount rate of 10% per annum is ₹0.092.

• Sanskar Limited raised a loan of ₹60 lakhs @ 10% per annum rate of interest on 1st June, 2022. The building of warehouse meets the definition of a qualifying asset in accordance with Ind AS 23 Borrowing Costs. Sanskar Limited received an investment income of ₹25,000 on the temporary investment of the proceeds.

• Assume that cost of demolition of old structure is directly attributable to the cost of land.

• The company follows straight line method of depreciation.

You are required to compute:

i. Cost of construction of the warehouse
ii. Depreciation charge for the year ended 31st March, 2023
iii. Carrying value of warehouse to be taken to Balance Sheet of the Company on 31st March, 2023.

You should explain your treatment of all the amounts referred to in this question as part of your answer.

Answer

(i) Computation of the cost of construction of the warehouse

Description	**Included in P.P.E. ₹**	**Explanation**
Purchase of land	42,00,000	Separately capitalised as cost of land and do not form part of cost of construction of warehouse
Legal fee for purchase of contract of land	1,50,000	Associated legal costs are direct costs for purchasing the land. Hence, separately capitalised as cost of land and do not form part of cost of construction of warehouse
Net cost of demolishing the	1,00,000	

existing structure		Given in the question to assume it as directly attributable to the cost of land. However, it will be adjusted with the proceeds from sale of salvaged material from demolition (1,35,000 – 35,000). Further, it will be separately capitalised as cost of land and do not form part of cost of construction of warehouse.
Total cost of land	**44,50,000**	
Architect and consultant's fee	2,70,000	A direct cost of constructing the warehouse
Site preparation charges	1,00,000	A direct cost of constructing the warehouse
Cement and other materials	14,10,000*	A direct cost of constructing the warehouse net GST credit and wastage (15,00,000 – 50,000 – 40,000)
Expense to rectify the wrong design work	Nil	Assumed to be abnormal cost
Employment costs of the construction workers	7,20,000	A direct cost of constructing the warehouse for a nine-month period till 28th February, 2023 [(8,00,000/10) x 9]
Direct overhead costs	3,15,000	A direct cost of constructing the warehouse for a nine-month period (35,000 x 9)
Allocated overhead costs	Nil	Not a direct cost of construction
Income from temporary use of land as car parking area	Nil	Not essential to the construction so recognised directly in profit or loss
Finance costs	4,50,000	Capitalise the interest cost incurred in a nine-month period (from 1st June, 2022 to 28th February, 2023)
Investment income on temporary investment of the loan proceeds	(25,000)	Offset against the interest amount capitalised
Demolition cost recognised as a Provision	7,36,000	Recognised as part of the initial cost at present value (i.e 80,00,000 x 0.092)
Total cost of construction of a warehouse	39,76,000	

(ii) Computation of depreciation charges for the year ended 31st March, 2023

Note: Land is not depreciated as per Ind AS 16. Hence, only cost of warehouse is subject to depreciation.

Total depreciable amount as on 1st March, 2023	39,76,000	
Depreciation for 1 month must be in two parts:	5,522 9,940	39,76,000 x 25% x 1/15 x 1/12

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(a) Depreciation on roof component (b) Depreciation of remaining item Total depreciation for the year 2022-2023	15,462	39,76,000 x 75% x 1/25 x 1/12

(iii) Computation of carrying value of the warehouse on 31st March, 2023

	₹
Cost of the warehouse as on 1st March, 2023 [computed in (i) above]	39,76,000
Less: Depreciation for 1 month as computed in (ii) above	(15,462)
Carrying value of the warehouse as on 31st March, 2023	39,60,538

***Note:** In the above solution, it has been assumed that amount spent for rectifying the faulty design is not included in the cement and other material cost. However, **alternatively**, it may be considered as part of gross cement and material cost and in such a case, the cost of material will further be reduced with the amount of rectifying the faulty design as follows:

(i) Computation of the cost of construction of the warehouse

Description	**Included in P.P.E.** ₹	**Explanation**
Purchase of land	42,00,000	Separately capitalised as cost of land and do not form part of cost of construction of warehouse
Legal fee for purchase of contract of land	1,50,000	Associated legal costs are direct costs for purchasing the land. Hence, separately capitalised as cost of land and do not form part of cost of construction of warehouse
Net cost of demolishing the existing structure	1,00,000	Given in the question to assume it as directly attributable to the cost of land. However, it will be adjusted with the proceeds from sale of salvaged material from demolition (1,35,000 – 35,000). Further, it will be separately capitalised as cost of land and do not form part of cost of construction of warehouse.
Total cost of land	**44,50,000**	
Architect and consultant's fee	2,70,000	A direct cost of constructing the warehouse
Site preparation charges	1,00,000	A direct cost of constructing the warehouse
Cement and other materials	12,90,000*	A direct cost of constructing the warehouse net GST credit and wastage (15,00,000 – 50,000 – 40,000 –1,20,000)
Expense to rectify the wrong design work	Nil	Assumed to be abnormal cost
Employment costs of the construction workers	7,20,000	

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Direct overhead costs	3,15,000	A direct cost of constructing the warehouse for a nine-month period till 28th February, 2023 [(8,00,000/10) x 9]
Allocated overhead costs	Nil	
Income from temporary use of land as car parking area	Nil	A direct cost of constructing the warehouse for a nine-month period (35,000 x 9)
Finance costs	4,50,000	Not a direct cost of construction
Investment income on temporary investment of the loan proceeds	(25,000)	Not essential to the construction so recognised directly in profit or loss
Demolition cost recognised as a Provision	7,36,000	Capitalise the interest cost incurred in a nine-month period (from 1st June, 2022 to 28th February, 2023)
Total cost of construction of a warehouse	38,56,000	Offset against the interest amount capitalised Recognised as part of the initial cost at present value (i.e 80,00,000 x 0.092)

(ii) Computation of depreciation charges for the year ended 31st March, 2023

Note: Land is not depreciated as per Ind AS 16. Hence, only cost of warehouse is subject to depreciation.

Total depreciable amount as on 1st March, 2023	38,56,000	
Depreciation for 1 month must be in two parts:	5,356	38,56,000 x 25% x 1/15 x 1/12
(a) Depreciation on roof component	9,640	38,56,000 x 75% x 1/25 x 1/12
(b) Depreciation of remaining item	14,996	
Total depreciation for the year 2022-2023		

(iii) Computation of carrying value of the warehouse on 31st March, 2023

	₹
Cost of the warehouse as on 1st March, 2023 [computed in (i) above]	38,56,000
Less: Depreciation for 1 month as computed in (ii) above	(14,996)
Carrying value of the warehouse as on 31st March, 2023	38,41,004

Q7. July 2021 Exam, 4 marks

Special Limited is a multinational entity that owns 3 properties. All 3 properties were purchased on 1st April, 2020. The following details were furnished:

Particulars	Property 1	Property 2	Property 3
Purchase Price	₹7,50,000	₹10,50,000	₹12,00,000
Estimated life	10 years	15 years	15 years
Fair value as on 31st March, 2021	₹8,00,000	₹9,50,000	₹13,00,000

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The Company uses Property 1 and Property 2 for its business purposes. The Company is exploring the opportunity to sell Property 3 if it gets reasonable consideration. Till the time it is not sold, the Company has rented the property.
It has adopted revaluation model for subsequent measurement of these properties. The depreciation is charged on straight line method. However, the Company has not charged any depreciation on Property 1 and Property 3 tor the current year since the fair value of properties exceeds their carrying amount. The difference between their fair value and carrying amount has been recognized in the statement of profit and loss. The properties
are shown under the head property, plant and equipment in the Balance Sheet.

Analyze whether the accounting policies adopted by the Company in relation to the given properties are in accordance with Ind AS. If not, advise the correct treatment and present an extract of the Balance Sheet for the year ended 31st March 2021.

Answer

Preamble:

The given issue needs to be examined in the umbrella of the provisions given in Ind AS 1 'Presentation of Financial Statements', Ind AS 16 'Property, Plant and Equipment' in relation to property '1' and '2' and Ind AS 40 'Investment Property' in relation to property '3'Guidance given in relevant Ind AS:

1. Property '1' and '2'

Definition and applicability:

As per Ind **AS 16, Property plant and equipment** are tangible items that:

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

Hence, property 1 and 2 are held for use in the business, therefore Ind AS 16 shall apply in respect of these two properties.

Accounting Principles:

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

Q8. Jan 2021 Exam, 5 marks

On 1st April 2019, an entity purchased an office block (building) for ₹50,00,000 and paid a non-refundable property transfer tax and direct legal cost of ₹2,50,000 and ₹50,000 respectively while acquiring the building.
During 2019, the entity redeveloped the building into two-story building. Expenditures on re-development were:
- ₹1,00,000 Building plan approval;
- ₹10,00,000 construction costs (including ₹60,000 refundable purchase taxes); and
- ₹40,000 due to abnormal wastage of material and labour.

When the re-development of the building was completed on 1st October 2019, the entity rents out Ground Floor of the building to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products.
The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.
How will the entity account for all the above mentioned expenses in the books of account?
Also, discuss how the above building will be shown in Consolidated financial statement of the entity as a group and in its separate financial statements as per relevant Ind AS.

Answer

In accordance with Ind AS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalised. Therefore, the initial purchase price of the building would be:

Particulars	Amount (₹)
Purchase amount	50,00,000
Non-refundable property tax	2,50,000
Direct legal cost	50,000
	53,00,000
Expenditures on redevelopment:	
Building plan approval	1,00,000
Construction costs (10,00,000 – 60,000)	9,40,000
Total amount to be capitalised at 1st October 2019	63,40,000

Treatment of abnormal wastage of material and labour:

As per Ind AS 16, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. It will be charged to Profit and Loss in the year it is incurred. Hence, abnormal wastage of ₹40,000 will be expensed off in Profit & Loss in the financial year 2019-2020.

Accounting of property- Building

When the property is used as an administrative centre, it is not an investment property, rather it is an 'owner occupied property'. Hence, Ind AS 16 will be applicable.When the property (land and/or buildings) is held to earn rentals or for capital appreciation (or both), it is an Investment property. Ind AS 40 prescribes the cost model for accounting of such investment property.

Since equal value can be attributed to each floor, Ground Floor of the building will be considered as Investment Property and accounted as per Ind AS 40 and First Floor would be considered as Property, Plant and Equipment and accounted as per Ind AS 16.

Cost of each floor = ₹63,40,000 / 2 = ₹31,70,000

As on 1st October 2019, the carrying value of building vis-à-vis its classification would be as follows:

(i) In Separate Financial Statements: The Ground Floor of the building will be classified as investment property for ₹31,70,000, as it is property held to earn rentals. While First Floor of the building will be classified as item of property, plant and equipment for ₹31,70,000.

(ii) In Consolidated Financial Statements: The consolidated financial statements present the parent and its subsidiary as a single entity. The consolidated entity uses the building for the supply of goods. Therefore, the leased-out property to a subsidiary does not qualify as investment property in the consolidated financial
statements. Hence, the whole building will be classified as an item of Property, Plant and Equipment for ₹63,40,000.

Q9. Nov 2019 Exam, 8 marks

M Ltd. is setting up a new factory outside the Delhi city limits. In order to facilitate the construction of the factory and its operations, M Ltd. is required to incur expenditure on the construction/ development of electric-substation. Though M Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether M Ltd. can capitalise expenditure incurred on these items as property, plant and equipment
(PPE)?

If yes, then how should these items be depreciated and presented in the financial statements of M Ltd. as per Ind AS?

Answer

As per Ind AS 16, the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

a) it is probable that future economic benefits associated with the item will flow to the entity; and
b) the cost of the item can be measured reliably.

Further, Ind AS 16 does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances.

Ind AS 16, further, states that the cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, electric-substation is required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order toget future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is
apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In view of this, even though M Ltd. may not be able to recognise expenditure incurred on electric-substation as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalised as a part of overall cost of the project.

From this, it can be concluded that, in the extant case the expenditure incurred on electric-substation should be considered as the cost of constructing the factory and accordingly, expenditure incurred on electric-substation should be allocated and capitalised as part of the items of property, plant and equipment of the factory.

Depreciation

As per **Ind AS 16,** each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Further, Ind AS 16 provides that, if these assets have a useful life which is different from the useful life of the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge.
Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment. The useful lives of electric-substation should not exceed that of the asset to which it relates.

Presentation

Electric-substation should be presented within the class of asset to which they relate ie factory.

Q10. May 2018 Exam, 10 marks

Stars Ltd. is a multinational entity that owns three properties. All the three properties were purchased on 1st April 2016. The details of purchase price and the market values of the properties are given as follows:

Particulars	**Property 1 Factory**	**Property 2 Factory**	**Property 3 Let-out Building**
Purchase Price	30,000	20,000	24,000
Market Value (31-03-2017)	32,000	22,000	27,000
Life	10 years	10 years	10 years

Subsequent Measurement Cost Model Revaluation Model Revaluation Model Property 1 and 2 are occupied by Stars Ltd, whilst property 3 is let out to a non -related party at a market rent. The management presents all three properties in balance sheet as' 'Property, plant and equipment'.

The company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Evaluate whether the accounting policies adopted by the Stars Ltd. in relation to these properties is in accordance of relevant Indian Accounting Standards (Ind AS). If not, advise the correct treatment along with workings.

Answer

(i) For classification of assets

As per **Ind AS 16 'Property, Plant and Equipment'** states that Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

As per **Ind AS 40 'Investment property',** investment property is a property held toearn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

According, to the facts given in the questions, since Property 1 and 2 are used as factory buildings, their classification as PPE is correct. However, Property 3 is held to earn rentals; hence, it should be classified as Investment Property. Thus, its classification as PPE is not correct.

Property 3 shall be presented as separate line item as Investment Property as per Ind AS 1.

(ii) For valuation of assets

Ind AS 16 states that an entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class ofproperty, plant and equipment. Also, Ind AS 16 states that If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment

to which that asset belongs shall be revalued.

However, for investment property, Ind AS 40 states that an entity shall adopt as its accounting policy the cost model to all of its investment property. Ind AS 40 also requires that an entity shall disclose the fair value of investment property.

Since property 1 and 2 is used as factory building, they should be classified under same category or class ie. 'factory building'. Therefore, both the properties should be valued either at cost model or revaluation model. Hence, the valuation model adopted by Stars Ltd. is not consistent and correct as per Ind AS 16.

In respect to property 3 being classified as Investment Property, there is no alternative of revaluation model i.e. only cost model is permitted for subsequent measurement. However, Stars Ltd. is required to disclose the fair value of the investment property in the Notes to Accounts.

(iii) For changes in value on account of revaluation and treatment thereof

Ind AS 16 states that if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading 'revaluation surplus'. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Accordingly, the revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

(iv) For treatment of depreciation

Ind AS 16 states that depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Accordingly, Stars Ltd. is required to depreciate these properties irrespective of that their fair value exceeds the carrying amount.

(v) Rectified presentation in the balance sheet

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

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

Balance Sheet extracts as at 31st March 2017 ₹

Assets	
Non-Current Assets	
Property, Plant and Equipment	
Property 1 (30,000-3,000)	27,000
Property 2 (20,000 – 2,000)	18,000

	45,000
Investment Property	
Property 3 (Fair value being ₹27,000) (Cost = 24,000-2,400)	21,600

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

Balance Sheet extracts as at 31st March 2017	₹
Assets	
Non-Current Assets	
Property, Plant and Equipment	
Property 1 (30,000-3,000)	32,000
Property 2 (20,000 – 2,000)	22,000
	54,000
Investment Property	
Property 3 (Fair value being ₹27,000) (Cost = 24,000-2,400)	21,600
Equity and Liabilities	
Other Equity	
Revaluation Reserve *	
Property 1 (32,000 – 27,000)	5,000
Property 2 (22,000 –18,000)	4,000
	9,000

* Revaluation reserve should be routed through Other Comprehensive Income (OCI) (subsequently not reclassified to Profit and Loss) in the Statement of Profit and Loss and shown as a separate column in the Statement of Changes in Equity.

Q11. Jan 2026 RTP

A Ltd. exchanges car X with a book value of Rs. 13,000 and a fair value of Rs. 13,250 for cash of Rs. 150 and car Y which has a fair value of Rs. 13,100. The transaction lacks commercial substance, because the entity's cash flows are not expected to change as a result of the exchange; in other words, the entity is in the same position as it was before the transaction.

Required:

State the value at which Car Y should be recognized in the books of A Ltd.

Answer:

Para 24 of Ind AS 16 inter alia states that in case of all exchange of item of property, plant and equipment, the cost of an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Further, para 25 of Ind AS 16 states that an entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

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c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

Since in the given case, there is no commercial substance, the entity recognizes the assets received at the book value of car X. Therefore, it recognizes cash of Rs. 150 and car Y as property, plant and equipment with a carrying value of Rs. 12,850.

Q12. Nov 2024 RTP

On 1st October, 20X1, XY Ltd. completed the construction of a power generating facility. The total construction cost was Rs. 2 crore. The facility was capable of being used from 1st October, 20X1 but XY Ltd. did not bring the facility into use until 1st January, 20X2. The estimated useful life of the facility at 1st October, 20X1 was 40 years.

Under legal regulations in the jurisdiction in which XY Ltd. operates, there are no requirements to restore the land on which power generating facilities stand to its original state at the end of the useful life of the facility. However, XY Ltd. has a reputation for conducting its business in an environmentally friendly way and has previously chosen to restore similar land even in the absence of such legal requirements. The directors of XY Ltd. estimated that the cost of restoring the land in 40 years' time (based on prices prevailing at that time) would be Rs. 1 crore. A relevant annual discount rate to use in any discounting calculations is 5%. When the annual discount rate is 5%, the present value of Rs. 1 receivable in 40 years' time is approximately 0.142.

Explain and show how the above event would be reported in the financial statements of XY Ltd. for the year ended 31st March, 20X1. Ignore comments on potential future reclassification issues.

Answer:

The facility is depreciated from the date it is ready for use, rather than when it actually starts being used. In this case, then, the facility is depreciated from 1st October, 20X1.

Although XY Ltd. has no legal obligation to restore the piece of land, it does have a constructive obligation, based on its past practice and policies.

The amount of the obligation will be Rs. 14,20,000 being the present value of the anticipated future restoration expenditure (1,00,00,000 x 0.142).

This will be recognised as a provision under non-current liabilities in the balance sheet of XY Ltd. at 31st March, 20X2.

As time passes the discounted amount unwinds. The unwinding of the discount for the year ended 31st March, 20X2 will be Rs. 35,500 (14,20,000 x 5% x 6/12).

The unwinding of the discount will be shown as a finance cost in the statement of profit and loss and the closing provision will be Rs. 14,55,500 (14,20,000 + 35,500).

The initial amount of the provision is included in the carrying amount of the non-current asset, which becomes Rs. 2,14,20,000 (2,00,00,000 + 14,20,000).

The depreciation charge in profit or loss for the year ended 31st March, 20X2 is Rs. 2,67,750 (2,14,20,000 x 1/40 x 6/12).

The closing balance included in non-current assets will be Rs. 2,11,52,250 (2,14,20,000 – 2,67,750).

Q13. Nov 2023 RTP

Besides manufacturing plants, A Ltd. has various other assets, not used for operational activities, e.g., freehold land, townships in different locations, excess of office spacerented to ABC, etc. Also, A Ltd. has some land, which are kept vacant as per the government regulations which require that a specified area around the plant should be kept vacant.
The details of these assets are as under:

Property	Details

A Ltd.'s office building (registered office)	A Ltd.'s registered office in Delhi, is a 15 storey building, of which only 3 floors are occupied by A Ltd., whereas remaining floors are given on rent to other companies. These agreements are usually for a period of 3 years. According to A Ltd., such ex cess office space will continue to be let out on lease to external parties and have no plans to occupy it, at least in near future.
Flats in Township located in location 1	As regards township in Location 1, there are approximately 2,000 flats in the said township. It was built primarily for A Ltd.'s employees, hence, approximately 80% of the flats are allotted to employees and remaining flats are either kept vacant or given on rent to other external parties. A lease agreement is signed between A Ltd. and an individual party for every 12 months being 1st April to 31st March. The lease entered is a cancellable lease (cancellable at the option of any ofthe parties). Also, besides monthly rent, additional charges are levied by A Ltd. on account of electricity, water, cable connection, etc.According to A Ltd., there is no intention of selling such excess flats or allotting it to its employees.
Flats in township located in location 2	There are 1,000 flats in location 2 township, of which: • 400 flats are given to employees for their own accommodation. • 350 flats are given on rent to Central Government and State Government for accommodation of their employees. Average lease period being 12 months with cancellable clause in lease agreements. • 250 flats are kept vacant.
Hostel located in location 1	60 rooms in the hostel have been let out to G Ltd., to give accommodation to their personnel. Lease agreement is prepared for every 11 months and renewed thereafter. Besides the monthly rent amount, some charges are levied towards water, electricity and other amenities, e.g., cable connection, etc.
Land in location 1	In 20X4, A Ltd. purchased a plot of land on the outskirts of a major city. The area has mainly low-cost public housing and very limited public transport facilities. The government has plans to develop the area as an industrial park in 5 years' time and the land is expected to greatly appreciate in value if the government proceeds with the plan. A Ltd. has not decided what to do with the property.
Land in location 1	A portion of land has been leased out to C Ltd. for its manufacturing operations. Land has been given on lease on a lease rental of Rs. 10 lacs p.a. with a lease term of 25 years.
Land in location 2	A portion of the land has been given on rent to D Ltd. which has constructed a petrol pump on such land. It has been leased for a period of 40 years and renewed for a further period of 40 years.

Determine the classification of properties which are not held for operational purposes, with suitable reasoning in the financial statements of A Ltd.

Answer

Property	**Classification of properties not held for operational purpose**
A Ltd.'s office building (registered office)	Excess portion of office space has been given on lease to earn rental income. Out of 15 storey building, only 3 floors are occupied by A Ltd. Such excess office space was constructed

	for the purpose of letting it out. According to A Ltd., such excess office space will continue to be let out on lease to external parties and have no plans to occupy it, at least in near future. Further, office space given on rent, although in same building, is separately identifiable from another owner-occupied portion and hence can be sold separately (if required). Hence, the excess space will qualify to be an investment property.
Flats in Township located in location 1	Excess flats have been given on lease to earn rental income.According to A Ltd., there is no intention of selling such excess flats or allotting it to its employees. Further, flats given on rent, can be sold separately from flats occupied by A Ltd.'s employees as they are separately identifiable. A Ltd. also charges its lessees on account of ancillary services, i.e., water, electricity, cable connection, etc., but the monthly charges in such cases are generally not significant as compared to rental payments. Hence, flats given on rent should qualify to be an 'investment property'.With regards to the flats kept vacant, A Ltd. has to evaluate the purpose of holding these flats, i.e., whether these would be kept for earning rentals or will it be allotted to its future employees. In case they are held for earning rentals, it would be classified as an investment property; and if they are held for allotment to future employees, it would form part of property, plant and equipment.
Flats in township located in location 2	350 flats are given on lease to earn rental income and assuming that management intends to let out these flats on rent in future, such flats should be classified as an 'investment property.With regards to the flats kept vacant, A Ltd. has to evaluate the purpose of holding these flats, i.e., whether these would be kept for earning rentals or will it be allotted to its future employees. In case they are held for earning rentals, it would be classified as an investment property; and if they are held for allotment to future employees, it would form part of property, plant and equipment.
Hostel located in location 1	Rooms in a hostel have been let out to G Ltd. to be used by its personnel. A Ltd. also charges G Ltd. on account of ancillary services, i.e., water, electricity, cable connection, etc., but the monthly charges in such cases are generally not significant as compared to rental payments. Hence, it should be classified as an 'Investment property'.
Land in location 1	Although management has not determined use for property after the development of park, yet in the medium-term the land is held for capital appreciation. As per Ind AS 40, if an entity has not determined that it will use the land either as owner-occupied property or for short term sale in the ordinary course of business, then it will be considered as land held for capital appreciation. Therefore, management should classify the property as an investment property.
Land in location 1	Since the land is held with an intention of giving it on lease and earning capital appreciation over a period, it should be classified as an 'Investment property'.
Land in location 2	Since the land is held with an intention of giving it on lease and earning capital appreciation over a period, it should be classified as 'Investment property'.

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Q14. May 2023 RTP

Company X built a new plant that was brought into use on 1st April, 20X1. The cost to construct the plant was Rs. 1.5 crore. The estimated useful life of the plant is 20 years and Company X accounts for the plant using the cost model.

The initial carrying amount of the plant included an amount of Rs. 10 lakh for decommissioning, which was determined using a discount rate of 10%. On 31st March, 20X2, Company X remeasures the provision for decommissioning toRs. 13 lakh.

Provide necessary journal entries at the end of the year i.e. 31st March, 20X2 for recording of depreciation and decommissioning provision.

Answer

Journal Entries in the books of Company X
for the year ending ended 31st March, 20X2

	Rs. in lakh	Rs. in lakh
Depreciation (profit or loss) Dr. To Accumulated depreciation (plant) (Being depreciation on plant recognised under straight-line method (1,50,00,000 x 1/20))	7.5	 7.5
Interest expense (profit or loss) Dr. To Provision for decommissioning (Being unwinding of decommissioning provision @10% recognised in the books)	1.0	 1.0
Plant Dr. To Provision for decommissioning (Being increase in decommissioning provision recognised [13,00,000 – (10,00,000 +1,00,000)] at the end of the year)	2.0	 2.0

Q15. Nov 2022 RTP

Company A incurred Rs. 20,000 as cost for restoring the site on which the item of PPE was located. This item was used for manufacturing of goods and the requirement for restoring will arise due to manufacturing of goods.

What will the treatment of this Rs. 20,000 in the books of Company A? Analyse on the basis of the provisions of relevant Ind AS.

Answer

Paragraph 16 of Ind AS 16, Property, Plant and Equipment, inter alia states that the cost of an item of property, plant and equipment comprises 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.

Further, paragraph 18 of Ind AS 16 states that an entity applies Ind AS 2 to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with Ind AS 2 or Ind AS 16 are recognised and measured in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.

Paragraph 16 of Ind AS 16 clarifies that decommissioning costs that meet the recognition criteria under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, for a provision are added to the cost of an item of property, plant and equipment if such costs are not incurred through the asset's use to produceinventories. Paragraph 18 fills the gap by clarifying where such costs are incurred through the asset's use to produce inventories, they are added to the cost of inventories.

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Where the obligation to restore the asset arises due to the use of the asset to produce inventories but not due to the asset's installation, construction or acquisition, the costs are added to the costs of inventories. Based on the above provisions and discussion, cost of restoring the site Rs. 20,000incurred during the period of production as a consequence of having used the item to produce inventories during that period should be added to the cost of inventories. However, later the inventories are measured at the lower of cost and net realisable value in accordance with paragraph 9 of Ind AS 2.

Q16. May 2022 RTP

On 1st January, 20X1 an entity purchased an item of equipment for Rs. 600,000, including Rs. 50,000 refundable purchase taxes. The purchase price was funded by raising a loan of Rs. 605,000. In addition, the entity has to pay Rs. 5,000 in loan raising fees to the Bank. The loan is secured against the equipment.

In January 20X1 the entity incurred costs of Rs. 20,000 in transporting the equipment to the entity's site and Rs. 100,000 in installing the equipment at the site. At the end of the equipment's 10-year useful life the entity is required to dismantle the equipment and restore the building housing the equipment. The present value of the cost of dismantling the equipment and restoring the building is estimated to be Rs. 100,000.

In January 20X1 the entity's engineer incurred the following costs in modifying the equipment so that it can produce the products manufactured by the entity:

- Materials – Rs. 55,000
- Labour – Rs. 65,000
- Depreciation of plant and equipment used to perform the modifications – Rs. 15,000

In January 20X1, the entity's production staff were trained in how to operate the new item of equipment. Training costs included:

- Cost of an expert external instructor – Rs. 7,000
- Labour – Rs. 3,000

In February 20X1 the entity's production team tested the equipment and the engineering team made further modifications necessary to get the equipment to function as intended by management. The following costs were incurred in the testing phase:

- Materials, net of Rs. 3,000 recovered from the sale of the scrapped output –Rs. 21,000
- Labour – Rs. 16,000

The equipment was ready for use on 1st March, 20X1. However, because of low initial order levels the entity incurred a loss of Rs. 23,000 on operating the equipment during March. Thereafter the equipment operated profitably.

What is the cost of the equipment at initial recognition?

Answer

Description	**Calculation or reason**	**Rs.**
Purchase price	Rs. 600,000 purchase price minus Rs. 50,000 refundable purchase taxes	550,000
Loan raising fee	Offset against the measurement of the liability	-
Transport cost		20,000
Installation costs	Directly attributable expenditure	100,000
Environmental restoration costs	Directly attributable expenditure The obligation to dismantle and restore the environment arose from the installation of the equipment	100,000 135,000
Preparation costs	Rs. 55,000 materials + Rs. 65,000 labour + Rs. 15,000 depreciation	-
Training costs	Recognised as expenses in profit and lossaccount. The equipment was capable of operating in the manner intended by management without incurring the training costs.	37,000
Cost of testing		

Operating loss Borrowing costs	Rs. 21,000 materials (ie net of the Rs. 3,000 recovered from the sale of the scrapped output) + Rs. 16,000 labour Recognised as expenses in profit and loss account Recognised as expenses in profit and loss account	- -
Cost of equipment		**9,42,000**

Q17. Nov 2021 RTP

Heaven Ltd. had purchased a machinery on 1.4.2X01 for Rs. 30,00,000, which is reflected in its books at written down value of Rs. 17,50,000 on 1.4.2X06. The company has estimated an upward revaluation of 10% on 1.4.2X06 to arrive at the fair value of the asset. Heaven Ltd. availed the option given by Ind AS of transferring some of the surplus as the asset is used by an enterprise.

On 1.4.2X08, the machinery was revalued downward by 15% and the company also re-estimated the machinery's remaining life to be 8 years. On 31.3.2X10 the machinery was sold for Rs. 9,35,000. The company charges depreciation on straight line method.

Prepare machinery account in the books of Heaven Ltd. over its useful life to record the above transactions.

Answer

In the books of Heaven Ltd.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.4.2X01	To Bank / Vendor	30,00,000	31.3.2X02	By Depreciation (W.N.1)	2,50,000
			31.3.2X02	By Balance c/d	27,50,000
		30,00,000			30,00,000
1.4.2X02	To Balance b/d	27,50,000	31.3.2X03	By Depreciation	2,50,000
			31.3.2X03	By Balance c/d	25,00,000
		27,50,000			27,50,000
1.4.2X03	To Balance b/d	25,00,000	31.3.2X04	By Depreciation	2,50,000
			31.3. 2X04	By Balance c/d	22,50,000
		25,00,000			25,00,000
1.4.2X04	To Balance b/d	22,50,000	31.3.2X05	By Depreciation	2,50,000
			31.3.2X05	By Balance c/d	20,00,000
		22,50,000			22,50,000
1.4.2X05	To Balance b/d	20,00,000	31.3.2X06	By Depreciation	2,50,000
			31.3.2X06	By Balance c/d	17,50,000
		20,00,000			20,00,000
1.4.2X06	To Balance b/d	17,50,000	31.3.2X07	By Depreciation (W.N.2)	2,75,000
1.4.2X06	To Revaluation Reserve @ 10%	1,75,000			
			31.3.2X07	By Balance c/d	16,50,000
		19,25,000			19,25,000
1.4.2X07	To Balance b/d	16,50,000	31.3.2X08	By Depreciation	2,75,000
			31.3.2X08	By Balance c/d	13,75,000
		16,50,000			16,50,000
1.4.2X08	To Balance b/d	13,75,000	1.4.2X08	By Revaluation Reserve (W.N.4)	1,25,000
			31.3.2X09	By Profit and Loss A/c (W.N.5)	81,250
			31.3.2X09	By Depreciation (W.N.3)	1,46,094
			31.3.2X09	By Balance c/d	10,22,656
		13,75,000			13,75,000

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1.4.2X09	To Balance b/d	10,22,656	31.3.2X10	By Depreciation	1,46,094
31.3.2X10	To Profit and Loss A/c (balancing figure)	58,438*	31.3.2X10	By Bank A/c	9,35,000
		10,81,094			10,81,094

Working Notes:

1. Calculation of useful life of machinery on 1.4.2X01

Depreciation charge in 5 years = (30,00,000 – 17,50,000) = Rs. 12,50,000

Depreciation per year as per Straight Line method = 12,50,000 / 5 years = Rs. 2,50,000

Remaining useful life = Rs. 17,50,000 / Rs. 2,50,000 = 7 years

Total useful life = 5 years + 7 years = 12 years

2. Depreciation after upward revaluation as on 31.3.2X06

	Rs.
Book value as on 1.4.2X06	17,50,000
Add: 10% upward revaluation	1,75,000
Revalued amount	19,25,000

Remaining useful life 7 years (Refer W.N.1)

Depreciation on revalued amount = 19,25,000 / 7 years = Rs. 2,75,000 lakh

3. Depreciation after downward revaluation as on 31.3.2X0 8

	Rs.
Book value as on 1.4.2X08	13,75,000
Less: 15% Downward revaluation	(2,06,250)
Revalued amount	11,68,750

Revised useful life 8 years

Depreciation on revalued amount = 11,68,750 / 8 years = Rs. 1,46,094

4. Amount transferred from revaluation reserve

Revaluation reserve on 1.4.2X06 (A) Rs. 1,75,000

Remaining useful life 7 years

Amount transferred every year (1,75,000 / 7) Rs. 25,000

Amount transferred in 2 years (25,000 x 2) (B) Rs. 50,000

Balance of revaluation reserve on 1.4.2X08 (A-B) Rs.1,25,000

5. Amount of downward revaluation to be charged to Profit and Loss Account

Downward revaluation as on 1.4.2X08 (W.N.3)	Rs. 2,06,250
Less: Adjusted from Revaluation reserve (W.N.4)	(Rs. 1,25,000)
Amount transferred to Profit and Loss Account	Rs. 81,250

Q18. May 2021 RTP

An entity has the following items of property, plant and equipment:

• Property A — a vacant plot of land on which it intends to construct its new administration headquarters;

• Property B — a plot of land that it operates as a landfill site;

• Property C — a plot of land on which its existing administration headquarters are built;

• Property D — a plot of land on which its direct sales office is built;

• Properties E1–E10 — ten separate retail outlets and the land on which they are built;

• Equipment A — computer systems at its headquarters and direct sales office that are integrated with the point of sale computer systems in the retail outlets;

• Equipment B — point of sale computer systems in each of its retail outlets;

• Furniture and fittings in its administrative headquarters and its sales office;

• Shop fixtures and fittings in its retail outlets.

How many classes of property, plant and equipment must the entity disclose?

Answer

To answer this question one must make a materiality judgement.

A class of assets is defined as a grouping of assets of a similar nature and use in an entity's operations.

The nature of land without a building is different to the nature of land with a building.

Consequently, land without a building is a separate class of asset from land and buildings. Furthermore, the nature and use of land operated as a landfill site is different from vacant land.

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Hence, the entity should disclose Property A separately. The entity must apply judgement to determine whether the entity's retail outlets are sufficiently different in nature and use from its office buildings, and thus constitute a separate class
of land and buildings.

The computer equipment is integrated across the organisation and would probably be classified as a single separate class of asset.

Furniture and fittings used for administrative purposes could be sufficiently different to
shop fixtures and fittings in retail outlets. Hence, they should be classified in two separate classes of assets.

Q19. Nov 2020 RTP

Entity X has a warehouse which is closer to factory of Entity Y and vice versa. The factories are located in the same vicinity. Entity X and Entity Y agree to exchange their warehouses.
The carrying value of warehouse of Entity X is Rs. 1,00,000 and its fair value is Rs. 1,25,000.It exchanges its warehouse with that of Entity Y, the fair value of which is Rs. 1,20,000. It also receives cash amounting to Rs. 5,000. How should Entity X account for the exchange of warehouses?

Answer

Paragraph 24 of Ind AS 16, inter alia, provides that when an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, the cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably
measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Further as per paragraph 25 of Ind AS 16, an entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

In the given case, the transaction lacks commercial substance as the company's cash flows are not expected to significantly change as a result of the exchange because the factories are located in the same vicinity i.e. it is in the same position as it was before the transaction.Hence, Entity X will have to recognise the assets received at the carrying amount of asset given up, i.e., Rs. 1,00,000 being carrying amount of existing warehouse of Entity X and Rs. 5,000 received will be deducted from the cost of property, plant and equipment.
Therefore, the warehouse of Entity Y is recognised as property, plant and equipment with a carrying value of Rs. 95,000 in the books of Entity X.

Q20. May 2020 RTP | May 2019 RTP

Company X performed a revaluation of all of its plant and machinery at the beginning of 20X1. The following information relates to one of the machinery:

	Amount ('000)
Gross carrying amount	Rs. 200
Accumulated depreciation (straight-line method)	(Rs. 80)
Net carrying amount	Rs. 120
Fair value	Rs. 150

The useful life of the machinery is 10 years and the company uses Straight line method of depreciation. The revaluation was performed at the end of 4 years.

How should the Company account for revaluation of plant and machinery and depreciation subsequent to revaluation? Support your answer with journal entries.

Answer

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

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation

at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

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

Gross carrying amount Rs. 250 [(200/120) x 150]

Net carrying amount Rs. 150

Accumulated depreciation Rs. 100 (Rs. 250 – Rs. 150)

Journal entry

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

Depreciation subsequent to revaluation

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

Journal entry

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

(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

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

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

Journal entry

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

Depreciation subsequent to revaluation

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

Journal entry

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

Q21. Nov 2018 RTP

ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction/development of railway siding, road and bridge. Though ABC Ltdincurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether

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ABC Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the financial statements of ABC Ltd. as per Ind AS?

Answer

Paragraph 7 of Ind AS 16 states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

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

Further, paragraph 9 provides that the standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances.

Paragraph 16, inter alia, states that the cost of an item of property, plant and equipment comprise any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalised as a part of overall cost of the project. From this, it can be concluded that, in the extant case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalised as part of the items of property, plant and equipment of the refinery.

Depreciation

As per paragraph 43 and 47 of Ind AS 16, if these assets have a useful life which is different from the useful life of the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge. Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment. The useful lives of these assets should not exceed that of the asset to which it relates.

Presentation

These assets should be presented within the class of asset to which they relate.

Q22. May 2018 RTP

A Ltd. purchased some Property, Plant and Equipment on 1st April, 20X1, and estimated their useful lives for the purpose of financial statements prepared on the basis of Ind AS: Following were the original cost, and useful life of the various components of property, plant, and equipment assessed on 1st April, 20X1:

Property, Plant and Equipment	Original Cost	Estimated useful life
Buildings	Rs. 15,000,000	15 years
Plant and machinery	Rs. 10,000,000	10 years
Furniture and fixtures	Rs. 3,500,000	7 years

A Ltd. uses the straight-line method of depreciation. On 1st April, 20X4, the entity reviewed the following useful lives of the property, plant, and equipment through an external valuation expert:

Buildings	10 years
Plant and machinery	7 years
Furniture and fixtures	5 years

There were no salvage values for the three components of the property, plant, and equipment either initially or at the time the useful lives were revised.

Compute the impact of revaluation of useful life on the Statement of Profit and Loss for the year ending 31st March, 20X4

Answer

The annual depreciation charges prior to the change in useful life were

Buildings	Rs. 1,50,00,000/15 =	Rs. 10,00,000
Plant and machinery	Rs. 1,00,00,000/10 =	Rs. 10,00,000
Furniture and fixtures	Rs. 35,00,000/7 =	Rs. 5,00,000
Total =		**Rs. 25,00,000 (A)**

The revised annual depreciation for the year ending 31st March, 20X4, would be

Buildings	[Rs.1,50,00,000 – (Rs. 10,00,000 × 3)] / 10	Rs. 12,00,000
Plant and machinery	[Rs. 1,00,00,000 – (Rs. 10,00,000 × 3)] / 7	Rs. 10,00,000
Furniture and fixtures	[Rs. 35,00,000 – (Rs. 5,00,000 × 3)] / 5	Rs. 4,00,000
Total =		**Rs. 26,00,000 (B)**

The impact on Statement of Profit and Loss for the year ending 31st March, 20X4

= Rs. 26,00,000 – Rs. 25,00,000 = Rs. 1,00,000

This is a change in accounting estimate which is adjusted prospectively in the period in which the estimate is amended and, if relevant, to future periods if they are also affected.

Accordingly, from 20X4-20X5 onward, excess of Rs. 1,00,000 will be charged in the Statement of Profit and Loss every year till the time there is any further revision.

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Q1. Nov 2023 Exam, 4 marks

Beauty Ltd. purchased a patent right of a face-wash on 1st April, 2020 for Rs. 4,20,000; which has a legal life of 10 years. Due to the highly competitive nature of the product, the management of the company estimates a useful life of only 6 years. Straight line amortization is determined by the management to be the best method. As at 1st April, 2021, management is uncertain that the process can actually be made economically feasible and decides to write down the patent to an estimated market value of Rs. 2,00,000 and also decides to amortize it over 2 years. As at 1st April, 2022, having perfected the related production process, the asset is now appraised at a value of

Rs. 3,50,000. Furthermore, the estimated useful life is now believed to be 3 more years. You are required to determine the value of intangible asset at the end of financial year:

- 2020-2021;
- 2021-2022;
- 2022-2023.

Also, discuss the treatment of revaluation gain in financial year 2022 -2023.

Answer:

Value as on 31st March 2021

Original cost	Rs. 4,20,000
Less: Amortisation (4,20,000 / 6 years)	(Rs. 70,000)
Net carrying value as on 31st March 2021	Rs. 3,50,000

Value as on 31st March 2022

On 1st April 2021, the downward revaluation is recorded by writing down the asset to the estimated value of Rs. 2,00,000, which necessitates a Rs. 1,50,000 charge to profit & loss (carrying value Rs. 3,50,000 less fair value Rs. 2,00,000).

Amortisation provided for the financial year 2021-2022 is Rs. 1,00,000 (Rs. 2,00,000/2)

Net value as on 31st March 2022 = Rs. 2,00,000 – Rs. 1,00,000 = Rs. 1,00,000.

Value as on 31st March 2023

As on 1st April 2022, the carrying value of the patent is Rs. 1,00,000. Revalued amount of patent is Rs. 3,50,000.

Out of total revaluation gain of Rs. 2,50,000, Rs. 1,50,000 will be charged to profit & loss and balance amount of Rs. 1,00,000 (Rs. 2,50,000 – Rs. 1,50,000) will be credited to revaluation reserve.

Amortisation provided for the financial year 2022 -2023 is Rs. 1,16,667 (Rs. 3,50,000 / 3) Net value as on 31st March 2023 = Rs. 3,50,000 – Rs. 1,16,667 = Rs. 2,33,333.

Q2. Jan 2021 Exam, 10 marks

Super Sounds Limited had the following transactions during the Financial Year 2019-2020.

i. On 1st April 2019, Super Sounds Limited purchased the net assets of Music Limited for ₹ 13,20,000. The fair value of Music Limited's identifiable net assets was₹ 10,00,000. Super Sounds Limited is of the view that due to popularity of Music Limited's product, the life of goodwill is 10 years.

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ii. On 4th May 2019, Super Sounds Limited purchased a Franchisee to organize musical shows from Armaan TV for ₹ 80,00,000 and at an annual fee of 2% of musical shows revenue. The Franchisee expires after 5 years. Musical shows revenue were ₹ 10,00,000 for financial year 2019-2020. The projected future revenues for financial year 2020-2021 is ₹ 25,00,000 and ₹ 30,00,000 p.a. for remaining 3 years thereafter.

iii. On 4th July 2019, Super Sounds Limited was granted a Copyright that had been applied for by Music Limited. During financial year 2019-2020, Super Sound Limited incurred ₹ 2,50,000 on legal cost to register the Patent and ₹ 7,00,000 additional cost to successfully prosecute a copyright infringement suit against a competitor.

The life of the Copyright is for 10 years.

Super Sound Limited follows an accounting policy to amortize all intangible on SLM (Straight Line Method) basis or any appropriate basis over a maximum period permitted by relevant Ind AS, taking a full year amortization in the year of acquisition.

You are required to prepare:

i. A Schedule showing the intangible section in Super Sound Limited Balance Sheet as on 31st March 2020, and

ii. A Schedule showing the related expenses that would appear in the Statement of Profit and Loss of Super Sound Limited for the year ended 2019-2020

Answer

i. Super Sounds Limited

Balance Sheet (Extract relating to intangible asset) as at 31st March 2020

	Note No.	₹
Assets		
(1) Non- current asset		
Intangible assets	1	69,45,000

ii. Super Sounds Limited

Statement of Profit and Loss (Extract) for the year ended 31st March 2020

	Note No.	₹
Revenue from Operations		10,00,000
Total Revenue		
Expenses:		
Amortization expenses	2	16,25,000
Other expenses	3	7,20,000
Total Expenses		

Notes to Accounts (Extract)

1. Intangible Assets

		Gross Block (Cost)			Accumulated amortisation			Net block	
		Opening balance ₹	Additions ₹	Closing Balance ₹	Opening balance ₹	Additions ₹	Closing Balance ₹	Opening balance ₹	Closing Balance ₹
1	Goodwill* (W.N.1)	-	3,20,000	3,20,000	-	-	-	-	3,20,000
2	Franchise ** (W.N.2)	-	80,00,000	80,00,000	-	16,00,000	16,00,000	-	64,00,000
3	Copyright (W.N.3)	-	2,50,000	2,50,000	-	25,000	25,000	-	2,25,000
		-			-			-	

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			85,70,000	85,70,000		16,25,000	16,25,000		69,45,000

*As per Ind AS 36, irrespective of whether there is any indication of impairment, an entity shall test goodwill acquired in a business combination for impairment annually. This implies that goodwill is not amortised annually but is subject to annual impairment, if any.

**As per the information in the question, the limiting factor in the contract for the use is time i.e., 5 years and not the fixed total amount of revenue to be generated. Therefore, an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate and amortisation based on time can only be applied.

2. Amortization expenses

Franchise (W.N.2)	16,00,000
Copyright (W.N.3)	25,000
	16,25,000

3. Other expenses

Legal cost on copyright		7,00,000
Fee for Franchise (10,00,000 x 2%)		20,000
	7,20,000	

Working Notes:

	₹
(1) Goodwill on acquisition of business	
Cash paid for acquiring the business	13,20,000
Less: Fair value of net assets acquired	(10,00,000)
Goodwill	3,20,000
(2) Franchise	80,00,000
Less: Amortisation (over 5 years)	(16,00,000)
Balance to be shown in the balance sheet	64,00,000
(3) Copyright	2,50,000
Less: Amortisation (over 10 years as per SLM)	(25,000)
Balance to be shown in the balance sheet	2,25,000

Q3. May 2026, RTP

A Ltd. has incurred Rs. 1,00,000 of research expenditure on a project to develop a new type of fuel and has expensed these costs. B Ltd. purchases the research project, including certain patents that have been registered by A Ltd., for Rs. 1,50,000 and recognises an intangible asset.

Subsequently, B Ltd. incurs Rs. 2,00,000 of expenditure on completing the research phase and decides to develop the product commercially. It incurs a further Rs. 3,00,000 of costs in bringing the product to a stage where the conditions for recognising development costs as an internally generated intangible asset are met. Further costs of Rs. 1 million are incurred in bringing the product into a condition where it is ready for use in the manner that management intends. Marketing costs and initial losses of Rs. 2,00,000 are incurred before the product reaches widespread distribution.

Required

What costs can B Ltd. capitalise?

Answer:

As per para 24 of Ind AS 38, an intangible asset shall be measured initially at cost. Furthermore, para 25 states that normally, the price an entity pays to acquire separately an intangible asset will

reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion is always considered to be satisfied for separately acquired intangible assets.

Accordingly, B Ltd. recognises Rs. 1,50,000 as the cost of the acquired research project.

Further, as per para 42 of the standard, research or development expenditure that:

(a) relates to an in-process research or development project acquired separately and recognised as an intangible asset; and
(b) is incurred after the acquisition of that project shall be accounted for.

However, as per para 54 of the standard, expenditure on research phase of an internal project shall be recognised as an expense when it is incurred.

Hence, the subsequent research costs of Rs. 2,00,000 are expensed as incurred.

Further, an intangible asset arising from development phase of an internal project shall be recognised if, and only if, an entity can demonstrate all of the conditions stated therein under point a to f of para 57. Since, the subsequent development costs incurred of Rs. 3,00,000 do not meet the conditions for recognition and are expensed as incurred.

Further development costs of Rs. 1 million must be recognised, because they meet the conditions for recognition as an intangible asset.

It may be noted that as per para 71 of the standard, the previously written-off development costs are not reinstated.

The marketing costs and initial losses of Rs. 2,00,000 are expensed as incurred as per paras 67 and 69 of the standard.

Accordingly. the intangible asset's carrying amount, when production and sale of the product commences, is Rs. 11,50,000.

Q4. Nov 2024, RTP

SS Limited had the following transactions during the Financial Year 20X1-20X2.

I. On 1st April 20X1, SS Limited purchased the net assets of M Limited for Rs. 13,20,000. The fair value of M Limited's identifiable net assets was Rs. 10,00,000. SS Limited is of the view that due to popularity of M Limited's product, the life of goodwill is 10 years.
II. On 4th May 20X1, SS Limited purchased a Franchisee to organize musical shows from A TV for Rs.80,00,000 and at an annual fee of 2% of musical shows revenue. The Franchisee expires after
III. 5 years. Musical shows revenue were Rs. 10,00,000 for financial year 20X1-20X2. The projected future revenues for financial year 20X2-20X3 is Rs. 25,00,000 and Rs. 30,00,000 p.a. for remaining 3 years thereafter.
IV. On 4th July 20X1, SS Limited was granted a Copyright that had been applied for by M Limited. During the financial year 20X1- 20X2, SS Limited incurred Rs.2,50,000 on legal cost to register the Patent and Rs. 7,00,000 additional cost to successfully prosecute a copyright infringement suit against a competitor. The life of the Copyright is for 10 years.

SS Limited follows an accounting policy to amortize all intangible on SLM (Straight Line Method) basis or any appropriate basis over a maximum period permitted by relevant Ind AS, taking a full year amortization in the year of acquisition.

You are required to prepare:

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I. A Schedule showing the intangible section in SS Limited Balance Sheet as on 31st March 20X2, and

II. A Schedule showing the related expenses that would appear in the Statement of Profit and Loss of SS Limited for the year ended 20X1-20X2.

Answer:

SS Limited

Balance Sheet (Extract relating to intangible asset) as at 31st March 20X2

	Note No.	Rs.
Assets		
(1) Non- current asset		
Intangible assets	1	69,45,000

(ii) SS Limited

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

	Note No.	Rs.
Revenue from Operations		10,00,000
Total Revenue		
Expenses:		
Amortization expenses	2	16,25,000
Other expenses	3	
Total Expenses		7,20,000

Notes to Accounts (Extract)

1. Intangible Assets

		Gross Block (Cost)			Accumulated amortisation			Net block	
		Opening balance Rs.	Additions Rs.	Closing Balance Rs.	Opening balance Rs.	Additions Rs.	Closing Balance Rs.	Opening balance Rs.	Closing Balance Rs.
1.	Goodwill* (W.N.1)	-	3,20,000	3,20,000	-	-	-	-	3,20,000
2.	Franchise** (W.N.2)	-	80,00,000	80,00,000	-	16,00,000	16,00,000	-	64,00,000
3.	Copyright (W.N.3)	-	2,50,000	2,50,000	-	25,000	25,000	-	2,25,000
		-	85,70,000	85,70,000	-	16,25,000	16,25,000	-	69,45,000

*As per Ind AS 36, irrespective of whether there is any indication of impairment, an entity shall test goodwill acquired in a business combination for impairment annually. This implies that goodwill is not amortised annually but is subject to annual impairment, if any.

**As per the information in the question, the limiting factor in the contract for the use is time i.e., 5 years and not the fixed total amount of revenue to be generated. Therefore, an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate and amortisation based on time can only be applied.

2.			

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	Amortization expenses	16,00,000	
	Franchise (W.N.2) Copyright	25,000	16,25,000
3.	(W.N.3)		
	Other expenses	7,00,000	
	Legal cost on copyright	20,000	7,20,000
	Fee for Franchise (10,00,000 x 2%)		

Working Notes:

		Rs.
(1)	**Goodwill on acquisition of business**	
	Cash paid for acquiring the business	13,20,000
	Less: Fair value of net assets acquired	(10,00,000)
	Goodwill	**3,20,000**
(2)	**Franchise**	80,00,000
	Less: Amortisation (over 5 years)	(16,00,000)
	Balance to be shown in the balance sheet	**64,00,000**
(3)	**Copyright**	2,50,000
	Less: Amortisation (over 10 years as per SLM)	(25,000)
	Balance to be shown in the balance sheet	**2,25,000**

Q5. Nov 2023, RTP

A company engaged in the provision of Information Technology Products and Services incurred following expenditure during the development phase of its software product that is to be offered to its customers. The entity also purchases software from third parties for incorporating into its end software product offered to its customers. The company is in the process of launching it in the market for licensing to customers. The company also takes services of external professional software developers for suchsoftware development purpose. Costs incurred in relation to the development of its software product for the year ended 31st March, 20X2 are as follows:

Particulars	**Amount (₹ thousands)**
Purchase price of imported software	600
Employment costs (Note 1)	1,200
Testing costs	1,800
Other costs directly related to customization (Note 2)	450
Professional fees paid for external software developers	220
Costs of training provided to staff to operate the asset	195
Costs of advertising in market	1,560
Administrative and general overheads	825

Note 1: The software was developed in nine months ended 31st December, 20X1 and was capable of operating in the manner intended by the entity. It was brought into use on 31st March, 20X2. The employment costs are for the period of twelve months (i.e. up to 31st March, 20X2). The employees were engaged in developing the software and related activities.

Note 2: Other costs directly related to development include an abnormal cost of ₹ 50,000 in respect of repairing the damage which resulted from a security breach.What will be the amount of the software development costs that can be capitalized by explaining the reason for each element of cost?

Answer

In the given fact pattern, the entity should apply the recognition and measurement principles relevant for an internally generated intangible asset. The entity has to ensure compliance with additional requirements relating to internally generatedintangible assets in addition to general

recognition criteria and initial measurement of intangible asset. In the instant case, for the measurement of software development cost, entity must evaluate the costs incurred for recognition of an intangible assetarising from development phase with reference to paragraphs 65 to 67 of Ind AS 38.

According to the said paragraphs, the initial carrying amount of the software will becomputed as follows:

Particulars	Amount (₹ in thousands)	Amount to be capitalised as Intangible Assets (₹ in thousands)	Remarks
Purchase price of imported software	600	600	The cost of materials or / and services used or consumed in generating the intangible asset and any directly attributable cost of preparing the asset for its intended use.
Employment costs (Note 1)	1,200	900	Employment costs for the period of nine months are directly attributable costs. Therefore, the cost to be capitalized is ₹ 900 thousand (i.e., 9/12 x ₹ 1,200 thousand) for nine months as the asset was ready for its intended use by that time. It is assumed that ₹ 100 thousand is equally incurred each month. Capitalisation of eligible costs should cease when the asset is capable of operating in the manner intended by management.
Testing costs	1,800	1,800	The cost of testing whether the asset is functioning properly is a directly attributable cost. (Refer paragraph 59 of Ind AS 38)
Other costs directly related to development (Note 2)	450	400	Cost of identified inefficiencies deducted, i.e., ₹ 450 thousand – ₹ 50 thousand.
Professional fees paid for bringing the software to its working condition	220	220	The cost of materials or/and services used or consumed in generating the intangible asset
Costs of training provided to staff	195	Nil	Expenditure on training staff to operate the asset cannot be capitalised. (Refer paragraph 67 of Ind AS 38)
Costs of advertising in market	1,560	Nil	Selling, administrative and other general overhead expenditure cannot be capitalised. (Refer paragraph 67 of Ind AS 38)
Administrative and general overheads	825	Nil	

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Total	6,850	3,920	

Accordingly, the initial carrying value of the software is ₹ 39,20,000. The remaining costs will be charged to profit or loss

Q6. May 2023, RTP

An entity acquired two trade secrets (secret recipes) in a business combination. Recipe A is patented. Recipe B is not legally protected.

How the acquisition of Recipe A and Recipe B would be accounted for by the entity as per relevant Ind AS.

Answer

Para 11 and 12 of Ind AS 38 states that the definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

Further, an asset is identifiable if it either:

a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

In the given case, Recipe A meets the contractual-legal criterion for identification as an intangible asset because it is protected by a patent. This recipe is identified an recognised separately from goodwill while accounting the business combination.

Since Recipe B is not protected by a patent, it does not meet the contractual-legal criterion for identification as an intangible asset. However, Recipe B is identified as a separate intangible asset because it meets the separability criterion. Such recipes can be, and often are, exchanged, licensed or leased to others. Therefore, the unpatented Recipe B should be accounted for as a separate intangible asset acquired in the business combination.

Q7. Nov 2022, RTP

An entity has an intangible asset in the form of a product protected by patented technology which is expected to be a source of net cash inflows for at least 15 years. It has been recognised in the books on initial date at ₹ 12,00,000. The entity has a commitment from a third party to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and the entity intends to sell the patent in five years. Company is amortising the asset in 15 years considering its residual value to be Zero. Annual amortization charged to Profit and Loss is ₹ 80,000. State, whether the accounting treatment done by the Company is in accordance with Ind AS 38? If not, then calculate the annual amortization of the intangible asset and also the amount at which it will be reflected in the balance sheet.

Answer

For determination of amortisation of the intangible asset, which has finite useful life, two elements need to be determined: useful life and residual value.

Useful life is defined as:

a) the period over which an asset is expected to be available for use by an entity; or
b) the number of production or similar units expected to be obtained from the asset by an entity.

In the instant case, since the entity expects that the asset will be available for use by it for the period of 5 years and thereafter it will be transferred, the useful life of the asset is 5 years.

For residual value, paragraphs 100-102 of Ind AS 38 states that the residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

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(a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

(b) there is an active market (as defined in Ind AS 113) for the asset and:
   (i) residual value can be determined by reference to that market; and
   (ii) it is probable that such a market will exist at the end of the asset's useful life.

The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used.

On application of above paragraphs, the depreciable amount of the patent will be determined after deducting the residual value, which is 60% of its fair value at the date of its acquisition. Accordingly, the patent will be amortised over its useful life of 5 years, with a residual value equal to 60% of its fair value at the date of its acquisition. The patent will also be reviewed for impairment in accordance with Ind AS 36. Therefore, the accounting policy of amortising the asset over a period of 15 years considering its residual value of Zero is not in accordance with Ind AS 38.

Computation of correct amount of residual value and annual amortization:

		₹
Cost of Intangible asset		12,00,000
Residual value	(60% of ₹ 12,00,000)	7,20,000
Depreciable value of intangible asset Useful life	(12,00,000 – 7,20,000)	4,80,000
Annual amortisation		5 years
Cost of Intangible asset	(4,80,000 / 5)	₹ 96,000 p.a

Q8. May 2022, RTP

D Ltd. a leading publishing house, purchased copyright of a book from its author for publishing the same. As per the terms of the contract, if D Ltd. chooses to make the payment upfront then, copyright consideration of ₹ 80,00,000 is to be paid (which is in line with general practice in such arrangements). However, the contract also provided that, in case D Ltd. chooses to pay the consideration after 2 years, then it will be required to pay ₹ 1,00,00,000. At what value should the intangible asset be recognised as per Ind AS 38?

Answer

As per paragraph 32 of Ind AS 38, "If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with Ind AS 23, Borrowing Costs."

In the given case, if the payment for an intangible asset i.e. copyright is deferred beyond normal credit terms, the cash price equivalent ₹ 80,00,000 should be considered as its cost and the intangible asset will be recorded initially at this value.

The difference of ₹ 20,00,000 between cash price equivalent (i.e. ₹ 80,00,000) and the total payment (i.e. ₹ 1,00,00,000) should be recognised as interest expense over the period of credit (i.e. 2 years in this case), unless it is eligible for capitalisation in accordance with Ind AS 23, Borrowing Costs.

Q9. Nov 2021, RTP

X Ltd. purchased a franchise from a restaurant chain at a cost of ₹ 1,00,00,000 under a contract for a period of 10 years. Can the franchise right be recognised as an intangible asset in the books of X Ltd. under Ind AS 38?

Answer

Ind AS 38 'Intangible Assets', defines asset and intangible asset as under:

An asset is a resource:

a) controlled by an entity as a result of past events; and
b) from which future economic benefits are expected to flow to the entity.

An intangible asset is an identifiable non-monetary asset without physical substance.In accordance with the above, for considering an asset as an intangible asset, an entity must be able to demonstrate that the item satisfies the criteria of identifiability, control over a resource and existence of future economic benefits.

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

An intangible asset shall be recognised if, and only if:
a. it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
b. the cost of the asset can be measured reliably.

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

Q10. May 2021, RTP

PQR Ltd. is a gaming developer company. Few years back, it developed a new game called 'Cloud9'. This game sold over 10,00,000 copies around the world and was extremely profitable. Due to its popularity, PQR Ltd. released a new game in the 'Cloud9' series every year. The games continue to be the bestseller. Based on Management's expectations, estimates of cash flow projections for the 'cloud9
videogame series' over the next five years have been prepared. Based on these projections, PQR Ltd. believes that cloud9 series brand should be recognised at INR 20,00,000 in its financial statement. PQR Ltd. has also paid INR 10,00,000 to MNC Ltd. to acquire rights of another video game series called the 'Headspace' videogame series. The said series have huge demand in the market.

Discuss the accounting treatment of the above in the financial statements of PQR Ltd.

Answer

In order to determine the accounting treatment of 'cloud9 videogame series' and 'Headspace', definition of asset and intangible asset given in Ind AS 38 may be noted:
"An asset is a resource:
a) controlled by an entity as a result of past events; and
b) from which future economic benefits are expected to flow to the entity."

"An intangible asset is an identifiable non-monetary asset without physical substance."
In accordance with the above, for recognising an intangible asset, an entity must be able to demonstrate that the item satisfies the criteria of identifiability, control and existence of future economic benefits.

In order to determine whether 'cloud9 videogame series' meet the aforesaid conditions, following provisions of Ind AS 38 regarding Internally Generated Intangible Assets may be noted:

As per paragraph 63 and 64 of Ind AS 38, internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets. Expenditure on such items cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

Accordingly, though the cash flow projections suggest that the cloud9 brand will lead to future economic benefits, yet the asset has been internally generated; therefore, the Cloud9 brand cannot be recognised as intangible asset in the financial statements.

In order to determine whether 'Headspace' meet the aforesaid conditions, following provisions of Ind AS 38 regarding 'Separately acquired Intangible Assets' should be analused.

As per paragraphs 25 and 26 of Ind AS 38, normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for separately acquired intangible assets. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

The Headspace game has been purchased for INR 10,00,000 and it is expected to generate future economic benefits to the entity. Since Headspace game is a separately acquired asset and the future benefits are expected to flow to the entity, therefore, an intangible asset should be recognised in respect of the 'Headspace' asset at its cost of INR 10,00,000. After initial recognition, either cost model or revaluation model can be used to measure headspace intangible asset as per guidance given in paragraphs 74-87 of Ind AS 38. In accordance with this, Headspace intangible asset should be carried at its cost/revalued amount (as the case may be) less any accumulated amortisation and any accumulated impairment losses.

Q11. Nov 2020, RTP

ABC Pvt. Ltd., recruited a player. As per the terms of the contract, the player is prohibited from playing for any other entity for coming 5 years and have to in the employment with the company and cannot leave the entity without mutual agreement. The price the entity paid to acquire this right is derived from the skills and fame of the said player. The entity uses and develops the player through participation in matches. State whether the cost incurred to obtain the right regarding the player can be recognised as an intangible asset as per Ind AS 38?

Answer

As per Ind AS 38, for an item to be recognised as an intangible asset, it must meet the definition of an intangible asset, i.e., identifiability, control over a resource and existence of future economic benefits and also recognition criteria.

With regard to establishment of control, paragraph 13 of Ind AS 38 states that an entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of an entity to control the future economic benefits from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

Further, paragraph 15 of Ind AS 38 provides that an entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

Since the right in the instant case is contractual, identifiability criterion is satisfied. Based on the facts provided in the given case, the player is prohibited from playing in other teams by the terms of the contract which legally binds the player to stay with ABC Ltd for 5 years.

Accordingly, in the given case, the company would be able to demonstrate control. Future economic benefits are expected to arise from use of the player in matches. Further, cost of obtaining rights is also reliably measurable. Hence, it can recognise the costs incurred to obtain the right regarding the player as an intangible asset. However, careful assessment of relevant facts and circumstances of each case is required to be made.

Q12. May 2020, RTP

One of the senior engineers at XYZ has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. This is a major project and has the full support of XYZ's board of directors. The senior engineer believes that the cost reductions will exceed the project costs within twenty four months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 20X5. This removed uncertainties concerning the project, which was finally completed on 20 April 20X6. Costs of ₹ 18,00,000, incurred during the year till 31st March 20X6, have been recognized as an intangible asset. An offer of ₹ 7,80,000 for the new developed technology has been received by potential buyer but it has been rejected by XYZ. Utkarsh believes that the project will be a major success and has the potential to save the company ₹ 12,00,000 in perpetuity. Director of research at XYZ, Neha, who is a qualified electronic engineer, is seriously concerned about the long term prospects of the new process and she is of the opinion that competitors would have developed new technology at some time which would require to replace the new process within four years. She estimates that the present value of future cost savings will be ₹ 9,60,000 over this period. After that, she thinks that there is no certainty about its future. What would be the appropriate accounting treatment of aforesaid issue?

Answer

Ind AS 38 'Intangible Assets' requires an intangible asset to be recognised if, and only if, certain criteria are met. Regulatory approval on 1 June 20X5 was the last criterion to be met, the other criteria have been met as follows:

- Intention to complete the asset is apparent as it is a major project with full support from board
- Finance is available as resources are focused on project
- Costs can be reliably measured
- Benefits are expected to exceed costs – (in 2 years)

Amount of ₹ 15,00,000 (₹ 18,00,000 x 10/12) should be capitalised in the Balance sheet of year ending 20X5-20X6 representing expenditure since 1 June 20X5.
The expenditure incurred prior to 1 June 20X5 which is ₹ 3,00,000 (2/12 x ₹ 18,00,000) should be recognised as an expense, retrospective recognition of expense as an asset is not allowed.

Ind AS 36 'Impairment of assets' requires an intangible asset not yet available for use to be tested for impairment annually.

Cash flow of ₹ 12,00,000 in perpetuity would clearly have a present value in excess of ₹ 12,00,000 and hence there would be no impairment. However, the research director is technically qualified, so impairment tests should be based on her estimate of a four-year remaining life and so present value of the future cost savings of ₹ 9,60,000 should be considered in that case.

₹ 9,60,000 is greater than the offer received (fair value less costs to sell) of ₹ 7,80,000 and so ₹ 9,60,000 should be used as the recoverable amount.
So, the carrying amount should be consequently reduced to ₹ 9,60,000.

Calculation of Impairment loss:

Particulars	**Amount ₹**
Carrying amount (Restated)	15,00,000
Less: Recoverable amount	9,60,000
Impairment loss	5,40,000

Impairment loss of ₹ 5,40,000 is to be recognised in the profit and loss for the year 20X5-20X6.

Necessary adjusting entry to correct books of account will be:

	₹	₹
Operating expenses- Development expenditure Dr.	3,00,000 5,40,000	
Operating expenses–Impairment loss of intangible assets Dr.		8,40,000
To Intangible assets – Development expenditure		

Q13. May 2019, RTP

As part of its business expansion strategy, KK Ltd. is in process of setting up a pharma intermediates business which is at very initial stage. For this purpose, KK Ltd. has acquired on 1st April, 2018, 100% shares of ABR Ltd. that manufactures pharma intermediates. The purchase consideration for the same was by way of a share exchange valued at ₹ 35 crores. The fair value of ABR Ltd.' s net assets was ₹ 15 crores, but does not include:

i. A patent owned by ABR Ltd. for an established successful intermediate drug that has a remaining life of 8 years. A consultant has estimated the value of this patent to be ₹ 10 crores. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated₹ 15 crores.

ii. ABR Ltd. has developed and patented a new drug which has been approved for clinical use. The cost of developing the drug was ₹ 12 crores. Based on early assessment of its sales success, the valuer has estimated its market value at ₹ 20 crores.

iii. ABR Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the Company has been granted an exclusive five-year license to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valuable asset which assures guaranteed sales and the value for the same is estimated at ₹ 10 crores. KK Ltd. has requested you to suggest the accounting treatment of the above transaction under applicable Ind AS.

Answer

As per para 13 of Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.Based on the above, the company can recognise following Intangible assets while determining Goodwill / Bargain Purchase for the transaction:

(i) **Patent owned by ABR Ltd.:** The patent owned will be recognised at fair value by KK Ltd. even though it was not recognised by ABR Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 8 years. Since the company is awaiting the outcome of the trials, the value of the patent cannot be estimated at ₹ 15 crore and the extra ₹ 5 crore should only be disclosed as a Contingent Asset and not recognised.

(ii) Patent internally developed by ABR Ltd.: Further as per para 75 of Ind AS 38 'Intangible Assets', after initial recognition, an intangible asset shall be carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value
shall be determined by reference to an active market. From the information given in the question, it appears that there is no active market for patents since the fair value is based on early assessment of its sale success. Hence it is suggested to use the cost model and recognise the patent at the actual
development cost of ₹ 12 crore.

(iii) Grant of Licence to ABR Ltd. by the Government: As regards to the five-year license, para 44 of Ind AS 38 requires to recognize grant asset at fair value. KK Ltd. can recognize both the asset (license) and the grant at ₹ 10 crore to be amortised over 5 years.

Hence the revised working would be as follows:

Fair value of net assets of ABR Ltd.	₹15 crore
Add: Patent (10 + 12)	₹22 crore
Add: License	₹10 crore
Less: Grant for License	(₹10 crore)
	₹37 crore
Purchase Consideration	₹35crore
Bargain purchase	₹2 crore

Q14. Nov 2018, RTP

A Ltd. intends to open a new retail store in a new location in the next few weeks. It has spent a substantial sum on a series of television advertisements to promote this new store. It has paid for advertisements costing ₹ 8,00,000 before 31st March, 2018. ₹ 7,00,000 of this sum relates to advertisements shown before 31st March, 2018 and ₹ 1,00,000 to advertisements shown in April, 2018. Since 31st March, 2018, A Ltd. has paid for further advertisements costing ₹ 4,00,000. The accountant charged all these costs as expenses in the year to 31 March 2018. However, CFO of A Ltd. does not want to charge ₹12,00,000against 2017-2018 profits. He believes that these costs can be carried forward as intangible assets because the company's market research indicates that this new store is

likely to be highly successful. Examine and justify the treatment of these costs of ₹ 12,00,000 in the financial statements for the year ended 31st March, 2018 as per Ind AS.

Answer

Ind AS 38 specifically prohibits recognising advertising expenditure as an intangible asset. Irrespective of success probability in future, such expenses have to be recognized in profit or loss. Therefore, the treatment given by the accountant is correct since such costs should be recognised as expenses.

However, the costs should be recognised on an accruals basis. Therefore, of the advertisements paid for before 31st March, 2018, ₹ 7,00,000 would be recognised as an expense and ₹ 1,00,000 as a pre-payment in the year ended 31st March 2018.

₹ 4,00,000 cost of advertisements paid for since 31st March, 2018 would be charged as expenses in the year ended 31st March, 2019

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Q1. Nov 2024 Exam, 8 marks

(a) Anand Ltd. owns a Building X which is specifically used for the purpose of earning rentals. The Company has not been using the Building X or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building X for the year ending 31st March, 2024:

Building X was initially purchased at the cost of Rs. 120 crores. At that time, the useful life of the building was estimated to be 10 years; out of which 5 years have been expired as on 1st April, 2023: The company follows straight line method for depreciation.

During the year, the company has invested in another Building Y with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 2023 at the cost of Rs. 20 crores. Expected life of the building is 20 years. As usual, the company follows straight line method of depreciation

Further, during the year 2023-2024, the company earned/incurred the following, directly relating to Building X and Building Y:

Rental income from Building X = Rs. 15 crores

Rental income from Building Y = Rs. 5 crores

Sales promotion expenses = Rs. 0.50 crores

Fees and Taxes = Rs. 0.10 crores

Ground Rent = Rs. 0.25 crores-

Repairs and Maintenance = Rs. 0.15 crores

Legal and Professional = Rs. 0.20 crores

Commission and Brokerage = Rs. 0.10 crores

The company does not have any restrictions and contractual obligations against Property X and Y. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings X and Y. The independent valuer has valued the fair value of property as per the valuation model recommended by international valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The estimated rent per month per square feet for the period is expected to be in range of Rs. 50 to Rs. 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weightage discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at Rs. 105 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian Accounting Standards.

You are required to:

(i) Show how the Building X and Building Y would be the treated in the Balance Sheet of Anand Ltd.?

(ii) Provide detailed disclosures and computations in line with relevant Ind AS. (Treat it as if you are preparing a separate note or schedule of the given assets in the Balance Sheet.)

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Answer:

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

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

	INVESTMENT PROPERTIES:			**(Rs. in crores)**
Particulars	**Property X**	**Property Y**		**Period ended 31st March, 2024**
Gross Amount:				
Opening balance	120.00		120.00	
Additions the during year		20.00	20.00	
Closing balance (A)	120.00	20.00		140.00
Depreciation:				
Opening balance	60.00		60.00	
Depreciation during the year (12 + 1)	12.00	1.00	13.00	
Closing balance (B)	72.00	1.00		(73.00)
Net balance (A-B)	48.00	19.00		67.00

The changes in the carrying value of investment properties for the year ended 31st March, 2024 are as follows:

Amount recognized in Profit and Loss with respect to Investment Properties (Rs. in crores)

Particulars	**Period ending 31st March, 2024**
Rental income from investment properties (15.00 + 5.00)	20.00
Less: Direct operating expenses generating rental income (0.50 + 0.10 + 0.25 + 0.15 + 0.20 + 0.10)	(1.30)
Profit from investment properties before depreciation and indirect expenses	18.70
Less: Depreciation	(13.00)
Profit from earnings from investment properties before indirect expenses	5.70

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist of Building X and Building Y. As at 31st March, 2024, the fair value of the properties is Rs. 105 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

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

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

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

Q2. May 2022 Exam, 5 marks

F Ltd. owned a land property whose future use was not determined as at 31st March, 2021. How should the property be classified in the books of F Ltd. as at 31st March, 2021?

During June 2021, F Ltd. commenced construction of office building on it for own use. Presuming that the construction of the office building is still in progress as at 31st March, 2022.

i. How should the land property be classified by F Ltd. in its financial statements as at 31st March, 2022?
ii. Will there be a change in the carrying amount of the property resulting from any change in use of the investment property?
iii. Whether the change in classification to, or from, investment properties is a change in accounting policy to be accounted for in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors?
iv. Would your answer to (i) above be different if there were to be a management intention to commence construction of an office building for own use; however, no construction activity was planned by 31st March, 2022?

Answer

Treatment for the year ended 31.03.2021:

As per paragraph 8(b) of Ind AS 40, any land held for currently undetermined future use, should be classified as an investment property. Hence the land property should be classified by F Ltd. as an investment property in the financial statements as at 31st March, 2021.

Treatment for the year ended 31.03.2022:

I. Since F Ltd. has commenced construction of office building on it for own use, the property should be reclassified from investment property to owner occupied as at 31st March, 2022.
II. As per para 59 of the standard, transfers between investment property, owner occupied and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or disclosure purposes.
III. No, the change in classification to or from investment properties is due to change in use of the property. No retrospective application is required, and prior period's financial statements need not be restated.
IV. As per para 57 of the Standard, an entity can change the classification of any property to and from an investment property when and only when there is a change in use. A change in use occurs when the property meets or ceases to meet the definition of investment property and

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there is evidence of the change in use. Mere management's intention for use of the property does not provide evidence of a change in use.

Since F Ltd. has no plans to commence construction of the office building during 2021-2022, the property should continue to be classified as an investment property by F Ltd. in its financial statements as at 31st March, 2022.

Q3. July 2021 Exam, 8 marks

Special Limited is a multinational entity that owns 3 properties. All 3 properties were purchased on 1st April, 2020. The following details were furnished:

Particulars	Property 1	Property 2	Property 3
Purchase Price	₹ 7,50,000	₹ 10,50,000	₹ 12,00,000
Estimated life	10 years	15 years	15 years
Fair value as on 31st March, 2021	₹ 8,00,000	₹ 9,50,000	₹ 13,00,000

The Company uses Property 1 and Property 2 for its business purposes. The Company is exploring the opportunity to sell Property 3 if it gets reasonable consideration. Till the time it is not sold, the Company has rented the property.

It has adopted revaluation model for subsequent measurement of these properties. The depreciation is charged on straight line method. However, the Company has not charged any depreciation on Property 1 and Property 3 tor the current year since the fair value of properties exceeds their carrying amount. The difference between their fair value and carrying amount has been recognized in the statement of profit and loss. The properties
are shown under the head property, plant and equipment in the Balance Sheet.

Analyze whether the accounting policies adopted by the Company in relation to the given properties are in accordance with Ind AS. If not, advise the correct treatment and present an extract of the Balance Sheet for the year ended 31st March 2021.

Answer

Preamble:
The given issue needs to be examined in the umbrella of the provisions given in Ind AS 1 'Presentation of Financial Statements', Ind AS 16 'Property, Plant and Equipment' in relation to property '1' and '2' and Ind AS 40 'Investment Property' in relation to property '3'.Guidance given in relevant Ind AS:

1. Property '1' and '2'
Definition and applicability:
As per Ind AS 16, Property plant and equipment are tangible items that:
a) are held for use in the production or supply of goods or services or for administrative purposes; and
b) are expected to be used during more than one period.
Hence, property 1 and 2 are held for use in the business, therefore Ind AS 16 shall apply in respect of these two properties.
Accounting Principles:
- If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of revaluation, the decrease shall be recognised in profit and loss statement.

2. Property '3'

Definition and applicability:

As per Ind AS 40, Investment property is property held to earn rentals or for capital appreciation or both, rather than for:

- Use in the production of goods or services or for administrative purposes; or
- Sale in the ordinary course of business.

Therefore, property 3 is an investment property and company shall follow cost model for its subsequent measurement.

Accounting Principles:

- An entity shall adopt as its accounting policy the cost model to all of its investment property; and (Refer paragraph 30 of Ind AS 40)
- requires that an entity shall disclose the fair value of investment property. (Refer paragraph 79 (e) of Ind AS 40Further, paragraph 54 (2) of Ind AS 1 'Presentation of Financial Statements' requires that as a minimum, the balance sheet shall include line items that present the following amounts:

a. Property, Plant and Equipment
b. Investment Property.

Analysis:

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

a. Presented all three properties in balance sheet as 'property, plant and equipment';
b. Not charged depreciation to Property '1' and '3';
c. Upward revaluation is recognised in the statement of profit and loss as profit; and
d. Applied revaluation model to Property '3' being classified as Investment Property.

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

Accordingly, Special Ltd. shall depreciate Property 1 irrespective of the fact that, their fair value exceeds the carrying amount. The revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

There is no alternative of revaluation model in respect to property '3' being classified as Investment Property and only cost model is permitted for subsequent measurement. However, Special Ltd. is required to disclose the fair value of the property in the Notes to Accounts. Further, Property '3' shall be presented as separate line item as Investment Property and depreciation should be charged on it as well.

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

Balance Sheet (extracts) as at 31st March, 2021

Assets		**₹**
Non-Current Assets		
Property, Plant and Equipment		
Property '1'	8,00,000	
Property '2'	9,50,000	17,50,000
Investment Properties		
Property '3' (1,200,000 – 80,000)		11,20,000
Equity and Liabilities		
Other Equity		

Revaluation Reserve Property '1' [8,00,000 – (7,50,000 – 75,000)]	1,25,000

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

Working Notes:

Particulars	Property 1	Property 2	Property 3
Purchase Price	₹ 7,50,000	₹ 10,50,000	₹ 12,00,000
Estimated life	10 years	15 years	15 years
Depreciation for the year	₹ 75,000	₹ 70,000	₹ 80,000
Carrying Value as on 31st March, 2021	₹ 6,75,000	₹ 9,80,000	₹ 11,20,000
Fair value as on 31st March, 2021	₹ 8,00,000	₹ 9,50,000	₹ 13,00,000
Subsequent Measurement	Fair Value	Fair Value	Cost
Revaluation Surplus / (Deficit)	₹ 1,25,000	(₹ 30,000)	

Q4. May 2018 Exam, 10 marks

Stars Ltd. is a multinational entity that owns three properties. All the three properties were purchased on 1st April 2016. The details of purchase price and the market values of the properties are given as follows:

Particulars	Property 1	Property 2	Property 3
	Factory	Factory	Let-out Building
Purchase Price	30,000	20,000	24,000
Market Value (31-03-2017)	32,000	22,000	27,000
Life	10 years	10 years	10 years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

Property 1 and 2 are occupied by Stars Ltd, whilst property 3 is let out to a non -related party at a market rent. The management presents all three properties in balance sheet as' 'Property, plant and equipment'.

The company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Evaluate whether the accounting policies adopted by the Stars Ltd. in relation to these properties is in accordance of relevant Indian Accounting Standards (Ind AS). If not, advise the correct treatment along with workings.

Answer

For classification of assets

As per Ind AS 16 'Property, Plant and Equipment' states that Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

As per **Ind AS 40 'Investment property',** investment property is a property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

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According, to the facts given in the questions, since Property 1 and 2 are used as factory buildings, their classification as PPE is correct. However, Property 3 is held to earn rentals; hence, it should be classified as Investment Property. Thus, its classification as PPE is not correct. Property 3 shall be presented as separate line
item as Investment Property as per Ind AS 1.

(ii) For valuation of assets
Ind AS 16 states that an entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. Also, Ind AS 16 states that If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

However, for investment property, Ind AS 40 states that an entity shall adopt as its accounting policy the cost model to all of its investment property. Ind AS 40 also requires that an entity shall disclose the fair value of investment property.

Since property 1 and 2 is used as factory building, they should be classified under same category or class ie. 'factory building'. Therefore, both the properties should be valued either at cost model or revaluation model. Hence, the valuation model adopted by Stars Ltd. is not consistent and correct as per Ind AS 16.

In respect to property 3 being classified as Investment Property, there is no alternative of revaluation model i.e. only cost model is permitted for subsequent measurement. However, Stars Ltd. is required to disclose the fair value of the investment property in the Notes to Accounts.

(iii) For changes in value on account of revaluation and treatment thereof
Ind AS 16 states that if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and aceading of revaluation surplus.

(iv) For treatment of depreciation
Ind AS 16 states that depreciation is recognised even if the fair value of the asset accumulated in equity under the heading 'revaluation surplus'. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Accordingly, the revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Accordingly, Stars Ltd. is required to depreciate these properties irrespective of that their fair value exceeds the carrying amount.

(v) Rectified presentation in the balance sheet
As per the provisions of Ind AS 1, Ind AS 16 and Ind AS 40, the presentation of these three properties in the balance sheet should be as follows:
Case 1: If Stars Ltd. has applied the Cost Model to an entire class of property, plant and equipment.

Balance Sheet extracts as at 31st March 2017

		₹
Assets		
Non-Current Assets		
Property, Plant and Equipment		
Property 1 (30,000-3,000)	27,000	
Property 2 (20,000 – 2,000)	18,000	45,000
Investment Property		21,600

Property 3 (Fair value being ₹ 27,000) (Cost = 24,000-2,400)	

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

Balance Sheet extracts as at 31st March 2017

		₹
Assets		
Non-Current Assets		
Property, Plant and Equipment		
Property 1	32,000	
Property 2	22,000	54,000
Investment Property		
Property 3 (Fair value being ₹ 27,000) (Cost = 24,000-2,400)		21,600
Equity and Liabilities		
Other Equity		
Revaluation Reserve *		
Property 1 (32,000 – 27,000)	5,000	9,000
Property 2 (22,000 –18,000)	4,000	

* Revaluation reserve should be routed through Other Comprehensive Income (OCI) (subsequently not reclassified to Profit and Loss) in the Statement of Profit and Loss and shown as a separate column in the Statement of Changes in Equity.

Q5. Nov 2023 RTP

Besides manufacturing plants, A Ltd. has various other assets, not used for operational activities, e.g., freehold land, townships in different locations, excess of office space rented to ABC, etc. Also, A Ltd. has some land, which are kept vacant as per the government regulations which require that a specified area around the plant should be kept vacant.

The details of these assets are as under:

Property	Details
A Ltd.'s office building (registered office)	A Ltd.'s registered office in Delhi, is a 15 storey building, of which only 3 floors are occupied by A Ltd., whereas remaining floors are given on rent to other companies. These agreements are usually for a period of 3 years. According to A Ltd., such ex cess office space will continue to be let out on lease to external parties and have no plans to occupy it, at least in near future.
Flats in Township located in location 1	As regards township in Location 1, there are approximately 2,000 flats in the said township. It was built primarily for A Ltd.'s employees, hence, approximately 80% of the flats are allotted to employees and remaining flats are either kept vacant or given on rent to other external parties. A lease agreement is signed between A Ltd. and an individual party for every 12 months being 1st April to 31st March. The lease entered is a cancellable lease (cancellable at the option of any of the parties). Also, besides monthly rent, additional charges are levied by A Ltd. on account of electricity, water, cable connection, etc.According to A Ltd., there is no intention of selling such excess flats or allotting it to its employees.
Flats in township	There are 1,000 flats in location 2 township, of which:

located in location 2	• 400 flats are given to employees for their own accommodation. • 350 flats are given on rent to Central Government and State Government for accommodation of their employees. Average lease period being 12 months with cancellable clause in lease agreements. • 250 flats are kept vacant.
Hostel located in location 1	60 rooms in the hostel have been let out to G Ltd., to give accommodation to their personnel. Lease agreement is prepared for every 11 months and renewed thereafter. Besides the monthly rent amount, some charges are levied towards water, electricity and other amenities, e.g., cable connection, etc.
Land in location 1	In 20X4, A Ltd. purchased a plot of land on the outskirts of a major city. The area has mainly low-cost public housing and very limited public transport facilities. The government has plans to develop the area as an industrial park in 5 years' time and the land is expected to greatly appreciate in value if the government proceeds with the plan. A Ltd. has not decided what to do with the property.
Land in location 1	A portion of land has been leased out to C Ltd. for its manufacturing operations. Land has been given on lease on a lease rental of ₹ 10 lacs p.a. with a lease term of 25 years.
Land in location 2	A portion of the land has been given on rent to D Ltd. which has constructed a petrol pump on such land. It has been leased for a period of 40 years and renewed for a further period of 40 years.

Determine the classification of properties which are not held for operational purposes, with suitable reasoning in the financial statements of A Ltd.

Answer

Property	**Classification of properties not held for operational purpose**
A Ltd.'s office building (registered office)	Excess portion of office space has been given on lease to earn rental income. Out of 15 storey building, only 3 floors are occupied by A Ltd. Such excess office space was constructed for the purpose of letting it out. According to A Ltd., such excess office space will continue to be let out on lease to external parties and have no plans to occupy it, at least in near future. Further, office space given on rent, although in same building, is separately identifiable from another owner-occupied portion and hence can be sold separately (if required). Hence, the excess space will qualify to be an investment property.
Flats in Township located in location 1	Excess flats have been given on lease to earn rental income.According to A Ltd., there is no intention of selling such excess flats or allotting it to its employees. Further, flats given on rent, can be sold separately from flats occupied by A Ltd.'s employees as they are separately identifiable. A Ltd. also charges its lessees on account of ancillary services, i.e., water, electricity, cable connection, etc., but the monthly charges in such cases are generally not significant as compared to rental payments. Hence, flats given on rent should qualify to be an 'investment property'.With regards to the flats kept vacant, A Ltd. has to evaluate the purpose of holding these flats, i.e., whether these would be kept for earning rentals or will it be allotted to its future employees.

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	In case they are held for earning rentals, it would be classified as an investment property; and if they are held for allotment to future employees, it would form part of property, plant and equipment.
Flats in township located in location 2	350 flats are given on lease to earn rental income and assuming that management intends to let out these flats on rent in future, such flats should be classified as an 'investment property.With regards to the flats kept vacant, A Ltd. has to evaluate the purpose of holding these flats, i.e., whether these would be kept for earning rentals or will it be allotted to its future employees. In case they are held for earning rentals, it would be classified as an investment property; and if they are held for allotment to future employees, it would form part of property, plant and equipment.
Hostel located in location 1	Rooms in a hostel have been let out to G Ltd. to be used by its personnel. A Ltd. also charges G Ltd. on account of ancillary services, i.e., water, electricity, cable connection, etc., but the monthly charges in such cases are generally not significant as compared to rental payments. Hence, it should be classified as an 'Investment property'.
Land in location 1	Although management has not determined use for property after the development of park, yet in the medium-term the land is held for capital appreciation. As per Ind AS 40, if an entity has not determined that it will use the land either as owner-occupied property or for short term sale in the ordinary course of business, then it will be considered as land held for capital appreciation. Therefore, management should classify the property as an investment property.
Land in location 1	Since the land is held with an intention of giving it on lease and earning capital appreciation over a period, it should be classified as an 'Investment property'.
Land in location 2	Since the land is held with an intention of giving it on lease and earning capital appreciation over a period, it should be classified as 'Investment property'.

Q6. Nov 2022 RTP

Company A incurred ₹ 20,000 as cost for restoring the site on which the item of PPE was located. This item was used for manufacturing of goods and the requirement for restoring will arise due to manufacturing of goods.

What will the treatment of this ₹ 20,000 in the books of Company A? Analyse on the basis of the provisions of relevant Ind AS.

Answer

Paragraph 16 of Ind AS 16, Property, Plant and Equipment, inter alia states that the cost of an item of property, plant and equipment comprises 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.

Further, paragraph 18 of Ind AS 16 states that an entity applies Ind AS 2 to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with Ind AS 2 or Ind AS 16 are recognised and measured in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.

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Paragraph 16 of Ind AS 16 clarifies that decommissioning costs that meet the recognition criteria under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, for a provision are added to the cost of an item of property, plant and equipment if such costs are not incurred through the asset's use to produceinventories. Paragraph 18 fills the gap by clarifying where such costs are incurred through the asset's use to produce inventories, they are added to the cost of inventories.

Where the obligation to restore the asset arises due to the use of the asset to produce inventories but not due to the asset's installation, construction or acquisition, the costs are added to the costs of inventories. Based on the above provisions and discussion, cost of restoring the site ₹ 20,000incurred during the period of production as a consequence of having used the item to produce inventories during that period should be added to the cost of inventories. However, later the inventories are measured at the lower of cost and net realisable value in accordance with paragraph 9 of Ind AS 2.

Q7. May 2021 RTP

X Ltd owned a land property whose future use was not determined as at 31 March 20X1. How should the property be classified in the books of X Ltd as at 31 March 20X1?

During June 20X1, X Ltd commenced construction of office building on it for own use. Presuming that the construction of the office building will still be in progress as at 31 March 20X2

a. How should the land property be classified by X Ltd in its financial statements as at 31 March 20X2?
b. Will there be a change in the carrying amount of the property resulting from any change in use of the investment property?
c. Whether the change in classification to, or from, investment properties is a change in accounting policy to be accounted for in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors?
d. Would your answer to (a) above be different if there were to be a management intention to commence construction of an office building for own use; however, no construction activity was planned by 31 March 20X2?

Answer

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

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

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

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Q8. Nov 2020 RTP

Shaurya Limited owns Building A which is specifically used for the purpose of earning rentals. The Company has not been using the building A or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building A for the year ending 31st March, 2020:
Building A was purchased 5 years ago at the cost of ₹10 crore and building life is estimated to be 20 years. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to ho ld it for capital appreciation. The property was purchased on 1st April, 2019 at the cost of ₹ 2 crore. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year 2019-2020, the company earned / incurred following direct operating expenditure relating to Building A and Building B:

Rental income from Building A	= ₹ 75 lakh
Rental income from Building B	= ₹ 25 lakh
Sales promotion expenses	= ₹ 5 lakh
Fees & Taxes	= ₹ 1 lakh
Ground rent	= ₹ 2.5 lakh
Repairs & Maintenance	= ₹ 1.5 lakh
Legal & Professional	= ₹ 2 lakh
Commission and brokerage	= ₹ 1 lakh

The company does not have any restrictions and contractual obligations against buildings
- A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely,
discounted cash flow method.

The other key inputs for valuation are as follows:
The estimated rent per month per square feet for the period is expected to be in the range of ₹ 50 - ₹ 60. It is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weighted discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at ₹ 10.50 crore on 31st March, 2020.What would be the treatment of Building A and Building B in the balance sheet of Shaurya
Limited? Provide detailed disclosures and computations in line with relevant Indian accounting standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the balance sheet.

Answer

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

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

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INVESTMENT PROPERTIES:

Particulars	Period ended 31st March, 2020 (₹ in crore)
Gross Amount:	
Opening balance (A)	10.00
Additions during the year (B)	2.00
Closing balance (C) = (A) + (B)	**12.00**
Depreciation:	
Opening balance (D)	2.50
Depreciation during the year (E) (0.5 + 0.05)	0.55
Closing balance (F) = (D) + (E)	**3.05**
Net balance (C) - (F)	**8.95**

The changes in the carrying value of investment properties for the year ended 31st March, 2020 are as follows:

Amount recognised in Profit and Loss with respect to Investment Properties

Particulars	Period ended 31st March, 2020 (₹ in crore)
Rental income from investment properties (0.75 + 0.25)	1.00
Less: Direct operating expenses generating rental income (5+1+2.5+1.5+2+1)	(0.13)
Profit from investment properties before depreciation and indirect expenses	0.87
Less: Depreciation	(0.55)
Profit from earnings from investment properties before indirect expenses	0.32

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist Property A and Property B. As at 31st March, 2020, the fair value of the properties is ₹10.50 crore. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area
leased out, life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements. Description of valuation techniques used and key inputs to valuation on investment properties:

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

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Q1. Sep 2025 Exam, 6 marks

R Limited commenced the construction of a factory building on 1st January, 2023. The construction process is expected to take about 18 months from 1st January, 2023 to 30th June, 2024. The factory building meets the definition of a qualifying asset. R Limited has incurred the following expenditure for the construction:

Date	*Amount (Rs. in lakhs)*
1st January, 2023	*10*
30th June, 2023	*40*
31st March, 2024	*30*
30th June, 2024	*20*

On 1st July, 2023, R Limited obtained a term loan of Rs. 100 lakhs from a nationalized bank at an interest rate of 12% per annum. The proceeds from the loan form a part of the company's general borrowings, which it uses to finance the construction of the factory building. R Limited had no borrowings (general or specific) before 1st July, 2023 and did not incur any borrowing costs before that date. R Limited incurred Rs. 50 lakhs of construction costs before obtaining general borrowings on 1st July, 2023 and Rs. 50 lakhs after obtaining the general borrowings.

You are required to calculate the borrowing costs that R Limited is permitted to capitalize as a part of the building cost for each of the financial years ended 31st March, 2023, 31st March, 2024 and 31st March, 2025.

Answer:

All figures are Rs. in lakhs.

Calculation of borrowing cost for financial year 2022-2023

Expenditure		**Capitalization Period (current year)**	**Weighted average Accumulated Expenditure**
Date	Amount		
1st January 2023	Rs. 10 Lakhs	0/3	Nil

Borrowing Costs eligible for capitalisation for financial year 2022-2023 = NIL. R Ltd. cannot capitalise borrowing costs before 1st July 2023 (the day it starts to incur borrowing costs).

Calculation of borrowing cost for financial year 2023-2024

Date	**Expenditure amount**	**Capitalization period (current year)**	**Weighted average accumulated expenditure**
1st January 2023	Rs. 10 Lakhs	9/12	7.50
30th June 2023	Rs. 40 Lakhs	9/12	30.00
31st March 2024	Rs. 30 Lakhs	0/12	Nil
Total			**37.50**

Borrowing Costs eligible for capitalisation for financial year 2023 -2024

= 37.50 x 12% = Rs. 4.50 Lakh

Cost of the Qualifying asset till date i.e. 31st March 2024

= Rs. 10 Lakhs + Rs. 40 Lakhs + Rs. 30 Lakhs + Rs. 4.50 Lakhs = Rs. 84.50 Lakhs

Calculation of borrowing cost for financial year 2024-2025

Expenditure		**Capitalization Period (current year)**	**Weighted average Accumulated Expenditure**
Date	**Amount**		
1st January, 2023	Rs. 10 Lakhs	3/12	Rs. 2.5 Lakhs
30th June, 2023	Rs. 40 Lakhs	3/12	Rs. 10 Lakhs
31st March, 2024	Rs. 30 Lakhs	3/12	Rs. 7.5 Lakhs
31st March, 2024	Rs. 4.50 Lakhs	3/12	1.125 Lakhs
30th June, 2024	Rs. 20 Lakhs	0/12	NIL
Total			**Rs. 21.125 Lakhs**

Borrowing costs eligible for capitalisation = Rs. 21.125 lakh x 12% = Rs. 2.535 lakh

Note:

Alternatively, one may present the calculation of borrowing cost to be capitalised for the financial year 2024-2025 as follows:

Cost as on 1st April 2024 = [(Rs. 84.50 Lakhs x 3/12) + (Rs. 20 Lakhs x 0/12)] = 21.125 Lakhs

Q2. May 2019 Exam, 12 marks

Shiv Ltd. purchased 70% stake in Shyam Ltd. for Rs. 21,22,400 on 01.04.2016. On the date of the acquisition, Shyam Ltd.'s assets & liabilities were Rs. 54,88,000 and Rs. 4,48,000 respectively. The net assets position of Shyam Ltd. as on 31.03.2017 and 30.09.2017 were Rs. 78,40,000 and Rs. 1,10,6 0,0 0 0 respectively, the increase resulting from profits earned during the period. On 01.10.2017, Shiv Ltd. retained 30% stake in Shyam Ltd. and sold balance for Rs. 50,00,000.

Discuss the nature of the relationship between the two companies on the relevant dates and the accounting adjustments that are necessary as a result of any change in the relationship as per relevant Accounting Standard.

Also, calculate the profit arising on part sale of investment, carrying value of the portion unsold & Goodwill/Capital Reserve that arises on change in nature of the investment.

Answer

Shyam Ltd. became a subsidiary of Shiv Ltd. on 1st April, 2016 when 70% thereof was acquired. The holding–subsidiary relationship continued till 30th September, 2017 and from 1st October, 2017 the relationship between the two companies will change to Associate.

As per para 24 of **AS 21, "Consolidated Financial Statements"**, the carrying value of the investment at the date it ceases to be subsidiary is regarded as cost thereafter.

Accordingly, if the nature of the investee changes to that of an associate, the carrying amount of the investment in Consolidated Financial Statements of the investor, as on date it ceases to be a subsidiary, would be considered as cost of investment in the associate.

Goodwill or capital reserve arising on account of the change in the nature of the investment will be computed as on the date of such change. Accordingly, when a part of the investment takes the form of an investment in an associate, the results of operations of the subsidiary will be included in the consolidated statement of Profit and Loss for the period from the beginning of the period until it ceased to be a subsidiary.

Ascertainment of Gain or Loss

on disposal of part of the investment in Shyam Ltd.

	Rs.	Rs.
Proceeds received on sale of 40% holdings in Shyam Ltd.		50,00,000
Net Assets of Shyam Ltd. on the date of disposal	1,10,60,000	
Less: Minority's interest in Shyam Ltd. on the date of disposal	(33,18,000)	
	77,42,000	
Share of Shiv Ltd. in Net Assets	(14,05,600)	
Less: Capital reserve on acquisition (Refer W.N.)		
Total value of investment in consolidated financial statements of Shiv Ltd.	63,36,400	
Less: Carrying Value of investment disposed off [(63,36,400 / 70%) x 40%]		36,20,800
Profit on sale of 40% investment		13,79,200

Carrying value of the investment retained in the Consolidated Financial Statements

	Rs.	Rs.
Total value of investment in consolidated financial statements of Shiv Ltd.	63,36,400	
Less: Carrying value of investment disposed off	(36,20,800)	
Carrying Value of the investment retained in consolidated financial statements including capital reserve		27,15,600
This amount of Rs. 27,15,600 would be used to apply the equity method of accounting as specified in AS 23		

Capital reserve arising on the carrying value of unsold portion of the investment

	Rs.
Carrying value of 30% holdings in Shyam Ltd. as on 1st October, 2017	27,15,600
Less: Share in value of equity of Shyam Ltd., as at date of investment when subsidiary relationship is transformed to an associate (1,10,60,000 x 30%)	(33,18,000)
Capital reserve arising on such investment under Equity method as per AS 23	(6,02,400)

Working Note:

Calculation of Goodwill / Capital Reserve on the Date of Acquisition of Shares in Shyam Ltd.

	Rs.
Net Assets on Acquisition date (Rs. 54,88,000 – Rs. 4,48,000)	50,40,000
70% thereof	35,28,000
Less: Cost of investment	(21,22,400)
Capital reserve on acquisition	14,05,600

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Q3. May 2026, RTP

S Ltd. financed the construction of a qualifying asset with an inter-company loan taken from its parent company P Ltd. with an interest rate of 7% p.a. P Ltd. in-turn has obtained the said loan from a Bank at the same rate of interest of 7% p.a. for the specific purpose of providing it to S Ltd.

State how the same will be treated in the separate financial statements of S Ltd. and P Ltd. and consolidated financial statements of P Ltd. as per Ind AS 23?

Answer:

In the separate financial statements of:

- the subsidiary S Ltd., the borrowing costs are capitalised to the extent of the actual costs incurred by the subsidiary.
- the parent P Ltd., the parent recognises only the inter-company loan given to the subsidiary. There is no qualifying asset in the separate financial statements of P Ltd., so the borrowing costs cannot be capitalised in the separate financial statements of the parent P Ltd.

In the consolidated financial statements of the parent P Ltd., capitalisation of borrowing costs is required. However, the amount of the borrowing costs incurred by the subsidiary in the case of inter- company loans should be adjusted to reflect how the qualifying asset was financed from the perspective of the group as a whole:

- if the group uses external general borrowings, the borrowing costs capitalised by the subsidiary are adjusted if the capitalisation rate at the group level is different from the rate used by the subsidiary.
- if the group uses specific external borrowings, the borrowing costs are adjusted if the borrowing costs on the external borrowings vary from the amount of borrowing costs capitalised by a subsidiary.

Borrowing costs calculated and capitalised in accordance with Ind AS 23 cannot exceed the amount of borrowing costs incurred by the group.

In the given case, since the parent has taken specific borrowing for the purpose of lending it to subsidiary at the same rate of interest, hence the borrowing cost will not be required to be adjusted and will be the same as incurred by P Ltd.

Q4. Jan 2026, RTP

An entity has borrowed Rs. 10,00,000 specifically to finance the cost of constructing a new head office. The loan was availed on 1st May 20X8. Interest was payable at 12% per annum up to 1st February 20X9, after which the rate was revised to 13% owing to an increase in the Secured Overnight Financing Rate (SOFR). Construction of the building does not begin until 1st December 20X8 and continues, without interruption, until after the year end on 31st March 20X9. During the period of construction, the entity incurs directly attributable costs of Rs. 1,00,000 in December 20X8 and Rs. 250,000 in each month from January 20X9 to March 20X9 (for simplicity, it is assumed that these costs are incurred on the first day of each month). Each month, the borrowings (less any amount that is to be expended for the building works in that month) are re-invested and earn interest at a rate of 5% per annum.

For the year ended 31st March, 20X9, the entity incurred interest expense of Rs. 1,11,667 on the Rs. 10,00,000 loan and earned Rs. 37,917 as interest on the re-invested portion.

Required:

Determine the amount of borrowing cost to be capitalized to the qualifying asset for the year ended 31st March, 20X9.

Answer:

Statement showing the interest paid and received during the period of construction

	Rs.
Interest payable for December 20X8 at 12% (10,00,000 x 12% x 1/12)	10,000
Interest payable for January 20X9 at 12% (10,00,000 x 12% x 1/12)	10,000
Interest for February 20X9 at 13% (10,00,000 x 13% x 1/12)	10,833
Interest payable for March 20X9 at 13% (10,00,000 x 13% x 1/12)	10,834
Total interest payable during the construction period till March 20X9 (A)	41,667
Interest receivable on re-invested funds of Rs. 9,00,000 in September 20X9 [(10,00,000 – 1,00,000) x 5% x 1/12]	3,750
Interest receivable on re-invested funds of Rs. 6,50,000 in October 20X9 [(9,00,000 – 2,50,000) x 5% x 1/12]	2,708
Interest receivable on re-invested funds of Rs. 4,00,000 in November 20X9 [(6,50,000 – 2,50,000) x 5% x 1/12]	1,667
Interest receivable on re-invested funds of Rs. 1,50,000 in December 20X9 [(4,00,000 – 2,50,000) x 5% x 1/12]	625
Total interest receivable till March, 20X9 (B)	8,750
Net interest cost (A) - (B)	32,917

The borrowing is specific to the qualifying asset and the borrowing costs eligible for captialisation are the actual cost incurred during the construction period less any investment income on the temporary investment of the borrowings. The amount of borrowing costs that can be capitalised is Rs. 32,917.

Commencement of capitalization of borrowing costs will be said from the period when all the three criteria as mentioned in para 17 of Ind AS 23 are met. Although the funds were drawn down under the borrowings on 1st May 20X8, the construction started from 1st December, 20X8. Hence, the borrowing costs incurred prior to 1st December, 20X8 cannot be said to be directly attributable to the asset's construction, as no expenditure on the asset is being incurred.

Q5. Nov 2024, RTP

X Ltd. commenced the construction of a plant (qualifying asset) on 1st September, 20X1, estimated to cost Rs. 10 crores. For this purpose, X Ltd. has not raised any specific borrowings, rather it intends to use general borrowings, which have a weighted average cost of 11%. Total borrowing costs incurred during the period, viz., 1st September, 20X1 to 31st March, 20X2 were Rs. 0.5 crore.

The other relevant details are as follows:

Month	**Cost of construction accrued**	**Cash outflows (paid in advance at the start of each month)**
September	1.50	3.00
October	0.50	1.70
November	1.50	2.50
December	0.50	—
January	1.80	1.00
February	0.70	—

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March	3.00	1.50

What is the amount of interest that should be capitalised to the cost of the plant in the financial statements for the year ended 31st March, 20X2?

Answer:

Paragraph 14 of Ind AS 23, inter-alia, states that to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

In this context, a question arises whether such expenditure should be based on costs accrued or actual cash outflows. To contrast these two alternatives, presented below is the computation of borrowing costs based on both the alternatives:

Month	**Costs accrued**	**Average capital expenditure**	**Cash outflows**	**Average capital expenditure**
September	1.50	1.50x7/12 = 0.875	3.00	3.00x7/12=1.75
October	0.50	0.50x6/12 = 0.25	1.70	1.70x6/ 12 = 0.85
November	1.50	1.50x5/12 = 0.625	2.50	2.50x5/12 = 1.04
December	0.50	0.50x4/12 = 0.17	-	-
January	1.80	1.80x3/12 = 0.45	1.00	1x3/12 = 0.25
February	0.70	0.70x2/12 = 0.12	-	-
March	3.00	3.00x1/12 = 0.25	1.50	1.50x1/12 = 0.13
	9.50	2.74	9.70	4.02

If the average capital expenditure on the basis of costs accrued is taken, the borrowing costs eligible to be capitalised would be Rs. 2.74 crore x 11% = 0.30 crore. Whereas if average capital expenditure on the basis of cash flows is taken, the borrowing costs eligible to be capitalised would be Rs. 4.02 crore x 11% = 0.44 crore. Thus, there is a wide variance in the amount of borrowing cost to be capitalised, based on the accrual basis and on actual cash flows basis.

In this regard, paragraph 18 of Ind AS 23 states that expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.

Where cash has been paid but the corresponding cost has not yet accrued interest becomes payable on payment of cash. Therefore, the amount so paid should be considered for determining the amount of interest eligible for capitalisation, subject to the fulfillment of other conditions prescribed in paragraph 16 of Ind AS 23. Accordingly, in the present case, interest should be computed on the basis of the cash flows rather than on the basis of costs accrued. Therefore, the amount of interest eligible for capitalisation would be Rs. 0.44 crore.

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Another important factor to be noted is that paragraph 14 requires, inter alia, that the amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

Thus, the amount of borrowing costs to be capitalised should not exceed the total borrowing costs incurred during the period, that is Rs. 0.5 crore.

Q6. May 2024, RTP

PQR Limited is engaged in Tourism business in India. The company has planned to construct a Holiday Resort (Qualifying Asset) at Shimla. The cost of the project has been met out of borrowed funds of Rs. 100 lakhs at the rate of 12% p.a. Rs. 40 lakhs were disbursed on 1st April 20X2 and the balance of Rs. 60 lakhs were disbursed on 1st June 20X2. The site planning work commenced on 1st June 20X2, since the Chief engineer of the project was on medical leave. The company commenced physical construction on 1st July 20X2 and the work of construction continued till 30th September 20X2 and thereafter the construction activities stopped due to landslide on the road which leads to construction site. The road blockages have been cleared by the government machinery by 31st December 20X2. Construction activities have resumed on 1st January 20X3 and has completed on 28th February 20X3.

The date of opening has been scheduled for 1st March 20X3, but unfortunately, the District Administration gave permission for opening on 16th March 20X3, due to lack of safety measures like fire extinguishers which had not been installed by then.

Determine the amount of borrowing cost to be capitalized towards construction of the resort when

i. Landslide is not common in Shimla and delay in approval from District Administration Office is minor administrative work leftover.
ii. Landslide is common in Shimla and delay in approval from District Administration Office is major administrative work leftover.

Answer:

As per Ind AS 23 'Borrowing Costs', the commencement date for capitalisation of borrowing cost on qualifying asset is the date when the entity first meets all of the following conditions:

(a) it incurs expenditures for the asset;

(b) it incurs borrowing costs; and

(c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Further, an entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high-water levels are common during the construction period in the geographical region involved.

An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Further, paragraph 23 explains that an asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

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In the given case since the site planning work started for the project on 1st June, 20X2, the commencement of capitalisation of borrowing cost will begin from 1st June, 20X2.

(i) When landslide is not common in Shimla and delay in approval from District Administration Office is minor administrative work leftover

In such a situation, suspension of capitalisation of borrowing cost on construction work will be considered for 3 months i.e. from October, 20X2 to December, 20X2 and cessation of capitalisation of borrowing cost shall stop at the time of completion of physical activities.

Accordingly, the borrowing cost to be capitalized will be effectively for 6 months i.e. from 1st June, 20X2 to 30th September, 20X2 and then from 1st January, 20X3 to 28th February, 20X3 i.e. total 6 months. The amount of borrowing cost will be Rs. 6,00,000 (1,00,00,000 x 6/12 x 12%).

(ii) When landslide is common in Shimla and delay in approval from District Administration Office is major administrative work leftover

Since landslides are common in Shimla during monsoon period, there shall be no suspension of capitalisation of borrowing cost during that period.

Further, an asset can be considered to be ready for its intended use only on receipt of approvals and after compliance with regulatory requirements such as "Fire Clearances" etc. These are very important to declare the asset as ready for its scheduled operation.

In the given case, obtaining the safety approval is a necessary condition that needs to be complied with strictly and before obtaining the same the entity will not be able to use the building. Accordingly, it is appropriate to continue capitalisation until the said approvals are obtained.

Hence, the capitalisation of the borrowing cost will be for 9.5 months i.e. from 1st June, 20X2 till 15th March, 20X3. The amount of borrowing cost will be Rs. 9,50,000 (1,00,00,000 x 9.5/12 x 12%).

Q7. May 2023, RTP

LT Ltd. is in the process of constructing a building. The construction process is expected to take about 18 months from 1st January 20X1 to 30th June 20X2. The building meets the definition of a qualifying asset. LT Ltd. incurs the following expenditure for the construction:

1st January, 20X1	₹ 5 crores
30th June, 20X1	₹ 20 crores
31st March, 20X2	₹ 20 crores
30th June, 20X2	₹ 5 crores

On 1st July 20X1, LT Ltd. issued 10% Redeemable Debentures of ₹ 50 crores. The proceeds from the debentures form part of the company's general borrowings, which it uses to finance the construction of the qualifying asset, i.e, the building. LT Ltd. had no borrowings (general or specific) before 1st July 20X1 and did not incur any borrowing costs before that date. LT Ltd. incurred ₹ 25 crores of construction costs before obtaining general borrowings on 1st July 20X1 (pre-borrowing expenditure) and ₹ 25 crores after obtaining the general borrowings (post-borrowing expenditure).

For each of the financial years ended 31st March 20X1, 20X2 and 20X3, calculate the borrowing cost that LT Ltd. is permitted to capitalize as a part of the building cost.

Answer

Applying paragraph 17 of Ind AS 23 to the fact pattern, the entity would not begin capitalising borrowing costs until it incurs borrowing costs (i.e. from 1st July, 20X1)

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In determining the expenditures on a qualifying asset to which an entity applies the capitalisation rate (paragraph 14 of Ind AS 23), the entity does not disregard expenditures on the qualifying asset incurred before the entity obtains the general borrowings. Once the entity incurs borrowing costs and therefore satisfies all three conditions in para 17 of Ind AS 23, it then applies paragraph 14 of Ind AS 23 to
determine the expenditures on the qualifying asset to which it applies the capitalisation rate.

Calculation of borrowing cost for financial year 20X0-20X1

Expenditure		**Capitalization Period (current year)**	**Weighted average Accumulated Expenditure**
Date	**Amount**		
1 st January 20X1	₹ 5 crore	0/3	Nil

Borrowing Costs eligible for capitalisation = NIL. LT Ltd. cannot capitalise borrowing costs before 1st July, 20X1 (the day it starts to incur borrowing costs).

Calculation of borrowing cost for financial year 20X1-20X2

Expenditure		**Capitalization Period (current year)**	**Weighted average Accumulated Expenditure**
Date	**Amount**		
1 st January 20X1	₹ 5 crore	9/12*	₹ 3.75 crore
30th June, 20X1	₹ 20 crore	9/12	₹ 15 crore
31st March, 20X2	₹ 20 crore	0/12	Nil
Total			₹ 18.75 crore

Borrowing Costs eligible for capitalisation = 18.75 cr. x 10% = ₹ 1.875 cr. *LT Ltd. cannot capitalise borrowing costs before 1st July, 20X1 (the day it starts to incur borrowing costs). Accordingly, this calculation uses a capitalization period from 1st July, 20X1 to 31st March, 20X2 for this expenditure.

Calculation of borrowing cost for financial year 20X2-20X3

Expenditure		**Capitalization Period (current year)**	**Weighted average Accumulated Expenditure**
Date	**Amount**		
1 st January 20X1	₹ 5 crore	3/12	₹ 1.25 crore
30th June, 20X1	₹ 20 crore	3/12	₹ 5 crore
31st March, 20X2	₹ 20 crore	3/12	₹5 crore
30th June, 20X2	₹ 5 crore	3/12	Nil
Total			₹ 11.25 crore

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Borrowing costs eligible for capitalisation = ₹ 11.25 cr. x 10% = ₹ 1.125 cr.

Q8. Nov 2022, RTP

Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be operational as soon as they are completed Following is the detail of the work done on different phases of the building during the current year:

(₹ in lakh)

	Phase I	**Phase II**	**Phase III**	**Phase IV**
	₹	**₹**	**₹**	**₹**
Cash expenditure	10	30	25	30
Building purchased	24	34	30	38
Total expenditure	34	64	55	68
Total expenditure of all phases				221
Loan taken @ 15% at the beginning of the year				200

After taking substantial period of construction, at the mid of the current year, Phase I and Phase II have become operational. Find out the total amount to be capitalized and to be expensed during the year.

Answer

	Particulars	**₹**
1.	Interest expense on loan ₹ 2,00,00,000 at 15%	30,00,000
2.	Total cost of Phases I and II(₹ 34,00,000 +64,00,000)	98,00,000
3.	Total cost of Phases III and IV (₹ 55,00,000 + ₹ 68,00,000)	1,23,00,000
4.	Total cost of all 4 phases	2,21,00,000
5.	Total loan	2,00,00,000
6.	Interest on loan used for Phases I & II, based on proportionate Loan amount $=\frac{30,00,000}{2,21,00,000}\times 98,00,000$	13,30,317 (approx.)
7.	Interest on loan used for Phases III & IV, based on proportionate Loan amount $=\frac{30,00,000}{2,21,00,000}\times 1,23,00,000$	16,69,683 (approx.)

Accounting treatment:

1. For Phase I and Phase II

Since Phase I and Phase II have become operational at mid of the year, half of the interest amount of ₹ 6,65,158.50 (i.e. ₹ 13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining

half of the interest amount of ₹ 6,65,158.50 (i.e. ₹ 13,30,317/2) relating to Phase I and Phase II should be expensed off during the year.

2. For Phase III and Phase IV

Interest of ₹ 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.

Q9. May 2022, RTP

X Ltd. commenced the construction of a plant (qualifying asset) on 1st September, 20X1, estimated to cost ₹ 10 crores. For this purpose, X has not raised any specific borrowings, rather it intends to use general borrowings, which have a weighted average cost of 11%. Total borrowing costs incurred during the period, viz., 1st September, 20X1 to 31st March, 20X2 were ₹ 0.5 crore.

The other relevant details are as follows: **(₹ in crore)**

Month	Cost of construction Accrued	Cash outflows (paid in advance at the start of each month)
September	1.50	3.00
October	0.50	1.70
November	1.50	2.50
December	0.50	-
January	1.80	1.00
February	0.70	-
March	3.00	1.50

Based on the above information, discuss the treatment of borrowing cost as per cash outflow basis and accrual basis and also suggest the appropriate amount of interest that should be capitalised to the cost of the plant in the financial statements for the year ended 31st March, 20X2?

Answer

Paragraph 14 of Ind AS 23, inter-alia, states that to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

In this context, a question arises whether such expenditure should be based on costs accrued or actual cash outflows. To contrast these two alternatives, presented below is the computation of borrowing costs based on both the alternatives:

Month	Cost of Construction Accrued	Average capital expenditure	Cash outflows (paid in advance at the start of	Average capital expenditure

			each month)	
September	1.50	1.50 x 7/12 = 0.875	3.00	3.00 x 7/12 = 1.75
October	0.50	0.50 x 6/12 = 0.25	1.70	1.70 x 6/12 = 0.85
November	1.50	1.50 x 5/12 = 0.625	2.50	2.50 x 5/12 = 1.04
December	0.50	0.50 x 4/12 = 0.17	-	-
January	1.80	1.80 x 3/12 = 0.45	1.00	1 x 3/12 = 0.25
February	0.70	0.70 x 2/12 = 0.12	-	-
March	3.00	3.00 x 1/12 = 0.25	1.50	1.50 x 1/12 = 0.125
	9.50	**2.74**	**9.70**	**4.02**

If the average capital expenditure on the basis of costs accrued is taken, the borrowing costs eligible to be capitalised would be ₹ 2.74 crore x 11% = 0.30 crore. Whereas, if average capital expenditure on the basis of cash flows is taken, the borrowing costs eligible to be capitalised would be ₹ 4.02 crore x 11% = 0.44 crore. Thus, there is a wide variance in the amount of borrowing cost to be capitalised, based on the accrual basis and on actual cash flows basis. This divergence is often experienced during the implementation of large projects, for example, an advance given to a supplier involves an upfront cash outflow while the actual expenditure accrues in later periods (with the receipt of goods and services).

As per paragraph 18 of Ind AS 23, expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or theassumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalization rate is applied in that period.

Where cash has been paid but the corresponding cost has not yet accrued interest becomes payable on payment of cash. Therefore, the amount so paid should be considered for determining the amount of interest eligible for capitalisation, subject to the fulfillment of other conditions prescribed in paragraph 16 of Ind AS 23. Accordingly, in the present case, interest should be computed on the basis of the cash flows rather than on the basis of costs accrued. Therefore, the amount of interest eligible for capitalisation would be ₹ 0.44 crore.

Another important factor to be noted is that paragraph 14 requires, inter alia, that the amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period. Thus, the amount of borrowing costs to be capitalised should not exceed the total borrowing costs incurred during the period, that is ₹ 0.5 crore.

Q10. Nov 2021, RTP

Nikka Limited has obtained a term loan of ₹ 620 lacs for a complete renovation and modernisation of its Factory on 1st April, 20X1. Plant and Machinery was acquired under the modernisation scheme and installation was completed on 30th April, 20X2. An expenditure of ₹ 510 lacs was incurred on installation of Plant and Machinery, ₹ 54 lacs has been advanced to suppliers for additional assets (acquired on 25th April, 20X1) which were also installed on 30th April, 20X2 and the balance loan of ₹ 56 lacs has been used for working capital purposes. Management of Nikka Limited considers the 12 months period as substantial period of time to get the asset ready for its intended use.

The company has paid total interest of ₹ 68.20 lacs during financial year 20X1-20X2 on the above loan. The accountant seeks your advice how to account for the interest paid in the books of accounts. Will your answer be different, if the whole process of renovation and modernization gets completed by 28th February, 20X2?

Answer

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

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

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

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

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

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

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

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

Q11. May 2021, RTP

How will you capitalise the interest when qualifying assets are funded by borrowings in the nature of bonds that are issued at discount?

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Y Ltd. issued at the start of year 1, 10% (interest paid annually and having maturity period of 4 years) bonds with a face value of ₹ 2,00,000 at a discount of 10% to finance a qualifying asset which is ready for intended use at the end of year 2.

Compute the amount of borrowing costs to be capitalized if the company amortizes discount using Effective Interest Rate method by applying 13.39% p.a. of EIR.

Answer

Capitalisation Method

As per the Standard, borrowing costs may include interest expense calculated using the effective interest method. Further, capitalisation of borrowing cost should cease where substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Thus, only that portion of the amortized discount should be capitalised as part of the cost of a qualifying asset which relates to the period during which acquisition, construction or production of the asset takes place.

Capitalisation of Interest

Hence based on the above explanation the amount of borrowing cost of year 1 & 2 are to be capitalised and the borrowing cost relating to year 3 & 4 should be expensed.

Quantum of Borrowing

The value of the bond to Y Ltd. is the transaction price ie ₹ 1,80,000 (2,00,000 – 20,000)

Therefore, Y Ltd will recognize the borrowing at ₹ 1,80,000.

Computation of the amount of Borrowing Cost to be Capitalised

Y Ltd will capitalise the interest (borrowing cost) using the effective interest rate of 13.39% for two years as the qualifying asset is ready for intended use at the end of the year 2, the details of which are as follows:

Year	**Opening Borrowing**	**Interest expense @ 13.39% to be capitalised**	**Total**	**Interest paid**	**Closing Borrowing**
	(1)	**(2)**	**(3)**	**(4)**	**(5) = (3) – (4)**
1	1,80,000	24,102	2,04,102	20,000	1,84,102
2	1,84,102	24,651	2,08,753	20,000	1,88,753
		48,753			

Accordingly, borrowing cost of ₹ 48,753 will be capitalized to the cost of qualifying asset.

Q12. Nov 2019, RTP

On 1st April, 20X1, entity A contracted for the construction of a building for ₹ 22,00,000. The land under the building is regarded as a separate asset and is not part of the qualifying assets. The building was completed at the end of March, 20X2, and during the period the following payments were made to the contractor:

Payment date	**Amount (₹ '000)**
1st April, 20X1	200
30th June, 20X1	600
31st December, 20X1	1,200
31st March, 20X2	200

Total	2,200

Entity A's borrowings at its year end of 31st March, 20X2 were as follows:

a. 10%, 4-year note with simple interest payable annually, which relates specifically tothe project; debt outstanding on 31st March, 20X2 amounted to ₹ 7,00,000. Interest of ₹ 65,000 was incurred on these borrowings during the year, and interest income of ₹ 20,000 was earned on these funds while they were held in anticipation of payments.

b. 12.5% 10-year note with simple interest payable annually; debt outstanding at 1st April, 20X1 amounted to ₹ 1,000,000 and remained unchanged during the year; and

c. 10% 10-year note with simple interest payable annually; debt outstanding at 1st April, 20X1 amounted to ₹ 1,500,000 and remained unchanged during the year.

What amount of the borrowing costs can be capitalized at year end as per relevant Ind AS?

Answer

As per Ind AS 23, when an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity should determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

The amount of borrowing costs eligible for capitalization, in cases where the funds are borrowed generally, should be determined based on the expenditure incurred in obtaining a qualifying asset. The costs incurred should first be allocated to the specific borrowings.

Analysis of expenditure:

Date	**Expenditure (₹'000)**	**Amount allocated in general borrowings (₹'000)**	**Weighted for period outstanding (₹'000)**
1st April 20X1	200	0	0
30th June 20X1	600	100*	100 × 9/12 = 75
31st Dec 20X1	1,200	1,200	1,200 × 3/12 = 300
31st March 20X2	200	200	200 × 0/12 = 0
Total	2,200		375

*Specific borrowings of ₹ 7,00,000 fully utilized on 1st April & on 30th June to the extent of ₹ 5,00,000 hence remaining expenditure of ₹ 1,00,000 allocated to general borrowings.

The expenditure rate relating to general borrowings should be the weighted average of the borrowing costs applicable to the entity's borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

$$\text{Capitalisation rate} = \frac{(10,00,000 \times 12.5\%) + (15,00,000 \times 10\%)}{10,00,000+15,00,000} = 11\%$$

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Borrowing cost to be capitalized:	Amount (₹)
On specific loan	65,000
On General borrowing (3,75,000 × 11%)	41,250
Total	1,06,250
Less interest income on specific borrowings	(20,000)
Amount eligible for capitalization	86,250
Therefore, the borrowing costs to be capitalized are ₹ **86,250.**	

Q13. Nov 2018, RTP

K Ltd. began construction of a new building at an estimated cost of ₹ 7 lakh on 1st April, 2017. 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, 2017	₹ 1,50,000
August, 2017	₹ 2,00,000
October, 2017	₹ 3,50,000
January, 2018	₹ 1,00,000

The construction of building was completed by 31st January, 2018. Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 2018.

Answer

(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		= 11.4375%

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(1,83,000/16,00,000) x 100		

(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, 2017	1,50,000	Specific Borrowing	1,50,000 x 9% x 10/12	11,250
1st August, 2017	2,00,000	Specific Borrowing	50,000 x 9% x 10/12	3,750
		General Borrowing	1,50,000 x 11.4375% x 6/12	8,578.125
1st October, 2017	3,50,000	General Borrowing	3,50,000 x 11.4375% x 4/12	13,343.75
1st January, 2018	1,00,000	General borrowing	1,00,000 x 11.4375% x 1/12	953.125
				37,875

Note: Since construction of building started on 1st April, 2017, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month.

(iii) Total expenses to be capitalized for building

	₹
Cost of building ₹ (1,50,000 + 2,00,000 + 3,50,000 + 1,00,000)	8,00,000
Add: Amount of interest to be capitalized	37,875
	8,37,875

(iv) Journal Entry

Date	**Particulars**		**₹**	**₹**
31.1.2018	Building account	Dr.	8,37,875	
	To Bank account			8,00,0000
	To Interest payable (borrowing cost)			37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

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Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2018.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		₹	₹
31.1.2018	Building account	Dr.	8,37,875	
	To Bank account			8,37,875
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

Q14. May 2018, RTP

An entity constructs a new head office building commencing on 1st September 20X1,which continues till 31st December 20X1. Directly attributable expenditure at the beginning of the month on this asset are ₹ 100,000 in September 20X1 and ₹ 250,000 in each of the months of October to December 20X1.

The entity has not taken any specific borrowings to finance the construction of the asset, but has incurred finance costs on its general borrowings during the construction period. During the year, the entity had issued 10% debentures with a face value of ₹ 20 lacs andhad an overdraft of ₹ 500,000, which increased to ₹ 750,000 in December 20X1. Interest was paid on the overdraft at 15% until 1 October 20X1, then the rate was increased to 16%.

Calculate the capitalization rate for computation of borrowing cost in accordance with Ind AS 23 'Borrowing Costs'.

Answer

Since the entity has only general borrowing hence first step will be to compute the capitalisation rate. The capitalisation rate of the general borrowings of the entity during the period of construction is calculated as follows:

Finance cost on ₹ 20 lacs 10% debentures during September –December 20X1	₹ 66,667
Interest @ 15% on overdraft of ₹ 5,00,000 in September 20X1	₹ 6,250
Interest @ 16% on overdraft of ₹ 5,00,000 in October and November 20X1	₹ 13,333
Interest @ 16% on overdraft of ₹ 750,000 in December 20X1	₹ 10,000
Total finance costs in September – December 20X1	₹ 96,250

Weighted average borrowings during period

$= \frac{(20,00,000 \times 4)+(500,000)\times 3+(750,000 \times 1)}{4} \times 25,62,500$

Capitalisation rate = Total finance costs during the construction period / Weighted average borrowings during the construction period

= 96,250 / 25,62,500 = 3.756%

Q1. Jan 2026 Exam,8 Marks

MedCol Limited during the financial year 2024-2025, received the following grants from the State Government for its newly established Medical Centre in a backward area:

- Grant 1: Rs. 20.00 lakhs for providing free treatment to the BPL (Below Poverty Line) residents of the area for first 5 years;
- Grant 2: 40% subsidy to partially fund the purchase of a radiology machinery costing Rs. 15.00 lakhs. Useful life of machinery is 6 years. Depreciation on this machinery is to be charged on straight-line basis. Assume Nil residual value.
- Grant 3: Two acres of land, free of cost, to set up the hospital. The fair value of the land is estimated to be Rs. 15.00 lakhs per acre.
- Grant 4: Rs. 50.00 lakhs to open the medical centre in backward area. No condition is attached for the incentive other than the stipulation that medical centre should be in a backward area.

How should MedCol Limited recognize the government grants in its books of accounts as per applicable Ind AS.

Answer:

Following is the accounting treatment of various State Government Grants received by MedCol Limited during the financial year 2024-2025 for its newly established Medical Centre in the backward area:

Grant 1: Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

In the given case, the grant would be recognised as a liability (deferred income) and presented in the balance sheet as a split between current and non-current amounts.

Rs. 20.00 lakhs would be recognized as income over 5-year period on straight line basis. Accordingly, MedCol Limited will recognise Rs. 4.00 lakhs to the Statement of Profit and Loss every year.

Assuming that the Grant was received at the beginning of the year, Rs. 4 lakhs [20 lakhs x (1 year/5 years)] of the grant value forming part of the deferred grant liability would be considered as current and be recognised in the statement of profit and loss for the year ended 31st March 2025. The balance amount of Rs. 16 lakhs will be split into current and non-current and shown in the balance sheet as Rs. 4 lakhs current deferred grant liability and Rs. 12 lakhs as non-current deferred grant liability.

Grant 2: MedCol Limited will set up Rs. 6.00 lakhs as deferred income and will credit Rs. 1 lakhs equally to its statement of profit and loss over next 6 years. The cost of the machinery would appear in the books as Rs. 15.00 lakhs and depreciation of Rs. 2.50 lakhs (Rs. 15.00 lakhs / 6 years) will be charged to Statement of Profit and Loss every year. Net impact on Statement of Profit and Loss every year would be Rs. 1.50 lakhs expense (Rs. 2.50 lakhs - Rs. 1.00 lakhs) every year.

Alternatively, MedCol Limited will deduct Rs. 6.00 lakhs from the cost of radiology machinery of Rs. 15.00 lakhs. In such a situation, the cost of the machinery would appear in the books initially at Rs. 9.00 lakhs (Rs. 15.00 lakhs – Rs. 6.00 lakhs) and depreciation of Rs. 1.50 lakhs (Rs. 9.00 lakhs / 6 years) will be charged to Statement of Profit and Loss every year.

Net impact on the Statement of Profit and Loss every year, in both the cases, would be same.

Grant 3: In case a government grant is in the form of a transfer of a non-monetary asset, such as land, then the same will be accounted for at its fair value both as grant and asset. Accordingly, land and grant will be recorded in the books at Rs. 30 lakhs (i.e. Rs. 15 lakhs x 2 acres).

Alternatively, entity may record both asset and grant at a nominal amount.

Grant 4: No condition is attached with the grant received except that the Medical Centre to be opened in the backward area. Since MedCol Limited has opened the Medical Centre in the backward area in the year 2024-2025, the entire grant of Rs. 50.00 lakhs should be recognised immediately in the statement of profit and loss in the year 2024-2025.

Q2. May 2024 Exam,6 Marks

(b) ABC Limited has received the following grants for its newly started venture of manufacturing defense equipment in the defense corridor:

i. Rs. 25 lakhs received as an incentive for setting up industry in the defense corridor without any further condition.
ii. Rs. 50 lakhs received for carrying out research and development in the field of innovation of defense equipment.

(ii) Besides ABC Limited is awarded a government grant of Rs. 6 lakhs payable over three years (Rs. 4 lakhs in the first year, Rs. 1 lakh each in year 2 and 3), on the condition of creating 10 new jobs and maintaining them for 3 years. The employees are recruited at a cost of Rs. 3,60,000 and the wage bill for the first year is Rs. 8,00,000, rising by Rs. 80,000 in each of the next2 years. ABC Limited has a reasonable assurance that it will comply with the conditions. attached to them and the grants will be received.

How should ABC Limited account for the above grants including the deferred income if any in its books of account?

Answer:

ABC Ltd. should recognise the grants in the following manner:

i. Rs. 25 lakhs have been received as an incentive for setting up industry in the defence corridor. This should be recognised in Statement of Profit and Loss immediately as there are no further conditions attached to the grant.
ii. Rs. 50 lakhs should be recognised in profit or loss immediately assuming that no further conditions are attached to the grant.

Alternatively, in case it is assumed that grant for carrying out research and development in the field of innovation of defense equipment has conditions attached to it, then Rs. 50 lakhs should be recognised in profit or loss on a systematic basis over the periods in which ABC Ltd. recognises as expense the Research and Development costs for which the grant is intended to compensate.

(iii) Since there is reasonable assurance that the entity will comply with the conditions attaching to them and the grant will be received, the grant of Rs. 6,00,000 should be recognised at the beginning of the first year as receivable and will be compensated for the related costs over three years.

Therefore, grant income to be recognised in the Statement of Profit and Loss for the years 1,2 and 3 would be Rs. 2,32,000, Rs. 1,76,000 and Rs. 1,92,000 respectively. (Refer W.N 1 below)

The amount of grant that has not yet been credited to the statement of profit and loss i.e. deferred income is to be shown on the balance sheet. Hence, deferred income balance as at end of year 1, 2 and 3 are Rs. 3,68,000, Rs. 1,92,000 and Nil respectively. (Refer W.N.1 below)

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Working Note:

Calculation of grant income and deferred income:

Year	Labour Cost	Grant Income	Computation of Grant Income	Deferred Income at the end of the year	Computation of deferred income at the end of the year
	Rs.	Rs.	Rs.	Rs.	Rs.
1	11,60,000	2,32,000	6,00,000 x (1,160/3,000)	3,68,000	(6,00,000 – 2,32,000)
2	8,80,000	1,76,000	6,00,000 x (880/3,000)	1,92,000	(3,68,000 – 1,76,000)
3	9,60,000	1,92,000	6,00,000 x (960/3,000)	Nil	(1,92,000 – 1,92,000)
	30,00,000	6,00,000			

Q3. May 2022 Exam,8 Marks

Shagun Ltd. received two different grants from State Government as per details below:
(i) A cash grant of ₹ 24 lakh was received on 31st March, 2020 towards the skill development of employees over a period of 18 months, starting from 1st April, 2020.

Actual costs of the skill development program in financial year 2020-2021 was ₹ 30 lakh and in financial year 2021-2022 was ₹ 20 lakh. State, how this grant should be accounted for in the books of account in financial
year 2019-2020, 2020-2021 & 2021-2022?

(ii) A grant of ₹ 10 lakh receivable over three years (₹ 5 lakh in financial year 2019-2020, ₹ 2 lakh in financial year 2020-2021 and ₹ 3 lakh in financial year 2021-2022), contingent on developing 5 gardens and maintaining them for three years. The gardens are developed in financial year 2019-2020 at a total cost of ₹ 6 lakh, and the maintenance cost for financial year 2019-2020 is ₹ 12 lakh, for financial year 2020-2021 is ₹ 15 lakh and for financial year 2021-2022 is ₹ 17 lakh.

Calculate the grant income and deferred income to be accounted for in the books for financial years 2019-2020, 2020-2021 & 2021-2022.

Answer

(i) At 31st March, 2020 the grant would be recognised as a liability and presented in the balance sheet as a split between current and non-current amounts. ₹ 16 lakh [(12 months / 18 month) x 24 lakh] is current and would be recognised in profit and loss for the year ended 31st March, 2021. The balance amount of ₹ 8 lakh will be shown as non-current.
At the end of the year 2020-2021, there would be a current balance of ₹ 8 lakh (being the non-current balance at the end of year 2019-2020 reclassified as current) in the balance sheet. This would be recognised as profit in the statement of profit and loss for the year ended on 2021-2022.

Balance Sheet (extracts) as at

	31st March,2020	31st March,2021	31st March,2021
Current liabilities			
Deferred income	16 lakh	8 lakh	-

Non-current liabilities Deferred income	8 lakh	-	**-**

Statement of Profit and Loss (extracts) for the year ended

	31st March, 2021	31st March, 2022
Method 1 (As per para 29 of Ind AS 20) Other Income - Government grant received	16 lakh	8 lakh
Training costs	(30 lakh)	(20 lakh)
Method 2 (Alternative) (As per para 29 of Ind AS 20) Training costs (30 lakh – 16 lakh) Training costs (20 lakh – 8 lakh)	14 lakh	12 lakh

(ii) The income of ₹ 10 lakh should be recognised over the three-year period to compensate for the related costs. Since the receipt of grant is depending on fulfilling the contract, it is assumed that on initial date certainty to fulfil the conditions by the entity could not be established. Hence, the grant is recognised in the books on receipt basis.

Calculation of Grant Income and Deferred Income: (₹ in lakh)

Year	Maintenance Cost	Grant Income	Grant received during the year	Deferred Income
	a	b = [(10/50) x a]	c	d
2019-2020	18	3.6	5	(5 – 3.6)1.4
2020-2021	15	3.0	2	[(5 + 2) – (3.6 + 3.0)] 0.4
2021-2022	17	3.4	3	[(5 + 2 + 3) – (3.6+ 3.0 + 3.4)] –
	50	10.0		

Therefore, Grant income to be recognised in Profit & Loss for years 2019-2020, 2020-2021 and 2021-2022 will be ₹ 3.6 lakh, ₹ 3.0 lakh and ₹ 3.4 lakh respectively.

Amount of grant that has not yet been credited to profit & loss i.e. deferred income will be reflected in the balance sheet. Hence, deferred income balance as at year end 2019-2020, 2020-2021 and 2021-2022 will be ₹ 1.4 lakh, ₹ 0.4 lakh and Nil respectively.

Q4. July 2021 Exam,6 Marks

Government of India provides loans to MSMEs at a below-market rate of interest to fund the set-up of a new manufacturing facility. Sukshma Limited's date of transition to Ind AS is 1st April 2020.

In financial year 2014-2015, the Company had received a loan of ₹ 2.0 crore at a below -market rate of interest from the government. Under Indian GAAP, the Company had accounted for the loan as equity and the carrying amount was ₹ 2.0 crore at the date of transition. The amount repayable on 31st March 2024 will be ₹ 2.50 crore.

The Company has been advised to recognize the difference of ₹ 0.50 crores in equity by correspondingly increasing the value of various assets under property, plant & equipment by an

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equivalent amount on proportionate basis. Further, on 31st March 2024 when the loan has to be repaid, ₹ 2.50 crore should be presented as a deduction from property, plant & equipment.

Discuss the above treatment and share your views as per applicable Ind AS.

Answer

Requirement as per Ind AS:

A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32. A first-time adopter shall apply the requirements in Ind AS 109 and Ind AS 20, prospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

Treatment to be done:

Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date
of transition to Ind AS.

In the instant case, the loan meets the definition of a financial liability in accordance with Ind AS 32. Company therefore reclassifies it from equity to liability. It also uses the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening Ind AS balance sheet. It calculates the annual effective interest rate (EIR) starting 1st April 2020 as below:

EIR = Amount / Principal(1/t) i.e. 2.50/2(1/4) i.e. 5.74%. approx.

At this rate, ₹ 2 crore will accrete to ₹ 2.50 crore as at 31st March 2024.
During the next 4 years, the interest expense charged to statement of profit and loss shall be:

Year ended	Opening amortised cost (₹)	Interest expense for the year (₹) @ 5.74% p.a. approx.	Closing amortised cost (₹)
31st March 2021	2,00,00,000	11,48, 000	2,11,48,000
31st March 2022	2,11,48,000	12,13,895	2,23,61,895
31st March 2023	2,23,61,895	12,83,573	2,36,45,468
31st March 2024	2,36,45,468	13,54,532	2,50,00,000

An entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind AS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.

The accounting treatment is to be done as per above guidance and the advice which the company has been provided is not in line with the requirements of Ind AS 101.

Q5. Nov 2019 Exam, 4 Marks

Arun Ltd. is an entity engaged in plantation and farming on a large scale and diversified across India. On 1
st April, 2018, the company has received a government grant for ₹ 20 lakh subject· to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years.

The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus trees for specified period of five years and accordingly it recognizes proportionate grant for ₹ 4 lakh in Statement of Profit and Loss as income following the principles laid down under Ind AS 20
Accounting for Government Grants and Disclosure of Government Assistance.

Required:

Evaluate whether the above accounting treatment made by the management is in compliance with the applicable Ind AS. If not, advise the correct treatment.

Answer

Arun Ltd. is engaged in plantation and farming on a large scale. This implies that it has agriculture business. Hence, Ind AS 41 will be applicable.

Further, the government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. This implies that it is a conditional grant.

In the absence of the measurement base of biological asset, it is assumed that "Arun Ltd measures its Biological Asset at fair value less cost to sell":

i. As per Ind AS 41, the government grant should be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met ie continuous plantation of eucalyptus tree for coming period of 5 years. In this case , the grant shall not be recognised in profit or loss until the five years have passed.
ii. The entity has recognised the grant in profit and loss on proportionate basis, which is incorrect. However, if the terms of the grant allow part of it to be retained according to the time elapsed, the entity recognises that part in profit or loss as time passes. Accordingly, the entity can recognise the proportionate grant for ₹ 4 lakh in the statement of Profit and Loss based on the terms of the grant.

Alternatively, it may be assumed that Arun Ltd. measures its Biological Asset at its cost less any accumulated depreciation and any accumulated impairment losses (as per para 30 of Ind AS 41):

In such a situation, principles of Ind AS 20 (with respect to conditional grant will apply). According to Ind AS 20, the conditional grant should be recognised in the Statement of Profit and Loss over the periods and in the proportions in which depreciation expense on those assets is recognised. Hence the proportionate recognition of grant ₹ 4 lakh (20 lakh / 5) as income is correct since the entity has reasonable assurance that the entity will comply with the conditions attached to the grant.

Note: In case eucalyptus tree is considered as bearer plant by Arun Ltd., then Ind AS 20 will be applicable and not Ind AS 41.

Q6. Nov 2018 Exam, 5 Marks

How will you recognize and present the grants received from the Government in the following cases as per Ind AS 20?

i. A Ltd. received one acre of land to setup a plant in backward area (fair value of land ₹ 12 lakh and acquired value by Government is ₹ 8 lakhs).

ii. B Ltd. received an amount of loan for setting up a plant at concessional rate of interest from the Government.

iii. D Ltd. received an amount of ₹ 25 lakh for immediate start-up of a business without any condition.

iv. S Ltd. received ₹ 10 lakh for purchase of machinery costing ₹ 80 lakh. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis.

v. Government gives a grant of ₹ 25 lakh to U Limited for research and development of medicine for breast cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%.

Answer

i. The land and government grant should be recognized by A Ltd. at fair value of ₹ 12,00,000 and this government grant should be presented in the books as deferred income. (Refer footnote 1

ii. As per para 10A of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', loan at concessional rates of interest is to be measured at fair value and recognised as per Ind AS 109. Value of concession is the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for as Government grant.

iii. ₹ 25 lakh has been received by D Ltd. for immediate start-up of business. Since this grant is given to provide immediate financial support to an entity, it should be recognised in the Statement of Profit and Loss immediately with disclosure to ensure that its effect is clearly understood, as per para 21 of Ind AS 20.

iv. ₹ 10 lakh should be recognized by S Ltd. as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 1,00,000 [₹ 10 lakh / 10 years] should be credited to profit and loss each year over period of 10 years. (Refer footnote 2)

v. As per para 12 of Ind AS 20, the entire grant of ₹ 25 lakh should be recognized immediately as deferred income and charged to profit and loss over a period of two years based on the related costs for which the grants are intended to compensate provided that there is reasonable assurance that U Ltd. will comply with the conditions attached to the grant.

Q7. May 2026, RTP

A Ltd. has acquired equipment for Rs. 100 lakhs. The estimated useful life of the equipment is 10 years. Residual value at the end of useful life is Nil. Depreciation is recognised on a straight-line basis.

To encourage the acquisition of the assets, the Government will give a grant to A Ltd. towards the purchase of the equipment as follow:

- If specified employment targets are achieved by the end of the 3rd year, A Ltd. will receive a grant of Rs. 10 lakhs.
- In all other cases, A Ltd. will receive a grant of Rs. 5 lakhs.

On the date of acquisition as well as at the end of year 1, A Ltd. expects to receive a grant of Rs. 10 lakhs.

At the beginning of year 2, A Ltd. has revised the assessment in light of development and now expects that it will only receive a grant of Rs. 5 lakhs.

There were no errors in the estimation of grants in the prior period.

A Ltd. has assessed and concluded that the grant is in nature of grants related to assets.

A Ltd. presents government grants related to assets in the balance sheet by deducting the grant in calculating the carrying amount of the asset.

Required

How is the change in the amount of grant-related assets is accounted for in the books of A Ltd.?

Answer:

Para 32 of Ind AS 20 under the heading "Repayment of Government Grants" inter alia states that a Government grant that becomes repayable shall be accounted for as a change in accounting estimate as per Ind AS 8. Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.

Further para 33 of the standard states that the circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Following the above guidance, below is depreciation computation for the first 2 years where the grant is deducted from the carrying amount of the assets:

Particular	**Government grant received /receivable in case of**	
	Rs. 10 lakhs	**Rs. 5 lakhs**
Cost of equipment	100.00	100.00
Grant received	(10.00)	(5.00)
Cost of equipment (Net of Grant received)	90.00	95.00
Useful life (years)	10.00	10.00
Depreciation (per annum) for year 1	9.00	9.50
Written down value (WDV) of the equipment at the end of year 1	81.00	85.50
Depreciation for year 2	9.00	9.50
WDV of the equipment at the end of year 2	72.00	76.00
Total cumulative depreciation for years 1 and 2	18.00	19.00

Drawing an analogy from the accounting of the repayment of government grants, similar accounting may be applied for a change in the amount of government grant receivable.

The cumulative additional depreciation of Rs. 1 lakhs [i.e., Rs. 19 lakhs minus Rs. 18 lakhs], would have been recognized to date as an expense, had government grant receivable by entity from inception was INR 5.

Therefore, A Ltd. may pass the following journal entry to recognise change in the amount of grant received/receivable:

Particular	**Dr.**	**Cr.**	**Remark**

Equipment A/c Dr.	4		Rs. 76 lakhs – Rs. 72 lakhs
Depreciation Dr.	1		Additional depreciation recognised in Profit and Loss A/c
To Bank/Grant receivable		5	Payment of grant /adjustment to grant receivable

A Ltd. to carry out impairment assessment of assets, as per Ind AS requirement, which may trigger in view of an increase in carrying amount of the assets due to repayment of government grant received/ receivable.

Q8. Nov 2023, RTP

An entity opens a new factory and receives at the beginning of the year a government grant of ₹ 15,000 in respect of capital equipment costing ₹ 1,00,000. It depreciates all plant and machinery at 20% p.a. using straight-line method. Assume that there isreasonable assurance that the conditions attached to the grant will be fulfilled.

For year 1, pass the necessary Journal Entries and show the presentation of the effect of this grant in both Balance Sheet and Statement of Profit and Loss under both methods permitted under paragraph 24 of Ind AS 20?

Answer

Paragraph 24 of Ind AS 20 provides that government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

In accordance with the above, journal entries and presentation of grants related to assets under both the methods are as follows:

Method 1: When the deferred income account is set-up with the amount of government grant

(I) Journal Entries

S.No.	Particulars	Nature of Account	Dr./ Cr.	Amount (in ₹)	Amount (in ₹)
(i)	Bank A/c	Balance Sheet (Asset)	Dr.	15,000	
	To Government Grant Deferred Income A/c	Balance Sheet (Liability)	Cr.		15,000
	(Being grant received and deferred income set up)				
(ii)	Government Grant Deferred Income A/c	Balance Sheet (Liability)	Dr.	3,000	
	To Government Grant Income A/c	Income (P/L)	Cr.		3,000
	(Being amortisation of the grant in Profit andloss A/c for the current year)				
(iii)	Depreciation A/c	Expense (P/L)	Dr.	20,000	
	To Accumulated Depreciation A/c	Balance Sheet (Asset)	Cr.		20,000
	(Being depreciation charge of the asset for the current year)				
(iv)	Government Grant Income A/c	Income (P/L)	Dr.	3,000	
	To Profit and Loss A/c	P/L	Cr.		3,000

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(v)	(Being transfer of government grant income to profit and loss A/c) Profit and Loss A/c To Depreciation A/c Expense (Being the charge of depreciation transferred to profit and loss A/c)	P/L (P/L)	Dr. Cr.	20,000	 20,000

(II) Presentation in Balance Sheet and Statement of Profit and Loss

Extract of Statement of Profit and Loss

Particulars	**Amount (in ₹)**
Income	
Government grant (Refer W.N.1)	3,000
Expenses	
Depreciation (1,00,000 x 20%)	(20,000)
Net effect on profit and loss	**(17,000)**

Presentation in Balance Sheet (Year 1)

Particulars	**Amount (in ₹)**
Non-current Assets	
Property, Plant and Equipment	
Plant & machinery	1,00,000
Accumulated depreciation (1,00,000 × 20%)	(20,000)
	80,000
Non-current liabilities	
Government grant (Refer W.N.1)	9,000
Current liabilities	
Government grant (Refer W.N.1)	3,000

Working Note 1:

Presentation in Balance Sheet as current and non-current liability

Particulars	**Amount (in ₹)**
Portion to be amortised in next 12 months (15,000 x 20%)	3,000
Portion to be amortised after 12 months	9,000
Total Balance	**12,000**

Method 2: When the government grant is deducted from the cost of the asset

(II) Journal Entries

S.No.	**Particulars**	**Nature of Account**	**Dr./ Cr.**	**Amount (in ₹)**	**Amount (in ₹)**

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(i)	Bank A/c	Balance Sheet (Asset)	Dr.	15,000	
	To Government Grant A/c	Balance Sheet (Liability)	Cr.		15,000
	(Being grant received)				
	Government Grant A/c	Balance Sheet (Liability)	Dr.	15,000	
(ii)	To Plant & Machinery A/c	Balance Sheet (Asset)	Cr.		15,000
	(Being cost of asset reduced with grant received)				
(iii)	Depreciation A/c	Expense (P/L)	Dr.	17,000	
	To Accumulated Depreciation A/c	Balance Sheet (Asset)	Cr.		17,000
	(Being depreciation charge of the asset for the current year)				
(iv)	Profit and Loss A/c	P/L	Dr.	17,000	
	To Depreciation A/c Expense	Expense(P/L)	Cr.		17,000
	(Being the charge of depreciation transferred to profit and loss A/c)				

(II) Presentation in Balance Sheet and Statement of Profit and Loss

Extract of Statement of Profit and Loss (Year 1)

Particulars	**Amount (in ₹)**
Depreciation (₹ 85,000 x 20%)	(17,000)

Extract of Balance Sheet (Year 1)

Particulars	**Amount (in ₹)**
Non-current Assets	
Property, Plant and Equipment	
Plant & machinery	
Original cost	1,00,000
Less: Government Grant	(15,000)
Adjusted cost	85,000
Accumulated depreciation	(17,000)
Carrying amount	**68,000**

Q9. May 2023, RTP

A Ltd. received a government grant of ₹ 10,00,000 to defray expenses for environmental protection. Expected environmental costs to be incurred is ₹ 3,00,000 per annum for the next 5 years. How should A Ltd. present such grant related to income in its financial statements?

Answer

As per paragraph 29 of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'.Alternatively, they are deducted in reporting the related expense.

In accordance with the above, presentation of grants related to income under both the methods would be as follows:

Method 1: Credit in the Statement of Profit and Loss

The entity can recognise the grant as income on a straight-line basis i.e., ₹ 2,00,000per year in the statement of profit and loss either separately or under the head "Other Income".

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This method considered on the contention that it would be inappropriate to present income and expense items on a net basis and that separation of the grant from the expense would facilitate comparison with other expenses not affected by a grant.

Method 2: As a deduction in reporting the related expense

Since the grant relates to environmental expenses incurred/to be incurred by the entity, it can present the grant by reducing the grant amount every year from the related expense i.e., environmental expense of ₹ 1,00,000 (i.e., net expense ₹ 3,00,000 –₹ 2,00,000).

This method is considered based on the contention that the expenses might well not have been incurred by the entity if the grant had not been available and presentation of the expense without offsetting the grant might therefore be misleading.

The Standard regards both the methods as acceptable for the presentation of grants related to income. However, method 2 may be more appropriate when the company can relate the grant to a specific expenditure.

The Standard also provides that disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

Q10. Nov 2022, RTP

To encourage entities to expand their operations in a specified development zone, the government provides interest-free loans to fund the purchase of manufacturing equipment.

In accordance with the development scheme, an entity receives an interest-free loan of ₹ 5,00,000 from the government for a period of three years. The market rate of interest for similar loans for 3 years is 5% per year.

There are no future performance conditions attached to the interest-free loan. Discuss how to account for the above loan. Pass necessary journal entries in the entity's books of accounts from year 1 to year 3, as per relevant Ind AS.

Answer

The entity measures the loan on initial recognition at ₹ 4,32,000, which is the present value of the loan (financial liability) — ₹ 5,00,000/(1.05)3. ₹ 68,000, the difference between the loan proceeds received ₹ 5,00,000 (the loan's face value) and present value of the loan ₹ 4,32,000, is a government grant and is recognised immediately as there are no specified future performance conditions.

The amount recognised on day one will accrete to ₹ 5,00,000 over the three-year term using the effective interest method.

Journal Entries

On initial recognition:

	₹	₹
Cash/Bank (financial asset) Dr.	5,00,000	
To Loan (financial liability)		4,32,000
To Income (profit or loss)		68,000
(Being interest-free loan recognised at fair value and the receipt of a government grant)		

At the end of Year 1:

	₹	₹
Finance cost (profit or loss) Dr.	21,600	
To Loan (financial liability)		21,600
(Being accretion of time value recognised on the financial liability)		

Year 2

	₹	₹
Finance cost (profit or loss) Dr. To Loan (financial liability) (Being accretion of time value recognised on the financial liability)	22,680	 22,680

Year 3

	₹	₹
Finance cost (profit or loss) Dr. To Loan (financial liability) (Being accretion of time value recognised on the financial liability)	23,720	 23,720

Immediately after all the accretions are recognised, the carrying amount of the loan is equal to its face value of ₹ 5,00,000, which is also the amount payable to the government.

	₹	₹
Loan (financial liability) Dr. 5,00,000 To Cash/Bank 5,00,000 (Being loan repaid to the government)	5,00,000	 5,00,000

Working Note:

Calculation of Amortised Cost

Year	Opening balance (A)	Interest at 5% (B) = (A) x 5%	Cash flow (C)	Closing balance (A) + (B) – (C)
1	4,32,000	21,600	-	4,53,600
2	4,53,600	22,680	-	4,76,280
3	4,76,280	23,720*	(5,00,000)	-

* Difference is due to approximation.

Q11. May 2022, RTP

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. 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

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31st March, 20X3.

Measure the amount of government grant as on 1st April, 20X1. Determine the nature of the government grant and its accounting treatment (principally) for the year ended 31st March, 20X2. Also determine the impact on profit or loss if any, on account of revocation of government grant as on 31st March, 20X3.

Answer

As per the principles of Ind AS 20 "Accounting for Government Grants and Disclosure of Government Assistance", the benefits of a government loan at a below market rate of interest is treated as a government grant. The loan shall be recognized and measured in accordance with Ind AS 109 "Financial Instruments". The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109 and the proceeds received. The benefit is accounted for in accordance with Ind AS 20. As per Ind AS 109, the loan should be initially measured at its fair value.

Initial recognition of grant as on 1st April, 20X1

Fair value of loan = ₹ 25,00,000 x 0.567 (PVF @ 12%, 5th year) = ₹ 14,17,500

A Limited will recognize ₹ 10,82,500 (25,00,000 – 14,17,500) as the government grant and will make the following entry on receipt of loan:

Date	Particulars	Dr. (₹)	Cr. (₹)
1.4.20X1	Bank account Dr.	25,00,000	
	To Deferred Grant Income		10,82,500
	To Loan account		14,17,500
	(Being grant initially recorded at fair value)		

Accounting treatment for year ending 31st March, 20X2

As per para 3 of Ind AS 20, grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets.

As per para 24-27 of Ind AS 20, Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

One method recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

A Ltd. has adopted first method of recognising the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. Here, deferred income is recognised in profit or loss in the proportion in which depreciation expense on the asset is recognised.

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

As the loan is to finance a depreciable asset, ₹ 10,82,500 will be recognized in Profit or Loss on the same basis as depreciation.

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.

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.20X2	Depreciation (Profit or Loss A/c) Dr.	10,00,000	

	To Property, Plant & Equipment		10,00,000
	(Being depreciation provided for the year)		
	Deferred grant income Dr.	2,16,500	
	To Profit or Loss		2,16,500
	(Being deferred income adjusted)		

Impact on profit or loss due to revocation of government grant as on 31st March 20X3

As per para 32 of Ind AS 20, a government grant that becomes repayable shall be accounted for as a change in accounting estimate. Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss.

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

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.20X3	Deferred grant income	Dr.	2,16,500	
	To Profit or Loss			2,16,500
	(Being deferred income adjusted)			
	Loan account (W.N.1)	Dr.	17,78,112	
	Deferred grant income (W.N.2)	Dr.	6,49,500	
	Profit or Loss	Dr.	72,388	
	To Government grant payable			25,00,000
	(Being refund of government grant)			
	Profit or Loss	Dr.	10,00,000	
	To Government grant payable			10,00,000
	(Being penalty payable to government)			

Therefore, 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).

Circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Working Notes:

1. Amortisation Schedule of Loan

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

2. 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

Q12. Nov 2021, RTP

A Ltd. has been conducting its business activities in backward areas of the country and due to higher operating costs in such regions, it has collectively incurred huge losses in previous years. As per a scheme of government announced in March 20X1, the company will be partially compensated for the losses incurred by it to the extent of ₹ 10,00,00,000, which will be received in October 20X1. The compensation being paid by the government meets the definition of government grant as per Ind AS 20. Assume that no other conditions are to be fulfilled by the company to receive the compensation.

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When should the grant be recognised in statement of profit and loss? Discuss in light of relevant Ind AS.

Answer

Paragraph 7 of Ind AS 20 states that, Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

(e) the entity will comply with the conditions attaching to them; and

(f) the grants will be received.

Further, paragraphs 20 and 22 of Ind AS 20 state as follows:

"A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable".

"A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood."

In accordance with the above, in the given case, as at March 20X1, A Ltd. is entitled to receive government grant in the form of compensation for losses already incurred by it in the previous years. Therefore, even though the compensation will be received in the month of October 20X1, A Ltd. should recognise the compensation receivable by it as a government grant in the profit or loss for the period in which it became receivable, i.e., for the financial year 20X0-20X1 with disclosure to ensure that its effect is clearly understood.

Q13. Nov 2020, RTP

Entity A is awarded a government grant of ₹60,000 receivable over three years (₹40,000 in year 1 and ₹10,000 in each of years 2 and 3), contingent on creating 10 new jobs and maintaining them for three years. The employees are recruited at a total cost of ₹30,000, and the wage bill for the first year is ₹ 1,00,000, rising by ₹10,000 in each of the subsequent years. Calculate the grant income and deferred income to be accounted for in the books for year 1, 2 and 3.

Answer

The income of ₹ 60,000 should be recognised over the three year period to compensate for the related costs.

Calculation of Grant Income and Deferred Income:

Year	Labour Cost	Grant Income		Deferred Income	
	₹	₹		₹	
1	1,30,000	21,667	60,000 x (130/360)	18,333	(40,000 – 21,667)
2	1,10,000	18,333	60,000 x (110/360)	10,000	(50,000 – 21,667 – 18,333)
3	1,20,000	20,000	60,000 x (120/360)	-	(60,000 – 21,667 – 18,333 – 20,000)
	3,60,000	60,000			

Therefore, Grant income to be recognised in Profit & Loss for years 1, 2 and 3 are ₹ 21,667, ₹ 18,333 and ₹ 20,000 respectively.

Amount of grant that has not yet been credited to profit & loss i.e; deferred income is to be reflected in the balance sheet. Hence, deferred income balance as at year end 1, 2 and 3 are ₹ 18,333, ₹ 10,000 and Nil respectively.

Q14. May 2020, RTP

Rainbow Limited is carrying out various projects for which the company has either received government financial assistance or is in the process of receiving the same. The company has received two grants of ₹ 1,00,000 each, relating to the following ongoing research and development projects:

i. The first grant relates to the "Clean river project" which involves research into the effect of various chemicals waste from the industrial area in Madhya Pradesh. However, no major steps have been completed by Rainbow limited to commence this research as at 31st march, 20X2.

ii. The second grant relates to the commercial development of a new equipment that can be used to manufacture eco-friendly substitutes for existing plastic products. Rainbow Limited is confident about the technical feasibility and financial viability of this new technology which will be available for sale in the market by April 20X3.

In September 20X1, due to the floods near one of its factories, the entire production was lost and Rainbow Limited had to shut down the factory for a period of 3 months. The State Government announced a compensation package for all the manufacturing entities affected due to the floods. As per the scheme, Rainbow Limited is entitled to a compensation based on the average of previous three months' sales figure prior to the floods, for which the company is required to submit an application form on or before 30th June, 20X2 with necessary figures. The financial statements of Rainbow Limited are to be adopted on 31st May, 20X2, by which date the claim form would not have been filed with the State Government.

Suggest the accounting treatment of, if any, for the two grants received and the flood -related compensation in the books of accounts of Rainbow Limited as on 31st March, 20X2.

Answer

Accounting treatment for:

1. First Grant

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

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

2. Second Grant

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

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

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

Alternatively, as per Ind AS 20, Rainbow Limited would also be permitted to offset the deferred income of ₹ 100,000 against the cost of the equipment as on 1st April, 20X3.

3. For flood related compensation

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

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

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Q1. Sep 2025 Exam, 5 Marks

Nancy Ltd. owns various machines including a machine used in the manufacture of air conditioners. The performance of this machine deteriorated significantly in last few months. This machine is expected to work for next five years after 31st March, 2025 at a reduced level and after that it will be scrapped. The cash flow projections for the machine for the next five years are as follows:

Year	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Amount in Rs.	24,70,000	18,60,000	16,30,000	10,10,000	8,50,000

Additional Information

(i) The above cash inflows should be assumed to occur on the last day of each financial year.
(ii) The pre-tax discount rate is 10%. Present value factor of Rs. 1 at 10% is as under:

2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
0.909	0.826	0.751	0.683	0.621

(iii) The machine could have been sold at 31st March, 2025 for Rs. 60,00,000 and related selling expenses in this regard could have been Rs. 11,50,000.
(iv) The machine had been revalued previously, and at 31st March, 2025 an amount of Rs. 3,80,000 was held in revaluation surplus in respect of this machine.
(v) The carrying value of the machine at 31st March, 2025 was Rs. 68,20,000.

You are required to calculate impairment loss for the year 2024-2025, if any and revised depreciation of the machine for subsequent years. The machine is depreciated on SLM basis.

Answer:

Calculation of Value in Use

Year ended	Cash flow (Rs.)	Discount factor @ 9%	Amount (Rs.)
31st March, 2026	24,70,000	0.909	22,45,230
31st March, 2027	18,60,000	0.826	15,36,360
31st March, 2028	16,30,000	0.751	12,24,130
31st March, 2029	10,10,000	0.683	6,89,830
31st March, 2030	8,50,000	0.621	5,27,850
Total (Value in Use)			**62,23,400**

Calculation of Recoverable Amount

Particulars	Amount (Rs.)
Value in use	62,23,400
Fair value less costs of disposal (60,00,000 – 11,50,000)	48,50,000
Recoverable amount (Higher of value in use and fair value less costs of disposal)	62,23,400

Calculation of Impairment Loss

Particulars	Amount (Rs.)
Carrying amount	68,20,000

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Less: Recoverable amount (Revised carrying amount)	(62,23,400)
Impairment loss	5,96,600

Set off of Impairment Loss:

The impairment loss of Rs. 5,96,600 must first be set off against any revaluation surplus in relation to the same asset. Therefore, the revaluation surplus of Rs. 3,80,000 is eliminated against impairment loss, and the remainder of the impairment loss Rs. 2,16,600 (Rs. 5,96,600 – Rs. 3,80,000) is charged to profit and loss.

Calculation of Revised Carrying Amount

Particulars	Amount (Rs.)
Carrying amount	68,20,000
Less: Impairment loss	(5,96,600)
Revised carrying amount	62,23,400

Calculation of Revised Depreciation:

(Revised carrying amount – Residual value)/Remaining life Revised Depreciation = (62,23,400 - 0)/5 = Rs. 12,44,680 per annum

Q2. May 2025 Exam, 8 Marks

Tiny Ltd. deals in trading of cars across India. It became 100% subsidiary of Any Ltd. on 1st April, 2022 at a purchase consideration of Rs. 64 crores. At the time of acquisition, the fair value of the net identifiable assets of Tiny Ltd. was Rs. 51 crores and goodwill was Rs. 13 crores.

The useful life of Tiny Ltd.'s assets as on 1st April, 2022 was estimated to be 15 years with no residual value. Any Ltd. follows straight line depreciation method.

On 31st March 2024, the government issued new guidelines due to which Tiny Ltd. had to close few of its showrooms. As a result, Tiny Ltd.'s revenue was estimated to reduce by 30%. This adverse change in marketplace and regulatory conditions indicated impairment. As a result, Any Ltd. had to estimate the recoverable amount of goodwill and net assets of Tiny Ltd. on 31st March 2024. No independent cash inflows can be identified to any individual assets. So, the entire operation of Tiny Ltd. was treated as a CGU. Due to the regulatory entangle it was not possible to determine the selling price of Tiny Ltd. as a CGU. Its value in use was estimated by the management at Rs. 35 crores.

Recently, on 31st March, 2025, the government withdrew the guidelines issued on 31st March, 2024. The management expects a favourable change in net cash flows. The recoverable amount of Tiny Ltd.'s net asset is re-estimated. The value in use is expected to be Rs. 52 crores and fair value less cost to disposal is expected to be Rs. 48 crores.

You are required to:

(i) Calculate the impairment loss, if any, as on 31st March 2024.
(ii) Also advise the accounting treatment for reversal of impairment loss and the subsequent depreciation thereon.

Answer:

Since the fair value less costs of disposal is not determinable the recoverable amount of the CGU is its value in use. The carrying amount of the assets of the CGU on 31st March, 2024 is as follows:

Calculation of Impairment loss

			Rs. in crores
	Goodwill	**Other assets**	**Total**
Historical Cost	13.00	51.00	64.00
Accumulated Depreciation [(51/15) x 2]	-	(6.80)	(6.80)
Carrying Amount	13.00	44.20	57.20
Impairment Loss	(13.00)	(9.20)	(22.20)

Revised Carrying Amount

Impairment Loss = Carrying Amount – Recoverable Amount (Rs. 57.20 crore - Rs. 35 crore) = Rs. 22.20 crore is charged to Statement of Profit and Loss for the period ending 31st March, 2024 as impairment loss.

Impairment loss is allocated first to goodwill Rs. 13 crore and remaining loss of Rs. 9.20 crore (Rs. 22.20 crore – Rs. 13 crore) is allocated to the other assets.

Reversal of Impairment loss

Reversal of impairment loss is recognised subject to that the impairment loss on goodwill cannot be reversed.

The increased carrying amount of an asset after reversal of an impairment loss not to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior year.

Calculation of carrying amount of identifiable assets had no impairment loss is recognised

	Rs. in crore
Historical Cost	51.00
Accumulated Depreciation for 3 years [(51/15) x 3]	(10.20)
Carrying amount had no impairment loss is recognised on 31st March, 2025	40.80

Carrying amount of other assets after recognition of impairment loss

	Rs. in crore
Carrying amount on 31st March, 2024	35.00
Accumulated Depreciation for 1 year [(35 /13) x 1] [rounded off to nearest two decimal]	(2.69)
Carrying amount on 31st March, 2025	32.31

1. Recoverable amount on 31st March, 2025 would be Rs. 52 crore [i.e. higher of fair value less costs of disposal (Rs. 48 crore) and value in use (Rs. 52 crore)]

2. The impairment loss recognised previously can be reversed only to the extent of lower of re-estimated carrying amount (Rs. 40.80 crore) and recoverable amount (Rs. 52 crore) i.e. Rs. 40.80 crore.

3. Impairment loss reversal will be Rs. 8.49 crore i.e. (Rs. 40.80 crore – Rs. 32.31 crore). This amount is recognised as income in the statement of profit and loss for the year ended 31st March, 2025.

4. The carrying amount of other assets at 31st March, 2025 after reversal of impairment loss will be Rs. 40.80 crore.

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5. From 1st April, 2025, the depreciation charge will be Rs. 3.40 crore i.e. (Rs. 40.80 crore/12)

Q3. Nov 2022 Exam, 8 Marks

Violet Limited is a beverages manufacturing company having various plants across India. There is Machinery A in the Surat plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also be sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with Machinery A it cannot produce output as well. The company considers this group of assets as a Cash Generating Unit and an Inventory amounting to ₹ 1.65 lakhs and Goodwill amounting to₹ 1.50 lakhs is included in such CGU.

Machinery A was purchased on 1st April 2016 for ₹ 12 lakhs and residual value is₹ 60 thousand. Machinery B was purchased on 1st April, 2018 for ₹ 5 lakhs with no residual value. The useful life of both Machinery A and B is 10 years. The company expects following cash flows in the next 5 years pertaining to Machinery A. The
incremental borrowing rate of company is 10% p.a.

Year	Cash Flows from Machinery A
1	2,00,000
2	1,50,000
3	1,00,000
4	1,50,000
5	1,00,000 (Excluding Residual Value)
Total	7,00,000

On 31st March, 2021, the professional valuers have estimated that the current market value of machinery A is ₹ 8.5 lakhs. There is a need to dismantle the machinery before delivering it to the buyer. Dismantling cost is ₹ 1.60 lakhs. Specialized packaging cost would be ₹ 30,000 and legal fees would be ₹ 68,000.

The inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is ₹ 10 lakhs as on 31st March, 2021. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is ₹ 11 lakhs i.e. on 31st March, 2022. The recoverable value of Machinery A is ₹ 5,50,000 and combined for Machinery A and Machinery B is ₹ 8,00,000 as on 31st March, 2022.

You are required to:

i. Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2021 by providing all the relevant working notes to arrive at such calculation.
ii. Compute the carrying value after considering prospective depreciation for the year 2021-2022 on the above assets.
iii. Compute the carrying value of CGU as at 31st March, 2022.

(Note: Present value factor of ₹ 1 should be taken upto 4 decimals for the purpose of calculation)

Answer

(i) Computation of impairment loss and carrying value of each of the asset in CGU after impairment loss

(a) Calculation of carrying value of Machinery A and B before impairment

Machinery A	
Cost (A)	₹ 12,00,000
Residual value	₹ 60,000
Useful life	10 years

Useful life already elapsed	5 years
Yearly depreciation (B)	₹ 1,14,000
WDV as at 31st March 2021 [A- (B x 5)]	₹ 6,30,000
Machinery B	
Cost (A)	₹ 5,00,000
Residual value	-
Useful life	10 years
Useful life already elapsed	3 years
Yearly depreciation (B)	₹ 50,000
WDV as at 31st March 2021 [C- (D x 3)]	₹ 3,50,000

(b) Calculation of Value-in-use of Machinery A

Period	Cash Flows (₹)	PVF@10%	PV
1	2,00,000	0.9091	1,81,820
2	1,50,000	0.8264	1,23,960
3	1,00,000	0.7513	75,130
4	1,50,000	0.6830	1,02,450
5	1,00,000	0.6209	62,090
5	60,000	0.6209	37,254
Value in use			5,82,704

(c) Calculation of Fair Value less cost of disposal of Machinery A

	₹
Fair Value	8,50,000
Less: Dismantling cost	(1,60,000)
Packaging cost	(30,000)
Legal Fees	(68,000)
Fair value less cost of disposal	**5,92,000**

(d) Calculation of Impairment loss on Machinery A

	₹
Carrying Value	6,30,000
Less: Recoverable Value ie higher of Value-in-use (₹ 5,82,704) and Fair value less cost of disposal (₹ 5,92,000)	(5,92,000)
Impairment Loss	**38,000**

(e) Calculation of Impairment loss of CGU

1. First goodwill will be impaired fully and then the remaining impairment loss of CGU will be allocated to Machinery A and Machinery B.
2. After deduction of value of goodwill ₹ 1,50,000 from total impairment loss of CGU of ₹ 2,95,000, remaining impairment loss would be ₹ 1,45,000.

If we allocate remaining impairment loss to Machinery A and B on pro-rata basis, it will come to ₹ 93,214 on Machinery A. However, the impairment loss of Machinery A cannot exceed ₹ 38,000 since its
recoverable value is ₹ 5,92,000. Hence, impairment loss to CGU will be as follows:

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	Carrying value before impairment loss	Impairment loss	Carrying value after impairment loss
	₹	₹	₹
Machinery A	6,30,000	38,000	5,92,000
Machinery B	3,50,000	1,07,000*	2,43,000
Inventory	1,65,000	-	1,65,000
Goodwill	1,50,000	1,50,000	-
Total	12,95,000	2,95,000	10,00,000

* Balancing figure.

(ii) Carrying value after adjustment of depreciation of 2021-2022

	₹
Machinery A [5,92,000 – {(5,92,000 - 60,000)/5}]	4,85,600
Machinery B [2,43,000 – (2,43,000/7)]	2,08,286
Inventory	1,65,000
Goodwill	-
Total	**8,58,886**

(c) Calculation of carrying value of CGU as on 31st March 2022

The revised value of CGU is ₹ 11 lakh. However, impaired goodwill cannot be reversed. Further, the individual assets cannot be increased above the lower of recoverable value or carrying value as if the assets were never impaired.

Accordingly, the carrying value as on 31st March 2022 assuming that the impairment loss had never incurred, will be:

	Carrying Value	Recoverable Value	Final CV as at 31st March 2022
Machinery A	[12,00,000 - (1,14,000 x6)] 5,16,000	5,50,000	5,16,000
Machinery B	[5,00,000 – (50,000x4)] 3,00,000	(8,00,000 –5,50,000) 2,50,000	2,50,000
Inventory	1,65,000*	1,65,000*	1,65,000*
Goodwill	-	-	-
Total	**9,81,000**	**9,65,000**	**9,31,000**

Hence, the impairment loss to be reversed will be limited to ₹ 72,114 only (₹ 9,31,000 – ₹ 8,58,886).

***Note:** The question required valuation of CGU at the year-end 31st March 2022, for which value of inventory was required. In the absence of the value of inventory for the year ended 31st March 2022, it is assumed that the value of inventory for the year ended 31st March 2022 is same as it was for the year ended 31st March, 2021.

Q4. May 2022 Exam, 5 Marks

RST Ltd. prepares consolidated financial statements as at 31st March each year. On 1st July, 2021, RST Ltd. acquired 75% of the equity shares of DHF Ltd. and gained control of DHF Ltd. The issued shares of DHF Ltd. are 1,20,00,000 equity shares. Details of the purchase consideration are as follows:

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On 1st July 2021, RST Ltd. issued two shares for every three shares acquired in DHF Ltd. On 1st July 2021, the market value of an equity share in RST Ltd. was ₹ 6.50 and the market value of an equity share in DHF Ltd. was ₹ 5.50.

On 30th June 2022, RST Ltd. will make cash payment of ₹ 71,50,000 to the former shareholders of DHF Ltd. who sold their shares to RST Ltd. on 1st July 2021. On 1st July, 2021, RST Ltd. would have to pay interest at an annual rate of 10% on borrowings.

On 30th June 2023, RST Ltd. may make a cash payment of ₹ 3,00,00,000 to the former shareholders of DHF Ltd. who sold their shares to RST Ltd. on 1st July 2021. This payment is contingent upon the revenues of RST Ltd. growing by 15% over the two-year period from 1st July, 2021 to 30th June, 2023. On 1st July 2021, the fair value of this contingent consideration was ₹ 2,50,00,000. On 31st March 2022, the fair value of the contingent consideration was ₹ 2,20,00,000.

On 1st July 2021, the carrying values of the identifiable net assets of DHF Ltd. in the books of that company was ₹ 6,00,00,000. On 1st July 2021, the fair values of these net assets was ₹ 7,00,00,000. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31st March 2022, DHF Ltd. had a poorer than expected operating performance. Therefore, on 31st March, 2022 it was necessary for RST Ltd. to recognize an impairment of the goodwill arising on acquisition of DHF Ltd. amounting to 12.50% of its total computed value.

Compute the impairment of goodwill in the consolidated financial statements of RST Ltd. under the methods permitted by Ind AS 103 for the initial computation of the non-controlling interest in DHF Ltd. at the acquisition date.

Answer

Computation of goodwill impairment

	NCI at fair value	**NCI at proportionate share of net assets**
	₹ in 000	**₹ in 000**
Cost of investment		
Share exchange (12,000 x 75% x 2/3 x ₹ 6.50)	39,000	39,000
Deferred consideration (7,150 / 1.10)	6,500	6,500
Contingent consideration	25,000	25,000
Total Purchase Consideration (a)	70,500	70,500
Non-controlling interest on the date of acquisition: (b)	16,500	
Fair value – 3,000 x ₹ 5.50		17,000
% of net assets – 68,000 (Refer W.N.) x 25%	(68,000)	(68,000)
Net assets on the acquisition date (Refer W.N.) (c)	19,000	19,500
Goodwill on acquisition (a+b-c)	2,375.00	2,437.50
Impairment @ 12.50%		

Working Note:

Net assets on the acquisition date	**₹ in 000**
Fair value at the acquisition date	70,000
Deferred tax on fair value adjustments [20% x (70,000 – 60,000)]	(2,000)
	68,000

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Q5. July 2021 Exam, 6 Marks

Limited purchased an asset of ₹ 200 lakh on 1st April 2017. It has useful life of 4 years with no residual value. Recoverable amount of the asset is as follows:

As on	Recoverable amount
31st March 2018	₹ 120 lakh
31st March 2019	₹ 80 lakh
31st March 2020	₹ 56 lakh

Calculate the amount of impairment loss or its reversal, if any,

- On 31st March 2018;
- On 31st March 2019;
- On 31st March 2020.

Depreciation is provided on SLM basis under the cost method.

Answer

As on 31st March, 2018

Carrying amount of the asset (opening balance)	₹ 200 lakh
Depreciation (₹ 200 lakh / 4 years)	(₹ 50 lakh)
Carrying amount of the asset (closing balance)	₹ 150 lakh
Recoverable amount (given)	₹ 120 lakh
Difference	₹ 30 lakh

Therefore, an impairment loss of ₹ 30 lakh should be recognised as on 31st March, 2018. Depreciation for subsequent years should be charged on the carrying amount of the asset (after providing for impairment loss), i.e., ₹ 120 lakh.

As on 31st March, 2019

Carrying amount of the asset (opening balance)	₹ 120 lakh
Depreciation (₹ 120 lakh / 3 years)	(₹ 40 lakh)
Carrying amount of the asset (closing balance)	₹ 80 lakh
Recoverable amount (given)	₹ 80 lakh
Difference	NIL

Therefore, no impairment loss should be recognised as on 31st March, 2019.

As on 31st March, 2020

Carrying amount of the asset (opening balance)	₹ 80 lakh
Depreciation (₹ 80 lakh / 2 years)	(₹ 40 lakh)
Carrying amount of the asset (closing balance)	₹ 40 lakh
Recoverable amount (given)	₹ 56 lakh
Difference	(₹ 16 lakh)

Since, the recoverable amount of the asset exceeds the carrying amount of the asset by ₹ 16 lakh, impairment loss recognised earlier should be reversed. However, reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior years.

Carrying amount as on 31st March, 2020 had no impairment loss being recognised would have been ₹ 50 lakh [ie. ₹ 200 lakh – (200 lakh / 4 x 3)]. Therefore, the reversal of an impairment loss of ₹ 10 lakh (₹ 50 lakh - ₹ 40 lakh) should be done as on 31st March, 2020.

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Q6. Nov 2020 Exam, 8 Marks

Pacific Ocean Railway Ltd. has three Cash Generating units namely Train, Railway station and Railway tracks, the carrying amounts of which as on 31 March 2020 are as follows:

Cash Generating units	Carrying amount (₹ in crore)	Remaining useful life
Train	1,500	10
Railway station	2,250	20
Railway tracks	3,300	20

Pacific Ocean Railway Ltd. also has two Corporate Assets having a remaining useful life of 20 years.

	(₹ in crore)	
Corporate Assets	**Carrying amount**	**Remarks**
Land	1,800	The carrying amount of Land can be allocated on a reasonable basis (i.e., pro rata basis) to the individual cash generating units.
Buildings	600	The carrying amount of Buildings cannot be allocated on a reasonable basis to the individual cash-generating units

.

Recoverable amount as on 31 March 2020 is as follows:

Cash Generating units	Recoverable Amount (₹ in crore)
Train	1,800
Railway station	2,700
Railway tracks	4,200
Company as a whole	9,600

Calculate the impairment loss, if any. Ignore decimals.

Answer

Allocation of corporate assets

The carrying amount of land is allocated to the carrying amount of each individual cash generating unit. A weighted allocation basis is used because the estimated remaining useful life of Train's cash-generating unit is 10 years, whereas the estimated remaining useful lives of Railway station and Railway tracks's cash-generating units are 20 years.

				(₹ in crore)
Particulars	**Train**	**Railway station**	**Railway tracks**	**Total**
Carrying amount (a)	1,500	2,250	3,300	7,050
Useful life	10 years	20 years	20 years	-
Weight based on useful life	1	2	2	-
Carrying amount (after assigning weight)	1,500	4,500	6,600	12,600
	12%	36%	52%	100%

Pro-rata allocation of Land	(1,500/12,600)	(4,500/12,600)	(6,600/12,600)	
	216	648	936	1,800
Allocation of carrying amount of Land (b)				
Carrying amount (after allocation of Land) (a+b)	1,716	2,898	4,236	8,850

Calculation of impairment loss

Step I: Impairment losses for individual cash-generating units and its allocation:

(a) Impairment loss of each cash-generating units

			(₹ in crore)
Particulars	**Train**	**Railway station**	**Railway tracks**
Carrying amount (after allocation of land)	1,716	2,898	4,236
Recoverable amount	1,800	2,700	4,200
Impairment loss	-	198	36

(b) Allocation of the impairment loss

				(₹ in crore)
Allocation to	**Railway station**		**Railway tracks**	
Land	44	[198 x (648 / 2,898)]	8	[36 x (936 / 4,236)]
Other assets in cash-generating units	154	[198 x 2,250 / 2,898)]	28	[36 x (3,300/ 4,236)]
Impairment loss	198		36	

Step II: Impairment losses for the larger cash-generating unit, i.e., Pacific Ocean Railway Ltd. as a whole

						(₹ in crore)
Particulars	**Train**	**Railway station**	**Railway tracks**	**Land**	**Building**	**Pacific Ocean Railway Ltd.**
Carrying amount	1,500	2,250	3,300	1,800	600	9,450
Impairment loss (Step I)	-	(154)	(28)	(52)	-	(234)
Carrying amount (after Step I)	1,500	2,096	3,272	1,748	600	9,216
Recoverable amount						9,600

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Impairment loss for the 'larger' cash-generating unit	Nil

Q7. Nov 2019 Exam, 10 Marks

On June 1, 2018, entity D Limited plans to sell a group of assets and liabilities, which is classified as a disposal group. On July 31, 2018, the Board of Directors approved and committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity G Limited.

However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by November 30, 2018 and the sale is expected to be completed by 31st March, 2019. Entity D Limited follows December year end. The assets and liabilities attributable to this manufacturing unit are as under:

(₹ in lakh)

Particulars	**Carrying value as on 31st December, 2017**	**Carrying value as on 31st July, 2018**
Goodwill	1,000	1,000
Plant and Machinery	2,000	1,800
Building	4,000	3,700
Debtors	1,700	2,100
Inventory	1,400	800
Creditors	(600)	(500)
Loans	(4,000)	(3,700)
Net	5,500	5,200

The fair value of the manufacturing unit as on December 31, 2017 is ₹ 4,000 lakh and as on July 31, 2018 is ₹ 3,700 lakh. The cost to sell is ₹ 200 lakh on both these dates. The disposal group is not sold at, the period end i.e., December 31, 2018. The fair value as on 31st December, 2018 is lower than the carrying value of the disposal group as on that date.

Required:

i. Assess whether the manufacturing unit can be classified as held for sale and reasons thereof. If yes, then at which date?
ii. The measurement of the manufacturing unit as on the date of classification as held for sale.
iii. The measurement of the manufacturing unit as at the end of the year.

Answer

(i) Assessment of manufacturing unit whether to be classified as held for sale

The manufacturing unit can be classified as held for sale due to the following reasons:

a) The disposal group is available for immediate sale and in its present condition. The regulatory approval is customary and it is expected to be received in one year. The date at which the disposal group is classified as held for sale will be31st July, 2018, i.e. the date at which management becomes committed to the plan.
b) The sale is highly probable as the appropriate level of management i.e., board of directors in this case have approved the plan.
c) A firm purchase agreement has been entered with the buyer.
d) The sale is expected to be complete by 31st March, 2019, i.e., within one year from the date of classification.

(ii) Measurement of the manufacturing unit as on the date of classification as held for sale

Following steps need to be followed:

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Step 1: Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Ind AS.

This has been done and the carrying value of the disposal group as on 31st July, 2018 is determined at ₹ 5,200 lakh. The difference between the carrying value as on 31st December, 2017 and 31st July, 2018 is accounted for as per Ind AS 36.

Step 2: An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

The fair value less cost to sell of the disposal group as on 31st July, 2018 is ₹ 3,500 lakh (i.e. ₹ 3,700 lakh - ₹ 200 lakh). This is lower than the carrying value of ₹ 5,200 lakh. Thus, an impairment loss needs to be recognised and allocated first towards goodwill and thereafter pro-rata between assets of the disposal group which are within the scope of Ind AS 105 based on their carrying value.

Thus, the assets will be measured as under:

(₹ in lakh)

Particulars	**Carrying value – 31st July, 2018**	**Impairment**	**Carrying value as per Ind AS 105 – 31st July, 2018**
Goodwill	1,000	(1,000) (Refer WN)	-
Plant and Machinery	1,800	(229) (Refer WN)	1,571
Building	3,700	(471)	3,229
Debtors	2,100	-	2,100
Inventory	800	-	800
Creditors	(500)	-	(500)
Loans	(3,700)	-	(3,700)
	5,200	(1,700)	3,500

Working Note:

Allocation of impairment loss to Plant and Machinery and Building

After adjustment of impairment loss of ₹ 1,000 lakh from the full value of goodwill, the balance ₹ 700 lakh (₹ 1,700 lakh – ₹ 1,000 lakh) is allocated to plant and machinery and Building on proportionate basis.

Plant and machinery – ₹ 700 lakh x ₹ 1,800 lakh / ₹ 5,500 lakh = ₹ 230 lakh (rounded off)

Building – ₹ 700 lakh x ₹ 3,700 lakh / ₹ 5,500 lakh = ₹ 470 lakh (rounded off)

(iii) Measurement of the manufacturing unit as on the date of classification as at the year end

The measurement as at the year-end shall be on similar lines as done above.

The assets and liabilities in the disposal group not within the scope of this Standard are measured as per the respective standards.

The fair value less cost to sell of the disposal group as a whole is calculated. This fair value less cost to sell as at the year-end shall be compared with the carrying value as at the date of classification as held for sale. It is provided that the fair value as on the year end is less than the carrying amount as on that date – thus the impairment loss shall be allocated in the same way between the assets of the disposal group falling within the scope of this standard as shown above.

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Measurement of the manufacturing unit as on the date of classification as at the year-end shall be on similar lines as done above

Q8. Nov 2023, RTP | May 2021 RTP

On 31st March, 20X1, Jackson Ltd. purchased 80% of the equity of Kaplan Ltd. for ₹. 190 million. The fair values of the net assets of Kaplan Ltd. that were included in the consolidated balance sheet of Jackson Ltd. at 31st March, 20X1 were measured at ₹. 200 million (their fair values at that date). It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at its proportionate share of the fair value of the subsidiaries' identifiable net assets.

On 31st March, 20X4, Jackson Ltd. carried out its annual review of the goodwill on consolidation of Kaplan Ltd. for evidence of impairment. No impairment had been evident when the reviews were carried out on 31st March, 20X2 and 31st March, 20X3.

The review involved allocating the assets of Kaplan Ltd. into three cash-generating units and computing the value in use of each unit. The carrying values of the individual units before any impairment adjustments are given below:

	Unit A **₹. in million**	**Unit B** **₹. in million**	**Unit C** **₹. in million**
Intangible assets	30	10	-
Property, Plant and Equipment	80	50	60
Current Assets	60	30	40
Total	170	90	100
Value in use of unit	180	66	104

It was not possible to meaningfully allocate the goodwill on consolidation to the individual cash generating units but all the other net assets of Kaplan Ltd. are allocated in the table shown above.

The intangible assets of Kaplan Ltd. have no ascertainable market value but all the current assets have a market value that is at least equal to their carrying value. The value in use of Kaplan Ltd. as a single cash-generating unit on 31st March, 20X4 is ₹. 350 million.

Recommend the treatment for impairment of goodwill.

Answer

The goodwill on consolidation of Kaplan Ltd. that is recognized in the consolidated balance sheet of Jackson Ltd. is ₹. 30 million (₹. 190 million – 80% x ₹. 200 million). This can only be reviewed for impairment as part of the cash generating units to which it relates. Since here the goodwill cannot be meaningfully allocated to the units, the impairment review is in two parts.

Units A and C have values in use that are more than their carrying values. However, the value in use of Unit B is less than its carrying amount. This means that the assets of unit B are impaired by ₹. 24 million (₹. 90 million – ₹. 66 million). This impairment loss will be charged to the Statement of Profit and Loss.

Assets will be written down on a pro-rata basis as shown in the table below:

₹. in million

Asset	**Impact on carrying value**		
	Existing	**Impairment**	**Revised**

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Intangible assets	10	(4)	6
Property, plant and equipment	50	(20)	30
Current assets	30	Nil*	30
Total	90	(24)	66

*The current assets are not impaired because they are expected to realize at least their carrying value when disposed of.

Following this review, the three units plus the goodwill are reviewed together. The impact of this is shown in the following table, given that the recoverable amount of the business as a whole is ₹. 350 million.

₹. in million

Component	**Impact of impairment review on carrying value**		
	Existing	**Impairment**	**Revised**
Goodwill (see below)	37.50	(23.50)	14.00
Unit A	170.00	Nil	170.00
Unit B (revised)	66.00	Nil	66.00
Unit C	100.00	Nil	100.00
Total	**373.50**	**(23.50)**	**350.00**

As per Appendix C of Ind AS 36, given that the subsidiary is 80% owned the goodwill must first be grossed up to reflect a notional 100% investment. Therefore, the goodwill will be grossed up to ₹. 37.50 million (₹. 30 million x 100/80). The impairment loss of ₹. 23.50 million is all allocated to goodwill, leaving the carrying values of the individual units of the business as shown in the table immediately above.

The table shows that the notional goodwill that relates to a 100% interest is written down by ₹. 23.50 million to ₹. 14.00 million. However, in the consolidated financial statements the goodwill that is recognized is based on an 80% interest so the loss that is actually recognized is ₹. 18.80 million (₹. 23.50 million x 80%) and the closing consolidated goodwill figure is ₹. 11.20 million (₹. 14.00 million x 80%) or (₹. 30 million – ₹. 18.80 million).

Q9. Nov 2024, RTP

At 31st March, 20X1, the assets of a CGU are being reviewed for impairment. The carrying value of the CGU's net assets is Rs.65 lakhs (excluding any restructuring provision), and remaining useful economic life of recognised asset is eight years.

Management's approved budgets at 31st March, 20X1 include restructuring costs of Rs. 3,50,000 to be incurred in 20X2; the restructuring is expected to generate cost savings of Rs. 1,00,000 per annum from 20X3 onwards. Formal budgets have been prepared for the three years to 31st March, 20X4. A zero-growth rate is assumed, because market conditions are extremely competitive, and this is expected to continue for the foreseeable future. The future cash flow estimates are as follows:

Year	With restructuring consideration	Without restructuring consideration
	Rs.	Rs.
20X1-20X2	5,20,000	8,70,000
20X2-20X3	10,00,000	9,00,000
20X3-20X4	10,50,000	9,50,000
20X4-20X5	10,50,000	9,50,000
20X5-20X6	10,50,000	9,50,000
20X6-20X7	10,50,000	9,50,000
20X7-20X8	10,50,000	9,50,000
20X8-20X9	10,50,000	9,50,000

In 20X2, the net cash flows without restructuring (Rs. 8,70,000) exceed the net cash flows with restructuring (Rs. 5,20,000) by the amount of the restructuring costs (Rs. 3,50,000).

The future cash flows (which exclude inflation) have been discounted at a rate of 4%. For simplicity, it has been assumed that the cash flows arise at the end of each year.

Compute Impairment Loss at 31st March, 20X1 when-

I. Restructuring costs is recognised in the financial statements at 31st March, 20X1
II. Restructuring costs is not recognised in the financial statements at 31st March, 20X1

Answer:

Computation of present value of cash flows under both the following conditions:

Year	Discount factor	With restructuring consideration		Without restructuring coordination	
		Future net cash flows	Present value	Future net cash flows	Present value
	(a)	(b)	(c)=(a)x(b)	(d)	(e)=(a)x(d)
20X1-20X2	0.962	5,20,000	5,00,000	8,70,000	8,36,000
20X2-20X3	0.925	10,00,000	9,25,000	9,00,000	8,32,000
20X3-20X4	0.889	10,50,000	9,33,000	9,50,000	8,45,000
20X4-20X5	0.855	10,50,000	8,98,000	9,50,000	8,12,000
20X5-20X6	0.822	10,50,000	8,63,000	9,50,000	7,81,000
20X6-20X7	0.790	10,50,000	8,30,000	9,50,000	7,51,000
20X7-20X8	0.760	10,50,000	7,98,000	9,50,000	7,22,000
20X8-20X9	0.730	10,50,000	7,67,000	9,50,000	6,94,000
Value in use			65,14,000		62,73,000

The impairment calculations at 31st March, 20X1 differ according to whether or not provision for the restructuring costs is recognised in the financial statements. This will depend on whether the requirements of Ind AS 37 have been met for recognition.

(i) Provision for restructuring costs recognised at 31st March, 20X1

If provision has been made for restructuring costs, the costs and benefits of the restructuring are taken into account in determining the CGU's value in use. Here, the post – restructuring value in use (Rs. 6,514,000) exceeds the CGU's carrying value (Rs. 6,500,000 less restructuring provision of

Rs. 350,000). Hence, there is no impairment of the CGU's assets.

In the year to 31st March, 20X1, the financial statements reflect the following charges.

Restructuring provision Rs. 350,000

Impairment loss Nil

(ii) No provision for restructuring costs recognised at 31st March, 20X1

If no provision for restructuring costs is permitted by Ind AS 37, the costs and benefits of the restructuring have to be stripped out of the projections in determining the CGU's value in use. Here, the CGU's carrying value (Rs. 65,00,000) exceeds its pre- restructuring value in use (Rs. 62,73,000). Therefore, there is an impairment loss of Rs. 2,27,000.

In the year to 31st March, 20X1, the financial statements reflect the following charges:

Restructuring provisions Nil

Impairment loss Rs. 2,27,000

Q10. Nov 2020, RTP

The UK entity with a sterling functional currency has a property located in US, which was acquired at a cost of US$ 1.8 million when the exchange rate was £1 = US$ 1.60. The property is carried at cost. At the balance sheet date, the recoverable amount of the property (as a result of an impairment review) amounted to US$ 1.62 million, when the exchange rate £1 = US$ 1.80. Compute the amount which is to be reported in Profit & Loss of UK entity as a result of impairment, if any. Ignore depreciation. Also analyse the total impairment loss on account of change in value due to impairment component and exchange component.

Answer

Ignoring depreciation, the loss that would be reported in the Profit and Loss as a result of the impairment is as follows:

	£
*Carrying value at balance sheet date-US$ 16,20,000 @ £ 1.8 =	9,00,000
Historical cost- US$ 18,00,000 @ £ 1.6 =	11,25,000
Impairment loss recognised in profit and loss	(2,25,000)
The components of the impairment loss can be analysed as follows:	
Change in value due to impairment = US$ 1,80,000 @ £ 1.8 =	(1,00,000)
Exchange component of change =	
US$ 18,00,000 @ 1.8 – US$ 18,00,000 @ £ 1.6	(1,25,000)
*Recoverable amount being less than cost becomes the carrying value.	

Q11. May 2020 , RTP

One of the senior engineers at XYZ has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. This is a major project and has the full support of XYZ's board of directors. The senior engineer believes that the cost reductions will exceed the project costs within twenty four months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 20X5. This removed uncertainties concerning the project, which was finally completed on 20 April 20X6. Costs of ₹ 18,00,000, incurred during the year till 31st March 20X6, have been recognized as an intangible asset. An offer of ₹

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7,80,000 for the new developed technology has been received by potential buyer but it has been rejected by XYZ. Utkarsh believes that the project will be a major success and has the potential to save the company ₹ 12,00,000 in perpetuity. Director of research at XYZ, Neha, who is a qualified electronic engineer, is seriously concerned about the long term prospects of the new process and she is of the opinion that competitors would have developed new technology at some time which would require to replace the new process within four years. She estimates that the present value of future cost savings will be ₹ 9,60,000 over this period. After that, she thinks that there is no certainty about its future. What would be the appropriate accounting treatment of aforesaid issue?

Answer

Ind AS 38 'Intangible Assets' requires an intangible asset to be recognised if, and only if, certain criteria are met. Regulatory approval on 1 June 20X5 was the last criterion to be met, the other criteria have been met as follows:

- Intention to complete the asset is apparent as it is a major project with full support from board
- Finance is available as resources are focused on project
- Costs can be reliably measured
- Benefits are expected to exceed costs – (in 2 years)

Amount of ₹ 15,00,000 (₹ 18,00,000 x 10/12) should be capitalised in the Balance sheet of year ending 20X5-20X6 representing expenditure since 1 June 20X5.
The expenditure incurred prior to 1 June 20X5 which is ₹ 3,00,000 (2/12 x ₹ 18,00,000) should be recognised as an expense, retrospective recognition of expense as an asset is not allowed.

Ind AS 36 'Impairment of assets' requires an intangible asset not yet available for use to be tested for impairment annually.

Cash flow of ₹ 12,00,000 in perpetuity would clearly have a present value in excess of ₹ 12,00,000 and hence there would be no impairment. However, the research director is technically qualified, so impairment tests should be based on her estimate of a four-year remaining life and so present value of the future cost savings of ₹ 9,60,000 should be considered in that case.

₹ 9,60,000 is greater than the offer received (fair value less costs to sell) of ₹ 7,80,000 and so ₹ 9,60,000 should be used as the recoverable amount.
So, the carrying amount should be consequently reduced to ₹ 9,60,000.

Calculation of Impairment loss:

Particulars	**Amount ₹**
Carrying amount (Restated)	15,00,000
Less: Recoverable amount	9,60,000
Impairment loss	**5,40,000**

Impairment loss of ₹ 5,40,000 is to be recognised in the profit and loss for the year 20X5-20X6.

Necessary adjusting entry to correct books of account will be:

	₹	**₹**
Operating expenses- Development expenditure Dr.	3,00,000	
	5,40,000	
Operating expenses–Impairment loss of intangible assets Dr.		8,40,000

To Intangible assets – Development expenditure		

Q12. May 2020 , RTP

PQR Ltd. is the company which has performed well in the past but one of its major assets, an item of equipment, suffered a significant and unexpected deterioration in performance. Management expects to use the machine for a further four years after 31st March 20X6, but at a reduced level. The equipment will be scrapped after four years. The financial accountant for PQR Ltd. has produced a set of cash-flow projections for the equipment for the next four years, ranging from optimistic to pessimistic. CFO thought that the projections were too conservative, and he intended to use the highest figures each year. These were as follows:

	₹. '000
Year ended 31st March 20X7	276
Year ended 31st March 20X8	192
Year ended 31st March 20X9	120
Year ended 31st March 20Y0	114

The above cash inflows should be assumed to occur on the last day of each financial year. The pre-tax discount rate is 9%. The machine could have been sold at 31st March 20X6 for ₹. 6,00,000 and related selling expenses in this regard could have been ₹. 96,000. The machine had been re valued previously, and at 31st March 20X6 an amount of ₹. 36,000 was held in revaluation surplus in respect of the asset. The carrying value of the asset at 31st March 20X6 was ₹. 660,000. The Indian government has indicated that it may compensate the company for any loss in value of the assets up to its recoverable amount.

Calculate impairment loss, if any and revised depreciation of asset. Also suggest how Impairment loss, if any would be set off and how compensation from government be accounted for?

Answer

Carrying amount of asset on 31st March 20X6 = ₹. 6,60,000

Calculation of Value in Use:

Year ended	**Cash flow ₹.**	**Discount factor @ 9%**	**Amount ₹.**
31st March, 20X7	2,76,000	0.9174	2,53,202
31st March, 20X8	1,92,000	0.8417	1,61,606
31st March, 20X9	1,20,000	0.7722	92,664
31st March, 20Y0	1,14,000	0.7084	80,758
		Total (Value in Use)	**5,88,230**

Calculation of Recoverable amount:

Particulars	**Amount (₹.)**
Value in us	5,88,230
Fair value less costs of disposal (6,00,000 – 96,000	5,04,000

Recoverable amount (Higher of value in use and fair value less costs of disposal)	5,88,230

Calculation of Impairment loss:

Particulars	**Amount (₹.)**
Carrying amount 6,60,000	6,60,000
Less: Recoverable amount	(5,88,230)
Impairment loss	**71,770**

Calculation of Revised carrying amount:

Particulars	**Amount (₹.)**
Carrying amount 6,60,000	6,60,000
Less: Recoverable amount	(71,770)
Impairment loss	**5,88,230**

Calculation of Revised Depreciation:
Revised carrying amount – Residual value
Remaining life = (5,88,230 - 0) / 4 = ₹. 1,47,058 per annum

Set off of Impairment loss:
The impairment loss of ₹. 71,770 must first be set off against any revaluation surplus in relation to the same asset. Therefore, the revaluation surplus of ₹. 36,000 is eliminated against impairment loss, and the remainder of the impairment loss ₹. 35,770 (₹. 71,770 – ₹. 36,000) is charged to profit and loss.

Treatment of Government compensation:
Any compensation by government would be accounted for as such when it becomes receivable. At this time, the government has only stated that it may reimburse the company and therefore credit should not be taken for any potential government receipt.

Q13. Nov 2019 , RTP

East Ltd. (East) owns a machine used in the manufacture of steering wheels, which are sold directly to major car manufacturers.

• The machine was purchased on 1st April, 20X1 at a cost of ₹. 500 000 through a vendor financing arrangement on which interest is being charged at the rate of 10 per cent per annum.

• During the year ended 31st March, 20X3, East sold 10 000 steering wheels at a selling price of ₹. 190 per wheel.

• The most recent financial budget approved by East's management, covering the period 1st April, 20X3 – 31st March, 20X8, including that the company expects to sell each steering wheel for ₹. 200 during 20X3-X4, the price rising in later years in line with a forecast inflation of 3 per cent per annum.

• During the year ended 31st March, 20X4, East expects to sell 10 000 steering wheels. The number is forecast to increase by 5 per cent each year until 31st March, 20X8.

• East estimates that each steering wheel costs ₹. 160 to manufacture, which includes ₹. 110 variable costs, ₹. 30 share of fixed overheads and ₹. 20 transport costs.

• Costs are expected to rise by 1 per cent during 20X4-X5, and then by 2 per cent per annum until 31st March, 20X8.

• During 20X5-X6, the machine will be subject to regular maintenance costing ₹. 50,000.

• In 20X3-X4, East expects to invest in new technology costing ₹. 100 000. This technology will reduce the variable costs of manufacturing each steering wheel from ₹. 110 to ₹. 100 and the share of fixed overheads from ₹. 30 to ₹. 15 (subject to the availability of technology, which is still under development).

• East is depreciating the machine using the straight line method over the machine's 10 year estimated useful life. The current estimate (based on similar assets that have reached the end of their useful lives) of the disposal proceeds from selling the machine is ₹. 80 000 net of disposal costs. East expects to dispose of the machine at the end of March, 20X8.

• East has determined a pre-tax discount rate of 8 per cent, which reflects the market's assessment of the time value of money and the risks associated with this asset.

Assume a tax rate of 30%. What is the value in use of the machine in accordance with Ind AS 36?

Answer

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

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

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

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

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

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

Year ended	20X3-X4	20X4-X5	20X5-20X6	20X6-X7	20X7-X8	Value in use

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Quantity (A)	10,000	10,500	11,025	11,576	12,155	
Price per unit(B)	₹.200	₹. 206	₹. 212	₹. 219	₹. 225	
Estimated cash inflows (C=A x B)	₹. 20,00,000	₹. 21,63,000	₹. 23,37,300	₹. 25,35,144	₹. 27,34,875	
Misc. cash inflow disposal proceeds (D)					₹. 80 000	
Total estimated cash inflows (E=C+D)	₹. 20,00,000	₹. 21,63,000	₹. 23,37,300	₹. 25,35,144	₹. 28,14,875	
Cost per unit (F)	₹. 160	₹. 162	₹. 165	₹. 168	₹. 171	
Estimated cash outflows (G = A x F)	(₹.16,00,000)	(₹. 17,01,000)	(₹. 18,19,125)	(₹. 19,44,768)	(₹.20,78,505)	
Misc. cash outflow: Maintenance costs (H)			(₹. 50,000)			
Total estimated cash outflows (I=G+H)	(₹.16,00,000)	(₹. 17,01,000)	(₹. 18,69,125)	(₹. 19,44,768)	(₹.20,78,505)	
Discount factor 8% (K)	₹. 4,00,000	₹. 4,62,000	₹. 4,68,175	₹. 5,90,376	₹. 7,36,370	
Net cash flows (J=E-I)	0.9259	0.8573	0.7938	0.7350	0.6806	
Discounted future cash flows (L=J x K)	₹. 3,70,360	₹. 3,96,073	₹. 3,71,637	₹. 4,33,926	₹. 5,01,173	₹.20,73,169

Q14. May 2019 , RTP

Elia limited is a manufacturing company which deals in to manufacturing of cold drinks and beverages. It is having various plants across India. There is a Machinery A in the Baroda plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with Machine A it cannot produce output as well. The Company considers this group of assets as

a Cash Generating Unit and an Inventory amounting to ₹. 2 Lakh and Goodwill amounting to ₹. 1.50 Lakhs is included in such CGU.

Machinery A was purchased on 1st April 2013 for ₹. 10 Lakhs and residual value is ₹. 50 thousands. Machinery B was purchased on 1st April, 2015 for ₹. 5 Lakhs with no residual value. The useful life of both Machine A and B is 10 years. The Company expects following cash flows in the next 5 years pertaining to Machinery A. The incremental borrowing rate of the company is 10%.

Year	**Cash Flows from Machinery A**
1	1,50,000
2	1,00,000
3	1,00,000
4	1,50,000
5	1,00,000 (excluding Residual Value)
Total	**6,00,000**

On 31st March, 2018, the professional valuers have estimated that the current market value of Machinery A is ₹. 7 lakhs. The valuation fee was ₹. 1 lakh. There is a need to dismantle the machinery before delivering it to the buyer. Dismantling cost is ₹. 1.50 lakhs. Specialised packaging cost would be ₹. 25 thousand and legal fees would be ₹. 75 thousand.

The Inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is ₹. 10 Lakh as on 31st March, 2018. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is ₹. 11 Lakhs ie on 31st March, 2019. The Recoverable value of Machine A is ₹. 4,50,000 and combined Machine A and B is ₹. 7,60,000 as on 31st March, 2019.

Required:

a) Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2018 by providing all the relevant working notes to arrive at such calculation.

b) Compute the prospective depreciation for the year 2018-2019 on the above assets.

c) Compute the carrying value of CGU as at 31st March, 2019.

Answer

(a) Computation of impairment loss and carrying value of each of the asset in CGU after impairment loss

(i) Calculation of carrying value of Machinery A and B before impairment

Machinery A		
Cost	(A)	₹. 10,00,000
Residual Value ₹. 50,000		
Useful life 10 years		
Useful life already elapsed 5 years		

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Yearly depreciation	(B)	₹. 95,000
WDV as at 31st March, 2018 [A- (B x 5)]		**₹. 5,25,000**
Machinery B		
Cost	(C)	₹. 5,00,000
Residual Value -		
Useful life 10 years		
Useful life already elapsed 3 years		
Yearly depreciation	(D)	₹. 50,000
WDV as at 31st March, 2018 [C- (D x 3)]		**₹. 3,50,000**

(ii) Calculation of Value-in-use of Machinery A

Period	**Cash Flows (₹.)**	**PVF**	**PV**
1	1,50,000	0.909	1,36,350
2	1,00,000	0.826	82,600
3	1,00,000	0.751	75,100
4	1,50,000	0.683	1,02,450
5	1,00,000	0.621	62,100
	50,000	0.621	31,050
Value in use			**4,89,650**

(iii) Calculation of Fair Value less cost of disposal of Machinery A

	₹.
Fair Value	7,00,000
Less: Dismantling cost	(1,50,000)
Packaging cost	**(**25,000)
Legal Fees	(75,000)
Fair value less cost of disposal	**4,50,000**

(iv) Calculation of Impairment loss on Machinery A

	₹.
Carrying Value	5,25,000
Less: Recoverable Value ie higher of Value-in-use and	
Fair value less cost of disposal	4,89,650
Impairment Loss	**35,350**

₹.

(v) Calculation of Impairment loss of CGU

1. First goodwill will be impaired fully and then the remaining impairment loss of ₹. 75,000 will be allocated to Machinery A and B.

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2. If we allocate remaining impairment loss to Machinery A and B on pro-rata basis, it would come to ₹. 45,000 on Machinery A. However, the impairment loss of Machinery A cannot exceed ₹. 35,350. Hence, impairment to CGU will be as follows:

	Carrying value before impairment loss	**Impairment loss**	**Carrying value after impairment loss**
	₹.	**₹.**	**₹.**
Machinery A	5,25,000	35,350	4,89,650
Machinery B	3,50,000	39,650*	3,10,350
Inventory	2,00,000	-	2,00,000
Goodwill	1,50,000	1,50,000	-
Total	**12,25,000**	**2,25,000**	**10,00,000**

* Balancing figure.

(b) Carrying value after adjustment of depreciation

	₹.
Machinery A [4,89,650 – {(4,89,650-50,000)/5}]	4,01,720
Machinery B [3,10,350 – (3,10,350/7)]	2,66,014
Inventory	2,00,000
Goodwill -	-
Total	**8,67,734**

(c) Calculation of carrying value of CGU as on 31st March, 2019

The revised value of CGU is ₹. 11 Lakh. However, impaired goodwill cannot be reversed. Further, the individual assets cannot be increased by lower of recoverable value or Carrying Value as if the assets were never impaired.

Accordingly, the carrying value as on 31st March, 2019 assuming that the impairment loss had never incurred, will be:

	Carrying Value	**Recoverable Value**	**Final CV as at 31st Mar 2019**
Machinery A	4,30,000	4,50,000	4,30,000
Machinery B	3,00,000	(7,60,000 – 4,50,000) 3,10,000	3,00,000
Inventory	2,00,000	2,00,000	2,00,000
Goodwill	-		

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Total	**9,30,000**	**9,60,000**	**9,30,000**

Hence the impairment loss to be reversed will be limited to ₹. 62,266 only (₹. 9,30,000 – ₹. 8,67,734).

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Q1. Jan 2026 Exam, 6 marks

U Limited had purchased a production plant for Rs. 9.00 lakhs on 1st April, 2022. The useful life of the plant is 9 years and is depreciated on straight line method with Nil residual value. On 1st April 2024, U Limited temporarily stops using the production plant as demand had declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.

The accountant of U Limited decided to treat the plant as held for sale until the demand picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell.

Accountant has also stopped charging the depreciation for the rest of the period considering the plant as held for sale. The fair value less cost to sell on 1st April 2024 and 31 March 2025 was Rs. 6.00 lakhs and Rs. 5.00 lakhs respectively.

The accountant undertook the following working:

Carrying amount on initial classification as held for sale

		(All amounts in Rs.)
Purchase price of Plant	*9,00,000*	
Less: Accumulated depreciation (9,00,000/9 years) × 2 years	*(2,00,000)*	
Carrying value as on 1st April 2024		*7,00,000*
Fair value less cost to sell as on 1st April 2024		*6,00,000*
The value will be lower of the above two		*6,00,000*

Balance Sheet extract as on 31st March, 2025

Assets	***Rs.***
Assets classified as held for sale	*5,00,000*

Discuss the above accounting treatment of the accountant as per Ind AS 105 and/or Ind AS 16. In case you are not in agreement with the accountant, suggest the correct treatment. Give necessary workings.

Answer:

As per para 6 of Ind AS 105, an entity shall classify a non-current asset as held for sale if its carrying amount is recovered principally through a sale transaction rather than through continuing use. Further, paras 7 and 8 of Ind AS 105 inter alia states that the asset must be available for immediate sale in its present condition and its sale must be highly probable i.e. the management must be committed to a plan to sell the asset and the sale should be expected to be completed within one year from the date of classification.

Moreover, para 55 of Ind AS 16 states that depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Going by the guidance given above, since the management has temporarily stopped the production due to decline in demand and had no intention to sell the asset within one year, the classification of the asset as held for sale by the accountant of U Ltd. is not correct. Also, U Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

The working of the same for presenting in the balance sheet is given as below:

Calculation of carrying amount as on 31st March, 2025	Rs.
Purchase Price of Production Plant	9,00,000
Less: Accumulated depreciation (9,00,000/ 9 years) x 3 years	(3,00,000)
	6,00,000
Less: Impairment loss (Refer W.N.)	(1,00,000)
Fair value less cost to sell the Production Plant as on 31st March, 2025	5,00,000

Balance Sheet (extracts) as on 31st March 2025

Assets	Rs.
Non-Current Assets	
Property, Plant and Equipment	5,00,000

Working Note:

Computation of Impairment Loss

Fair value less cost to sell the Plant = Rs. 5,00,000

Value in Use = Nil (since plant has temporarily not been used for manufacturing due to decline in demand)

Recoverable amount = Higher of fair value less cost to sell and value in use i.e. Rs. 5,00,000

Impairment loss = Carrying amount – Recoverable amount

Impairment loss = Rs. 6,00,000 - Rs. 5,00,000

= Rs. 1,00,000

Q2. Nov 2023 Exam, 8 marks

The following details are available for Hydra Limited as at 31st March 2023:

Disposal Group	Carrying Amount at the reporting data before classification as held for sale (Amount in Rs.)	Carrying amount as remeasured immediately before classification as held for sale (Amount in Rs.)
Goodwill	7,50,000	7,50,000
Property, Plant and Equipment (carried at revalued amounts)	23,00,000	20,00,000
Building (carried at cost)	28,50,000	28,50,000
Investment in Equity Instruments	12,00,000	11,00,000
Inventory	9,00,000	7,50,000

Hydra Limited estimates that the fair value less costs to sell of the disposal group is Rs. 65,00,000.

State, as per applicable Ind AS, how and at what amount of loss should Hydra Limited recognize 'disposal group' before classifying it as held for sale. Also compute the impairment loss if any, and how it should be allocated by Hydra Limited.

Answer:

Statement showing calculation of disposal group immediately before classifying it as held for sale

Disposal Group	Carrying Amount at the reporting data before classification as held for sale (Amount in Rs.)	Carrying amount as remeasured immediately before classification as

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		held for sale (Amount in Rs.)
Goodwill	7,50,000	7,50,000
Property, Plant and Equipment (carried at revalued amounts)	23,00,000	20,00,000
Building (carried at cost)	28,50,000	28,50,000
Investment in Equity Instruments	12,00,000	11,00,000
Inventory	9,00,000	7,50,000
Total	80,00,000	74,50,000

The entity should recognise the loss of Rs. 5,50,000 (Rs. 80,00,000 - Rs. 74,50,000), in accordance with applicable Ind AS, immediately before classifying it as held for sale.

Computation and allocation of impairment loss

The entity estimated that fair value less costs to sell of the disposal group amounts to

Rs. 65,00,000.

Since the entity has classified a disposal group as held for sale it should measure it at the lower of its carrying amount Rs. 74,50,000 and fair value less costs to sell Rs. 65,00,000 which comes to Rs. 65,00,000.

The entity should recognises an impairment loss of Rs. 9,50,000 (Rs. 74,50,000 –

Rs. 65,00,000) when the disposal group is initially classified as held for sale.

The Inventory and Investment are remeasured as per Ind AS 2 and Ind AS 109 at not more than fair value at the date of remeasurement immediately classified as held for sale.

Therefore, this impairment loss of Rs. 9,50,000 is allocated to remaining assets in the proportion of their carrying value other than inventory and investment in equity instrument. Firstly, the impairment loss reduces the amount of goodwill in the disposal group. Then, the remaining impairment loss of Rs. 2,00,000 (Rs. 9,50,000 – Rs. 7,50,000) is used to other assets pro-rata based on the carrying amount of those assets as follows:

Table showing the allocation of impairment loss

Disposal Group	Carrying amount as remeasured immediately before classification as held for sale (as per applicable Ind AS)	Allocated Impairment Loss	Carrying amount after allocation of Impairment Loss
Goodwill	7,50,000	(7,50,000)	-
Property, Plant and Equipment (carried at revalued amounts)	20,00,000	(82,474)	19,17,526
Building (carried at cost)	28,50,000	(1,17,526)	27,32,474
Investment in Equity Instruments	11,00,000	-	11,00,000
Inventory	7,50,000	-	7,50,000
Total	74,50,000	(9,50,000)	65,00,000

Q3. May 2023 Exam, 8 marks

Venus Limited had purchased on 1st April, 2020, a PPE kits manufacturing plant for ₹ 12.00 lakhs. The useful life of the plant is 8 years. The deprecation is provided on straight line method. On 30th September, 2022, Venus Limited temporarily discontinues production at the said plant due to decline in the demand for PPE kits.

However, the plant is maintained in a workable condition, and it can be used in future whenever the demand picks up.The accountant of Venus Limited decided to treat the plant as held for sale under Ind AS 105 until the demand picks up. She, thus measures the plant at lower of carrying amount and fair value less cost to sell.

She also stopped charging the depreciation for the rest of period as the plant was held for sale. The fair value less cost to sell the said plant on 30th September, 2022 and 31st March, 2023 was ₹ 6.75 lakhs and ₹ 6.00 lakhs respectively.
She performed the following working to determine the carrying amount of the plant on initial classification as held for sale:

particulars	**₹ in lakhs**
Purchase price of the plant	12.00
Less: Accumulated depreciation for 2.5 years (₹ 12.00 lakhs / 8 years x 2.5 years)	(3.75)
	8.25
	6.75
Fair value less cost to sales as on 30th September, 2022	6.75
The carrying amount is lower of ₹ 8.25 lakhs and ₹ 6.75 lakhs	

Balance Sheet extracts as at 31st March, 2023

particulars	**₹ in lakhs**
Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	6.00

Discuss whether the above accounting treatment made by the accountant is as per applicable Ind AS. If not, what should be the correct treatment. Provide balance sheet extract as at 31st March, 2023 together with the computation of the carrying value of PPE as at 31st March, 2023.

Answer

The treatment of PPE kits manufacturing plant needs to be examined in the light of the provisions given in Ind AS 16 'Property, Plant and Equipment' and Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'.

Paragraph 6 of Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations' states that an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Paragraph 7 of Ind AS 105 states that for this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable. Thus, an asset cannot be classified as a non-current asset held for sale, if the
entity intends to sell it in the distant future.

Further, paragraph 8 of Ind AS 105 states that for the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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Paragraph 13 of Ind AS 105 states that an entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

Paragraph 14 of Ind AS 105 states that an entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.
Paragraph 55 of Ind AS 16 states that depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.Going by the guidance given above, the Accountant of Venus Ltd. has treated the plant as held for sale and measured it at the fair value less cost to sell. Also, the depreciation
has not been charged thereon since the date of classification as held for sale which is not correct and not in accordance with Ind AS 105 and Ind AS 16.

Accordingly, the manufacturing plant should neither be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use. Venus Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

The working of the same for presenting in the balance sheet is given as below:

Calculation of carrying amount as on 31st March, 2023	₹
Purchase Price of Plant	12,00,000
Less: Accumulated depreciation (12,00,000/ 8 years) x 3 years	(4,50,000)
	7,50,000
Less: Impairment loss	(1,50,000)
	6,00,000

Balance Sheet extracts as on 31st March, 2023

particulars	**₹ in lakhs**
Assets	
Current Assets	
Property, Plant and Equipment	6,00,000

Working Note:
Fair value less cost to sell of the Plant = ₹ 6,00,000
Value in use (not given) or Nil (since plant has temporarily not been used for manufacturing due to decline in demand)
Recoverable amount = higher of above i.e. ₹ 6,00,000
Impairment loss = Carrying amount – Recoverable amount
Impairment loss = ₹ 7,50,000 - ₹ 6,00,000 = ₹ 1,50,000.

Q4. May 2022 Exam, 8 marks

Black Ltd. is a manufacturing company. The following balances as at 31st March, 2021 are from the audited Financial Statements and as at 30th September, 2021 & 31st March, 2022 are provided by the accountant of Black Ltd:

Asset / (Liability)	**Carrying Amount as at (₹ in lakh)**		
	31.3.2021	**30.9.2021**	**31.3.2022**
Attributed goodwill	2,560	2,560	
Intangible assets	12,680	11,080	
Financial assets measured at Fair Value through Other Comprehensive Income (FVTOCI)	4,310	5,260	7,310
Property, plant & equipment	16,820	18,670	

Deferred tax assets	3,120	3,120	2,970
Current assets:			
inventory, receivables, cash & cash equivalents	8,640	7,040	4,860
Current liabilities	(11,110)	(13,230)	(16,190)
Non-current liabilities:			
Provisions	(3,670)	(4,610)	(4,610)
Total	33,350	29,890	(5,660)

Black Ltd. decided to sell the business on 30th September, 2021. The business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with Ind AS 105. Black Ltd. proposed to sell the disposal group at ₹ 26,000 lakh. The costs to sell is estimated at ₹ 200 lakh.

As at 31st March, 2022, there has been no change to the plan to sell the disposal group and Black Ltd. still expects to sell it within one year of initial classification. The disposal group has not been trading well and its fair value less costs to sell has fallen t o ₹ 19,738 lakh.

You are asked to calculate the value of all assets / liabilities within the disposal group as at 30th September, 2021 and 31st March, 2022 in accordance with Ind AS 105.

Answer

(i) As at 30thSeptember, 2021

The disposal group should be measured at ₹ 25,800 lakh (₹ 26,000 lakh -₹ 200 lakh). The impairment write down of ₹ 4,090 lakh (₹ 29,890 lakh – ₹ 25,800 lakh) should be recorded within profit from continuing operations.

The impairment of ₹ 4,090 should be allocated to the carrying values of the appropriate non-current assets.

	Carrying value as at 30th September,2021	**Impairment**	**Revised carrying value as per Ind AS 105**
Attributed goodwill	2,560	(2,560)	--
Intangible assets	11,080	(570)*	10,510
Financial assets measured at Fair Value through Other Comprehensive Income (FVTOCI)	5,260	--	5,260
Property, plant & equipment	18,670	(960) **	17,710
Deferred tax assets	3,120	--	3,120
Current assets:			
inventory, receivables, cash & cash equivalents	7,040	--	7,040
Current liabilities	(13,230)	--	(13,230)
Non-current liabilities:			
Provisions	(4,610)	--	(4,610)
Total	**29,890**	**(4,090)**	**25,800**

*[(4,090 – 2,560) x {11,080/(11,080 + 18,670)}]

**[(4,090 – 2,560) x {18,670/(11,080 + 18,670)}]

The impairment loss is allocated first to goodwill and then pro-rata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of this standard- financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

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(ii) As on 31st March, 2022

All the assets and liabilities, outside the scope of measurement under Ind AS 105, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

	Carrying value as at 30th September,2021	**Change in value to 31st March, 2022**	**Impairment**	**Revised carrying value as per Ind AS 105**
Attributed goodwill	--	--	--	--
Intangible assets	10,510	--	(1,051)*	9,459
Financial assets measured at Fair Value through Other Comprehensive Income	5,260	2,050	--	7,310
(FVTOCI)	17,710	--	--	15,939
Property, plant & equipment	3,120	(150)	(1,771)**	2,970
Deferred tax assets	7,040	(2,180)	--	4,860
Current assets: inventory, receivables, cash & cash equivalents	(13,230)	(2,960)	--	(16,190)
Current liabilities				
Non-current liabilities: Provisions	(4,610)	--	--	(4,610)
Total	**25,800**	**(3,240)**	**(4,090)**	**19,738**

*[2,822 x {10,510 /(10,510 + 17,710)}]
**[2,822 x {17,710 /(10,510 + 17,710)}]

Q5. Nov 2019 Exam, 10 marks

On June 1, 2018, entity D Limited plans to sell a group of assets and liabilities, which is classified as a disposal group. On July 31, 2018, the Board of Directors approved and committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity G Limited.

However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by November 30, 2018 and the sale is expected to be completed by 31st March, 2019. Entity D Limited follows December year end. The assets and liabilities attributable to this manufacturing unit are as under:

(₹ in lakh)

Particulars	**Carrying value as on 31st December, 2017**	**Carrying value as on 31st July, 2018**
Goodwill	1,000	1,000
Plant and Machinery	2,000	1,800
Building	4,000	3,700
Debtors	1,700	2,100
Inventory	1,400	800
Creditors	(600)	(500)
Loans		

Net	(4,000)	(3,700)
	5,500	5,200

The fair value of the manufacturing unit as on December 31, 2017 is ₹ 4,000 lakh and as on July 31, 2018 is ₹ 3,700 lakh. The cost to sell is ₹ 200 lakh on both these dates. The disposal group is not sold at, the period end i.e., December 31, 2018. The fair value as on 31st December, 2018 is lower than the carrying value of the disposal group as on that date.

Required:

i. Assess whether the manufacturing unit can be classified as held for sale and reasons thereof. If yes, then at which date?
ii. The measurement of the manufacturing unit as on the date of classification as held for sale.
iii. The measurement of the manufacturing unit as at the end of the year.

Answer

(i) Assessment of manufacturing unit whether to be classified as held for sale

The manufacturing unit can be classified as held for sale due to the following reasons:

a) The disposal group is available for immediate sale and in its present condition. The regulatory approval is customary and it is expected to be received in one year. The date at which the disposal group is classified as held for sale will be31st July, 2018, i.e. the date at which management becomes committed to the plan.
b) The sale is highly probable as the appropriate level of management i.e., board of directors in this case have approved the plan.
c) A firm purchase agreement has been entered with the buyer.
d) The sale is expected to be complete by 31st March, 2019, i.e., within one year from the date of classification.

(ii) Measurement of the manufacturing unit as on the date of classification as held for sale

Following steps need to be followed:

Step 1: Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Ind AS.

This has been done and the carrying value of the disposal group as on 31st July, 2018 is determined at ₹ 5,200 lakh. The difference between the carrying value as on 31st December, 2017 and 31st July, 2018 is accounted for as per Ind AS 36.

Step 2: An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

The fair value less cost to sell of the disposal group as on 31st July, 2018 is ₹ 3,500 lakh (i.e. ₹ 3,700 lakh - ₹ 200 lakh). This is lower than the carrying value of ₹ 5,200 lakh. Thus, an impairment loss needs to be recognised and allocated first towards goodwill and thereafter pro-rata between assets of the disposal group which are within the scope of Ind AS 105 based on their carrying value.

Thus, the assets will be measured as under:

(₹ in lakh)

Particulars	**Carrying value – 31st July, 2018**	**Impairment**	**Carrying value as per Ind AS 105 – 31st July, 2018**
Goodwill	1,000	(1,000) (Refer WN)	-
Plant and Machinery	1,800	(229) (Refer WN)	1,571

Building	3,700	(471)	3,229
Debtors	2,100	-	2,100
Inventory	800	-	800
Creditors	(500)	-	(500)
Loans	(3,700)	-	(3,700)
	5,200	(1,700)	3,500

Working Note:

Allocation of impairment loss to Plant and Machinery and Building

After adjustment of impairment loss of ₹ 1,000 lakh from the full value of goodwill, the balance ₹ 700 lakh (₹ 1,700 lakh – ₹ 1,000 lakh) is allocated to plant and machinery and Building on proportionate basis.

Plant and machinery – ₹ 700 lakh x ₹ 1,800 lakh / ₹ 5,500 lakh = ₹ 230 lakh (rounded off)

Building – ₹ 700 lakh x ₹ 3,700 lakh / ₹ 5,500 lakh = ₹ 470 lakh (rounded off)

(iii) Measurement of the manufacturing unit as on the date of classification as at the year end

The measurement as at the year-end shall be on similar lines as done above.

The assets and liabilities in the disposal group not within the scope of this Standard are measured as per the respective standards.

The fair value less cost to sell of the disposal group as a whole is calculated. This fair value less cost to sell as at the year-end shall be compared with the carrying value as at the date of classification as held for sale. It is provided that the fair value as on the year end is less than the carrying amount as on that date – thus the impairment loss shall be allocated in the same way between the assets of the disposal group falling within the scope of this standard as shown above.

Measurement of the manufacturing unit as on the date of classification as at the year-end shall be on similar lines as done above

Q6. Nov 2018 Exam, 8 marks

PB Limited purchased a plastic bottle manufacturing plant for ₹ 24 lakh on 1st April, 2015. The useful life of the plant is 8 years. On 30th September, 2017, PB Limited temporarily stops using the manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.

The accountant of PB Limited decided to treat the plant as held for sale until the demand picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell. The accountant has also stopped charging depreciation for rest of the period considering the plant as held for sale. The fair value less cost to sell on 30th September, 2017 and 31st March, 2018 was ₹ 13.5 lakh and ₹ 12 lakh respectively.

The accountant has made the following working:

Carrying amount on initial classification as held for sale		**₹**
Purchase price of Plant	24,00,000	
Less: Accumulated Depreciation [(₹ 24,00,000/8)x2.5 years]	7,50,000	16,50,000
Fair value less cost to sell as on 31st March, 2017		12,00,000
The value lower of the above two		12,00,000

Balance Sheet extracts as on 31st March, 2018

Particulars	₹
Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	12,00,000

Required:
Analyze whether the above accounting treatment is in compliance with the Ind AS. If not, advise the correct treatment showing necessary workings.

Answer

As per Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations', an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For asset to be classified as held for sale, it must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. In such a situation, an asset cannot be classified as a non-current asset held for sale, if the entity intends to sell it in a distant future.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Further Ind AS 105 also states that an entity shall not classify as held for sale a non-current asset that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.
In addition to Ind AS 105, Ind AS 16 states that depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.
The Accountant of PB Ltd. has treated the plant as held for sale and measured it at the fair value less cost to sell. Also, the depreciation has not been charged thereon since the date of classification as held for sale which is not correct and not in accordance with Ind AS 105 and Ind AS 16.

Accordingly, the manufacturing plant should neither be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use. PB Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

The working of the same for presenting in the balance sheet will be as follows:

Calculation of carrying amount as on 31stMarch, 2018	₹
Purchase Price of Plant	24,00,000
Less: Accumulated depreciation	
(24,00,000/ 8 years) x 3 years	(9,00,000)
Carrying amount before impairment	15,00,000

Less: Impairment loss (Refer Working Note)	(3,00,000)
Revised carrying amount after impairment	12,00,000

Balance Sheet extracts as on 31stMarch 2018

	₹
Assets	
Non-Current Assets	
Property, Plant and Equipment	12,00,000

Working Note:
Fair value less cost to sell of the Plant = ₹ 12,00,000
Value in Use (not given) or = Nil (since plant has temporarily not been used for manufacturing due to decline in demand)
Recoverable amount = higher of above i.e. ₹ 12,00,000
Impairment loss = Carrying amount – Recoverable amount
Impairment loss = ₹ 15,00,000 - ₹ 12,00,000 = ₹ 3,00,000.

Q7. Sep 2025 RTP

A Ltd. has a wholly owned subsidiary B Ltd. A Ltd. sells subsidiary B Ltd. to C Ltd. a listed entity, for shares in C Ltd. and ends up owning 75% of C Ltd.'s shares.

The net assets of B Ltd. prior to the disposal are Rs. 10,00,000 (fair value Rs. 13,00,000) and goodwill previously capitalised and not impaired is Rs. 6,00,000; the carrying value of B Ltd. in A Ltd.'s books is Rs. 15,00,000.

At the date A Ltd. acquired B Ltd., B Ltd.'s profit and loss reserve was Rs. 400,000 and B has since made Rs. 100,000 post acquisition profits.

The position prior to the transaction was as follows: (Amount in Rs.)

Consolidation of A Ltd. and B Ltd. before transaction	**A Ltd.**	**B Ltd.**	**Elim**	**Consol**
Goodwill	-	-	600,000	600,000
Investment in subsidiary	1,500,000	-	(1,500,000)	-
Net assets	10,000,000	1,000,000	-	11,000,000
Total assets	**11,500,000**	**1,000,000**	**(900,000)**	**11,600,000**
Share capital	2,000,000	500,000	(500,000)	2,000,000
Retained earnings	9,500,000	100,000	-	9,600,000
Pre-acquisition reserves	-	400,000	(400,000)	-
Total equity	**11,500,000**	**1,000,000**	**(900,000)**	**11,600,000**

The net assets of C Ltd. prior to its acquisition of B Ltd. were Rs. 380,000 (fair value Rs. 500,000). C Ltd. then issued shares worth Rs. 17,50,000 (which is the fair value of the consideration given for the acquisition of 100% of B), being Rs. 600,000 nominal value and Rs. 11,50,000 premium. The balance sheets of the three companies directly after the issue of shares by C Ltd. were as follows:

Summarized balance sheets	**A Ltd.**	**B Ltd.**	**C Ltd.**
Investment in subsidiary	1,750,000	-	1,750,000
Net assets	10,000,000	1000,000	380,000
	11,750,000	1000,000	2,130,000

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Share capital	2000,000	500,000	800,000
Additional paid in capital	-	-	1,150,000
Retained earnings	9,750,000	500,000	180,000
Total equity	11,750,000	1,000,000	2,130,000

The parent A Ltd., had an interest in B Ltd. that cost Rs. 15,00,000 and has in effect swapped this for an interest in C Ltd.'s group. In its separate financial statements, A Ltd. states its investment in C Ltd. group at the fair value of the consideration given Rs. 17,50,000.

The non-controlling interest is determined with reference to the proportionate share of the acquired C Ltd.'s net identifiable assets.

Required:

(i) Compute gain or loss on effective disposal of B Ltd.

(ii) Compute goodwill on acquisition of C Ltd. Note:

a. C Ltd. Is not required to prepare consolidated financial statements.

b. Ignore the possibility that the transaction could be classified as a reverse acquisition of C Ltd. by B Ltd.

Answer:

Effective disposal of stake in B Ltd. [100%- (75% of 100%)] = 25% which will be considered as non-controlling interest in B Ltd.

With regard to A Ltd.'s consolidated financial statements, it is necessary to calculate the 'gain or loss' (on the disposal of 25% of B Ltd.) that is recognised in equity and the goodwill arising (on the acquisition of C Ltd.).

When control is retained, it should be noted that goodwill attributed to the portion sold remains unchanged and is allocated to the non- controlling interest. In addition, if control is retained, the gain or loss should be recognised in equity.

Gain or loss on disposal of 25% of B Ltd.	**Rs.**
Calculation of non-controlling interest B Ltd. in A's consolidated financial statement: Book value of assets and liabilities given up plus attributable goodwill [(Rs. 10,00,000 + Rs. 6,00,000) x 25%]	4,00,000
Less: Fair value of business received in consideration (W.N.1)	(4,37,500)
Gain on disposal recognized in equity	37,500

The net assets compared should include an appropriate portion of any cumulative exchange differences and any reserve on FVOCI debt investments previously recognised in other comprehensive income and accumulated in equity.

Goodwill on acquisition of 75% of C Ltd.	**Rs.**
Fair value of business given in consideration (Rs. 17,50,000 x 25%)	4,37,500
Non-controlling interest C Ltd. measured at the proportionate share of the acquired net-asset (Rs. 5,00,000 x 25%)	1,25,000

	5,62,500
Less: Fair value of assets and liabilities acquired	(5,00,000)
Goodwill	62,500

The consolidated entry recognised is:

	Rs.	Rs.
Fair value of net identifiable assets -C Ltd. Dr.	5,00,000	
Goodwill – C Ltd. Dr.	62,500	
To Non-controlling interest B Ltd. (16,00,000 x 25%)		4,00,000
To Non-controlling interest – C Ltd. (500,000 x 25%)		1,25,000
To Equity		37,500

Consolidation of A Ltd., B Ltd. and C Ltd. after the transaction (Amount in Rs.)

Consolidation of A Ltd., B Ltd. and C Ltd. after the transaction	**A Ltd.**	**B Ltd.**	**C Ltd.**	**Elim**	**Consolidated**
Goodwill (W.N.2)	-	-	-	662,500	662,500
Investment in subsidiary (W.N.3)	1,750,000	-	1,750,000	(3,500,000)	-
Net assets	10,000,000	1,000,000	380,000	120,000	11,500,000
	11,750,000	1,000,000	2,130,000	(2,717,500)	12,162,500
Equity share capital	2,000,000	500,000	800,000	(1,300,000)	2,000,000
Additional paid in capital	-	-	1,150,000	(1,150,000)	-
Retained earnings (W.N.4)	9,750,000	500,000	180,000	(792,500)	9,637,500
Non-controlling interest	-	-	-	525,000	525,000
Total equity	11,750,000	1,000,000	2,130,000	(2,717,500)	12,162,500

Note:

C Ltd.'s net assets are adjusted to fair value for the purpose of the consolidation as A Ltd. has acquired 75% of C Ltd. and gained control of C Ltd.

Working Notes:

1. A Ltd. receives consideration (that is, shares in C Ltd.) with a fair value of Rs. 17,50,000. However, the amount included in the calculation is the amount attributable to the interest in B Ltd. that has been disposed of, that is 25% of Rs. 17,50,000 = Rs. 4,37,500.

The fair value of the part of the subsidiary B that is effectively disposed of is derived from the price paid by C Ltd. for the whole of B Ltd. which is Rs. 17,50,000.

2. The goodwill balance of Rs. 6,62,500 represents the previous balance of the goodwill of Rs. 6,00,000 arising on the acquisition of

B Ltd., plus the goodwill of Rs. 62,500 arising on the acquisition of

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C Ltd. The original goodwill arising on the acquisition of B Ltd. is

retained and a portion (25%) is allocated to the non-controlling interest.

3. On consolidation the net assets of C Ltd. are increased from

Rs. 3,80,000 to their fair value of Rs. 5,00,000.

4. Computation of consolidated retained earnings

	Rs.
Retained earnings of A Ltd. (excluding the investment revaluation gain of Rs. 2,50,000, which is reversed)	95,00,000
Add: Post-acquisition profits of B Ltd.	1,00,000
Add: Gain on disposal (recognised directly in equity)	37,500
	96,37,500

5. Computation of non-controlling interest

	Rs.
25% of C Ltd.'s fair value of net assets (Rs. 5,00,000 x 25%)	1,25,000
Add: 25% of B Ltd.'s net assets (including goodwill) (Rs. 16,00,000 x 25%)	4,00,000
	5,25,000

Q8. Nov 2023 RTP

Company X has identified one of its division (disposal group) to be sold to a prospective buyer and the Board has approved the plan to sell the division on 30th September, 20X1. The sale is expected to complete after one year but it still qualifies to be held for sale under Appendix B of Ind AS 105. Costs to sell the division is estimated to be ₹ 10 crores (to be incurred in March, 20X3). The fair value of the

division is ₹ 400 crores (on 30th September, 20X1 and 31st March, 20X2) and carrying value is ₹ 500 crores.

How shall such a division (disposal group) be measured under Ind AS 105 on following reporting dates:

A. 30th September, 20X1
B. 31st March, 20X2

Consider the discounting factor @ 10% for 1 year to 0.909 and for 1.5 years to be 0.867

Answer

Paragraph 15 of Ind AS 105 states that an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

Further, paragraph 17 of Ind AS 105 states that when the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

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Company X has identified a disposal group and is committed to sell the same. The sale is expected to be completed after a period of one year hence, it will measure the costs to sell such disposal group at present value as per paragraph 17 of Ind AS 105.

A. On 30th September, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	₹ 400.00 crores	
PV of costs to sell:	(₹ 8.67 crores)	(₹ 10 crores x 0.867)
Total:	₹ 391.33 crores	

B. On 31st March, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	₹ 400.00 crores	
PV of costs to sell:	(₹ 9.09 crores)	(10 x 0.909)
Total:	₹ 390.91 crores	

The increase in costs to sell the division by ₹ 0.42 crore (₹ 9.09 crores – ₹ 8.67 crores) will be recognised in profit and loss as financing cost in accordance with paragraph 17 of Ind AS 105.

Q9. May 2023 RTP

On 1st January, 20X1, the carrying amounts of the relevant assets of the division of an entity, Star Ltd. were as follows:

• Purchased goodwill ₹ 1.2 lakhs;

• Property, plant and equipment (average remaining estimated useful life two years) ₹ 4 lakhs;

• Inventories ₹ 2 lakhs.

From 1st January, 20X1, Star Ltd. began to actively market the division and has received a number of serious enquiries.

On 1st January, 20X1, the directors estimated that they would receive ₹ 6.4 lakhs from the sale of the division. Since 1st January, 20X1, market conditions have improved and on 30th April, 20X1, Star Ltd. received and accepted a firm offer to purchase the division for ₹ 6.6 lakhs. The sale is expected to be completed on 30th June, 20X1.

₹ 6.6 lakhs can be assumed to be a reasonable estimate of the value of the division on 31st March, 20X1.

During the period from 1st January 20X1 to 31st March, 20X1, inventories of the division costing ₹ 1.6 lakhs were sold for ₹ 2.4 lakhs. At 31st March, 20X1, the total cost of the inventories of the division was ₹ 1.8 lakhs. All of these inventories have an estimated net realizable value that is in excess of their cost.

Explain the disclosure requirement related to sale of division and provide the accounting treatment of property held for sale and discontinued operations.

Answer

The decision to offer the division for sale on 1st January, 20X1 means that from that date the division is classified as held for sale. The division available for immediate sale, is being actively marketed at a reasonable price, and the sale is expected to be completed within one year.

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The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts (₹ 7.20 lakhs i.e. Goodwill ₹ 1.2 lakh + PPE ₹ 4 lakhs + Inventory ₹ 2 lakhs) and their fair value less costs to sell (₹ 6.40 lakhs). This implies that the assets of the division will be measured at ₹ 6.40 lakhs on 1st January, 20X1.

The reduction in carrying value of the assets of ₹ 0.80 lakhs (₹ 7.20 lakhs –₹ 6.40 lakhs) will be treated as an impairment loss and allocated to goodwill, leaving a carrying amount for goodwill of ₹ 0.40 lakhs (₹ 1.20 lakhs – ₹ 0.80 lakhs).

The increased expectation of the selling price of ₹ 0.20 lakhs (₹ 6.60 lakhs –₹ 6.40 lakhs) will be treated as a reversal of an impairment loss. However, since this reversal relates to goodwill, it cannot be recognised.

The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes of assets classified as held for sale should be separately disclosed, either in the balance sheet or in the notes.

The property, plant and equipment should not be depreciated after 1 st January, 20X1, so it's carrying value at 31st March, 20X1 will be ₹ 4 lakhs. The inventories of the division will be shown at their year-end cost of ₹ 1.80 lakhs.

The division will be regarded as a discontinued operation for the year ended 31st March, 20X1. It will represent a separate line of business and will be held for sale at the year end.

The statement of profit and loss should disclose, as a single amount, the post-tax profit or loss of the division and the impairment loss arising on the re-measurement of the division on classification as held for sale. Further analysis of this single amount may be presented in the notes or in the statement of profit and loss. If it is presented in the statement of profit and loss it shall be presented in a section identified as relating to discontinued operations, i.e. separately from continuing operations.

Q10. Nov 2022 RTP

Company A has financial year ending 31st March, 20X0. On 1st June, 20X0, the Company has classified its Division B as held for sale in accordance with Ind AS 105. How property, plant and equipment (PPE) for which the company has adopted cost model shall be measured immediately before the classification as held for sale on 1st June, 20X0?

Answer

Paragraph 18 of Ind AS 105 provides that immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Ind AS.

In the instant case, Company A should measure the property, plant and equipment (for which it has adopted cost model), in accordance with Ind AS 16, Property, Plant and Equipment. Hence, depreciation should be provided upto 31st May, 20X0.

Q11. May 2022 RTP

X Ltd. acquires B Ltd. exclusively with a view to sale and it meets the criteria to be classified as discontinued operation as per Ind AS 105. Further, following information is available about B Ltd.:

Fair value of total assets excluding liabilities on acquisition – ₹ 360

Costs to sell as on acquisition and on reporting date – ₹ 10

Fair value of liabilities on acquisition and reporting date – ₹ 80

Fair value of total assets excluding liabilities on the reporting date – ₹ 340

How discontinued operation pertaining to B Ltd. should be measured in consolidated financial statements of X Ltd. on acquisition date and reporting date?

Answer

Ind AS 105 defines a disposal group as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80 –87 of Ind AS 36, Impairment of Assets, or if it is an operation within such a cash- generating unit.

In the given case, B Ltd. is acquired exclusively with a view to sell and meets the criteria to be classified as discontinued operation. The discontinued operation would be measured in accordance with paragraphs 15 and 16 of Ind AS 105 As per para 15, an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

As per para 16, if a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (see paragraph 11), applying paragraph 15 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.

Therefore, on acquisition date, in line with paragraph 16, X Ltd. will measure B Ltd. as a disposal group at fair value less costs to sell which will be calculated as Fair value of total assets excluding liabilities on acquisition – Costs to sell = ₹ 360 – ₹ 10 = ₹ 350.

Fair value of liabilities on acquisition = ₹ 80.

At the reporting date, in line with paragraph 15, X Ltd. will remeasure the disposal group at the lower of its cost and fair value less costs to sell which will be calculated as:

Fair value of total assets excluding liabilities on subsequent reporting d ate – Costs to sell

= ₹ 340 – ₹ 10 = ₹ 330

Fair value of liabilities on reporting date = ₹ 80.

At the reporting date, X Ltd. shall present these assets and liabilities separately from other assets and liabilities in its consolidated financial statements.

In the statement of profit and loss, X Ltd. shall recognise loss on subsequent measurement (of net assets at fair value) of B Ltd. which equals to ₹ 20 (₹ 270 – ₹ 250).

Q12. Nov 2021 RTP

On February 28, 20X1, Entity X is committed to the following plans:

a) To sell a property after completion of certain renovations to increase its value prior to selling it. The renovations are expected to be completed within a short span of time i.e., 2 months.

b) To sell a commercial building to a buyer after the occupant vacates the building.

The time required for vacating the building is usual and customary for sale of such commercial property. The entity considers the sale to be highly probable.

Can the above-mentioned property and commercial building be classified as non-current assets held for sale at the reporting date i.e. 31st March, 20X1?

Answer

Ind AS 105 provides guidance on classification of a non-current asset held for sale in paragraph 7 which states that, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

a) In respect of Entity X's plan to sell property which is being renovated and such renovation is incomplete as at the reporting date. Although, the renovations are expected to be completed within 2 months from the reporting date i.e., March 31, 20X1, the property cannot be classified as held for sale at the reporting date as it is not available for sale immediately in its present condition.

b) In case of Entity X's plan to sell commercial building, it intends to transfer the commercial building to a buyer after the occupant vacates the building and the time required for vacating such building is usual and customary for sale of such non -current asset. Accordingly, the criterion of the asset being available for immediate sale would be met and hence, the commercial building can be classified as held for sale at the reporting date

Q13. May 2019 RTP

CK Ltd. prepares the financial statement under Ind AS for the quarter year ended 30th June, 2018. During the 3 months ended 30th June, 2018 following events occurred:

On 1st April, 2018, the Company has decided to sell one of its divisions as a going concern following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with the Company collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1st April, 2018, the carrying amount of the assets of the division were as follows:

- Purchased Goodwill – ₹ 60,000

- Property, Plant & Equipment (average remaining estimated useful life two years) -₹ 20,00,000

- Inventories - ₹ 10,00,000

From 1st April, 2018, the Company has started to actively market the division and has received number of serious enquiries. On 1st April, 2018 the directors estimated that they would receive ₹ 32,00,000 from the sale of the division. Since 1st April, 2018, market condition has improved and as on 1st August, 2018 the Company received and accepted a firm offer to purchase the division for ₹ 33,00,000.

The sale is expected to be completed on 30th September, 2018 and ₹ 33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30th June, 2018. During the period from 1st April to 30th June inventories of the division costing ₹ 8,00,000 were sold for ₹ 12,00,000. At 30th June, 2018, the total cost of the inventories of the division was ₹ 9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

The Company has approached you to suggest how the proposed sale will be reported in the interim financial statements for the quarter ended 30th June, 2018 giving relevant explanations.

Answer

The decision to offer the division for sale on 1st April, 2018 means that from that date the division has been classified as held for sale. The division available for immediate sale, is being actively marketed at a reasonable price and the sale is expected to be completed within one year.

The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts and their fair value less cost to sell. Here the division shall be measured at their existing carrying amount ie ₹ 30,60,000 since it is less than the fair value less cost to sell ₹ 32,00,000.

The increase in expected selling price will not be accounted for since earlier there was no impairment to division held for sale.The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes should be separately disclosed either on the face of the balance sheet or in the notes.

The Property, Plant and Equipment shall not be depreciated after 1st April, 2018 so its carrying value at 30th June, 2018 will be ₹ 20,00,000 only. The inventories of the division will be shown at ₹ 9,00,000. The division will be regarded as discontinued operation for the quarter ended 30th June, 2018. It represents a separate line of business and is held for sale at the year end.

The Statement of Profit and Loss should disclose, as a single amount, the post-tax profit or loss of the division on classification as held for sale.Further, as per Ind AS 33, EPS will also be disclosed separately for the discontinued operation

Q14. Nov 2018 RTP

U Ltd. is a large conglomerate with a number of subsidiaries. It is preparing consolidated financial statements as on 31st March 2018 as per the notified Ind AS. The financial statements are due to be authorised for issue on 15th May 2018. It is seeking your assistance for some transactions that have taken place in some of its subsidiaries during the year.

G Ltd. is a wholly owned subsidiary of U Ltd. engaged in management consultancy services. On 31st January 2018, the board of directors of U Ltd. decided to discontinue the business of G Ltd. from 30th April 2018. They made a public announcement of their decision on 15th February 2018.

G Ltd. does not have many assets or liabilities and it is estimated that the outstanding trade receivables and payables would be settled by 31st May 2018. U Ltd. would collect any amounts still owed by G Ltd's customers after 31st May 2018. They have offered the employees of G Ltd. termination payments or alternative employment opportunities.

Following are some of the details relating to G Ltd.:

- On the date of public announcement, it is estimated by G Ltd. that it would have to pay 540 lakhs as termination payments to employees and the costs for relocation of employees who would remain with the Group would be Rs. 60 lakhs. The actual termination payments totalling to Rs. 520 lakhs were made in full on 15th May 2018. As per latest estimates made on 15th May 2018, the total relocation cost is Rs. 63 lakhs.

- G Ltd. had taken a property on operating lease, which was expiring on 31st March 2022. The present value of the future lease rentals (using an appropriate discount rate) is Rs. 430 lakhs. On 15th May 2018, G Ltd. made a payment to the lessor of Rs. 410 lakhs in return for early termination of the lease.

The loss after tax of G Ltd. for the year ended 31st March 2018 was Rs. 400 lakhs. G Ltd. made further operating losses totalling Rs. 60 lakhs till 30th April 2018.

How should U Ltd. present the decision to discontinue the business of G Ltd. in its consolidated statement of comprehensive income as per Ind AS?

What are the provisions that the Company is required to make as per lnd AS 37?

Answer

A discontinued operation is one that is discontinued in the period or classified as held for sale at the year end. The operations of G Ltd were discontinued on 30th April 2018 and therefore, would be treated as discontinued operation for the year ending 31st March 2019.It does not meet the criteria for held for sale since the company is terminating its business and does not hold these for sale.

Accordingly, the results of G Ltd will be included on a line-by-line basis in the consolidated statement of comprehensive income as part of the profit from continuing operations of U Ltd for the year ending 31st March 2018.

As per para 72 of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', restructuring includes sale or termination of a line of business. A constructive obligation to restructure arises when:

a) an entity has a detailed formal plan for the restructuring
b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The Board of directors of U Ltd have decided to terminate the operations of G Ltd. from 30th April 2018. They have made a formal announcement on 15th February 2018, thus creating a valid expectation that the termination will be implemented. This creates a constructive obligation on the company and requires provisions for restructuring.

A restructuring provision includes only the direct expenditures arising from the restructuring that are necessarily entailed by the restructuring and are not associated with the ongoing activities of the entity.

The termination payments fulfil the above condition. As per Ind AS 10 'Events after Reporting Date', events that provide additional evidence of conditions existing at the reporting date should be reflected in the financial statements. Therefore, the company should make a provision for Rs. 520 lakhs in this respect.

The relocation costs relate to the future conduct of the business and are not liabilities for restructuring at the end of the reporting period. Hence, these would be recognised on the same basis as if they arose independently of a restructuring.

The operating lease would be regarded as an onerous contract. A provision would be made at the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Hence, a provision shall be made for Rs. 410 lakhs. Further operating losses relate to future events and do not form a part of the closure provision.

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Therefore, the total provision required = Rs. 520 lakhs + Rs. 410 lakhs = Rs. 930 lakhs

Note:

Various issues related to the applicability of Ind AS / implementation under Companies (Indian Accounting Standards) Rules, 2015, are being raised by preparers, users and other stakeholders. Although many clarifications have been issued by way of ITFG Bulletins or EAC Opinion, still issues are arising on account of varying interpretations on several of its guidance. Therefore, alternate answers may be possible for the above questions based on standards, depending upon the view taken.

Q15. May 2018 RTP

Following is the extract of the consolidated financial statements of A Ltd. for the year ended on:

Asset/ (liability)	**Carry amount as on 31st March, 20X1 (In Rs. '000)**
Attributed goodwill	200
Intangible assets	950
Financial asset measured at fair value through other comprehensive income	300
Property, plant & equipment	1100
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	600
Current liabilities	(850)
Non-current liabilities – provisions	(300)
Total	2,250

On 15th September 20X1, Entity A decided to sell the business. It noted that the business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with that standard. The disposal group is stated at the following amounts immediately prior to reclassification as held for sale.

Asset/ (liability)	**Carry amount as on 15th September 20X1 (In Rs. '000)**
Attributed goodwill	200
Intangible assets	930
Financial asset measured at fair value through other comprehensive income	360
Property, plant & equipment	1,020
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	520
	(870)

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Current liabilities	(250)
Non-current liabilities – provisions	2,160
Total	

Entity A proposed to sell the disposal group at Rs. 19,00,000. It estimates that the costs to sell will be Rs. 70,000. This cost consists of professional fee to be paid to external lawyers and accountants.

As at 31st March 20X2, there has been no change to the plan to sell the disposal group and entity A still expects to sell it within one year of initial classification. Mr. X, an accountant of Entity A remeasured the following assets/ liabilities in accordance with respective standards as on 31st March 20X2:

Available for sale:	**(In Rs. '000)**
Financial assets	410
Deferred tax assets	230
Current assets- Inventory, receivables and cash balances	400
Current liabilities	900
Non- current liabilities- provisions	250

The disposal group has not been trading well and its fair value less costs to sell has fallen to Rs. 16,50,000.

Required:

What would be the value of all assets/ liabilities within the disposal group as on the following dates in accordance with Ind AS 105?

a) 15 September, 20X1 and
b) 31st March, 20X2

Answer

(a)As at 15 September, 20X1

The disposal group should be measured at Rs. 18,30,000 (19,00,000-70,000). The impairment write down of Rs. 3,30,000 (Rs. 21,60,000 – Rs. 18,30,000) should be recorded within profit from continuing operations.

The impairment of Rs. 3,30,000 should be allocated to the carrying values of the appropriate non-current assets.

Asset/ (liability)	**Carrying value as at 15 June 2004**	**Impairment**	**Revised carrying value as per IND AS 105**
Attributed goodwill	200	(200)	-
Intangible assets	938	(62)	868
Financial asset measured at fair value through other comprehensive income	360	-	360

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Property, plant & equipment	1,020	(68)	952
Deferred tax asset	250	-	250
Current assets – inventory, receivables and cash balances	520	-	520
Current liabilities			
Non-current liabilities –	(870)	-	(870)
provisions	(250)	-	(250)
Total	2,160	(330)	1.830

The impairment loss is allocated first to goodwill and then pro rata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of the standard- financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not

allocated to liabilities.

(b) As on 31 March. 20X2:

All of the assets and liabilities, outside the scope of measurement under IFRS 5, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the Financial asset measured at fair value through other comprehensive income (Ind AS 109), thedeferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset/ (liability)	**Carrying value as at 15 September, 20X1**	**Change in value to 31st March 20X2**	**Impairment**	**Revised carrying value as per IND AS 105**
Attributed goodwill	-	-	-	-
Intangible assets	868	-	(29)	839
Financial asset measured at fair value through other comprehensive income	360	50	-	410
Property, plant & equipment	952	-	(31)	921
Deferred tax asset	250	(20)	-	230
Current assets – inventory, receivables and cash balances	520	(120)	-	400
Current liabilities	(870)	(30)	-	(900)

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Non-current liabilities – provisions	(250)	-	-	(250)
Total	**1,830**	**(120)**	**(60)**	**1,650**

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Q1. May 2024 Exam, 8 marks

Sun Limited has entered into a Lease Agreement with Moon Limited for taking on lease an office building of 1000 square feet at the rate of Rs. 500 per square feet per annum for a period of 10 years. The annual lease payments are payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Sun Limited's incremental rate of borrowing at the commencement date is 6% per annum. At the beginning of the year 7, the lessor and the lessee agree to amend the original lease by extending the contractual lease term by another four years. The annual lease payments are unchanged for the extended period also. Sun Limited's incremental rate of borrowing at the commencement of Year is 7% per annum.

How should the said modification be accounted for in the books of Sun Limited? Give your calculation by adopting the Present Value factor as under:

Year	1	2	3	4	5	6	7	8	9	10	Cumul.
7%	0.935	0.873	0.816	0.763	0.713	0.666	0.623	0.582	0.544	0.508	7.023
6%	0.943	0.890	0.840	0.792	0.747	0.705	0.665	0.627	0.592	0.558	7.359

Answer:

(a) At the effective date of the modification (at the beginning of Year 7), Sun Ltd. (Lessee) remeasures the lease liability based on:

a) An eight-year remaining lease term
b) Annual payments of Rs. 5,00,000 and
c) Lessee's incremental borrowing rate of 7% p.a.

1. Calculation of Lease liability as at commencement date

Year	**Lease Payment (A)**	**Present value factor @ 6% (B)**	**Present value of lease payments (A x B = C)**
	Rs.	**Rs.**	**Rs.**
1	5,00,000	0.943	4,71,500
2	5,00,000	0.890	4,45,000
3	5,00,000	0.840	4,20,000
4	5,00,000	0.792	3,96,000
5	5,00,000	0.747	3,73,500
6	5,00,000	0.705	3,52,500
7	5,00,000	0.665	3,32,500
8	5,00,000	0.627	3,13,500
9	5,00,000	0.592	2,96,000
10	5,00,000	0.558	2,79,000
Lease liability as at commencement date			36,79,500

Alternatively, Present Value of lease liability may be calculated as follows:

= Rs. 5,00,000 x 7.359 = Rs. 36,79,500.

2. Calculation of Lease liability immediately before modification date

Year	Opening lease liability (A)	Interest @ 6% (B) =[A x 6%]	Lease payments (C)	Closing liability (D) = [A+B-C]
	Rs.	Rs.	Rs.	Rs.
1	36,79,500 (W.N.1)	2,20,770	5,00,000	34,00,270
2	34,00,270	2,04,016	5,00,000	31,04,286
3	31,04,286	1,86,257	5,00,000	27,90,543
4	27,90,543	1,67,433	5,00,000	24,57,976
5	24,57,976	1,47,479	5,00,000	21,05,455
6	21,05,455	1,26,327	5,00,000	17,31,782
	Lease liability as at modification date			17,31,782

3. Calculation of modified lease liability

Year	Lease Payment (A)	Present value factor @ 7% (B)	Present value of lease payments (A x B=C)
	Rs.		Rs.
7	5,00,000	0.935	4,67,500
8	5,00,000	0.873	4,36,500
9	5,00,000	0.816	4,08,000
10	5,00,000	0.763	3,81,500
11	5,00,000	0.713	3,56,500
12	5,00,000	0.666	3,33,000
13	5,00,000	0.623	3,11,500
14	5,00,000	0.582	2,91,000
Modified lease liability			29,85,500

Alternatively, Present Value of lease payment of modified lease term may be calculated as follows:

= Rs. 5,00,000 x 5.971 = Rs. 29,85,500.

4. Adjustment to ROU asset

Modified Lease liability (W.N.3)	29,85,500
Original Lease liability as at modification date (W.N.2)	(17,31,782)
Adjustment to ROU asset	12,53,718

The modified lease liability equals Rs. 29,85,500 (W.N. 3). The lease liability immediately before the modification (including the recognition of the interest expense until the end of Year 6) is Rs. 17,31,782 (W.N.2). Sun Ltd. (Lessee) recognises the difference between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification (i.e., Rs. 12,53,718) (W.N.4) as an adjustment to the ROU Asset.

The ROU asset will be increased by Rs. 12,53,718 on the date of modification.

Q2. Nov 2023 Exam, 8 marks

A consumer products entity, Entity A Limited (lessee) enters into a lease agreement with Entity B Limited (lessor) for a dedicated production line to manufacture one of its store - brand household products for a period of three years. Entity A Limited has agreed to order a minimum 1,00,000 units per month and to make a payment to Entity B Limited as per the following agreed rates:

(i) Rs. 240 per unit if the ordered quantity is between 1 ,00,000 to 1,20,000 units;

(ii) Rs. 246 per unit if the ordered quantity is between 1,20,001 to 1,50,000 units.

As per the terms of the agreement, Entity A Limited has the exclusive right to use the production line. Entity B Limited cannot use the specified production line for any other customer. The type of household product is specified in the contract. Entity A Limited issues instructions to Entity B about the quantity and timing of products to be delivered. If the production line is not producing the household product for Entity A, it remains idle. Entity B Limited operates and maintains the production line on a daily basis. Entity A Limited has estimated that for manufacturing each unit, Entity B Limited incurs an average cost of Rs. 195. Further, the observable stand-alone price for the rent of the production line is Rs. 60,00,000 per month. Entity A Limited's incremental borrowing rate at the commencement date of the lease is 10% per annum.

Entity A Limited concludes that the arrangement contains a lease as per Ind AS 116. It also elects not to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate the non-lease component(s) from the lease component(s). Accordingly, it separates non-lease components from lease components.

You are required to:

(i) Analyse the above and identify lease component(s) and non-lease component(s);
(ii) Compute and allocate the consideration into lease component(s) & non-lease component(s);
(iii) Compute the lease liability (the present value factor @ 10% per annum of 2.49 for 3 years may be adopted);
(iv) Determine the recognition / treatment of lease component(s) and non-lease component(s).

Answer:

(i) and (ii) Identification of lease and non-lease components and allocation of consideration into these components

In the given case, the agreement contains a lease component (production line) and a non-lease component (job work). As Entity A has not elected to apply the practical expedient as provided in paragraph 15 of Ind AS 116, it will separate the lease and non-lease components and allocate the total consideration to the lease and non- lease components in the ratio of their relative stand-alone selling prices.

As Entity A is required to purchase a minimum of 1,00,000 units per month at the rate of Rs. 240 per unit, there is in substance fixed payment of Rs. 2,40,00,000 per month – although the payments are structured as variable lease payments, there is no genuine variability in those payments as Entity A is required to purchase a minimum quantity 1,00,000 units per month, i.e., for Rs. 2,40,00,000 per month.

The observable stand-alone price for lease component (which is factory rent) is

Rs. 60,00,000. The observable stand-alone price of non-lease component (which is job work charges) is Rs. 1,95,00,000 (Rs. 195 x 1,00,000 units).

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Entity A is required to allocate the total consideration per month as follows:

Observable standalone price: Lease component	Rs. 60,00,000
Observable standalone price: Non-lease component	Rs. 1,95,00,000
Total	Rs. 2,55,00,000
Lease component as a percentage of observable prices (Rs. 60 lakh / Rs. 255 lakh) x 100	23.53%
Allocation of consideration to lease component (Rs. 2,40,00,000 x 23.53%)	Rs. 56,47,200
Non-lease component (Rs. 2,40,00,000 – Rs. 56,47,200)	Rs. 1,83,52,800

(iii) Computation of lease liability

The total allocation for a year will be Rs. 6,77,66,400 (Rs. 56,47,200 x 12)

As Entity A's incremental borrowing rate is 10%, it discounts lease payments using this rate and the lease liability at the commencement date is calculated as follows:

Lease Liability at commencement date = Rs. 6,77,66,400 x 2.49 = Rs. 16,87,38,336.

(iv) Accounting treatment of lease components and non-lease components

(a) Entity A recognises lease liability amounting to Rs. 16,87,38,336 as at commencement date based on lease payments amounting to Rs. 56,47,200 per month.

(b) The remaining amount of Rs. 1,83,52,800 (Rs. 2,40,00,000 – Rs. 56,47,200) which is attributable to job work charges is recognised in the statement of profit and loss as and when incurred.

Q3. Nov 2022 Exam, 8 marks

Lessee enters into a 10 years lease for 6000 square metres of office space. The annual lease payments are ₹ 1,00,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 8% p.a.

At the beginning of the 6th year, lessee and lessor agree to amend the original lease to reduce the space to only 3,000 square metres of the original space starting from the first quarter of year 6. The annual fixed lease payments (from year 6 to year 10) are ₹ 60,000. Lessee's incremental borrowing rate at-the beginning of year 6 is 6% p.a.
You are required to analyse the effect of the said modification and give journal entries for the same in the books of Lessee.
Note: Give your calculation by adopting the present value factor as:

Year	1	2	3	4	5	6	7	8	9	10
8%	0.9259	0.8573	0.7938	0.7350	0.6806	0.6302	0.5835	0.5403	0.5002	0.4632
6%	0.9434	0.8900	0.8396	0.7921	0.7473	0.7050	0.6651	0.6274	0.5919	0.5584

Answer

In the books of Lessee

Calculation of ROU asset and lease liability before modification:

(in ₹)

Year	Lease Liability				ROU asset		
	Initial value	Lease payments	Interest expense @ 8%	Closing balance	Initial Value	Depreciation	Closing balance

	a	b	c = a x 8%	d = a-b + c	e	f	g
1	6,71,000 (Refer W.N.)	1,00,000	53,680	6,24,680	6,71,00	67,100	6,03,900
2	6,24,680	1,00,000	49,974	5,74,654	6,03,900	67,100	5,36,800
3	5,74,654	1,00,000	45,972	5,20,626	5,36,800	67,100	4,69,700
4	5,20,626	1,00,000	41,650	4,62,276	4,69,700	67,100	4,02,600
5	4,62,276	1,00,000	36,982	3,99,258	4,02,600	67,100	3,35,500
6	3,99,258				3,35,500		

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability based on:

a) A five-year remaining lease term,
b) Annual payments of ₹ 60,000 and
c) Lessee's incremental borrowing rate of 6% p.a.

Year	Lease Payment(A)	Present value factor @ 6% (B)	Present value of lease payments (A x B = C)
6	60,000	0.9434	56,604
7	60,000	0.8900	53,400
8	60,000	0.8396	50,376
9	60,000	0.7921	47,526
10	60,000	0.7473	44,838
		Total	2,52,744

Alternative manner of above calculation:
Annual lease payments x Sum of PVF from year 6th year to 10th year @ 6% discount rate
= ₹ 60,000 x 4.2124 = ₹ 2,52,744

Lessee determines the proportionate decrease in the carrying amount of the ROU Asset on the basis of the remaining ROU Asset (i.e., 3,000 square metres corresponding to
50% of the original ROU Asset).
50% of the pre-modification ROU Asset (₹ 3,35,500) is ₹ 1,67,750.
50% of the pre-modification lease liability (₹ 3,99,258) is ₹ 1,99,629.

Consequently, lessee reduces the carrying amount of the ROU Asset by ₹ 1,67,750 and the carrying amount of the lease liability by ₹ 1,99,629 and recognises the difference between the decrease in the lease liability and the decrease in the ROU Asset (₹ 1,99,629 – ₹ 1,67,750 = ₹ 31,879) as a gain in profit or loss account at the effective
date of the modification (at the beginning of Year 6).

Journal Entry

Particulars		Debit (₹)	Credit (₹)
Lease Liability	Dr.	1,99,629	
To ROU Asset			1,67,750
To Profit & Loss			31,879

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Lessee recognises the difference between the reduced 50% lease liability of ₹ 1,99,629 and the modified lease liability of ₹ 2,52,744 (which equals ₹ 53,115) as an adjustment to the ROU Asset reflecting the change in the consideration paid for the lease and the revised discount rate.

Journal Entry

Particulars	Debit (₹)	Credit (₹)
ROU Asset Dr.	53,115	
To Lease Liability		53,115

Working Note:

Calculation of Initial value of ROU asset and lease liability:

Year	Lease Payment(A)	Present value factor @ 8% (B)	Present value of lease payments (A x B = C)
1	1,00,000	0.9259	92,590
2	1,00,000	0.8573	85,730
3	1,00,000	0.7938	79,380
4	1,00,000	0.7350	73,500
5	1,00,000	0.6806	68,060
6	1,00,000	0.6302	63,020
7	1,00,000	0.5835	58,350
8	1,00,000	0.5403	54,030
9	1,00,000	0.5002	50,020
10	1,00,000	0.4632	46,320
			6,71,000

Alternative manner of above calculation:

Annual lease payments x Sum of PVF from year 1 to 10 @ 8% discount rate

= ₹ 1,00,000 x 6.71 = ₹ 6,71,000

Note: It is assumed that even after modification, annual lease payment will continue to be made at the end of the year as mentioned under the original terms of the lease

Q4. Dec 2021 Exam, 10 marks

- Jakob Ltd. entered into a contract for lease of machinery with Jason Ltd. on 1.1.2018. The initial term of the lease is 6 years with a renewal option of further 2 years.
- The annual payments for initial term and renewal term are ₹ 2,80,000 and ₹ 3,50,000 respectively. The annual lease payment will increase based on the annual increase in the CPI at the end of the preceding year. For example, the payment due on 1.1.2019 will be based on the CPI available at 31.12.2018.
- Jakob Ltd.'s incremental borrowing rate at the lease inception date and as at 1.1.2021 is 8% and 10% respectively and the CPI at lease commencement date and as at 1.1.2021 is 250 and 260 respectively.
- At the lease commencement date, Jakob Ltd. did not think that it will be a viable option to renew the lease but in the first quarter of 2021, Jakob Ltd. made some major changes in the retail store which increases its economic life by five years.
- Jakob Ltd. determined that it would only recover the cost of the improvements if it exercises the renewal option, creating a significant economic incentive to extend.

Jakob Ltd. asked your opinion whether remeasurement of lease is required in the first quarter of 2021.

Answer

Since in the first quarter of 2021, Jakob Ltd. is reasonably certain that it will exercise its renewal option, it is required to re-measure the lease in the first quarter of 2021.

The following table summarizes information pertinent to the lease re-measurement:

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Re-measured lease term	5 years (3 years remaining in the initial term plus 2 years in the renewal period)
Jakob Ltd.'s incremental borrowing rate on the re-measurement date	10%
CPI available on the re-measurement date	260
Right-of-use asset immediately before the re-measurement	₹ 6,99,019 (Refer note 2)
Lease liability immediately before the re-measurement	₹ 7,79,417 (Refer note 2)

Procedure to re-measure the lease liability:
To re-measure the lease liability, Jakob Ltd. would first calculate the present value of the future lease payments for the new lease term (using the updated discount rate of 10%).

Since the initial lease payments were based on a CPI of 250, the CPI has increased by 4% [{(260-250)/250} x 100]. As a result, Jakob Ltd. would increase the future lease payments by 4%.

Computation of present value of the future lease payments based on an updated CPI of 260:

	Year					Total
	4	5	6	7	8	
Lease payment	2,91,200	2,91,200	2,91,200	3,64,000	3,64,000	16,01,600
Discount @ 10%	1	0.909	0.826	0.751	0.683	
Present value	2,91,200	2,64,701	2,40,531	2,73,364	2,48,612	13,18,408

Calculation of the adjustment to the lease liability on re-measurement by comparing the recalculated and original lease liability balances on the re-measurement date:

Revised lease liability	13,18,408
Original lease liability	(7,79,417)
Adjustment to the lease liability on re-measurement	5,38,991

Based on above calculations, it is clear that re-measurement of lease is required and accordingly adjustment to lease liability and ROU asset is required in the first quarter of 2021.

Journal entry to adjust the lease liability

ROU Asset	Dr.	5,38,991	
To Lease liability			5,38,991
(Being lease liability and ROU asset adjusted on account of re-measurement)			

Working Notes:
1. Calculation of ROU asset before the date of re-measurement

Year beginning	Lease Payment (A)	Present value factor @ 8% (B)	Present value of lease payments (A x B = C)
1	2,80,000	1.000	2,80,000
2	2,80,000	0.926	2,59,280
3	2,80,000	0.857	2,39,960
4	2,80,000	0.794	2,22,320
5	2,80,000	0.735	2,05,800

6	2,80,000	0.735	1,90,680
Lease liability as at the commencement date			13,98,040

Or

(2,80,000 x Sum of PV (4.993) @ 8% for 5 years = 13,98,040)

2. Calculation of Lease Liability and ROU asset at each year end

Year	Lease Liability				ROU asset		
	Initial value	Lease payments	Interest expense @ 8%	Closing balance	Initial Value	Depreciation For 6 years	Closing balance
	a	b	c = a x 8%	d = a-b + c	e	f	g
1	13,98,040	2,80,000	89,443	12,07,483	13,98,040	2,33,007	11,65,033
2	12,07,483	2,80,000	74,199	10,01,682	11,65,033	2,33,007	9,32,026
3	10,01,682	2,80,000	57,735	7,79,417	9,32,026	2,33,007	6,99,019
4	7,79,417				6,99,019		

As per the information given in the third bullet point at page 10, it is inferred that annual lease payments are due at the beginning of the year. Hence, it can be inferred that the annual lease payment of 2021 had been paid on 1.1.2021. Accordingly lease liability considered for the purpose of remeasurement would be of 5th, 6th, 7th and 8th year only i.e. for 4 years. However, since remeasurement has been decided in the first quarter of
2021, ROU asset balance before remeasurement will be after depreciation of 3 years i.e. till 2020. Based on the above contention, following **alternative solution** is also possible:

Since in the first quarter of 2021, Jakob Ltd. is reasonably certain that it will exercise its renewal option, it is required to re-measure the lease in the first quarter of 2021.

The following table summarizes information pertinent to the lease re-measurement:

Re-measured lease term	**4 years (2 years remaining in the initial term plus 2 years in the renewal period)**
Jakob Ltd.'s incremental borrowing rate on the re-measurement date	10%
CPI available on the re-measurement date	260
Right-of-use asset immediately before the re-measurement	₹ 6,99,019 (Refer note 2)
Lease liability immediately before the re-measurement	₹ 5,39,370 (Refer note 2)

Procedure to re-measure the lease liability:

To re-measure the lease liability, Jakob Ltd. would first calculate the present value of the future lease payments for the new lease term (using the updated discount rate of 10%).

Since the initial lease payments were based on a CPI of 250, the CPI has increased by 4% [{(260-250)/250} x 100]. As a result, Jakob Ltd. would increase the future lease payments by 4%.

Computation of present value of the future lease payments based on an updated CPI of 260:

	Year				Total
	4	5	6	7	
Lease payment	2,91,200	2,91,200	3,64,000	3,64,000	13,10,400
Discount @ 10%	1	0.909	0.826	0.751	
Present value	2,91,200	2,64,701	2,40,531	2,73,364	11,30,329

Calculation of the adjustment to the lease liability on re-measurement by comparing the recalculated and original lease liability balances on the re-measurement date:

Revised lease liability	11,30,329
Original lease liability	(5,39,370)
Adjustment to the lease liability on re-measurement	5,90,959

Based on above calculations, it is clear that re-measurement of lease is required and accordingly adjustment to lease liability and ROU asset is required in the first quarter of 2022.

Journal entry to adjust the lease liability

ROU Asset Dr.	5,90,959	
To Lease liability		5,90,959
(Being lease liability and ROU asset adjusted on account of re-measurement)		

Working Notes:

1. Calculation of ROU asset before the date of re-measurement

Year beginning	Lease Payment (A)	Present value factor @ 8% (B)	Present value of lease payments (A x B = C)
1	2,80,000	1.000	2,80,000
2	2,80,000	0.926	2,59,280
3	2,80,000	0.857	2,39,960
4	2,80,000	0.794	2,22,320
5	2,80,000	0.735	2,05,800
6	2,80,000	0.681	1,90,680
Lease liability as at the commencement date			13,98,040

Or

(2,80,000 x Sum of PV (4.993) @ 8% for 5 years = 13,98,040)

2. Calculation of Lease Liability and ROU asset at each year end

Year	Lease Liability				ROU asset		
	Initial value	Lease payments	Interest expense @ 8%	Closing balance	Initial Value	Depreciation For 6 years	Closing balance
	a	b	c = a x 8%	d = a-b + c	e	f	g
1	13,98,040	2,80,000	89,443	12,07,483	13,98,040	2,33,007	11,65,033
2	12,07,483	2,80,000	74,199	10,01,682	11,65,033	2,33,007	9,32,026
3	10,01,682	2,80,000	57,735	7,79,417	9,32,026	2,33,007	6,99,019
4	7,79,417	2,80,000	39,953	5,39,370	6,99,019		
5	5,39,370						

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Q5. July 2021 Exam, 4 marks

Ted entered into a lease contract with lessor to lease 2,000 sqm of retail space for 5 years.
The rentals are payable monthly in advance. The lease commenced on 1st April 2019. In the year 2020, as a direct consequence of Covid 19 pandemic, Ted has negotiated with the lessor which may results in the following situations:

- Lessor agrees a rent concession under which the monthly rent will be reduced by 30% per month for the 12 months commencing 1st October 2020.
- Ted is granted a rent concession by the lessor whereby the lease payments for the period October 2020 to December 2020 are deferred. Three months are added to the end of the lease term at same monthly rent.
- Lessor offers to reduce monthly rent by 50% for the months October 2020 to March 2021 on the condition that its space is reduced from 2,000 sq m to 1,500 sq m.

Analyze the given situations in the light of Ind AS 116 and comment on whether rent concession/deferral is eligible for practical expedient?

Answer

Applicability of practical expedient:

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess a rent concession as a lease modification only if all of the following conditions are met:

a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b. any reduction in lease payments affects only payments originally due on or before the 30th June, 2021; and
c. there is no substantive change to other terms and conditions of the contract

Analysis:

Based on above guidance, answer to the given situations with the lessor would be as follows:

• Lessor agrees a rent concession under which the monthly rent will be reduced by 30% per month for the 12 months commencing 1st October 2020:

The rent deferral does not satisfy the criteria to apply the practical expedient because out of the listed eligibility criteria given in Ind AS 116, rent concession reduces lease payments starting from October, 2020 and reduction will continue till September, 2021 which is beyond 30th June 2021. Therefore, Ted is not permitted to apply the practical expedient.

• Ted is granted a rent concession by the lessor whereby the lease payments for the period October 2020 to December 2020 are deferred. Three months are added to the end of the lease term at same monthly rent:

a. condition is met since revised consideration in the lease is substantially the same as the original
b. (condition is met since the rent concession only reduces lease payments originally due in 2020 – i.e. before 30th June 2021.
c. condition is met since the lessee assesses that three-month extension at the end of the lease term is with substantially the same lease payments. Hence, it would not constitute a substantive change.

Since, the rent concession is a direct consequence of COVID-19 and all three conditions are met, rent concession is eligible for application of practical expedient in this case.

• Lessor offers to reduce monthly rent by 50% for the months October 2020 to March 2021 on the condition that its space is reduced from 2,000 sqm to 1,500 sqm:

The rent concession does not satisfy the criteria to apply the practical expedient because out of the listed eligibility criteria given in Ind AS 116, there is a substantive change to the terms and conditions of the lease as there is a change in the scope of lease by reducing the space from 2,000 sqm to 1,500 sqm. Therefore, Ted is not permitted to apply the practical expedient.

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Q6. Jan 2021 Exam, 6 marks

Coups Limited availed a machine on lease from Ferrari Limited. The terms and conditions of the Lease are as under:

Lease period is 3 years, machine costing ₹ 8,00,000.

- Machine has expected useful life of 5 years.
- Machine reverts back to Ferrari Limited on termination of lease.
- The unguaranteed residual value is estimated at ₹ 50,000 at the end of 3rd year.
- 3 equal annual installments are made at the end of each year.
- Implicit Interest Rate (IRR) = 10%.
- Present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is 0.7513.
- Present value of annuity of ₹ 1 due at the end of 3rd year at 10% IRR is 2.4868.

You are required to ascertain whether it is a Finance Lease or Operating Lease and also calculate Unearned Finance Income with the relevant context to relevant Ind AS.

Answer

It is assumed that the fair value of the machine on lease is equivalent to the cost of the machine.

(i) A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

(ii) Computation of annual lease payment to the lessor

	₹
Cost of equipment / fair value	8,00,000
Unguaranteed residual value	50,000
Present value of residual value after third year @ 10% (50,000 x 0.7513)	37,565
Fair value to be recovered from lease payments (8,00,000 – 37,565)	7,62,435
Present value of annuity for three years is 2.4868	
Annual lease payment = 7,62,435 / 2.4868	3,06,593

The present value of lease payment i.e., ₹ 7,62,435 is **more than 95% of the fair market value** i.e., ₹ 8,00,000. The present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) **covers the major part of the life of asset** (i.e. 5 years). Therefore, it constitutes **a finance lease.**

(ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 3,06,593 x 3)	9,19,779
Add: Unguaranteed residual value	50,000
Gross investment in the lease	9,69,779
Less: Present value of investment (lease payments and residual value) (37,565 + 7,62,435)	(8,00,000)
Unearned finance income	1,69,779

Q7. Nov 2020 Exam, 8 marks

Venus Ltd. (Seller-lessee) sells a building to Mars Ltd. (Buyer-lessor) for cash of ₹ 28,00,000. Immediately before the transaction, the building is carried at a cost of₹ 13,00,000. At the same time, Seller- lessee enters into a contract with Buyer-lessor for the right to use the building for 20 years, with an annual payment of ₹ 2,00,000 payable at the end of each year.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a performance obligation is satisfied in accordance with Ind AS 115 "Revenue from Contracts with Customers".The fair value of the

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building at the date of sale is ₹ 25,00,000. Initial direct costs, if any, are to be ignored. The interest rate implicit in the lease is 12% p.a., which is readily
determinable by Seller-lessee. Present Value (PV) of annual payments (20 payments of₹ 2,00,000 each discounted @ 12%) is ₹ 14,94,000.

Buyer-lessor classifies the lease of the building as an operating lease. How should the said transaction be accounted by Venus Ltd.?

Answer

Considering facts of the case, Venus Ltd. (seller-lessee) and Mars Ltd. (buyer-lessor) account for the transaction as a sale and leaseback.

Firstly, since the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer - lessor make adjustments to measure the sale proceeds at fair value. Thus, the amount of the excess sale price of ₹ 3,00,000 (as calculated below) is recognised as additional financing provided by Buyer-lessor to Seller-lessee.

Sale Price:	28,00,000
Less: Fair Value (at the date of sale):	(25,00,000)
Additional financing provided by Buyer-lessor to Seller-lessee	3,00,000

The present value of the annual payments is ₹ 14,94,000 (as given in the question).

Out of this ₹ 14,94,000, ₹ 3,00,000 relates to the additional financing (as calculated above) and balance ₹ 11,94,000 relates to the lease.

Accounting by Venus Ltd. (seller-lessee):

At the commencement date, Seller-lessee measures the ROU asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right-of-use retained by Seller-lessee, calculated as follows:

Carrying Amount (A)	13,00,000
Fair Value (at the date of sale) (B)	25,00,000
Discounted lease payments for the 20 year ROU asset (C)	11,94,000
ROU Asset [(A / B) x C]	6,20,880

Seller-lessee recognises only the amount of the gain that relates to the rights transferred to Buyer-lessor, calculated as follows:

Fair Value (at the date of sale) (A)	25,00,000
Carrying Amount (B)	13,00,000
Discounted lease payments for the 20-year ROU asset (C)	11,94,000
Gain on sale of building (D) = (A - B)	12,00,000
Relating to the right to use the building retained by Seller-lessee (E)=[(D/A)xC]	5,73,120
Relating to the rights transferred to Buyer-lessor (D - E)	6,26,880

At the commencement date, Seller-lessee accounts for the transaction, as follows:

Bank / Cash A/c	Dr.	28,00,000	
ROU Asset A/c	Dr.	6,20,880	
To Building			13,00,000
To Financial Liability			14,94,000
To Gain on rights transferred			6,26,880

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Q8. Nov 2019 Exam, 4 marks

Make necessary journal entries for accounting of the security deposit made by Admire Ltd.,whose details are described below. Assume market interest rate for a deposit for similar period to be 12% per annum.

Particulars	Details
Date of Security Deposit (Starting Date)	1st April, 2014
Date of Security Deposit (Finishing Date)	31st March, 2019
Description	Lease
Total Lease Period	5 years
Discount rate	12%
Security deposit (A)	20,00,000
Present value factor at the 5th year	0.567427

Answer

The above security deposit is an interest free deposit redeemable at the end of lease term for ₹ 20,00,000. Hence, this involves collection of contractual cash flows and shall be accounted at amortised cost.

Upon initial measurement

Particulars	Details
Security deposit (A)	20,00,000
Total lease period (Years)	5
Discount rate	12.00%
Present value annuity factor	0.567427
Present value of deposit at beginning (B)	**11,34,854**
Prepaid lease payment at beginning (A-B)	**8,65,146**

Journal entry at initial recognition

Particulars		Amount	Amount
Security deposit A/c	Dr.	11,34,854	
Prepaid lease expenses A/c	Dr.	8,65,146	
To Bank A/c			20,00,000

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.

Following table shows the amortisation of security deposit based on discount rate:

Year	Opening balance (A)	Interest @ 12% (B)	Closing balance (C) = (A) + (B)
1	11,34,854	1,36,183	12,71,037
2	12,71,037	1,52,524	14,23,561
3	14,23,561	1,70,827	15,94,388
4	15,94,388	1,91,327	17,85,315
5	17,85,315	2,14,685*	20,00,000

*Difference is due to approximation.

Journal entries for Year 1-5

For – Year 1

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,36,183	
To Interest income			1,36,183
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

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For – Year 2

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,52,524	
To Interest income			1,52,524
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 3

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,70,827	
To Interest income			1,70,827
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 4

Particulars		Amount	Amount
Security deposit A/c	Dr.	1,91,327	
To Interest income			1,91,327
Lease expense (8,65,146 / 5 years)	Dr.	1,73,029	
To Prepaid lease expenses			1,73,029

For – Year 5

Particulars		Amount	Amount
Security deposit A/c	Dr.	2,14,685	
To Interest income			2,14,685
Lease expense (8,65,146 / 5 years)	Dr.	1,73,030	
To Prepaid lease expenses			1,73,030

Journal entry for realisation of security deposit at the end of 5th year

Particulars		Amount	Amount
Bank A/c	Dr.	20,00,000	
To Security deposit A/c			20,00,000

Q9. May 2018 Exam, 12 marks

The following facts are given for the Sky Ltd:

- A Lease which is non-cancellable was initiated on 1st April 2014 for equipment with an expected useful life of five years.
- Three payments are due to the 'Lessor' of an amount of ₹ 1,02,000 per year beginning 31st March 2015. Included in the lease payments is a sum of ₹ 2,000 to be paid annually by the 'Lessee' for insurance.
- The 'Lessee' guarantees ₹ 20,000 residual value on 31st March 2017 to the Lessor.
- Irrespective of the ₹ 20,000 residual value guarantee, the leased asset is expected to have only ₹ 2,000 residual value to the lessee at the end of the lease term.
- The Lessee company depreciates similar equipment that it owns on a straight line basis.
- The fair value of the equipment at 1st April 2014 is ₹ 2,64,000.
- The Lessor's implicit rate is 10%. This fact is known to the Lessee company.

As per the provisions of Ind AS 17 'Leases' -

i. How should Lessee Company classify and record the lease transaction at its inception on 1st April 2014? Indicate journal entry also.

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ii. What are the journal entries the Lessee is required to make to record the lease payments and the interest, insurance and depreciation expenses on 31st March 2015 through 31st March 2017?

iii. What entry should the Lessee make on 31st March 2017 to record the guaranteed residual value payment (assuming estimated residual value of ₹ 2,000) and to clear the lease related accounts from the lessee's books?

iv. What would be the Current and Non-current classification in the books of Lessee in the first year?

(Discount factor: 2015: 0.909; 2016: 0.826; 2017: 0.751)

Answer

i. The Lessee company should record the asset as a finance lease since the risk and reward is transferred. Lessee has guaranteed to the lessor, the residual value of ₹ 20,000, in spite of the fact that the estimated residual value of the asset will be ₹ 2,000.

Further the lease payments substantially cover the fair value of leased asset as per calculation given below.

Calculation of Present value of Minimum Lease Payments (MLP) at implicit rate of 10%

Year	Discount Factor	Minimum Lease payments (see note below)	Present Value of MLP
Annual Lease Rentals			
31st March, 2015	0.909	1,00,000	90,900
31st March, 2016	0.826	1,00,000	82,600
31st March, 2017	0.751	1,00,000	75,100
Guaranteed Residual Value 31st March, 2017	0.751	20,000	15,020
Total			2,63,620

Note: The contingent rent, taxes, insurance, maintenance expenses etc. if paid by the lessee to the lessor, then it does not form part of the minimum lease payments and will be expensed when incurred. Insurance expense is a kind of reimbursement from lessee to lessor. Hence in the above case, for calculation of present value of minimum lease payments only lease rental of ₹ 1,00,000 has been considered.

At the time of initial recognition, the lessee will recognise the leasehold asset at lower of below:

Present value of MLP	2,63,620	
Fair value of leased asset		2,64,000
Hence, leasehold asset will be recognised at		2,63,620

Accounting entry for initial recognition would be :

Leasehold equipment Dr.	2,63,620	
To Leasehold obligation		2,63,620

(ii) Lease rentals should split between principal portion of leasehold obligation and finance costs as follows:

Year	Opening balance	Payments	Finance costs @ 10%	Reduction in liability	Closing obligation
	(a)	(b)	(a) x 10% = (c)	(b)-(c)=(d)	(a)-(d) = (e)
1st April, 2014	-				2,63,620
	2,63,620	1,00,000	26,362	73,638	1,89,982

31st March,2015	1,89,982	1,00,000	18,998	81,002	1,08,980
31st March,2016	1,08,980	1,00,000	11,020*	88,980	20,000
31st March,2017					

* Difference is due to approximation.

In the books of Lessee

Journal Entries (at the time of subsequent measurement)

Date	Particulars		Dr. ₹	Cr. ₹
31st March 2015	Insurance Expenses	Dr.	2,000	
	Leasehold obligation	Dr.	73,638	
	Interest Expenses	Dr.	26,362	
	Depreciation	Dr.	87,207	
	To Cash			1,02,000
	To Accumulated Depreciation			87,207
31st March 2016	Insurance Expenses	Dr.	2,000	
	Leasehold obligation	Dr.	81,002	
	Interest Expenses	Dr.	18,998	
	Depreciation	Dr.	87,207	
	To Cash			1,02,000
	To Accumulated Depreciation			87,207
31st March 2017	Insurance Expenses	Dr.	2,000	
	Leasehold obligation	Dr.	88,980	
	Interest Expenses	Dr.	11,020	
	Depreciation	Dr.	87,206	
	To Cash			1,02,000
	To Accumulated Depreciation			87,206

(iii) Entries at the end of lease period

Leasehold Obligation Account	Dr.	20,000	
Accumulated Depreciation Account	Dr.	2,61,620	
To Cash Account			18,000
To Leasehold Equipment Account			2,63,620

(iv) The Current and Non-current Classification at the end of year 1 in the books of Lessee

Balance Sheet (An extract)

	₹
ASSETS	
Non-current Asset	
Leasehold Asset	
Gross Block	2,63,620
Accumulated Depreciation	(87,207)
LIABILITIES	
Non-current Liability	
Leasehold Obligation (payable after 12 months from the reporting date)	1,08,980
Current Liability	
Leasehold Obligation (payable within 12 months from the reporting date)	81,002

Q10. May 2026, RTP

Lessee enters into an agreement with Lessor for a period of five years to lease a floor of a building. Lessee is required to make a fixed annual lease payment of Rs. 4,20,000 (i.e., total

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payment of Rs. 21,00,000 over the five-year term). As per the terms of the contract, the Rs. 4,20,000 annual payment comprises:

	Rs.
Building rent	2,40,000
Common area maintenance services	84,000
Property taxes (pro-rata)	60,000
Building insurance (pro-rata)	36,000

From Lessee's perspective, the estimated standalone price of the building rent is Rs. 2,64,000 and the estimated standalone price of the common area maintenance service is Rs. 96,000. Lessee has not elected to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate non-lease component(s) from lease component(s). Hence, it has to separate non-lease components from lease components.

Required

How are the above payments allocated and accounted for by Lessee?

Answer:

Paragraph B33 of Ind AS 116 states that a contract may include an amount payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable, do not give rise to a separate component of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The payments to be made by Lessee for common area maintenance represents payment for non-lease components as it is a payment for a service provided to it by Lessor.

The property taxes are required to be paid by Lessor irrespective of whether it leased the building and to which party. Likewise, the building insurance paid by Lessee also protects the Lessor's property and only Lessor will be entitled to receive the claim if received. Accordingly, these are not separate components of the contract because they do not represent payments for goods or services and are considered to be part of the total consideration that is allocated to the separately identified components of the contract (i.e., the lease and non-lease components).

As Lessee has not elected the practical expedient as provided in paragraph 15 of the standard, it will separate the lease and the non-lease components, even though the agreement specified payments for four separately identified matters, the arrangement will comprise only two components for accounting purposes.

The total annual payment would be allocated between the two identified goods and services representing the lease component and non-lease component as follows:

Particulars	**Standalone prices**	**% of Total Standalone Price**	**Allocation of annual payment* (calculation on full scale)**
Building rent	2,64,000	73.333%	3,07,860
Maintenance services	96,000	26.666%	1,12,140
Total	**3,60,000**	**100.00%**	**4,20,000**

The portion of consideration that is allocated to the lease components includes, apart from rent, those amounts that are not considered a separate component (e.g., Rs. 60,000 on account of property taxes and Rs. 36,000 on account of building insurance).

Q11. Nov 2024, RTP

Case I

Scenario 1: The 'last mile' is a dedicated cable that connects Entity Y's network with the end customer's device. The use of this cable is at the discretion of the customer. Entity Y decides the location of end points and has right to replace the lines (dedicated cable), however it is not practical to replace the lines, since replacement would require additional costs to be incurred without any corresponding benefit. Whether the arrangement would be within the scope of Ind AS 116?

Scenario 2: If it is practical for Entity Y to replace the lines and Entity Y would benefit from this replacement, would the answer be different?

Case II

Customer X enters into a 10-year contract with a utility company, Entity Y, for the right to use three specified, physically distinct fibers within a larger cable connecting Mumbai to Delhi. Customer makes the decisions about the use of the fibers by connecting each end of the fibers to its electronic equipment. Entity Y owns extra fibers but can substitute those for Customer's fibers only for reasons of repairs, maintenance or malfunction. The useful life of fiber is 15 years. Whether this arrangement is covered under Ind AS 116?

Case III

Customer X enters into a 10-year contract with Entity Y for the right to use a specified amount of capacity within a cable connecting Mumbai to Delhi. The specified amount is equivalent to Customer X having the use of the full capacity of three fiber strands within the cable (the cable contains multiple fibers with similar capacities). Entity Y makes decisions about the transmission of data (i.e., Entity Y lights the fibers, makes decisions about which fibers are used to transmit Customer's traffic). The useful life of fiber is 15 years.

Whether this arrangement is covered under Ind AS 116?

Answer:

Case I

Scenario 1:

I. As per paragraph B13 of Ind AS 116, 'Last mile' which is a dedicated cable is an identified asset since it is physically distinct.
II. There are no substantive substitution rights with Entity Y, as it does not have the practical ability to substitute alternative assets throughout the period of use.

Thus, this arrangement is within the scope of Ind AS 116.

Scenario 2:

If Entity Y has the practical ability to replace the lines and it would benefit from such replacement, Entity Y has substantive substitution rights. In such case, this arrangement for the 'last mile cable' will not be within the scope of Ind AS 116.

Case II

The fibers are specified in the contract and are physically distinct. Hence, in accordance with paragraph B13 and B20, the said three fibers are identified asset.

Paragraph B18, inter alia, states that, "the supplier's right or obligation to substitute the asset for repairs and maintenance, if the asset is not operating properly or if a technical upgrade becomes available does not preclude the customer from having the right to use an identified asset."

Further, paragraph B27 provides that although rights such as those to operate or maintain an asset are often essential to the efficient use of an asset, they are not rights to direct how and for what purpose the asset is used and can actually be dependent on the decisions about how and for what purpose the asset is used.

In accordance with the above, as Entity Y can substitute these three distinct fibers only for reasons of repairs, maintenance or malfunction, it does not preclude them from being an identified asset.

Further, the Customer X has right to control the use of the identified fibers for 10 year since it has

a. the right to obtain substantially all of the economic benefits from use of the identified fibers throughout the period of use, i.e., 10 years; and
b. the right to direct the use of the fibers as it makes the decisions about the use of the fibers, i.e., it has right to direct how and for what purpose the fibers are used throughout the period of use.

Hence, this arrangement is within the scope of Ind AS 116.

Case III

Paragraph B20 specifically provides that a capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fiber optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset. In the given case, the capacity portion that will be provided to Customer X is not physically distinct from the remaining capacity of the cable and does not represent substantially all of the capacity of the cable, thus, it is not an identified asset. Further, Entity Y makes all decisions about the transmission of data, (i.e., supplier lights the fibers, makes decisions about which fibers are used to transmit customer's traffic).

Thus, the contract does not contain a lease and is therefore not within the scope of Ind AS 116.

Q12. Nov 2023, RTP

Entity X, a utility company enters into a contract for twenty years with Entity Y, a power company, to purchase all of the electricity produced by a new solar power station. The solar power station is explicitly specified in the contract and Entity Y has no substitution rights. Entity Y owns the solar power station and will receive tax credits relating to the construction and ownership of the solar power station, and Entity X will receive renewable energy credits that accrue from use of the solar power station.
Whether Entity X has the right to obtain substantially all of the economic benefits from the solar power station during the period of arrangement?

Answer

Paragraphs B21 of Ind AS 116 states that to control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (for example, by havingexclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or subleasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with third party.

In the given case, Entity X has the right to obtain substantially all of the economic benefits from the use of the solar power station over the 20-year period because it obtains:

– electricity produced by the power station i.e. the primary product from use of the asset over the lease term and

– renewable energy credits – i.e. the by-product from use of the asset.

Although Entity Y will receive economic benefits from the solar power station in the form of tax credits, those economic benefits relate to the ownership of the solar power station rather than the use of the power station. Thus, these credits are not considered in this assessment.

Q13. May 2023, RTP

How will Entity Y account for the incentive in the following scenarios:

Scenario A:

Entity Y (lessor) enters into an operating lease of property with Entity X (lessee) for a five-year term at a monthly rental of ₹ 1,10,000. In order to induce Entity X to enter into the lease, Entity Y provides ₹ 6,00,000 to Entity X at lease commencement for lessee improvements (i.e., lessee's assets).

Scenario B:

Entity Y (lessor) enters into an operating lease of property with Entity X (lessee) for a five-year term at a monthly rental of ₹ 1,10,000. At lease commencement, Entity Y provides ₹ 6,00,000 to Entity X for leasehold improvements which will be owned by Entity Y (i.e., lessor's assets). The estimated useful life of leasehold improvements is 5 years.

Answer

Para 70 of Ind AS 116 state that at the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

a. fixed payments (including in-substance fixed payments as described in para B42), less any lease incentives payable;
b. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c. any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
d. the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in para B37); and
e. payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Further para 71 of the standard states that a lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished."

Scenario A

In accordance with above, in the given case, at lease commencement, Entity Y accounts for the incentive as follows:

To account for the lease incentive

Deferred lease incentive	Dr.	₹ 6,00,000	
To Cash			₹ 6,00,000

Recurring monthly journal entries in Years 1 – 5

To record cash received on account of lease rental and amortisation of lease incentive over the lease term

Cash	Dr.	₹ 1,10,000	
To Lease income			₹ 1,00,000
To Deferred lease incentive			₹ 10,000*

* This is calculated as ₹ 6,00,000 ÷ 60 months.

Scenario B

Entity Y has provided lease incentive amounting to ₹ 6,00,000 to Entity X for leasehold improvements in the premises. As Entity Y has the ownership of the leasehold improvements carried out by the lessee, it shall account for the same as property, plant and equipment and shall depreciate the same over its useful life.

In accordance with above, in the given case, at **lease commencement,** Entity Y accounts for the incentive as follows:

To record the lease incentive			
Property, plant & Equipment	Dr.	₹ 6,00,000	
To Cash			₹ 6,00,000

Recurring monthly journal entries in Years 1 – 5

To record cash received on account of lease rental over the lease term			
Cash	Dr.	₹ 1,10,000	
To Lease income			₹ 1,10,000

To record depreciation on PPE over the lease term using straight line method			
Depreciation	Dr.	₹ 10,000	
To Accumulated Depreciation			₹ 10,000

Q14. Nov 2022, RTP

A company manufactures specialised machinery. The company offers customers the choice of either buying or leasing the machinery. A customer chooses to lease the machinery. Details of the arrangement are as follows:

i. The lease commences on 1st April, 20X1 and lasts for three years.
ii. The lessee is required to make three annual rentals payable in arrears of ₹ 57,500.
iii. The leased machinery is returned to the lessor at the end of the lease.
iv. The fair value of the machinery is ₹ 1,50,000, which is equivalent to the selling price of the machinery
v. (v) The machinery cost ₹ 1,00,000 to manufacture. The lessor incurred costs of ₹ 2,500 to negotiate and arrange the lease.
vi. The expected useful life of the machinery is 3 years. The machinery has an expected residual value of ₹ 10,000 at the end of year three. The estimated residual value does not change over the term of the lease.
vii. The interest rate implicit in the lease is 10.19%.

The lessor classifies the lease as a finance lease.

How should the Lessor account for the same in its books of accounts? Pass necessary journal entries.

Answer

The cost to the lessor for providing the machinery on lease consists of the book value of the machinery (₹ 1,00,000), plus the initial direct costs associated with entering into the lease (₹ 2,500), less the future income expected from disposing of the machinery at the end of the lease (the present value of the unguaranteed residual value of ₹ 10,000 discounted @ 10.19%, being ₹ 7,470). This gives a cost of sale of ₹ 95,030.

The lessor records the following entries at the commencement of the lease:

		₹	₹
Lease receivable	Dr.	1,50,000	
Cost of sales	Dr.	95,030	
To Inventory			1,00,000
To Revenue			1,42,530
To Creditors/Cash			2,500

The sales profit recognised by the lessor at the commencement of the lease is therefore ₹ 47,500 (₹ 1,42,530 - ₹ 95,030). This is equal to the fair value of the machinery of ₹ 1,50,000, less the book value of the machinery (₹ 1,00,000) and the initial direct costs of entering into the lease (₹ 2,500). Revenue is equal to the lease receivable (₹ 1,50,000), less the present value of the unguaranteed residual value (₹ 7,470).

Year	Lease receivable at the beginning of year (₹) (a)	Lease payments (₹) (b)	Interest Income (10.19% per annum) (₹) (c)	Decrease In lease receivable (₹) (d)=(b)-(c)	Lease receivable at the end of year (₹) (e)=(a)-(d)
1	1,50,000	57,500	12,285	42,215	1,07,785
2	1,07,785	57,500	10,983	46,517	61,268
3	61,268	57,500	6,232*	51,268	10,000

*Difference is due to approximation

The lessor will record the following entries:

			₹	₹
Year 1	Cash/Bank	Dr.	57,500	
	To Lease receivable			42,215
	To Interest income			15,285
Year 2	Cash/Bank	Dr.	57,500	
	To Lease receivable			46,517
	To Interest income			10,983
Year 3	Cash/Bank	Dr.	57,500	
	To Lease receivable			51,268
	To Interest income			6,232

At the end of the three-year lease term, the leased machinery will be returned to the lessor, who will record the following entries:

		₹	₹
Inventory	Dr.	10,000	
To Lease receivable			10,000

Q15. May 2022, RTP

Case I

Scenario 1: The 'last mile' is a dedicated cable that connects Entity Y's network with the end customer's device. The use of this cable is at the discretion of the customer. Entity Y decides the location of end points and has right to replace the lines (dedicated c able), however it is not practical to replace the lines, since replacement would require additional costs to be incurred without any corresponding benefit. Whether the arrangement would be within the scope of Ind AS 116?

Scenario 2: If it is practical for the Entity Y to replace the lines and Entity Y would benefit from this replacement, would the answer be different?

Case II

Customer X enters into a 10-year contract with a utility company, Entity Y, for the right to use three specified, physically distinct fibers within a larger cable connecting Mumbai to Delhi. Customer makes the decisions about the use of the fibers by connecting eachend of the fibers to its electronic equipment. Entity Y owns extra fibers but can substitute those for Customer's fibers only for reasons of repairs, maintenance or malfunction. The useful life of the fiber is 15 years. Whether this arrangement is covered under Ind AS 116?

Case III

Customer X enters into a 10-year contract with Entity Y for the right to use a specified amount of capacity within a cable connecting Mumbai to Delhi. The specified amount is equivalent to Customer X having the use of the full capacity of three fiber strands within the cable (the cable

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contains multiple fibers with similar capacities). Entity Y makes decisions about the transmission of data (i.e., Entity Y lights the fibers, makes decisions about which fibers are used to transmit Customer's traffic). The useful life of the fiber is 15 years. Whether this arrangement is covered under Ind AS 116?

Answer

Paragraph 9, B9, B13 and B14 of Ind AS 116 state the following:

"9 At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration."B9 To assess whether a contract conveys the right to control the use of an identified asset for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:

a. the right to obtain substantially all of the economic benefits from use of the identified asset; and
b. the right to direct the use of the identified asset."

"B13 An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer."

"B14 Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use. A supplier's right to substitute an asset is substantive only if both of the following conditions exist:

a. the supplier has the practical ability to substitute alternative assets throughout the period of use (for example, the customer cannot prevent the supplier from substituting the asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and
b. the supplier would benefit economically from the exercise of its right to substitute the asset (i.e., the economic benefits associated with substituting the asset are expected to exceed the costs associated with substituting the asset)."

Paragraph B20 of Ind AS 116 which provides guidance regarding identified asset in case of portion of assets states that a capacity portion of an asset is an identified asset if it is physically distinct (for example, a floor of a building). A capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fibre optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.

Paragraph B21 of Ind AS 116, inter alia, states that to control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or subleasing the asset.

Further, paragraph B24 of Ind AS 116 provides that a customer has the right to direct the use of an identified asset throughout the period of use if the customer has the right to direct how and for what purpose the asset is used throughout the period of use.

Paragraph B25 of Ind AS 116 states that a customer has the right to direct how and for what purpose the asset is used if, within the scope of its right of use defined in the contract, it can change how and for what purpose the asset is used throughout the period of use. In making this assessment, an entity considers the decision-making rights that are most relevant to changing how and for what purpose the asset is used throughout the period of use. Decision-making rights are relevant when they affect the economic benefits to be derived from use. The decision-making rights that are most relevant are

likely to be different for different contracts, depending on the nature of the asset and the terms and conditions of the contract.

Case I

Scenario 1:

i. As per paragraph B13 of Ind AS 116, 'Last mile' which is a dedicated cable is an identified asset since it is physically distinct.
ii. There are no substantive substitution rights with Entity Y, as it does not have the practical ability to substitute alternative assets throughout the period of use.

Thus, this arrangement is within the scope of Ind AS 116.

Scenario 2:

If Entity Y has the practical ability to replace the lines and it would benefit from such replacement, Entity Y has substantive substitution rights. In such case, this arrangement for the 'last mile cable' will not be within the scope of Ind AS 116.

Case II

The fibers are specified in the contract and are physically distinct. Hence, in accordance with paragraph B13 and B20, the said three fibers are identified asset.

Paragraph B18, inter alia, states that the supplier's right or obligation to substitute the asset for repairs and maintenance, if the asset is not operating properly or if a technical upgrade becomes available does not preclude the customer from having the right to use an identified asset.

Further, paragraph B27 provides that although rights such as those to operate or maintain an asset are often essential to the efficient use of an asset, they are not rights to direct how and for what purpose the asset is used and can actually be dependent on the decisions about how and for what purpose the asset is used.

In accordance with the above, as Entity Y can substitute these three distinct fibers only for reasons of repairs, maintenance or malfunction, it does not preclude them from being an identified asset.

Further, the Customer X has right to control the use of the identified fibers for 10 year since it has –

a. the right to obtain substantially all of the economic benefits from use of the identified fibers throughout the period of use, i.e., 10 years; and
b. the right to direct the use of the fibers as it makes the decisions about the use of the fibers, i.e., it has right to direct how and for what purpose the fibers are used throughout the period of use.

Hence, this arrangement is within the scope of Ind AS 116.

Case III

Paragraph B20 specifically provides that a capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fiber optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset. In the given case, the capacity portion that will be provided to Customer X is not physically distinct from the remaining capacity of the cable and does not represent substantially all of the capacity of the cable, thus, it is not an identified asset. Further, Entity Y makes all decisions about the transmission of data, (i.e., supplier lights the fibers, makes decisions about which fibers are used to transmit customer's traffic).

Thus, the contract does not contain a lease and is therefore not within the scope of Ind AS 116.

Q16. Nov 2021, RTP

The Company has entered into a lease agreement for its retail store as on 1st April, 20X1 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 20X1. As per the terms of 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. Inflation cost index was 280 for financial year 20X1-20X2 and 301 for financial year 20X3-20X4. The current incremental borrowing rate is 8% p.a.

Show the Journal entry at the beginning of year 3, to account for change in lease.

Answer

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 prese nt value of eight payments of ₹ 60,200 discounted at an original discount rate of 9.5% per annum as per para 43 of Ind AS 116.

Year	Revised lease rental	Discount factor @ 9.5%	Present value
3	[(56,000 / 280) x 301] = 60,200	0.913	54,963
4	60,200	0.834	50,207
5	60,200	0.762	45,872
6	60,200	0.696	41,899
7	60,200	0.635	38,277
8	60,200	0.580	34,916
9	60,200	0.530	31,906
10	60,200	0.484	29,137
			3,27,127

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 ₹ 22,854 (3,27,127 – 3,04,273) will increase the lease liability with corresponding increase in ROU Asset as per para 39 of Ind AS 116.

Journal entry at the beginning of year 3 would be:

Right-of-use asset	Dr.	₹ 22,854	
To Lease liability			₹ 22,854

Q17. May 2021, RTP

Entity X is an Indian entity whose functional currency is Indian Rupee. It has taken a plant on lease from Entity Y for 5 years to use in its manufacturing process for which it has to pay annual rentals in arrears of USD 10,000 every year. On the commencement date, exchange rate was USD = ₹ 68. The average rate for Year 1 was ₹ 69 and at the end of year 1, the exchange rate was ₹ 70. The incremental borrowing rate of Entity X on commencement of the lease for a USD borrowing was 5% p.a.

How will entity X measure the right of use (ROU) asset and lease liability initially and at the end of Year 1?

Answer

On initial measurement, Entity X will measure the lease liability and ROU asset as under:

Year	Lease Payments (USD)	Present Value factor @ 5%	Present Value of Lease	Payment Conversion rate (spot rate)	INR value
1	10,000	0.952	9,520	68	6,47,360
2	10,000	0.907	9,070	68	6,16,760
3	10,000	0.864	8,640	68	5,87,520
4	10,000	0.8235	8,230	68	5,59,640

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5	10,000	0.784	7,840	68	5,33,120
Total			**43,300**		**29,44,400**

As per Ind AS 21, The Effects of Changes in Foreign Exchange Rates, monetary assets and liabilities are restated at each reporting date at the closing rate and the difference due to foreign exchange movement is recognised in profit and loss whereas non-monetary assets and liabilities carried measured in terms of historical cost in foreign currency are not restated.

Accordingly, the ROU asset in the given case being a non-monetary asset measured in terms of historical cost in foreign currency will not be restated but the lease liability being a monetary liability will be restated at each reporting date with the resultant difference being taken to profit and loss.

At the end of Year 1, the lease liability will be measured in terms of USD as under:
Lease Liability:

Year	Initial Value (USD) (a)	Lease Payment (b)	Interest @ 5% (c) = (a x 5%)	Closing Value (USD) (d = a + c - b)
1	43,300	10,000	2,165	35,465

Interest at the rate of 5% will be accounted for in profit and loss at average rate of ₹ 69 (i.e., USD 2,165 x 69) = ₹ 1,49,385.

Particulars		Dr. (₹)	Cr. (₹)
Interest Expense	Dr.	1,49,385	
To Lease liability 1,49,385			1,49,385

Lease payment would be accounted for at the reporting date exchange rate, i.e. ₹ 70 at the end of year 1

Particulars		Dr. (₹)	Cr. (₹)
Lease liability	Dr.	7,00,000	
To Cash 7,00,000			7,00,000

As per the guidance above under Ind AS 21, the lease liability will be restated using the reporting date exchange rate i.e., ₹ 70 at the end of Year 1. Accordingly, the lease liability will be measured at ₹ 24,82,550 (35,465 x ₹ 70) with the corresponding impact due to exchange rate movement of ₹ 88,765 (24,82,550 – (29,44,400 + 1,49,385 –700,000) taken to profit and loss.

At the end of year 1, the ROU asset will be measured as under:

Year	Opening Balance (₹)	Depreciation (₹)	Closing Balance (₹)
1	29,44,400	5,88,880	23,55,520

Q18. Nov 2020, RTP

Entity X (lessee) entered into a lease agreement ('lease agreement') with Entity Y (lessor) to lease an entire floor of a shopping mall for a period of 9 years. The annual lease rentof ₹ 70,000 is payable at year end. To carry out its operations smoothly, Entity X simultaneously entered into another agreement ('facilities agreement') with Entity Y for using certain other facilities owned by Entity Y such as passenger lifts, DG sets, power supply infrastructure, parking space etc., which are specifically mentioned in the agreement, for annual service charges amounting to ₹ 1,00,000. As per the agreement, the ownership of the facilities shall remain with Entity Y. Lessee's incremental borrowing
rate is 10%.

The facilities agreement clearly specifies that it shall be co-existent and coterminous with 'lease agreement'. The facility agreement shall stand terminated automatically on termination or expiry of 'lease agreement'.

Entity X has assessed that the stand-alone price of 'lease agreement' is ₹ 1,20,000 per year and stand-alone price of the 'facilities agreement' is ₹ 80,000 per year. Entity X has not elected to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate non-lease component (s) from lease component(s) and accordingly it separates non-lease components from lease components.

How will Entity X account for lease liability as at the commencement date?

Answer

Entity X identifies that the contract contains lease of premises and non-lease component of facilities availed. As Entity X has not elected to apply the practical expedient as provided in paragraph 15, it will separate the lease and non-lease components and allocate the total consideration of ₹ 1,70,000 to the lease and non-lease components in the ratio of their relative stand-alone selling prices as follows:

Particulars	**Stand-alone Prices**	**% of total Stand-alone Price**	**Allocation of consideration**
	₹		**₹**
Building rent	1,20,000	60%	1,02,000
Service charge	80,000	40%	68,000
Total	**2,00,000**	**100%**	**1,70,000**

As Entity X's incremental borrowing rate is 10%, it discounts lease payments using this rate and the lease liability at the commencement date is calculated as follows:

Year	**Lease Payment (A)**	**Present value factor @ 10% (B)**	**Present value of lease payments (A X B = C)**
Year 1	1,02,000	.909	92,718
Year 2	1,02,000	.826	84,252
Year 3	1,02,000	.751	76,602
Year 4	1,02,000	.683	69,666
Year 5	1,02,000	.621	63,342
Year 6	1,02,000	.564	57,528
Year 7	1,02,000	.513	52,326
Year 8	1,02,000	.467	47,634
Year 9	1,02,000	.424	43,248
Lease Liability at commencement date			**5,87,316**

Further, ₹ 68,000 allocated to the non-lease component of facility used will be recognised in profit or loss as and when incurred

Q19. Nov 2018, RTP

A Ltd. prepares its financial statements for the period ending on 31st March each year. The financial statements for the year ended 2017-2018 is under preparation. The following events are relevant to these financial statements:

On 1st April, 2016, A Ltd. purchased an asset for ₹ 20,00,000. The estimated useful life of the asset was 10 years, with an estimated residual value of zero. A Ltd. immediately leased the asset to B Ltd. The lease term was 10 years and the annual rental, payable in advance by B Ltd., was ₹ 27,87,000. A Ltd. incurred direct costs of ₹ 2,00,000 in arranging the lease. The lease contained no early termination clauses and responsibility for repairs and maintenance of the asset rest with B Ltd. for the duration of the lease. The annual rate of interest implicit in the lease is 8%. At an annual discount rate of 8% the present value of ₹ 1 receivable at the start of years 1–10 is ₹ 7·247.

Examine and show how the above event would be reported in the financial statements of A Ltd.. for the year ended 31st March, 2018 as per Ind AS.

Answer

All numbers in ₹ in 000.

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The lease of the asset by A Ltd. to B Ltd. would be regarded as a finance lease because the risks and rewards of ownership have been transferred to B Ltd. Evidence of this includes the lease is for the whole of the life of the asset and B Ltd. being responsible for repairs and maintenance.

As per para 36 of Ind AS 17, since the lease is a finance lease and A Ltd. is the lessor, A Ltd. will recognise a financial asset ie. as a receivable at an amount equal to the 'net investment in finance leases'. The amount recognised will be the present value of the minimum lease payments which will be 20,197.39 ie. 2,787 x 7.247.

The impact of the lease on the financial statements for the year ended 31st March, 2018 can best be seen by preparing a profile of the net investment in the lease for the first three years of the lease and shown below:

Year to 31st March	Opening Balance	Finance income	Rental	Closing Balance
2017	20,197.39	615.79	(2,787)	19,026.18
2018	18,806	1,552.09	(2,787)	17,761.27
2019	17,301	1,420.90	(2,787)	16,395.17

During the year ended 31st March, 2018, A Ltd. will recognise income from finance leases of 1,522.09.

The net investment on 31st March, 2018 will be 17,761.27.

Of the closing net investment of 17,761.27, current asset will be shown for 2,787 and 14,974.27 as a non-current asset.

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Q1. May 2023 Exam, 4 marks

TCO Limited is a telecom operator. Laying cables across the world is a requirement to enable the entity to run its business. Cables are also laid under the sea and contracts are entered into for the same. By virtue of laws of the countries through which the cablepasses, the entity is required to restore the sea bed at the end of the contract period.
Discuss the nature of obligation that TCO Limited has in such a case.

Answer

Paragraph 14 of Ind AS 37 states that a provision shall be recognised when:

a) an entity has a present obligation (legal or constructive) as a result of a past event;
b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

Further, with regard to past event paragraph 17 of Ind AS 37 states that a past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

a) where the settlement of the obligation can be enforced by law; or
b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.

Applying the above guidance in the given scenario, provision should be recognised as soon as the obligating event takes place because the entity is under legal obligation to restore the seabed, provided the other recognition criteria stated in paragraph 14 reproduced above are met. Moreover, the amount of the provision would depend on the extent of the obligation arising from the obligating event. In the instant case, an obligating event is the laying of cables under the sea. To the extent the cables hav e been laid down under the sea, a legal obligation has arisen and to that extent provision for restoration of seabed should be recognised.

Q2. Nov 2018 Exam, 4 marks

Sun Limited has entered into a binding agreement with Moon Limited to buy a custom-made machine for ₹ 4,00,000. At the end of 2017-18, before delivery of the machine, Sun Limited had to change its method of production. The new method will not require the machine ordered which is to be scrapped after delivery. The expected scrap value is nil.
Given that the asset is yet to be delivered, should any liability be recognized for the potential loss? If so, give reasons for the same, the amount of liability as well as the accounting entry.

Answer

As per Ind AS 37, Executory contracts are contracts under which

❖ neither party has performed any of its obligations; or
❖ both parties have partially performed their obligations to an equal extent.

The contract entered by Sun Ltd. is an executory contract, since the delivery has not yet taken place.
Ind AS 37 is applied to executory contracts only if they are onerous.
Ind AS 37 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

As per the facts given in the question, Sun Ltd. will not require the machine ordered. However, since it is a binding agreement, the entity cannot exit / cancel the agreement. Further, Sun Ltd. has to scrap the machine after delivery at nil scrap value.

These circumstances do indicate that the agreement/contract is an onerous contract. Therefore, a provision should be made for the onerous element of ₹ 4,00,000 ie the full cost of the machine.

		₹	₹
Onerous Contract Provision Expense A/c . To Provision for Onerous Contract Liability A/c (Being asset to be received due to binding agreement recognized)	Dr	4,00,000	4,00,000
Profit and Loss Account (Loss due to onerous contract) To Onerous Contract Provision Expense A/c (Being loss due to onerous contract recognized and asset derecognsied)	Dr	4,00,000	4,00,000

Q1. May 2026, RTP

(i) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of Rs. 2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of Rs. 1,60,000. The gas will be used to generate electricity, which will be sold at a profit.
State whether the contract is onerous.

(ii) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of Rs. 2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of Rs. 1,60,000. The gas will be used to generate electricity. However, the electricity is sold at a loss, and the entity makes an overall operating loss. All of the gas purchased by the entity is used to generate electricity using dedicated assets. The electricity is sold to a wide range of customers.
State whether the contract is onerous.

(iii) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of Rs. 2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of Rs. 1,60,000. The gas will be used to generate electricity. However, the entity sells the gas under contract, which it no longer needs, to a third party for 18 paise per unit (5 paise below cost). The entity determines that it would have to pay Rs. 55,000 to exit the purchase contract.
State whether the contract is onerous. If the contract is onerous then also state the amount of provision to be made on account of the onerous contract.

(iv) In the year ended 31st March 20X1, an entity has a contract with a third party supplier. The entity wishes to terminate this contract in 20X1-20X2, even though it will still have two years to run, because it can enter into a cheaper contract with a new supplier. It will incur a charge for terminating the contract.
Does the entity have to provide in 20X0-20X1 for the contract that it will be exiting in 20X1-20X2?

Answer:

(i) The economic benefits from the contract include the benefits to the entity of using the gas in its business and because the electricity will be sold at a profit, the contract is not onerous.

(ii) The entity first considers whether the assets used to generate electricity are impaired. To the extent that there is still a loss after the assets have been written down, a provision for an onerous contract should be recorded.

(iii) The only economic benefit from the purchase contract costing Rs. 2,30,000 are the proceeds from the sales contract, which are Rs. 1,80,000. Therefore, a provision

should be made for the onerous element of Rs. 50,000, being the lower of the cost of fulfilling the contract and the penalty cost of cancellation (Rs. 55,000).

(iv) A provision should be recognised only if the contract is onerous. If the goods received under the supply contract are sold at a profit, the contract is not onerous and provision should not be made in the year 20X0-20X1. The termination cost should be recognised as incurred in 20X1-20X2.

Q2. Nov 2022, RTP

HVCL manufactures heavy equipment for construction industry. An order for supply of 90 equipment was received from ABIL. The unit price of the equipment was agreed at ₹ 190 lakhs each. 64 equipment was supplied during the year 20X1-20X2 and balance quantity remaining to be supplied as on 31.3.20X2. HVCL has 5 equipment in its inventory as on 31.3.20X2. HVCL considered that the contract was an onerous contract and therefore, the net realisable value of inventory has been taken as value of inventory as on31.3.20X2.

The management of HVCL contends that costs incurred towards administrative overheads, finance charges, R & D expenses, sales overhead, head quarter expenditure etc., are considered as period cost and hence not considered for creation of provision. Hence, the same have not been included in the computation of unavoidable cost.

The management of HVCL has submitted the details of costs that have been considered for creation of provision towards onerous contract:

o Material cost - includes cost of material procured, cost of freight & insurance incurred for material procurement and handling, loading and unloading charges incurred.

o Labour cost/ Factory Overheads - includes salaries and other expenses of direct production department, and also expenses allocated from indirect departments to direct department.

o Material Overheads - Includes salaries and other expenses (including expenses allocated from other departments) booked under departments linked with materials like purchases, stores and quality control.

Accordingly, provision has been made considering the above costs only. The value of provision created for 21 remaining equipment to be produced is as per the working shown below:

Particulars	**Value (₹ in lakh)**
(i) Cost of production (which includes material cost, labour cost/factory overhead and material overhead)	199.00
(ii) Selling price	(190.00)
(iii) Differential cost per equipment	9.00
(iv) Differential cost of ₹ 9 Lakh per equipment for 21 equipment	189.00

Whether the company's accounting treatment of cost for creation of provision towardsonerous contracts is in line with the provisions of Ind AS 37?

Answer

As per para 68 of Ind AS 37, onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable cost under a contract reflects the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation for penalties arising from failure to fulfilling it.

Ind AS 37 provides that the amount recognised shall be the best estimate of the expenditure required to settle the present obligation, which is the amount that an entity would rationally pay

to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. In case of onerous contracts, an amount that an entity would rationally pay to settle the obligation would be the lower of the compensation or penalties arising from failure to fulfil the contacts and excess of unavoidable cost of meeting the obligations under the contract from the economic benefits expected to be received under it.

As per para 68 of Ind AS 37, the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both –

a. the incremental costs of fulfilling that contract—for example, direct labour and materials; and
b. an allocation of other costs that relate directly to fulfilling contracts— for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

The unavoidable costs of meeting the obligations under the contract are only costs that:

• "are directly variable with the contract and therefore incremental to the performance of the contract;"

• do not include allocated or shared costs that will be incurred regardless of whether the entity fulfils the contract or not; and

• cannot be avoided by the entity's future actions.

Accordingly, HVCL has correctly measured the cost for creation of provision for onerous contracts by considering material cost, labour cost (to the extent it relates directly to production) and material overheads (to the extent it relates directly to production).

Further, HVCL is correct that the period cost will not be considered for measurement of cost for the purpose of creation of provision on onerous contracts as they do not relate directly to fulfilling the contracts.

Q3. May 2022, RTP

XYZ Ltd. offers a six-month warranty on its small to medium sized equipment, which can be put to use by the customer with no installation support. The warranty comes with the equipment and the customer cannot purchase it separately. This equipment is typically sold at a gross margin of 40%. XYZ Ltd. has made a provision of ₹ 30,000 during the year ended 31st March, 20X2, which is approximately 1% of its gross margin on the sale of these equipment. Based on past experience, it is expected that 1% of equipment sold have been returned as faulty within the warranty period. Faulty equipment returned to
XYZ Ltd. during the warranty period are scrapped and the sale value is fully refunded to the customer.

Assuming that sales occurred evenly during the year, how should XYZ Ltd. evaluate whether any additional warranty provision is required on equipment sold in the past as at 31st March, 20X2? Had the warranty period been 2 years instead of six months, what additional criteria would XYZ Ltd. need to consider?

Answer

Calculation of additional warranty provisions:

Warranty claim covers 1% of gross margin, whereas customers are refunded the full selling price. As the goods are scrapped it is assumed XYZ Ltd has no potential for re -imbursement from its supplier regarding the faulty goods.

A calculation of warranty provision is set out below:

1% of annual gross margin is ₹ 30,000 therefore 100% of annual gross margin must be ₹ 30,00,000. Since gross margin is 40%, sales should be ₹ 75,00,000. As provide in the question that the sales are evenly spread during the year and given the six month warranty, half of the sales occurred in the second half of the year is still covered within the warranty period as follows.

	% age	Annual sales	Product under warranty at 31st March, 20X2	Percentage expected to be returned	Warranty provision
		₹	₹	₹	₹
Gross margin Selling price	40% 100%	30,00,000 75,00,000	37,50,000	1%	37,500

The warranty provision should therefore be increased by ₹ 7,500 (₹ 37,500 – ₹ 30,000).
As the provision is expected to be used in the next 6 months no discounting is required.

If the warranty period is 2 years:

Since the outstanding period of warranties is 6 months (i.e. less than a year), no discounting is required. However, if a longer warranty period is to be given, the entity will have to take into account the effect of the time value of money. The amount of provision shall be the present value of the expenditures expected to be required to settle the warranty obligation. (Refer Para 45 of Ind AS 37)

The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall not reflect risks for which future cash flow estimates have been adjusted. (Refer Para 47 of Ind AS 37)

	% age	Annual sales	Product under warranty at 31st March, 20X2	Percentage expected to be returned	Warranty provision
		₹	₹	₹	₹
Gross margin Selling price	40% 100%	30,00,000 75,00,000	75,00,000	1%	75,000

The warranty provision should therefore be increased by ₹ 45,000 (₹ 75,000 – ₹ 30,000). Further discounting of provision would be required

Q4. May 2021, RTP

A manufacturer gives warranties to the purchasers of its goods. Under the terms of the warranty, the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale to the purchasers.

On 30 April 20X1, a manufacturing defect was detected in the goods manufactured by the entity between 1 March 20X1 and 30 April 20X1.

At 31 March 20X1 (the entity's reporting date), the entity held approximately one week's sales in inventories.
The entity's financial statements for the year ended 31 March 20X1 have not yet been finalised.

Three separate categories of goods require separate consideration:
Category 1 —defective goods sold on or before 31 March 20X1

Category 2 —defective goods held on 31 March 20X1
Category 3 —defective goods manufactured in 20X1-20X2
State the accounting treatment of the above categories in accordance with relevant Ind AS.

Answer

Category 1—defective goods sold on or before 31 March 20X1

If customer has the option to purchase warranty separately, the warranty is a distinct service because the entity promises to provide the service to the customer in addition to the product that has the functionality described in the contract. In that case, entity shall account for the promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, unless it provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications. If that is the case, then, the promised service is a performance obligation. Entity shall allocate the transaction price to the product and the service.

If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single performance obligation.

A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance obligation. The entity shall account for such obligations in accordance with Ind AS 37.

Category 2—defective goods held on 31 March 20X1

At 31 March 20X1, the entity did not have a present obligation to make good the unsold defective goods that it held in inventories. Accordingly, at 31 March 20X1 the entity should not recognise a provision in respect of the defective inventories.

For this category, the detection of the manufacturing defect in April 20X1 is an adjusting event after the end of the reporting period as per Ind AS 10, Events after the End of the Reporting Period. It provides evidence of a manufacturing defect in inventories held at 31 March 20X1.

Category 3—defective goods manufactured in 20X1-20X2

At 31 March 20X1 the entity did not have a present obligation to make good any defective goods that it might manufacture in the future. Accordingly, at 31 March 20X1 the entity should not recognise a provision in respect of the defective goods manufactured in 20X1-20X2.

For this category, the detection of the manufacturing defect in April 20X1 is a non-adjusting event after the end of the reporting period as per Ind AS 10, Events After the End of the Reporting Period.

Q5. Nov 2020, RTP

On 1 January 2020, entity H acquired 100% share capital of entity S for ₹15,00,000. The book values and the fair values of the identifiable assets and liabilities of entity S at the date of acquisition are set out below, together with their tax bases in entity S's tax jurisdictions. Any goodwill arising on the acquisition is not deductible for tax purposes.
The tax rates in entity H's and entity S's jurisdictions are 30% and 40% respectively.

Acquisitions	**Book values ₹'000**	**Tax base ₹'000**	**Fair values ₹'000**
Land and buildings	600	500	700
Property, plant and equipment	250	200	270
Inventory	100	100	80
Accounts receivable	150	150	150
Cash and cash equivalents	130	130	130
Accounts payable	(160)	(160)	(160)

Retirement benefit obligations	(100)	-	(100)

You are required to calculate the deferred tax arising on acquisition of Entity S. Also calculate the Goodwill arising on acquisition.

Answer

Calculation of Net assets acquired (excluding the effect of deferred tax liability):

Net assets acquired	**Tax base ₹'000**	**Fair values ₹'000**
Land and buildings	500	700
Property, plant and equipment	200	270
Inventory	100	80
Accounts receivable	150	150
Cash and cash equivalents	130	130
Total assets	1,080	1,330
Accounts payable	(160)	(160)
Retirement benefit obligations	-	(100)
Net assets before deferred tax liability	920	1,070

Calculation of deferred tax arising on acquisition of entity S and goodwill

	₹'000	**₹'000**
Fair values of S's identifiable assets and liabilities (excluding deferred tax)		1,070
Less: Tax base		(920)
Temporary difference arising on acquisition		150
Net deferred tax liability arising on acquisition of entity S (₹150,000 @ 40%)		60
Purchase consideration		1,500
Less: Fair values of entity S's identifiable assets and liabilities (excluding deferred tax)	1,070	
Deferred tax liability	(60)	(1,010)
Goodwill arising on acquisition		490

Note: Since, the tax base of the goodwill is nil, taxable temporary difference of ₹4,90,000 arises on goodwill. However, no deferred tax is recognised on the goodwill. The deferred tax on other temporary differences arising on acquisition is provided at 40% and not 30%, because taxes will be payable or recoverable in entity S's tax jurisdictions when the temporary differences will be reversed.

Q6. May 2020, RTP

A company manufacturing and supplying process control equipment is entitled to duty draw back if it exceeds its turnover above a specified limit. To claim duty drawback, the company needs to file application within 15 days of meeting the specified turnover. If application is not filed within stipulated time, the Department has discretionary power of giving duty draw back credit. For the year 20X1-20X2 the company has exceeded the specified limit of turnover by the end of the reporting period. However, duty drawback can be claimed on filing of application within the stipulated time or on discretion of the Department if filing of application is late. The application for duty drawback is filed on April 20, 20X2, which is after the stipulated time of 15 days of meeting the turnover condition. Duty drawback has been credited by the Department on June 28, 20X2 and financial statements have been approved by the Board of Directors of the company on July 26, 20X2. What would be the treatment of duty drawback credit as per the given information?

Answer

In the instant case, the condition of exceeding the specified turnover was met at the end of the reporting period and the company was entitled for the duty drawback . However, the application for the same has been filed after the stipulated time. Therefore, credit of duty drawback was

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discretionary in the hands of the Department. Since the claim was to be accrued only after filing of application, its accrual will be considered in the year 20X2-20X3 only.

Accordingly, the duty drawback credit is a contingent asset as at the end of the reporting period 20X1-20X2, which will be realised when the Department credits the same.

As per para 35 of Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

In accordance with the above, the duty drawback credit which was contingent asset for the F.Y. 20X1 -20X2 should be recognised as asset and related income should be recognized in the reporting period in which the change occurs. i.e., in the period in which realisation becomes virtually certain, i.e., F.Y. 20X2 - 20X3

Q7. Nov 2019, RTP

(a) A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale, the manufacturer undertakes to remedy, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. As this is the first year that the warranty has been available, there is no data from the firm to indicate whether there will be claim under
the warranties. However, industry research suggests that it is likely that such claims will be forthcoming.
Should the manufacturer recognize a provision in accordance with the requirements of Ind AS 37. Why or why not?

(b) Assume that the firm has not been operating its warranty for five years, and reliable data exists to suggest the following:

- If minor defects occur in all products sold, repair costs of ₹ 20,00,000 would result.
- If major defects are detected in all products, costs of ₹ 50,00,000 would result.
- The manufacturer's past experience and future expectations indicate that each year 80% of the goods sold will have no defects. 15% of the goods sold will have minor defects, and 5% of the goods sold will have major defects.

Calculate the expected value of the cost of repairs in accordance with the requirements of Ind AS 37, if any. Ignore both income tax and the effect of discounting.

Answer

(a) For a provision to be recognized, Para 14 of Ind AS 37 requires that:

a) an entity has a present obligation (legal or constructive) as a result of a past event;

b) it is probable that an outflow of resources embodying economic benefits will required to settle the obligation, and

c) a reliable estimate can be made of the amount of the obligation.

Here, the manufacturer has a present legal obligation. The obligation event is the sale of the product with a warranty.

Ind AS 37 outlines that the future sacrifice of economic benefits is probable when it is more likely than less likely that the future sacrifice of economic benefits will required. The probability that settlement will be required will be determined by considering the class of obligation (warranties) as a whole. In accordance with para 24 of Ind AS 37, it is more likely than less likely that a future sacrifice of economic
benefits will be required to settle the class of obligations as a whole.

If a reliable estimate can be made the provision can be measured reliably. Past data can provide reliable measures, even if the data is not firm specific but rather industry based. Ind AS 37 notes that only in extremely rare cases, a reliable measure of a provision cannot be obtained. Difficulty in estimating the amount of a provision under conditions of significant uncertainty does not justify non-recognition of the provision Here, the manufacturer should recognize a provision based on the best estimate of the consideration required to settle the present obligation as at the reporting date.

(b) The expected value of cost of repairs in accordance with Ind AS 37 is:

(80% x nil) + (15% x ₹ 20,00,000) + (5% x ₹ 50,00,000)

= 3,00,000 + 2,50,000

= 5,50,000

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Q1. Jan 2026 Exam, 5 marks

Crystal People Limited has a total headcount of around 1,000 employees during the financial year 2024-2025. As per the company's leave policy, employees are entitled to 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave (CL) each year. Out of the total PL and SL, only 10 days of PL and 5 days of SL can be carried forward to the next year. Based on past trends, it has been observed that 200 employees are likely to take 5 days of PL and 2 days of SL, while the remaining 800 employees are expected to avail 10 days of PL and 5 days of SL during the year.

The company has been earning profits consistently since 2010 and in the financial year 2024-2025, decided to distribute profits to its employees at the rate of 4% of annual profits. However, due to employee turnover, the expected payout is estimated to be around 3.5% of the annual profits. The company has earned a profit of Rs. 5,000 crores during the year.

Additionally, Crystal People Limited has a post-employment benefit plan which is classified as a defined contribution plan, with contributions amounting to Rs. 250 crores due within 12 months from the end of the accounting period. Out of this, the company has already paid Rs. 50 crores during the financial year 2024-2025.

Based on the above information, as per applicable Ind AS, what would be the appropriate accounting treatment of short-term compensated absences, the profit-sharing plan and the defined contribution plan in the books of Crystal People Limited?

Answer:

(i) Crystal People Limited will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2024-2025 as short-term compensated absences.

Alternatively, it may be assumed that number of leaves carried forward in the next year will be availed in entirety. In such a case, Crystal People Limited will recognise a liability in its books to the extent of 10 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 5 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2024-2025 as short-term compensated absences.

(ii) In terms of the profit-sharing plan, although the company had initially planned to distribute 4% of its Rs. 5,000 crore profit, due to expected employee turnover, the actual payout is estimated to be 3.5%, amounting to Rs. 175 crores. Since there is a clear obligation and the payout can be reliably estimated, this amount should be recognized as an employee benefit expense in the profit and loss account for the year, with a corresponding provision shown under current liabilities.

(iii) When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service. Under Ind AS 19, the amount of Rs. 200 crores will be recognised as a liability (accrued expense), after deducting any contribution already paid (Rs. 250 crores - Rs. 50 crores) and an expense in the statement of profit and loss.

Q2. May 2024 Exam, 8 marks

XYZ Ltd. operates a defined retirement benefits plan on behalf of current and former employees. XYZ Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 2024, the actuaries advised that the present value of the defined benefit obligation was Rs. 90 lakhs. On the same day, the fair value of the assets of the

defined benefit plan was Rs. 78 lakhs. On 1st April, 2024, the annual market yield on high quality corporate bonds was 6%. During the year ended 31st March, 2025, XYZ Ltd. made contributions of Rs. 10,50,000 into the plan and the plan paid out benefits of Rs. 6,30,000 to retired members. Assume that both these payments were made on 31st March, 2025. The actuaries advised that the current service cost for the year ended 31st March, 2025 was Rs. 9,30,000.

On 28th February, 2025, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of defined benefit obligation was increased by Rs. 2,25,000 from that date. During the year ended 31st March, 2025, XYZ Ltd. was in negotiation with employees' representatives regarding redundancies. The negotiations were completed shortly before the year and the redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by Rs. 12,00,000. Before 31st March, 2025, XYZ Ltd. made payments of Rs. 11,25,000 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan. On 31st March, 2025, the actuaries advised that the present value of the defined benefit obligation was Rs. 1,02,00,000. On the same day, the fair value of the assets of the defined benefit plan were Rs. 84,00,000.

You are required to suggest the accounting treatment of the above under the provisions of relevant Ind AS. Please note that the finance cost is to be computed on the opening balance.

Answer:

On 31st March 2025, XYZ Ltd. will report a net pension liability in the Balance sheet. The amount of the liability will be Rs. 18,00,000 (Rs. 1,02,00,000 – Rs. 84,00,000).

For the year ended 31st March 2025, XYZ Ltd. will report the current service cost as an operating cost in the statement of profit and loss. The amount reported will be Rs. 9,30,000. The same treatment applies to the past service cost of Rs. 2,25,000.

For the year ended 31st March 2025, XYZ Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of Rs. 12,00,000 (Rs. 90,00,000 – Rs. 78,00,000). The amount of the finance cost will be Rs. 72,000 (Rs. 12,00,000 x 6%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of Rs. 75,000 (Rs. 12,00,000 – Rs. 11,25,000) will be reported in the statement of profit and loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March 2025, the remeasurement loss will be Rs. 4,98,000 (Refer W. N.).

Working Note: Remeasurement of gain or loss

	Rs.
Liability at the start of the year (Rs. 90,00,000 – Rs. 78,00,000)	12,00,000
Current service cost	9,30,000
Past service cost	2,25,000
Net finance cost	72,000
Gain on settlement	(75,000)
Contributions to plan	(10,50,000)
Remeasurement loss (balancing figure)	4,98,000
Liability at the end of the year (Rs. 1,02,00,000 – Rs. 84,00,000)	18,00,000

In the Statement of Profit and loss, the following will be recognised:

Current service cost	9,30,000

Finance Cost (Net interest) on net defined liability	
[(Rs. 90,00,000 – Rs. 78,00,000) x 6%]	72,000
Past Service Cost	2,25,000
Gain on Settlement	(75,000)
Defined benefit re-measurements recognised in Other Comprehensive Income:	**Rs.**
Loss on defined benefit obligation	(4,98,000)
In the Balance sheet, the following will be recognised:	**Rs.**
Defined benefit liability (Rs. 1,02,00,000 – Rs. 84,00,000)	18,00,000

Note:

Alternatively, one may work out remeasurement gain/loss by making statement or ledger account of defined benefit obligation and plan assets as follows:

Statement to Calculate Actuarial Gain or Loss on Defined Benefit Liability and Plan Assets

	Plan Assets	**Defined Benefit obligation**
	Rs.	**Rs.**
Fair Value/Present Value as on 1st April, 2024	78,00,000	90,00,000
Interest @ 6%	4,68,000	5,40,000
Current Service Cost		9,30,000
Past Service Cost		2,25,000
Redundancy benefit	(11,25,000)	(12,00,000)
Contribution received	10,50,000	
Contribution paid	(6,30,000)	(6,30,000)
Return on Plan Assets (Balancing Figure)	8,37,000	
Actuarial loss (Balancing Figure)		13,35,000
Closing Balance as on 31st March, 2025	84,00,000	1,02,00,000

Q3. May 2024 Exam, 8 marks

Based on the advice from actuaries regarding contribution levels and overall liabilities of the defined benefit retirement plan to pay benefits to past and present employees, the Accountant Mr. Krishna of TUNA Limited provides the following information:

i. On 1st April, 2023, the actuaries of the company advised that the present value of the defined obligation was Rs. 2,88,420. On the same date, the fair value of the assets of the defined benefit plan was Rs. 2,49,670 and the annual market yield on government bonds was 8%.

ii. During the year ended 31st March, 2004, TUNA Limited made contributions of Rs. 33,650 into the plan and the plan paid out benefits of Rs. 20,160 to retired members. Both these payments were made on 31st March 2024

iii. The actuaries advised that the current service cost for the year ended 31st March, 2024 was Rs. 29,760. On 28th February 2024, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined obligation was increased by Rs. 7,280 from that date.

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iv. During the year ended 31st March, 2024, TUNA Limited was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by Rs. 38,390. Before 31st March, 2024, TUNA Limited made payments of Rs. 36,270 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.

v. On 31st March, 2024, the actuaries advised that the present value of the defined benefit obligation was Rs. 3,26,480. On the same date, the fair value of the assets of the defined benefits plan were Rs. 2,68,340.

Examine and present how the above events would be reported in the financial statements of TUNA Ltd. for the year ended 31st March, 2024 as per Ind AS. Please note that the finance cost is to be computed on the opening balance.

Answer:

Remeasurement of gain or loss

	Rs.
Liability at the start of the year (Rs. 2,88,420 -Rs. 2,49,670)	38,750
Current service cost	29,760
Past service cost	7,280
Net finance cost	3,100
Gain on settlement	(2,120)
Contributions to plan	(33,650)
Benefits paid	NIL
Remeasurement loss (balancing figure)	15,020
Liability at the end of the year (Rs. 3,26,480 - Rs. 2,68,340)	58,140

On 31st March 2024, Tuna Ltd. will report a net pension liability in the balance sheet. The amount of the liability will be Rs. 58,140 (Rs. 3,26,480 –Rs. 2,68,340).

For the year ended 31st March 2024, Tuna Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be Rs. 29,760. The same treatment applies to the past service cost of Rs. 7,280.

For the year ended 31st March 2024, Tuna Ltd. will report a finance cost in profit or loss at the start of the year of Rs. 38,750 (Rs. 2,88,420 - Rs. 2,49,670).

The amount of the finance cost will be Rs. 3,100 (Rs. 38,750 x 8%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of

Rs. 2,120 (Rs. 38,390 – Rs. 36,270) will be reported in the statement of profit and loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March, 2024, the remeasurement loss will be Rs. 15,020 (Refer above table).

In the Statement of Profit and loss, the following will be recognised:

Current service cost	29,760

Net interest on net defined liability (Rs. 23,074 – Rs. 19,974)	3,100
Gain on settlement (Rs. 38,390 – Rs. 36,270)	2,120

Defined benefit re-measurements recognised in Other Comprehensive Income:

Loss on defined benefit obligation	(36,496)
Gain on plan assets	21,476
Gain on remeasurement	(15,020)

In the Balance Sheet, the following will be recognised:

Net defined benefit liability (Rs. 3,26,480 – Rs. 2,68,340)	58,140

Q4. May 2022 Exam, 7 marks

On 1st April, 2021, the fair value of the assets of Raj Ltd.'s defined benefit plan were valued at ₹ 20,40,000 and the present value of the defined obligation was ₹ 21,25,000.

On 31st March, 2022, the plan received contributions from Raj Ltd. amounting to ₹ 4,75,000 and paid out benefits of ₹ 2,65,000. The current service cost for the financial year ending 31st March, 2022 is ₹ 5,10,000. An interest rate of 5% per annum is to be applied to the plan assets and obligations. The fair value of the plan assets at 31st March, 2022 was ₹ 23,90,000, and the present value of the defined benefit obligation was ₹ 27,20,000.

Provide a reconciliation from the opening balance to the closing balance for Plan assets and Defined benefit obligation. Also show how much amount should be recognized in the statement of profit and loss, other comprehensive income and balance sheet?

Answer

Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets ₹	Defined benefit obligation ₹
Fair value/present value as at 1st April, 2021	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost	5,10,000	
Contributions received	4,75,000	-
Benefits paid	(2,65,000)	(2,65,000)
Return on gain (assets) (balancing figure)	38,000	-
Actuarial Loss (balancing figure)	-	2,43,750
Closing balance as at 31st March, 2022	23,90,000	27,20,000

In the Statement of Profit and Loss, followings will be recognised:

	₹
Current service cost	5,10,000
Net interest on net defined liability (₹ 1,06,250 – ₹ 1,02,000)	4,250

In Other Comprehensive Income, following Defined Benefits re-measurements will be recognised:

	₹
Loss on defined benefit obligation	(2,43,750)
Gain on plan assets	38,000
	(2,05,750)

In the Balance Sheet, following Net Defined Liability will be recognised:

	₹
Net defined liability (₹ 27,20,000 – ₹ 23,90,000)	3,30,000

Q5. Nov 2020 Exam, 6 marks

Diamond Pvt. Ltd, has a headcount of around 1,000 employees in the organisation in financial year 2019-2020. As per the company's policy, the employees are given 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave.

Out of the total PL and sick leave, 10 PL leave and 5 sick leave can be carried forward to next year. On the basis of past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 days of PL and 5 days of SL.

Also the company has been earning profits since 2010. It has decided in financial year 2019-2020 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diamond Pvt. Ltd.is expected to be around 3.5%. The profits earned during the financial year 2019-2020 are ₹ 4,000 crores.

Diamond Pvt. Ltd. has a post-employment benefit plan which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 200 crores which will fall due within 12 months from the end of accounting period.The company has paid ₹ 40 crores to this plan in financial year 2019-2020.

What would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of Diamond Pvt. Ltd.?

Answer

(i) Treatment of short term compensating absences: Diamond Pvt. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2019-2020 as short-term compensated absences.

(ii) Treatment of profit sharing plan: Diamond Pvt. Ltd. will recognise ₹ 140 crores (4,000 x 3.5%) as a liability and expense in its books of account.

(iii) Treatment of defined contribution plan: When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service.

Under Ind AS 19, the amount of ₹ 160 crores (200-40) will be recognised as a liability (accrued expense), after deducting any contribution already paid i.e. ₹ 40 crores (with contribution of ₹ 200 crores to the plan) and an expense in the statement of profit and loss.

It can also be seen that the contributions are payable within 12 months from the end of the year in which the employees render the related service; hence, they will not be discounted.

Q6. May 2019 Exam, 5 marks

In 2017-18, Diana Ltd. has around 3,000 employees in the company. As per the company policy, the employees are given 30 days of Privilege Leave (PL), 12 days of Sick Leave (SL) and 12 days of Casual Leave. Out of the total PL and SL, 10 PL and 5 SL can be carried forward to next year. On the basis of past trends, it has been noted that 1,000 employees will take 5 days of PL and 2 days of SL and 2,000 employees will avail 10 as PL and 5 as SL.

Also the company has been incurring profits since incorporation. It has been decided in 2017-18 to distribute profits to its employees @ 8% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diana Ltd. is to be around 7%. The profits earned during 2017-18 is ₹ 12,000 lakh.
Diana Ltd. also has a post-employment benefit plan available which is in the nature of defined contribution plan where contribution to this fund amounts to ₹ 500 lakh which will fall due within 12 months from the end of accounting period. The company has paid₹ 120 lakh to its employees in 2017-18.

What is the treatment for the short-term compensating absences, profit-sharing plan and the defined contribution plan by Diana Ltd. as per the provisions of relevant Ind AS?

Answer

(i) For short term compensating expenses: Diana. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 1,000 employees and 10 days of PL for remaining 2,000 employees and 2 days of SL for 1,000 employees and 5 days of SL for remaining 2,000 employees in its books as an unused entitlement that has accumulated in 2017-2018.

(ii) For profit sharing plan: Diana. Ltd. will recognise ₹ 840 lakh (12,000 x 7%) as a liability and expense it in books of accounts.

(iii) For defined contribution plan: When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

a) Under Ind AS 19, the amount of ₹ 380 lakh (500-120) may be recognised as a liability (accrued expense), after deducting contribution already paid. However,if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense); and
b) Also, ₹ 380 lakh will be recognised as an expense in this case study which will be disclosed as an expense in the statement of profit and loss.

Q7. Sep 2025, RTP

Wealth Ltd. has entered into lease agreement with a lessor for a period of 5 years at the annual lease rental of Rs. 8 lakhs. There is an option at the end of the said period that lease can be owned by lessee. Other factors to be noted are discount rate of 8% per annum and interest rate implicit in the lease of 10% per annum.

Wealth Ltd. is reasonably certain to exercise the option to purchase the leased asset at the end of lease term and Rs. 56,00,000 is the exercise price agreed in the lease term for purchasing of land at the end of the 5th year. Therefore, the same has been considered in computing the present value of the lease liability.

At the end of the year 3, Wealth Ltd. exercised the option to purchase the land at value of Rs. 56 lakhs, whereas the market value on that date was Rs. 75 lakhs.

For revised discount rate, consider the interest rate implicit in the lease.

Required

1. Calculate the lease liability and right of use asset for the lease with the lessor. RoU is depreciated on SLM basis.
2. Provide the amounts reflecting in the balance sheet, profit and loss and statement of cash flows at the end of year 1.
3. What are the accounting entries if Wealth Ltd. decides to purchase the leased property at the end of year 3?

Answer:

Calculation of ROU Asset and Lease Liability:

Year	Lease Payments / Purchase Price	PVF @ 10%	PV of Lease payments
1	8,00,000	0.909	7,27,200
2	8,00,000	0.826	6,60,800
3	8,00,000	0.751	6,00,800
4	8,00,000	0.683	5,46,400
5	64,00,000 (8,00,000 + 56,00,000)	0.621	39,74,400
			65,09,600

Entity would amortise the right-of-use asset over the useful life of the underlying asset (5 years). Annual amortisation expense would be Rs. 13,01,920 (Rs. 65,09,600 / 5 years). Accordingly, ROU Asset balance at the end of Year 1 is Rs. 52,07,680 (Rs. 65,09,600 - Rs. 13,01,920).

1. Presentation at the end of Year 1:

In Balance Sheet	In Profit and Loss	In Statement of Cash Flows
ROU Asset: Rs. 52,07,680 (W.N.2)	Depreciation = Rs. 13,01,920 (W.N.2)	Cash flow from financing activities: Lease payment = Rs. 8,00,000
Lease Liability: Rs. 63,60,560 (W.N.1)	Interest expense (Finance cost) = Rs. 6,50,960 (W.N.1)	

2. In the above part (i), it was considered that lessee was reasonably certain that he will exercise the option at the end of 5th year that's why the same has been considered in determination of lease payment. Now, lessee is exercising the option at the end of 3rd year which implies that there is change in the assessment of an option to purchase the underlying asset. Hence, paras 39 and 40(b) of IFRS 16 will come into the picture which are as follows (only relevant part have been reproduced here):

39 After the commencement date, a lessee shall apply paragraphs 40–43 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

40 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate,

if either:

(a)

(b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances described in paragraphs 20–21 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

Therefore, the lease liability has to be remeasured on change in the assessment of exercising the option.

Original lease liability is Rs. 60,16,278 (Working Note 1). Since at the end of the 3rd year, the lease has been terminated due to exercise of option to purchase the asset, the revised lease liability is the amount paid on exercising the option i.e. Rs. 56,00,000. The difference of original lease liability and revised lease liability will decrease the carrying amount of the right-of-use asset.

Accordingly, the adjustment to ROU Asset would be

= Rs. 60,16,278–Rs. 56,00,000 = Rs. 4,16,278.

Journal Entry

Particulars		(Rs.)	(Rs.)
Lease liability	Dr.	4,16,278	
To ROU Asset			4,16,278
(Adjustment of difference in original lease liability and revised lease liability to ROU Asset)			
PPE	Dr.	21,87,562	
To ROU Asset (Rs. 26,03,840 (Refer W.N.2) - Rs. 4,16,278)			21,87,562
(ROU Asset balance transferred to PPE on exercising of lease option)			
Lease Liability	Dr.	56,00,000	
To Bank/Lease payable			56,00,000
(Extinguishment of lease liability)			

Note: We have stopped till the entry to exercise the option to purchase the leased asset (as per the requirement of the question). Treatment for change in the value of PPE due to its fair value has not been considered here.

Working Notes:

Calculation of outstanding Lease Liability at the end of 3rd year

Year	Opening balance (A)	Interest @ 10% (B)	Lease payments (C)	Closing balance (A) + (B) - (C)
	Rs.	Rs.	Rs.	Rs.
1	65,09,600	6,50,960	8,00,000	63,60,560
2	63,60,560	6,36,056	8,00,000	61,96,616
3	61,96,616	6,19,662	8,00,000	60,16,278

Calculation of ROU Asset balance at the end of 3rd year

Year	Opening balance (A)	Depreciation (B)	Closing balance (A-B)
	Rs.	Rs.	Rs.
1	65,09,600	13,01,920	52,07,680
2	63,60,560	13,01,920	39,05,760
3	61,96,616	13,01,920	26,03,840

Q8. Nov 2023, RTP

Arunachalam Ltd. operates a Defined Retirement Benefits Plan for its current and former employees. Given the large size of the company, it engaged a firm of Actuaries for advice on the Contribution Levels and overall Liabilities of the Plan to pay benefits. Following details are given:

a) On 1st April, 20X1, the actuarial valuation of the present value of the defined benefit obligation was ₹ 15 crores. On the same date, the fair value of the assets of the Defined

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Benefit Plan was ₹ 13 crores. On 1st April, 20X1, the annual market yield based on Government Bonds was 5%.

b) During the year ended 31st March, 20X2, Arunachalam made contributions of ₹ 1.75 crore into the Plan and the Plan paid out benefits of ₹ 1.05 crore to retired members. Assume that both these payments were made on 31st March, 20X2.

c) The Actuarial Firm estimated that the current service cost for the year ended 31st March, 20X2 would be ₹ 1.55 crores. On 28th February, 20X2, the rules of the Plan were amended with retrospective effect which led to an increase in the present value of the defined benefit obligation by ₹ 37.5 lakhs from that date.

d) During the year ended 31st March, 20X2, Arunachalam was in negotiation with employee representatives regarding planned redundancies. These negotiations were completed shortly before the year end and the redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 2 crores. Before 31st March, 20X2, Arunachalam

e) made payments of ₹ 1.875 crores to the employees affected by the redundancies in compensation for a curtailment of their benefits. These payments were made out of the assets of the Retirement Benefits Plan.

f) On 31st March, 20X2, the present value of the defined benefit obligation was ₹ 17 crores and the fair value of the assets of the Defined Benefit Plan was ₹ 14 crores.

Discuss how the above will be accounted in the books of Arunachalam Ltd. for the year 20X1-20X2. Also give the extracts of financial statements affected due to above transactions.

Answer

1. Extract of Balance Sheet (Net Amount in the Balance Sheet)

(₹ in lakhs)

	31.3.20X2	**1.4.20X1**
PV of Defined Benefit Obligation (given)	(1,700.00)	(1,500.00)
FV of Plan Assets (given)	1,400.00	1,300.00
Net Defined Benefit Liability (under Long-term Provision)	(300.00)	(200.00)

2. Extract of Statement of Profit and Loss

	(₹ in lakhs)
Current service cost (given)	155.00
Past service cost (given)	37.50
Gain on settlement (₹ 200 lakhs – ₹ 187.50 lakhs)	
Net interest on net defined benefit liability	(12.50)
[₹ 75 lakhs - ₹ 65 lakhs]	10.00
Total to Statement of Profit and Loss	**190.00**

3. Extract of Other Comprehensive Income (Remeasurements)

	(₹ in lakhs)

Actuarial loss on defined benefit obligation (W.N.1)	(237.50)
Return on plan assets other than expected return (W.N.2)	152.50
Total	**(85.00)**

Working Notes:

1. Defined Benefit Obligation Account

Particulars	**₹ in lakhs**	**Particulars**	**₹ in lakhs**
To Plan Assets (benefits paid)	105.00	By Balance b/f (given) [balance as on 1.4.20X1]	1,500.00
To Curtailment and Settlement	200.00	By Current Service Cost	155.00
By Interest Cost [5% on Opening balance]	75.00	By Past service cost 37.50To Balance c/d (given) [balance as on 31.3.20X2]	1,700.00
		By Actuarial Loss (balancing figure)	237.50
	2,005.00		**2,005.00**

2. Plan Assets Account

Particulars	**₹ in lakhs**	**Particulars**	**₹ in lakhs**
To Balance b/f (given) [balance as on 1.4.20X1]	1,300.00	By Defined Benefit Obligation [benefits paid]	105.00
To Expected Return [5% on Opening balance]	65.00	By Payments on curtailment and settlement	187.50
To Bank (contributions paid)	175.00	By Balance c/d (given)	1,400.00
To Actuarial Gain (balancing figure)	152.50	[balance as on 31.3.20X2]	
	1,692.50		**1,692.50**

The above Defined Benefit Obligation Account and Plan Assets Account can alternatively be presented
in a statement form as follows:

Defined Benefit		**Obligation Plan Assets**	
Particulars	**₹ in lakhs**	**Particulars**	**₹ in lakhs**
PV of Obligation b/f.	1,500.00	FV of Plan Assets b/f.	1,300.00
Interest Cost [₹ 1,500 x 5%]	75.00	Interest Income [₹ 1,300 x 5%]	65.00

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Current Service Cost	155.00	Contribution during 20X1-20X2	175.00
Benefits paid during	(105.00)	Benefits paid during 20X1-20X2	(105.00)
20X1-20X2.		Payment towards settlement	(187.50)
Plan Curtailment and Settlement	(200.00)	Remeasurement Gain	152.50
Past Service Cost 37.50Remeasurement Loss	237.50	(balancing figure)	
(balancing figure)			
PV of Obligation c/f.	**1,700.00**	FV of Plan Assets c/f.	**1,400.00**

Q9. May 2023, RTP

From the following particulars, compute the net defined benefit liability and expense to be recognized in Profit and Loss account.

(₹ in lakhs)

Particulars	**Defined benefit obligation**		**Plan Assets**	
	31st Dec. 20X2	**31st Dec. 20X1**	**31st Dec. 20X2**	**31st Dec. 20X1**
Balance at the beginning of the year	63.25	47.08	21.80	14.65
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Changes in demographic assumptions	0.62	1.86	-	-
Changes in financial assumptions	3.58	1.93	-	-
Experience variance	(2.49)	4.46	-	-
Benefits paid	-	(0.61)	-	(0.61)
Investment income	-	-	1.47	1.12
Employers' contribution	-	-	8.00	7.00
Return on plan assets	-	-	2.12	(0.35)

Answer

Computation of defined benefit liability and expenses to be charged to Statement of Profit and Loss:

Particulars	**Defined benefit obligation**		**Plan Assets**	
	31st Dec. 20X2	**31st Dec. 20X1**	**31st Dec. 20X2**	**31st Dec. 20X1**
Balance at the beginning of the year	63.25	47.08	21.80	14.65
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Changes in demographic assumptions	0.62	1.86	-	-

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Changes in financial assumptions	3.58	1.93	-	-
Experience variance	(2.49)	4.46	-	-
Benefits paid	-	(0.61)	-	(0.61)
Investment income	-	-	1.47	1.12
Employers' contribution	-	-	8.00	7.00
Return on plan assets	-	-	2.12	(0.35)
Balance at the beginning of year	**75.07**	**63.25**	**33.39**	**21.81***

In the BALANCE SHEET, the following will be recognised:

Net defined liability to be recognised for the period ending 31st December, 20X1:
= ₹ 41.44 lakhs (₹ 63.25 lakhs - ₹ 21.81 lakhs)

Net defined liability to be recognised for the period ending 31st December, 20X2:
= ₹ 41.68 lakhs (₹ 75.07 lakhs - ₹ 33.39 lakhs)

In the STATEMENT OF PROFIT AND LOSS, the following will be recognised:

Particulars	**Defined benefit obligation (₹ in lakhs)**		**Plan Assets (₹ in lakhs)**	
	31st Dec. 20X2	**31st Dec. 20X1**	**31st Dec. 20X2**	**31st Dec. 20X1**
Current service cost	5.81	4.97	-	-
Interest cost	4.27	3.56	-	-
Investment income	-	-	(1.47)	(1.12)
Total	10.11	8.53	(1.47)	(1.12)

Expense to be recognised in the Statement of Profit and Loss for the period ending 31st December, 20X1 = ₹ 7.41 lakhs (₹ 8.53 lakhs - ₹ 1.12 lakhs)

Expense to be recognised in the Statement of Profit and Loss for the period ending 31st December, 20X2 = ₹ 8.64 lakhs (₹ 10.11 lakhs - ₹ 1.47 lakhs).

Q10. May 2021, RTP

At 1 April, 20X0, the fair value of the Plan Assets was ₹ 10,00,000. The Plan paid benefits of ₹ 1,90,000 and received contributions of ₹ 4,90,000 on 30 September, 20X0. The company computes the Fair Value of Plan Assets to be ₹ 15,00,000 as on 31 March, 20X1 and the Present Value of the Defined Benefit
Obligation to amount to ₹ 14,79,200 on the same date. Actuarial losses on defined benefit obligation were ₹ 6,000.

Compounding happens half-yearly. The normal interest rate for 6 months period is 10% per annum, while the effective interest rate for 12 months period is based on the following data:At 1 April, 20X0, the company made the following estimates based on market prices at that date:

Particulars	%
Interest and Dividend Income, after tax payable by the fund	9.25
Add: Realized and Unrealized Gains on Plan Assets (after tax)	2.00
Less: Administration Costs	(1.00)
Expected Rate of Return	10.25

Determine actual return and expected return on plan asset. Also compute amount to be recognized in 'Other Comprehensive Income' in this case.

Answer

Computation of Expected Return on Plan Assets

Particulars	₹
Return on ₹ 10,00,000 for 20X0-20X1 at 10.25% = ₹ 10,00,000 x 10.25%	1,02,500
Add: Return on ₹ 3,00,000 for 6 months at 10% Normal Rate =[3,00,000 (Inflow ₹ 4,90,000 less Payments ₹ 1,90,000) x 10% x 6/12]	15,000
Expected Return on Plan Assets	**1,17,500**

Computation of Actual Return on Plan Assets

Particulars	₹
Fair Value of Plan Assets at the year-end – 31 March 20X1	15,00,000
Less: Fair Value of Plan Assets at the beginning – 1 April 20X0	(10,00,000)
Less: Contributions received during the year 20X0-20X1	(4,90,000)
Add: Benefits paid during the year 20X0-20X1	1,90,000
Actual Return on Plan Assets	**2,00,000**

Computation of Net Actuarial Gain

Particulars	₹
Actual Return on Plan Assets	2,00,000
Less: Expected Return on Plan Assets	(1,17,500)
Actuarial Gain on Plan Assets	82,500
Less: Actuarial Loss on Defined Benefit Obligation (given)	(6,000)
Net Actuarial Gain to be recognized in 'Other Comprehensive Income'	**(76,500)**

Q11. May 2020, RTP

On 1 April 20X1, the fair value of the assets of XYZ Ltd's defined benefit plan were valued at ₹ 20,40,000 and the present value of the defined obligation was ₹ 21,25,000. On 31st March,20X2 the plan received contributions from XYZ Ltd amounting to ₹ 4,25,000 and paid out benefits of ₹ 2,55,000. The current service cost for the financial year ending 31 March 20X2 is ₹ 5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's

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assets at 31 March 20X2 was ₹ 23,80,000, and the present value of the defined benefit obligation was ₹ 27,20,000. Provide a reconciliation from the opening balance to the closing balance for Plan assets and Defined benefit obligation. Also show how much amount should be recognised in the statement of profit and loss, other comprehensive income and balance sheet?

Answer

Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets ₹	**Defined benefit obligation ₹**
Fair value/present value as at 1st April 20X1	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost		5,10,000
Contributions received	4,25,000	-
Benefits paid	(2,55,000)	(2,55,000)
Return on gain (assets) (balancing figure)	68,000	-
Actuarial Loss (balancing figure)	-	2,33,750
Closing balance as at March 31,20X2	**23,80,000**	**27,20,000**

In the Statement of Profit and loss, the following will be recognised:

	₹
Current service cost	5,10,000
Net interest on net defined liability (₹ 1,06,250 – ₹ 1,02,000)	4,250

Defined benefit re-measurements recognised in Other Comprehensive Income:

	₹
Loss on defined benefit obligation	(2,33,750)
Gain on plan assets	68,000
	(1,65,750)

In the Balance sheet, the following will be recognised :

	₹
Net defined liability (₹ 27,20,000 – ₹ 23,80,000)	3,40,000

Q12. Nov 2019, RTP

(All numbers in ₹ '000 unless otherwise stated)

ABL Ltd. operates a defined retirement benefits plan on behalf of current and former employees. ABL Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 20X1, the actuaries advised that the present value of the defined benefit obligation was ₹ 60,000. On the same date, the fair value of the assets of the defined benefit plan was ₹ 52,000. On 1st April, 20X1, the annual market yield on high quality corporate bonds was 5%. During the year ended 31stMarch 20X2, ABL Ltd. made contributions of ₹ 7,000 into the plan and the plan paid out

benefits of ₹ 4200 to retired members. Assume that both these payments were made on 31st March 20X2. The actuaries advised that the current service cost for the year ended31st March 20X2 was ₹ 6,200. On 28th February, 20X2, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined benefit obligation was increased by ₹ 1500 from that date. During the year ended 31st March, 20X2, ABL Ltd. was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed

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shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 8000. Before 31st March, 20X2, ABL Ltd. made payments of ₹ 7500 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan. On 31st March,20X2, the actuaries advised that the present value of the defined benefit obligation was ₹ 68,000. On the same date, the fair value of the assets of the defined benefit plan were ₹ 56,000.

Answer

(All numbers in ₹'000 unless otherwise stated)

On 31st March 20X2, ABL Ltd. will report a net pension liability in the statement of financial position. The amount of the liability will be ₹ 12,000 (68,000 – 56,000).

For the year ended 31st March 20X2, ABL Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be ₹ 6,200. The same treatment applies to the past service cost of ₹ 1,500.

For the year ended 31st March 20X2, ABL Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of ₹ 8,000 (60,000 – 52,000).

The amount of the finance cost will be ₹ 400 (8,000 x 5%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of ₹ 500 (8,000 – 7,500) will be reported in the statement of profit or loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March 20X2, the remeasurement loss will be ₹ 3,400 (refer W.N.).

Working Note:

Calculation of remeasurement gain or loss:	**₹ '000**
Liability at the start of the year (60,000 – 52,000)	8,000
Current service cost	6,200
Past service cost	1,500
Net finance cost	400
Gain on settlement	(500)
Contributions to plan	(7,000)
Remeasurement loss (balancing figure)	3,400
Liability at the end of the year (68,000 – 56,000)	12,000

Q13. May 2019, RTP

ABC Limited operates a defined benefit plan which provides to the employees covered under the plan a pension benefit which is equal to 0.75% final salary for each year of completed service. An employee needs to complete minimum of five years' service for becoming eligible to the benefit. On 1st April, 2015, the entity improves the pension benefit to 1% of final salary for each year of service, including prior years. The present value of the defined benefit obligation is therefore, increased by ₹ 80 million. Given below is the composition of this amount:

Employees with more than 5 years' of service at 1st April, 2015	₹ 60 million
Employees with less than 5 years' of service at 1st April, 2015	₹ 20 million

The employees in the second category have completed average 2 and half years of service. Hence, they need to complete another two and half year of service until vesting.Comment on the treatment of ₹ 80 million of the defined benefit obligation in the financial statements both as per AS 15 and Ind AS 19.

Answer

Under AS 15, a past service cost of ₹ 60 million needs to be recognized immediately, as those benefits are already vested. The remaining ₹ 20 million cost is recognized on a straight line basis over the vesting period, i.e., period to two and half years commencing from 1st April, 2015.

Under Ind AS 19, the entire past service cost of ₹ 80 million needs to be recognized and charged in profit or loss immediately. ABC Ltd. cannot defer any part of this cost.

Q14. Nov 2018, RTP

9. A Ltd. prepares its financial statements to 31st March each year. It operates a defined benefit retirement benefits plan on behalf of current and former employees. A Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 2017, the actuaries advised that the present value of the defined benefit obligation was ₹ 6,00,00,000. On the same date, the fair value of the assets of the defined benefit plan was ₹ 5,20,00,000. On 1st April, 2017, the annual market yield on government bonds was 5%. During the year ended 31st March, 2018, A Ltd. made contributions of ₹ 70,00,000 into the plan and the plan paid out benefits of ₹ 42,00,000 to retired members. Both these payments were made on 31st March, 2018.

The actuaries advised that the current service cost for the year ended 31st March, 2018was ₹ 62,00,000. On 28th February, 2018, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined benefit obligation was increased by ₹ 15,00,000 from that date.

During the year ended 31st March, 2018, A Ltd. was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 80,00,000. Before 31st March, 2018, A Ltd. made payments of ₹ 75,00,000 to the employees affected by the redundancies in compensation for the curtailment of their
benefits. These payments were made out of the assets of the retirement benefits plan.

On 31st March, 2018, the actuaries advised that the present value of the defined benefit obligation was ₹ 6,80,00,000. On the same date, the fair value of the assets of the defined benefit plan were ₹ 5,60,00,000.

Examine and present how the above event would be reported in the financial statements of A Ltd. for the year ended 31st March, 2018 as per Ind AS.

Answer

All figures are ₹ in '000.

On 31st March, 2018, A Ltd. will report a net pension liability in the statement of financial position. The amount of the liability will be 12,000 (68,000 – 56,000).

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For the year ended 31st March, 2018, A Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be 6,200. The same treatment applies to the past service cost of 1,500.

For the year ended 31st March, 2018, A Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of 8,000 (60,000 – 52,000). The amount of the finance cost will be 400 (8,000 x 5%)The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of 500 (8,000 – 7,500) will be reported in the statement of profit or loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March, 2018, the remeasurement loss will be 3,400 (Refer W. N.).

Working Note:
Remeasurement of gain or loss

	₹ in '000
Liability at the start of the year (60,000 – 52,000)	8,000
Current service cost	6,200
Past service cost	1,500
Net finance cost	400
Gain on settlement	(500)
Contributions to plan	(7,000)
Remeasurement loss (balancing figure)	3,400
Liability at the end of the year (68,000 – 56,000)	12,000

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Q1. Jan 2026 Exam, 4 marks

Alpha Tech Limited, an Indian listed company, has availed on 1st July 2024, a short-term loan facility of ` 50.00 crore from XYZ Bank Limited repayable on 30th June 2025. Alpha Tech Limited prepares its financial statements as at 31st March of each year. On 15th March 2025, Alpha Tech and XYZ Bank Limited enter into a formal, unconditional agreement to roll over the outstanding loan into a new long-term facility of ` 50.00 crore repayable on 30th June 2030.

(i) Discuss the classification of the aforesaid loan in the Balance Sheet of Alpha Tech Limited as at 31st March 2025.

(ii) Will your answer to (i) change if the new arrangement of Alpha Tech Limited with XYZ Bank Limited was signed after 31st March 2025, but before the financial statements of Alpha Tech Limited were approved for issue?

(iii) Will your answer to (i) change if the original loan from XYZ Bank Limited is paid on the due date i.e. 30th June 2025 out of the funds released on the same date by ABC Bank Limited under a new 5-year facility by ABC Bank Limited? The agreement with ABC Bank Limited is signed on 31st March 2025.

(iv) Will your answer to (i) change if Alpha Tech Limited is yet to sign any new agreement with any of the banks but has the intention and potential to refinance the loan and continue discussions with banks as of 31st March 2025?

Justify your response with reference to the relevant provisions of Ind AS 1.

Answer:

(i) The loan taken by Alpha Tech Limited is not due for payment at the end of the reporting period. The entity and the bank have agreed for the roll-over of the outstanding loan prior to the end of the reporting period for a period of 5 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current.

(ii) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period, since assessment is required to be made based on terms of the existing loan facility. As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Hence the loan is to be classified as current.

(iii) Yes, loan facility arranged with new bank cannot be treated as refinancing, as the loan with the earlier bank would have to be settled which may coincide with loan facility arranged with a new bank. In this case, loan has to be repaid within a period of three months from the end of the reporting period, therefore, it will be classified as current liability.

(iv) Yes, the answer will be different and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation. Therefore, it has to classify the loan obligation as current.

Q2. Nov 2024 Exam, 5 marks

Define the concept of 'Offsetting'. In offsetting permitted under the following circumstances:

a) Whether profit on sale of an asset against loss on sale of another asset can be offset?

b) Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary - whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?

c) When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?

Or

Explain how enhancing qualitative characteristics can improve the usefulness of financial information.

Answer:

Concept of Offsetting: Offsetting refers to presenting an asset and a liability net or income and expenses net as a single amount, in the financial statements. As per Ind AS, an entity is required to report separately both assets and liabilities, and income and expenses. Offsetting in the statement of profit and loss or balance sheet is not permitted unless when offsetting reflects the substance of the transaction or other event.

Scenarios for determining applicability of the concept of offsetting:

(a) Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising from disposal of various items of property, plant and equipment shall be presented on a net basis. However, gains or losses should be presented separately if they are material.

(b) As per paragraph 33 of Ind AS 1, offsetting is permitted only when offsetting reflects the substance of the transaction. In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. If the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

(c) Ind AS 1 prescribes that assets and liabilities, and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per paragraph 42 of Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously. Accordingly, the receivable and payable should be offset against each other and net amount is presented in the balance sheet if the entity has a legal right to set off and the entity intends to do so. Otherwise, the receivable and payable should be reported separately.

Or

The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

1. Comparability: Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability refers to the use of the same methods for the same items, and uniformity implies that like things must look alike and different things must look different.

2. Verifiability: Verifiability means that different knowledgeable and independent observers could reach a consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

3. Timeliness: Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because some users may need to identify and assess trends.

4. Understandability: Classifying, characterising and presenting information clearly and concisely makes it understandable.

Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or does not provide a faithful representation of what it purports to represent.

Sometimes, one enhancing qualitative characteristic may have to be diminished to maximise another qualitative characteristic. For example, a temporary reduction in comparability as a result of prospectively applying a new Ind AS may be worthwhile to improve relevance or faithful representation in the longer term. Appropriate disclosures may partially compensate for non-comparability.

Q3. Nov 2024 Exam, 5 marks

Z Ltd. having net worth of Rs. 25 crores has opted voluntarily to adopt Ind AS from 1st April, 2022 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

Mr. A, the senior manager, of Z Ltd. has identified following issues which need specific attention of CFO so that opening Ind AS balance sheet as on the date of transition can be prepared:

(i) As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The land was acquired for a consideration of Rs. 5,00,000. However, the fair value of land as on the date of transition was Rs. 6,00,000.

(ii) Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is Rs. 2,80,000 as against the carrying amount of loan which at present equals Rs. 3,00,000,

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding. Prepare Ind AS Impact Analysis Report (Extract) for Z Ltd. for presentation to the management wherein youare required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue and its impact there upon for preparation of transition date balance sheet. Also pass journal entry for each of the issues mentioned above

Answer:

Assessment of Preliminary Impact Assessment on transition to Ind AS of Z Ltd.'s Financial Statements

(i) Fair value as deemed cost for property plant and equipment:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS 10, Property, Plant and Equipment is recognised at cost less depreciation.	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, the book value should be brought up to fair value. The resulting impact of fair valuation of land Rs. 1,00,000 should be adjusted in other equity.

Journal Entry on the date of transition

Particulars	Debit (Rs.)	Credit (Rs.)
Property, Plant and Equipment Dr. To Revaluation Surplus (OCI- Other Equity) (Being PPE recorded at fair value on the date of transition to Ind AS)	1,00,000	 1,00,000

(ii) Borrowings - Processing fees/transaction cost:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, such expenditure is charged to Profit and loss account	As per Ind AS, such expenditure is amortised over the period of the loan.	Fair value as on the date of transition is Rs. 2,80,000 as against its book value of Rs. 3,00,000. Accordingly, the difference of Rs. 20,000
or capitalised as the case may be	Ind AS 101 states that if it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability.	is adjusted through retained earnings.

Journal Entry on the date of transition

Particulars	Debit (Rs.)	Credit (Rs.)
Borrowings / Loan payable Dr. To Retained earnings (Being Borrowings recorded at fair value on date of transition to Ind AS)	20,000	 20,000

Q4. May 2024 Exam, 4 marks

In December, 2022, X Limited entered into a loan agreement with a Bank. The loan is repayable in five annual instalments commencing from 1st October, 2024. One of the material provisions of the loan agreement is that X limited should create an equitable mortgage on its assets in favour of the Bank by 31st March, 2023 failing which the loan would become payable on demand. X Limited is not able to create the equitable mortgage by 31st March, 2023. In April, 2023, X Limited started negotiation with the Bank and requested it not to demand payment due to non-creation of the equitable mortgage.

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Meanwhile the financial statements of X Limited for the year ended 31st March, 2023 were approved for issue on 30th May, 2023. In the month of June, 2023, the Bank agreed that the payment would not be demanded immediately as a consequence of breach of the material provision. How would the loan liability be classified by X Limited as at 31st March, 2023?

Answer:

As per Ind AS 1 "Presentation of Financial Statements", where there is a breach of a material 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 on the reporting date, the entity does not classify the liability as current, 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 non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

In the given case, bank (the lender) agreed for not to demand payment but only after the reporting date and the financial statements were approved for issuance. The financial statements were approved for issuance on 30th May 2023 and the Bank agreed for not to demand payment in the month of June 2023 although negotiation started in the month of April 2023 but could not agree before May 2023 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement as at 31st March, 2023.

Q5. Nov 2023 Exam, 6 marks

Discuss the cost constraint on useful financial information.

OR

Discuss the characteristics of good financial statements.

Answer:

Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.

Both the providers and users of financial information incur costs in reporting and analysing financial information. In applying the cost constraint, the ICAI assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in formulating a proposed Ind AS, the ICAI seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that Ind AS. In most situations, assessments are based on a combination of quantitative and qualitative information.

Because of the inherent subjectivity, different individual's assessments of the costs and benefits of reporting particular items of financial information will vary. Therefore, ICAI seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities.

OR

Characteristics of good financial information are:

1. **Relevance**

"Relevant financial information"

- Is financial information with (a) predictive value or (b) confirmatory value or both
- Makes it capable of making a difference in decisions made by users
- Makes it relevant financial information

Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to

have predictive value. Financial information with predictive value is employed by users in making their own predictions.
Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.
The characteristic of 'relevance' also includes the concept of materiality.
Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity.

2. **Faithful Representation**

To be useful, financial information must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.
To be a perfectly faithful representation, a depiction would have following three characteristics:

- Complete: A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.
- Neutral: A neutral depiction is without bias in the selection or presentation of financial information.
  Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated.
- Free from error: Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects.

Q6. May 2023 Exam, 5 marks

X Limited has a loan facility from a bank which is to be repaid within a period of six months from the end of the reporting period. Before the end of the reporting period, X Limited and the bank enters into an arrangement as per which the existing outstanding loan will unconditionally roll into the new facility which will expire after a period of 3 years.

i. How should the loan be classified in the balance sheet of X Limited as at the reporting date? Give reasons.
ii. Will the answer be different if the new facility is agreed upon after the end of the reporting period? Why? What will be the answer?
iii. Will the answer to (i) be different if the new facility is not yet tied up with the existing bank, but X Limited has the potential to refinance the obligation.

Give reasons.

Answer

i. The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over before the end of the reporting period for a period of 3 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current.

ii. Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period, since assessment is required to be made based on terms of the existing loan facility. As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, the loan is to be classified as current.

iii. Yes, the answer will be different, and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

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Q7. May 2022 Exam, 5 marks

In November 2021, an Ind AS compliant Company entered into a loan agreement with a bank. The loan is repayable in 6 equal annual installments starting from November 2026. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by the promoters of the Company by 4th March, 2022, failing which the loan becomes payable on demand.

As on 4th March, 2022, the Company has not been able to get the promoter's contribution. On 5th March, 2022, the Company approached the Bank and immediately obtained a grace period up to 30th June, 2022 to get the promoter's contribution.The bank cannot demand immediate repayment during the grace period.

The annual reporting period of the Company ends on 31st March, 2022. You are required to respond to the following:

i. As at 31st March, 2022, how should the Company classify the loan?
ii. Assume that it may not be able to get the promoter's contribution by the due date, the Company approached the Bank in January 2022 and got the compliance date extended up to 30th June, 2022 for getting promoter's contribution. Will the loan classification as at 31st March, 2022 be different from (i) above?

Answer

a. Paragraph 75 of Ind AS 1, inter alia, provides that an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on 31st March, 2022, the loan will be classified as current.

b. Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on 30th June, 2022, i.e., after the reporting date.

Consequently, in the absence of actual breach of the loan covenant as on 31st March, 2022, the loan will retain its classification as non-current.

Q8. July 2021 Exam, 4 marks

Charm Limited (the 'Company') is a manufacturing company, which is into manufacturing of wires and cables and has assessed its operating cycle to be 15 months. The Company has some trade receivables which are receivable within a period of 12 months from the reporting date i.e. 31st March 2021.

With respect to the following transactions, which took place during the financial year 2020-2021, give your opinion based on relevant Ind AS:

• The Company has received a contract of ₹ 10 crore on 31st March 2021. The terms of the contract require the Company to make a security deposit of 20% of the contract value with the customer. The Company made a security deposit of ₹ 2 crore on31st March 2021. This contract will be completed in about 14 months. 70% of the

deposit will be refunded immediately and the balance 30% of the deposit will be refunded after 3 months from the completion of the contract. The Company wants to present the security deposit of ₹ 2 crore as non-current. Is the management's decision correct?

• The Company has some trade receivables that are due after 14 months from the date of the balance sheet; the management of the Company expects to receive the amount within the period of the operating cycle. Despite the fact that these are receivables in 14 months, the management would like to present these as current. Is the
management's decision correct?

• In the normal course of business, the Company has given 2 contracts and received a total security deposit of ₹ 4 crore. ₹ 3 crore is received from X Limited and ₹ 1 crore is received from Y Limited on 31st March 2021. These are repayable on completion of the contract. However, if the contract is cancelled within the contract term of
18 months, then the deposit becomes payable immediately. The Company is positive about the contract with X Limited but is in doubt about the contract received from Y Limited. The Company wants to present the amount of ₹ 3 crore as non-current and ₹ 1 crore as current in the balance sheet. Is the management's decision correct?

• The Company is planning to replace a machinery. It has given an advance of ₹ 1 crore for purchase of new machinery which will be delivered in 6 months from the date of the balance sheet. It has sold the old machinery for ₹ 0.5 crore, the payment of which is due in 10 months from the date of the balance sheet. The Company wants
to present both these amounts as current since they will be settled within twelve months from the end of the reporting period. Is the management's decision correct?

Answer

Operating cycle of Charm Limited = 15 months

i. The security deposit made by the Company with the customers be classified as current assets to the extent of 70% (₹ 2 crore x 70% = ₹ 1.40 crore) as it will be refunded immediately on completion of 14 months of contract i.e. within the operating cycle of 15 months.

However, 30% of the security deposit will be refunded after 3 months of completion of the contract (14+3 = 17 months) i.e. after 2 months of operating cycle (Operating cycle of the Company is 15 months). Hence, it will be classified as non-current. Therefore, management's decision is not correct. (Refer Para 66 of Ind AS 1)

ii. Yes, the Company's decision of presenting the trade receivables as Current Assets is correct despite the fact that these are receivables in 14 months' time since the operating cycle of the company is 15 months and any event arising due to trade will be considered as current if its settlement is within the tenure of operating cycle.

Additionally, the Company also need to disclose amounts that are receivable within a period of 12 months and after 12 months from the reporting date. (Refer Para 60 and 61 of Ind AS 1)

iii. Paragraph 69(d) of Ind AS 1 states that an entity shall classify a liability as current when it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Although it is expected that X Limited will fulfil the contract and the deposit will not be refunded, but in case of cancellation within the contract term, refund of security deposit is a condition that is not within the control of the entity.

Hence, Charm Limited does not have an unconditional right to defer settlement of the liability for at least
twelve months after the reporting period. Accordingly, the deposit will have to be classified as current liability in case of both X and Y Limited.

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iv. Yes, the management decision to classify the payment of ₹ 0.5 crore as a current asset is correct since the payment will be realised in less than twelve months from the end of the reporting period. Capital advances are advances given for procurement of Property, Plant and Equipment etc. Typically, companies do not expect to realize them in cash. Rather, over the period, these get converted into non-current assets. Hence, capital advances should be treated as other non-current assets irrespective of when the Property, Plant and Equipment is expected to be received.

Under Ind AS Schedule III, Capital Advances are not to be classified under Capital Work in Progress since they are specifically to be disclosed under other non-current assets.

Accordingly, advance of ₹ 1 crore given for purchase of machinery is 'Capital advance' which will be classified as non-current as it relates to acquisition of non-current item i.e., machinery. Hence, management decision to classify it as current is incorrect.

Q9. Jan 2021 Exam, 5 marks

Entity A had obtained a long-term bank loan during January 2019, which is subject to certain financial covenants. One of such covenants states that during the tenure of the loan, debt equity ratio of 65:35 is to be maintained at all time. In case of breach of this covenant, the loan will be repayable immediately.

The loan agreement also states that these covenants will be assessed at the end of each quarter and reported to the bank within a month from the end of each quarter. If the covenants are breached at this time, the loan will be repayable immediately. The entity closes its annual accounts as on 31st March every year.
You are required to show how the loan will be classified as on 31st March 2020, if:

i. At the financial year end, Entity A determines that it is not in breach of any of the covenants;

ii. At the quarter ending 31st December 2019, Entity A's debt equity ratio became 75:25 and thus breaches the covenant, however it obtains a waiver from the bank. The terms of the waiver specify that if Entity A rectifies the breach within a period of 12 months from the reporting date then the bank cannot demand repayment immediately on account of the breach during this period. Entity A expects to rectify the breach by raising additional equity capital by means of a rights issue to the existing shareholders and expects that the issue will be fully subscribed;

iii. Considering the same facts as in (ii) above, except obtaining the waiver clause, what would be your answer?

Answer

Para 74 of Ind AS 1 'Presentation of Financial Statements', states that where there is a breach of a material 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 on the reporting date, the entity does not classify the liability as current, 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.

However, an entity classifies the liability as non-current, if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

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i. The entity has obtained a long-term loan during January, 2019. Since repayment period of the loan is not mentioned in the question, it is assumed that on 31st March 2020, the repayment period of the loan is more than 12 months. Further, the entity has not breached the covenants specified in the loan; therefore, as at 31st March, 2020, the loan will be classified as 'non-current liability.

ii. In the second case, though there is a breach of covenant on 31st December, 2019 i.e. before reporting date of 31st March, 2020, yet the bank had agreed to provide a period of grace for twelve months from the reporting period, within which the entity A can rectify the breach and during this period bank cannot demand immediate repayment.

Also, entity A has intention to rectify the breach. Thus, entity A will classify the liability of bank loan as non-current liability in its books as at
31st March, 2020.

iii. Since the covenant for the bank loan has been breached during the quarter ended 31st December, 2019 and reported to the bank within one month from the end of the quarter i.e. by 31st January, 2020, the bank loan becomes repayable immediately.

Therefore, it will be presented as current liability in the books of entity A as on 31st March, 2020.

Q10. May 2019 Exam, 4 marks

Mike Ltd. has undertaken following various transactions in the financial year ended 31.03.2018:

	(₹)
(a) Re-measurement of defined benefit plans ·	1,54,200
(b) Current service cost	1,05,000
(c) Changes in revaluation surplus	75,000
(d) Gains and losses arising from translating the monetary assets in foreign currency	45,000
(e) Gains and losses arising from translating the financial statements of a foreign operation	39,000
(f) Gains and losses arising from investments in equity instruments designated at fair value through other comprehensive income	60,000
(g) Income tax expenses	21,000
(h) Share based payments cost	2,01,000

Identify and present the transactions in the financial statements as per Ind AS 1.

Answer

Items impacting the Statement of Profit and Loss for the year ended 31st March, 2018

	(₹)
Current service cost	1,05,000
Gains and losses arising from translating the monetary assets in foreign currency	45,000
Income tax expenses	21,000
Share based payments cost	2,01,000

Items impacting the other comprehensive income for the year ended 31st March, 2018

	(₹)
Remeasurement of defined benefit plans	1,54,200
Changes in revaluation surplus	75,000
Gains and losses arising from translating the financial statements of a foreign operation	39,000

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Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	60,000

Q11. May 2026, RTP

Find out total comprehensive income for 20X1-20X2 of V Ltd. from the following information:

Profit from normal operations	Rs. 50,00,000
Remeasurement gains from defined benefit plans	Rs. 5,00,000
Gain on translation of foreign operations	Rs. 10,00,000
Revaluation gains on property, plant and equipment	Rs. 3,50,000
Fair value changes on financial assets	Rs. 4,50,000

Answer:

Total Comprehensive Income of V Ltd.

Particulars		**Rs.**
Profit from normal operations (A)		50,00,000
Other Comprehensive Income		
Items not reclassified to P&L		
Remeasurement gains from defined benefit plans	5,00,000	5,00,000
Items reclassified to P&L		
Gain on translation of foreign operations	10,00,000	
Revaluation gains on Property, Plant and Equipment	3,50,000	
Fair value changes on financial assets	4,50,000	18,00,000
Total Other Comprehensive Income (B)		23,00,000
Total Comprehensive Income (A +B)		73,00,000

Q12. May 2023, RTP

State whether the following items meet the definition of Financial Asset or Financial Liability for an entity:

i. A bank advances an entity a five-year loan. The bank also provides the entity with an overdraft facility for a number of years.

ii. Entity A owns preference shares in Entity B. The preference shares entitle Entity A to dividends, but not to any voting rights.

iii. An entity has a present obligation in respect of income tax due for the prior year.

iv. (iv) In a lawsuit brought against an entity, a group of people is seeking compensation for damage to their health as a result of land contamination believed to be caused by waste from the entity's production process. It is unclear whether the entity is the source of the contamination since many entities operate in the same area and produce similar waste.

Answer

i. (i)The entity has two financial liabilities namely (a) the obligation to repay the five-year loan and (b) the obligation to repay the bank overdraft to the extent that it has borrowed using the overdraft facility. Both the loan and the overdraft result in contractual obligations for the entity to pay cash to the bank for the interest incurred and for the return of the principal.

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ii. (ii) For Entity B: The preference shares may be equity instruments or financial liabilities of Entity B, depending on their terms and conditions. For Entity A: Irrespective of Entity B's treatment, the preference shares are a financial asset because the investment satisfies the definition of a financial asset.

iii. (iii) An income tax liability is created as a result of statutory requirements imposed by the government. The rights and obligations are not created by a contract. Hence,the liability for income-tax dues is not a financial liability.

iv. (iv) The fact that a lawsuit may result in the payment of cash does not create a financial liability for the entity because there is no contract between the entity and the affected group. The entity will need to consider providing for the payment as per Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Q13. Nov 2022, RTP

On 1st April, 20X1 an entity granted an interest-free loan of ₹ 5,00,000 to an employee for a period of three years. The market rate of interest for similar loans is 5% per year.

On 31st March, 20X3, because of financial difficulties, the employee asked to extend the interest-free loan for further three years. The entity agreed. Under the restructured terms, repayment will take place on 31st March, 20X7. However, the entity only expects to receive a payment of ₹ 2,50,000, given the financial difficulty of the employee.

Explain the accounting treatment on initial recognition of loan and after giving effect of the changes in the terms of the loan as per Ind AS 109. Support your answer with Journal entries and amortised cost calculation, as on the date of initial recognition and on the date of change in terms of loan.

Answer

As the loan is not at a market interest rate, hence it is not recorded at the transaction price of ₹ 5,00,000. Instead, the entity measures the loan receivable at the present value of the future cash inflows discounted at a market rate of interest available for a similar loan.

The present value of the loan receivable (financial asset) discounted at 5% per year is ₹ 5,00,000 ÷ (1.05)3 = ₹ 4,32,000. Therefore, ₹ 4,32,000 is recorded on initial measurement of the loan receivable. This amount will accrete to ₹ 5,00,000 over the three-year term using the effective interest method.

The difference between ₹ 5,00,000 and ₹ 4,32,000 i.e., ₹ 68,000 is accounted for as prepaid employee cost in accordance with Ind AS 19 'Employee Benefits', which will be deferred and amortised over the period of loan on straight line basis.

The journal entries on initial recognition are:

	₹	₹
Loan receivable (financial asset) Dr.	4,32,000	
Prepaid employee cost (asset) Dr.	68,000	
To Cash / Bank (financial asset)		5,00,000
(Being loan granted to the employee recognised)		

The amortised cost calculation at 1st April, 20X1 is as follows:

Period	**Carrying amount at**	**Interest at 5%**	**Cash inflow**	**Carrying amount at**

	1st April			31st March
20X1-20X2	4,32.000	21,600	-	4,53,600
20X2-20X3	4,53.000	22,680	-	4,76,280
20X3-20X4	4,76,000	23,720*	(5,00,000)	-

*Difference of ₹ 94 (₹ 23,814 – ₹ 23,720) is due to approximation.

On 31st March, 20X3, the carrying amount of the loan receivable is ₹ 4,76,280.

As a result of that modification, on 31st March, 20X3, the present value of estimated cash flows is recalculated to be ₹ 2,05,750 using the asset's original effective interest rate of 5% (₹ 2,50,000 ÷ $(1.05)^4$).

An impairment loss of ₹ 2,70,530 (₹ 4,76,280 – ₹ 2,05,750) is recognised in profit or loss in the year 20X2-20X3.

The carrying amount of the loan receivable may be reduced directly, as follows:

	₹	₹
Profit or loss - impairment loss Dr. To Loan receivable 2,70,530 (Being impairment loss recognised)	2,70,530	 2,70,530

In this case, the loan receivable will be measured at ₹ 2,05,750 at 31st March, 20X3.

The revised amortised cost calculation at 1st April, 20X3 is as follows:

Period	Carrying amount at 1st April	Interest at 5%(the original effective interest rate)	Cash inflow	Carrying amount at 31st March
20X3-20X4	2,05,750	10,288	-	2,16,038
20X4-20X5	2,16,038	10,802	-	2,26,840
20X5-20X6	2,26,840	11,342	-	2,38,182
20X6-20X7	2,38,182	11,818	(2,50,000)	-

Q14. May 2022, RTP

On 1st April, 2X01, Entity X issued a 10% convertible debenture with a face value of ₹ 1,000 maturing on 31st March, 2X11. The debenture is convertible into ordinary shares of Entity X at a conversion price of ₹ 50 per share. Interest is payable yearly in cash.

On 1st April, 2X02, to induce the holder to convert the convertible debenture promptly, Entity X reduces the conversion price to ₹ 40 if the debenture is converted before 1st June, 2X02 (ie, within 60 days).

The market price of Entity X's ordinary shares on the date the terms are amended is ₹ 80 per share. How will the revised terms be accounted?

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Answer

The fair value of the incremental consideration paid by Entity X is calculated as follows:

Number of ordinary shares to be issued to debenture holders under amended terms			
Particulars			
Face value			₹ 1,000
New conversion price		₹40 per share	
Number of ordinary shares to be issued to debenture holders under amended terms	1,000 / ₹ 40		25 Shares
Number of ordinary shares to be issued to debenture holders under original terms			
Face value			₹ 1,000
Original conversion price		₹50 per share	
Number of ordinary shares to be issued to debenture holders under original terms	1,000 / ₹ 50		20 Shares
Number of additional shares to be issued to debenture holders under amended terms			5 Shares
Value of additional shares upon conversion (to be recognised as loss in P&L)			
5 shares x ₹ 80 per share			₹ 400

Q15. Nov 2021, RTP

On 1st April, 20X1, PS Limited issued 6,000, 9% convertible debentures with a face value of ₹ 100 each maturing on 31st March, 20X6. The debentures are convertible into equity shares of PS Limited at a conversion price of ₹ 105 per share. Interest is payable annually in cash. At the date of issue, non-convertible debt could have been issued by the company at coupon rate of 13%. On 1st April, 20X4, the convertible debentures have a fair value of ₹ 6,30,000. PS Limited makes a tender offer to debenture-holders to repurchase the debentures for ₹ 6,30,000 which the debenture holders accepted. At the date of repurchase, PS Limited could have issued non-convertible debt with a 2 year term bearing coupon interest @ 10%.

Show accounting entries in the books of PS Limited for recording of equity and liability component:

i. At the time of initial recognition
ii. At the time of repurchase of the convertible debentures

Answer

(i) At the time of initial recognition

	₹
Liability component	
Present value of 5 yearly interest payments of ₹ 54,000, discounted at 13% annuity (54,000 x 3.517)	1,89,918
Present value of ₹ 6,00,000 due at the end of 5 years, discounted at 13%, compounded yearly (6,00,000 x 0.543)	3,25,800

	5,15,718
Equity component	
(₹ 6,00,000 – ₹ 5,15,718)	84,282
Total proceeds	6,00,000

Note: Since ₹ 105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ ₹ 100 each only.

Journal Entry

	₹	₹
Bank Dr.	6,00,000	
To 9% Debentures (Liability component)		5,15,718
To 9% Debentures (Equity component)		84,282
(Being debentures initially recorded at fair value)		

(ii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 13%	Fair Value @ 10%	Difference
	₹	₹	₹
Liability component			
Present value of 2 remaining yearly interest payments of ₹ 54,000, discounted at 13% and 10%, respectively	90,072	93,690	
Present value of ₹ 6,00,000 due in 2 years, discounted at 13% and 10%, compounded yearly, respectively	4,69,800	4,95,600	
Liability component	5,59,872	5,89,290	(29,418)
Equity component	84,282*	40,710**	43,572
Total	6,44,154	6,30,000	14,154

*See Note (i)

**6,30,000 – 5,89,290 = 40,710

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Journal Entries

		₹	₹
9% Debentures (Liability component)	Dr	5,59,872	
Profit and loss A/c (Debt settlement expense)	Dr.	29,418	
To Bank A/c			5,89,290
(Being the repurchase of the liability component recognised)			
9% Debentures (Equity component) Dr.		84,282	
To Bank A/c			40,710
To Retained Earnings A/c			43,572
(Being the cash paid for the equity component recognised)			

Q16. May 2020, RTP

XYZ issued ₹ 4,80,000 4% redeemable preference shares on 1st April 20X5 at par. Interest is paid annually in arrears, the first payment of interest amounting ₹ 19,200 was made on 31st March 20X6 and it is debited directly to retained earnings by accountant. The preference shares are redeemable for a cash amount of ₹ 7,20,000 on 31st March 20X8.

The effective rate of interest on the redeemable preference shares is 18% per annum. The proceeds of the issue have been recorded within equity by accountant as this reflects the legal nature of the shares. Board of directors intends to issue new equity shares over the next two years to build up cash resources to redeem the preference shares.

Mukesh, Accounts manager of XYZ has been told to review the accounting of aforesaid issue. CFO has asked from Mukesh the closing balance of preference shares at the year end.
If you were Mukesh, then how much balance you would have shown to CFO on analysis of the stated issue. Prepare necessary adjusting journal entry in the books of account, if required.

Answer

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

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

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

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

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

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

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

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

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

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Q1. Sep 2025 Exam, 4 marks

Modern Limited, whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of Rs. 5,00,000, but there are no other assets or liabilities in its financial statements as on 1st April, 2024. During the year 2024-2025, the company has entered into the following foreign currency transactions:

(i) It purchased goods for resale from Spain for Euro 1,00,000 when the exchange rate was 1 Euro = Rs. 77. This balance is still unpaid at 31st March, 2025 when the exchange rate was 1 Euro = Rs. 72. An exchange gain of Rs. 5,00,000 on the retranslation of Trade Payables is recorded in the Statement of Profit and Loss.

(ii) It sold the goods to an American client for US $ 1,00,000 when the exchange rate was 1 US $ = Rs. 82. This amount was settled when the exchange rate was 1 US $= Rs. 85. The exchange gain regarding the Trade Receivable is recorded in the Statement of Profit and Loss.

(iii) Modern Limited also borrowed Euro 1,00,000 under a long-term loan agreement when the exchange rate was 1 Euro = Rs. 75 and immediately converted it into Rs. 75,00,000. The loan was retranslated at 31st March, 2025 at Rs. 72, with an exchange gain recorded in the Statement of Profit and Loss. The loan is still payable.

Modern Limited, therefore, records a cumulative exchange gain of Rs. 11,00,000 (5,00,000 + 3,00,000 + 3,00,000) in arriving at its profit for the year. Besides it also records a trading profit of Rs. 5,00,000 (Rs. 82,00,000 - Rs. 77,00,000) on the sale of goods.

How would the cash flows arising from the above transactions be reported in the Statement of Cash flows of Modern Limited prepared under Indirect Method as per applicable Ind AS? Ignore taxation.

Answer:

An exchange gain on retranslation of the trade payable of Rs. 5,00,000 is recorded in profit or loss [€ 1,00,000 x (77 – 72) = Rs. 5,00,000].

A further exchange gain of Rs. 3,00,000 regarding the trade receivable is recorded in the statement of profit or loss [$ 1,00,000 x (85 – 82) = Rs. 3,00,000].

The loan was retranslated at 31st March 2025 @ Rs. 72 = Rs. 72,00,000, with a further exchange gain of Rs. 3,00,000 recorded in the statement of profit or loss.

Statement of Cash Flows

Particulars	**Rs.**
Cash flows from operating activities (Indirect method)	
Profit before taxation (5,00,000 + 11,00,000)	16,00,000
Adjustment for unrealised exchange gains / losses:	
Foreign exchange gain on long term loan	(3,00,000)
Foreign Exchange gain on trade payables	(5,00,000)
Operating cash flow before working capital changes	8,00,000
Changes in working capital (Due to increase in trade payables)	77,00,000
Net cash inflow from operating activities	85,00,000
Cash inflow from financing activity	75,00,000
Net increase in cash and cash equivalents	1,60,00,000

Cash and cash equivalents at the beginning of the period	5,00,000
Cash and cash equivalents at the end of the period (Refer W.N.)	1,65,00,000

Working Note:

Closing Cash and Cash Equivalents

Particulars	**Rs.**
Opening balance of cash and cash equivalents	5,00,000
Add: Received from settlement of Trade Receivables	85,00,000
Add: Received from conversion of loan	75,00,000
	1,65,00,000

Note: One may show changes in working capital net of foreign exchange gain of Rs. 72,00,000.

Q2. Dec 2021 Exam, 6 marks

In the year 2020-2021, one land was sold for ₹ 5 crore and another land purchased for ₹ 3 crore by XYZ Limited. Company reported Cash Flow on a Net Basis in Cash Flow Statement i.e. ₹ 2 crore in Investing Activity as Cash receipt from Sale of Land. Advise whether treatment given as above is correct or not as per the provisions of Ind AS 7.
Also, calculate the cash from operations by indirect method from the following information:
Operating Statement of XYZ Limited for the year ended 31st March, 2021

Particulars	**₹**
Sales	20,00,000
Less: Cost of goods sold	(14,00,000)
Administration & selling overheads	(2,20,000)
Depreciation	(28,000)
Interest paid	(12,000)
Loss on sale of asset	(8,000)
Profit before tax	3,32,000
Less: Tax	(1,20,000)
Profit after tax	2,12,000

Balance Sheet as on 31st March

	2021 ()	**2020 ()**
Assets		
Non-current assets		
Property, plant and equipment	3,00,000	2,60,000
Investment	48,000	40,000
Current assets		
Inventories	48,000	52,000
Trade receivables	40,000	28,000
Cash and cash equivalents	24,000	20,000
Total	4,60,000	4,00,000
Equity and liabilities		
Shareholders' funds	2,40,000	2,00,000
Non-current Liabilities	1,32,000	1,40,000
Current liabilities		
	48,000	32,000

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Trade payables	40,000	28,000
Expenses payables	4,0,000	4,00,000
Total		

Answer

(i) Correct treatment of cash flow:
If nothing is specifically mentioned, then as per Ind AS 7, the cash flows will be presented on gross basis. Gross basis means the receipts would be shown separately and the payments will be shown separately.

Accordingly, in the year 2020-2021, while presenting the information, entity will show separately cash outflow from investing activity of ₹ 3 crore for purchase of land and cash inflow from investing activity of ₹ 5 crore from sale of land.

(ii) Cash flow from Operations by Indirect Method

	₹
Profit After Tax	2,12,000
Add back / (Less): Depreciation	28,000
Interest paid	12,000
Loss on sale of an asset	8,000
	2,60,000
Adjustments for changes in inventory and operating receivables and payables	
Decrease in inventory	4,000
Increase in trade receivables	(12,000)
Increase in trade payables	16,000
Increase in expenses payables	12,000
Net cash generated from operating activity	2,80,000

Q3. Jan 2021 Exam, 5 marks

Z Ltd. (India) has an overseas branch in USA. It has a bank account having balance of USD 7,000 as on 1st April 2019. During the financial year 2019-2020, Z Ltd. acquired computers for its USA office for USD 280 which was paid on same date. There is no other transaction reported in USA or India. Exchange rates between INR and USD during the financial year 2019-2020 were:

Date	USD 1 to INR
1st April 2019	70.00
30th November 2019	71.00 (Date of purchase of computer)
31st March 2020	71.50
Average for 2019-2020	70.50

Please prepare the extract of Cash Flow Statement for the year ended 31st March 2020 as per the relevant Ind AS and also show the foreign exchange profitability from these transactions for the financial year 2019-2020?

Answer

In the books of Z Ltd.
Statement of Cash Flows for the year ended 31st March 2020

	₹	₹
Cash flows from operating activities		
Net Profit (Refer Working Note)	10,360	

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Adjustments for non-cash items:		
Foreign Exchange Gain	(10,360)	
Net cash outflow from operating activities		0
Cash flows from investing activities		
Acquisition of Property, Plant and Equipment	(19,880)	
Net cash outflow from Investing activities		(19,880)
Cash flows from financing activities		0
Net change in cash and cash equivalents		(19,880)
Cash and cash equivalents at the beginning of the year i.e. 1st April 2019		4,90,000
Foreign Exchange difference		10,360
Cash and cash equivalents at the end of the year i.e. 31st March 2020		4,80,480

Working Note:

Computation of Foreign Exchange Gain

Bank Account USD	Date	USD	Exchange Rate	₹
Opening balance	1.4.2019	7,000	70.00	4,90,000
Less: Purchase of Computer	30.11.2019	280	71.00	19,880
Closing balance calculated		6,720		4,70,120
Closing balance (at year end spot rate)	31.3.2020	6,720	71.50	4,80,480
Foreign Exchange Gain credited to Profit and Loss account				10,360

Q4. Nov 2020 Exam, 8 marks

Entity A acquired a subsidiary, Entity B, during the year ended 31 March 2020. Summarised information from the Consolidated Statement of Profit and Loss and Balance Sheet is provided, together with some supplementary information.

Consolidated Statement of Profit and Loss for the year ended 31 March 2020.

	Amount (₹)
Revenue	1,90,000
Cost of sales	(1,10,000)
Gross profit	80,000
Depreciation	(15,000)
Other operating expenses	(28,000)
Interest cost	(2,000)
Profit before taxation	35,000
Taxation	(7,500)
Profit after taxation	27,500

Consolidated Balance Sheet

	31 March 2020 Amount (₹)	31 March 2019 Amount (₹)
Assets		
Cash and cash equivalents	4,000	2,500
Trade receivables	27,000	25,000
Inventories	15,000	17,500
Property, plant and equipment	80,000	40,000
Goodwill	9,000	-

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Total assets	1,35,000	85,000
Liabilities		
Trade payables	34,000	30,000
Income tax payable	6,000	5,500
Long term debt	50,000	32,000
Total outside liabilities	90,000	67,500
Shareholders' equity	45,000	17,500
Total liabilities & shareholders' equity	1,35,000	85,000

Other information:
All of the shares of entity B were acquired for ₹ 37,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	**Amount (₹)**
Inventories	2,000
Trade receivables	4,000
Cash	1,000
Property, plant and equipment	55,000
Trade payables	(16,000)
Long term debt	(18,000)
Goodwill	9,000
Cash consideration paid	37,000

You are required to prepare the Consolidated Statement of Cash Flows for the financial year ended 31 March 2020 in accordance with Ind AS 7.

Answer

Statement of Cash Flows for the year ended 31 March 2020

	Amount (₹)	**Amount (₹)**
Cash flows from operating activities		
Profit before taxation	35,000	
Adjustments for non-cash items:		
Depreciation	15,000	
Decrease in inventories (W.N. 1)	4,500	
Decrease in trade receivables (W.N. 2)	2,000	
Decrease in trade payables (W.N. 3)	(12,000)	
Interest paid to be included in financing activities	2,000	
	(7,000)	
Taxation (5,500 + 7,500 – 6,000)		39,500
Net cash generated from operating activities		
Cash flows from investing activities		
	(36,000)	
Cash paid to acquire subsidiary (37,000 – 1,000)		(36,000)
Net cash outflow from investing activities		
Cash flows from financing activities		
	(2,000)	
Interest paid		(2,000)
Net cash outflow from financing activities		1,500
Increase in cash and cash equivalents during the year		2,500
		4,000

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Cash and cash equivalents at the beginning of the year		
Cash and cash equivalents at the end of the year		

Working Notes:

1. Calculation of change in inventory during the year	**₹**
Total inventories of the Group at the end of the year	15,000
Inventories acquired during the year from subsidiary	(2,000)
	13,000
Opening inventories	(17,500)
Decrease in inventories	(4,500)

2. Calculation of change in Trade Receivables during the year	**₹**
Total trade receivables of the Group at the end of the year	27,000
Trade receivables acquired during the year from subsidiary	(4,000)
	23,000
Opening trade receivables	(25,000)
Decrease in trade receivables	(2,000)

3. Calculation of change in Trade Payables during the year	**₹**
Trade payables at the end of the year	34,000
Trade payables of the subsidiary assumed during the year	(16,000)
	18,000
Opening trade payables	(30,000)
Decrease in trade payables	(12,000)

4. Calculation of change in Property, plant and equipment (PPE) during the year	**₹**
Total PPE balance of the Group at the end of the year	80,000
Less: PPE of the subsidiary acquired during the year	(55,000)
	25,000
Add: Depreciation	15,000
Closing balance of PPE (before depreciation)	40,000
Opening balance of PPE	40,000
Net change in PPE	Nil

5. Calculation of change in Long term debt during the	**₹**
Total long-term debt of the Group at the end of the year	50,000
Less: Long term debt of the subsidiary assumed during the year	(18,000)
	32,000
Opening balance of long-term debt	32,000
Net change in long term debt	Nil

6. Calculation of change in Shareholders' equity during the year	**₹**
Opening balance	17,500
Profit during the year	27,500
	45,000
Closing balance	45,000
Net change in shareholders' equity	Nil

Q5. Jan 2026 , RTP

Z Ltd. had acquired a subsidiary V Ltd. during the year 20X1-20X2. Summarized information from the consolidated statement of profit and loss and balance sheet together with some supplementary information have been provided:

Consolidated Statement of Profit and Loss for the year 20X1-20X2

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	Rs.
Revenue	4,56,000
Cost of sales	(2,64,000)
Gross profit	1,92,000
Depreciation	(36,000)
Other operating expenses	(67,200)
Interest cost	(4,800)
Profit before taxation	84,000
Taxation	(18,000)
Profit after taxation	66,000

Consolidated Balance Sheet as at 31st March

	20X2	20X1
	Rs.	Rs.
Assets		
Non-current assets		
Property, plant and equipment	1,92,000	96,000
Goodwill	21,600	-
Current assets		
Inventories	36,000	42,000
Financial assets		
Trade receivables	64,800	60,000
Cash and cash equivalents	9,600	6,000
Total	**3,24,000**	**2,04,000**
Equity and Liabilities		
Shareholders' equity	1,08,000	42,000
Non-current liabilities		
Long term debt	1,20,000	76,800
Current liabilities		
Income tax payables	14,400	13,200
Financial liabilities		
Trade payables	81,600	72,000
Total	**3,24,000**	**2,04,000**

Other information

All of the shares of V Ltd. were acquired for Rs. 88,800 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	Rs.
Inventories	4,800
Trade receivables	9,600
Cash	2,400
Property, plant and equipment	1,32,000
Trade payables	(38,400)
Long-term debt	(43,200)
Goodwill	21,600
Cash consideration paid	88,800

Required:

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Prepare a consolidated statement of cashflows for the year 20X1-20X2 under indirect method.

Answer:

Consolidated Statement of Cash Flows for the 20X1-20X2

	Rs.	Rs.
Cash flows from operating activities		
Profit before taxation		84,000
Adjustments for non-cash items:		
Depreciation	36,000	
Interest paid to be included in financing activities	4,800	40,800
		1,24,800
Adjustments for working capital changes:		
Decrease in inventories (W.N.1)	10,800	
Decrease in trade receivables (W.N.2)	4,800	
Decrease in trade payables (W.N.3)	(28,800)	(13,200)
		1,11,600
Less: Taxation (13,200 + 18,000 – 14,400)		(16,800)
Net cash generated from operating activities		94,800
Cash flows from investing activities		
Cash paid to be acquired subsidiary (88,800 – 2,400)	(86,400)	
Net cash outflow from investing activities		(86,400)
Cash flows from financing activities		
Interest paid	(4,800)	
Net cash outflow from financing activities		(4,800)
Increase in cash and cash equivalents		3,600
Cash and cash equivalents at the beginning of the year		6,000
Cash and cash equivalents at the end of the year		9,600

Working Notes:

1. Computation of increase/decrease in inventory of the Group for the year

	Rs.
Total inventory of the Group at the end of the year	36,000
Inventory acquired during the year from subsidiary	(4,800)
Closing inventory	31,200
Less: Opening inventory	(42,000)
Decrease in inventory	(10,800)

2. Computation of increase/decrease in trade receivables of the Group for the year

Total trade receivables of the Group at the end of the year	64,800
Trade receivables acquired during the year from subsidiary	(9,600)
Closing trade receivables	55,200
Less: Opening trade receivables	(60,000)
Closing trade receivables	(4,800)

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3. Computation of increase/decrease in trade payables of the Group for the year

Trade payables at the end of the year	81,600
Trade payables of the subsidiary assumed during the year	(38,400)
Closing trade payables	43,200
Less: Opening trade payables	(72,000)
Closing trade payables	(28,800)

Q6. May 2026, RTP

An entity invests in a 10-year bond with a face value of Rs. 6,00,000 by paying Rs. 2,31,500. The effective rate of interest is 10%. An entity recognises proportionate interest income in its statement of profit and loss over the period of bond.

How the interest income will be treated in the statement of cash flows during the period of bond?

How the maturity proceeds of Rs. 6,00,000 will be treated in the statement of cash flows?

Note: The entity is not in the business of dealing in securities.

Answer:

Since the entity is not in the business of dealing in securities, a sum of Rs. 2,31,500 invested in a bond will be classified as investing activities. There is no cash flow of interest during bond period, as there is no cash receipt. On maturity, proceeds of Rs. 6,00,000 will be classified as receipt under investing activity with a bifurcation of Rs. 3,68,500 as interest and Rs. 2,31,500 as proceeds towards redemption of bond.

Q7. Sep 2025, RTP

A Ltd., whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of Rs. 2,00,000, but no trade receivables or trade payables on 1st April, 20X2. During 20X2-20X3, A Ltd. entered into the following foreign currency transactions:

1. A Ltd. purchased goods for resale from Europe for € 1,00,000 when the exchange rate was € 1 = Rs. 105. This balance is still unpaid at 31st March, 20X3 when the exchange rate is € 1 = Rs. 100.
2. A Ltd. sold the goods to an American client for $ 1,50,000 when the exchange rate was $1 = Rs. 85. This amount was settled when the exchange rate was $1 = Rs. 87.
3. A Ltd. also borrowed € 1,00,000 under a long-term loan agreement when the exchange rate was € 1 = Rs. 105 and immediately converted it to Rs. 1,05,00,000.

Recommend how cash flows arising from above transactions would be reported in the statement of cash flows under indirect method.

Answer:

An exchange gain on retranslation of the trade payable of Rs. 5,00,000 is recorded in profit or loss [€ 1,00,000 x (105 – 100) = Rs. 5,00,000].

A further exchange gain of Rs. 3,00,000 regarding the trade receivable is recorded in the statement of profit or loss [$ 1,50,000 x (87 – 85) = Rs. 3,00,000].

The loan was retranslated at 31st March, 20X3 @ Rs. 100 = Rs. 1,00,00,000, with a further exchange gain of Rs. 5,00,000 recorded in the statement of profit or loss.

A Ltd. therefore records a cumulative exchange gain of Rs. 13,00,000 (5,00,000 + 3,00,000 + 5,00,000) in arriving at its profit for the year.

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In addition, A Ltd. records a gross profit of Rs. 22,50,000 (Rs. 1,05,00,000 – Rs. 1,27,50,000) on the sale of the goods.

Statement of Cash Flows

Cash flows from operating activities (Indirect method)

Particulars	**Amount (Rs.)**
Profit before taxation (22,50,000 + 13,00,000)	35,50,000
Adjustment for unrealised exchange gains/losses:	
Foreign exchange gain on long term loan	(5,00,000)
Decrease in trade payables	(5,00,000)
Operating cash flow before working capital changes	25,50,000
Changes in working capital (Due to increase in trade payables)	1,05,00,000
Net cash inflow from operating activities	1,30,50,000
Cash inflow from financing activity	1,05,00,000
Net increase in cash and cash equivalents	2,35,50,000
Cash and cash equivalents at the beginning of the period	2,00,000
Cash and cash equivalents at the end of the period (W.N.)	2,37,50,000

Note: Taxation is ignored.

Working Note:

Closing Cash and Cash Equivalents

Particulars	**Amount (Rs.)**
Opening balance of cash and cash equivalents	2,00,000
Add: Received from settlement of Trade Receivables	1,30,50,000
Add: Received from conversion of loan	1,05,00,000
	2,37,50,000

Q8. May 2025, RTP

The opening balance sheet at 1st April, 20X6 of an Indian company (which account for its transactions in INR (Rs.), which consists of cash of Rs. 1,00,000 and share capital of Rs. 100,000. The Company borrows a long term loan on 30th September, 20X6 for US $ 2,200 when the rate of exchange is 1 US $= Rs. 87. There are no other transactions during the year. The exchange rate at the balance sheet date of 31st March, 20X7 is 1 US $ = Rs. 85.

The summarized balance sheet at 31st March, 20X7 is as follows:

	Rs.	**Rs.**
Assets		
Cash (1,00,000+1,91,400)		2,91,400
		2,91,400
Equity and liabilities		
Capital and reserves		
Share capital Other Equity	1,00,000	

Foreign Currency Translation Reserves	4,400	1,04,400
Non- current liabilities		
Long -term loan		1,87,000
Total equity and liabilities		2,91,400

Required:

How the foreign exchange difference arising from unsettled transactions will reflect in the Statement of Cash Flows?

Answer:

The foreign currency loan, having been translated at the rate ruling at the receipt date to Rs. 1,91,400 (US $ 2,200 x Rs. 87), is translated at the balance sheet date to Rs. 1,87,000 (US $ 2,200 x Rs. 85). The exchange gain of Rs. 4,400 is recognised in the Statement of profit and loss. The cash is made up of Rs. 1,00,000 (received from the share issue) and Rs. 1,91,400 (received on converting the currency loan immediately to Rs.).

Statement of Cash Flows

		Rs.
Cash flows from operating activities		
Profit		4,400
Less: Foreign exchange gain		(4,400)
Net cash flow from operating activities	*A*	0
Cash flows from financing activities		
Receipts of foreign currency loan		1,91,400
Net cash flow from financing activities	*B*	1,91,400
Net increase in cash and cash equivalent	*A+B*	1,91,400
Cash and cash equivalents at the beginning of the reporting period		1,00,000
Cash and cash equivalents at the end of the reporing period*		2,91,400

* Represents year end cash balances.

The exchange gain of Rs. 4,400 does not have any cash flow effect and is related to financing activities. Therefore, it needs to be eliminated from profit. A similar adjustment would be necessary if the loan remains outstanding at 31st March, 20X8.

Q9. May 2024, RTP

Following is the Balance Sheet of Mars Ltd: Rs. in Lakhs

Particulars	**31.3.20X3**	**31.3.20X2**
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	450	410
Intangible asset	90	90
Deferred Tax Asset (net)	45	45
Other Non-current Asset	95	85
Total Non-current Assets	680	630
Current Assets		
Financial Asset		

Investments	100	60
Trade Receivables	580	600
Cash and Cash Equivalents	300	300
Inventories	800	700
Other Current Assets	160	120
Total Current Assets	1,940	1,780
Total Assets	**2,620**	**2,410**
Equity and Liabilities		
Equity		
Equity Share Capital	280	250
Other Equity	980	820
Total Equity	1,260	1,070
Non-current Liabilities		
Financial Liabilities		
Borrowings	360	300
Other Non-current Liabilities	90	80
Total Non-current Liabilities	450	380
Current Liabilities		
Financial Liabilities		
Trade Payable	455	450
Bank Overdraft	410	420
Other current liabilities	45	90
Total Current Liabilities	910	960
Total Liabilities	1,360	1,340
Total Equity and Liabilities	**2,620**	**2,410**

Additional Information:

1. Profit before tax for the year is Rs. 200 lakhs and provision for tax is Rs. 40 lakhs.

2. Property, Plant and Equipment purchased during the year Rs. 100 lakhs.

3. Current liabilities include Capital creditors of Rs. 25 lakhs as at 31st March 20X3 (Nil – 31st March 20X2)

4. Long Term Borrowings raised during the year Rs. 120 lakhs.

From the information given, prepare a Statement of Cash Flows following Indirect Method. Assume that Bank overdraft is an integral part of the entity's cash management.

Answer:

Statement of Cash Flows for the year ended 31 st March, 20X3

	(Rs. in lakhs)	**(Rs. in lakhs)**
Cash flows from operating activities		
Profit before taxation	200	
Adjustments for non-cash items:		

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Depreciation [410 - (450 - 100)]	60	
	260	
Increase in inventories (800 - 700)	(100)	
Decrease in trade receivables (600 - 580)	20	
Increase in other non-current assets (95 - 85)	(10)	
Increase in other current assets (160 - 120)	(40)	
Increase in non-current liabilities (90 - 80)	10	
Increase in trade payables (455 – 25 - 450)	(20)	
Other current liabilities (Refer Note 1)[(90 + 40) - 45]	(85)	
Net cash generated from operating activities		35
Cash flows from investing activities		
Cash paid to purchase PPE (100-25)	(75)	
Cash paid to acquire investment (100-60)	(40)	
Net cash outflow from investing activities		(115)
Cash flows from financing activities		
Raising of equity share capital (280 - 250)	30	
Long-term borrowings raised during the year	120	
Long-term borrowings repaid during the year[(300 + 120) - 360]	(60)	
Net cash outflow from financing activities		90
Increase in cash and cash equivalents during the year		
		10
Cash and cash equivalents at the beginning ofthe year (420-300) (Refer Note 2)		(120)
Cash and cash equivalents at the end of theyear (410-300) (Refer Note 2)		(110)

Note: Other current liabilities are assumed to consist of provision for taxation.

Q10. Nov 2023, RTP

One of the subsidiaries of Buildwell Ltd. submitted to Central Finance its Summarized Statement of Profit and Loss and Balance Sheet.

Summarized Statement of Profit and Loss for the year ended 31st March, 20X3

Particulars		**Amount (₹)**
Net sales		2,52,00,000
Less:	Cash cost of sales	(1,92,00,000)
	Depreciation	(6,00,000)
	Salaries & wages	(24,00,000)
	Operating expenses	(14,00,000)
	Provision for taxation	(8,80,000)
Net Operating Profit		7,20,000
Non-recurring income – profit on sale of equipment		1,20,000
		8,40,000
Retained earnings and profit brought forward		15,18,000
		23,58,000
Dividends declared and paid during the year		(7,20,000)
Profit & loss balance as on 31st March, 20X3		16,38,000

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Summarized Balance Sheet

Assets	**31st March, 20X2**	**31st March, 20X3**
Property, Plant and Equipment:		
Land	4,80,000	9,60,000
Buildings and Equipment	36,00,000	57,60,000
Current Assets		
Cash	6,00,000	7,20,000
Inventories	16,80,000	18,60,000
Trade Receivables	26,40,000	9,60,000
Advances	78,000	90,000
Total Assets	90,78,000	1,03,50,000

Liabilities & Equity		
Share capital	36,00,000	44,40,000
Surplus in profit & loss	15,18,000	16,38,000
Trade Payables	24,00,000	23,40,000
Outstanding expenses	2,40,000	4,80,000
Income tax payable	1,20,000	1,32,000
Accumulated depreciation on buildings and equipment	12,00,000	13,20,000
Total	**90,78,000**	**1,03,50,000**

The original cost of equipment sold during the year 20X2-20X3 was ₹ 7,20,000.
Prepare a statement of cashflows the year ended 31st March 20X3.

Answer

Statement of Cash Flows for the year ended 31st March, 20X3 (Indirect method)

Particulars	₹	₹
Cash flow from operating activities:	16,00,000	
Net Profit before taxes and extraordinary items		
(7,20,000 + 8,80,000)	6,00,000	
Add: Depreciation	22,00,000	
Operating profit before working capital changes	(1,80,000)	
Increase in inventories	16,80,000	
Decrease in trade receivables	(12,000)	
Advances	(60,000)	
Decrease in trade payables	2,40,000	
Increase in outstanding expenses	38,68,000	
Cash generated from operations	(8,68,000)	
Less: Income tax paid (Refer W.N.4)		
Net cash from operations		30,00,000
Cash from investing activities:	(4,80,000)	
Purchase of land	(28,80,000)	
Purchase of building & equipment (Refer W.N.2)	3,60,000	
Sale of equipment (Refer W.N.3)		
Net cash used for investment activities		(30,00,000)
Cash flows from financing activities:	8,40,000	
Issue of share capital	(7,20,000)	
Dividends paid		
Net cash from financing activities:		1,20,000
Net increase in cash and cash equivalents		1,20,000
Cash and cash equivalents at the beginning		6,00,000
Cash and cash equivalents at the end		7,20,000

Working Notes:

1. Building & Equipment Account

Particulars	**₹**	**Particulars**	**₹**

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To Balance b/d	36,00,000	By Sale of assets	7,20,000
To Cash / bank (purchases)(bal. fig)	28,80,000	By Balance c/d	57,60,000
	64,80,000		64,80,000

2. Building & Equipment Accumulated Depreciation Account

Particulars	₹	Particulars	₹
To Sale of asset (acc. depreciation)	4,80,000	By Balance b/d	12,00,000
		By Profit & Loss A/c	6,00,000
To Balance c/d	13,20,000	(provisional)	
	18,00,000		18,00,000

3. Computation of sale price of Equipment

Particulars	₹
Original cost Less:	7,20,000
Accumulated Depreciation	(4,80,000)
Net cost	2,40,000
Profit on sale of assets	1,20,000
Sale proceeds from sale of assets	**3,60,000**

Provision for tax Account

Particulars	₹	Particulars	₹
To Bank A/c	8,68,000	By Balance b/d	1,20,000
To Balance c/d	1,32,000	By Profit & Loss A/c (provisional)	8,80,000
	10,00,000		10,00,000

Q11. Nov 2022, RTP

What will be the classification for following items in the statement of cash flows of both(i) Banks / Financial institutions and (ii) Other Entities?

S.No.	Particulars
1.	Interest received on loans and advances given
2.	Interest paid on deposits and other borrowings
3.	Interest and dividend received on investments in subsidiaries, associates and in other entities
4.	Dividend paid on preference and equity shares, including tax on dividend paid on preference and equity shares by other entities
5.	Finance charges paid by lessee under finance lease
6.	Payment towards reduction of outstanding finance lease liability
7.	Interest paid to vendor for acquiring fixed asset under deferred payment basis
8.	Principal sum payment under deferred payment basis for acquisition of fixed assets
9.	Penal interest received from customers for late payments
10.	Penal interest paid to suppliers for late payments
11.	Interest paid on delayed tax payments
12.	Interest received on tax refunds

Answer

The following are the classification of various activities in the Statement of Cash Flows:

S.No.	Particulars	Classification for reporting cash flows	
		Banks / financial institutions	Other entities
1.	Interest received on loans and advances given	Operating Activities	Investing activities
2.	Interest paid on deposits and other borrowings	Operating Activities	Financing activities

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3.	Interest and dividend received on investments in subsidiaries, associates and in other entities	Investing activities	Investing activities
4.	Dividend paid on preference and equity shares, including tax on dividend paid on preference and equity shares by other entities	Financing activities	Financing activities
5.	Finance charges paid by lessee under finance lease	Financing activities	Financing activities
6.	Payment towards reduction of outstanding finance lease liability	Financing activities	Financing activities
7.	Interest paid to vendor for acquiring fixed asset under deferred payment basis	Financing activities	Financing activities
8.	Principal sum payment under deferred payment basis for acquisition of fixed assets	Investing activities	Investing activities
9	Penal interest received from customers for late payments	Operating Activities	Operating Activities
10.	Penal interest paid to suppliers for late payments	Operating Activities	Operating Activities
11.	Interest paid on delayed tax payments	Operating Activities	Operating Activities
12.	Interest received on tax refunds	Operating Activities	Operating Activities

Q12. Nov 2021, RTP

From the following data of Galaxy Ltd., prepare statement of cash flows showing cash generated from Operating Activities using direct method as per Ind AS 7:

	31.3.20X2 (₹)	31.3.20X1 (₹)
Current Assets:		
Inventory	1,20,000	1,65,000
Trade receivables	2,05,000	1,88,000
Cash & cash equivalents	35,000	20,500
Current Liabilities:		
Trade payable	1,95,000	2,15,000
Provision for tax	48,000	65,000

Summary of Statement of Profit and Loss		₹
Sales	85,50,000	
Less: Cost of sales	(56,00,000)	29,50,000
Other Income		
Interest income	20,000	
Fire insurance claim received	1,10,000	1,30,000
		30,80,000
Depreciation	(24,000)	
Administrative and selling expenses	(15,40,000)	
Interest expenses	(36,000)	
Foreign exchange loss	(18,000)	(16,18,000)
Net Profit before tax and extraordinary income		14,62,000
Income Tax		(95,000)
Net Profit		**13,67,000**

Additional information:

i. Trade receivables and Trade payables include amounts relating to credit sale and credit purchase only.

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ii. Foreign exchange loss represents increment in liability of a long-term borrowing due to exchange rate fluctuation between acquisition date and balance sheet date.

Answer

Statement Cash Flows from operating activities of Galaxy Ltd. for the year ended 31 March 20X2 (Direct Method)

Particulars	₹	₹
Operating Activities:		
Cash received from Trade receivables (W.N. 3)		85,33,000
Less: Cash paid to Suppliers (W.N.2)	55,75,000	
Payment for Administration and Selling expenses	15,40,000	
	1,12,000	(72,27,000)
Payment for Income Tax (W.N.4)		13,06,000
		1,10,000
Adjustment for exceptional items (fire insurance claim)		**14,16,000**
Net cash generated from operating activities		

Working Notes:

1. Calculation of total purchases

Cost of Sales = Opening stock + Purchases – Closing Stock

₹ 56,00,000 = ₹ 1,65,000 + Purchases – ₹ 1,20,000

Purchases = ₹ 55,55,000

2. Calculation of cash paid to Suppliers

Trade Payables

	₹		₹
To Bank A/c (balancing figure)	55,75,000	By Balance b/d	2,15,000
		By Purchases (W.N. 1)	55,55,000
To Balance c/d	1,95,000		
	57,70,000		57,70,000

3. Calculation of cash received from Customers

Trade Receivables

	₹		₹
To Balance b/d	1,88,000	By Bank A/c (balancing figure)	85,33,000
To Sales	85,50,000	By Balance c/d	2,05,000
	87,38,000		87,38,000

4. Calculation of tax paid during the year in cash

Provision for tax

	₹		₹
To Bank A/c (balancing figure)	1,12,000	By Balance b/d	65,000
		By Profit and Loss A/c	95,000
To Balance c/d	48,000		
	1,60,000		1,60,000

Q13. May 2021, RTP

From the following data, identify the nature of activities as per Ind AS 7.

S.no.	Nature of transaction
1	Cash paid to employees
2	Cash paid for development of property costs
3	Borrowings repaid
4	Cash paid to suppliers
5	Loan to Director
6	Bonus shares issued
7	Dividends paid
8	Cash received from trade receivables

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9	Proceeds from sale of PPE
10	Depreciation of PPE
11	Advance received from customers
12	Purchased goodwill
13	Payment of promissory notes

Answer

S. No.	Nature of transaction	Activity as per Ind AS 7
1	Cash paid to employees	Operating activity
2	Cash paid for development costs	Investing activity
3	Borrowings repaid	Financing activity
4	Cash paid to suppliers	Operating activity
5	Loan to Director	Investing activity
6	Bonus shares issued	Non-cash item
7	Dividends paid	Financing activity
8	Cash received from trade receivables	Operating activity
9	Proceeds from sale of PPE	Investing activity
10	Depreciation of PPE	Non-cash item
11	Advance received from customers	Operating activity
12	Purchased goodwill	Investing activity
13	Payment of promissory notes	Financing activity

Q14. Nov 2020, RTP

During the financial year 2019-2020, Akola Limited have paid various taxes & reproduced the below mentioned records for your perusal:

- Capital gain tax of ₹ 20 crore on sale of office premises at a sale consideration of ₹ 100 crore.

- Income Tax of ₹ 3 crore on Business profits amounting ₹ 30 crore (assume entire business profit as cash profit).

- Dividend Distribution Tax of ₹ 2 crore on payment of dividend amounting ₹ 20 crore to its shareholders.

- Income tax Refund of ₹ 1.5 crore (Refund on taxes paid in earlier periods for business profits).

You need to determine the net cash flow from operating activities, investing activities and financing activities of Akola Limited as per relevant Ind AS.

Answer

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

Accordingly, the transactions are analysed as follows:

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

Activity wise	Amount (in crore)
Operating Activity	28.5
Investing Activity	80

Financing Activity	(22)
Total	**86.5**

Q15. May 2020, RTP

Entity A acquired a subsidiary, Entity B, during the year. Summarised information from the Consolidated Statement of Profit and Loss and Balance Sheet is provided, together with some supplementary information.

Consolidated Statement of Profit and Loss Amount	**(₹)**
Revenue	3,80,000
Cost of sales	(2,20,000)
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	(4,000)
Profit before taxation	**70,000**
Taxation	(15,000)
Profit after taxation	**55,000**

Consolidated balance sheet	**20X2**	**20X1**
Assets	**Amount (₹)**	**Amount (₹)**
Cash and cash equivalents	8,000	5,000
Trade receivables	54,000	50,000
Inventories	30,000	35,000
Property, plant and equipment	1,60,000	80,000
Goodwill	18,000	-
Total assets	**2,70,000**	**1,70,000**
Liabilities		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	1,00,000	64,000
Total liabilities	**1,80,000**	**1,35,000**
Shareholders' equity	**90,000**	**35,000**
Total liabilities and shareholders'	**2,70,000**	**1,70,000**

Other information

All of the shares of entity B were acquired for ₹ 74,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	**Amount (₹)**
Inventories	4,000
Trade receivables	8,000
Cash	2,000
Property, plant and equipment	1,10,000
Trade payables	(32,000)
Long term debt	(36,000)
Goodwill	18,000
Cash consideration paid	74,000

Prepare the Consolidated Statement of Cash Flows for the year 20X2, as per Ind AS

Answer

This information will be incorporated into the Consolidated Statement of Cash Flows as follows:

Statement of Cash Flows for the year ended 20X2 (extract)

	Amount (₹)	**Amount (₹)**
Cash flows from operating activities		
Profit before taxation	70,000	
Adjustments for non-cash items:		
Depreciation	30,000	

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Decrease in inventories (W.N. 1)	9,000	
Decrease in trade receivables (W.N. 2)	4,000	
Decrease in trade payables (W.N. 3))	(24,000)	
Interest paid to be included in financing activities	4,000	
Taxation (11,000 + 15,000 – 12,000)	(14,000)	
Net cash generated from operating activities		79,000
Cash flows from investing activities		
Cash paid to acquire subsidiary (74,000 – 2,000)	(72,000)	
Net cash outflow from investing activities		(72,000)
Cash flows from financing activities		
Interest paid	(4,000)	
Net cash outflow from financing activities		(4,000)
Increase in cash and cash equivalents during the year		**3,000**
Cash and cash equivalents at the beginning of the year		**5,000**
Cash and cash equivalents at the end of the year		**8,000**

Working Notes:

1. Calculation of change in inventory during the year

	₹
Total inventories of the Group at the end of the year	30,000
Inventories acquired during the year from subsidiary	(4,000)
	26,000
Opening inventories	35,000
Decrease in inventories	
9,000	

2. Calculation of change in Trade Receivables during the year

	₹
Total trade receivables of the Group at the end of the year	54,000
Trade receivables acquired during the year from subsidiary	(8,000)
	46,000
Opening trade receivables	50,000
Decrease in trade receivables	4,000

3. Calculation of change in Trade Payables during the year

	₹
Trade payables at the end of the year	68,000
Trade payables of the subsidiary assumed during the year	(32,000)
	36,000
Opening trade payables	
60,000	
Decrease in trade payables	24,000

Q16. Nov 2019, RTP

Following is the balance sheet of Kuber Limited for the year ended 31st March, 20X2

(₹ in lacs)

	20X2	**20X1**
ASSETS		
Non-current Assets		
Property, plant and equipment	13,000	12,500
Intangible assets	50	30
Other financial assets	145	170
Deferred tax asset (net)	855	750
Other non-current assets	800	770
Total non-current assets	14,850	14,220
Current assets		
Financial assets		
Investments	2,300	2,500

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Cash and cash equivalents	220	460
Other current assets	195	85
Total current assets	2,715	3,045
Total Assets	17,565	17,265
EQUITY AND LIABILITIES		
Equity		
Equity share capital	300	300
Other equity	12,000	8,000
Total equity	12,300	8,300
Liabilities		
Non-current liabilities		
Long-term borrowings	2,000	5,000
Other non-current liabilities	2,740	3,615
Total non-current liabilities	**4,740**	**8,615**
Current liabilities		
Financial liabilities		
Trade payables	150	90
Bank Overdraft	75	60
Other current liabilities	300	200
Total current liabilities	**525**	**350**
Total liabilities	**5,265**	**8,965**
Total Equity and Liabilities	**17,565**	**17,265**

Additional Information:

(1) Profit after tax for the year ended 31st March, 20X2- ₹ 4,450 lacs

(2) Interim Dividend paid during the year - ₹ 450 lacs

(3) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under

(a) Property, Plant and Equipment - ₹ 500 lacs

(b) Intangible Assets - ₹ 20 lacs

(4) During the year ended 31st March, 20X2 two machineries were sold for ₹ 10 lacs. The carrying amount of these machineries as on 31st March, 20X2 is ₹ 60 lacs.

(4) Income taxes paid during the year ₹ 105 lacs

Using the above information of Kuber Limited, construct a statement of cash flows under indirect method. Other non-current / current assets and liabilities are related to operations of Kuber Ltd. and do not contain any element of financing and investing activities.

Answer

Statement of Cash Flows

		₹ in lac
Cash flows from Operating Activities		
Net Profit after Tax	4,450	
Add: Tax Paid	105	
	4,555	
Add: Depreciation & Amortisation (500 + 20)	520	
Less: Gain on Sale of Machine (70-60)	(10)	
Less: Increase in Deferred Tax Asset (855-750)	(105)	
	4,960	
Change in operating assets and liabilities		
Add: Decrease in financial asset (170 - 145)	25	
Less: Increase in other non-current asset (800 - 770)	(30)	
Less: Increase in other current asset (195 - 85)	(110)	
Less: Decrease in other non-current liabilities (3,615 – 2,740)	(875)	
Add: Increase in other current liabilities (300 - 200)	100	
Add: Increase in trade payables (150-90)	60	
	4,130	

Less: Income Tax	(105)	**4,025**
Cash generated from Operating Activities		
Cash flows from Investing Activities		
Sale of Machinery	70	
Purchase of Machinery [13,000-(12,500 – 500-60)]	(1,060)	
Purchase of Intangible Asset [50-(30-20)]	(40)	
Sale of Financial asset - Investment (2,500 – 2,300)	200	**(830)**
Cash outflow from Investing Activities		
Cash flows from Financing Activities		
Dividend Paid	(450)	
Long term borrowings paid (5,000 – 2,000)	(3,000)	**(3,450)**
Cash outflow from Financing Activities		**(255)**
Net Cash outflow from all the activities		**400**
Opening cash and cash equivalents (460 – 60)		**145**
Closing cash and cash equivalents (220 – 75)		

Q17. May 2019, RTP

Z Ltd. has no foreign currency cash flow for the year 2017. It holds some deposit in a bank in the USA. The balances as on 31.12.2017 and 31.12.2018 were US$ 100,000 and US$ 102,000 respectively. The exchange rate on December 31, 2017 was US$1 = ₹ 45. The same on 31.12.2018 was US$1 = ₹ 50. The increase in the balance was on account of interest credited on 31.12.2018. Thus, the deposit was reported at ₹ 45,00,000 in the balance sheet as on December 31, 2017. It was reported at ₹ 51,00,000 in the balance sheet as on 31.12.2018. How these transactions should be presented in cash flow for the year ended 31.12.2018 as per Ind AS 7?

Answer

The profit and loss account was credited by ₹ 1,00,000 (US$ 2000 × ₹ 50) towards interest income. It was credited by the exchange difference of US$ 100,000 × (₹ 50 -₹45) that is, ₹ 500,000. In preparing the cash flow statement, ₹ 500,000, the exchange difference, should be deducted from the 'net profit before taxes, and extraordinary item'. However, in order to reconcile the opening balance of the cash and cash equivalents with its closing balance, the exchange difference ₹ 500,000, should be added to the opening balance in note to cash flow statement.

Cash flows arising from transactions in a foreign currency shall be recorded in Z Ltd.'s functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

Q18. May 2018, RTP

Company A acquires 70% of the equity stake in Company B on July 20, 20X1. The consideration paid for this transaction is as below:

1. Cash consideration of ₹ 15,00,000
2. 200,000 equity shares having face of ₹ 10 and fair value of ₹ 15 per share.

On the date of acquisition, Company B has cash and cash equivalent balance of ₹ 2,50,000 in its books of account.

On October 10, 20X2, Company A further acquires 10% stake in Company B for cash consideration of ₹ 8,00,000.

Advise how the above transactions will be disclosed/presented in the statement of cash flows as per Ind AS 7.

Answer

As per para 39 of Ind AS 7, the aggregate cash flows arising from obtaining control of subsidiary shall be presented separately and classified as investing activities.

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As per para 42 of Ind AS 7, the aggregate amount of the cash paid or received as consideration for obtaining subsidiaries is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, even ts or changes in circumstances.

Further, investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

As per para 42A of Ind AS 7, cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in Ind AS 110, and is required to be measured at fair value through profit or loss. Such transactions are accounted for as equity transactions and accordingly, the resulting cash flows are classified in the same way as other transactions with owners.

Considering the above, for the financial year ended March 31, 20X2 total consideration of ₹ 15,00,000 less ₹ 250,000 will be shown under investing activities as " Acquisition of the subsidiary (net of cash acquired)".

There will not be any impact of issuance of equity shares as consideration in the cash flow statement however a proper disclosure shall be given elsewhere in the financial statements in a way that provides all the relevant information about the issuance of equity shares for non-cash consideration.

Further, in the statement of cash flows for the year ended March 31, 20X3, cash consideration paid for the acquisition of additional 10% stake in Company B will be shown under financing activities.

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Q1. Jan 2026 Exam, 5 marks

Grant Limited enters into a contract with a customer to sell a machinery. The machinery is transferred to the customer when the contract is signed. The price as per the contract is Rs. 10.00 lakhs plus contractual rate of interest at 8% per annum, payable in 5 annual equal instalments of Rs. 2,50,438 each. No down payment is envisaged for the sale.

Grant Limited avails loan @ 10% per annum from its banker for similar back-to-back transactions. Statutory Auditors of the Company had advised Grant Limited to recognize the transaction price of the machinery after discounting instalment payments @ 10% per annum and observes that the 8% contractual rate of interest is significantly lower than the 10% interest rate at which company avails loan from its bankers to fund such transactions.

(i) Determine the transaction price of the machinery if the company accepts the suggestion of the Statutory Auditors of the Company.
(ii) Should Grant Limited accept the offer of the customer where the customer wants to cancel the contract for payment in instalments and offers a cash price of Rs. 9.65 lakhs.

(Present value of inflow of equated amount stream of annual instalments for 5 years discounted at 10% rate of interest is 3.79 times of the yearly equated instalment amount) (Your response should be as per applicable Ind AS).

Answer:

(i) Determination of transaction price of the machinery

Although the contract price is stated as Rs. 10,00,000, the payment is deferred over 5 years with no down payment and carries contractual interest rate of 8%. Hence, the contract contains a significant financing component. However, the contractual interest rate of 8% is significantly lower than the market rate of 10% at which Grant Limited borrows for similar transactions. As per para 61 of Ind AS 115, the transaction price must be adjusted for the time value of money using the market rate of interest that is 10%.

Accordingly, the transaction price would be = Rs. 2,50,438 x 3.79

= Rs. 9,49,160.

This amount will be recognised as revenue at contract inception and the difference of the sale proceeds of Rs. 10,00,000 and the transaction price of Rs. 9,49,160 i.e. Rs. 50,800 will be recognised as interest income over the five-year period.

(ii) Analysis of the customer's offer of cash price of Rs. 9,65,000 instead of payment machinery in five annual instalments.

Although the present value of the instalment payments is Rs. 9,49,160, the customer has offered a higher cash price of Rs. 9,65,000. Acceptance of the cash price is commercially beneficial as it not only exceeds the discounted transaction price but also avoids the complexities of a significant financing component, reduces credit and collection risks and strengthens cash flows and liquidity.

Therefore, Grant Limited should accept the customer's offer of the cash price of Rs. 9,65,000 which is higher than the discounted transaction price of Rs. 9,49,160. It is consistent with Ind AS 115 and is also financially and commercially advantageous.

Q2. Sep 2025 Exam, 5 marks

On 1st April, 2023, Shivank Limited entered into a contract with Amey Limited to build an asset for consideration of Rs. 1,20,00,000 with a bonus of Rs. 35,00,000 if the asset is completed within

30 months. At the inception of the contract, Shivank Limited correctly accounted for the promised bundle of goods and services as a single performance obligation in accordance with Ind AS 115 and expected the costs to be Rs. 71,00,000. At the same time, it was concluded that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will occur. Completion of the asset was highly susceptible to factors outside of the Company's influence, mainly due to difficulties with the supply of components.

At 31st March, 2024, Shivank Limited had satisfied 60% of its performance obligation on the basis of costs incurred to date and concluded that the variable consideration was still constrained in accordance with Ind AS 115. However, on 30th April, 2024, the contract was modified with the result that the fixed consideration and expected costs increased by Rs. 15,50,000 and Rs. 7,60,000 respectively. The time allowable for achieving the bonus was extended by four months with the result that Shivank Limited concluded that it is highly probable that the bonus will be achieved and that the contract remained a single performance obligation.

You are required to give your opinion on the accounting treatment of contract for the years 2023-2024 and 2024-2025 with reference to the provisions of Ind AS 115.

Answer:

For the year 2023-2024

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

Transaction price	– Rs. 1,20,00,000
Expected costs	– (Rs. 71,00,000)
Expected profit (40.83%)	– Rs. 49,00,000

At contract inception, Shivank Limited excludes Rs. 35,00,000 bonus from the transaction price because it has been concluded that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will occur. Completion of the construction of asset is highly susceptible to factors outside the entity's influence.

By the end of the first year, the entity has satisfied 60% of its performance obligation on the basis of costs incurred to date. Costs incurred to date are therefore Rs. 42,60,000 and Shivank Limited reassesses the variable consideration and concludes that the amount is still constrained. Therefore at 31st March 2024, the following would be recognised:

Revenue	(A)	– Rs. 72,00,000 (Rs. 1,20,00,000 x 60%)
Costs	(B)	– (Rs. 42,60,000) (Rs. 71,00,000 x 60%)
Gross profit	(C) i.e.(A-B)	– Rs. 29,40,000

For the year 2024-2025

On 30th April 2024, the contract was modified. As a result, the fixed consideration and expected costs increase by Rs. 15,50,000 and Rs. 7,60,000, respectively.

The total potential consideration after the modification is Rs. 1,70,50,000 [which is Rs. 1,35,50,000 (i.e. 1,20,00,000 + 15,50,000) fixed consideration + Rs. 35,00,000 completion bonus]. In addition, the allowable time for achieving the bonus is extended by four months with the result that

Shivank Limited concludes that it is highly probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognised in accordance with Ind AS 115. Therefore, the bonus of Rs. 35,00,000 can be included in the transaction price.

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

Shivank Limited has satisfied 54.20% of its performance obligation (Rs. 42,60,000 actual costs incurred compared to Rs. 78,60,000 total expected costs). The entity recognises additional revenue of Rs. 20,41,100 [(54.20% of Rs. 1,70,50,000) – Rs. 72,00,000 revenue recognised to date] at the date of modification i.e. on 30th April 2024 as a cumulative catch-up adjustment.

Q3. May 2025 Exam, 5 marks

HaSo Ltd. deals in manufacture of computer hardware and development of software applications. Discuss the revenue recognition of HaSo Ltd. as per Ind AS 115 in the following cases:

(i) Mr. Grahak purchases a software application license from HaSo Ltd. for Rs. 2,00,000. Under the agreement, HaSo Ltd. will provide updates or upgrades on a when-and-if-available basis. Mr. Grahak can choose whether to install them or not. HaSo Ltd. will undertake no other activities that will change the functionality of the software application license.

(ii) HaSo Ltd. licenses the right to operate its exclusive store in Madurai to Franchisee Ltd. The store will bear HaSo Ltd. trade name and brand logo. Franchisee Ltd. will have the right to sell HaSo Ltd.'s products for next 5 years from the date of agreement. Franchisee Ltd. pays an all-inclusive up-front fixed fee on signing of the agreement. The franchise agreement requires HaSo Ltd. to maintain the brand through product improvements, marketing campaigns etc.

Answer:

(i) Although the updates and upgrades will change the functionality of the software, they are not considered in determining the nature of the entity's promise in granting the license. The activities of HaSo Ltd. to provide updates or upgrades are not considered because they transfer a promised goods or service to Mr. Grahak i.e. updates or upgrades are distinct from the licence. Therefore, the software application license Rs. 2,00,000 provides a right to use the IP that is satisfied at a point in time.
Hence, Rs. 2,00,000 will be recognised immediately in the income statement by HaSo Ltd., on purchase of the software application license by Mr Grahak.

(ii) The licence provides Franchisee Ltd. access to the IP as it exists at any point in time in the licence period. This is because:
- HaSo Ltd. is required to maintain the brand, which will significantly affect the IP by affecting Franchisee Ltd.'s ability to obtain benefit from the brand;
- Any action by HaSo Ltd. may have a direct positive or negative effect on Franchisee Ltd.; and
- These activities do not transfer goods or service to Franchisee Ltd.

Therefore, HaSo Ltd. recognizes the up-front fee over the 5-year franchise period.

Q4. Nov 2024 Exam, 5 marks

Big Deal Ltd. is a marketing company having its departmental stores in 'A' class city of India. The company sells diversified products. For the purpose of increasing sales and attract customers, the company during the financial year 2023-2024, has adopted the following policy:

(i) For every purchase of Rs. 400 the customer is awarded with 6 points.
(ii) Each point is redeemable on any future purchases of company's same departmental store situated in any of 'A' class city within 3 years i.e. up to 31st March, 2026
(iii) Value of each award point is Rs. 0.60

During the financial year 2023-2024, the Big Deal Ltd:

(i) Assessed that the sales of the company during the year 2023-2024 is Rs. 150 lakhs.
(ii) Awarded 2,25,000 points to various customers during the year.
(iii) Estimated that out of the awarded points, 54,000 points will remain unredeemed as at 31st March, 2024 which shall be eligible for redemption till 31st March, 2026 and;
(iv) Expects only 75% points will be redeemed in the future.

As an accountant of the company, you are required to suggest accounting treatment (Consolidated Journal Entries) in the following case:

How should the sales and redemption transactions be recognized and recorded as independent transactions in the FY 2023-2024 as per Ind AS 115?

Answer:

(a) Points earned on Rs. 1,50,00,000 @ 6 points on every Rs. 400

= [(1,50,00,000/400) x 6] = 2,25,000 points.

Out of 2,25,000 points, it is estimated that 54,000 points will remain unredeemed in the current year. Further, it is expected that 75% of the unredeemed points will be redeemed in the future.

Accordingly, value of points will be computed as follows: Value of points redeemed in the current year

= (2,25,000-54,000) points x Rs. 0.6 each point = Rs. 1,02,600 Value of points estimated to be redeemed in future

= 54,000 points x 75% x Rs. 0.6 each point = Rs. 24,300 Total value of loyalty points = Rs. 1,02,600 + Rs. 24,300 = Rs. 1,26,900

Revenue recognized for sale of goods

= Rs. 1,48,74,165 [1,50,00,000 x (1,50,00,000 / 1,51,26,900)]

Revenue for points = Rs. 1,25,835 [1,26,900 x (1,50,00,000 / 1,51,26,900)]

Journal Entry for the year 2023-2024

		Rs.	**Rs.**
Bank A/c	Dr.	1,50,00,000	
To Sales A/c			1,48,74,165
To Liability under Customer Loyalty programme			1,25,835
(On sale of Goods)			
Liability under Customer Loyalty programme	Dr.	1,01,739	
To Sales A/c			1,01,739
(On redemption of (2,25,000 – 54,000) points)			

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year

= 54,000 x 75% = 40,500 points

Total points to be redeemed within 3 years

= [(2,25,000 – 54,000) + 40,500] = 2,11,500 points

Revenue to be recognised with respect to discounted points

= Rs. 1,25,835 x (1,71,000/2,11,500) = Rs. 1,01,739

Note:

The above answer is based on the consideration that 75% likelihood of redemption of award points in future. Alternatively, the 75% likelihood of redemption of award points in future might not be considered. In such a case, the answer would be as follows:

Points earned on Rs. 1,50,00,000 @ 6 points on every Rs. 400.

= [(1,50,00,000/400) x 6] = 2,25,000 points.

Out of 2,25,000 points, it is estimated that 54,000 points will remain unredeemed in the current year.

Accordingly, value of points redeemed in the current year

= 2,25,000 points x Rs. 0.6 each point = Rs. 1,35,000 Revenue recognized for sale of goods

= Rs. 1,48,66,204 [1,50,00,000 x (1,50,00,000 / 1,51,35,000)]

Revenue for points = Rs. 1,33,796 [1,35,000 x (1,50,00,000 / 1,51,35,000)]

		Rs.	Rs.
Bank A/c	Dr.	1,50,00,000	
To Sales A/c			1,48,66,204
To Liability under Customer Loyalty programme			1,33,796
(On sale of Goods)			
Liability under Customer Loyalty programme	Dr.	1,08,175	
To Sales A/c			1,08,175
(On redemption of (2,25,000 – 54,000) points)			

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year

=54,000 x 75% = 40,500 points

Total points to be redeemed within 3 years

= [(2,25,000 – 54,000) + 40,500] = 2,11,500 points

Revenue to be recognised with respect to discounted points

= Rs. 1,33,796x (1,71,000 / 2,11,500) = Rs. 1,08,175

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Q5. May 2024 Exam, 5 marks

Q Limited offers a new product X for sale to its customers at a price of Rs. 1,500. As a part of the Scheme, Q Limited gives the customers a discount voucher which entitles them a 30% discount on any future purchases up to Rs. 1,500 in the next 30 days. Q Limited intends to offer a 5% discount on all sales during the next 30 days as a part of the seasonal promotion. The 5% discount cannot be used in addition to the 30% discount voucher. Q Limited believes that there is 80% likelihood that a customer will redeem the voucher and on an average, a customer will purchase Rs. 1,000 of additional products.

Find out is there any performance obligation on the part of Q Limited and if so calculate the stand alone and allocated transaction price.

Answer:

Since all customers will receive a 5% discount on purchases during the next 30 days, the only additional discount that provides the customer with a material right is the incremental discount of 25% on the products purchased. The entity accounts for the promise to provide the incremental discount as a separate performance obligation in the contract for the sale of Product X.

The entity believes there is 80% likelihood that a customer will redeem the voucher and, on an average, a customer will purchase Rs. 1,000 worth of additional products. Consequently, the entity's estimated stand-alone selling price of the discount voucher is Rs. 200 (Rs. 1,000 average purchase price of additional products x 25% incremental discount x 80% likelihood of exercising the option). The stand-alone selling prices of Product X and the discount voucher and the resulting allocation of the Rs. 1,500 transaction price are as follows:

Performance obligations	**Stand-alone selling price Rs.**
Product X	1,500
Discount voucher	200
Total	1,700

Performance obligations	**Rs.**	**Allocated transaction price Rs.**
Product X	(1,500 ÷ 1,700 × 1,500)	1,324
Discount voucher	(200 ÷ 1,700 × 1,500)	176
Total		1,500

The entity allocates Rs. 1,324 to Product X and recognizes revenue for Product X when control transfers.

The entity allocates Rs. 176 to the discount voucher and recognizes revenue for the voucher when the customer redeems it for goods or services or when it expires.

Q6. Nov 2023 Exam, 6 marks

Whether the following expenses shall form part of 'costs incurred to obtain a contract'. Give reasons:

(i) Commission paid only upon successful signing of the contract;
(ii) Legal fees for drafting the terms of the arrangement/ agreement;
(iii) Travel expenses of a sales person pitching for a new client contract;
(iv) Salaries of sales people working exclusively on obtaining new clients;
(v) Bonus based on quarterly sales;

(vi) Commission paid to sales manager which is based on contracts obtained.

Answer:

Table showing expenses whether forming part of 'Cost to obtain a Contract'

S.No	Cost	Capitalize or expense / cost to obtain a contract	Reason
I	Commission paid only upon successful signing of a contract	Capitalize/Yes	Assuming the entity expects to recover the cost, the commission is incremental since it would not have been paid if the parties decided not to enter into the arrangement just before signing.
Ii	Legal fees for drafting terms of agreement	Expense/No Capitalize/Yes	If the parties walk away during negotiations, the costs would still be incurred and therefore are not incremental costs of obtaining the contract. Alternatively, it can be 'Capitalised / Yes', due to the absence of words "to approve & sign" i.e. if the agreement is approved and signed, then is an incremental cost which needs to be capitalised.
Iii	Travel expenses for a salesperson pitching a new client contract	Expense/No	Because the costs are incurred regardless of whether the new contract is won or lost, the entity expense out the costs, unless they are expressly reimbursable.
Iv	Salaries for salespeople working exclusively on obtaining new clients	Expense/No	Salaries are incurred regardless of whether contracts are won or lost and therefore are not incremental costs to obtain the contract.
V	Bonus based on quarterly sales	Capitalize/Yes	Bonuses based solely on sales are incremental costs to obtain a contract.
Vi	Commission paid to sales manager based on contracts Obtained	Capitalize/Yes	The commissions are incremental costs that would not have been incurred had the entity not obtained the contract.

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Q7. Nov 2023 Exam, 6 marks

XYZ Limited is a sales and marketing company in amusement and entertainment domain. It negotiates and agrees in advance with four famous amusement parks to purchase their tickets for online sale through its payment gateway to general public. The negotiated rates are at a discount when compared with the price of tickets sold directly by amusement parks to the general public. XYZ Limited is free to determine its sale price of the ticket. As part of the agreement, XYZ Limited will also assist the amusement parks/general public with respect to services provided by the amusement parks to the general public. However, each amusement park will continue to be responsible for fulfilling its / their obligation associated with the ticket, including solutions to dissatisfied customers. For XYZ Limited, there is no credit risk as payment is collected from customers beforehand. However, it carries an inventory risk as tickets have to

be purchased in advance and unsold tickets are loss to XYZ Limited. Discuss whether XYZ Limited is a principal or an agent?

Answer:

To determine whether the entity's performance obligation is to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for another party to provide those goods or services (i.e. the entity is an agent), the entity considers the nature of its promise. The entity determines that its promise is to provide the customer with a ticket, which provides the right to enter the particular amusement park on a particular date. The entity considers the following indicators for assessment as principal or agent under the contract with the customers:

(a) the entity is primarily responsible for fulfilling the contract, which is providing the right to enter the amusement part. However, the entity is not responsible for providing the services in amusement park, which will be provided by the amusement park owner.
(b) the entity has inventory risk for the tickets because they are purchased before they are sold to the entity's customers and the entity is exposed to any loss as a result of not being able to sell the tickets for more than the entity's cost.
(c) the entity has discretion in setting the sales prices for tickets to its customers.

The entity i.e. XYZ Limited concludes that its promise is to provide a ticket (i.e. a right to enter the amusement park on a particular date) for the customer. On the basis of the indicators, the entity concludes that it controls the ticket before it is transferred to the customer. Thus, the entity concludes that it is a principal in the transaction and recognises revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred.

Q8. May 2023 Exam, 6 marks

On 1st April, 2021, Z Limited enters into a contract to construct a manufacturing facility for Mint Limited at a fixed consideration of ₹ 30.00 lakhs. Z Limited can earn an incentive of ₹ 3.75 lakhs if the construction is completed within 24 months. Z Limited expects the costs to be ₹ 16.50 lakhs. At the inception of the contract, Z Limited determines that the contract contains single performance obligation satisfied over time. Z Limited also
concludes that it is highly probable that a significant reversal in the amount of cumulative revenue recognized
will occur as the completion of the manufacturing facility is highly susceptible to factors outside of the
Company's influence, due to exceptionally high rainfall in the region.

At 31st March, 2022, Z Limited has satisfied 65% of its performance obligation on the basis of costs incurred to date and concludes that the variable consideration is still constrained due to uncertain weather conditions.

However, on 15th April, 2022, the contract is modified. The fixed consideration is enhanced by ₹ 2.25 lakhs and the expected costs increases by ₹ 1.20 lakhs. The contract period is also extended by 6 months. Z Limited now concludes that it is highly probable that the incentive award will be achieved. The contract remains a single
performance obligation.Compute, as per applicable Ind AS:
(i) For financial year 2022-2023, revenue from the contract, contract costs & resultant profit,
(ii) Additional revenue (catch up adjustment) as on the date of modification of the contract i.e. 15th April, 2022.

Answer
Year 1 i.e. financial year 2021-2022
In the given case, at contract inception, Z Ltd. will exclude the performance bonus of ₹ 3,75,000 from the transaction price because it is concluded that there is high probability that a significant reversal in the amount of cumulative revenue recognised will occur as the completion of the

manufacturing facility is highly susceptible to factors outside the entity's influence i.e. exceptionally high rainfall in the region.

Therefore, at the inception of the contract, for Z Ltd:

	₹
Transaction Price	30,00,000
Expected costs	(16,50,000)
Expected profit (45%)	13,50,000

As at the year end, 31st March, 2022, Z Ltd. reassessed the variable consideration (i.e. performance bonus) and has concluded that the amount is still uncertain in accordance with paragraphs 56–58 of Ind AS 115. Therefore, the cumulative revenue and costs recognised for the year ended March, 2022 will be as follows:

	₹
Revenue from the contract (65%)	19,50,000
Contract costs	(10,72,500)
Resultant profit	8,77,500

Year 2 i.e. financial year 2022-2023

On 15th April, 2022, Z Ltd. and Mint Ltd. agreed to modified the contract. As a result, the fixed consideration and expected costs increased by ₹ 2,25,000 and ₹ 1,20,000 respectively.

At the date of the modification, since Z Ltd. concluded that it is highly prob able that incentive amount will be achieved, it has to include incentive amount of ₹ 3,75,000 in the transaction price. Therefore, the total potential consideration after the modification is ₹ 36,00,000 (₹ 32,25,000 fixed consideration + ₹ 3,75,000 performance bonus) and total estimated cost is ₹ 17,70,000 (₹ 16,50,000 + ₹ 1,20,000).

Further, since the modified contract remains a single performance obligation, Z Ltd. will account for the contract modification, as if it were part of the original contract in accordance with paragraph 21(b) of Ind AS 115.

Z Ltd. will update its measure of progress and estimates at the date of the modification as a cumulative catch-up adjustment as follows:

Calculation of cumulative catch-up adjustment:		₹
Total potential consideration after the modification	A	36,00,000
Actual costs incurred	B	10,72,500
Total expected costs to complete	C	17,70,000
Percent completion of performance obligation (rounded off)	D=B/C	60.6%
Revenue recognised till date	E	19,50,000
Additional revenue to recognised	F = (A x D) - E	2,31,600

Q9. May 2023 Exam, 6 marks

On 1st January, 2023, Z Limited enters into an agreement with a college for renovation of building including installation of new air conditioners at a transaction price of ₹ 40.00 lakhs. The expected cost of air conditioners is ₹ 12.00 lakhs. The other expected cost is ₹ 20.00 lakhs. Z Limited purchases the air conditioners and they are
delivered to the site before 31 st March, 2023. Z Limited uses an input method based on cost to measure progress towards completion of the contract.

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Z Limited has incurred actual other costs (excluding the air conditioners) of ₹ 4.00 lakhs by 31st March, 2023.

Determine the revenue to be recognized as per applicable Ind AS for the year ended 31st March, 2023, if performance obligation is met over a period of time.

Answer

Costs to be incurred comprise two major components – air conditioners and cost of construction service.

a. The air conditioners are part of the overall construction project and are not a distinct performance obligation.
b. The cost of air conditioners is substantial to the overall project and are incurred well in advance.
c. Upon delivery at site, customer acquires control of such air conditioners.
d. And there is no modification done to the air conditioners, which the company only procures and delivers at site. Nevertheless, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such air conditioners also.

Therefore, applying the guidance on Input method –

- The measure of progress should be made based on the percentage of costs incurred relative to the total budgeted costs.

- The cost of air conditioners should be excluded when measuring such progress and revenue for such air conditioners should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follows:

Particulars	**Amount (₹)**
Transaction price	40,00,000
Costs incurred:	
(a) Cost of air conditioners	12,00,000
(b) Other costs	4,00,000
Measure of progress:	4,00,000 / 20,00,000 = 20%
Revenue to be recognised:	
(a) For costs incurred (other than air conditioners)	Total attributable revenue = 28,00,000 % of work completed = 20% Revenue to be recognised = 5,60,000
(b) Revenue for air conditioners	12,00,000 (equal to costs incurred)
Total revenue to be recognised	12,00,000 + 5,60,000 = 17,60,000

Therefore, for the year ended 31st March, 2023, the Company shall recognize revenue of ₹ 17,60,000 on the project.

Q10. Nov 2022 Exam, 6 marks

On 1st April, 2021, Mohan Ltd. has sold goods to Hari Ltd. at a consideration of₹ 7,50,000. The receipt of this is receivable in three equal instalments of ₹ 2,50,000 each over a two-year period (receipts on 1st April, 2021; 31st March 2022 and31st March 2023).

The company is offering a discount of 5% (i.e. ₹ 37,500), if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.358% p.a. The total consideration to be received from such sale is at ₹ 7,50,000 and hence, the management has recognized the revenue from sale of goods for ₹ 7,50,000.

You are required to analyse whether the above accounting treatment made by the accountant is in compliance of Ind AS. If not, advise the correct treatment along with journal entries and extracts of Statement of Profit & Loss and Balance Sheet.

Answer

The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue. Hence, the accounting treatment of
recognizing revenue of ₹ 7,50,000 by the accountant is not correct.

The fair value of consideration (cash price equivalent) of the sale of goods to be recognised on the date of sale should be calculated as follows:

Period	**Consideration (Installment)**	**Present value factor**	**Present value of consideration**
	₹		₹
Time of sale	2,50,000	-	2,50,000
End of 1st year	2,50,000	0.949	2,37,250
End of 2nd year	2,50,000	0.901	2,25,250
	7,50,000		7,12,500

Mohan Ltd. will recognise the revenue from sale of goods and finance income as follows:

Particulars	₹	₹
Initial recognition of sale of goods		
Cash / Bank A/c Dr.	2,50,000	
Trade Receivable A/c Dr.	4,62,500	
To Sale A/c		7,12,500
Recognition of interest expense and receipt of second installment	2,50,000	
Cash / Bank A/c Dr.		24,781
To Interest Income A/c (4,62,500 x 5.358%)		2,25,219
To Trade Receivable A/c		
Recognition of interest expense and payment of final installment	2,50,000	
Cash / Bank A/c Dr.		12,719
To Interest Income A/c (Balancing figure)		2,37,281
To Trade Receivable A/c (4,62,500 – 2,25,319)		

Statement of Profit and Loss (Extracts)
for the year ended 31st March, 2022 and 31st March, 2023

	As at 31st March, 2022	**As at 31st March, 2023**
	₹	₹
Income		
Sale of Goods	7,12,500	-
Other Income (Finance income)	24,781	12,719

Balance Sheet (extracts) as at 31st March, 2022 and 31st March, 2023

	As at 31st March, 2022	**As at 31st March, 2023**
	₹	₹
Assets		
Current Assets		
Financial Assets		
Trade Receivables	2,37,281	XXX

Q11. Nov 2022 Exam, 10 marks

A Ltd. is in the business of infrastructure and has two divisions. The brief details of its business and underlying project details are as follows:

Project 1: Ludhiana - Chandigarh Expressway Toll Project

The Company has commenced the construction of the project in the current year. The brief details of the Concession Agreement are given below:

• Total expenses incurred ₹ 100 crore as on 31st March, 2022.

• Under IGAAP, the company has recorded such expenses as intangible assets in the books of account. Total expenses estimated to be incurred on the project are ₹ 200 crore;

• Fair value of the construction service is ₹ 220 crore;

• Total cash flow guaranteed by the government under the concession agreement is ₹ 350 crore;

• Finance revenue over the period of operation phase is ₹ 30 crore;

• Other income relates to the services provided during the operation phase.

Project 2: Bengaluru - Chennai Expressway Toll Project

The Company has also entered into another Concession Agreement with Government of Karnataka in the current year. The said concession agreement is Toll Based Project and the Company needs to collect the toll from the users of the expressway. The construction cost for the said project will be ₹ 150 crore. The fair value of such construction cost is approximately ₹ 200 crore. Under IGAAP, the company has recorded the expenses
incurred on the said project as an intangible asset.

You are required to answer the following:

(i) What would be the classification of Ludhiana - Chandigarh Expressway Toll Project as per applicable Ind AS? Give brief reasoning.

(ii) What would be the classification of Bengaluru – Chennai Expressway Toll Project as per applicable Ind AS? Give brief reasoning.

(iii) What should be the accounting entries for the preparation of financial statements as per relevant Ind AS for the above 2 projects?

Answer

(i) Project 1 : Ludhiana - Chandigarh Expressway Toll Project

Here the operator has a contractual right to receive cash from the grantor. The grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator. Hence, the operator recognizes a financial asset to the extent it has a contractual right to receive cash.

(ii) Project 2 : Bengaluru - Chennai Expressway Toll Project

Here the operator has a contractual right to charge users of the public services. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. Therefore, the operator shall recognise an intangible asset to the extent it receives a right (a license) to charge users of the public service.

(iii) Accounting Entries for preparation of financial statements

Ludhiana-Chandigarh Expressway Toll Project

Journal Entries

	Particulars	**Dr. (₹ in crore)**	**Cr. (₹ in crore)**
1	**During construction:** Financial asset A/c Dr. To Construction revenue (To recognise revenue relating to construction services, to be settled in cash)	220	220
2	Cost of construction (profit or loss) Dr.	200	

	To Bank A/c (As and when incurred) (To recognise costs relating to construction services)		200
3	**During the operation phase:** Financial asset Dr. To Finance revenue (As and when received or due to receive) (To recognise interest income under the financial asset model)	30	30
4	Financial asset Dr. To Revenue [(350-220) – 30] (To recognise revenue relating to the operation phase)	100	100
5	Bank A/c Dr. To Financial asset (To recognise cash received from the grantor)	350	350

Bengaluru-Chennai Expressway Toll Project
Journal Entries

	Particulars	**Dr. (₹ in crore)**	**Cr. (₹ in crore)**
1	**During construction:** Cost of construction (profit or loss) Dr. To Bank A/c (As and when incurred) (To recognise costs relating to construction services)	150	150
2	Intangible asset Dr. To Revenue (To recognise revenue relating to construction services provided for non-cash consideration)	200	200
3	**During the operation phase:** Amortisation expense Dr. To Intangible asset (accumulated amortisation) (To recognise amortisation expense relating to the operation phase over the period of operation)	200	200
4	Bank A/c Dr. To Revenue (To recognise revenue relating to the operation phase)	?	?

Note: Amount in entry 4 is kept blank as no information in this regard is given in the question.

Q12. Nov 2022 Exam, 4 marks

An entity enters into a contract for the sale of Product A for ₹ 10,000. As part of the contract, the entity gives the customer a 40% discount voucher for any future purchases upto ₹ 8,000 in the next 30 days. The entity intends to offer a 10% discount on all sales during the next 30 days as a part of seasonal promotion. The 10% discount cannot be used in addition to the 40% discount voucher. The entity believes that there is 75% likelihood that a customer will redeem the voucher and, on an average, a customer will purchase ₹ 5,000 of additional products.

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You are required to determine how many performance obligations does the entity have with their stand-alone selling price and allocated transaction price?

Answer

Since all customers will receive a 10% discount on purchases during the next 30 days, the only additional discount that provides the customer with a material right is the incremental discount of 30% on the products purchased. The entity accounts for the promise to provide the incremental discount as a separate performance obligation in the contract for the sale of Product A.

The entity believes there is 75% likelihood that a customer will redeem the voucher and on an average a customer will purchase ₹ 5,000 of additional products. Consequently, the entity's estimated stand-alone selling price of the discount voucher is ₹ 1,125 (₹ 5,000 average purchase price of additional products x 30% incremental discount x 75% likelihood of exercising the option).

The stand-alone selling prices of Product A and the discount voucher and the resulting allocation of ₹ 10,000 transaction price are as follows:

Performance obligations	**Stand-alone selling price**
Product A	₹ 10,000
Discount voucher	₹ 1,125
Total	₹ 11,125

Performance obligations		**Allocated transaction price (to nearest ₹)**
Product A	[(₹ 10,000 ÷ ₹ 11,125) × ₹ 10,000]	₹ 8,989
Discount voucher	[(₹ 1,125 ÷ ₹ 11,125) × ₹ 10,000]	₹ 1,011
Total		₹ 10,000

The entity allocates ₹ 8,989 to Product A and recognises revenue for Product A when control is transferred. The entity allocates ₹ 1,011 to the discount voucher and recognises revenue for the voucher when the customer redeems it for goods or services or when it expires.

Q13. May 2022 Exam, 6 marks

ANANDAM Ltd. enters into a contract with a customer on 1st April, 2019 for sale of a machine and spare parts. The manufacturing lead time for the machine and spare parts is 3 years.
On completion of manufacturing, ANANDAM Ltd. demonstrates that the machine and spare parts meet the agreed-upon specifications in the contract. The promises to transfer the machine and spare parts are distinct and result in two performance obligations each of which will be satisfied at a point in time.

On 31st March, 2022, the customer pays for the machine and spare parts, but only takes the physical possession of the machine. Although the customer inspects and accepts the spare parts, the customer requests that the spare parts be stored at ANANDAM Ltd.'s warehouse because of its close proximity to the customer's factory.

The customer has legal title to the spare parts and the parts can be identified as belonging to the customer. ANANDAM Ltd. stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the customer's request. ANANDAM Ltd. expects to hold the spare parts for one to three years and does not have the authority to use the spare parts or direct them to another customer.

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Determine how the revenue will be recognized by ANANDAM Ltd. for the different performance obligations as per Ind AS 115?

Answer

INDENTIFIACTION OF OBLIGATIONS:

ANANDAM Ltd. has made sale of two goods – machine and space parts, whose control is transferred at a point in time. Additionally, company agrees to hold the spare parts for the customer for a period of 1-3 years, which is a separate performance obligation.

Therefore, total transaction price shall be allocated amongst 3 performance obligations viz

i. Sale of machinery
ii. Sale of spare parts
iii. Custodial services for storing spare parts.

RECOGNITION OF REVENUE:

Recognition of revenue for each of the three performance obligations shall occur as follows:

i. **Sale of machinery:** Machine has been sold to the customer and physical possession as well as legal title passed to the customer on 31st March, 2022.

Accordingly, revenue for sale of machinery shall be recognised on 31st March, 2022.

ii. **Sale of spare parts:** The customer has made payment for the spare parts and legal title has been passed to specifically identified goods, but such spares continue to be physically held by the entity. In this regard, the company shall evaluate if revenue can be recognized on bill-and-hold basis if **all** below criteria are met:

(a) The reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement);	The customer has specifically requested the entity to store goods in their warehouse, owing to proximity to customer's factory.
(b) The product must be identified separately as belonging to the customer;	The spare parts have been specifically identified and inspected by the customer.
(c) The product currently must be ready for physical transfer to the customer; and	The spares are identified and segregated, therefore, ready for delivery any time.
(d) The entity cannot have the ability to use the product or to direct it to another customer	Spares have been segregated and cannot be redirected to any other customer.

Therefore, **all** the above conditions of bill-and-hold are met and hence, company can recognize revenue for sale of spare parts on 31st March, 2022.

iii. **Custodial services:** Such services shall be given for a period of 1 to 3 years from 31st March, 2022. Where services are given uniformly and customer receives &consumes benefits simultaneously, revenue for such service shall be recognized on a straight-line basis over a period of time.

Q14. May 2022 Exam, 8 marks

Card Ltd. is engaged in the business of manufacturing of car locks and nut bolts.

Car Locks: Typically, a contract is entered into for sale of car locks and consideration is received in the event of delivery of goods to the customer place. The cost of each car lock is ₹ 1,500 and the selling price is ₹ 1,800. The terms of the contract entitles the customer to return any unused car locks within 30 days and receive a full refund. The Company estimates that the costs of recovering the car lock will be immaterial and expects that the returned car locks can be resold at a profit. The Company has sold a total of 20,000 car locks during the month ended 31st March, 2022. From past experience, Card Ltd. expects that 4% of the car locks will be returned in the financial year 2022 - 2023.

Nut Bolts: On 1st April, 2021, Card Ltd. enters into a one year contract with a customer to deliver nut bolts. The contract stipulates that the price per piece will be adjusted retrospectively once the customer reaches certain sales volume, defined, as follows:

Price per piece	Cumulative sales volume
₹ 200	1 – 50,000
₹ 190	50,001 – 1,00,000
₹ 180	1,00,001 & above

Volume is determined based on sales during the financial year. There are no minimum purchase requirements. Card Ltd. estimates that the total sales volume for the year will be 90,000 based on its experience with similar contracts and forecasted sales to the customer.
Card Ltd. sells 24,000 pieces to the customer during the first quarter of the financial year 2021-2022 for a contract price of ₹ 200 per piece.
You are required to:

i. Analyze the terms of the revenue contracts with customers for sale of car locks as per Ind AS 115. Determine the amount of revenue, refund liability and the asset to be recognized by Card Ltd. for the said contracts of car locks.
ii. Determine the transaction price, revenue and liability, if any , for nut bolts as per Ind AS 115 at the end of first quarter of the financial year 2021-2022.

Answer

Analysis:

(i) (a) Nature of consideration received:
Card Ltd. applies the requirements in Ind AS 115 to the portfolio of 20,000 car locks because it reasonably expects that the effects on the financial statements from applying the requirements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio. Since the contract allows a customer to return the products, the consideration received from the customer is variable.
(b) Probability of significant reversal of cumulative revenue:
Card Ltd. considers on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of ₹ 3,45,60,000 (₹ 1,800 x 19,200 car locks not expected to be returned) can
be included in the transaction price. Card Ltd. determines that although the returns are outside the entity's influence, it has significant experience in estimating returns for this product and customer class. In addition, the
uncertainty will be resolved within a short time frame ie the 30-day return period. Thus, Card Ltd. concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 3,45,60,000)
will not occur as the uncertainty will be resolved (i.e. over the return period).

Card Ltd. estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

Upon transfer of control of the 20,000 car locks, Card Ltd. does not recognise revenue for 800 car locks that it expects to be returned. Consequently, it recognises the following:

a) revenue of ₹ 3,45,60,000 (₹ 1,800 x 19,200 products not expected to be returned);
b) a refund liability of ₹ 14,40,000 (₹ 1,800 refund x 800 products expected to be returned); and
c) an asset of ₹ 12,00,000 (₹ 1,500 x 800 products for its right to recover products from customers on settling the refund liability).

(ii) **(a) Transaction Price:** The transaction price will be based on Card Ltd.'s estimate of total sales volume for the year. Since Card Ltd. estimates cumulative sales volume of 90,000 nut bolts during the year, transaction price per nut bolt will be ₹ 190. Card Ltd. will update its estimate of the total sales volume at each
reporting date until the uncertainty is resolved.

(b) Determination of Revenue: Card Ltd. concludes that based on a transaction price of ₹ 190 per nut bolt, it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty is resolved. Revenue is therefore recognised at a selling price of ₹ 190 per nut bolt as each nut bolt is sold. Accordingly, for the first quarter of the financial year 2021-2022, Card Ltd. recognizes revenue of ₹ 45,60,000 (24,000 nut bolts x ₹ 190).

(c) Determination of Liability: Card Ltd. will recognise a liability for cash received in excess of the transaction price for the first 50,000 nut bolts sold at ₹ 200 per nut bolt (that is, ₹ 10 per nut bolt) until the cumulative sales volume is reached for the next pricing tier and the price is retroactively reduced.
Accordingly, for the first quarter of the financial year 2021-2022, Card Ltd. recognizes liability of ₹ 2,40,000 (24,000 nut bolts x (₹ 200 – ₹ 190).

Q15. Dec 2021 Exam, 10 marks

An entity has a fixed fee contract for ₹ 22,00,000 to develop a product that meets specified performance criteria. Estimated cost to complete the contract is ₹ 20,00,000.
The entity will transfer control of the product over five years and the entity uses the cost-to-cost input method to measure progress on the contract. An incentive award is available if the product meets the following weight criteria:

Weight (Kg)	Award % of Fixed Fee	Incentive Fee (₹)
951 or greater	0%	Nil
701 - 950	10%	2,20,000
700 or less	25%	5,50,000

The entity has extensive experience creating products that meet the specific performance criteria. Based on its experience, the entity has identified five engineering alternatives that will achieve the 10% incentive and two that will achieve the 25% incentive. In this case, the entity determined that it has 90% confidence that it will
achieve the 10% incentive and 10% confidence that it will achieve 25% incentive. Based on this analysis, the entity believes 10% to be the most likely amount when estimating the transaction price. Therefore, the entity includes only the 10% award in the transaction price when calculating revenue because the entity has concluded it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved due to its 90% confidence in achieving the 10% award.

The entity reassesses its production status quarterly to determine whether it is on track to meet the criteria for the incentive award. At the end of the year four, it becomes apparent that this contract will fully achieve the weight-based criteria. Therefore, the entity revises its estimate of variable consideration to include the entire 25% incentive fee in the year four because, at this point, it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur when including the entire variable consideration in the transaction price.
Analyse the impact of changes in variable consideration when cost incurred is as follows:

Year	₹
1	1,20,000
2	3,70,000
3	8,20,000
4	5,70,000
5	1,20,000

Calculate yearly Revenue, Operating Profit and Margin (%). For simplification purposes, calculate revenue for the year independently based on costs incurred during the year divided by total expected costs, with the assumption that total expected costs do not change.

Answer
Table showing Yearly Revenue, Operating Profit and Margin (%)

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Fixed consideration	A	22,00,000				
Estimated costs to Complete	B	20,00,000				
		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Total estimated variable consideration	C	2,20,000	2,20,000	2,20,000	5,50,000	5,50,000
Fixed revenue	D=A x H/B	1,32,000	4,07,000	9,02,000	6,27,000	1,32,000
Variable revenue	E=C x H/B	13,200	40,700	90,200	1,56,750	33,000
Cumulative revenue	F (see below)	—	—	—	2,16,150	—
Adjustment	G=D+E+F	1,45,200	4,47,700	9,92,200	9,99,900	1,65,000
Total revenue	H	1,20,000	3,70,000	8,20,000	5,70,000	1,20,000
Costs	I=G–H	25,200	77,700	1,72,200	4,29,900	45,000
Operating profit	J=I/G	17.36%	17.36%	17.36%	42.99%	27.27%
Margin (rounded off)						

In practice, under the cost-to-cost measure of progress, total revenue for each period is determined by multiplying the total transaction price (fixed and variable) by the ratio of cumulative cost incurred to total estimated costs to complete, less revenue recognized to date.

Calculation of cumulative catch-up adjustment:			
	L		5,50,000
Updated variable consideration	M	18,80,000	
Cumulative costs through Year 4	N	20,00,000	
Estimated costs to complete	O=M/N		94%
Percent complete in Year 4: (rounded off)	P		3,00,850
Cumulative variable revenue through Year 4:	F=[(LxO)–P]		2,16,150
Cumulative catch-up adjustment			

Q16. July 2021 Exam, 12 marks

GTM Limited has provided the following 4 independent scenarios. You are advised to respond to the queries mentioned at the end of each scenario. Support your answer with the relevant extracts of the applicable Ind AS.

Scenario 1

GTM Limited enters into a contract with a customer to sell product G, T and M in exchange for ₹ 1,90,000. GTM Limited will satisfy the performance obligations for each of the product at different points in time. GTM Limited regularly sells product G separately and therefore the stand-alone selling price is directly observable. The stand-
alone selling prices of product T and M are not directly observable.

Because the stand-alone selling prices for Product T and M are not directly observable, the Company has to estimate them. To estimate the stand-alone selling prices, the Company uses the adjusted market assessment approach for product T and the expected cost plus a margin

approach for product M. In making these estimates, the Company maximizes the use of observable inputs.
The entity estimated the stand -alone selling prices as follows:

Product	Stand-alone selling price (₹)
Product G	90,000
Product T	44,000
Product M	66,000
Total	2,00,000

Determine the transaction price allocated to each Product.

Scenario 2

GTM Limited regularly sells Products G, T and M individually. The standalone selling prices are as under:

Product	Stand-alone selling price (₹)
Product G	90,000
Product T	44,000
Product M	66,000
Total	2,00,000

In addition, the Company regularly sells Products T and M together for ₹ 1,00,000.The Company enters into a contract with another customer to sell Products G, T and M in exchange for ₹ 1,90,000. GTM Limited will satisfy the performance obligations for each of the products at different points in time; or Product T and M at same point in time.
Determine the allocation of transaction price to Product T and M.

Scenario 3

GTM Limited enters into a contract with a customer to sell products G, T and M as described in scenario 2. The contract also includes a promise to transfer product 'Hope'. Total consideration in the contract is ₹ 2,40,000. The stand-alone selling price for product
'Hope' is highly variable because the company sells Product 'Hope' to different customersfor a broad range of amounts (₹ 40,000 to ₹ 65,000).
Determine the selling price of Products G, T, M and Hope using the residual approach.

Scenario 4

The same facts as in scenario 3 applies to scenario 4 except that the transaction price is ₹ 2,25,000 instead of ₹ 2,40,000.
Discuss how the transaction price should be allocated.

Answer

Scenario 1

The customer receives a discount for purchasing the bundle of goods because the sum of the stand-alone selling prices (₹ 2,00,000) exceeds the promised consideration (₹ 1,90,000). The entity considers that there is no observable evidence about the performance obligation to which the entire discount belongs. The discount is allocated proportionately across Products G, T and M. The discount, and therefore the transaction price, is allocated as follows:

Product	Allocated transaction price	
	₹	
Product G	85,500	(₹ 90,000 ÷ ₹ 2,00,000 × ₹
Product T	41,800	1,90,000)
Product M	62,700	

Total	1,90,000	(₹ 44,000 ÷ ₹ 2,00,000 × ₹ 1,90,000) (₹ 66,000 ÷ ₹ 2,00,000 × ₹ 1,90,000)

Scenario 2

The contract includes a discount of ₹ 10,000 on the overall transaction, which would be allocated proportionately to all three performance obligations when allocating the transaction price using the relative stand-alone selling price method.

However, because the entity regularly sells Products T and M together for ₹ 1,00,000 and Product G for ₹ 90,000, it has evidence that the entire discount of ₹ 10,000 should be allocated to the promises to transfer Products T and M in accordance with paragraph 82 of Ind AS 115.
If the entity transfers control of Products T and M at the same point in time, then the entity could, as a practical matter, account for the transfer of those products as a single performance obligation. That is, the entity could allocate ₹ 90,000 of the transaction prices to the single performance obligation of G and recognise revenue of ₹ 1,00,000 when Products T and M simultaneously transfer to the customer.

If the contract requires the entity to transfer control of Products T and M at different points in time, then the allocated amount of ₹ 1,00,000 is individually allocated to the promises to transfer Product T (stand-alone selling price of ₹ 44,000) and Product M (stand-alone selling price of ₹ 66,000) as follows:

Product	**Allocated transaction price**	
	₹	
Product T	40,000	(₹ 44,000 ÷ ₹ 1,10,000 total stand-alone selling price × ₹ 1,00,000)
Product M	60,000	(₹ 66,000 ÷ ₹ 1,10,000 total stand-alone selling price × ₹ 1,00,000)
Total	1,00,000	

Scenario 3

Before estimating the stand-alone selling price of Product Hope using the residual approach, the entity determines whether any discount should be allocated to the other performance obligations in the contract.

As in Scenario 2, because the entity regularly sells Products T and M together for ₹ 1,00,000 and Product G for ₹ 90,000, it has observable evidence that ₹ 1,90,000 should be allocated to those three products and ₹ 10,000 discount should be allocated to the promises to transfer Products T and M in accordance with paragraph 82 of Ind AS 115.

Using the residual approach, the entity estimates the stand-alone selling price of Product Hope to be ₹ 50,000 as follows:

Product	**Stand-alone selling price**	**Method**
	₹	
Product G	90,000	Directly observable
Product T and M	1,00,000	Directly observable with discount
Product Hope	50,000	Residual approach
Total	2,40,000	

The entity observes that the resulting ₹ 50,000 allocated to Product Hope is within the range of its observable selling prices (₹ 40,000 to ₹ 65,000).

Scenario 4

The same facts as in Scenario 3 apply to Scenario 4 except the transaction price is ₹ 2,25,000 instead of ₹ 2,40,000. Consequently, the application of the residual approach would result in a stand-alone selling price of ₹ 35,000 for Product Hope (₹ 2,25,000 transaction price less ₹ 1,90,000 allocated to Products G, T and M).

The entity concludes that ₹ 35,000 would not faithfully depict the amount of consideration to which the entity expects to be entitled in exchange for satisfying its performance obligation to transfer Product Hope, because ₹ 35,000 does not approximate the stand-alone selling price of Product Hope, which ranges from ₹ 40,000 to ₹ 65,000.

Consequently, the entity reviews its observable data, including sales and margin reports, to estimate the stand-alone selling price of Product Hope using another suitable method. The entity allocates the transaction price of ₹ 2,25,000 to Products G, T, M and Hope using the relative stand-alone selling prices of those products in accordance with paragraphs 73–80 of Ind AS 115

Q17. Jan 2021 Exam, 12 marks

A Ltd. is a company which is in the business of manufacturing engineering machines and providing after sales services. The company entered into a contract with Mr. Anik to supply and install a machine, namely 'model pi' on 1st April 2018 and to service this machine on 30th September 2018 and 1st April 2019. The cost of manufacturing the machine to A Ltd. was ₹ 1,60,000.

It is possible for a customer to purchase both the machine 'model pi' and the maintenance services separately. Mr. Anik is contractually obliged to pay A Ltd ₹ 4,00,000 on 1st April, 2019.

The prevailing rate for one-year credit granted to trade customers in the industry is 5 percent per six-month period.

As per the experience, the servicing of the machine 'model pi' sold to Mr. Anik is expected to cost A Ltd. ₹ 30,000 to perform the first service and ₹ 50,000 to perform the second service. Assume actual costs equal expected costs. When A Ltd. provides machine services to customers in a separate transaction it earns a margin of 50% on cost.

On 1st April, 2018, the cash selling price of the machine 'model pi' sold to Mr. Anik is ₹ 2,51,927.The promised supply of machine 'model pi' and maintenance service obligations are satisfactorily carried out in time by the company.

You are required to:

i. Segregate the components of the transaction that A Ltd. shall apply to the revenue recognition criteria separately as per Ind AS 115;
ii. Calculate the amount of revenue which A Ltd. must allocate to each component of the transaction;
iii. Prepare journal entries to record the information set out above in the books of accounts of A Ltd. for the years ended 31st March·2019 and 31st March 2020; and
iv. Draft an extract showing how revenue could be presented and disclosed in the financial statements of A Ltd. for the year ended 31st March 2019 and 31st March 2020

Answer

(i) As per para 27 of Ind AS 115, a good or service that is promised to a customer is distinct if both of the following criteria are met:

a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to them. A readily available resource is a good or service that is sold separately (by the entity or another entity) or that the customer has already obtained from the entity or from other transactions or events; and
b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract

Factors that indicate that two or more promises to transfer goods or services to a customer are separately identifiable include, but are not limited to, the following:

a) significant integration services are not provided (i.e. the entity is not using the goods or services as inputs to produce or deliver the combined output called for in the contract)
b) the goods or services does not significantly modify or customize other promised goods or services in the contract.
c) the goods or services are not highly inter-dependent or highly interrelated with other promised goods or services in the contract

Accordingly, on 1st April, 2018, entity A entered into a single transaction with three identifiable separate components:

1. Sale of a good (i.e. engineering machine);
2. Rendering of services (i.e. engineering machine maintenance services on 30th September, 2018 and 1st April, 2019); and
3. Providing finance (i.e. sale of engineering machine and rendering of services on extended period credit).

(ii) Calculation and allocation of revenue to each component of the transaction

Date	Opening balance	Finance income	Goods	Services	Payment received	Closing balance
1st April, 2018	–	–	2,51,927	–	–	2,51,927
30th September, 2018	2,51,927	12,596 (Note 1)	–	45,000	–	3,09,523
31st March 2019	3,09,523	15,477 (Note 2)	–	–	–	3,25,000
1st April, 2019	3,25,000	–	–	75,000	(4,00,000)	

Notes:

1. Calculation of finance income as on 30th September, 2018
= 5% x 2,51,927 = ₹ 12,596
2. Calculation of finance income as on 31st March, 2019
= 5% x 3,09,523 = ₹ 15,477

(iii) Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
1st April, 2018	Mr. Anik Dr. To Revenue - sale of goods (Profit or loss A/c) (Being revenue recognised from the sale of the machine on credit)	2,51,927	2,51,927
	Cost of goods sold (Profit or loss) Dr. To Inventories (Being cost of goods sold recognised)	1,60,000	1,60,000
30th September, 2018	Mr. Anik Dr. To Finance Income (Profit or loss) (Being finance income recognised)	12,596	12,596
	Mr. Anik Dr. To Revenue- rendering of services (Profit or loss)	45,000	45,000

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	(Being revenue from the rendering of maintenance services recognised)		
	Cost of services (Profit or loss) Dr. To Cash/Bank or payables (Being the cost of performing maintenance services recognised)	30,000	30,000
31st March 2019	Mr. Anik Dr. To Finance Income (Profit or loss) (Being finance income recognised)	15,477	15,477
1st April, 2019	Mr. Anik Dr. To Revenue- rendering of services (Profit or loss) (Being revenue from the rendering of maintenance services recognised)	75,000	75,000
	Cost of services (Profit or loss) Dr. To Cash/Bank or payables (Being the cost of performing maintenance services recognised)	50,000	50,000
	Cash/Bank Dr. To Mr. Anik (Being the receipt of cash from the customer recognised)	4,00,000	4,00,000

(iv) Extract of Notes to the financial statements for the year ended 31st March, 2019 and 31st March, 2020
Note on Revenue

	2019-2020	2018-2019
	₹	₹
Sale of goods	-	2,51,927
Rendering of machine - maintenance services	75,000	45,000
Finance income	-	28,073
	75,000	3,25,000

Q18. Nov 2020 Exam, 8 marks

Venus Ltd. (Seller-lessee) sells a building to Mars Ltd. (Buyer-lessor) for cash of ₹ 28,00,000. Immediately before the transaction, the building is carried at a cost of ₹ 13,00,000. At the same time, Seller- lessee enters into a contract with Buyer-lessor for the right to use the building for 20 years, with an annual payment of ₹ 2,00,000 payable at the end of each year.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a performance obligation is satisfied in accordance with Ind AS 115 "Revenue from Contracts with Customers"The fair value of the building at the date of sale is ₹ 25,00,000. Initial direct costs, if any, are to be ignored. The interest rate implicit in the lease is 12% p.a., which is readily determinable by Seller-lessee. Present Value (PV) of annual payments (20 payments of₹ 2,00,000 each discounted @ 12%) is ₹ 14,94,000.

Buyer-lessor classifies the lease of the building as an operating lease. How should the said transaction be accounted by Venus Ltd.?

Answer

Considering facts of the case, Venus Ltd. (seller-lessee) and Mars Ltd. (buyer-lessor) account for the transaction as a sale and leaseback.

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Firstly, since the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer - lessor make adjustments to measure the sale proceeds at fair value. Thus, the amount of the excess sale price of ₹ 3,00,000 (as calculated below) is recognised as additional financing provided by Buyer-lessor to Seller-lessee.

Sale Price:	28,00,000
Less: Fair Value (at the date of sale):	(25,00,000)
Additional financing provided by Buyer-lessor to Seller-lessee	3,00,000

The present value of the annual payments is ₹ 14,94,000 (as given in the question).

Out of this ₹ 14,94,000, ₹ 3,00,000 relates to the additional financing (as calculated above) and balance ₹ 11,94,000 relates to the lease.

Accounting by Venus Ltd. (seller-lessee):

At the commencement date, Seller-lessee measures the ROU asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right-of-use retained by Seller-lessee, calculated as follows:

Carrying Amount (A)	13,00,000
Fair Value (at the date of sale) (B)	25,00,000
Discounted lease payments for the 20 year ROU asset (C)	11,94,000
ROU Asset [(A / B) x C]	6,20,880

Seller-lessee recognises only the amount of the gain that relates to the rights transferred to Buyer-lessor, calculated as follows:

Fair Value (at the date of sale) (A)	25,00,000
Carrying Amount (B)	13,00,000
Discounted lease payments for the 20-year ROU asset (C)	11,94,000
Gain on sale of building (D) = (A - B)	12,00,000
Relating to the right to use the building retained by Seller-lessee (E)=[(D/A)xC]	5,73,120
Relating to the rights transferred to Buyer-lessor (D - E)	6,26,880

At the commencement date, Seller-lessee accounts for the transaction, as follows:

Bank / Cash A/c	Dr.	28,00,000	
ROU Asset A/c	Dr.	6,20,880	
To Building			13,00,000
To Financial Liability			14,94,000
To Gain on rights transferred			6,26,880

Q19. Nov 2020 Exam, 4 marks

An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. The entity agrees to buy a specific number of tickets and will pay for those tickets even if it is not able to resell them.

The reduced rate paid by the entity for each ticket purchased is negotiated and agreed in advance. The entity determines the prices at which the airline tickets will be sold to its customers. The entity sells the tickets and collects the consideration from customers when the tickets are sold; therefore, there is no credit risk to the entity.
The entity also assists the customers in resolving complaints with the service provided by airlines.

However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

Determine whether the entity is a principal or an agent with suitable explanation in light with the provisions given in the relevant standard.

Answer

To determine whether the entity's performance obligation is to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for another party to provide those goods or services (i.e. the entity is an agent), the entity considers the nature of its promise as per Ind AS 115.

The entity determines that its promise is to provide the customer with a ticket, which provides the right to fly on the specified flight or another flight if the specified flight is changed or cancelled. The entity considers the following indicators for assessment as principal or agent under the contract with the customers:

a) the entity is primarily responsible for fulfilling the contract, which is providing the right to fly. However, the entity is not responsible for providing the flight itself, which will be provided by the airline.
b) the entity has inventory risk for the tickets because they are purchased before they are sold to the entity's customers and the entity is exposed to any loss as a result of not being able to sell the tickets for more than the entity's cost.
c) the entity has discretion in setting the sales prices for tickets to its customers.

The entity concludes that its promise is to provide a ticket (i.e. a right to fly) to the customer. On the basis of the indicators, the entity concludes that it controls the ticket before it is transferred to the customer. Thus, the entity concludes that it is a principal in the transaction and recognises revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred.

Q20. Nov 2019 Exam, 12 marks

Nivaan Limited commenced work on two long-term contracts during the financial year ended on 31st March,
2019.

The first contract with A & Co. commences on 1st June, 2018 and had a total sales value of ₹ 40 lakh. It was envisaged that the contract would run for two years and that the total expected costs would be ₹ 32 lakh. On 31st March, 2019, Nivaan Limited revised its estimate of the total expected cost to ₹ 34 lakh on the basis of the additional rectification cost of ₹ 2 lakh incurred on the contract during the current financial year. An independent
surveyor has estimated at 31st March, 2019 that the contract is 30% complete.Nivaan Limited has incurred costs up to 31st March, 2019 of ₹ 16 lakh and has received payments on account of ₹ 13 lakh.

The second contract with B & Co. commenced on 1st September, 2018 and was for 18 months. The total sales value of contract was ₹ 30 lakh and the total expected cost is ₹ 24 lakh. Payments on account already received were ₹ 9.50 lakh and total costs incurred to date were ₹ 8 lakh. Nivaan Limited has insisted on a large deposit from B & Co. because the companies had not traded together prior to the contract. The independent surveyor
estimated that on 31st March, 2019 the contract was 20% complete.

The two contracts meet the requirement of Ind AS 115 'Revenue from Contracts with Customers' to recognize revenue over time as the performance obligations are satisfied over time.

The company also has several other contracts of between twelve and eighteen months in duration. Some of these contracts fall into two accounting periods and were not completed as at 31st March, 2019. In absence of any financial date relating to the other contracts, you are advised to ignore these other contracts while preparing the financial statements of the company for the year ended 31st March, 2019.

Prepare financial statement extracts for Nivaan Limited in respect of the two construction contracts for the year ending 31st March, 2019.

Answer

Extracts of Balance Sheet of Nivaan Ltd. as on 31st March, 2019

	₹ in lakh
Current Assets	
Contract Assets- Work-in-progress (Refer W.N. 3)	9.0
Current Liabilities	
Contract Liabilities (Advance from customers) (Refer W.N. 2)	4.5

Extracts of Statement of Profit and Loss of Nivaan Ltd. as on 31st March, 2019

	₹ in lakh
Revenue from contracts (Refer W.N. 1)	18
Cost of Revenue (Refer W.N. 1)	(15)
Net Profit on Contracts (Refer W.N. 1)	3

Working Notes:

1. Table showing calculation of total revenue, expenses and profit or loss on contract for the year

₹ in lakh

	A & Co.	**B & Co.**	**Total**
Revenue from contracts	(40 x 30%) = 12 (34* x 30%) = 10.2	(30 x 20%) = 6 (24 x 20%) = 4.8	18 15
Expenses due for the year	1.8	1.2	3
Profit or loss on contract			

***Note:** Additional rectification cost of ₹ 2 lakh has been treated as normal (30 x 20%) = 6 l cost. Hence total expected cost has been considered as ₹ 34 lakh. **Alternatively,** in case this ₹ 2 lakh is treated as abnormal cost then expense due for the year would be ₹ 11.6 lakh (ie 30% of ₹ 32 lakh plus ₹ 2 lakh). Accordingly, with respect to A & Co., the profit for the year would be ₹ 0.4 lakh and work-in-progress recognised at the end of the year would be ₹ 4.4 lakh.

2. Calculation of amount due from / (to) customers **₹ in lakh**

	A & Co.	**B & Co.**	**Total**
Billing based on revenue recognised in the books	12 (13)	6 (9.5)	18 (22.5)
Payments received from the customers	1	3.5	4.5
Advance received from the customers			

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3. Work in Progress recognised as part of contract asset at the end of the year

₹ in lakh

	A & Co.	B & Co.	Total
Total actual cost incurred during the year	16	8	24
Less: Cost recognised in the books for the year	(10.2)	(4.8)	(15)
31.3.2019	5.8	3.2	9.0
Work-in-progress recognised at the end of the year			

Q21. May 2019 Exam, 5 marks

Orange Ltd. contracts to renovate a five star hotel including the installation of new elevators on 01.10.2017. Orange Ltd. estimates the transaction price of ₹ 480 lakh. The expected cost of elevators is ₹ 144 lakh and expected other costs is ₹ 240 lakh. Orange Ltd. purchases elevators and they are delivered to the site six months before they will be installed. Orange Ltd. uses an input method based on cost to measure progress towards completion. The entity has incurred actual other costs of ₹ 48 lakh by 31.03.2018.

How much revenue will be recognised as per relevant Ind AS 115 for the year ended 31st March, 2018, if performance obligation is met over a period of time?

Answer

Cost to be incurred comprises two major components – cost for elevators and cost of construction service.

a) The elevators are part of the overall construction project and are not a distinct performance obligation
b) The cost of elevators is substantial to the overall project and are incurred well in advance.
c) Upon delivery at site, customer acquires control of such elevators.
d) There is no modification done to the elevators, which the company only procures and delivers at site.

Nevertheless, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such elevators also.

Therefore, applying the guidance on Input method –

- The measure of progress should be based on percentage of costs incurred relative to the total budgeted costs.

- The cost of elevators should be excluded when measuring such progress and revenue for such elevators should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follows:

Particulars	Amount (₹ in lakh)
Transaction price	480
Costs incurred:	
(a) Cost of elevators	144
(b) Other costs	48
Measure of progress	48 / 240 = 20%

Revenue to be recognised: **(₹ in lakh)**

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(a) For costs incurred (other than elevators)	Total attributable revenue = 480 -144 = 336 % of work completed = 20% Revenue to be recognised = 67.20
(b) Revenue for elevators	(equal to costs incurred) 144
Total revenue to be recognised	144 + 67.2 = 211.20

Therefore, for the year ended 31st March, 2018, the company shall recognize revenue of ₹ 211.20 lakhs on the project.

Note: The above solution is given on the basis of Ind AS 115 irrespective of the financial year mentioned in the question.

Q1. May 2026, RTP

X Ltd. agrees to produce 2,000 customized engines for use by Customer A in its products. X Ltd. concludes that the engines will transfer to Customer A over time because:

- they have no alternative use to X Ltd.; and
- Customer A is contractually obligated to pay X Ltd. for any finished or in-process engines, including a reasonable margin, if Customer A terminates the contract even when no fault of X Ltd.

X Ltd. already has the process in place to produce the engines and is given the design by Customer A, such that X Ltd. does not expect to incur any significant learning curve or design and development costs.

X Ltd. uses a method of measuring progress toward complete satisfaction of its manufacturing contracts that takes into account work in progress and finished goods controlled by Customer A.

Require:

I. State whether the 2000 engines are distinct in nature or not.
II. State whether 2000 engines is a single performance obligation or each engine is a separate performance obligation.

Answer:

(i) X Ltd. concludes that each of the 2,000 engines is distinct, because:
- Customer A can use each engine on its own; and
- each engine is separately identifiable from the others because one does not significantly affect, modify or customize another.

(ii) Despite the fact that each engine is distinct, X Ltd. concludes that the 2,000 units are a single performance obligation because:
- each engine will transfer to Customer A over time; and
- X Ltd. uses the same method to measure progress toward complete satisfaction of the obligation to transfer each engine to Customer A.

Consequently, the transaction price for all 2,000 engines is recognized over time using an appropriate measure of progress. This outcome may be different from the outcome of allocating a fixed amount to each engine if each one was a performance obligation.

Q2. May 2024, RTP

A Ltd. enters into a contract with a customer for the exclusive supply of paint for a three-year period. A Ltd. makes a Rs. 50,000 upfront payment, which the customer will use to customize its paint

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sprayers for A Ltd.'s product. A Ltd. determines the upfront payment is not in respect of or for a distinct good or service.

A Ltd. estimates Rs. 10,00,000 in sales with the customer over the three-year period. Sales for Quarter 1 is Rs. 1,00,000 and for Quarter 2 is Rs. 1,25,000. However, A Ltd. updated its estimate of total sales over the contract to Rs. 15,00,000 during Quarter 2.

Required:

Determine the net revenue to be recognized in Quarter 1 and Quarter 2 by A Ltd.

Answer:

Treatment of upfront payment of Rs. 50,000

Upfront payment of Rs. 50,000 would be accounted for as a reduction of the transaction price. It would be deferred and recognised as a reduction of revenue (in proportion to estimated sales) over the contract term.

Accounting for Quarter 1 and Quarter 2 is as follows:

For the first quarter

- Quarter 1 sales = Rs. 1,00,000
- Entity estimates Rs. 10,00,000 sales over the three-year period
- Percentage of Quarter 1 sale to total estimated sale

  = (Rs. 1,00,000 / Rs. 10,00,000) x 100 = 10%
- Share of upfront payment to be recognised in Quarter 1

  = 10% x Rs. 50,000 = Rs. 5,000

Hence, in Quarter 1, A Ltd. recognizes revenue of Rs. 95,000 (Rs. 1,00,000 actual sales – Rs. 5,000 consideration paid to the customer)

For the second quarter

- Quarter 2 sales = Rs. 1,25,000
- A Ltd. updates its estimate of total sales over the contract to Rs. 15,00,000
- Total sales to date till Quarter 2

  = Rs. 1,00,000 +Rs. 1,25,000 = Rs. 2,25,000
- Percentage of sale till Quarter 2 to total estimated sale

  = (Rs. 2,25,000 / Rs. 15,00,000) x 100 = 15%
- Share of upfront payment to be recognised in Quarter 2

= (15% x Rs. 50,000 upfront payment) – Upfront payment recognized in Quarter 1

= Rs. 7,500 – Rs. 5,000 = Rs. 2,500

Hence, A Ltd. would recognize revenue of Rs. 1,22,500 for Quarter 2 (Rs. 1,25,000 actual sales – Rs. 2,500 upfront payment made to the customer).

Q3. May 2024, RTP

A property sale contract includes the following:

1. Common areas
2. Construction services and building material
3. Property management services
4. Golf membership
5. Car park
6. Land entitlement

Whether they could be considered as separate performance obligations as per the requirements of Ind AS 115?

Answer:

Paragraph 22 of Ind AS 115 provides that at contract inception, an entity evaluates the promised goods or services to determine which goods or services (or bundle of goods or services) are distinct and therefore constitute a performance obligation.

A performance obligation is a promise in a contract to transfer to the customer either:

- a goods or service (or a bundle of goods or services) that is distinct; and
- series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

As per paragraph 27 of Ind AS 115, a goods or service that is promised to a customer is distinct if both of the following criteria are met:

a) the customer can benefit from the goods or service either on its own or together with other resources that are readily available to the customer (i.e. the goods or service is capable of being distinct); and
b) the entity's promise to transfer the goods or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the goods or service is distinct within the context of the contract).

Each performance obligation is required to be accounted for separately. The facts and circumstances of each contract should be carefully considered to determine the performance obligations.

However, based on the above guidance, the following table in general discusses whether the common goods and services in property sale contract should be considered as separate performance obligation or not:

Goods/Service	**Whether a separate performance obligation (PO) or not**	**Reason**
Common areas	Unlikely to be separate PO	Common areas are unlikely to be a separate PO because theinterests received in common areas are typically undivided interests that are not separable from the property itself. However, if the common areas were sold separately by the developer, then they could beconsidered as a separate PO provided that it is distinct in the context of the contract.

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Construction services and building materials	Unlikely to be separate PO	Construction services and building materials can meet the first criterion as they are items that can be used in conjunction with other readily available goods or services.However, the developer wouldbe considered to be providing a significant integration service as it is bringingtogether all the separate elements to deliver a completed building.
Property management services and Golf membership	Likely to be separate PO	Property management services and golf membership are likely to be separate PO as they may be used in isolation or with the property already acquired, i.e., management services can beused with the property. These types of services are not significantly customised, integrated with, or dependent on the property. This is because there is no change in their function with or without the property. Also, a property management service could be undertaken by a third party.
Car park and Land entitlement	Analysis required	Items such as car parks and land entitlements generally meet the first criterion – i.e., capable of being distinct – as the buyer benefits from them on their own. Whether the second criterionis met depends on the facts and circumstances. Forexample, if the land entitlement can be sold separately or pledged as security as a separate item, it may indicate that it is not highly dependent on, or integrated with, other rights received in the contract. In an apartment scenario, the customer can receive an
		undivided interest in the land on which the apartment blocksits. This type of right isgenerally considered a highly inter-related with the apartment itself.*

*However, if title to the land is transferred to the buyer separately – for example in a single party development – then the separately identifiable criterion may be met.

Q4. Nov 2023, RTP

On 1st April, 20X1, Entity X enters into a contract with Entity Y to sell mobile chargers for ₹ 100 per charger. As per the terms of the contract, if Entity Y purchases more than 1,000 chargers till March 20X2, the price per charger will be retrospectively reduced to ₹ 90 per unit. Till September 20X1,

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Entity X sold 95 chargers to Entity Y. Entity X estimates that Entity Y's purchases by March 20X2 will not exceed the required threshold of 1,000 chargers.

In October 20X1, Entity Y acquires another Entity C and from October 20X1 to December 20X1, Entity X sells an additional 600 chargers to Entity Y. Due to these developments, Entity X estimates that purchases of Entity Y will exceed the 1,000 chargers threshold for the period and therefore, it will be required to retrospectively reduce the price per charger to ₹ 90. Analyse the above scenario in light of Ind AS 115 and state how the revenue should be recognised in such a situation.

Answer

Paragraph 56 of Ind AS 115 states that an entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty
associated with the variable consideration is subsequently resolved.

Further, paragraph 57 of Ind AS 115 state that in assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

a. the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.

b. the uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

c. the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.

d. the entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.

e. the contract has a large number and broad range of possible consideration amounts.

Entity X estimates that the consideration in the above contract is variable. Therefore, in accordance with paragraphs 56 and 57 of Ind AS 115, Entity X is required to consider the constraints in estimating variable consideration. Entity X determines that it has significant experience with this product and with the purchasing pattern of the Entity Y. Thus, if Entity X concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 100 per unit) will not occur when the uncertainty is resolved (i.e. when the total amount of purchases is known)then the Entity X will recognise revenue of ₹ 9,500 (95 chargers x ₹ 100 per charger) for the half year ended 30th September, 20X1.

Further, paragraphs 87 and 88 of Ind AS 115 that after contract inception, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

An entity shall allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a satisfied

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performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes."

In accordance with the above, in the month of October 20X1, due to change in circumstances on account of Entity Y acquiring Entity C and consequential increase in sale of chargers to Entity Y, Entity X estimates that Entity Y's purchases will exceed the 1,000 chargers threshold till March 20X2 for the period and therefore, it will be required to retrospectively reduce the price per charger to ₹ 90.

Consequently, the Entity X will recognise revenue of ₹ 53,050 for the quarter ended December 20X1 which is calculated as follows

Particulars	**Amount in ₹**
Sale of 600 chargers (600 chargers x ₹ 90 per charger)	54,000
Less: Change in transaction price (95 chargers x ₹ 10 price reduction) for the reduction of revenue relating to units sold till September 20X1.	(950)
Revenue recognised for the quarter ended December 20X1	53,050

Q5. May 2023, RTP

Company X enters into an agreement on 1st January, 20X1 with a customer for renovation of hospital and install new air-conditioners for total consideration of ₹ 50,00,000. The promised renovation service, including the installation of new air-conditioners is a single performance obligation satisfied over time. Total expected
costs are ₹ 40,00,000 including ₹ 10,00,000 for the air-conditioners. Company X determines that it acts as a principal in accordance with Ind AS 115 because it obtains control of the air conditioners before they are transferred to the customer. The customer obtains control of the air conditioners when they are delivered to the hospital premises.

Company X uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation.

As at 31st March, 20X1, other costs incurred excluding the air conditioners are ₹ 6,00,000.

Whether Company X should include cost of the air conditioners in measure of its progress of performance obligation? How should revenue be recognized for the year ended 31st March, 20X1?

Answer

Paragraph B19 of Ind AS 115 inter alia, states that, "an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 39, do not depict the entity's performance in transferring control of goods or services to the customer".

In accordance with the above, Company X assesses whether the costs incurred to procure the air conditioners are proportionate to the entity's progress in satisfying the performance obligation. The costs incurred to procure the air conditioners i.e ₹ 10,00,000 are significantly relative to the total costs to completely satisfy the performance obligation i.e. ₹ 40,00,000. Also, Company X is not involved in manufacturing or designing of air conditioners.

Company X concludes that including the costs to procure the air conditioners in the measure of progress would overstate the extent of the entity's performance. Consequently, in accordance with paragraph B19 of Ind AS 115, the entity adjusts its measure of progress to exclude the costs to procure the air conditioners from the
measure of costs incurred and from the transaction price. The entity recognises revenue for the transfer of the air conditioners at an amount equal to the costs to procure the air conditioners (i.e., at a zero margin). Accordingly, the total revenue on account of renovation would be ₹ 50,00,000 – ₹ 10,00,000 = ₹ 40,00,000.

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Company X assesses that as at 31st March, 20X1, the performance is 20% complete (i.e., ₹ 6,00,000 / ₹ 30,00,000).

Total revenue from renovation work would be = ₹ 50,00,000 – ₹ 10,00,000 = ₹ 40,00,000.
Consequently, as at 31st March, 20X1, Company X recognises the following:

		₹
Revenue	[(₹ 40,00,000 x 20%) + ₹ 10,00,000]	18,00,000
Less: Cost of goods sold	(₹ 6,00,000 of costs incurred + ₹ 10,00,000 costs of air conditioners)	(16,00,000)
Profit		2,00,000

Q6. Nov 2022, RTP

A Ltd. owns 20 resorts across India. Every customer who stays in any of the resorts owned by A Ltd. is entitled to get points on the basis of total amount paid by him. Under this scheme, 1 point is granted for every ₹ 100 spent for stay in the resort. As per the past experience of A Ltd., the likelihood of exercise of the points is 100% and the standalone price of each such point is ₹ 5. Customer X spends ₹ 10,000 in one of the resorts of A Ltd. What is the accounting treatment for the points granted by A Ltd.?

Answer

Paragraph B40 of Ind AS 115, inter alia, states that, "if in a contract, an entity grants a customer the option to acquire additional goods or services, that option gives rise to a separate performance obligation only if the option provides a material right to the customer that it would not receive without entering into that contract".

Further, paragraph B41 states that if a customer has the option to acquire an additional good or service at a price that would reflect the stand-alone selling price for that good or service, that option does not provide the customer with a material right even if the option can be exercised only by entering into a previous contract. In those cases, the entity has made a marketing offer that it shall account for in accordance with this Standard only when the customer exercises the option to purchase the additional goods or services .

In the given case, the customer does get a material right by way of a discount of ₹ 500 for every 100 points that he would not receive without the previous stay in that resort.Thus, the customer in effect pays the entity in advance for future goods and the entity recognises revenue when the goods are transferred.

According to paragraph B42, paragraph 74 requires an entity to allocate the transaction price to performance obligations on a relative stand-alone selling price basis. If the standalone selling price for a customer's option to acquire additional goods or services is not directly observable, an entity shall estimate it on the basis of percentage discount the customer may obtain upon exercising the option and the likelihood of the option getting exercised.

In accordance with above, an entity shall account for award credit as a separate performance obligation of the sales transactions in which they are initially granted. The value of the consideration the entity expects to be entitled in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

In the current case, the standalone selling price of the 100 points is ₹ 500. A Ltd. should allocate the fair value of the consideration (i.e. ₹ 10,000) between the points and the other components of the sale as ₹ 476 (500/10,500 x 10,000) and ₹ 9,524 (10,000/10,500 x 10,000) respectively in proportion of their standalone sell ng price. Since A Ltd. supplies the awards itself (i.e. it acts as a principal), it should recognise ₹ 476 as revenue when points are redeemed.

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Q7. May 2022, RTP

On 1st April, 20X1, S Limited enters into a contract with Corp Limited to construct heavy -duty equipment for a promised consideration of rupees with a bonus of rupees if the equipment is completed within 24 months. At the inception of the contract, S Limited correctly accounts for the promised bundle of goods and services as a single performance obligation in accordance with Ind AS 115. At the inception of the contract, the Company expects the costs to be rupees and concludes that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will occur. Completion of the heavy-duty equipment is highly susceptible to factors outside of the Company's influence, mainly due to difficulties with the supply of components.

At 31st March, 20X2, S Limited has satisfied 65% of its performance obligation on the basis of costs incurred to date and concludes that the variable consideration is still constrained in accordance with Ind AS 115. However, on 4 June 20X2, the contract is modified with the result that the fixed consideration and expected costs increase by ₹ 1,50,000 and ₹ 80,000 respectively. The time allowable for achieving the bonus is extended by six months with the result that S Limited concludes that it is highly probable that the bonus will be achieved and that the contract remains a single performance obligation.

S Limited wants your opinion on the accounting treatment of contract with Corp Limited in light of Ind AS 115, for the year 20X1-20X2 and 20X2-20X3.

Answer

For the year 20X1-20X2

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

Transaction price	– ₹ 20,00,000
Expected costs	– ₹ 11,00,000
Expected profit (45%)	– ₹ 9,00,000

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

By the end of the first year, the entity has satisfied 65% of its performance obligation on the basis of costs incurred to date. Costs incurred to date are therefore ₹ 7,15,000 and S Limited reassesses the variable consideration and concludes that the amount is still constrained. Therefore at 31st March, 20X2, the following would be recognised:

Revenue (A)	– ₹ 13,00,000 (₹ 20,00,000 x 65%)
Costs (B)	– ₹ 7,15,000 (₹ 11,00,000 x 65%)
Gross profit (C) i.e.(A-B)	– ₹ 5,85,000

For the year 20X2-20X3

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

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

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

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

Q8. Nov 2021, RTP

Prime Ltd. is a technology company and regularly sells Software S, Hardware H and Accessory A. The stand-alone selling prices for these items are stated below:

Software S – ₹ 50,000
Hardware H – ₹1,00,000 and
Accessory A – ₹ 20,000.

Since the demand for Hardware H and Accessory A is low, Prime Ltd. sells H and A together at ₹ 100,000. Prime Ltd. enters into a contract with Zeta Ltd. to sell all the three items for a consideration of ₹1,50,000.

What will be the accounting treatment for the discount in the financial statements of Prime Ltd., considering that the three items are three different performance obligations which are satisfied at different points in time? Further, what will be the accounting treatment if Prime Ltd. would have transferred the control of Hardware H and Accessory A at the same point in time.

Answer

Paragraph 82 of Ind AS 115 states that, "An entity shall allocate a discount entir ely to one or more, but not all, performance obligations in the contract if all of the following criteria are met:

a. the entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a stand-alone basis;

b. the entity also regularly sells on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and

c. the discount attributable to each bundle of goods or services described in paragraph 82(b) is substantially the same as the discount in the contract and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs".

In the given case, the contract includes a discount of ₹ 20,000 on the overall transaction, which should have been allocated proportionately to all three performance obligations when allocating the transaction price using the relative stand-alone selling price method (in accordance with paragraph 81 of Ind AS 115). However, as Prime Ltd. meets all the criteria specified in paragraph 82 above, i.e., it regularly sells Hardware H and Accessory
A together for ₹ 1,00,000 and Software S for ₹ 50,000, accordingly, it is evident that the entire discount should be allocated to the promises to transfer Hardware H and Accessory A.

In the given case, since the contract requires the entity to transfer control of Hardware H and Accessory A at different points in time, then the allocated amount of ₹ 1,00,000 should be individually allocated to the promises to transfer Hardware H (stand-alone selling price of ₹ 1,00,000) and Accessory A (stand-alone selling price of ₹20,000)

Product	**Allocated transaction price (₹)**
Hardware H	83,333 (1,00,000/ 120,000 x 100,000)
Accessory A	16,667 (20,000/120,000 x 100,000)
Total	1,00,000

However, if Prime Ltd. would have transferred the control of Hardware H and Accessory A at the same point in time, then the Prime Ltd. could, as a practical matter, account for the transfer of

those products as a single performance obligation. That is, Prime Ltd. could allocate ₹ 1,00,000 of the transaction price to the single performance obligation and recognise revenue of ₹ 1,00,000 when Hardware H and Accessory A simultaneously transfer to Zeta Ltd.

Q9. May 2021, RTP

A manufacturer gives warranties to the purchasers of its goods. Under the terms of the warranty, the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale to the purchasers.

On 30 April 20X1, a manufacturing defect was detected in the goods manufactured by the entity between 1 March 20X1 and 30 April 20X1.

At 31 March 20X1 (the entity's reporting date), the entity held approximately one week's sales in inventories.
The entity's financial statements for the year ended 31 March 20X1 have not yet been finalised.

Three separate categories of goods require separate consideration:
Category 1 —defective goods sold on or before 31 March 20X1
Category 2 —defective goods held on 31 March 20X1
Category 3 —defective goods manufactured in 20X1-20X2
State the accounting treatment of the above categories in accordance with relevant Ind AS.

Answer

Category 1—defective goods sold on or before 31 March 20X1

If customer has the option to purchase warranty separately, the warranty is a distinct service because the entity promises to provide the service to the customer in addition to the product that has the functionality described in the contract. In that case, entity shall account for the promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, an entity shall account for the warranty in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, unless it provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications. If that is the case, then, the promised service is a performance obligation. Entity shall allocate the transaction price to the product and the service.

If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity shall account for both of the warranties together as a single performance obligation.

A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance obligation. The entity shall account for such obligations in accordance with Ind AS 37.

Category 2—defective goods held on 31 March 20X1

At 31 March 20X1, the entity did not have a present obligation to make good the unsold defective goods that it held in inventories. Accordingly, at 31 March 20X1 the entity should not recognise a provision in respect of the defective inventories.

For this category, the detection of the manufacturing defect in April 20X1 is an adjusting event after the end of the reporting period as per Ind AS 10, Events after the End of the Reporting Period. It provides evidence of a manufacturing defect in inventories held at 31 March 20X1.

Category 3—defective goods manufactured in 20X1-20X2

At 31 March 20X1 the entity did not have a present obligation to make good any defective goods that it might manufacture in the future. Accordingly, at 31 March 20X1 the entity should not recognise a provision in respect of the defective goods manufactured in 20X1-20X2.

For this category, the detection of the manufacturing defect in April 20X1 is a non-adjusting event after the end of the reporting period as per Ind AS 10, Events After the End of the Reporting Period.

Q10. May 2021, RTP

A property sale contract includes the following:

a) Common areas
b) Construction services and building material
c) Property management services
d) Golf membership
e) Car park
f) Land entitlement

Analyse whether the above items can be considered as separate performance obligations as per the requirements of Ind AS 115?

Answer

Paragraph 22 of Ind AS 115 provides that at contract inception, an entity evaluates the promised goods or services to determine which goods or services (or bundle of goods or services) are distinct and therefore constitute a performance obligation.

A performance obligation is a promise in a contract to transfer to the customer either:

- a good or service (or a bundle of goods or services) that is distinct; and
- series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

As per paragraph 27 of Ind AS 115, a good or service that is promised to a customer i s distinct if both of the following criteria are met:

a. the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

b. the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Each performance obligation is required to be accounted for separately.

Based on the above guidance, the following table discusses whether the common goods and services in property sale contract should be considered as separate performance obligation or not:

Goods/Service	**Whether a separate Performance obligation (PO) or not**	**Reason**
Common areas	Unlikely to be separate PO	Common areas are unlikely to be a separate performance obligation because the interests received in common areas are typically undivided interests that are not separable from the property itself. However, if the common areas were sold separately by the developer, then they could be considered as a separate performance obligation provided that it is distinct in the context of the contract.

Construction services and building material	Unlikely to be separate PO	Construction services and building materials can meet the first criterion as they are items that can be used in conjunction with other readily available goods or services. However, the developer would be considered to be providing a significant integration service as it is bringing together all the separate elements to deliver a complete building.
Property management services and Golf membership	Likely to be separate PO	Property management services and golf membership are likely to be separate performance obligations as they may be used in isolation or with the property already acquired, i.e., management services can be used with the property. These types of services are not significantly customised, integrated with, or dependent on the property. This is because there is no change in their function with or without the property. Also, a property management service could be undertaken by a third party.
Car park and Land entitlement	Analysis required	Items such as car parks and land entitlements generally meet the first criterion – i.e., capable of being distinct – as the buyer benefits from them on their own. Whether the second criterion is met depends on the facts and circumstances. For example, if the land entitlement can be sold separately or pledged as security as a separate item, it may indicate that it is not highly dependent on, or integrated with, other rights received in the contract. In an apartment scenario, the customer can receive an undivided interest in the land on which the apartment block sits. This type of right is generally considered as highly inter-related with the apartment itself.*

* However, if title to the land is transferred to the buyer separately – for example in a single party development – then the separately identifiable criterion may be met.
PS: Other facts and circumstances of each contract should also be carefully examined to determine performance obligations.

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Q11. Nov 2020, RTP

A contractor enters into a contract with a customer to build an asset for ₹ 1,00,000, with a performance bonus of ₹ 50,000 that will be paid based on the timing of completion. The amount of the performance bonus decreases by 10% per week for every week beyond the agreed-upon completion date. The contract requirements are similar to those of contracts that the contractor has performed previously, and management believes that such is predictive for this contract. The contractor concludes that the expected value method is most predictive in this case.

The contractor estimates that there is a 60% probability that the contract will be completed by the agreed-upon completion date, a 30% probability that it will be completed one week late, and a 10% probability that it will be completed two weeks late. Determine the transaction price.

Answer

The transaction price should include management's estimate of the amount of consideration to which the entity will be entitled for the work performed.

Probability-weighted	Consideration
₹1,50,000(fixed fee plus full performance bonus) x 60%	₹90,000
₹1,45,000 (fixed fee plus 90% of performance bonus) x 30%	₹43,500
₹1,40,000 (fixed fee plus 80% of performance bonus) x 10%	₹14,000
Total probability-weighted	₹1,47,500

The total transaction price is ₹ 1,47,500, based on the probability-weighted estimate. The contractor will update its estimate at each reporting date.

Q12. May 2020, RTP

(a) Entity I sells a piece of machinery to the customer for ₹ 2 million, payable in 90 days.Entity I is aware at contract inception that the customer might not pay the full contract price. Entity I estimates that the customer will pay atleast ₹ 1.75 million, which is sufficient to cover entity I's cost of sales (₹ 1.5 million) and which entity I is willing to accept because it wants to grow its presence in this market. Entity I has granted
similar price concessions in comparable contracts.

Entity I concludes that it is highly probable that it will collect ₹ 1.75 million, and such amount is not constrained under the variable consideration guidance.

What is the transaction price in this arrangement?

(b) On 1 January 20x8, entity J enters into a one-year contract with a customer to deliver water treatment chemicals. The contract stipulates that the price per container will be adjusted retroactively once the customer reaches certain sales volume, defined, as follows:

Price per container	Cumulative sales volume
₹ 100	1 - 1,000,000 containers
₹ 90	1,000,001 - 3,000,000 containers
₹ 85	3,000,001 containers and above

Volume is determined based on sales during the calendar year. There are no minimum purchase requirements. Entity J estimates that the total sales volume for the year will be 2.8 million containers, based on its experience with similar contracts and forecasted sales to the customer.

Entity J sells 700,000 containers to the customer during the first quarter ended 31 March 20X8 for a contract price of ₹ 100 per container.

How should entity J determine the transaction price?

(c) Entity K sells electric razors to retailers for C 50 per unit. A rebate coupon is included inside the electric razor package that can be redeemed by the end consumers for C 10 per unit.

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Entity K estimates that 20% to 25% of eligible rebates will be redeemed, based on its experience with similar programmes and rebate redemption rates available in the market for similar programmes. Entity K concludes that the transaction price should incorporate an assumption of 25% rebate redemption, as this is the amount for which
it is highly probable that a significant reversal of cumulative revenue will not occur if estimates of the rebates change.

How should entity K determine the transaction price?

(d) A manufacturer enters into a contract to sell goods to a retailer for ₹ 1,000. The manufacturer also offers price protection, whereby it will reimburse the retailer for any difference between the sale price and the lowest price offered to any customer during the following six months. This clause is consistent with other price protection clauses offered in the past, and the manufacturer believes that it has experience which is predictive for this contract.

Management expects that it will offer a price decrease of 5% during the priceprotection period. Management concludes that it is highly probable that a significant reversal of cumulative revenue will not occur if estimates change.

How should the manufacturer determine the transaction price?
Answer
(a)Entity I is likely to provide a price concession and accept an amount less than ₹ 2 million in exchange for the machinery. The consideration is therefore variable. The transaction price in this arrangement is ₹ 1.75 million, as this is the amount which entity I expects to receive after providing the concession and it is not constrained under the variable consideration guidance. Entity I can also conclude that the collectability threshold is met for ₹ 1.75 million and therefore contract exists.

(b) The transaction price is ₹ 90 per container based on entity J's estimate of total sales volume for the year, since the estimated cumulative sales volume of 2.8 million containers would result in a price per container of ₹ 90. Entity J concludes that based on a transaction price of ₹ 90 per container, it is highly probable that a significant
reversal in the amount of cumulative revenue recognised will not occur when the uncertainty is resolved. Revenue is therefore recognised at a selling price of ₹ 90 per container as each container is sold. Entity J will recognise a liability for cash received in excess of the transaction price for the first 1 million containers sold at
₹ 100 per container (that is, ₹ 10 per container) until the cumulative sales volume is reached for the next pricing tier and the price is retroactively reduced

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

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

(c) Entity K records sales to the retailer at a transaction price of ₹ 47.50 (₹ 50 less 25% of ₹ 10). The difference between the per unit cash selling price to the retailers and the transaction price is recorded as a liability for cash consideration expected to be paid to the end customer. Entity K will update its estimate of the rebate and the
transaction price at each reporting date if estimates of redemption rates change.

(d) The transaction price is ₹ 950, because the expected reimbursement is ₹ 50. The expected payment to the retailer is reflected in the transaction price at contract inception, as that is the amount of consideration to which the manufacturer expects to be entitled after the price protection. The manufacturer will recognise a liability for the difference between the invoice price and the transaction price, as this represents the cash that it expects to refund to the retailer. The

manufacturer will update its estimate of expected reimbursement at each reporting date until the uncertainty is resolved.

Q13. Nov 2019, RTP

An entity G Ltd. enters into a contract with a customer P Ltd. for the sale of a machinery for ₹20,00,000. P Ltd. intends to use the said machinery to start a food processing unit. The food processing industry is highly competitive and P Ltd. has very little experience in the said industry.

P Ltd. pays a non-refundable deposit of ₹1,00,000 at inception of the contract and enters into a long-term financing agreement with G Ltd. for the remaining 95 per cent of the agreed consideration which it intends to pay primarily from income derived from its food processing unit as it lacks any other major source of income. The financing arrangement is provided on a non-recourse basis, which means that if P Ltd. defaults then G Ltd. can repossess the machinery but cannot seek further compensation from P Ltd., even if the full value of the amount owed is not recovered from the machinery. The cost of the machinery for G Ltd. is ₹ 12,00,000. P Ltd. obtains control of the machinery at contract inception.

When should G Ltd. recognise revenue from sale of machinery to P Ltd. in accordance with Ind AS 115?

Answer

As per paragraph 9 of Ind AS 115, "An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

(a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;

(b) the entity can identify each party's rights regarding the goods or services to be transferred;

(c) the entity can identify the payment terms for the goods or services to be transferred;

(d) the contract has commercial substance (ie the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and

(e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of
consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession".

Paragraph 9(e) above, requires that for revenue to be recognised, it should be probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In the given case, it is not probable that G Ltd. will collect the consideration to which it is entitled in exchange for the transfer of the machinery. P Ltd.'s ability to pay may be uncertain due to the following reasons:

(a) P Ltd. intends to pay the remaining consideration (which has a significant balance) primarily from income derived from its food processing unit (which is a business involving significant risk because of high competition in the said industry and P Ltd.'s little experience);

(b) P Ltd. lacks sources of other income or assets that could be used to repay the balance consideration; and

(c) P Ltd.'s liability is limited because the financing arrangement is provided on a non-recourse basis.

In accordance with the above, the criteria in paragraph 9 of Ind AS 115 are not met.Further, para 15 states that when a contract with a customer does not meet the criteria in paragraph 9 and an entity receives consideration from the customer, the entity shall recognise the consideration received as revenue only when either of the following events has occurred:

(a) the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or

(b) the contract has been terminated and the consideration received from the customer is non-refundable.

Para 16 states that an entity shall recognise the consideration received from a customer as a liability until one of the events in paragraph 15 occurs or until the criteria in paragraph 9 are subsequently met. Depending on the facts and circumstances relating to the contract, the liability recognised represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the customer.

In accordance with the above, in the given case G Ltd. should account for the non-refundable deposit of ₹1,00,000 payment as a deposit liability as none of the events described in paragraph 15 have occurred—that is, neither the entity has received substantially all of the consideration nor it has terminated the contract. Consequently, in accordance with paragraph 16, G Ltd. Will continue to account for the initial deposit as well as any future payments of principal and interest as a deposit liability until the criteria in paragraph 9 are met (i.e. the entity is able to conclude that it is probable that the entity will collect the consideration) or one of the events in paragraph 15 has occurred. Further, G Ltd. will continue to assess the contract in accordance with paragraph 14 to determine whether the criteria in paragraph 9 are subsequently met or whether the events in paragraph 15 of Ind AS 115 have occurred.

Q14. May 2019, RTP

KK Ltd. runs a departmental store which awards 10 points for every purchase of ₹ 500 which can be discounted by the customers for further shopping with the same merchant.Each point is redeemable on any future purchases of KK Ltd.'s products within 3 years . Value of each point is ₹ 0.50. During the accounting period 2017-2018, the entity awarded 1,00,00,000 points to various customers of which 18,00,000 points remained undiscounted (to be redeemed till 31st March, 2020). The management expects only 80% of the remaining will be discounted in future.

The Company has approached your firm with the following queries and has asked you to suggest the accounting treatment (Journal Entries) under the applicable Ind AS for these award points:

(a)	How should the recognition be done for the sale of goods worth ₹ 10,00,000 on a particular day?
(b)	How should the redemption transaction be recorded in the year 2017-2018? The Company has requested you to present the sale of goods and redemption as independent transaction. Total sales of the entity is ₹ 5,000 lakhs.
(c)	How much of the deferred revenue should be recognised at the year-end (2017-2018) because of the estimation that only 80% of the outstanding points will be redeemed?
(d)	In the next year 2018-2019, 60% of the outstanding points were discounted Balance 40% of the outstanding points of 2017-2018 still remained outstanding. How much of the deferred revenue should the merchant recognize in the year 2018-2019 and what will be the amount of balance deferred revenue?
(e)	How much revenue will the merchant recognized in the year 2019-2020, if 3,00,000 points are redeemed in the year 2019-2020?

Answer

(a) Points earned on ₹ 10,00,000 @ 10 points on every ₹ 500 = [(10,00,000/500) x 10] = 20,000 points.

Value of points = 20,000 points x ₹ 0.5 each point = ₹ 10,000

Revenue recognized for sale of goods	₹ 9,90,099	[10,00,000x (10,00,000/10,10,000)]
Revenue for points deferred	₹ 9,901	[10,00,000 x (10,000/10,10,000)]

Journal Entry

		₹	₹
Bank A/c	Dr.	10,00,000	
To Sales A/c			9,90,099
To Liability under Customer Loyalty programme			9,901

(b) Points earned on ₹ 50,00,00,000 @ 10 points on every ₹ 500 = [(50,00,00,000/500) x 10] = 1,00,00,000 points.

Value of points = 1,00,00,000 points x ₹ 0.5 each point = ₹ 50,00,000

Revenue recognized for sale of goods = ₹ 49,50,49,505 [50,00,00,000 x(50,00,00,000 / 50,50,00,000)]

Revenue for points = ₹ 49,50,495 [50,00,00,000x (50,00,000 / 50,50,00,000)]

Journal Entries in the year 2017-18

		₹	₹
Bank A/c	Dr.	50,00,00,000	
To Sales A/c			49,50,49,505
To Liability under Customer Loyalty programme			49,50,495
(On sale of Goods)			
	Dr.	42,11,002	
Liability under Customer Loyalty programme			42,11,002
To Sales A/c			
(On redemption of (100 lakhs -18 lakhs) points)			

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year 18,00,000 x 80% = 14,40,000 points

Total expected points to be redeemed in 2018-2019 and 2019-2020 = [(1,00,00,000-18,00,000) + 14,40,000] = 96,40,000

Revenue to be recognised with respect to discounted point = 49,50,495 x (82,00,000/96,40,000) = 42,11,002

(c) Revenue to be deferred with respect to undiscounted point in 2017-2018=
49,50,495 – 42,11,002 = 7,39,493

(d) In 2018-2019, KK Ltd. would recognize revenue for discounting of 60% of outstanding points as follows:

Outstanding points = 18,00,000 x 60% = 10,80,000 points

Total points discounted till date = 82,00,000 + 10,80,000 = 92,80,000 points

Revenue to be recognized in the year 2018-2019 = [{49,50,495 x (92,80,000 / 96,40,000)} - 42,11,002] = ₹ 5,54,620.

Journal Entry in the year 2018-2019

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		₹	₹
Liability under Customer Loyalty programme To Sales A/c (On redemption of further 10,80,000 points)	Dr.	5,54,620	 5,54,620

The Liability under Customer Loyalty programme at the end of the year 2018-2019 will be ₹ 7,39,493 – 5,54,620 = 1,84,873.

(e) In the year 2019-2020, the merchant will recognized the balance revenue of ₹ 1,84,873 irrespective of the points redeemed as this is the last year for redeeming the points. Journal entry will be as follows:

Journal Entry in the year 2019-2020

		₹	₹
Liability under Customer Loyalty programme To Sales A/c (On redemption of further 10,80,000 points)	Dr.	1,84,873	 1,84,873

Q15. May 2018, RTP

Mac Ltd. purchased goods on credit from Toy Ltd. for ₹ 580 lakhs for export. The export order was cancelled. Mac Ltd. decided to sell the same goods in the local market with a price discount. Toy Ltd. was requested to offer a price discount of ₹ 10%. Toy Ltd.wants to adjust the sales figure to the extent of the discount requested by Mac Ltd.

Discuss whether such a treatment in the books of Toy Ltd. is justified as per the provisions of the relevant Ind AS.

Also, Toy Ltd. entered into a sale deed for its Land on 15th March, 20X1. But registration was done with the registrar on 20th April, 20X1. But before registration, is it possible to recognize the sale and the gain at the balance sheet date? Give reasons in support of your answer

Answer

Toy Ltd. had sold goods to Mac Ltd on credit worth for ₹ 580 lakhs and the sale was completed in all respects. Mac Ltd.'s decision to sell the same in the domestic market at a discount does not affect the amount recorded as sales by Toy Ltd.

The price discount of 10% offered by Toy Ltd. after request of Mac Ltd. was not in the nature of a discount given during the ordinary course of trade because otherwise the same would have been given at the time of sale itself. However, there appears to be an uncertainty relating to the collectability of the debt, which has arisen subsequent to sale.

Therefore, it would be appropriate to make a separate provision to reflect the uncertainty relating to collectability rather than to adjust the amount of revenue originally recorded. Hence such discount should be charged to the Statement of Profit and Loss and not shown as deduction from the sales figure.

With respect to sale of land, both sale and gain on sale of land earned by Toy Ltd. shall be recognized in the books at the balance sheet date. In substance, the land was transferred with significant risk & rewards of ownership to the buyer before the balance sheet date and what was pending was merely a formality to register the deed. The registration post the balance sheet date only confirms the condition of sale at the balance
sheet date as per Ind AS 10 “Events after the Reporting Period.”

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Q1. Nov 2024 Exam, 4 marks

While preparing the financial statements for the year ended 31 st March, 2025, Gama Ltd. observed two issues in the previous year Ind AS financial statements (i.e. 31st March, 2024) which are as follows:

Issue 1:

The company had presented certain material liabilities as non-current in its financial statements as on 31st March, 2024. While preparing annual financial statements for the year ended 31st March, 2025, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period i.e. as at 31st March, 2024.

Issue 2:

The company had charged off certain expenses as finance costs in the year ended 31st March, 2024. While preparing annual financial statements for the year ended 31st March, 2025, it 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 entity intends to restate the comparative amounts for the prior period in which the error occurred i.e. year ended 31st March, 2024.

You are required to analyze the above issues and give your recommendation as to their treatment in preparation of the financial statements for the financial year 2024-2025.

Answer:

As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Issue 1

In accordance with the guidance provided above, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March 2025, the comparative amounts as at 31st March 2024 would be restated to reflect the correct classification.

Issue 2

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 2025, the comparative amounts for the year ended 31st March 2024 would be restated to reflect the correct classification.

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 2023). Therefore, the entity is not required to present a third balance sheet.

Q2. Nov 2024 Exam, 5 marks

You are required to analyse the following cases and advise whether they are related with prior period errors or change in accounting estimate

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a) As per the judgement of the court an arrear of salaries and wages relating to previous year amounting to Rs. 15,00,000 will be paid in the current year. At the end of the previous year, the management of the company was of the opinion that arrears of salaries and wages would not be required to be paid and accordingly no provision was made at the end of previous year.
b) Expenses of Rs. 1,50,000 of the previous year which were omitted from books of accounts of the previous year due to an oversight
c) The amount of provision for doubtful debts as at the end of the previous year was Rs. 10,00,000 of which debts of Rs. 6,00,000 were realized during the current year.
d) Company had taken a Group Insurance policy. During the previous year due to a mistake of Insurance Company the company paid less premium, which insurance company is demanding to pay now.

Answer:

(a) In case, it is assumed that the judgement of court has been received after the approval of previous year's financial statements of the reporting entity and the probability for payment of arrears of salaries and wages was remote in the previous year because of which the entity had neither made any provision or disclosure, then the liability for arrears of salary and wages would be considered as a change in accounting estimate in the current year. Alternatively, if it is assumed that in case the judgement of court has been received before the approval of financial statements of the previous year, then the entity should have adjusted the liability in that year itself. In the absence of said accounting treatment in the previous year, it will be considered a mistake and would be accounted for as a prior period error.
(b) In the given case, since the information regarding expenses of Rs. 1,50,000 in the previous year was available with the entity, and was omitted due to an oversight, it will be considered as a prior period error.
(c) As per para 32 of Ind AS 8, a loss allowance for expected credit losses (i.e. provision for doubtful debts) applying Ind AS 109, Financial Instruments, is an example of accounting estimate. Hence, any change in the previous year's estimate on account of recovery of such loss allowance in the current year would be a change in the accounting estimate in the current year because of the uncertainties inherent in business activities and it is not possible to measure the provision for doubtful debts with precise accuracy.
(d) This is neither a case of prior period error nor a change in accounting estimates. In the given case, the company did not have any information as on the balance sheet date and it is the mistake committed by the Group Insurance company and not the reporting entity. Hence, the demand for an additional premium amount by the Group Insurance Company will not be considered as a prior period error for the reporting entity. Further, the entity had paid the premium amount in the previous year, so no accounting estimate was involved thereupon. Therefore, the additional demand cannot be considered as a change in accounting estimate for the reporting entity.

Q3. Nov 2023 Exam, 5 marks

HG Incredibles Limited had in the recent past made a right issue. In its offer document to its members, it had projected a surplus of Rs. 50 crores during the year ending 31.03.2023. The draft result for the year ended 31.03.2023, prepared on the hitherto followed accounting policies and presented for perusal of the Board of Directors showed a surplus of Rs. 5 Crores. The Board in consultation with the Managing Director, decided on the following:

(i) Value year-end Inventory at Works Cost (Rs. 40 Crores) instead of hitherto method of valuation of inventory at Prime Cost (Rs. 20 Crores);
(ii) Not to provide for "After Sales Expenses" during the warranty period. Till the last year, provision for 1% of Sales used to be made under the concept of "matching of costs against

revenue" and actual expenses used to be charged against provision. The Board now decided to account for expenses as and when actually they are incurred. Sales during the year was Rs. 800 Crores;

(iii) Provide depreciation for the year on Straight Line Method on account of substantial additions in Gross Block during the year, instead of on Reducing Balance Method, which was hitherto adopted. As a consequence, Rs. 21 Crores depreciation is now less charged than it would have been provided under the old method. (Rs. 67 Crores on Reducing Balance method and Rs. 46 Crores in Straight Line Method).

(iv) Provide for other than temporary fall in the value of investments, which fall took place in last 6 years, amounting to Rs. 12 Crores.

Discuss the above situations as per applicable Ind AS, particularly Ind AS 8. Whether the above are changes in accounting policies or changes in estimates?

Answer:

(i) Paragraph 36(a) of Ind AS 2, 'Inventories', specifically requires disclosure of 'cost formula used' as a part of disclosure of accounting policies adopted in measurement of inventories. Accordingly, a change in cost formula is a change in accounting policy. The entity should apply the change in the accounting policy retrospectively. For retrospective application of a change in accounting policy, adjust the opening balance of each affected component for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. Usually, the adjustment is made to retained earnings.

Income tax effect due to change in accounting policy will be accounted for in accordance with Ind AS 12.

(ii) Here, since the question talks about making of provision, it is assumed that assurance warranty has been provided by the entity. Further, providing for 1% against after sales expenses is an accounting policy decision. Now since, the company has decided not to make provision for such expenses but to account for the same as and when expenses are incurred, there is a change in accounting policy decision.

The change in accounting policy is accounted for retrospectively. For retrospective application of a change in accounting policy, adjust the opening balance of each affected component for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. Usually, the adjustment is made to retained earnings.

Income tax effect due to change in accounting policy will be accounted for in accordance with Ind AS 12.

(iii) Determination of depreciation method involves an accounting estimate and thus depreciation method is not a matter of an accounting policy. Accordingly, as per Ind AS 16, a change in depreciation method should be accounted for as a change in accounting estimate in accordance with Ind AS 8. Change in accounting estimate is accounted for prospectively. However, the effect of the change is recognised as income or expense of the year in which the change is made. The effect, if any, on future periods is recognised as income or expense in those future periods.

(iv) Accounting for investment made by the entity falls under the purview of Ind AS 109 'Financial Instruments'. As per Ind AS 109, subsequent measurement of financial instruments is done on following basis:

(a) Measured at Amortised cost
(b) Measured at Fair value through Other Comprehensive Income (FVTOCI)
(c) Measured at Fair value through Profit or Loss (FVTPL)

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In case the entity has subsequently measured its financial asset i.e. investment on the basis of FVTOCI or FVTPL, then change in fair value would have been recorded earlier in previous reporting period too. In such a case, there is no change in accounting policy or accounting estimate. However, if the entity had not accounted for previous changes in its books, then it is an error. If the material error occurred before the earliest prior period presented, an entity shall, unless impracticable, correct the same retrospectively in the first set of financial statements approved for issue after their discovery by restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Further, fair value change is to be accounted for at every reporting date. Hence, restatement of the comparative amounts for the prior period(s) presented in which the error occurred is also required to be done.

Further, if an entity reclassifies any financial asset, it must do so prospectively from reclassification date. The entity shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest. Reclassification of financial asset will be accounted for in accordance with the guidance given in Ind AS 109.

Q4. Nov 2022 Exam, 5 marks

Orange Ltd. is going to prepare its annual financial statements for the year ending 31st March, 2022, in the process it discovered that a provision for constructive obligation for payment of bonus to selected employees in the corporate office (material in amount) which was required to be recognized in the annual financial statements for the year ended 31st March, 2020 was not recognized due to oversight of facts.

The bonus was paid during the financial year ended 31st March, 2021 and was recognized as an expense
in the annual financial statements for the said year.

As a finance manager of the company, you are required to analyse whether the situation relating to constructive obligation for payment of bonus is an error requiring retrospective restatement of comparatives considering that the amount is material.

Answer

As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial
errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue.

However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

As per paragraph 40A of Ind AS 1, an entity shall 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 retrospective restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, expenses for the year ended 31st March, 2020 and liabilities as at 31st March, 2020 were understated because of non-recognition of bonus expense and related provision. Expenses for the year ended 31st March, 2021, on the other hand,were overstated to the same extent because of recognition of the aforesaid bonus as expense for the year.
To correct the above errors in the annual financial statements for the year ended 31st March, 2022, the entity should:

a. restate the comparative amounts (i.e., those for the year ended 31st March, 2021) in the statement of profit and loss; and

b. present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 2020) wherein it should recognise the provision for bonus and restate the retained earnings.

Q5. Dec 2021 Exam, 5 marks

PQR Limited acquired a building for its administrative purposes and presented the same as Property, Plant and Equipment (PPE) in the financial year 2019-2020. During the financial year 2020-2021, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, PQR Limited reclassified it from PPE to Investment Property in the Financial Year 2020-2021.
Should PQR Limited account for the change as a change in accounting policy? Examine.

Answer

Requirement of Ind AS 8:

Paragraph 16(a) of Ind AS 8 provides that the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies

Definition of PPE as per relevant Ind AS:

As per Ind AS 16, 'property, plant and equipment' are tangible items that:

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

Definition of Investment Property as per relevant Ind AS: As per Ind AS 40, 'investment property' is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

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

Analysis and decision making:

As per the above definitions, whether a building is an item of property, plant and equipment (PPE) or an investment property for an entity depends on the purpose for which it is held by the entity. It is thus possible that due to a change in the purpose for which it is held, a building that was previously classified as an item of property, plant and equipment may warrant reclassification as an investment property, or vice versa.
Whether a building is PPE or investment property is determined by applying the definitions of these terms from the perspective of that entity.

Thus, the classification of a building as an item of property, plant and equipment or as an investment property is not a matter of an accounting policy choice. Accordingly, a change in classification of a building from property, plant and equipment to investment property due to change in the purpose for which it is held by the entity is not a change in an accounting policy.

Q6. Jan 2026, RTP

During 20X3, T Ltd. discovered that prepayments of Rs. 680 made during 20X1 had not been recognised in profit or loss as the related expenses were incurred. The prepayments should have been recognised as an expense of Rs. 170 in 20X1; Rs. 425 in 20X2; and Rs. 85 in 20X3. The misstatement is material.

Extract from draft 20X3 Statement of Profit and Loss before correction of error

	Draft 20X3	***20X2***
Revenue	10,200	6,800
Less: Expenses	(9,350)	(6,120)
Net profit	850	680

Extract from Statement of Changes in Equity

	Draft 20X3	*20X2*
Opening retained earnings	24,480	23,800
Add: Current-year net profit	850	680
Closing retained earnings	25,330	24,480

The opening balance of retained earnings is adjusted and comparatives are restated when practicable to reflect the correction of the error. Assume there are no tax effects.

Required:

Draw the revised Statement of Profit and Loss (extract) and Statement of Changes in Equity (extract) after rectifying the above error.

Answer:

In restating the comparatives, the adjustment will be included in the appropriate line item. In addition, the financial statements will include full disclosure regarding the error and the adjustments made to correct it as per para 49 of Ind AS 8. The restated comparative financial statements should be accompanied with the heading 'restated' to highlight for users the fact that the comparative financial statements are not the same as the financial statements previously published.

Statement of Profit and Loss after correction of error (Extract)

	20X3	*20X2 (Restated)*
	Rs.	*Rs.*
Revenue	10,200	6,800
Less: Expenses (9,350 + 85)	(9,435)	(6,545)
Net profit	765	255

Statement of Changes in Equity (Extract)

	20X3	*20X2 (Restated)*
	Rs.	*Rs.*
Opening retained earnings as reported previously	-	23,800
Correction of an error related to previous years	-	(170)
Opening retained earnings (restated)	23,885	23,630
Current-year net profit	765	255
Closing retained earnings	24,650	23,885

Q7. Nov 2023, RTP

In its financial statements for the year ended 31st March, 20X2, Y Ltd. reported ₹ 73,500 revenue (sales), ₹ 53,500 cost of sales, ₹ 6,000 income tax expense, ₹ 20,000 retained earnings at 1st April, 20X1 and ₹ 34,000 retained earnings at 31st March, 20X2.

In 20X2-20X3, after the 20X1-20X2 financial statements were approved for issue, Y Ltd. discovered that some products sold in 20X1-20X2 were incorrectly included in inventories at 31st March, 20X2 at their cost of ₹ 6,500.

In 20X2-20X3, Y Ltd. changed its accounting policy for the measurement of investments in associates after initial recognition from cost model to the fair value model as per Ind AS 109. It acquired its only investment in an associate for ₹ 3,000 many years ago. The associate's equity is not traded on a securities exchange (that is, a published price quotation is not available). The fair

value of the investment was determined reliably using an appropriate equity valuation model on 31st March, 20X3 at ₹ 25,000 (20X1-20X2: ₹ 20,000 and 20X0-20X1: ₹ 18,000).

At 31st March, 20X3, as a result of usage of improved lubricants, Y Ltd. reassessed theuseful life of Machine A from four years to seven years. Machine A is depreciated on the straight-line method to a Nil residual value. It was acquired for ₹ 6,000 on 1st April, 20X0.Inventories of the type manufactured by Machine A were immaterial at the end of each reporting period.

Y Ltd.'s accounting records for the year ended 31st March, 20X3, before accounting for change in accounting policy and change in accounting estimate, record ₹ 1,04,000 revenue (sales), ₹ 86,500 cost of sales (including ₹ 6,500 for the error in opening inventory and ₹ 1,500 depreciation for Machine A) and ₹ 5,250 income tax expense.

Y Ltd. presents financial statements with one year of comparative information.For simplicity, the tax effect of all items of income and expenses should be assumed to be 30% of the gross amount.

Draft an extract showing how the correction of the prior period error, change in accounting policy and change in accounting estimate could be presented in theStatement of Profit and Loss and Statement of Changes in Equity (Retained Earnings)and disclosed in the Notes of Y Ltd. for the year ended 31st March, 20X3.

Answer

Extract of Y Ltd.'s Statement of Profit and Loss for the year ended 31st March, 20X3

	20X2-20X3	Reference to W.N.	20X1-20X2 Restated	Reference to W.N.
	₹		₹	
Revenue	1,04,000		73,500	
Cost of sales (20X1-20X2 previously ₹ 53,500)	(79,100)	1	(60,000)	4
Gross profit	24,900		13,500	
Other income — change in the measurement policy i.e. the value of investment in associate at FVTPL	5,000	2	2,000	5
	29,900		15,500	
Profit before tax	(8,970)	3	(4,650)	6
Income tax expense	20,930		10,850	
Profit for the year				

Extract of Y Ltd.'s Statement of Changes in Equity (Retained Earnings) for the year ended 31st March, 20X3

	20X2-20X3	Reference to W.N.	20X1-20X2 Restated	Reference to W.N.
	₹		₹	
Retained earnings, as restated, at the beginning of the year				
- as previously stated	34,000		20,000	
- effect of the correction of a prior period error	(4,550)	7		
- effect of a change in accounting policy	11,900	13	10,500	12
	41,350		30,500	
Profit for the year	20,930		10,850	

Retained earnings at the end of the year	62,280		41,350	

Y Ltd.

Extract of Notes to the Financial Statements for the year ended 31st March, 20X3

Note X : Change in Accounting Estimates

Due to usage of improved lubricants the estimated useful life of the machine used for production was increased from four years to seven years. The effect of the change in the useful life of the machine is to reduce the depreciation allocation by ₹ 900 in 20X2-20X3 and 20X3-20X4. The after-tax effect is an increase in profit for the year of ₹ 630 for each of the two years.

Depreciation expense in 20X4-20X5 to 20X6-20X7 is increased by ₹ 600 because of revision in the useful life of machinery, as under the initial estimate, the asset would have been fully depreciated at the end of 20X3-20X4. The after-tax effect for these three years is a decrease in profit for the year by ₹ 420 per year.

Note Y : Correction of Prior Period Error

In 20X2-20X3 the entity identified that ₹ 6,500 products that had been sold in 20X1-20X2 were included erroneously in inventory at 31st March, 20X2. The financial statements of 20X1-20X2 have been restated to correct this error. The effect of the restatement is ₹ 6,500 increase in the cost of sales and ₹ 4,550 decrease in profit for the year ended 31st March, 20X2 after decreasing income tax expense by ₹ 1,950. This resulted in ₹ 4,550 (decrease) restatement of retained earnings at 31st March, 20X2.

Note Z : Change in Accounting Policy

In 20X2-20X3 the entity changed its accounting policy for the measurement of investments in associates from cost model to fair value model as per Ind AS 109.Management judged that this policy provides reliable and more relevant information because dividend income and changes in fair value are inextricably linked as integral components of the financial performance of an investment in an associate and measurement at fair value is necessary if that financial performance is to be reported in
a more meaningful way. This change in accounting policy has been accounted for retrospectively. The comparative information has been restated. A new line item,'Other income — change in the fair value of investment in associate', has been added in the Statement of Profit and Loss and Retained Earnings. The effect of therestatement has been to add income of ₹ 2,000 as a result of the increase in value of
the associate during the year ended 31st March, 20X2 which resulted in ₹ 1,400 increase in profit for the year (after including a resulting increase in income tax expense of ₹ 600). This, together with ₹ 10,500 (increase) restatement of retained earnings at 31st March, 20X1, resulted in a ₹ 11,900 increase in retained earnings at 31st March, 20X2. Furthermore, profit for the year ended 31st March, 20X3 was ₹ 3,500higher (after deducting ₹ 1,500 tax effect) as a result of recording a further ₹ 5,000(W.N.2) increase in the fair value of the investment in an associate.

Working Notes:

1. ₹ 86,500 (given) minus ₹ 6,500 correction of error (now recognised as an expense in 20X1-20X2) minus ₹ 900 (W.N.9) effect of the change in accounting estimate.
2. ₹ 25,000 fair value (20X2-20X3) minus ₹ 20,000 fair value (20X1-20X2) = ₹ 5,000 (the effect of applying the new accounting policy (fair value model) in 20X2-20X3).
3. ₹ 5,250 + ₹ 1,950 (W.N.8) + 30% (₹ 900 (W.N.9) reduction in depreciation resulting from the change in accounting estimate) + 30% (₹ 5,000 increase in the fair value of investment property — change in accounting policy) = ₹ 8,970.
4. ₹ 53,500 as previously stated + ₹ 6,500 (products sold and incorrectly included in closing inventory in 20X1-20X2) = ₹ 60,000 (that is, the prior period error is corrected retrospectively by restating the comparative amounts).
5. ₹ 20,000 fair value (20X1-20X2) minus ₹ 18,000 fair value (20X0-20X1) = ₹ 2,000 (the effect in 20X1-20X2 of the change in accounting policy for investments in associates from the cost model to the fair value model).

6. ₹ 6,000 as previously stated minus ₹ 1,950 (W.N.8) correction of prior period error + 30% (₹ 2,000 change in accounting policy) = ₹ 4,650.
7. ₹ 6,500 (products sold and incorrectly included in inventory in 20X1 -20X2) –₹ 1,950 (W.N.8) (tax overstated in 20X1-20X2) = ₹ 4,550.
8. ₹ 6,500 (products sold and incorrectly included in inventory in 20X1 -20X2) x 30% (income tax rate) = ₹ 1,950.
9. ₹ 1,500 depreciation (using old estimate, that is, ₹ 6,000 cost ÷ 4 years) minus ₹ 600 (W.N.10) (using new estimate of useful life) = ₹ 900.
10. ₹ 3,000 (W.N.11) carrying amount ÷ 5 years remaining useful life = ₹ 600 depreciation per year.
11. [₹ 6,000 cost minus (₹ 1,500 depreciation x 2 years)] = ₹ 3,000 carrying amount at 31st March, 20X2.
12. (₹ 18,000 fair value of investment in associates at 31st March, 20X1 minus ₹ 3,000 carrying amount based on the cost model at the same date) x 0.7 (to reflect 30% income tax rate) = ₹ 10,500 (effect of a change in accounting policy (from cost model to fair value model)).
13. ₹ 10,500 (W.N.12) + [₹ 2,000 (W.N.5) x 0.7 (to reflect 30% income tax rate)] = ₹ 11,900.

Q8. May 2023, RTP

In 20X3-20X4, after the entity's 31st March, 20X3 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that was not discoverable by reasonable or customary inspection). As a result of the latent defect, the entity incurred ₹ 1,00,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31st March, 20X3. An additional ₹ 20,000 was incurred to rectify the latent defect in products sold during 20X3-20X4 before the defect was detected and the production process rectified, ₹ 5,000 of which relates to items of inventory at 31st March, 20X3. The defective inventory was reported at cost (₹ 15,000) in the financial statements of 20X2-20X3 when its selling price less costs to complete and sell was estimated at ₹ 18,000. The accounting estimates made in preparing the 31st March, 20X3 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Analyse the above situation in accordance with Ind AS 8.

Answer

The defect was neither known nor reasonably possible to detect at 31st March, 20X3 or before the financial statements were approved for issue, hence ₹ 1,00,000 understatement of the warranty provision and ₹ 2,000 [refer Working Note] overstatement of inventory in the 31st March, 20X3 financial statements is not a priorperiod error. The effects of the latent defect that relate to the entity's financial position at 31st March, 20X3 are changes in accounting estimates. In preparing its 31st March, 20X3 financial statements the entity made the warranty provision and inventory valuation appropriately using all reliable information that the entity could reasonably be expected to have obtained and taken into account in the preparation and presentation of those financial statements. Consequently, the additional costs will be expensed in calculating profit or loss for 20X3-20X4.

Working Note:

Inventory is measured at the lower of cost (ie ₹ 15,000) and net realisable value (ie ₹ 18,000 originally estimated minus ₹ 5,000 costs to rectify latent defect = ₹ 13,000). Therefore, defective inventory was overstated by ₹ 2,000 (₹ 15,000 –₹ 13,000) in the year 20X2-20X3.

Q9. Nov 2022, RTP

1. On 1st April 20X1, Nuogen Ltd. had granted 1,20,000 share options to its employees with the vesting condition being a service condition as follows:

• Vesting date : 31st March 20X2 - 80,000 share options (1-year vesting period since grant date)

• Vesting date : 31st March 20X5 - 40,000 share options (4-year vesting period since grant date)

Each option can be converted into one equity share of Nuogen Ltd. The fair value of the options on grant date, i.e., on 1st April 20X1 was ₹ 20.

Nuogen Ltd. is required to prepare financial statements in Ind AS for the financial year ending 31st March 20X4. The transition date for Ind AS being 1st April 20X2.

The entity has disclosed publicly the fair value of both these equity instruments as determined at the measurement date, as defined in Ind AS 102.
The previous applicable GAAP for the entity was IGAAP (AS) and therein, the entity had not adopted intrinsic method of valuation.
The share options have not been yet exercised by the employees of Nuogen Ltd. How the share based payment should be reflected in, the books of Nuogen Ltd. as on 31st March 20X4, assuming that the entity has erred by not passing any entry for the aforementioned transactions in the books of Nuogen Ltd. on grant date, i.e. 1st April 20X1?

Answer

For 80,000 share-based options vested before transition date:

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments **that vested before the date of transition to Ind AS**. Hence, Nuogen Ltd. may opt for the exemption given in Ind AS 101 for 80,000 share options vested before the transition date. However, since no earlier accounting was done for these share-based options under previous GAAP too, therefore this led to an error on the transition date, as detected on the reporting date i.e. 31st March, 20X4. Hence, being an error, no exemption could be availed by Nuogen Ltd. on transition date with respect to Ind AS 102.While preparing the financial statements for the financial year 20X3-20X4, an error has been discovered which occurred in the year 20X1-20X2, i.e., for the period which was earlier than earliest prior period presented. The error should be corrected by restating the opening balances of relevant assets and/or liabilities and relevant component of equity for the year 20X2-20X3. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2).

Accordingly, on retrospective calculation of Share based options with respect to 80,000 options, Nuogen Ltd. will create 'Share based payment reserve (equity)' by ₹ 16,00,000 and correspondingly adjust the same though Retained earnings.

For 40,000 share based options to be vested on 31st March, 20X5:

Since share-based options have not been vested before transition date, no option as per Ind AS 101 is available to Nuogen Ltd. The entity will apply Ind AS 102 retrospectively. However, Nuogen Ltd. did not account for the same at the grant date. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2). Adjustment is to be made by recognising the 'Share based payment reserve (equity)' and adjusting the retained earnings by ₹ 2,00,000.

Further, expenses for the year ended 31st March, 20X3 and share based payment reserve (equity) as at 31st March, 20X3 were understated because of non-recognition of 'employee benefits expense' and related reserve. To correct the above errors in the annual financial statements for the year ended 31st March, 20X4, the entity should restate the comparative amounts (i.e., those for the year ended 31st March, 20X3) in the statement of profit and loss. In the given case, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000

For the year ending 31st March, 20X4, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000.

Working Note:

Period	Lot	Proportion	Fair value	Cumulative expenses	Expenses
		a	b	d= b x a	e = d-previous period d
20X1-20X2	1 (1-year vesting period)	1/1	16,00,000	16,00,000	16,00,000
20X1-20X2	2 (4-year vesting period)	1/4	8,00,000	2,00,000	2,00,000

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20X2-20X3	2 (4-year vesting period)	2/4	8,00,000	4,00,000	2,00,000
20X3-20X4	2 (4-year vesting period)	3/4	8,00,000	6,00,000	2,00,000

Q10. Nov 2021, RTP

While preparing interim financial statements for the half-year ended 30 September 20X2, an entity discovers a material error (an improper expense accrual) in the interim financial statements for the period ended 30 September 20X1 and the annual financial statements for the year ended 31 March 20X2. The entity does not intend to restate the comparative amounts for the prior period presented in the interim financial statements as it believes it would be sufficient to correct the error by restating the comparatives in the annual financial statements for the year ended 31 March 20X3. Is this acceptable? Discuss in accordance with relevant Ind AS.

Answer

Paragraph 42 of Ind AS 8, inter alia, states that an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred.

Paragraph 28 of Ind AS 34 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statement s (except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements).

Paragraph 15B of Ind AS 34 cites 'corrections of prior period errors' as an example of events or transactions which need to be explained in an entity's interim financial report if they are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

Paragraph 25 of Ind AS 34, Interim Financial Statements, states as follows:
"While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reaso ns of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from nondisclosure. The overriding goal is to ensure that an interim financial reportincludes all information that is relevant to understanding an entity's financial position and performance during the interim period."

In view of the above, the entity is required to correct the error and restate the comparative amounts in interim financial statements for the half-year ended 30 September 20X2.

Q11. May 2021, RTP

In 20X3-20X4, after the entity's 31 March 20X3 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that could not be discovered by reasonable or customary inspection). As a result of the latent defect the entity incurred ₹100,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31 March 20X3. An additional ₹20,000 was incurred to rectify the latent defect in products sold during 20X3-20X4 before the defect was detected and the production process rectified, ₹5,000 of which relates to items of inventory at 31 March 20X3. The defective inventory was reported at cost ₹ 15,000 in the 20X2-20X3 financial statements when its selling price less costs to complete and sell was estimated at ₹18,000. The accounting estimates made in preparing the 31 March 20X3 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.Analyse the above situation in accordance with relevant Ind AS.

Answer

Ind AS 8 is applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.
A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset. This change in accounting estimate is an outcome of the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Further, the effect of change in an accounting estimate, shall be recognised prospectively by including it in profit or loss in: (a) the period of the change, if the change affects that period only; or (b) the period of the change and future periods, if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were approved for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
On the basis of above provisions, the given situation would be dealt as follows:The defect was neither known nor reasonably possible to detect at 31 March 20X3 or before the financial statements were approved for issue, so understatement of the warranty provision ₹ 1,00,000 and overstatement of inventory ₹ 2,000 (Note 1) in the 31 March 20X3 financial statements are not a prior period errors.

The effects of the latent defect that relate to the entity's financial position at 31 March 20X3 are changes in accounting estimates. In preparing its financial statements for 31 March 20X3, the entity made the warranty provision and inventory valuation appropriately using all reliable information that the entity could reasonably be expected to have obtained and had taken into account the same in the preparation and presentation of those financial statements. Consequently, the additional costs are expensed in calculating profit or loss for 20X3-20X4.

Working Note:
Inventory is measured at the lower of cost (ie ₹ 15,000) and fair value less costs to complete and sell (ie ₹ 18,000 originally estimated minus ₹ 5,000 costs to rectify latent defect) = ₹ 13,000.

Q12. May 2020, RTP

While preparing the financial statements for the year ended 31st March, 20X3, Alpha Limited has observed two issues in the previous year Ind AS financial statements (i.e. 31st March, 20X2) which are as follows:

Issue 1:
The company had presented certain material liabilities as non-current in its financial statements for periods as on 31st March, 20X2. While preparing annual financial statements for the year ended 31st March, 20X3, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period presented (i.e., as at 31st March, 20X2).

Issue 2:
The company had charged off certain expenses as finance costs in the year ended 31st March, 20X2. While preparing annual financial statements for the year ended 31st March, 20X3, it was 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 entity intends to restate the comparative amounts for the prior period presented in which the error occurred (i.e., year ended 31st March, 20X2).

What is your analysis and recommendation in respect of the issues noted with the previously presented set of financial statements for the year ended 31st March, 20X2?

Answer

As per paragraph 41 of Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period. Accordingly, the stated issues in question are to dealt as under:

Issue 1

In accordance with para 41, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financialstatements for the year ended March 31, 20X3, the comparative amounts as at 31 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. Accordingly, the entity should present a third balance sheet as at the beginning of the preceding period, i.e., as at 1 April 20X1 in addition to the comparatives for the financial year 20X1-20X2.

Issue 2

In accordance with para 41, 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 31 March, 20X3, the comparative amounts for the year ended 31 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 (1 April 20X1). Therefore, the entity is not required to present a third balance sheet.

Q13. Nov 2019, RTP

During 20X4-X5, Cheery Limited discovered that some products that had been sold during 20X3-X4 were incorrectly included in inventory at 31st March, 20X4 at ₹ 6,500.

Cheery Limited's accounting records for 20X4-X5 show sales of ₹ 104,000, cost of goods sold of ₹ 86,500 (including ₹ 6,500 for the error in opening inventory), and income taxes of ₹ 5,250.

In 20X3-X4, Cheery Limited reported:

	₹
Sales	73,500
Cost of goods sold	(53,500)
Profit before income taxes	20,000
Income taxes	(6,000)
Profit	14,000
Basic and diluted EPS 2	2.8

The 20X3-X4 opening retained earnings was ₹ 20,000 and closing retained earnings was ₹ 34,000. Cheery Limited's income tax rate was 30% for 20X4-X5 and 20X3-X4. It had no other income or expenses.

Cheery Limited had ₹ 50,000 (5,000 shares of ₹ 10 each) of share capital throughout, and no other components of equity except for retained earnings.

State how the above will be treated /accounted in Cheery Limited's Statement of profit and loss, statement of changes in equity and in notes wherever required for current period and earlier period(s) as per relevant Ind AS

Answer

Cheery Limited
Extract from the Statement of profit and loss

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

Cheery Limited
Statement of Changes in Equity

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

Extract from the Notes

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

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

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

Q14. May 2019, RTP

ABC Ltd. changed its method adopted for inventory valuation in the year 2018-2019. Prior to the change, inventory was valued using the first in first out method (FIFO).

However, it was felt that in order to match current practice and to make the financial statements more relevant and reliable, a weighted average valuation model would be more appropriate.

The effect of the change in the method of valuation of inventory was as follows:

- 31st March, 2017 - Increase of ₹ 10 million
- 31st March, 2018 - Increase of ₹ 15 million
- 31st March, 2019 - Increase of ₹ 20 million

Profit or loss under the FIFO valuation model are as follows:

	2018-2019	**2017-2018**
Revenue	324	296

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Cost of goods sold	(173)	(164)
Gross profit	151	132
Expenses	(83)	(74)
Profit	**68**	**58**

Retained earnings at 31st March, 2017 were ₹ 423 million

Present the change in accounting policy in the profit or loss and produce an extract of the statement of changes in equity in accordance with Ind AS 8.

Answer

Profit or loss under weighted average valuation method is as follows:

	2018-2019	**2017-2018 (Restated)**
Revenue	324	296
Cost of goods sold	(168)	(159)
Gross profit	156	137
Expenses	(83)	(74)
Profit	**73**	**63**

Statement of changes in Equity (extract)

	Retained earnings	**Retained earnings (Original)**
At 1st April, 2017	423	423
Change in inventory valuation policy	10	-
At 1st April, 2017 (Restated)	**433**	**-**
Profit for the year 2017-2018	63	58
At 31st March, 2018	**496**	**481**
Profit for the 2018-2019	73	68
At 31st March, 2019	**569**	**549**

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Q1. May 2023 Exam, 5 marks

Discuss the following situations as per Ind AS 10:

i. The financial statements of a Company for the year 2021-2022 are approved by the management and were sent on 5 th June, 2022 for review and approval to its supervisory board i.e., Board of Directors. The supervisory board approves the financial statements on 26th June, 2022. The financial statements are then made available to shareholders on 4th July, 2022. The financial statements are approved by shareholders in their annual general meeting on 18th August, 2022 and then filed with Ministry of Corporate Affairs (MCA) on 19th August, 2022. Determine & discuss the date on which financial statements were approved.

ii. A Company is in litigation with Income Tax Department with respect to allowability of certain exemptions for financial year 2018-2019. No provision for tax has been made for disallowances of exemptions as the Company was under bonafide beliefbased on a legal opinion that it will succeed in litigation. On 21st April, 2023, the Hon'ble Supreme Court rejected the Company's claim. The Order is received on 30th April, 2023. The financial statements for the financial year 2022-2023 of the Company are yet to be approved. The earlier year's financial statements stands approved. Advise in financial statements of which financial year the impact of the Order of the Hon'ble Supreme Court should be recognized.

iii. Z Limited while preparing its financial statements on 31st March, 2023 made a provision for doubtful debts @ 6% on accounts receivables. In the last week of January, 2023, a debtor for ₹ 3 lakhs had suffered heavy loss due to fire; the loss was not covered by any insurance policy. Z Limited, considering the event of fire made a provision @ 60% of the amount receivables from that debtor apart from the general provision @ 6% on remaining debtors. The same debtor was declared insolvent on 10th April, 2023. The financial statements have not yet been approved.

You are required to suggest whether the company should provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31st March, 2023.

iv. D Limited acquired equity shares of another company on 1 st March, 2023 at a cost of ₹ 28 lakhs. The fair market value of these shares on 31st March, 2023 was ₹ 35 lakhs and the company measured it at ₹ 35 lakhs (assume that it is classified as FVTOCI as per Ind AS 109 and change in fair value is transferred to 'fair value fluctuation reserve'). Due to market conditions subsequent to the reporting date, the value of investments drastically came down to ₹ 20 lakhs. The financial statements have not yet been approved.

You are required to suggest whether D Limited should value the investments at ₹ 35 lakhs or ₹ 20 lakhs as on 31st March, 2023.

v. Tanmay Limited was in negotiation with Varun Limited from 1st December, 2022 to acquire land for ₹ 5.00 crores. The negotiations were concluded in the first week of April 2023. The transaction was completed by last week of April, 2023.

In Which financial year, the purchase of land should be recognized?

Answer

i. As per Ind AS 10, in the case of a company, the financial statements will be treated as approved when board of directors approves the same. Hence in the given case, the financial statements are approved for issue on 26th June, 2022 (date of approval by the Board of Directors for issue of financial statements to the shareholders).

ii. An event after the reporting period is an adjusting event if it provides evidence of a condition existing at the end of the reporting period. Court order received after the reporting period (but before the financial statements are approved) provides evidence of the liability existing at the end of the reporting period. Therefore, the event will be considered as an adjusting event and, accordingly, the amount will be adjusted in financial statements for the financial year 2022-2023.

iii. In the instant case, the fire took place in January, 2023 (i.e. before the end of the reporting period). Therefore, the condition existed at the end of the reporting date though the debtor is declared insolvent after the reporting period. Accordingly, full provision for bad debt

amounting to ₹ 3 lakhs should be made to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended 31st March, 2023.

iv. A decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue is a non-adjusting event. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period but reflects circumstances that have arisen subsequently. Therefore, D Limited should value the investments at ₹ 35 lakhs as on 31st March, 2023.

v. As per Ind AS 10, an entity should adjust the financial statements for the events that occurred after the reporting period, but before the financial statements are approved for issue, if those events provide evidence of conditions that existed at the end of the reporting period.In this case, negotiations continued with Varun Limited to acquire land from 1st December, 2022 till first week of April, 2023. Since on the reporting date, the condition was only on proposal state and transaction was completed on 1st week of April 2023, the event will be considered as a non-adjusting event as per Ind AS 10. Purchase of land should be recognized in the financial year 2023-2024.

However, the same may be disclosed in the Notes to Accounts for due information to the users of the financial statements.

Q2. Nov 2019 Exam, 8 marks

Discuss with reasons whether these events are in nature of adjusting or non-adjusting and the treatment needed in light of accounting standard Ind AS 10.

i. Moon Ltd. won an arbitration award on 25th April, 2019 for ₹ 1 crore. From the arbitration proceeding, it was evident that the Company is most likely to win the arbitration award. The directors approved the financial statements for the year ending 31.03.2019 on 1st May, 2019.

The management did not consider the effect of theabove transaction in Financial Year 2018-2019, as it was favourable to the Company and the award came after the end of the financial year.

ii. Zoom Ltd. has a trading business of Mobile telephones. The Company has purchased 1000 mobiles phones at ₹ 5,000 each on 15th March, 2019. The manufacturers of phone had announced the release of the new version on 1st March, 2019 but had not announced the price. Zoom Ltd. has valued inventory at cost of ₹ 5,000 each at the year ending 31st March, 2019.

Due to arrival of new advance version of Mobile Phone on 8th April, 2019, the selling prices of the mobile stocks remaining with Company was dropped at ₹ 4,000 each.The financial statements of the company valued mobile phones @ ₹ 5,000 each and not at the value @ ₹ 4,000 less expenses on sales, as the price reduction in selling price was effected after 31.03.2019.

iii. There as an old due from a debtor amounting to ₹ 15 lakh against whom insolvency proceedings was instituted prior to the financial year ending 31st March, 2019. The debtor was declared insolvent on 15th April, 2019.

iv. Assume that subsequent to the year end and before the financial statements are approved, Company's management announces that it will restructure the operation of the company. Management plans to make significant redundancies and to close a few divisions of company's business; however, there is no formal plan yet. Should management recognise a provision in the books, if the company decides subsequent to end of the accounting year to restructure its operations?

Answer

As per Ind AS 10, the treatment of stated issues would be as under:

i. Adjusting event: It is an adjusting event as it is the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. Even though winning of award is favorable to the company, it should be accounted in its books as receivable since it is an adjusting event.

ii. Adjusting event: The sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period, hence it is an adjusting event as

per Ind AS 10. Zoom Limited should value its inventory at ₹ 40,00,000. Hence, appropriate provision must be made for ₹ 15 lakh.

iii. **Adjusting event:** As per Ind AS 10, the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.

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

iv. **Non – adjusting event:**Announcing or commencing the implementation of a major restructuring after

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

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

Q3. Nov 2024, RTP

H Ltd. constructed a warehouse at a cost of Rs.10 lakhs in 20X1. It first became available for use by H Ltd. on 1st April, 20X2. On 29th April, 20X6, H Ltd. discovered that its warehouse was damaged. During early May 20X6, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely after heavy rainfall in the week ended 27th April 20X6. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at 31st March 20X6. This estimate was Rs. 6,00,000. Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30- year useful life.

Seepage of rain-water through the crack in the warehouse caused damage to inventory worth about Rs. 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31st March, 20X6. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st March, 20X6 were approved for issue by the Board of Directors on 28th May, 20X6.

You are required to :

I. Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st March, 20X6. Kindly ignore tax impact.

II. Discuss disclosure requirement in above case as per relevant Ind AS.

III. Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31st March, 20X6?

Answer:

Journal Entries on 31st March, 20X6

	Rs.	**Rs.**
Depreciation expense A/c (W.N.1) Dr.	19,608	
To Warehouse or Accumulated		19,608
depreciation A/c		
(Being additional depreciation expense		
recognised for the year ended 31st March		
20X6 arising from the reassessment of the		

useful life of the warehouse)		
Impairment loss A/c (W.N.2) Dr.	2,47,059	2,47,059
To Warehouse or Accumulated		
depreciation A/c		
(Being impairment loss recognised due to		
discovery of structural fault in the		
construction of warehouse at 31st March,		
20X6)		

(ii) (a) The damage to warehouse is an adjusting event (occurred after the end of the year 20X6-20X6) for the reporting period 20X5-20X6, since it provides evidence that the structural fault existed at the end of the reporting period. It is an adjusting event, in spite of the fact that fault has been discovered after the reporting date.

The effects of the damage to the warehouse are recognised in the year 20X5-20X6 reporting period. Prior periods will not be adjusted because those financial statements were prepared in good faith (eg. regarding estimate of useful life, assessment of impairment indicators etc.) and had not affected the financials of prior years.

(b) Damage of inventory due to seepage of rainwater

Rs. 1,00,000 occurred during the year 20X5-20X6. It is a non- adjusting event after the end of the 20X5-20X6 reporting period since the inventory was in good condition at 31st March 20X6. Hence, no accounting has been done for it in the year 20X5-20X6.

H Ltd. must disclose the nature of the event (i.e. rain- damage to inventories) and an estimate of the financial effect (i.e. Rs. 1,00,000 loss) in the notes to its 31st March 20X6 annual financial statements.

(iii) If the damage to the warehouse had been caused by an event that occurred after 31st March 20X6 and was not due to structural fault, then it would be considered as a non-adjusting event after the end of the reporting period 20X5-20X6 as the warehouse would have been in a good condition at 31st March 20X6.

Working Notes:

1. Calculation of additional depreciation to be charged in the year 20X5-20X6

Original depreciation as per SLM already charged during the year 20X5-20X6 = Rs. 10,00,000/ 30 years = Rs. 33,333.

Carrying value at the end of 20X4-20X5 = 10,00,000 – (Rs. 33,333 x 3 years) = Rs. 9,00,000

Revised depreciation = 9,00,000 / 17 years = Rs. 52,941

Additional depreciation to be recognised in the books in the year 20X5-20X6 = Rs. 52,941 – Rs. 33,333 = Rs. 19,608

2. Calculation of impairment loss in the year 20X5-20X6

Carrying value after charging depreciation for the year 20X5-20X6

= Rs. 9,00,000 – Rs. 52,941 = Rs. 8,47,059

Recoverable value of the warehouse = Rs. 6,00,000 Impairment loss = Carrying value - Recoverable value

= Rs. 8,47,059 - Rs. 6,00,000 = Rs. 2,47,059

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Q4. May 2024, RTP

The company has made sales of Rs. 60,00,000 to a customer SS LLP on 31st December 20X2. The normal credit is for one month. However, sometimes, it goes upto 2 months. The company expects to receive the payment by 28th February 20X3. However, no payment has been received till 31st March 20X3. On 15th April 20X3, the sales department of the company became aware that the customer is passing through financial crisis and has major cash flow problems.

The company has agreed to allow the customer to settle the debt by 31st March 20X4, by which time the customer is confident that the cashflow problem will be resolved.

The company expects that an annual interest of 9% (i.e. effective interest rate) can be received against any money lent out, yet it allowed the customer an interest-free payment period.

Determine the amount to be shown as 'trade receivable' from SS LLP in the books of the company as on 31st March 20X3.

Answer:

Ind AS 10 'Events after the Reporting Date', classify an event as adjusting if it provides additional evidence of conditions existing at the reporting date. In this case the additional information relates to evidence of impairment of a financial asset, since the customer had financial difficulties prior to 31st March 20X3.

Ind AS 109 'Financial Instruments' requires financial assets to be reviewed at each reporting date for evidence of impairment. Such evidence exists here because although the customer is expected to pay the amount due the payment date has been deferred. As per para B5.5.33 of Ind AS 109, for a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit- impaired financial asset, an entity shall measure the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. Any adjustment is recognized in the profit or loss as an impairment gain or loss. Further, para B5.5.44 of Ind AS 109 provides that expected credit losses shall be discounted to the reporting date, not to the expected default or some other date, using the effective interest rate determined at initial recognition or an approximation thereof.

In such circumstances, Ind AS 109 requires that the financial asset be re-measured at the present value of the expected future receipt, discounted (in the case of a trade receivable) using effective interest rate. Therefore, in the financial statements for the year ended 31st March 20X3, asset should be measured at Rs. 55,04,587 (Rs. 60,00,000 / 1.09) and an impairment loss of Rs. 4,95,413 (Rs. 60,00,000 – Rs. 4,95,413) recognised in profit and loss.

In the year ended 31st March 20X4, interest income of Rs. 4,95,413 (Rs. 55,04,587 x 9%) should be recognised in the profit and loss.

Q5. May 2022, RTP

XYZ Ltd. sells goods to its customer with a promise to give discount of 5% on list price of the goods provided that the payments are received from customer within 15 days. XYZ Ltd. sold goods of Rs. 5 lakhs to ABC Ltd. between 17th March, 20X1 and31st March, 20X1. ABC Ltd. paid the dues by 15th April, 20X1 with respect to sales made between 17th March, 20X1 and 31st March, 20X1. Financial statements were approved for issue by Board of Directors on 31st May, 20X1. State whether discount will be adjusted from the sales at the end of the reporting period.

Answer

As per Ind AS 115, if the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

In the instant case, the condition that sales have been made exists at the end of the reporting period and the receipt of payment within 15 days' time after the end of the reporting period and before the approval of the financial statements confirms that the discount is to be provided on those sales. Therefore, it is an adjusting event.

Accordingly, XYZ Ltd. should adjust the sales made to ABC Ltd. With respect to discount of 5% on the list price of the goods.

Q6. Nov 2020, RTP

In one of the plant of PQR Ltd., fire broke out on 10.05.2020 in which the entire plant was damaged. PQR Ltd. estimated the loss of Rs. 40,00,000 due to fire. The company filed a claim with the insurance company and expects recovery of Rs. 27,00,000 from the claim. The financial statements for the year ending 31.03.2020 were approved by the Board of Directors on 12th June, 2020. Discuss the accounting treatment of the above situation.

Answer

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue.

Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

(b) those that are indicative of conditions that arose after the reporting period (non adjusting events after the reporting period).

An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. In the instant case, since fire took place after the end of the reporting period, it is a non-adjusting event. However, in accordance with para 21 of Ind AS 10, disclosures regarding non-adjusting event should be made in the financial statements, i.e., the nature of the event and the expected financial effect of the same.

With regard to going concern basis followed for preparation of financial statements, the company needs to determine whether it is appropriate to prepare the financial statements on going concern basis, since there is only one plant which has been damaged due to fire.

If the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, preparation of financial statements for the financial year 2019-2020 on going concern assumption may not be appropriate. In that case, the financial statements may have to be prepared on a basis other than going concern.

However, if the going concern assumption is considered to be appropriate even after the fire, no adjustment is required in the financial statements for the year ending 31.03.2020.

Q7. May 2020, RTP

A company manufacturing and supplying process control equipment is entitled to duty draw back if it exceeds its turnover above a specified limit. To claim duty drawback, the company needs to file application within 15 days of meeting the specified turnover. If application is not filed within stipulated time, the Department has discretionary power of giving duty draw back credit. For the year 20X1-20X2 the company has exceeded the specified limit of turnover by the end of the reporting period. However, duty drawback can be claimed on filing of application within the stipulated time or on discretion of the Department if filing of application is late. The application for duty drawback is filed on April 20, 20X2, which is after the stipulated time of 15 days of meeting

the turnover condition. Duty drawback has been credited by the Department on June 28, 20X2 and financial statements have been approved by the Board of Directors of the company on July 26, 20X2. What would be the treatment of duty drawback credit as per the given information?

Answer

In the instant case, the condition of exceeding the specified turnover was met at the end of the reporting period and the company was entitled for the duty drawback . However, the application for the same has been filed after the stipulated time. Therefore, credit of duty drawback was discretionary in the hands of the Department. Since the claim was to be accrued only after filing of application, its accrual will be considered in the year 20X2-20X3 only.

Accordingly, the duty drawback credit is a contingent asset as at the end of the reporting period 20X1-20X2, which will be realised when the Department credits the same.

As per para 35 of Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

In accordance with the above, the duty drawback credit which was contingent asset for the F.Y. 20X1 -20X2 should be recognised as asset and related income should be recognized in the reporting period in which the change occurs. i.e., in the period in which realisation becomes virtually certain, i.e., F.Y. 20X2 - 20X3

Q8. Nov 2019, RTP

ABC Ltd. received a demand notice on 15th June, 2017 for an additional amount of Rs. 28,00,000 from the Excise Department on account of higher excise duty levied by the Excise Department compared to the rate at which the company was creating provision and depositing the same. The financial statements for the year 2016-17 are approved on 10th August, 2017. In July, 2017, the company has appealed against the demand of Rs. 28,00,000 and the company has expected that the demand would be settled at Rs. 15,00,000 only. Show how the above event will have a bearing on the financial statements for the year 2016-17. Whether these events are adjusting or non-adjusting events and explain the treatment accordingly.

Answer

Ind AS 10 defines 'Events after the Reporting Period' as follows:

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period)

In the instant case, the demand notice has been received on 15th June, 2017, which is between the end of the reporting period and the date of approval of financial statements. Therefore, it is an event after the reporting period. This demand for additional amount has been raised because of higher rate of exc ise duty levied by the Excise Department in respect of goods already manufactured during the reporting period. Accordingly, condition exists on 31st March, 2017, as the goods have been manufactured during the reporting period on which additional excise duty has been levied and this event has been confirmed by the receipt of demand notice. Therefore, it is an adjusting event.

In accordance with the principles of Ind AS 37, the company should make a provision in the financial statements for the year 2016-17, at best estimate of the expenditure to be incurred, i.e., Rs. 15,00,000.

Q9. May 2019, RTP

XYZ Ltd. was formed to secure the tenders floated by a telecom company for publication of telephone directories. It bagged the tender for publishing directories for Pune circle for 5 years. It has made a profit in 2013-2014, 2014-2015, 2015-2016 and 2016-2017. It bid in tenders for publication of directories for other circles – Nagpur, Nashik, Mumbai, Hyderabad but as per the results declared on 23rd April, 2017, the company failed to bag any of these. Its only activity till date is publication of Pune directory. The contract for publication of directories for Pune will expire on 31st December 2017. The financial statements for the F.Y. 2016-17 have been approved by the Board of Directors on July 10, 2017. Whether it is appropriate to prepare financial statements on going concern basis?

Answer

With regard to going concern basis to be followed for preparation of financial statements, Ind AS 10 provides as follows:

"14 An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

15 Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised
within the original basis of accounting."

In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the instant case, since contract is expiring on 31st December 2017 and it is confirmed on 23rd April, 2017, i.e., after the end of the reporting period and before the approval of the financial statements, that no further contact is secured, implies that the entity's operations are expected to come to an end. Accordingly, if entity's operations are expected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 2016-17 and thereafter on going concern basis may not be appropriate.

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Q1. Jan 2026 Exam, 4 marks

You are in the process of determining the valuation of K Limited. You have decided to adopt two valuation approaches, namely the Market Approach and the Income Approach.

Under the Market Approach, the Enterprise Value (EV) of the company is to be computed using the EV/EBITDA multiple. Under the Income Approach, the EV has already been determined based on the company's projected cash flows.

Historically, the higher of the two valuations was selected as the final value. However, based on discussions with your partner, you have now been requested to assign equal weights to both the approaches and determine a fair value of the shares of K Limited.

The relevant details of K Limited are as follows:

- EBITDA (Trailing 12 Months): Rs. 620.00 crore;
- EV/EBITDA multiple: 8.5;
- Enterprise Value as per Income Approach: Rs. 4,701.10 crore;
- Debt obligation as on the measurement date: Rs. 1,465.90 crore;
- Surplus cash and cash equivalents: Rs. 106.14 crore;
- Fair value of surplus assets and liabilities: Rs. 312.40 crore;
- The number of shares outstanding: Rs. 8,52,00,000.

You are required to compute the fair value per share of K Limited based on the above inputs and consider 5% liquidity discount and a 5% discount for non-controlling interest, in order to arrive at the final fair value per share from an investor's perspective.

Answer:

(c) Determination of Enterprise Value of K Ltd. (from Market Approach)

Particulars	
EBITDA as on the measurement date	Rs. 620 crore
EV/EBITDA multiple as on the date of valuation	8.5
Enterprise value of K Ltd. (Rs. 620 crore x 8.5)	Rs. 5,270 crore

Fair value per share of K Ltd

Particulars	**Weights**	**Rs. in crore**
As per Market Approach	50	5,270.00
As per Income Approach	50	4,701.10
Enterprise Valuation based on weights [(5,270 x 50%) + (4,701.10 x 50%)]		4,985.55
Less: Debt obligation as on measurement date		(1,465.90)
Add: Surplus cash & cash equivalent		106.14
Add: Fair value of surplus assets and liabilities		312.40
		3,938.19
Less: Liquidity discount & Non-controlling stake discount (5%+5%=10%)		(393.82)
Enterprise value of K Ltd.		3,544.37

No. of shares	8,52,00,000
Fair value per share (Rs. 3,544.37 crores / 8.52 crores shares)	Rs. 416.01

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Q2. May 2025 Exam, 4 marks

Investors Ltd. is in the process of acquisition of shares of Glue Ltd. as part of business reorganization plan. The projected free cash flows of Glue Ltd. for the next 5 years are as follows:

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	420	418	272	606	777
Terminal value					8,919

The weighted average cost of capital of Glue Ltd. is 12%. The total debt as on measurement date is Rs. 3,294 lakhs and the surplus cash and cash equivalents is Rs. 240 lakhs. The total number of shares of Glue Ltd. as on the measurement date is Rs. 20 lakhs.

You are required to determine the value per share of Glue Ltd. as per Income Approach as enunciated in Ind AS 113, Fair Value Measurement.

Compute value per share upto 2 decimal points. Present value factor of Rs. 1 at 12% is as under:

Year 1	Year 2	Year 3	Year 4	Year 5
0.8929	0.7972	0.7118	0.6355	0.5674

Answer:

Determination of equity value of Glue Ltd.

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	420.0000	418.0000	272.0000	606.0000	777.0000
Terminal value					8,919.0000
	420.0000	418.0000	272.0000	606.0000	9,696.0000
Discount rate factor	0.8929	0.7972	0.7118	0.6355	0.5674
Free cash flow available to the firm	375.0180	333.2296	193.6096	385.1130	5,501.5104
Total of all years discounted cashflows					6,788.4806
Less: Debt					(3,294.0000)
Add: Cash & cash equivalents					240.0000
Equity value of Glue Ltd.				(A)	3,734.4806
Number of shares				(B)	20,00,000
Per share value				(A/B)	186.72403

Q3. Nov 2022 Exam, 5 marks

Silver Ltd. is in the process of acquiring shares of Blue Ltd. as a part of business reorganization plan. The projected free cash flow of Blue Ltd. for the next 5 years is as follows:

(₹ in crores)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	280.65	281.40	182.70	403.50	518.20
Terminal value					5,945

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The weighted average cost of capital of Blue Ltd. is 10%. The total debt as on measurement date is ₹ 2,195 crore and the surplus cash and cash equivalent is₹ 159.21 crore.

The total number of shares of Blue Ltd. as on the measurement date is 12.80 crore .You are required to determine the value per share of Blue Ltd. as per Income Approach of Ind AS 113.
(Present value factor of ₹ 1 should be taken upto 4 decimals for the purpose of calculation)

Answer

Determination of Equity Value of Blue Ltd.

(₹ in crore)

Particulars	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Cash flows	280.65	281.40	182.70	403.50	518.20
Terminal value					5,945
	280.65	281.40	182.70	403.50	6,463.20
Discount rate @ 10%	0.9091	0.8264	0.7513	0.6830	0.6209
Free cashflow available to the firm	255.14	232.55	137.26	275.59	4,013.00
Total of all years					4,913.54
Less: Debt					
Add: Cash & cash equivalent					(2,195.00)
Equity value of PT Ltd					159.21
No. of shares (in crore)					2,877.75
Per share value (₹ 2,877.75 Cr. / 12.80 Cr)					12.80 Cr
					₹224.82.

Q4. May 2022 Exam, 5 marks

Shravan Ltd. owns 6,800 ordinary shares in PQR Ltd., an unquoted company. PQR Ltd.has a total share capital of 2,00,000 shares with nominal value of ₹ 10. PQR Ltd.'s after tax maintainable profits are estimated at ₹ 28,00,000 per year. An appropriate price/earnings ratio determined from published industry data is 12 (before lack of
marketability adjustment). Shravan Ltd.'s management estimates that the discount for the lack of marketability of PQR Ltd.'s shares and restrictions on their transfer is 18%.

Shravan Ltd. values its holding in PQR Ltd.'s shares based on earnings. Determine the fair value of Shravan Ltd.'s investment in PQR Ltd.'s shares.

Answer

Calculation of an earnings-based valuation of Shravan Ltd.'s holding of shares in PQR Ltd.:

Particulars		**Unit**
PQR Ltd.'s after-tax maintainable profits	(A)	₹ 28,00,000
Price / Earnings ratio	(B)	12
Adjusted discount factor (1- 0.18)	(C)	0.42
Value of PQR Ltd.	(A) x (B) x (C)	₹ 2,75,52,000

Value of a share of PQR Ltd. = ₹ 2,75,52,000 / 2,00,000 shares = ₹ 137.76

The fair value of Shravan Ltd.'s investment in PQR Ltd.'s shares is estimated at ₹ 9,36,768 (that is, 6,800 shares × ₹ 137.76 per share)

Alternative way of presentation:

Particulars		
PQR Ltd.'s after-tax maintainable profits in ₹	(A)	28,00,000
PQR Ltd.'s number of outstanding shares	(B)	2,00,000
PQR Ltd.'s EPS in ₹	(C = (A/B))	14.00
Industry PE ratio (given)	(D)	12
Market price of PQR Ltd. per share in ₹	(E = (C x D))	168.00

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Discount for lack of marketability @ 18% in ₹	(F = E x 18%)	30.24
Adjusted price per share of PQR Ltd. in ₹	(G = (E-F))	137.76
Shravan Ltd.'s holding	(H)	6,800 shares
Fair value of Shravan's investment in PQR Ltd.	(G x H).	9,36,768.00

Q5. Dec 2021 Exam, 4 marks

Mr. Q has determined the valuation of Rhythm Ltd. by two approaches i.e., Market Approach and Income Approach and selected the highest as the final value but the management of Rhythm Ltd. is not satisfied and requests you to determine the fair value of shares of Rhythm Ltd. by assigning the weights to Market Approach and Income Approach in the ratio of 7:3.

Determine the Equity value on the basis of details given below:

Particulars	**₹**
Valuation as per Market Approach	35,82,380
Valuation as per Income Approach	21,99,930
Debt obligation as on measurement date	9,96,812
Surplus cash & cash equivalent	2,10,388
Fair value of surplus assets and liabilities	3,12,449
Number of shares of Rhythm Ltd.	1,06,680 shares

Answer

Equity Valuation of Rhythm Ltd.

Particulars	**Weights out of 10**	**(₹)**
As per Market Approach	7	35,82,380
As per Income Approach	3	21,99,930
Enterprise Valuation based on weights (35,82,380 x 70%) + (21,99,930 x 30%)		31,67,645
Less: Debt obligation as on measurement date		(9,96,812)
Add: Surplus cash & cash equivalent		2,10,388
Add: Fair value of surplus assets and liabilities		3,12,449
Enterprise value of Rhythm Ltd.		26,93,670
No. of shares		1,06,680
Value per share		25.25

Q6. Nov 2021, RTP

On 1st January, 20X1, A Ltd assumes a decommissioning liability in a business combination. The reporting entity is legally required to dismantle and remove an offshore oil platform at the end of its useful life, which is estimated to be 10 years. The following information is relevant:

If A Ltd was contractually allowed to transfer its decommissioning liability to a market participant, it concludes that a market participant would use all of the following inputs, probability weighted as appropriate, when estimating the price it would expect to receive:

a. Labour costs

Labour costs are developed based on current marketplace wages, adjusted for expectations of future wage increases, required to hire contractors to dismantle and remove offshore oil platforms. A Ltd. assigns probability to a range of cash flow estimates as follows:

Cash Flow Estimates:	100 Cr	125 Cr	175 Cr

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Probability:	25%	50%	25%

b. Allocation of overhead costs:

Assigned at 80% of labour cost

c. The compensation that a market participant would require for undertaking the activity and for assuming the risk associated with the obligation to dismantle and remove the asset. Such compensation includes both of the following:

i. Profit on labour and overhead costs:

A profit mark-up of 20% is consistent with the rate that a market participant would require as compensation for undertaking the activity

ii. The risk that the actual cash outflows might differ from those expected, excluding inflation:

A Ltd. estimates the amount of that premium to be 5% of the expected cash flows. The expected cash flows are 'real cash flows' / 'cash flows in terms of monetary value today'.

d. Effect of inflation on estimated costs and profits

A Ltd. assumes a rate of inflation of 4 percent over the 10-year period based on available market data.

e. Time value of money, represented by the risk-free rate: 5%

f. Non-performance risk relating to the risk that Entity A will not fulfill the obligation, including A Ltd.'s own credit risk: 3.5%

A Ltd, concludes that its assumptions would be used by market participants. In addition, A Ltd. does not adjust its fair value measurement for the existence of a restriction preventing it from transferring the liability.

You are required to calculate the fair value of the asset retirement obligation.

Answer

Particulars	**Workings**	**Amount (In Cr)**
Expected Labour Cost (Refer W.N.)		131.25
Allocated Overheads	(80% x 131.25 Cr)	105.00
Profit markup on Cost	(131.25 + 105) x 20%	47.25
Total Expected Cash Flows before inflation		**283.50**
Inflation factor for next 10 years (4%)	(1.04)10 =1.4802	
Expected cash flows adjusted for inflation	283.50 x 1.4802	419.65
Risk adjustment - uncertainty relating to cash flows	(5% x 419.65)	20.98
Total Expected Cash Flows	(419.65+20.98)	440.63
Discount rate to be considered = risk-free rate +	5% + 3.5%	8.5%

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entity's non-performance risk		
Expected present value at 8.5% for 10 years	(440.63 / (1.08510))	**194.88**

Working Note:
Expected labour cost:

Cash Flows	Estimates Probability	Expected Cash Flows
100 Cr	25%	25.00 Cr
125 Cr	50%	62.50 Cr
175 Cr	25%	43.75 Cr
Total		**131.25 Cr**

Q7. Nov 2020, RTP

Entity A purchased cattle at an auction on 30th June 2019

Purchase price at 30th June 2019	₹ 1,00,000
Costs of transporting the cattle back to the entity's farm	₹ 1,000
Sales price of the cattle at 31st March, 2020	₹ 1,10,000

The company would have to incur similar transportation costs if it were to sell the cattle at auction, in addition to an auctioneer's fee of 2% of sales price. The auctioneer charges 2% of the selling price, from both, the buyer as well as the seller.

Calculate the amount at which cattle is to be recognised in books on initial recognition and at year end 31st March, 2020.

Answer

Initial recognition of cattle

	₹
Fair value less costs to sell (₹1,00,000 – ₹1,000 - ₹2,000)	97,000
Cash outflow (₹1,00,000 + ₹1,000 + ₹2,000)	1,03,000
Loss on initial recognition	6,000
Cattle Measurement at year end	
Fair value less costs to sell (₹1,10,000 – 1,000 – (2% x 1,10,000))	1,06,800

At 31st March, 2020, the cattle is measured at fair value of ₹ 1,09,000 less the estimated auctioneer's fee of ₹ 2,200). The estimated transportation costs of getting the cattle to the auction of ₹ 1,000 are deducted from the sales price in determining fair value.

Q8. Nov 2019, RTP

Comment on the following by quoting references from appropriate Ind AS.

(i) DS Limited holds some vacant land for which the use is not yet determined. the land is situated in a prominent area of the city where lot of commercial complexes are coming up and there is no legal restriction to convert the land into a commercial land.

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The company is not interested in developing the land to a commercial complex as it is not its business objective. Currently the land has been let out as a parking lot for the commercial complexes around.

The Company has classified the above property as investment property. It has approached you, an expert in valuation, to obtain fair value of the land for the purpose of disclosure under Ind AS.

On what basis will the land be fair valued under Ind AS?

(ii) DS Limited holds equity shares of a private company. In order to determine the fair value' of the shares, the company used discounted cash flow method as there were no similar shares available in the market.

Under which level of fair value hierarchy will the above inputs be classified? What will be your answer if the quoted price of similar companies were available and can be used for fair valuation of the shares?

Answer

(i) As per Ind AS 113, a fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

(a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (eg the location or size of a property).

(b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property).

(c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

To protect its competitive position, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. Nevertheless, the entity shall measure the fair

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value of a non-financial asset assuming its highest and best use by market participants.

In the given case, the highest best possible use of the land is to develop a commercial complex. Although developing a business complex is against the business objective of the entity, it does not affect the basis of fair valuation as Ind AS 113 does not consider an entity specific restriction for measuring the fair value.

Also, its current use as a parking lot is not the highest best use as the land has the potential of being used for building a commercial complex. Therefore, the fair value of the land is the price that would be received when sold to a market participant who is interested in developing a commercial complex.

(ii) As per Ind AS 113, unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including
assumptions about risk.

In the given case, DS Limited adopted discounted cash flow method, commonly used technique to value shares, to fair value the shares of the private company as there were no similar shares traded in the market. Hence, it falls under Level 3 of fair value hierarchy.

Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.

(b) quoted prices for identical or similar assets or liabilities in markets that are not active.

(c)inputs other than quoted prices that are observable for the asset or liability.

If an entity can access quoted price in active markets for identical assets or liabilities of similar companies which can be used for fair valuation of the shares without any adjustment, at the measurement date, then it will be considered as observable input and would be considered as Level 2 inputs.

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Q1. May 2025 Exam, 8 marks

National Ltd. granted 1,000 stock appreciation rights (SAR) each to its 160 employees on 1st April, 2021 with a fair value of Rs. 100 each. The terms of the award require the employees to provide service for four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the options. The fair value of each SAR at each reporting date is as follows:

On 31st March, 2022 Rs. 120

On 31st March, 2023 Rs. 130

On 31st March, 2024 Rs. 135

On 31st March, 2025 Rs. 140

(i) You are required to pass necessary journal entries across all the years for recognition of expenses.

(ii) Would your answer be different, if at the end of the second year of service i.e. at 31st March, 2023, National Ltd. modifies the terms of the award to require only three years of total service instead of four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the options. Pass revised journal entries.

Answer:

Journal Entries in the books of National Ltd. (without modification of service period of stock appreciation rights)

Date	Particulars	Debit	Credit
31.3.2022	Employee Benefit Expenses Dr.	48.00	
	To Liability for SARs		48.00
	(Being expenses liability for stock appreciation rights recognised)		
31.3.2023	Employee Benefit Expenses Dr.	56.00	
	To Liability for SARs		56.00
	(Being expenses liability for stock appreciation rights recognised)		
31.3.2024	Employee Benefit Expenses Dr.	58.00	
	To Liability for SARs		58.00
	(Being expenses liability for stock appreciation rights recognised)		
31.3.2025	Employee Benefit Expenses Dr.	62.00	
	To Liability for SARs		62.00
	(Being expenses liability for stock appreciation rights recognised)		

Working Note:

Calculation of expenses for issue of stock appreciation rights without modification of service period

Period	Fair value (a)	To be Vested (b)	Cumulative (Rs..) a x 1000 awards x 160 employees x years of service	Expense (Rs.)
Start	100			

31st March 2022	120	100%	120 x 1000 x 160 x 1 years / 4 years of service = 48,00,000	48,00,000
31st March 2023	130	100%	130 x 1000 x 160 x 2 years / 4 years of service = 1,04,00,000	= 1,04,00,000 – 48,00,000 = 56,00,000
31st March 2024	135	100%	135 x 1000 x 160 x 3 years / 4 years of service = 1,62,00,000	= 1,62,00,000 – 1,04,00,000 = 58,00,000
31st March 2025	140	100%	140 x 1000 x 160 x 4 years / 4 years of service = 2,24,00,000	= 2,24,00,000 – 1,62,00,000 = 62,00,000

Journal Entries in the books of National Ltd. (with modification of service period of stock appreciation rights)

Date	Particulars	Debit	Credit
31.03.2023	Employee Benefit Expenses Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	90.67	90.67
31.03.2024	Employee Benefit Expenses Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	77.33	77.33

Working Note:

Calculation of expenses for issue of stock appreciation rights with modification of service period

Period	Fair value (a)	To be Vested (b)	Cumulative (Rs.) a x 1000 awards x 160 employees x years of service	Expense (Rs.)
1st April, 2021	100			
31st March 2022	120	100%	120 x 1000 x 160 x 1 years / 4 years of service = 48,00,000	48,00,000
31st March 2023	130	100%	130 x 1000 x 160 x 2 years / 3 years of service = 1,38,66,667	=1,38,66,667 – 48,00,000 = 90,66,667
31st March 2024	135	100%	135 x 1000 x 160 x 3 years / 3 years of service = 2,16,00,000	=2,16,00,000 – 1,38,66,667 = 77,33,333

Q2. Nov 2024 Exam, 8 marks

Greater Ltd., in order to reward its employees launched a scheme effective from 1st April, 2021, in which employees will be granted equity shares of the company at a price less than the market price subject to satisfaction of certain conditions. Following details are provided to you:

a) According to scheme, each employee has an option to purchase 250 equity shares of the company at Rs. 45 per share provided that the employee does not leave the company for 3 years from the date of launch of the scheme i.e. up to 31st March, 2024.
b) Once 3 years are completed by an employee, the employee can exercise the option within 1 year i. e. by 31st March, 2025.
c) The closing share price on stock exchange as at 1st April, 2021 is Rs. 91 per share with face value of Rs. 10 per share. A registered valuer has been appointed by the company who derived the price of option at Rs. 75 using Black Scholes model of option pricing.
d) There are 750 employees eligible for the scheme. As at 31st March, 2022, 25 employees left the company and further 35 employees are expected to leave over the next 2 years. During the year 2022-2023, a foreign based company entered into the market and started hiring experienced employees and therefore retention of existing employees has been problematic and a high attrition rate is observed in the market. 275 employees left the company during the year ended 31st March, 2023 and further 135 employees are expected to leave in the next one year. As at 31st March, 2024, only 400 employees remained with the company out of 750 employees.
e) Out of it only 375 employees exercised the option to purchase the equity shares during the year ended 31st March, 2024.

You are required to provide necessary accounting entries during the life of share-based payment scheme to account the scheme implemented by the company.

Answer:

Journal Entries

31st March, 2022		**Rs.**	**Rs.**
Employee benefits expenses (W.N.1)	Dr.	43,12,500	
To Share-based payment reserve (equity)			43,12,500
(Being 1/3rd expenses on share-based payment recognised)			
Profit and Loss A/c	Dr.	43,12,500	
To Employee benefits expenses			43,12,500
(Being employee benefits expenses transferred to P/L)			
31st March, 2023			
Share-based (equity) payment reserve (W.N.1)	Dr.	3,75,000	
To Employee benefits expenses (transferred to P/L)			3,75,000
(Being reversal of excess expenses booked on computation of 2/3rd expenses on share-based payment)			
Employee benefits expenses	Dr.	3,75,000	
To Profit and Loss A/c			3,75,000
(Being employee benefits expenses transferred to P/L)			
31st March, 2024			
Employee benefits expenses (W.N.3)	Dr.	35,62,500	
To Share-based payment reserve (equity)			35,62,500

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(Being final recognition of expenses on vesting of share-based options)			
Profit and Loss A/c	Dr.	35,62,500	
To Employee benefits expenses			35,62,500
(Being employee benefits expenses transferred to P/L)			
31st March, 2025			
Share-based payment reserve (equity) (W.N.4)	Dr.	75,00,000	
Bank A/c (W.N.4)	Dr.	42,18,750	
To Share Capital (W.N.4)			9,37,500
To Securities Premium (W.N.4)			1,03,12,500
To Retained Earnings (W.N.4)			4,68,750
(Being accounting on exercise of 375 options and lapse of 25 options)			

Working Notes:

1. Calculation of Employee Benefit Expenses

	31.3.2022	31.3.2023	31.3.2024
No of Employees	750	750	750
Less: Employees left	(25)	(300)	(350)
Less: Employees expected	(35)	(135)	
No of employees eligible	690	315	400
No of options per employee	250	250	250
Total options expected to vest	172,500	78,750	100,000
Fair value per option	75	75	75
Total FV	12,937,500	5,906,250	7,500,000
Cumulative expenses	1/3	2/3	3/3
	4,312,500	3,937,500	7,500,000
Expense already recognised	-	4,312,500	3,937,500
Expense to be recognised	4,312,500	-375,000	3,562,500

2. For the year ended 31st March, 2025

Bank = 375 employees x 250 options x Rs. 45 = Rs. 42,18,750

Share capital =375 employees x 250 options x Rs. 10 = Rs. 9,37,500

Securities Premium = 375 employees x 250 options x Rs. (75 + 35)

= Rs. 1,03,12,500

Retained Earnings = (400-375) employees x 250 options x Rs. 75

= Rs. 4,68,750

Q3. Nov 2022 Exam, 8 marks

A Ltd. announced a stock appreciation right (SAR) on 1st April, 2020 for each of its employees. The scheme gives the employees the right to claim cash payment equivalent to an excess of market price of Company's shares on exercise date over the exercise price of Rs. 250 per share in respect of 100 shares, subject to a condition of continuous employment of 3 years. The SAR is exercisable after 31st March, 2023 but before 30th June,2023. The fair value of SAR was:

- Rs. 42 in 2020-2021;
- Rs. 46 in 2021-2022; and

- Rs. 48 in 2022-2023.

In 2020-2021, the company estimates that 2% of its employees shall leave the Company annually. This was revised to 3% in 2021-2022. Actually:

- 15 employees left the company in 2020-2021;
- 10 employees left the company in 2021-2022; and
- 8 employees left the company in 2022-2023.

The SAR therefore actually vested in 492 employees on 30th June, 2023 and when SAR was exercised, the intrinsic value was Rs. 50 per share.

Compute, by fair value method, the SAR expense for financial years;

- 2020-2021;
- 2021-2022;
- 2022-2023;
- 2023-2024.

Also provide SAR ledger from inception till closure. Discuss whether this account is in the nature of liability or equity?

Answer:

Number of employees at the grant date to whom the SARs were granted = 492 + 15 + 10 + 8 = 525 employees

The amount recognized as an expense in each year and as a liability at each year-end is as follows:

Year	Expense Rs.	Liability Rs.	Calculation of Liability
31st March, 2021	6,86,000	6,86,000	[(525-15) x 0.98 x 0.98) x 100 x 42 x 1/3]
31st March, 2022	8,01,333	14,87,333	[{(525-15-10) x 0.97x 100 x 46 x 2/3} – 6,86,000]
31st March, 2023	8,74,267	23,61,600	[525-15-10-8] x 48 x 100-1487333
30th June, 2023	(98,400)*	0	[(492 x 100 x 50) - 23,61,600]

Difference of opening liability Rs. 23,61,600 and actual liability paid Rs. 24,60,000 [(492 x 100 x 50) - 23,61,600] is recognised to Profit and loss i.e. Rs. 98,400.

SAR Ledger

Date	Particular	Amount	Date	Particular	Amount
31.3.2021	To Balance c/d	6,86,000	31.3.2021	By Employee benefits expenses	6,86,000
		6,86,000			6,86,000
31.3.2022	To Balance c/d	14,87,333	1.4.2021	By Balance b/d	6,86,000
			31.3.2022	By Employee benefits expenses	8,01,333
		14,87,333			14,87,333
31.3.2022	To Balance c/d	23,61,600	1.4.2022	By Balance b/d	14,87,333
			31.3.2023	By Employee benefits expenses	8,74,267
		23,61,600			23,61,600
30.6.2023	To Bank	24,60,000	1.4.2022	By Balance b/d	23,61,600
			30.6.2023	By Employee benefits expenses	98,400
		24,60,000			24,60,000

SAR Account is in the nature of liability because it is a cash settled share-based transaction which is summed up on payment of cash to the employees at the end of the exercise period.

Q4. Nov 2022 Exam, 6 marks

On 1st April, 2019, Sun Ltd. issued share-based option to one of its key managerial personnel (employee) which can be exercised either in cash or equity and it has following features:

Option I

No. of cash settled shares	70,000
Service condition	3 years

Option II

No. of equity settled shares of face value of ₹ 100 each	80,000

Conditions:

Service	3 years
Restriction to sell	2 years

Fair Values

Share alternative fair value (with restriction)	₹ 125
Fair value at grant date	₹ 136
Fair value on 31st March, 2020	₹ 141
Fair value on 31st March, 2021	₹ 143
Fair value on 31st March, 2022	₹ 146

You are required to pass the journal entries if the key managerial employee exercises cash option at the end of 31st March, 2022 and also if he exercises equity option at the end of 31st March, 2022.

Answer

	1st April 2019 (₹)	31st March 2020 (₹)	31st March 2021 (₹)	31st March 2022 (₹)
Equity alternative (80,000 x 125)	1,00,00,000			
Cash alternative (70,000 x 136)	95,20,000			
Equity option (1,00,00,000 – 95,20,000)	4,80,000			
Cash option (cumulative) (using period end fair value		(70,000 x 141 x 1/3) 32,90,000	(70,000 x 143 x 2/3) 66,73,333	(70,000 x 146 x 3/3) 1,02,20,000
Equity option (cumulative)		(4,80,000 x 1/3) 1,60,000	(4,80,000 x 2/3) 3,20,000	(4,80,000 x 3/3) 4,80,000

Expense for the period			
Equity option	1,60,000	(3,20,000 – 1,60,000) 1,60,000	(4,80,000 – 3,20,000) 1,60,000
Cash Option	32,90,000	(66,73,333 – 32,90,000)	(1,02,20,000 – 66,73,333)
Total	34,50,000	33,83,333	35,46,667
		35,43,333	37,06,667

1FIN by IndigoLearn

Journal Entries

(i) If Cash alternative is chosen:		**₹**	**₹**
Share based payment liability	Dr.	1,02,20,000	
To Bank/ Cash			1,02,20,000
(Settlement in cash)			
Share based payment reserve (equity)*	Dr.	4,80,000	
To Retained earnings			4,80,000
(Being transfer of equity from one account to another one)			

(ii) If Equity alternative is chosen:		**₹**	**₹**
Share based payment liability	Dr.	1,02,20,000	
To Share based payment reserve (equity)			1,02,20,000
(Being transfer of liability account to equity)			
Share based payment liability	Dr.	1,02,20,000	
Share based payment reserve (equity)	Dr.	1,07,00,000	
To Capital			80,00,000
To Securities Premium			27,00,000
(Being settlement made in equity)			
Alternative entries under equity settlement:			
(ii) If Equity alternative is chosen:			
Share based payment liability	Dr.	1,02,20,000	
To Share Capital			80,00,000
To Securities Premium			22,20,000
(Being settlement made in equity)			
Share based payment reserve (equity)*	Dr.	4,80,000	
To Retained earnings			4,80,000
(Being transfer of equity from one account to another one)			

*The equity component recognized (₹ 4,80,000) shall remain within equity.

Q5. Dec 2021 Exam, 6 marks

Georgy Ltd. gave its key management an option to take either 810 equity shares or cash amount equivalent to 650 equity shares on 1st April, 2020.

The minimum service requirement is 2 years. If shares are opted then they are to be kept for at least 4 years.

Fair value of the shares	**₹**
Fair value for share alternative (with restrictions)	460
Grant date fair value on 1st April, 2020	480
Fair value on 31st March, 2021	530
Fair value on 31st March, 2022	560

Pass the necessary Journal Entries for the years ended 31st March, 2021 & 2022 if the key management exercises the cash option at the end of 2022.

Answer

	1st April, 2020	**31st March, 2021**	**31st March, 2022**
Equity alternative (810 x 460)	3,72,600		
Cash alternative (650 x 480)	3,12,000		
Equity option (3,72,600 – 3,12,000)	60,600		
Cash Option (cumulative) (using period end fair value)		[(650 x 530) x1/2] 1,72,250	[650 x 560] 3,64,000

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Equity Option (cumulative)		30,300	60,600
Expense for the period		30,300	30,300
Equity option		1,72,250	1,91,750
Cash Option		2,02,250	2,22,050
Total			

Journal Entries

31st March, 2021		
Employee benefits expenses Dr. To Share based payment reserve (equity) To Share based payment liability (Recognition of Equity option and cash settlement option)	2,02,250	 30,300 1,72,250
31st March, 2022		
Employee benefits expenses Dr. To Share based payment reserve (equity) To Share based payment liability (Recognition of Equity option and cash settlement option)	2,22,050	 30,300 1,91,750
Share based payment liability Dr. To Bank/ Cash (Settlement in cash)	3,64,000	 3,64,000

Q6. July 2021 Exam, 5 marks

Voya Limited issued 1,000 share options to each of its 200 employees for an exercise price of ₹ 10.
The employees are required to stay in employment for next 3 years.
The fair value of the option is estimated at ₹ 18.
90% of the employees are expected to vest the option.
The Company faced severe crisis during the 2nd year and it was decided to cancel the scheme with immediate effect. The market price of the share at the date of cancellation was ₹ 15.
The following information is available:
• Fair value of the option at the date of cancellation is ₹ 12.
• The company paid compensation to the employees at the rate of ₹ 13.50.
There were only 190 employees in the employment at that time.
You are required to show how cancellation will be recorded in the books of the Company as per relevant Ind AS.

Answer

(A) Calculation of employee compensation expense

	Year 1	**Year 2**	
Expected employees to remain in the employment during the vesting period	180	190	
Fair value of option	18	18	
Number of options	1,000	1,000	
Total	32,40,000	34,20,000	
Expense weightage	1/3	2/3	Balance 2/3rd in full, as it is cancelled
Expense for the year	10,80,000	23,40,000	Remaining amount since cancelled

(B) Cancellation compensation to be charged in the year 2

Cancellation compensation		
Number of employees (A)	190	
Amount agreed to pay (B)	13.50	
Number of options/ employee (C)	1,000	
Compensation amount (A x B x C)		25,65,000
Less: Amount to be deducted from Equity		
Number of employees (D)	190	
Fair value of option (at the date of cancellation) (E)	12 1,000	
Number of options / employee (F)		(22,80,000)
Amount to be deducted from Equity (D x E x F)		2,85,000
Balance transferred to Profit and Loss		

Q7. Jan 2021 Exam, 12 marks

On 1st April 2017, Kara Ltd. granted an award of 150 share options to each of its 1,000 employees, on condition of continuous employment with Kara Ltd. for three years and the benefits will then be settled in cash of an equivalent amount of share price. Fair value of each option on the grant date was ₹ 129.

Towards the end of 31st March 2018, Kara Ltd.'s share price dropped; so on1 st April 2018 management chose to reduce the exercise price of the options.

At the date of the re-pricing, the fair value of each of the original share options granted was ₹ 50 and the fair value of each re-priced option was ₹ 80. Thus, the incremental fair value of each modified option was ₹ 30.

At the date of the award, management estimated that 10% of employees would leave the entity before the end of three years (i.e., 900 awards would vest). During financial year 2018-2019, it became apparent that fewer employees than expected were leaving, so management revised its estimate of the number of leavers to only 5% (i.e. 950 awards would vest).
At the end of 31st March 2020, awards to 930 employees actually vested.
Determine the expense for each year and pass appropriate journal entries as per the relevant Ind AS.

Answer

Note: The first para of the question states that "benefits will then be settled in cash of an equivalent amount of share price." This implies that the award is cash settled share-based payment. However, the second and third para talks about repricing of the option which arises in case of equity settled share-based payment.

Hence, two alternative solutions have been provided based on the information taking certain assumptions.

1st Alternative based on the assumption that the award is cash settled share-based payment.

In such a situation, the services received against share-based payment plan to be settled in cash are measured at fair value of the liability and the liability continues to be re-measured at every reporting date until it is actually paid off.
There is a vesting condition attached to the share-based payment plans i.e. to remain in service for next 3 years. The recognition of such share-based payment plans should be done by recognizing fair value of the liability at the time of services received and not at the date of grant. The liability so recognized will be fair valued at each reporting date and difference in fair value will be charged to profit or loss for the period.

Calculation of expenses:

For the year ended 31st March 2018

= ₹ 50 x 150 awards x 900 employees x (1 year /3 years of service)

= ₹ 22,50,000

For the year ended 31st March 2019

Note: It is assumed that the fair value of ₹ 80 each of repriced option continues at the end of the remaining reporting period ie 31st March, 2019 and 31st March, 2020

= [₹ 80 x 150 awards x 950 employees x (2 year / 3 years of service)] - ₹ 22,50,000

= ₹ 7,60,00,000 – ₹ 22,50,000 = ₹ 53,50,000

For the year ended 31st March 2020

= [₹ 80 x 150 awards x 930 employees] - ₹ 22,50,000 - ₹ 53,50,000

= ₹ 1,11,60,000 – ₹ 22,50,000 - ₹ 53,50,000= ₹ 35,60,000

Journal Entries

31st March, 2018		
Employee benefits expenses Dr. To Share based payment liability (Fair value of the liability recognized)	22,50,000	 22,50,000
31st March, 2019		
Employee benefits expenses Dr. To Share based payment liability (Fair value of the liability re-measured)	53,50,000	 53,50,000
31st March, 2020		
Employee benefits expenses Dr. To Share based payment liability (Fair value of the liability recognized)	35,60,000	 35,60,000
Share based payment liability Dr. To Bank (Being liability for awards settled in cash)	1,11,60,000	 1,11,60,000

2nd Alternative based on fair value at the grant date (ignoring the fact that the award has to be settled in cash).

Calculation of expenses:

For the year ended 31st March 2018

= [₹ 129 x 150 awards x 900 employees x (1 year /3 years of service)]

= ₹ 58,05,000

For the year ended 31st March 2019

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

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

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

Year ended	Calculation	Compensation expense for period	Cumulative compensation expense

1FIN by IndigoLearn

		₹	₹
31 March, 2018	[₹ 129 x 150 awards x 900 employees x (1 year /3 years of service)]	58,05,000	58,05,000
31 March, 2019	[₹ 129 x 150 awards x 950 employees x (2 year /3 years of service)] + (80-50) x 150 awards x 950 employees x (1 year / 2 years of service) - 58,05,000	85,87,500	1,43,92,500
31 March, 2020	[(₹ 129 + 30) x 150 awards x 930 employees] - 1,43,92,500	77,88,000	2,21,80,500

Journal Entries

31st March, 2018		
Employee benefits expenses Dr. To Outstanding Share based payment option (Fair value of the liability recognized)	58,05,000	58,05,000
31st March, 2019		
Employee benefits expenses Dr. To Outstanding Share based payment option (Fair value of the liability re-measured)	85,87,500	85,87,500
31st March, 2020		
Employee benefits expenses Dr. To Outstanding Share based payment option (Fair value of the liability recognized)	77,88,000	77,88,000
Outstanding Share based payment option Dr. To Equity share capital (Being award settled)	2,21,80,500	2,21,80,500

Q8. Nov 2020 Exam, 5 marks

Nest Ltd. issued 10,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1 April 2017. The SARs will be settled in cash. Using an option pricing model, at that date it is estimated that the fair value of a SAR is ₹ 100. SAR can be exercised any time until 31 March 2020.

It is expected that out of the total employees, 94% at the end of period on 31 March 2018, 91% at the end of next year will exercise the option.Finally, when these were vested
i.e. at the end of the 3rd year, only 85% of the total employees exercised the option.

Fair value of SAR	₹
31 March 2018	132
31 March 2019	139
31 March 2020	141

You are required to pass the Journal entries to show the effect of the above transaction.

Answer

Table showing amount of expense to be charged each year

Period	**Fair value**	**To be vested**	**Cumulative**	**Expense**
	a	**b**	**c= a x b x 10,000**	**d = c-prev. period c**
1 April 2017	100	100%	10,00,000	10,00,000
31 March 2018	132	94%	12,40,800	2,40,800
31 March 2019	139	91%	12,64,900	24,100

1FIN by IndigoLearn

31 March 2020	141	85%	11,98,500	(66,400) 11,98,500

Journal Entries

1 April 2017		
Employee benefits expenses Dr. To Share based payment liability (Fair value of the SAR recognized)	10,00,000	 10,00,000
31 March 2018		
Employee benefits expenses Dr. To Share based payment liability (Fair value of the SAR re-measured)	2,40,800	 2,40,800
31 March 2019		
Employee benefits expenses Dr. To Share based payment liability (Fair value of the SAR recognized)	24,100	 24,100
31 March 2020		
Share based payment liability Dr. To Employee benefits expenses (Fair value of the SAR remeasured and reversed)	66,400	 66,400
Share based payment liability Dr. To Cash/Bank (Settlement of SAR)	11,98,500	 11,98,500

Q9. Nov 2019 Exam, 8 marks

ABC Limited granted 500 stock appreciation rights (SAR) each to 80 employees on 1st April, 2017 with a fair value ₹ 100 each. The terms of the award require the employee to provide service for four years to earn the award.

The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the option. The fair value of each SAR at each reporting date is as follows:

31st March, 2018 ₹ 110
31st March, 2019 ₹ 120
31st March, 2020 ₹ 115
31st March, 2021 ₹ 130

Please present the journal entries in the books of ABC Limited over the entire life of the grants.What would be the difference if at the end of the second year of service (i.e. at 31st March, 2019), ABC Limited modifies the terms of the award to require only three years of total service? Please present with the revised journal entries. Answer on the basis of relevant Ind AS.

Answer

Number of SARs = 80 Employees x 500 SARs = 40,000 SARs

1. When the term of the awards is 4 years of service

Period	**Fair value**	**To be vested**	**Cumulative**	**Expense in proportion to the award earned**	**Cumulative expenses recognized**
	a	**b**	**c = 40,000 x a x b**	**d = [{(c / no. of total years) x years completed} – e of pvs year]**	
1 April 2017	100	100%	40,00,000	-	-
31 March	110	100%	44,00,000	11,00,000	11,00,000
2018	120	100%	48,00,000	13,00,000	24,00,000
31 March	115	100%	46,00,000	10,50,000	34,50,000
2019	130	100%	52,00,000	17,50,000	52,00,000

1FIN by IndigoLearn

31 March 2020 31 March, 2021					

Journal Entries

31st March, 2018		
Employee benefits expenses/Profit and Loss A/c Dr. To Share based payment liability (Fair value of SARs has been recognised)	11,00,000	11,00,000
31st March, 2019		
Employee benefits expenses/Profit and Loss A/c Dr. To Share based payment liability (Fair value of SARs has been re-measured)	13,00,000	13,00,000
31st March, 2020		
Employee benefits expenses/Profit and Loss A/c Dr. To Share based payment liability (Fair value of SARs has been recognized)	10,50,000	10,50,000
31st March, 2021		
Employee benefits expenses A/c Dr. To Share based payment liability (Fair value of SARs has been recognized)	17,50,000	17,50,000

Q10. May 2019 Exam, 8 marks

Beetel Holding Inc. grants 100 shares to each of its 300 employees on 1st January, 2015.
The employees should remain in service during the vesting period. The shares will vest at the end of the

First year	if the company's earnings increase by 13%
Second year	if the company's earnings increased by more than 21% over the two - year period
Third year	if the entity's earning increased by more than 23% over the three-year period.

The fair value per share at the grant date is ₹ 125.

In 2015, earnings increased by 9% and 20 employees left the organization. The company expects that earnings will continue at a similar rate in 2016 and expects that the shares will vest at the end of the year 2016. The company also expects that additional 30 employees will leave the organization in the year 2016 and that 250 employees will receive their shares at the end of the year 2016.

At the end of 2016, company's earnings increased by 19%. Therefore, the shares did not vest. Only 20 employees left the organization during 2016. Company believes that additional 25 employees will leave in 2017 and earnings will further increase so that the performance target will be achieved in 2017.At the end of the year 2017, only 22 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

Determine the expense for each year and pass appropriate journal entries.
Answer

1FIN by IndigoLearn

Since the earnings of the entity is non-market related, hence it will not be considered in fair value calculation of the shares given. However, the same will be considered while calculating number of shares to be vested.

Determination of expenses for each year:

		2015	2016	2017
a	Total employees	300	300	300
b	Cumulative- Employees left (Actual)	(20)	(40)	(62)
c	Employees expected to leave in the	(30)	(25)	-
d	next year	250	235	238
e	Year end – No of employees	100	100	100
f	Shares per employee	125	125	125
g	Fair value of a share at grant date	1/2	2/3	3/3
h	Vesting period	15,62,500	19,58,333	29,75,000
i	Cumulative expenses (d x e x f x g)		3,95,833	10,16,667
	Expenses to be recognised (h-h of previous year)			

Journal Entries

31st December, 2015		
Employee benefits expenses Dr. To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)	15,62,500	15,62,500
31st December, 2016		
Employee benefits expenses Dr. To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)	3,95,833	3,95,833
31st December, 2017		
Employee benefits expenses Dr. To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)	10,16,667	10,16,667
Share based payment reserve (equity) Dr. To Share Capital (Share capital issued)	29,75,000	29,75,000

Q11. Nov 2018 Exam, 8 marks

Golden Era Limited grants 200 shares to each of its 400 employees on 1st January, 2016. The employee should remain in service during the vesting period so as to be eligible. The shares will vest at the end of the

1st year - If the company's earnings increase by 12%.
2nd year - If the company's earnings increase by more than 20% over the two year period.
3rd year - If the company's earnings increase by more than 20% over the three year period.

The fair value per share (non-market related) at the grant date is ₹ 61. In 2016, earnings increased by 10% and 22 employees left the company. The company expects that
earnings will continue at a similar rate in 2017 and expect that the shares will vest at the end of the year 2017. The company also expects that additional 18 employees will leave the organization in the year 2017 and that 360 employees will receive their shares at the end of the year 2017. At the end of 2017 company's earnings increased by 18% (over the 2 years period). Therefore, the shares did not vest. Only 16 employees left the organization during 2017.

1FIN by IndigoLearn

The company believes that additional 14 employees will leave in 2020 and earnings will further increase so that the performance target will be achieved in 2018. At the end of the year 2018, only 9 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

You are required to determine the expense as per Ind AS for each year (assumed as financial year) and pass appropriate journal entries.

Answer

Since the earnings of the entity is non-market related, hence it will not be considered in fair value calculation of the shares given. However, the same will be considered while calculating number of shares to be vested.

Calculation of yearly expenses to be charged:

		2016	2017	2018
a	Total employees	400	400	400
b	Employees left (Actual)	(22)	(38)*	(47) **
c	Employees expected to leave in the	(18)	(14)	-
d	next year	360	348	353
e	Year end – No of employees (a-b-c)	200	200	200
f	Shares per employee	61	61	61
	Fair value of a share at grant date	12%	20%	20%
	Conditional increase in earnings	10%	18%	20%
g	Actual increase in earnings	1/2	2/3	3/3
h	Vesting period	21,96,000	6,34,400	14,76,200
	Expenses (Refer Working Notes)			

*22 + 16 = 38

** 22 +16 + 9 = 47

Journal Entries

31st December, 2016		
Employee benefits expenses Dr. To Share based payment reserve (equity) (Equity settled shared based payment based on conditional vesting period)	5,49,000	5,49,000
Profit and Loss A/c Dr. To Employee benefits expenses A/c (Employee benefits expenses transferred to Profit and Loss A/c)	5,49,000	5,49,000
31st December, 2017		
Employee benefits expenses Dr. To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)	18,05,600	18,05,600
Profit and Loss A/c Dr. To Employee benefits expenses A/c (Employee benefits expenses transferred to Profit and Loss A/c)	18,05,600	18,05,600
31st December, 2018		
Employee benefits expenses Dr. To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)	8,44,850	8,44,850
Profit and Loss A/c Dr. To Employee benefits expenses A/c (Employee benefits expenses transferred to Profit and Loss A/c)	8,44,850	8,44,850
31st March, 2019		

1FIN by IndigoLearn

Employee benefits expenses Dr. To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)	11,07,150	 11,07,150
Profit and Loss A/c Dr. To Employee benefits expenses A/c (Employee benefits expenses transferred to Profit and Loss A/c)	11,07,150	 11,07,150
Share based payment reserve (equity) (353 x 200 x 61) Dr. To Share Capital (Share capital Issued)	43,06,600	 43,06,600

Working Notes:

1. Expense for 2016 (Jan to Dec) = No. of employees x Shares per employee x Fair value of share x Proportionate vesting period

= 360 x 200 x 61 X 1/2

= 21,96,000

Expense recognized in the financial year 2015-2016= 21,96,000 x 3/12 = 5,49,000

2. Expense for 2017 (Jan to Dec) = No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 2016

= [(348 x 200 x 61) x 2/3] – 21,96,000

= 6,34,400

Expense recognized in the financial year 2016-2017= (21,96,000 x 9/12) + (6,34,400 x 3/12) = 16,47,000 +1,58,600 = 18,05,600

3. Expense for 2018 (Jan to Dec) = (No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 2016 and 2017

= [(353 x 200 x 61) x 3/3] – (21,96,000 + 6,34,400)

= 14,76,200

Expense recognized in the financial year 2017-2018= (6,34,400 x 9/12) + (14,76,200 x 3/12) = 4,75,800 + 3,69,050 = 8,44,850

Q12. May 2018 Exam, 10 marks

ABC Limited issued 20,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1st April 2015. The SARs will be settled in cash. At that date it is estimated using an option pricing model, that the fair value of a SAR is ₹ 95. SAR can be exercised any time up to 31st March 2018.

At the end of 31st March 2016 it is expected that 95% of total employees will exercise the option, 92% of total employees will exercise the option at the end of next year and finally 89% will be vested only at the end of the 3rd year. Fair values at the end of each period have been given below:

Fair value of SAR	₹
31st March, 2016	110
31st March, 2017	107
31st March, 2018	112

Discuss the applicability of Cash Settled Share based payments under the relevant Ind AS and pass the journal entries.

Answer

Applicability of cash settled share-based payment transactions

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability.

1. When vesting conditions are attached to the share based payment plans

The recognition of such share based payment plans should be done by recognizing fair value of the liability at the time of goods/ services received and not at the date of grant.

2. When no vesting period / condition is attached or to be fulfilled

Cash settled share based payment can be recognized in full at initial recognition itself.

Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period date and difference in fair value will be charged to profit or loss for the period as employee benefit expenses.

At the date of settlement, the liability is paid in cash based on the fair value on the date of settlement.

Calculation of expenses recognized during the year on account of change in the fair value of SARs

Period	Fair value	To be vested	Cumulative expenses	Expense / (benefit) for the current year
	a	b	c= a x b x 20,000	d = c-of current period – c of previous period
1 April 2015	95	100%	19,00,000	19,00,000
31 March 2016	110	95%	20,90,000	1,90,000
31 March 2017	107	92%	19,68,800	(1,21,200)
31 March 2018	112	89%	19,93,600	24,800
				19,93,600

Journal Entries

Date		₹	₹
1st April, 2015	Employee benefits expenses Dr. To Share based payment liability (Fair value of the SAR recognized initially)	19,00,000	19,00,000
31st March, 2016	Employee benefits expenses Dr. To Share based payment liability (Fair value of the SAR re-measured)	1,90,000	1,90,000
31st March, 2017	Share based payment liability Dr. To Employee benefits expenses (Fair value of the SAR re-measured & reversed)	1,21,200	1,21,200
31st March, 2018	Employee benefits expenses Dr. To Share based payment liability (Fair value of the SAR remeasured & recognized)	24,800	24,800
	Share based payment liability Dr. To Cash (Settlement of SARs in cash)	19,93,600	19,93,600

Q13. Jan 2026, RTP

H Ltd. is a parent company and has a subsidiary S Ltd. H Ltd. and S Ltd. are unlisted entities. Following arrangements with respect to ESOP scheme took place between them:

1. Original ESOP scheme by H Ltd. (Parent ESOP scheme)

   At the beginning of year 1, H Ltd. granted 1,500 options in its own shares to its own employees as well as S Ltd.'s employees (i.e. 1,000 to H Ltd.'s employees and 500 to S Ltd.'s employees) with a fair value of Rs. 15 per options, conditional upon the completion of 3

years' service. H Ltd. will settle in its own equity shares. All the options are expected to vest. H Ltd. doesn't recharge to S Ltd. for ESOP expenses.

2. New ESOP scheme by S Ltd. (Subsidiary ESOP scheme)

   H Ltd. and S Ltd. are unlisted entities. However, at the end of Year 1, S Ltd. gets listed.

   At the beginning of year 2, S Ltd. offers 1,500 options in its own shares to H Ltd.'s employees and its own employees (i.e. 1,000 to H Ltd.'s employees and 500 to S Ltd.'s employees), conditional upon H Ltd. and S Ltd.'s employees surrendering the right over parent ESOP scheme.

   Remaining vesting period is same as H Ltd.'s ESOP scheme i.e. conditional upon the completion of remaining 2 years' service.

   Incremental fair value of new ESOP scheme is Rs. 6. All the options are expected be vest. All H Ltd. and S Ltd.'s employees have opted for new ESOP scheme.

   S Ltd. doesn't recharge to H Ltd. for ESOP expenses.

Required:

Analyze the above arrangements from the perspective of Consolidated Financial Statements and Individual Financial Statements of both parent and subsidiary. Also show the accounting treatment of the above arrangements in the Consolidated Financial Statements and Individual Financial Statements of both parent and subsidiary.

Answer:

Analysis of new ESOP scheme given on surrendering options under original ESOP scheme as replacement scheme

The original ESOP scheme was issued by H Ltd. to its own employees as well as S Ltd.'s employees.

S Ltd. has issued new ESOP scheme to its own and H Ltd.'s employees, conditional upon employees of S Ltd. and H Ltd. surrendering the right over original ESOP scheme.

Since obtaining the options under new ESOP scheme is conditional on surrendering the employee's entitlement under original ESOP scheme, the new scheme S Ltd. would be designated as replacement scheme for original scheme by S Ltd.

Accordingly, in the current fact pattern, the original ESOP scheme of H Ltd. has been replaced with the new ESOP scheme of S Ltd. Hence, according to para 28(c) of Ind AS 102, modification accounting would apply.

Classification of new ESOP scheme

(i) Consolidated Financial Statements (CFS):

The award is settled in equity shares of the group and therefore treated as an equity-settled share-based payment.

(ii) Individual (Stand-alone) Financial Statements (SFS) of H Ltd.:

From H Ltd.'s perspective, the award is treated as an equity-settled share-based payment. This is because H Ltd. does not have an obligation to settle the award.

(iii) Individual (Stand-alone) Financial Statements (SFS) of S Ltd.

ESOP will be settled against issue of S Ltd.'s own shares. Therefore, ESOP are classified as 'Equity settled'.

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To the extent S Ltd. provides ESOP to H Ltd.'s employees, the same will be treated as dividend distribution to H Ltd.

Accounting for change in settlor from H Ltd. (parent) to S Ltd. (subsidiary)

I. Consolidated Financial Statements (CFS) of H Ltd.:

(a) As on the date of new ESOP scheme by S Ltd., there is ESOP reserve standing in CFS. This ESOP reserves is classified as 'Equity' in CFS considering that under original scheme, equity shares of H Ltd. are given.

(b) ESOP reserve as per (a) above in CFS will continue even after new scheme. Since new scheme is accounted as modification of original scheme, grant date fair value as per original scheme plus incremental fair value as per new scheme is recognised as ESOP cost in CFS. Incremental fair value is accounted prospectively.

(c) ESOP reserve as per (a) above in CFS is reclassified from 'Equity' to "Non-controlling interest' (NCI) due to change in settlor from H Ltd. (Parent) to S Ltd. (Subsidiary). This is because the definition of NCI refers to the equity in a subsidiary not attributable, directly or indirectly to a Parent.

(ii) Stand-alone financial statements (SFS) of parent H Ltd. and subsidiary S Ltd.:

(a) Ind AS 102 doesn't contain any specific guidance on accounting for change in settlor.
(b) Under original ESOP scheme, Parent H Ltd. was settlor. Therefore, on the date of new ESOP scheme, in the SFS of Parent H Ltd., there is 'ESOP reserves which would have been utilised in case Parent continued as settlor.
(c) However, under the new ESOP scheme, Subsidiary S Ltd. is settlor. 'ESOP reserves' standing in SFS of Parent H Ltd. is no longer required as H Ltd. has passed on its responsibility of settling ESOP scheme to S Ltd. Therefore, 'ESOP reserves' in SFS of Parent H Ltd. is reversed.
(d) Subsidiary S Ltd. under new ESOP scheme become settlor for an existing ESOP plan. However, in SFS of S Ltd. there is no 'ESOP reserves' standing. Therefore 'ESOP reserves' relating to period already elapsed under original ESOP scheme is to be recognised in SFS of Subsidiary S Ltd.

Years	**ESOP scheme**	**Parent (H Ltd.) Standalone Financial Statement (P SFS)**			**Subsidiary (S Ltd.) Standalone Financial Statements (S SFS)**		
Year 1	Original ESOP scheme by Parent H Ltd.	**Particular**	**Debit**	**Credit**	**Particular**	**Debit**	**Credit**
		Employees expenses*	5,000		Employees expenses# Dr.	2,500	
		Investment in Subsidiary** Dr.	2,500		To Equity (Capital Contribution		2,500
		To Equity (ESOP		7.500			
		(Recognition of employees expenses/ investment in subsidiary			(Recognition of employees expenses under ESOP scheme by		
		[*Parent employees= 1,000 options x Rs. 15 x 1/3 = Rs. 5,000]			[#Subsidiary employees = 500 options x Rs. 2,500]		
Years	**ESOP scheme references**	Parent (H Ltd.) Standalone Financial Statement (P SFS)			**Subsidiary (S Ltd.) Standalone Financial Statements (S SFS)**		

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Year 2 - Beginning	Accounting for change in settlor from Parent to Subsidiary – at the beginning of Year 2	**Particular**	**Debit**	**Credit**	**Particular**	**Debit**	**Credit**
		Equity (ESOP reserves)	7,500		Equity (Distribution to	5,000	
		Investment in Subsidiary*		2,500	To Equity (Capital Contribution from Parent)		2,500
		To Dividend Income (Deemed Distribution from Subsidiary)		5,000	To Equity (ESOP reserves)		7,500
		Parent is no longer required to settle ESOP for its own employees as well as subsidiary employees under New ESOP scheme by Subsidiary)			(Accounting of obligations taken by Subsidiary under New ESOP scheme by Subsidiary for parent employees as well as its own employees. This entry is passed since subsidiary has taken obligation of existing scheme)		
Year 2- End	Modifications accounting – New ESOP scheme by Subsidiary –	**Particular**	**Debit**	**Credit**	**Particular**	**Debit**	**Credit**
		Employees expenses* Dr.	8,000		Equity (Distribution to Parent) Dr.	5,000	
		To Dividend Income (Deemed Distribution from Subsidiary)		8,000	To Equity (Capital Contribution from Parent)		2,500
		(Recognition of employee expenses for parent employees under Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)			To Equity (ESOP reserves)		7,500
		[*Parent employees = A. Original ESOP scheme =Rs. 8,000 (1000 options x Rs. 15 x 2/3 – 5,000) = Rs.5,000			(Recognition of employees' expenses for parent employees as well as subsidiary employees under Old ESOP scheme and incremental fair value under New		
		B. Incremental fair value – New ESOP scheme = (1000 options x Rs. 6 x ½) = Rs. 3,000 Total = Rs. 8,000]			##Subsidiary employees = A. Original ESOP scheme = (500 options x Rs. 15 x 2/3 – 2,500) = Rs. 2,500 B. Incremental fair value – New ESOP scheme = (500 options x Rs. 6 x ½) = Rs. 4,000]		
Year 3- End	Modifications accounting –	**Particular**	**Debit**	**Credit**	**Particular**	**Debit**	**Credit**
		Employees	8,000		Equity	8,000	

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	New ESOP scheme by Subsidiary	To Dividend Income (Deemed Distribution from Subsidiary)		8,000		(Distribution to Parent) Dr.		
						Employees expenses Dr.	4,000	
						To Equity (ESOP reserves)		12,000
		(Recognition of employee expenses for parent employees under New ESOP scheme for Year 2)				(Recognition of employees' expenses for parent employees as well as subsidiary employees under under New ESOP scheme for Year 2)		

Q14. Sep 2025, RTP

Max Ltd. enters into a share-based payment arrangement with its employees on the following terms:

- Each employee will receive 500 shares if they remain employed for a period of five years.
- It is expected that no employees are expected to leave during the five year period.
- The grant date fair value of the award is Rs. 4,000.
- If an employee leaves Max Ltd. after the five -year period, but before its shares are listed, the entity has an option to purchase the shares for fair value from the employee.
- On grant date, Max Ltd. expects to list in the list in the next 3-5 years. This is the first share-based plan and Max Ltd. has no past practice or stated policy of buying back shares from employees when the employees leave. Neither does Max Ltd. expect that it will settle the awards in cash.
- At the end of year 2, Max Ltd. on longer expects to list; and the employees are informed of this fact. Max Ltd. announces to employees that if it is not listed after the five years and employees leave, Max Ltd. will repurchase the shares. The fair value of the shares is Rs. 6,000 on this date.
- At the end of year 3, the fair value of the liability has increased to Rs. 9,000

Required

(i) Determine the accounting for years 1-3.

(ii) What would be the treatment of the awards, if at the end of year 2, Max Ltd. does not inform employees that it will repurchase the shares after a five-year period, and a listing of the entity's shares is still achievable. But at the end of year 6, Max Ltd. has not yet listed and two of the employees leave. Max Ltd. exercises its settlement choice and buys the leaving employee's shares at fair value.

Answer:

On the grant date, the employer accounts for the arrangement as an equity settled share-based payment because there is no present obligation to settle in cash.

Journal Entries

	Rs.	**Rs.**
Employee benefit expenses (4,000 x 1/5) Dr.	800	
To Share-based payment reserve		800

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At the end of year 2, Max Ltd. has created an obligation to settle in cash through a change in stated policy:

Employee benefit expenses (4,000 x 1/5)	Dr.	800	
To Share-based payment reserve			800

The above entry is to record Rs. 4,000 vesting over a period of five years which was the expectation until year end.

Share-based payment reserve	Dr.	2,400	
To Share-based payment liability (6,000 x 2/5)			2,400

In substance the reclassification represents the repurchase by Max Ltd. of its own shares, so no further expense is recognized. The subsequent measurement of the liability would follow the requirements for a cash settled share – based payment.

At the end of year 3, the award is accounted for on a cash – settled basis as follows:

Employee benefit expenses	Dr.	3,000	
To Share-based payment liability (9,000x3/5–2,400)			3,000

1. The settlement of the two employee's award may create a valid expectation in the minds of the remaining employees that they will also receive cash when they leave. However, judgement will be required to determine if an isolated transaction establishes past practice resulting in a cash settlement obligation for Max Ltd. Depending on any contrary facts, Max Ltd. should treat the remaining awards as cash settled, because it now revisit the classification of any similar grants that it has made and evaluate if it should reclassify them to cash -settled.

Q15. May 2025, RTP

At 1st April, 20X1 an entity enters into a share-based payment arrangement with its employees. The terms of the award are as follows:

- Employees are required to work for the entity for five years; after that they will receive a cash payment equal to the value of the entity's shares.
- If the entity achieves a successful IPO during the five -year period, the employees will receive free shares rather than a cash payment. So, employees might receive free shares at the time of IPO or a cash payment at the end of 5th year, but not both.
- No employees are expected to leave the entity over the next five years.
- At the date of the award and till the end of second year, it was not probable that a successful IPO would occur before year 5.
- At the end of year 3, a successful IPO becomes probable; and management expects it to occur in year 4.
- At the end of year 4, a successful IPO occurs; and employees receive free shares.
- The fair value of the equity-settled award alternative is Rs. 1,000 at the grant date. The fair value of the cash-settled alternative, ignoring the probability that an IPO will happen within the five years, is as follows:
  - Rs. 50 at the end of year 1;
  - Rs. 500 at the end of year 2;
  - Rs. 100 at the end of year 3; and
  - Rs. 50 at the end of year 4.

Required:

How the entity would account for this transaction?

Answer:

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At the end of first and second year, the entity would not record a charge for the equity-settled award; this is because the vesting conditions are not expected to be met (that is, a successful IPO is not probable).

Hence, a liability is recognised, because cash settlement is probable until year 3. (Refer para 42 of Ind AS 102)

	Dr. (Rs.)	Cr. (Rs.)
Year end 31st March, 20X2		
Employee benefits expense (Rs. 50 / 5years) Dr.	10	
To Share-based payment liability		10
(Cash settled award recognised over the vesting period)		
Year end 31st March, 20X3		
Employee benefits expense{(Rs. 500 x 2/5)- Rs.10} Dr.	190	
To Share-based payment liability		190
(Cash -settled award recognised over the vesting period)		

At the end of year 3, a successful IPO becomes probable; so the entity would record a charge for an equity-settled award.

There should also be a reversal of the SBP liability, because this award is now deemed not probable.

Year end 31st March, 20X4	**Dr.**	**Cr.**
Share-based payment Liability Dr.	200	
To Share-based Payment Reserve		200
(Reversal of cash -settled share-based payment, because IPO deemed probable)		
Employee benefits expense {(Rs. 1,000 x ¾) - Rs. 200} Dr.	550	
To Share-based Payment Reserve		550
(Equity -Settled award measured at grant date fair value of Rs. 550, because IPO is now deemed probable)		
Year end 31st March, 20X5		
Employee Benefits Expenses Dr.	250	
To Share-based Payment Reserve (Equity settled award recognised over the vesting period)		250
Share-based Payment Reserve Dr.	1,000	
To Equity share capital		1,000
(Settlement of share-based payment award through issuance of free shares)		

Equity -settled award measured at fair value of Rs. 1,000. All of the vesting conditions for this ward have been met in year 4; so the award has vested, and the remaining charge of Rs. 250 (Rs. 1,000 – Rs. 750) is recognised in the Statement of profit and loss.

Q16. May 2024, RTP

Fashion India Ltd. (FIL) entered into an agreement with RFD Ltd. on 10th August, 20X2 for purchasing a machinery. The agreement has a clause that FIL will have to settle the consideration of machinery purchased by issuing its equity shares. FIL agreed to the clause and the order was confirmed. Machinery was supplied vide invoice dated 25th October, 20X2 and delivered on 1st November, 20X2. Agreed purchase consideration was Rs. 150 Lakhs and the fair value of the

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machinery supplied was estimated to be Rs. 160 Lakhs. As agreed, FIL issued 1,00,000 equity shares of face value Rs. 100 each to RFD Ltd.

As per Ind AS 102 'Share Based Payment', what should be the price and the date for recording the machinery purchased from RFD Ltd.?

Answer:

As per para 10 of Ind AS 102, for equity settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. Here, since the fair value of the asset received can be estimated reliably, the price for recording the machinery would be Rs. 160 lakhs.

Further the control is assumed to be transferred on the date the delivery is received which is 1st November, 20X2. Therefore, this will be the date for recognizing the machinery in the books.

Q17. May 2023, RTP

Entity A runs a copper-mining business. Entity A has a year-end of 31st March.Dividends declared on the shares accrue to the employees during the three-year period. If the condition is met, the employees will receive the shares together with the dividends that have been declared on those shares during the three years upto 31st March, 20X3.

The entity estimates that on 1st April, 20X0 its shares are valued at ₹ 10 each. The grant date fair amount of each share is ₹ 10.Entity A prepares annual financial statements for the year ended 31st March and:

1. on 1st April, 20X0 it estimates that 800 shares will vest;
2. at the end of the first year (31st March, 20X1) it has revised this estimate to 780;
3. at 31st March, 20X2 it has further revised this estimate to 750; and
4. 750 shares vest on 31st March, 20X3 based on the number of employees still employed on that date.

On 1st April, 20X0 as part of a long-term incentive scheme, Entity A provisionally awards its sales employees 1,000 Entity A's shares receivable on 31st March, 20X3. Explain the accounting treatment for the above share-based awards based on satisfaction of the condition that the sales employees must remain in employment until 31st March, 20X3. The requirement to remain in employment is a service condition and would not be reflected in the fair value of the share awards.

Answer

The grant date fair value amount would be recognised as an expense over the three year service period adjusted by the number of shares expected to vest. Consequently, for each period, Entity A estimates how many eligible employees are expected to be employed on 31st March, 20X3 and this forms the basis for that adjustment. The journal entries would be:

Year 1 (Year ended 31st March, 20X1)

Employee benefit expenses A/c	Dr. ₹ 2,600	
To Share-based payment reserve		₹ 2,600

(To recognise the receipt of employee services in exchange for shares)

Year 2 (Year ended 31st March, 20X2)

Employee benefit expenses A/c	Dr. ₹ 2,400	
To Share-based payment reserve		₹ 2,400

(To recognise the receipt of employee services in exchange for shares)

Year 3 (Year ended 31st March, 20X3)

Employee benefit expenses A/c Dr. ₹ 2,500
To Share-based payment reserve ₹ 2,500
(To recognise the receipt of employee services in exchange for shares)

Working Notes:

1. Year 1

780 shares expected to vest x ₹ 10 grant date fair value of each share x 1/3 of vesting period elapsed = ₹ 2,600 recognised in Year 1.

2. Year 2

(750 shares expected to vest x ₹ 10 grant date fair value of each share x 2/3 of vesting period elapsed) less ₹ 2,600 recognised in Year 1 = ₹ 2,400 recognised in Year 2.

3. Year 3

(750 shares x ₹ 10 grant date fair value of each share) less ₹ 5,000 recognised in Years 1 and 2 = ₹ 2,500 recognised in Year 3.

Q18. Nov 2022, RTP

1. On 1st April 20X1, Nuogen Ltd. had granted 1,20,000 share options to its employees with the vesting condition being a service condition as follows:

• Vesting date : 31st March 20X2 - 80,000 share options (1-year vesting period since grant date)
• Vesting date : 31st March 20X5 - 40,000 share options (4-year vesting period since grant date)
Each option can be converted into one equity share of Nuogen Ltd. The fair value of the options on grant date, i.e., on 1st April 20X1 was ₹ 20.

Nuogen Ltd. is required to prepare financial statements in Ind AS for the financial year ending 31st March 20X4. The transition date for Ind AS being 1st April 20X2.

The entity has disclosed publicly the fair value of both these equity instruments as determined at the measurement date, as defined in Ind AS 102.

The previous applicable GAAP for the entity was IGAAP (AS) and therein, the entity had not adopted intrinsic method of valuation.

The share options have not been yet exercised by the employees of Nuogen Ltd. How the share based payment should be reflected in, the books of Nuogen Ltd. as on 31st March 20X4, assuming that the entity has erred by not passing any entry for the aforementioned transactions in the books of Nuogen Ltd. on grant date, i.e. 1st April 20X1?

Answer

For 80,000 share-based options vested before transition date:

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments **that vested before the date of transition to Ind AS**. Hence, Nuogen Ltd. may opt for the exemption given in Ind AS 101 for 80,000 share options vested before the transition date. However, since no earlier accounting was done for these share-based options under previous GAAP too, therefore this led to an error on the transition date, as detected on the reporting date i.e. 31st March, 20X4. Hence, being an error, no exemption could be availed by Nuogen Ltd. on transition date with respect to Ind AS 102.While preparing the financial statements for the financial year 20X3-20X4, an error has been discovered which occurred in the year 20X1-20X2, i.e., for the period which was earlier than earliest prior period presented. The error should be corrected by restating the opening balances of relevant assets and/or liabilities and relevant component of equity for the year 20X2-20X3. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2).

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Accordingly, on retrospective calculation of Share based options with respect to 80,000 options, Nuogen Ltd. will create 'Share based payment reserve (equity)' by ₹ 16,00,000 and correspondingly adjust the same though Retained earnings.

For 40,000 share based options to be vested on 31st March, 20X5:
Since share-based options have not been vested before transition date, no option as per Ind AS 101 is available to Nuogen Ltd. The entity will apply Ind AS 102 retrospectively. However, Nuogen Ltd. did not account for the same at the grant date. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2). Adjustment is to be made by recognising the 'Share based payment reserve (equity)' and adjusting the retained earnings by ₹ 2,00,000.

Further, expenses for the year ended 31st March, 20X3 and share based payment reserve (equity) as at 31st March, 20X3 were understated because of non-recognition of 'employee benefits expense' and related reserve. To correct the above errors in the annual financial statements for the year ended 31st March, 20X4, the entity should restate the comparative amounts (i.e., those for the year ended 31st March, 20X3) in the statement of profit and loss. In the given case, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000

For the year ending 31st March, 20X4, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000.

Working Note:

Period	Lot	Proportion	Fair value	Cumulative expenses	Expenses
		a	b	d= b x a	e = d-previous period d
20X1-20X2	1 (1-year vesting period)	1/1	16,00,000	16,00,000	16,00,000
20X1-20X2	2 (4-year vesting period)	1/4	8,00,000	2,00,000	2,00,000
20X2-20X3	2 (4-year vesting period)	2/4	8,00,000	4,00,000	2,00,000
20X3-20X4	2 (4-year vesting period)	3/4	8,00,000	6,00,000	2,00,000

Q19. Nov 2022, RTP

The following particulars in respect of stock options granted by a company are available:

No. of Employees covered	400	Nominal Value per share	₹ 100
No. of options per Employee	60	Exercise price per share	₹ 125

Shares offered were put in three groups. Group 1 was for 20% of shares offered with vesting period one-year. Group II was for 40% of shares offered with vesting period two-years. Group III was for 40% of shares offered with vesting period three-years. Fair value of option per share on grant date was ₹ 10 for Group I, ₹ 12.50 for Group II and ₹ 14 for Group III.

Position on 1st Year	**Position on 2nd Year**	**Position on 3rd Year**
- No. of employees left = 40 - Estimate of employees to leave in Year 2 = 36 - Estimate of employees to leave in Year 3 = 34	- Employees left = 35 - Estimate of employees to leave in Year 3 = 30 - Employees exercising Options in Group II = 319	- Employees left = 28 - Employees exercising Options in Group III = 295 - Employees exercising Options in Group I = 350

Options not exercised immediately on vesting, were forfeited. Compute expenses to recognise in each year and show important accounts in the books of the company.

Answer

Total number of Options per employee = 60

Group I - 20% vesting in Year 1	**Group II - 40% vesting in Year 2**	**Group III - 40% vesting in Yr. 3**
= 12 options, Vesting period = 1 Yr.	= 24 options, Vesting period = 2 Yrs.	= 24 options, Vesting period = 3 Yrs.

Computation of Expenses for all the years

Group = No. of Options	**GroupI = 12 Options**	**Group II = 24 Options**		**Group III = 24 Options**		
	Year 1	**Year 1**	**Year 2**	**Year 1**	**Year 2**	**Year 3**
(a) Employees at year end = [Opening No. of Employees -	400 - 40 = 360	400 - 40 = 360	360 - 35 = 325	400 - 40 = 360	360 - 35 = 325	325 - 28= 297

Forfeiture]						
(b) Expected to leave in future	NA	36	NA	36+34=70	30	NA
(c) No. of employees eligible (a - b)	360	324	325	290	295	297
(d) Options expected to Vest =[(c) x No. of Shares]	(360 x 12 sh.) 4,320	(324 x 24 sh.) 7,776	(325 x 24 sh.) 7,800	(290 x 24 sh.) 6,960	(295 x 24 sh.) 7,080	(297 x 24 sh.) 7,128
(e) FV per option =	₹ 10	₹ 12.50	₹ 12.50	₹ 14	₹ 14	₹ 14
(f) Value of Total Options = [d x e]	₹ 43,200	₹ 97,200	₹ 97,500	₹ 97,440	₹ 99,120	₹ 99,792
(g) Total Cumulative Cost of Options = [(f) x Completed Yrs/ Total Yrs)	₹ 43,200	[(f) x 1/2] ₹ 48,600	[(f) x 2/2] ₹ 97,500	[(f) x 1/3] ₹32,480	[(f) x 2/3] ₹66,080	[(f) x 3/3] ₹ 99,792
(h) Less: Recognized in last years	0	0	₹ 48,600	0	₹32,480	₹ 66,080
(i) Expenses to be recognized	₹ 43,200	₹ 48,600	₹ 48,900	₹32,480	₹33,600	₹ 33,712
(j) Employees not exercising ESOP	10 Employees	325 - 319 = 6 Employees		297 - 295 = 2 Employees		
(k) Total Expenses for-						

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Year 1	₹ 43,200 (Gr. 1) + ₹ 48,600 (Gr. 2) + ₹ 32,480 (Gr. 3) = ₹ 1,24,280
Year 2	₹ 48,900 (Gr. 2) + ₹ 33,600 (Gr. 3) = ₹ 82,500
Year 3	₹ 33,712 (Gr. 3 only)

Employees Benefit Expenses A/c			
Year 1			
	₹		**₹**
To Share-based Payment Reserve A/c	1,24,280	By Profit and Loss A/c	1,24,280
	1,24,280		1,24,280
Year 2			
To Share-based Payment Reserve A/c	82,500	By Profit and Loss A/c	82,500
	82,500		82,500
Year 3			
To Share-based Payment Reserve A/c	33,712	By Profit and Loss A/c	33,712
	33,712		33,712

Share-based Payment Reserve A/c

Year 1

	₹		**₹**
To Retained Earnings [(360 - 350) Emp x 12 Options x ₹ 10]	1,200	By Employees Benefit Expenses A/c	1,24,280
To Share Capital (350 Emp x 12 Options x ₹ 100)	4,20,000	By Bank A/c (350 Emp x 12 Options x ₹ 125)	5,25,000
To Securities Premium (350 Emp x 12 Options x ₹ 35)	1,47,000		
To Balance c/d	81,080		
	6,49,280		6,49,280

Year 2

	₹		**₹**
To Retained Earnings [(325 - 319) Emp x 24	1,800	By Balance b/d	81,080
		By Employees Benefit	82,500

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Options x ₹ 12.50]		Expenses A/c	
To Share Capital (319 Emp x 24 Options x ₹ 100)	7,65,600	By Bank A/c (319 Emp x 24 Options x ₹ 125)	9,57,000
To Securities Premium (319 Emp x 24 Options x ₹ 37.50)	2,87,100		
To Balance c/d	66,080		
	11,20,580		11,20,580

Year 3

	₹		₹
To Retained Earnings [(297 - 295) Emp x 24 Options x ₹ 14]	672	By Balance b/d	66,080
		By Employees Benefit Expenses A/c	33,712
To Share Capital (295 Emp x 24 Options x ₹ 100)	7,08,000	By Bank A/c (295 Emp x 24 Options x ₹ 125)	8,85,000
To Securities Premium (295 Emp x 24 Options x ₹ 39)	2,76,120		
	9,84,792		9,84,792

Working Note:

Calculation of Securities Premium			
	Group I	**Group II**	**Group III**
	Year 1	**Year 2**	**Year 3**
Exercise Price received per share	125.00	125.00	125.00
Value of service received per share, being the FV of the Options	10.00	12.50	14.00
Total Consideration received per share	135.00	137.50	139.00
Less: Nominal Value per share	(100.00)	(100.00)	(100.00)
Securities Premium per share	35.00	37.50	39.00

Q20. May 2022, RTP

New Age Technology Limited has entered into following Share Based payment transactions:

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i. On 1st April, 20X1, New Age Technology Limited decided to grant share options to its employees. The scheme was approved by the employees on 30th June, 20X1. New Age Technology Limited determined the fair value of the share options to be the value of the equity shares on 1st April, 20X1.

ii. On 1st April, 20X1, New Age Technology Limited entered into a contract to purchase IT equipment from Bombay Software Limited and agreed that the contract will be settled by issuing equity instruments of New Age Technology Limited. New Age Technology Limited received the IT equipment on 30th July, 20X1. The share-based payment transaction was measured based on the fair value of the equity instruments as on 1st April, 20X1.

iii. On 1st April, 20X1, New Age Technology Limited decided to grant the share options to its employees. The scheme was approved by the employees on 30th June, 20X1.The issue of the share options was however subject to the same being approved by the shareholders in a general meeting. The scheme was approved in the general meeting held on 30th September, 20X1. The fair value of the equity instruments for measuring the share-based payment transaction was taken on 30th September, 20X1.

Identify the grant date and measurement date in all the 3 cases of Share based payment transactions entered into by New Age Technology Limited, supported by appropriate rationale for the determination?

Answer

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

(a) Grant date: The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

(b) Measurement date: The date at which the fair value of the equity instruments granted is measured for the purposes of this Ind AS. For transactions with employees and others providing similar services, the measurement date is grant date. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or
the counterparty renders service.

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

Scenario	Grant date	Measurement date	Base for grant date	Base for measurement date
(i)	30th June, 20X1	30th June, 20X1	The date on which the scheme was approved by the employees	For employees, the measurement date is grant date

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

Q21. May 2021, RTP

Company P is a holding company for company B. A group share-based payment is being organized in which Parent issues its own equity shares to the employees of company B.
The details are as below –

Number of Employees of Company B	100
Grant date fair value of share	₹ 87
Number of shares granted to each employee	25
Vesting conditions	Immediately
Face value per share	₹ 10

Pass the journal entries in the books of company P & company B.

Answer

Journal Entries
Books of Company P

Particulars		**Debit (₹)**	**Credit (₹)**
Investment in Company B	Dr.	2,17,500	
To Equity Share Capital A/c (2,500 shares x ₹ 10)			25,000
To Securities Premium A/c (2,500 shares x ₹ 77)			1,92,500
(Being allotment of 25 shares each to 100 employees of B at fair value of ₹ 87 per share)			

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Books of Company B

Particulars		Debit (₹)	Credit (₹)
Employee Benefit Expense A/c	Dr.	2,17,500	
To Capital Contribution from Parent P			2,17,500
(Being issue of shares by Parent to Employees pursuant to Group Share-based Payment Plan)			

Q22. May 2020, RTP

An entity which follows its financial year as per the calendar year grants 1,000 share appreciation rights (SARs) to each of its 40 management employees as on 1st January 20X5. The SARs provide the employees with the right to receive (at the date when the rights are exercised) cash equal to the appreciation in the entity's share price since the grant date. All of the rights vest on 31st December 20X6; and they can be exercised during 20X7 and 20X8. Management estimates that, at grant date, the fair value of each SAR is ₹ 11; and it estimates that overall 10% of the employees will leave during the two-year period. The fair values of the SARs at each year end are shown below:

Year	Fair value at year end
31 December 20X5	12
31 December 20X6	8
31 December 20X7	13
31 December 20X8	12

10% of employees left before the end of 20X6. On 31st December 20X7 (when the intrinsic value of each SAR was ₹ 10), six employees exercised their options; and the remaining 30 employees exercised their options at the end of 20X8 (when the intrinsic value of each SAR was equal to the fair value of ₹ 12).

How much expense and liability is to be recognized at the end of each year? Pass Journal entries.

Answer

The amount recognized as an expense in each year and as a liability at each year end) is as follows:

Year	Expense ₹	Liability ₹	Calculation of Liability
31 December 20X5	2,16,000	2,16,000	= 36 x 1,000 x 12 x ½
31 December 20X6	72,000	2,88,000	= 36 x 1,000 x 8
31 December 20X7	1,62,000*	90,000	= 30 x 1,000 x 13
31 December 20X8	(30,000)**	0	Liability extinguished

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* Expense comprises an increase in the liability of ₹ 102,000 and cash paid to those exercising their SARs of ₹ 60,000 (6 x 1,000 x 10).

** Difference of opening liability (₹ 3,90,000) and actual liability paid [₹ 3,60,000 (30 x 1,000 x 12)] is recognised to Profit and loss ie ₹ 30,000.

Journal Entries

31 December 20X5			
Employee benefits expenses Dr.		2,16,000	
To Share based payment liability			2,16,000
(Fair value of the SAR recognized)			
31 December 20X6			
Employee benefits expenses	Dr.	72,000	
To Share based payment liability			72,000
(Fair value of the SAR re-measured)			
31 December 20X7			
Employee benefits expenses	Dr.	1,62,000	
To Share based payment liability			1,62,000
(Fair value of the SAR recognized)			
Share based payment liability	Dr.	60,000	
To Cash			60,000
(Settlement of SAR)			
31 December 20X8			
Share based payment liability	Dr.	30,000	
To Employee benefits expenses			30,000
(Fair value of the SAR recognized)			
Share based payment liability	Dr.	3,60,000	
To Cash			3,60,000
(Settlement of SAR)			

Note: Last two entries can be combined.

Q23. Nov 2019, RTP

QA Ltd. had on 1st April, 20X1 granted 1,000 share options each to 2,000 employees. The options are due to vest on 31st March, 20X4 provided the employee remains in employment till 31st March, 20X4.

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On 1st April, 20X1, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 20X4. This estimate was amended to 1,850 employees on 31st March, 20X2 and further amended to 1,840 employees on 31st March, 20X3.

On 1st April, 20X1, the fair value of an option was ₹ 1.20. The fair value increased to ₹ 1.30 as on 31st March, 20X2 but due to challenging business conditions, the fair value declined thereafter. In September, 20X2, when the fair value of an option was ₹ 0.90, the Directors repriced the option and this caused the fair value to increase to ₹ 1.05. Trading conditions improved in the second half of the year and by 31st March, 20X3 the fair value of an option was ₹1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 20X2 should be spread over the remaining vesting period from 30th September, 20X2 to 31st March, 20X4.

The Company has requested you to suggest the suitable accounting treatment for these transaction as on 31st March, 20X3.

Answer

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

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

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

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

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

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

Q24. May 2019, RTP

A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is ₹ 30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the

vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.
Pass the necessary journal entries for giving effect to the above arrangement.

Answer

As required by paragraph B53 of the Ind AS 102, over the two-year vesting period, the subsidiary measures the services received from the employees in accordance, the requirements applicable to equity-settled share-based payment transactions as given in paragraph 43B. Thus, the subsidiary measures the services received from the employees on the basis of the fair value of the share options at grant date. An increase in equity is recognised as a contribution from the parent in the separate or individual financial statements of the subsidiary.

The journal entries recorded by the subsidiary for each of the two years are as follows:

Year 1	₹	₹
Remuneration expense Dr. (200 x 100 employees x ₹ 30 x 80% x ½)	2,40,000	
To Equity (Contribution from the parent)		2,40,000
Year 2		
Remuneration expense Dr. [(200 x 81 employees x ₹ 30) – 2,40,000]	2,46,000	
To Equity (Contribution from the parent)		2,46,000

Q25. Nov 2018, RTP

P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1st April 2017 with a fair value ₹ 200. The terms of the award require the employee to provide service for four years in order to earn the award. The fair value of each SAR at each reporting date is as follows:

31st March 2018	₹ 210
31st March 2019	₹ 220
31st March 2020	₹ 215
31st March 2021	₹ 218

What would be the difference if at the end of the second year of service (i.e. at 31st March 2019), P Ltd. modifies the terms of the award to require only three years of service. Answer on the basis of relevant Ind AS.

Answer

Journal entries in the books of P Ltd (without modification of service period of stock appreciation rights) **(₹ in lakhs)**

Date	**Particulars**	**Debit**	**Credit**
31.03.2018	Profit and Loss account Dr. To Liability against SARs (Being expenses liability for stock	15.75	15.75

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	appreciation rights recognised)		
31.03.2019	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	17.25	17.25
31.03.2020	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	15.38	15.38
31.03.2021	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	17.02	17.02

Journal entries in the books of P Ltd (with modification of service period of stock appreciation rights) **(₹ in lakhs)**

Date	Particulars	Debit	Credit
31.03.2018	Profit and Loss account Dr. To Liability against SARs (Being expenses liability for stock appreciation rights recognised)	15.75	15.75
31.03.2019	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	28.25	28.25
31.03.2020	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock	20.50	20.50

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	appreciation rights recognised)		

Working Notes:

Calculation of expenses for issue of stock appreciation rights without modification of service period

For the year ended 31st March 2018

= ₹ 210 x 400 awards x 75 employees x 1 year /4 years of service

= ₹ 15,75,000

For the year ended 31st March 2019

= ₹ 220 x 400 awards x 75 employees x 2 years /4 years of service - ₹ 15,75,000 previous recognised

= ₹ 33,00,000 - ₹ 15,75,000 = ₹ 17,25,000

For the year ended 31st March 2019

= ₹ 215 x 400 awards x 75 employees x 3 years/4 years of service - ₹ 33,00,000 previously recognised

= ₹ 48,37,500 - ₹ 33,00,000 = ₹ 15,37,500

For the year ended 31st March, 2021

= ₹ 218 x 400 awards x 75 employees x 4 years / 4 years of service – ₹ 48,37,500 previously recognised

= ₹ 65,40,000 – ₹ 48,37,500 = ₹ 17,02,500

Calculation of expenses for issue of stock appreciation rights with modification of service period

For the year ended 31st March 2018

= ₹ 210 x 400 awards x 75 employees x 1 year / 4 years of service = ₹ 15,75,000

For the year ended 31st March 2019

= ₹ 220 x 400 awards x 75 employees x 2 years / 3 years of service - ₹ 15,75,000 previous recognised

= ₹ 44,00,000 - ₹ 15,75,000 = ₹ 28,25,000

For the year ended 31st March 2020

= ₹ 215 x 400 awards x 75 employees x 3 years/ 3 years of service - ₹ 44,00,000 previous recognised

= ₹ 64,50,000 - ₹ 44,00,000 = ₹ 20,50,000.

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Q1. May 2023 Exam, 8 marks

ABC Ltd. is into dairy farm. Cows are milked on a daily basis. After milking, milk is immediately kept in cold storage. The milk is sold to retail distributors on a weekly basis.

On 1st April, 2022, ABC Ltd. had 500 cows which were all 3 years old.

During the financial year 2022-2023, some of the cows became sick and on30th September, 2022, 20 cows died. On 1st October, 2022, ABC Ltd. purchased 20 replacement cows from the market for ₹ 63,000 each. These 20 cows were all 1-year-old when they were purchased.

On 31st March, 2023, ABC Ltd. had 1,000 litres of milk in cold storage which had not been sold to retail distributors. The market price of milk as at 31st March, 2023 was ₹ 60 per litre. While selling the milk to distributors, ABC Ltd. incurs selling costs of ₹ 3 per litre. These amounts did not change during March, 2023 and are not expected to change during April, 2023.

Information relating to fair value and costs to sell is given below:

Date	Fair value of a dairy cow aged				Cost to sell a cow
	1 year	1.5 year	3 years	4 years	
1.4.2022	60,000	66,000	81,000	75,000	3,000
1.10.2022	63,000	69,000	84,000	78,000	3,000
31.3.2023	64,500	70,500	87,000	79,500	3,300

You can assume that fair value of 3.5 year old cow as on 30th September, 2022 is₹ 81,000.

Provide necessary journal entries in the books of account with respect to cows for aboveevents & transactions in the financial statements of ABC Ltd. as at-

i. 30th September, 2022;
ii. 1st October, 2022 and
iii. 31st March, 2023.

Also determine the value of milk inventory as at 31st March, 2023.

Answer

Journal Entries (All figures in ₹)

S. No.	Date	Particulars		Dr.	Cr.
(i)	30th September, 2022	Loss (on death of 20 cows) (Refer W.N.)	Dr.	15,60,000	
		To Biological asset			15,60,000
		(Loss booked on death of 20 cows)			
(ii)	1st October, 2022	Biological Asset (purchase of 20 new cows) (Refer W.N.)	Dr.	12,00,000	
		Loss on initial recognition (of 20 new cows)	Dr.	60,000	
		To Bank			12,60,000
		(Initial recognition of 20 new purchased cows at fair value less costs to sell)			
(iii)	31st March, 2023	Loss on remeasurement of old cows	Dr.	8,64,000	
		To Biological asset			8,64,000
		[(3,90,00,000 – 15,60,000) – 3,65,76,000]			

		(Subsequent measurement of cows at fair value less costs to sell) Biological Asset (13,44,000 – 12,00,000) To Gain on remeasurement of new cows (Subsequent measurement of cows at fair value less costs to sell)	Dr.	1,44,000	1,44,000

Inventory (Milk) as at 31st March, 2023 = ₹ 57,000 [1,000 x (60 – 3)]

Working Note:
Calculation of Biological asset at various dates

Date	Number	Age	Fair Value (₹)	Cost to Sell (₹)	Net (₹)	Biological asset (₹)
1st April, 2022	500	3 years	81,000	3,000	78,000	3,90,00,000
30th September, 2022	(20)	3.5 years	81,000	3,000	78,000	(15,00,000)
1st October, 2022	20	1 year	63,000	3,000	60,000	12,00,000
	480		79,500	3,300	76,200	3,86,40,000
31st March, 2023	20	4 years	70,500	3,300	67,200	3,65,76,000
		1.5 years				13,44,000
						3,79,20,000

Q2. Nov 2022 Exam, 6 marks

A herd of 15, 4 year old cows valued at ₹ 500 thousands per cow were held in 'M Dairy Farm' as at 1st April 2021. The following transactions took place on 1st October, 2021:

A. One cow aged 4.5 years was purchased for ₹ 520 thousands.
B. One calf was born.

No cow was sold or disposed off during the year.

The per cow/calf fair value less cost to sell was as follows: ₹ in thousands

4 year old cow on 1st April 2021	500
New born calf on 1st October 2021	400
4.5 year old cow on 1st October 2021	520
New born calf on 31st March, 2022	410
0.5 year old calf on 31st March, 2022	440
4 year old cow on 31st March, 2022	516
4.5 year old cow on 31st March, 2022	540
5 year old cow on 31st March, 2022	560

You are required to:

i. Calculate change in fair value less costs to sell showing:
   a. The portion attributable to physical changes
   b. The portion attributable to price changes.
ii. Calculate the carrying cost of the herd as on 31st March, 2022.
iii. Prepare an extract of the livestock account for the year ended 31st March, 2022.

Answer

(i) Change in fair value less costs to sell, due to physical change and price change:

	₹in thousand
Fair value less costs to sell of herd at 1st April 2021 (15 × 500)	7,500

Purchase on 1st October 2021 (1 x 520)			520
(a)	**Increase in fair value less costs to sell due to price change:**		
	15 cows x (516 – 500)	240	
	1 cows x (540 – 520)	20	
	1 calf x (410 – 400)	10	270

(b)	**Increase in fair value less costs to sell due to physical change:**		
	15 cows x (560 – 516)	660	
	1 cows x (560 – 540)	20	
	1 calf x (440 – 410)	30	
	1 calf x 400 (Gain on initial recognition)		1,110
	400		9,400

(ii) Calculation of carrying cost of herd as on 31st March 2022 i.e.

Fair value less costs to sell of herd at 31st March 2022		
16 × 560	8,960	
1 × 440	440	9,400

(iii) Extract of Livestock Account for the year 31st March 2022

Particulars	**Amount (₹in 000)**	**Particulars**	**Amount (₹ in 000)**
To Opening Stock	7500	By Closing Balance	9,400
To Purchases (1x520)	520		
To Increase in fair value (Price Changes)	270		
To Increase in fair value (Physical Changes)	1,110		
Total	9,400	Total	9,400

Q3. Jan 2021 Exam, 4 marks

On 1st November 2019, Crattle Agro Limited purchased 100 goats of special breed from a market for ₹ 10,00,000 with a transaction cost of 2%. Goats fair value decreased from ₹ 10,00,000 to ₹ 9,00,000 as on 31st March 2020. Determine the fair value on the date of purchase and as on financial year ended 31st March 2020. Also pass relevant journal entries on 1st November 2019 and 31st March 2020.

Answer

The fair value less cost to sell of goats on the date of purchase i.e. on 1st November, 2019, would be ₹ 9,80,000 (10,00,000-20,000). Expense of ₹ 20,000 would be recognised in profit and loss.

On date of Purchase

Biological Asset	Dr.	9,80,000	
Expense on initial recognition	Dr.	20,000	
To Bank			10,00,000
(Being biological asset purchased)			

On 31st March, 2020 goats would be measured at ₹ 8,82,000 as Biological Asset (9,00,000-18,000) and loss of ₹ 98,000 (9,80,000 - 8,82,000) would be recognised in profit or loss.

At the end of reporting period

Loss – Change in fair value	Dr.	98,000	
To Biological Asset			98,000

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(Being change in fair value recognised at the end of reporting period)
Note: It is assumed that the transaction cost is borne by the seller.

Q4. Nov 2019 Exam, 4 marks

Arun Ltd. is an entity engaged in plantation and farming on a large scale and diversified across India. On 1
st April, 2018, the company has received a government grant for ₹ 20 lakh subject· to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years.

The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus trees for specified period of five years and accordingly it recognizes proportionate grant for ₹ 4 lakh in Statement of Profit and Loss as income following the principles laid down under Ind AS 20
Accounting for Government Grants and Disclosure of Government Assistance.

Required:
Evaluate whether the above accounting treatment made by the management is in compliance with the applicable Ind AS. If not, advise the correct treatment.

Answer
Arun Ltd. is engaged in plantation and farming on a large scale. This implies that it has agriculture business. Hence, Ind AS 41 will be applicable.

Further, the government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. This implies that it is a conditional grant.

In the absence of the measurement base of biological asset, it is assumed that "Arun Ltd measures its Biological Asset at fair value less cost to sell":

i. As per Ind AS 41, the government grant should be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met ie continuous plantation of eucalyptus tree for coming period of 5 years. In this case , the grant shall not be recognised in profit or loss until the five years have passed.

ii. The entity has recognised the grant in profit and loss on proportionate basis, which is incorrect. However, if the terms of the grant allow part of it to be retained according to the time elapsed, the entity recognises that part in profit or loss as time passes. Accordingly, the entity can recognise the proportionate grant for ₹ 4 lakh in the statement of Profit and Loss based on the terms of the grant.

Alternatively, it may be assumed that Arun Ltd. measures its Biological Asset at its cost less any accumulated depreciation and any accumulated impairment losses (as per para 30 of Ind AS 41):

In such a situation, principles of Ind AS 20 (with respect to conditional grant will apply). According to Ind AS 20, the conditional grant should be recognised in the Statement of Profit and Loss over the periods and in the proportions in which depreciation expense on those assets is recognised. Hence the proportionate recognition of grant ₹ 4 lakh (20 lakh / 5) as income is correct since the entity has reasonable assurance that the entity will comply with the conditions attached to the grant.

Note: In case eucalyptus tree is considered as bearer plant by Arun Ltd., then Ind AS 20 will be applicable and not Ind AS 41.

Q5. Sep 2025, RTP

A Ltd. purchased 100 goats at an auction for Rs. 1,00,000 on 30th September, 20X7. Subsequent transportation costs were Rs. 1,000. A Ltd. would have to incur the same

transportation costs if it had sold its goats in this auction. In addition, there would be a 2% auctioneer's fee on the market price of the goats payable by the seller. A Ltd. so incurred Rs. 500 on veterinary expenses.

On 31st March 20X8, the market value of the goats in the most relevant market increases to Rs. 1,10,000. Transportation costs of Rs. 1,000 would have to be incurred by the seller to get the goats to the relevant market. An auctioneer's fee of 2% on the market price of the goats would be payable by the seller.

On 1st June 20X8, the entity sold 18 goats at auction for Rs. 20,000 and incurred transportation charges of Rs. 150. In addition, there was a 2% auctioneer's fee on the market price of the goats paid by the seller.

On 15th September, 20X8, the fair value of the 82 goats was Rs. 82,820. 42 goats were slaughtered on that day, with a total slaughter cost of Rs. 4,200. The total market price of the carcasses on that day was Rs. 48,300, and the estimated transportation cost to sell the carcasses is Rs. 420. No other selling costs are expected.

On 30th September, 20X8, the market price of the remaining 40 goats was Rs. 44,800. The estimated transportation cost is Rs. 400. In addition, there would be a 2% auctioneer's fee on the market price of the goats payable by the seller.

A Ltd. adopts the fair value model to recognize biological assets, as required by the standard, and reports on 30th September and 31st March each year and determines fair value on these dates.

Pass Journal Entries for the above transactions.

Answer:

Journal Entries

		Rs.	**Rs.**
Initial recognition of goats at 30th September, 20X7			
Biological asset (goats)	Dr.	97,000	
Loss on initial recognition	Dr.	4,000	
To Cash (purchase and transport to farm)			101,000
(Initial recognition of the goats at fair value less costs to sell)			
Veterinary expenses	Dr.	500	
To Cash			500
Recognition of veterinary expenses at 30th September, 20X7 (such expenses do not, in themselves, affect the fair value)			
Biological asset (goats)	Dr.	9,800	
To Gain on change in fair value less costs to sell (1,06,800-97,000)			9,800
(Subsequent measurement of biological assets at fair value less costs to sell at 31st March, 20X7 reporting date)			
Sale of goats on 1st June, 20X8			
Cash	Dr.	19,450	
Selling expenses (150+400)	Dr.	550	

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To Revenue			20,000
(Recognition of the revenue from the sale of goats)			
Transfer of biological assets to inventory on 15th September, 20X8			
Inventory (Carcasses)	Dr.	47,880	
Fair value loss on goats	Dr.	1,176	
To Biological asset (goats) (the proportion of goats sold using the fair value at the previous reporting period, 31st March, 20X8) (1,06,800 x 42/100)			44,856
To Cash			4,200
(Transfer of goats slaughtered to inventory)			
Subsequent measurement of goats at 30th September, 20X8			
Loss on change in fair value less costs to sell	Dr.	18,440	
To Biological asset (goats) (fair value of goats at last reporting date less transfer to inventory) (43,504-(1,06,800-44,856))			18,440
(Subsequent measurement of biological assets at fair value less costs to sell at 30th September, 20X8 reporting date)			

Working Notes:

1.	**The fair value less costs to sell at initial recognition**	**Rs.**
	Fair value in the most relevant market	1,00,000
	Transport costs	(1,000)
	Auctioneer's fee	(2,000)
		97,000
2.	**The fair value less costs to sell at 31st March, 20X8 and gain thereupon**	
	Fair value in the most relevant market	1,10,000
	Transport costs	(1,000)
	Auctioneer's fee	(2,200)
		1,06,800
	Less: Original cost recorded	(97,000)
		9,800
3.	**The fair value less estimated costs to sell of the carcasses on 15th September, 20X8**	
	Market value of carcasses	48,300
	Transport costs	(420)
		47,880
	Initial cost of the carcasses at the date of transfer to inventory is measured at the fair value less costs to sell of the carcasses. [Ind AS 41.13]	
4.	**The fair value less costs to sell at 30th September, 20X8**	
	Fair value in most relevant market	44,800
	Transport costs	(400)
	Auctioneer's fee	(896)
		43,504

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The reduction in the herd due to the sale of goats at 1st June, 20X8 is included in the fair value adjustment at 30th September, 20X8. An alternative to the above presentation is to remeasure the goats to fair value just prior to the point at which they are sold and record a cost of sales figure separately with a corresponding reduction in the value of the biological assets. This will result in the same net profit for the period, but the presentation of cost of sales and net fair value re-measurements on biological assets will be different.

Q6. Nov 2024, RTP

ABC Ltd. is in the business of manufacturing an apple beverage and requires a large quantity of apples to manufacture such beverage. In order to satisfy its requirement of apples, it enters into 3 years lease contracts with owners of apple orchards. The lease contracts are mainly of two types:

1) Contract 1: The owner of the apple orchard (i.e. the lessor) raises the apple trees to produce apples. ABC Ltd. (i.e. lessee) makes a fixed annual payment to the owner of the apple orchard who is required to cultivate the produce as per the specifications of ABC Ltd. ABC Ltd. harvests the apples itself for fulfilling its requirement of apples.
2) Contract 2: ABC Ltd. obtains the apple orchard from owner (i.e. the lessor) to raise the apple trees for subsequent harvest of the apples to ensure that the apples are as per the requirements of ABC Ltd. ABC Ltd. makes a fixed annual payment to the owner of the apple orchards (i.e. the lessor).

Whether ABC Ltd. is engaged in agricultural activity as per Ind AS 41 in both of the cases?

Answer:

Contract 1:

As per contract 1, during the 3 years of the contract, ABC Ltd. only harvests apples from the apple orchards whereas biological transformation is managed by the owners of the apple orchards (i.e. the lessor). Since ABC Ltd. is not involved in the biological transformation of the apple orchards and is only harvesting biological assets, it cannot be said to be an agricultural activity as per Ind AS 41. Hence, ABC Ltd. is not engaged in agricultural activity as per Ind AS 41.

Contract 2:

As per contract 2, ABC Ltd. obtains the apple orchards and is actively involved in the raising of apple trees in order to ensure that the apples are as per its requirements. Since, it is actively managing the biological transformation and harvest of biological asset. Hence, ABC Ltd. is engaged in agricultural activity as per Ind AS 41.

Q7. Nov 2023, RTP

M. Chinnaswamy & Brothers Ltd. is a company that is engaged in growing and maintaining coconut palms and selling their output in various forms. The company has a farmland having 2,00,000 coconut palms in the coastal area of Karnataka near Mangalore.

The fair value of each coconut palm is derived based on the average realisable price of Rs. 30 per nut (fruit). Each coconut palm grows 80 nuts per annum on an average basis. Each coconut palm can generate revenue for as long as 80 years and the current palms are only 20-year-old. The management thinks that considering the risk factors in business, the valuation of each palm can be considered at 5 times its annual revenue.

During August, 20X5, the Ooty Hotels Association (OHA) chairman and his team visited the corporate office of the company at Mangalore. The deal was to supply tender coconuts to Ooty Hotels at an agreed price throughout the year. The agreement came into effect from 1st September, 20X5 whereby the company shall reserve 15,000 coconut palms (out of 2,00,000

coconut palms) for OHA and will charge a concessional rate of Rs. 15 only per nut supplied to OHA. OHA will in turn supply the tender coconuts
to each Ooty Hotel at the same price. This contract price is applicable irrespective of the ownership of palm trees (it is not an entity-specific restriction). All tender coconuts of these 15,000 coconut palms were used by OHA irrespective of the agreement being effective from 1st September, 20X5.

What will be the valuation of 2,00,000 coconut palms in the company's farm for the quarter ended 30th September, 20X5?

Answer

Para 16 of Ind AS 41 says that entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract.

Moreover, the OHA contract represents just 7.5% [(15,000 / 2,00,000) x 100] of t he total number of palms in the farm. Hence, the contract price can't be considered for fair valuation of the entire inventory of bearer plants.

The valuation in this case would be as follows:

Adding the fair value for 15,000 coconut palm (15,000 palm x 80 nuts x Rs. 15 x 5 times) and 1,85,000 coconut palm (1,85,000 palm x 80 nuts x Rs. 30 x 5 times), we get total valuation of 2,00,000 coconut palm as Rs. 231 crore.

Q8. May 2023, RTP

Fisheries Ltd. practices pisciculture in sweet waters (ponds, tanks and dams). The fishing activity of Fisheries Ltd. in such sweet waters consists only of catching the fishes. Comment whether such fishing activity will be covered within the scope of Ind AS 41?

Answer

Paragraph 5 of Ind AS 41, defines agricultural activity as follows:

"Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

For fishing to qualify as agricultural activity, it must satisfy both of the below mentioned conditions:

a. management of biological transformation of a biological asset; and
b. harvesting of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Therefore, when fishing involves managed activity to grow and procreate fishes in designated areas, such fishing is an agricultural activity as per the above definition. Managing the growth of fish for subsequent sale is an agricultural activity as per Ind AS 41.

In the aforementioned scenario, only fish harvesting is managed by Fisheries Ltd. Therefore, mere fish harvesting without management of biological transformation cannot be termed as an agricultural activity as per Ind AS 41.
Hence, fishing in sweet waters (pond, tanks and dams) where only fishing (harvesting) is carried out without any management of biological transformation is outside the scope of Ind AS 41.

Q9. Nov 2022, RTP

ABC Ltd. is in the business of manufacturing an apple beverage and requires large quantity of apples to manufacture such beverage. In order to satisfy its requirement of apples, it enters into 3 years lease contracts with owners of apple orchards. The lease contracts are mainly of two types:

(1) Contract 1: The owner of the apple orchard (i.e. the lessor) raises the apple trees to produce apples. ABC Ltd. (i.e. lessee) makes a fixed annual payment to the owner of the apple orchard who is required to cultivate the produce as per the specifications of ABC Ltd. ABC Ltd. harvests the apples itself for fulfilling its requirement of apples.

(2) Contract 2: ABC Ltd. obtains the apple orchard from owner (i.e. the lessor) to raise the apple trees for subsequent harvest of the apples to ensure that the apples are as per the requirements of ABC Ltd. ABC Ltd. makes a fixed annual payment to the owner of the apple orchards (i.e. the lessor).

Explain whether ABC Ltd. is engaged in agricultural activity as per Ind AS 41 in both of the cases?

Answer

Paragraph 5 of Ind AS 41, Agriculture defines agricultural activity and biological transformation as follows:

"Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

"Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset."

Contract 1:

As per contract 1, during the 3 years of the contract, ABC Ltd. only harvests apples from the apple orchards whereas biological transformation is managed by the owners of the apple orchards (i.e. the lessor). Since ABC Ltd. is not involved in the biological transformation of the apple orchards and is only harvesting biological assets , it cannot be said to be an agricultural activity as per Ind AS 41. Hence, ABC Ltd. is not engaged in agricultural activity as per Ind AS 41.

Contract 2:

As per contract 2, ABC Ltd. obtains the apple orchards and is actively involved in the raising of apple trees in order to ensure that the apples are as per its requirements. Since, it is actively managing the biological transformation and harvest of biological asset, Hence, ABC Ltd. is engaged in agricultural activity as per Ind AS 41.

Q10. May 2021, RTP

Analyse whether the following activities fall within the scope of Ind AS 41 with proper reasoning:

- Managing animal-related recreational activities like Zoo
- Fishing in the ocean
- Fish farming
- Development of living organisms such as cells, bacteria and viruses
- Growing of plants to be used in the production of drugs
- Purchase of 25 dogs for security purpose of the company's premises.

Answer

Activity	Whether in the scope of Ind AS 41?	Remarks
Managing animal-related recreational activities like Zoo	No	Since the primary purpose is to show the animals to public for recreational purposes, there is no management of biological transformation but simply control of the

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		number of animals. Hence it will not fall in the purview of considered in the definition of agricultural activity.
Fishing in the ocean	No	Fishing in ocean is harvesting biological assets from unmanaged sources. There is no management of biological transformation since fish grow naturally in the ocean. Hence, it will not fall in the scope of the definition of agricultural activity.
Fish farming	Yes	Managing the growth of fish and then harvest for sale is agricultural activity within the scope of Ind AS 41 since there is management of biological transformation of biological assets for sale or additional biological assets.
Development of living organisms such as cells, bacteria viruses	Analysis required	The development of living organisms for research purposes does not qualify as agricultural activity, as those organisms are not being developed for sale, or for conversion into agricultural produce or into additional biological assets. Hence, development of such organisms for the said purposes does not fall under the scope of Ind AS 41. However, if the organisms are being developed for sale or use in dairy products, the activity will be considered as agricultural activity under the scope of Ind AS 41.
Growing of plants to be used in the production of drugs	Yes	If an entity grows plants for using it in production of drugs, the activity will be agricultural activity. Hence it will come under the scope of Ind AS 41.
Purchase of 25	No	Ind AS 41 is applied to account for the

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dogs for security purposes of the company's premises		biological assets when they relate to agricultural activity. Guard dogs for security purposes do not qualify as agricultural activity, since they are not being kept for sale, or for conversion into agricultural produce or into additional biological assets. Hence, they are outside the scope of Ind AS 41.

Q11. Nov 2020, RTP

Entity A purchased cattle at an auction on 30th June 2019

Purchase price at 30th June 2019	₹ 1,00,000
Costs of transporting the cattle back to the entity's farm	₹ 1,000
Sales price of the cattle at 31st March, 2020	₹ 1,10,000

The company would have to incur similar transportation costs if it were to sell the cattle at auction, in addition to an auctioneer's fee of 2% of sales price. The auctioneer charges 2% of the selling price, from both, the buyer as well as the seller.

Calculate the amount at which cattle is to be recognised in books on initial recognition and at year end 31st March, 2020.

Answer

Initial recognition of cattle

	₹
Fair value less costs to sell (₹1,00,000 – ₹1,000 - ₹2,000)	97,000
Cash outflow (₹1,00,000 + ₹1,000 + ₹2,000)	1,03,000
Loss on initial recognition	6,000
Cattle Measurement at year end	
Fair value less costs to sell (₹1,10,000 – 1,000 – (2% x 1,10,000))	1,06,800

At 31st March, 2020, the cattle is measured at fair value of ₹ 1,09,000 less the estimated auctioneer's fee of ₹ 2,200). The estimated transportation costs of getting the cattle to the auction of ₹ 1,000 are deducted from the sales price in determining fair value.

Q12. Nov 2018, RTP

As at 31st March, 2017, a plantation consists of 100 Pinus Radiata trees that were planted 10 years earlier. The tree takes 30 years to mature, and will ultimately be processed into building material for houses or furniture. The enterprise's weighted average cost of capital is 6% p.a.

Only mature trees have established fair values by reference to a quoted price in an active market. The fair value (inclusive of current transport costs to get 100 logs to market) for a mature tree of the same grade as in the plantation is:

As at 31st March, 2017: 171
As at 31st March, 2018: 165

Assume that there would be immaterial cash flow between now and point of harvest.
The present value factor of Rs. 1 @ 6% for
19th year = 0.331
20th year = 0.312
State the value of such plantation as on 31st March, 2017 and 2018 and the gain or loss to be recognised as per Ind AS.

Answer

As at 31st March, 2017, the mature plantation would have been valued at 17,100 (171 x 100).

As at 31st March, 2018, the mature plantation would have been valued at 16,500 (165 x 100). Assuming immaterial cash flow between now and the point of harvest, the fair value (and therefore the amount reported as an asset on the statement of financial position) of the plantation is estimated as follows:

As at 31st March, 2017: 17,100 x 0.312 = 5,335.20.
As at 31st March, 2018: 16,500 x 0.331 = 5,461.50.

Gain or loss

The difference in fair value of the plantation between the two year end dates is 12 6.30(5,461.50 – 5,335.20), which will be reported as a gain in the statement or profit or loss (regardless of the fact that it has not yet been realised).

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Q1. Jan 2026 Exam, 6 marks

The financial statements of R Limited are prepared as on 31st March of every year. The applicable rate of income tax is 35%. The following information of R Limited is for the financial year ended 31st March, 2025:

- Situation 1: R Limited holds 35% equity shares in J Limited which was acquired prior to 1st April 2023 for Rs. 40.00 crores. The shareholding gives R Limited a significant influence over J Limited but not control. Hence R Limited recognizes its interest in J Limited as per the equity method. As per the equity method, the carrying value of R Limited's investment in J Limited was Rs. 70.00 crores as on 31st March 2024 and Rs. 80.00 crores as on 31st March 2025. In the income tax jurisdiction in which R Limited operates, profits recognized under the equity method are taxed if and when they are distributed as a dividend or the relevant investment is disposed off by the investor.
- Situation 2: R Limited measures its Corporate Office Building by applying the revaluation method. The building is revalued every year. On 31st March, 2024, carrying value of the building (after revaluation) was Rs. 50.00 crores and its tax base was Rs. 30.00 crores. During the year ended 31st March 2025, R Limited charged depreciation of Rs. 2.50 crores in its statement of profit and loss but claimed a tax deduction for tax depreciation of Rs. 1.80 crores. On 31st March 2025, the building was revalued to Rs. 60.00 crores. In the tax jurisdiction in which R Limited operates, revaluation of property, plant and equipment does not affect taxable income at the time of revaluation.
- On the basis of the above information, you are required, for both the situations of R Limited, to compute as per applicable Ind AS as at for the financial year ended 31st March 2025:
  - the deferred tax asset / liability;
  - the charge or credit relating to deferred tax to statement of profit and loss and other comprehensive income.

Answer:

(A) Deferred Tax Liability as at 31st March, 2025 Situation 1: Investment in J Ltd:

c	=	Rs. 80.00 Cr
Tax base	=	Rs. 40.00 Cr (Purchase cost)
Temporary Difference	=	Rs. 40.00 Cr

Since carrying amount is higher than the tax base, the temporary difference is recognized as a taxable temporary difference. Using the tax rate of 35%, a deferred tax liability of Rs. 14.00 Cr is recognized:

Situation 2: Corporate office building

Carrying Amount = Rs. 60 Cr (Revalued amount on 31st March, 2025)

Tax base = Rs. 28.20 Cr (30.00 Cr – 1.80 Cr)

Temporary Difference = Rs. 31.80 Cr

Since carrying amount is higher than the tax base, the temporary difference is recognized as a taxable temporary difference. Using the tax rate of 35%, a deferred tax liability of Rs. 11.13 Cr is created.

Total Deferred Tax Liability = Rs. 14.00 Cr + Rs. 11.13 Cr = Rs. 25.13 Cr

(B) Charge to Statement of Profit and Loss for the year ended 31st March 2025:

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Situation 1 : Investment in J Ltd.

Particulars	Carrying amount	Tax Base	Temporary Difference
Opening Balance (1st April, 2024)	Rs. 70 Cr	Rs. 40 Cr	Rs. 30 Cr
Closing Balance (31st March, 2025)	Rs. 80 Cr	Rs. 40 Cr	Rs. 40 Cr
Net Change			Rs. 10 Cr
Increase in Deferred Tax Liability (35% tax rate) charged to Profit and Loss Account			Rs. 3.50 Cr

Considering the increase in the value of investment, the increase in deferred tax liability would be charged to Profit or loss account as under:

Tax expense (Statement of Profit and Loss) Dr Rs. 3.50 Cr

To Deferred Tax Liability Rs. 3.50 Cr

(Being increase in deferred tax liability recognized)

Situation 2: Corporate Office Building:

The deferred tax liability at 31st March 2024 is Rs. 7.00 Cr (35% x {Rs. 50 Cr – Rs. 30 Cr}).

At 31st March 2025, prior to revaluation, the carrying amount of the property is Rs. 47.50 Cr (50 Cr. – 2.50 Cr) and its tax base is Rs. 28.20 Cr (Rs. 30 Cr – Rs. 1.80 Cr). The deferred tax liability at this point is Rs. 6.755 Cr (35% x {Rs. 47.50 Cr – Rs. 28.20 Cr}).

The reduction in this liability is Rs. 0.245 Cr (Rs. 7.00 Cr – Rs. 6.755 Cr). This would be credited to income tax expense in arriving at profit or loss.

Post revaluation, the carrying value of the building becomes Rs. 60.00 Cr and the tax base stays the same. Therefore, the new deferred tax liability is Rs. 11.13 Cr (35% x (Rs. 60 Cr – Rs. 28.20 Cr)). The increase in the deferred tax liability of Rs. 4.375 Cr (Rs. 11.13 Cr – Rs. 6.755 Cr) is charged to other comprehensive income on account of defer tax on revaluation gain.

Q2. Nov 2024 Exam, 6 marks

Mahadev Ltd. has a block of assets with a written down value of Rs. 5,00,000 on 1st April, 2022 for tax purposes. The book value of the assets for accounting purposes is also Rs. 5,00,000. Depreciation is charged on written down value @ 20% p.a. for both accounting and tax purposes. Of the entire block, assets costing Rs. 50,000 on 1st April, 2022 were sold for Rs. 1,00,000 on 31st March, 2024. You are required to compute the deferred tax asset/liability assuming tax rate of 35%.

Answer:

Computation of tax base

Particulars	Carrying amount (Rs.)	Taxbase (Rs.)
Carrying balance on 1st April, 2022	5,00,000	5,00,000
Less: Depreciation	(1,00,000)	(1,00,000)
Balance as on 31st March, 2023	4,00,000	4,00,000
No Temporary difference as on 31st March, 2023	--	--
Less: Carrying amount on the date of disposal to be reversed (accounting record) (Refer W.N.)	(32,000)	
Less: Sale proceeds of the asset to be deducted as per tax records		(1,00,000)

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Less: Depreciation Accounting depreciation (4,00,000 x 20%)	(80,000)	
Tax depreciation {(4,00,000 - 1,00,000) x 20%)}		(60,000)
Balance of the asset as on 31st March, 2024	2,88,000	2,40,000

Working Note:

Accounting book value on 31st March, 2024 = Rs. 50,000 - Rs. 10,000 - Rs. 8,000

= Rs. 32,000

Carrying amount is greater than Tax base which leads to Deferred Tax Liability i.e. Temporary difference = Rs. 2,88,000 - Rs. 2,40,000 = Rs. 48,000

Deferred Tax Liability = Rs. 48,000 x 35% = Rs. 16,800

Q3. Nov 2022 Exam, 6 marks

Following is the summarized Statement of Profit and Loss of New Age Ltd. as per Ind AS for the year ended 31.3.2022:

Particulars	**₹ in lakhs**
Revenue from operations	1,450.00
Other income	70.00
(A) Total income	1,520.00
Purchase of stock in trade	50.00
Changes in inventories of stock in trade	20.00
Employee benefit expenses	145.00
Finance costs	180.00
Other expenses	375.00
(B) Total expenses	770.00
(C) Profit before tax (A - B)	750.00
(D) Current tax expense	211.65
(E) Profit after tax (C - D)	538.35

Additional information:

(1) Consider that Income tax rate applicable to New Age Ltd. in India is 30%.

(2) 'Other expenses' include the following expenses which are not deductible for income tax purposes:

i. Penalties ₹ 1.50 lakh
ii. Donations ₹ 55.00 lakhs
iii. Impairment of goodwill ₹ 7.00 lakhs

(3) 'Other expenses' also include expenditure on Scientific Research amounting to₹ 10 lakhs in respect of which a 150% weighted deduction is available under income tax laws.

(4) 'Other income' includes:

i. Dividends of ₹ 5 lakhs, which is exempt from tax.
ii. Long term capital gains of ₹ 12 lakhs which are taxable at the rate of 10%.

(5) 'Profit before tax of ₹ 750 lakhs' includes:

i. Agriculture income of ₹ 65 lakhs which is exempt from tax; and
ii. Profit of ₹ 75 lakhs earned in USA on which New Age Ltd. has paid tax at the rate of 20%.

During review of financial statements of New Age Ltd., the CFO multiplied profit before tax by the income tax rate and arrived at ₹ 225 lakhs as the tax expenses. However, the actual income tax expenses appearing in the summarized Statement of Profit and Loss is ₹ 211.65 lakhs.

You are required to help the CFO of the company in reconciling the difference between the tax expense amount.

Answer

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Reconciliation of income tax expense and current tax as per accounting profit for the year ended 31st March 2022

Particulars		₹ in lakhs
Accounting profit		750.00
Tax at the applicable tax rate of 30%		225.00
Tax effect of expenses that are not deductible in determining taxable profits:		
Penalties (1.5 x 30%)	0.45	
Impairment of goodwill (7 x 30%)	2.10	
Donations (55 x 30%)	16.50	19.05
Tax effect of expenses that are deductible in determining taxable profits:		
Expenditure on scientific research (10.00 x 50% x 30%)		(1.50)
Tax effect of income that are exempted in determining taxable profits:		
Dividend income (Exempt) (5.00 x 30%)	1.50	
Agriculture income (Exempt) (65.00 x 30%)	(21.00)	19.50
Tax effect of income on which different tax rates are used for determining taxable profits:		
Differential income tax on long term capital gain [12.00 x (30% - 10%)]	2.40	
Foreign income in USA [75.00 x (30% - 20%)]	7.50	(9.90)
Income tax expense (Current) reported in the Statement of Profit and Loss for the current year		211.65

Q4. Dec 2021 Exam, 5 marks

PC Ltd. got incorporated on 1st April, 2020. As on 31.3.2021, the following temporary differences exist:

(i) Taxable temporary differences relating to accelerated depreciation of ₹ 1,24,000. These are expected to reverse equally over next 4 years.

(ii) Deductible temporary difference relating to preliminary expenses of ₹ 80,000 expected to reverse equally over next 5 years.

It is expected that PC Ltd. will continue to make losses for next 5 years. Tax rate is 20%.

Losses can be carried forward but not backwards.

Discuss the treatment of deferred tax as on 31st March, 2021 as per relevant Ind AS.

Answer

The year-wise anticipated reversal of temporary differences is as under:

Particulars	Year ending on 31st March, 2022	Year ending on 31st March, 2023	Year ending on 31st March, 2024	Year ending on 31st March, 2025	Year ending on 31st March, 2026
Reversal of taxable Temporary difference relating to accelerated depreciation over next 4 years (₹ 1,24,000 / 4)	31,000	31,000	31,000	31,000	Nil
Reversal of deductible	16,000	16,000	16,000	16,000	16,000

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temporary difference relating to preliminary expenses over next 5 years (₹ 80,000 / 5)					

Recognition of deferred tax liability:
PC Ltd. will recognise a deferred tax liability of ₹ 24,800 on taxable temporary difference relating to accelerated depreciation of ₹ 1,24,000 @ 20%.

Recognition of deferred tax asset:
However, it will limit and recognise a deferred tax asset on reversal of deductible temporary difference relating to preliminary expenses reversing up to year ending 31st March, 2025 amounting to ₹ 12,800 (₹ 64,000 @ 20%).

Reversal of deferred tax asset:
No deferred tax asset shall be recognized for the reversal of deductible temporary difference for the year ending on 31st March, 2026 as there are no taxable temporary differences. Further, the future estimation is also a loss.

However, if there are tax planning opportunities that could be identified for the year ending on 31st March, 2026,deferred tax asset on the remainder of ₹ 16,000 (₹ 80,000 – ₹ 64,000) of deductible temporary difference could be recognised at the 20% tax rate.

Q5. Jan 2021 Exam, 4 marks

C Ltd. acquired the following assets and liabilities of D Ltd. in a business combination:

₹ in '000s

	Fair Value	Carrying Amount	Temporary Difference
Plant & equipment	500	510	(10)
Inventory	130	150	(20)
Trade receivables	200	210	(10)
Loans and advances	80	85	(5)
	910	955	(45)
10% Debentures	200	200	
	710	755	
Consideration Paid	760	760	
Goodwill	50	5	45

Goodwill is deductible as permissible expenses under the existing tax law.
Calculate Deferred Tax Asset / liability as per relevant Ind AS and also pass related journal entry in books of C Ltd. and assume tax rate at 25%.

Answer
In this case there is a Deferred Tax Asset as the Tax base of assets acquired is higher by ₹ 45,000.
Deferred Tax Asset would be ₹ 11,250 (45,000 x 25%)

Journal entry

Plant and equipment	Dr.	5,00,000	
Inventory	Dr.	1,30,000	
Trade receivables	Dr.	2,00,000	
Loans and advances	Dr.	80,000	
Goodwill (50,000 - 11,250)	Dr.	38,750	
Deferred Tax Asset	Dr.	11,250	
To 10% Debentures			2,00,000
To Bank			7,60,000

(Assets and liabilities taken over, goodwill and deferred tax asset have been recognised)

Q6. Nov 2020 Exam, 5 marks

Parent Limited, prepares consolidated financial statements of the group on 31 March every year. During the year ended 31 March 2020, the following events affected the tax position of the group:

i. S Limited, a wholly owned subsidiary of Parent Limited, incurred a loss of ₹ 20,00,000 which is adjustable from future taxable profits of the company for tax purposes. S Limited is unable to utilize this loss against previous tax liabilities. Income Tax Act does not allow S Limited to transfer the tax loss to other group companies. However, it allows S Limited to carry forward the loss and utilize it against company's future taxable profits. The directors of Parent Limited estimate that S Limited will not make any taxable profits in the foreseeable future.

ii. On 1 April 2019, Parent Limited borrowed ₹ 50,00,000. The cost incurred by Parent Limited for arranging the borrowing was ₹ 1,00,000 on the said date and this expenditure is qualified for deduction under the Income Tax Act for the accounting year 2019-2020. The loan was given for a three-year period. As per agreement, no principal or interest was payable on the loan during the tenure of loan but the amount repayable on 31 March 2022 will be by way of a bullet payment of ₹ 65,21,900.

As per Parent Limited, this equates to an effective annual interest rate of 10% on loan.

As per the Income-tax Act, a further expense of ₹ 15,21,900 will be claimable from taxable income till the loan is repaid on 31 March 2022.

The rate of corporate income tax to be assumed @ 20%.

Explain and show how each of these events would affect the deferred tax assets/liabilities in the consolidated balance sheet of Parent Limited as at 31 March 2020 as per applicable Ind AS.

You are also required to examine whether the effective rate of interest arrived at by Parent Limited for the loan of ₹ 50,00,000 is in accordance with applicable Ind AS or not?

Answer

i. The tax loss creates a potential deferred tax asset for the group since its carrying value is nil and its tax base is ₹ 20,00,000.

However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.

ii. The carrying value of the loan at 31 March 2020 is ₹ 53,90,000 (₹ 50,00,000 –₹ 1,00,000 + (₹ 49,00,000 x 10%)).

The tax base of the loan is ₹ 50,00,000.

This creates a deductible temporary difference of ₹ 3,90,000 (₹ 53,90,000 –₹ 50,00,000) and a potential deferred tax asset of ₹ 78,000 (₹ 3,90,000 x 20%).

If there are prospects of availability of taxable profits in future, deferred tax asset can be recognised.

Amortisation Table for verification of effective rate of interest

Year	Opening balance (₹) (A)	Interest @ 10% (₹) (B)	Closing balance (₹) (A) + (B)
1	49,00,000 (50,00,000 – 1,00,000)	4,90,000	53,90,000
2	53,90,000	5,39,000	59,29,000
3	59,29,000	5,92,900	65,21,900

Since the closing balance calculated as per the above table on the basis of 10% matches with the bullet payment of ₹ 65,21,900, it assures that 10% rate of interest taken as effective rate of interest is correct and is in accordance with Ind AS 109.

It considers the impact of cost of borrowing adjusted from the loan amount at initial recognition.

Q1. Nov 2024, RTP

X Ltd. has 2 wholly owned subsidiaries A Ltd. and B Ltd. The company had acquired 100% equity of these companies as at 1st April, 20X1. The investment was made as under:

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Company	Invested on April 1, 20X1	Profit (loss) for the FY 20X1-20X2	Profit (loss) for the FY 20X2-20X3	Profit (loss) for the FY 20X3-20X4
	Rs.	Rs.	Rs.	Rs.
A Ltd.	5,00,000	(50,000)	(60,000)	(70,000)
B Ltd.	5,00,000	50,000	60,000	70,000

As at 31st March, 20X4 in the standalone financial statements of X Ltd., the future projections of company A Ltd. being negative, the entire investment was impaired by Rs. 5,00,000. The same was disallowed under income-tax laws of X Ltd.'s jurisdiction. Further, in the consolidated financial statements of X Ltd., the net assets in relation to A Ltd. was also fully impaired.

As at 31st March, 20X4, B Ltd. has excess earnings available which would be transferred to the holding company in future but it cannot be repatriated in a tax free manner.

Required

On the preparation of the consolidated financial statements of X Ltd.-

(i) Would a deferred tax liability be recorded for the difference in the carrying value and tax books value of A Ltd. in the consolidated financial statement (CFS) of X Ltd.? Assume no indexation benefit is available on investment in A Ltd.

(ii) Would a deferred tax liability be recorded for the difference in the carrying value and tax books value of B Ltd. in the CFS of X Ltd.? Assume no indexation benefit is available on investment in B Ltd.

Answer:

For investment in subsidiaries, branches and associates and interests in joint arrangements, paragraphs 38 and 39 of Ind AS 12 states that temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint arrangements (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

a) the existence of undistributed profits of subsidiaries, branches, associates and joint arrangements;
b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and
c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the parent's separate financial statements if the parent carries the investment in its separate financial statements at cost or revalued amount.

Further, an entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

a) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and
b) it is probable that the temporary difference will not reverse in the foreseeable future.

Further, paragraph 44 of Ind AS 12 provides that an entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and

associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

a) the temporary difference will reverse in the foreseeable future; and
b) taxable profit will be available against which the temporary difference can be utilised.

Applying the above guidance,

(i) In consolidated financial statements of X Ltd., the investment in subsidiary is eliminated and the net assets including goodwill are recorded. For comparing the tax base of investment with the books in case of a consolidated financial statements the carrying value of investment is replaced with the net assets (including goodwill).

Thus, book base of A Ltd. in consolidated financial statements of X Ltd. is Nil (i.e. Rs. 5,00,000 less losses amounting to Rs. 1,80,000 less impairment of Rs. 3,20,000).

The impairment on investment in subsidiary-A Ltd. recognised in standalone financial statements (amounting to Rs. 5,00,000) was disallowed under the Income tax laws of X Ltd.'s jurisdiction. The entire cost of investment of Rs. 5,00,000 is deductible upon sale of investment under the applicable tax laws. Thus, the tax base of investment in A Ltd. is Rs. 5,00,000.

Thus, there is a temporary difference of Rs. 5,00,000. In practice, such temporary differences are commonly referred to as 'outside basis differences'.

A deferred tax asset should be recorded for this outside basis difference only if the conditions specified in paragraph 44 of Ind AS 12 mentioned above are met.

(ii) In consolidated financial statements of X Ltd., the investment in subsidiary is eliminated and the net assets including goodwill are recorded.

The book base of B Ltd. in consolidated financial statements of X Ltd. is Rs. 6,80,000 (i.e. Rs. 5,00,000 add profits amounting to Rs. 1,80,000).

The entire cost of investment of Rs. 5,00,000 is deductible under tax upon sale of investment. Thus, the tax base of investment in B Ltd. Is Rs. 5,00,000.

The difference in the book base and tax base lead to an outside basis difference of INR 1,80,000.

Paragraph 40 of Ind AS 12 provides that as a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when

the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability. The same considerations apply to investments in branches."

In the given scenario, for B Ltd., the company proposes to repatriate the surplus to its holding company in the foreseeable future and it cannot be repatriated in a tax-free manner. Thus, it is probable that the temporary difference would reverse in the foreseeable future.

Thus, a deferred tax liability would be recorded for this temporary difference at the tax rate applicable to the repatriation of surplus by B Ltd. to its holding company on such portion which will reverse in the foreseeable future. To illustrate, if X Ltd. expects that out of the temporary difference of Rs. 1,80,000, X Ltd. expects to repatriate only Rs. 1,00,000 and would re-invest the balance Rs. 80,000 in B Ltd. itself or requires it for its working capital requirements. Thus,

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deferred tax liability would be recorded on Rs. 1,00,000 only as this is the amount which is reversible in the foreseeable future and not the entire amount.

However, if it is probable that the temporary difference will not reverse in the foreseeable future (e.g. by way of dividend distribution or sale of investment), then no deferred tax liability is recognised on outside basis difference of Rs. 1,80,000 in the consolidated financial statements of X Ltd.

Q2. Nov 2024, RTP

X Ltd., an Indian company owns a freehold land with carrying value of

Rs.10,00,000 which is not depreciated for tax purposes but is indexed for inflation. Indexed value and fair value of such land is Rs. 15,00,000 and

Rs.22,00,000 respectively as of the reporting date. What will be the tax base for such freehold land for measurement of deferred tax if:

(i) X Ltd. intends to sell it as a part of slump sale of business eventually after using it for business purpose

(ii) X Ltd. intends to sell the land individually and not on a slump sale basis

(iii) X Ltd. has classified such land as investment property and intends to sell it individually and not on a slump sale basis

(iv) X Ltd. follows a revaluation model for freehold land and intends to sell it individually and not on a slump sale

As per the applicable tax laws in the jurisdiction, indexation benefit is not available if the freehold land is sold as a part of slump sale of business, but indexation benefit is available if freehold land is sold individually.

Answer:

11. Paragraphs 51 and 51A of Ind AS 12, state that the measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

(a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and

(b) the tax base of the asset (liability).

In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement."

The expectation of the entity at the end of the reporting period with regard to the manner of recovery or settlement of its assets and liabilities will require exercise of judgement based on evaluation of facts and circumstances in each case. It may be relevant to consider that there is substance to management's expectation of the entity being able to recover the asset through slump sale or otherwise.

Depending on the facts and circumstances, it is generally assumed that the Company will act in the most economically advantageous way.

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If a non-depreciable asset is measured using the revaluation model, then an entity is required to measure the DTA/DTL considering the tax consequences of recovering the carrying amount through sale.

Accordingly, based on assumption around supporting facts and circumstances to support management expectation around recovery or settlement, following will be the tax base for computing the deferred tax assets/ liability, in the given case:

(i) X Ltd. intends to sell it as slump sale eventually after using it for business purpose

If it is concluded based on evaluation of facts that the freehold land will be sold through slump sale, then the tax base of the land will be the same as the carrying amount of the land, as indexation benefit is not available in case of slump sale and hence there will not be any temporary difference.

(ii) X Ltd. intends to sell the land individually and not on a slump sale basis

In the given scenario, the company intends to sell the land individually and not on a slump sale such that the company would get indexation benefit.

Thus, book base of land, i.e. carrying amount of freehold land in the balance sheet is Rs. 10,00,000. As per paragraph 51A of Ind AS 12, the tax base (amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset) is the indexed valued of Rs. 15,00,000 since the company intends to sell the land individually and not on slump sale and thus get indexation benefit. Deferred tax assets will be set up, subject to recoverability, on a deductible tax difference of Rs. 5,00,000.

(iii) X Ltd. has classified such land as investment property and intends to sell it individually and not on a slump sale

Paragraph 56 of Ind AS 40, Investment property, requires that after initial recognition, an entity shall measure all of its investment properties in accordance with the requirement for cost model as per Ind AS 16, other than those that meet the criteria to be classified as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations. Ind AS 40 does not allow fair value model. Accordingly, freehold land classified as investment property will be measured at cost.

Thus, book base of land, i.e. carrying amount of freehold land in the balance sheet is Rs. 10,00,000. The Company intends to sell the land individually and not on a slump sale and thus get indexation benefit. Hence, as per paragraph 51A of Ind AS 12, the tax base (amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset) is the indexed valued of Rs. 15,00,000. Accordingly, deferred tax assets will be set up, subject to recoverability, on deductible tax difference of Rs. 5,00,000.

(iv) X Ltd. follows a revaluation model for freehold land and intends to sell it individually and not on a slump sale. If X Ltd. follows a revaluation model, carrying amount of freehold land in the balance sheet would be Rs. 22,00,000. Thus, book base of land is Rs. 22,00,000.

The Company intends to sell the land individually and not on a slump sale and thus get indexation benefit. Hence, as per paragraph 51A of Ind AS 12, the tax base (amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset) is the indexed valued of Rs. 15,00,000. Accordingly, deferred tax liability will be set up on taxable temporary difference of Rs. 7,00,000.

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As per paragraph 39 of Ind AS 16, if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Accordingly, the effect of deferred tax liability should also be recognised in other comprehensive income as per paragraph 57 and 61A of Ind AS 12.

Q3. May 2024, RTP

Joy Ltd. wishes to calculate tax base of its assets and liabilities as on 31st March 20X5. The Balance Sheet has been adjusted by current tax expense.

Summarised Balance Sheet as on 31st March 20X5:

ASSETS	**Rs.**
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**
EQUITY & LIABILITIES	**Rs.**
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438
Revaluation Surplus	88,000
Non-current 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:

1. Depreciation expense for the year 20X4-20X5 allowable in accordance with tax laws is Rs. 2,06,000. Accounting depreciation included in operating costs is Rs. 1,70,000. Cost of PPE is Rs. 16,00,000 and Joy Ltd has deducted expenses of Rs. 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 Rs. 12,00,000 (revaluation surplus = Rs. 88,000).
2. In 20X1-20X2, Joy Ltd incurred product development costs of Rs. 1,00,000. These costs were recognized as an asset and being amortized over useful period of 10 years. For tax purposes, Joy Ltd deducted full product development costs in 20X1-20X2.

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3. Trading investments were acquired in 20X3-20X4 with cost of Rs. 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.
4. Bad debt provision amounts to Rs. 1,30,000 and relates to 2 debtors:
   - Debtor A - Rs. 80,000 (receivable originated in 20X2-20X3 and 100% provision was recognized in 20X3-20X4) and
   - Debtor B - Rs. 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.
5. Joy Ltd accounts for inventory obsolescence provision. New provision created in 20X4-20X5 was Rs. 10,800 (total provision: Rs. 18,000). This provision is not tax deductible, as it is a general provision.
6. Government grants are not taxable. Government grant received in 20X4-20X5 is appearing in the balance sheet.
7. In 20X4-20X5, Joy Ltd made a further provision for product warranty of Rs. 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 Rs. 6,200.
8. During the year 20X4-20X5, Joy Ltd has introduced health care benefits for employees. The expenses are allowable as 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.

Calculate temporary differences and deferred tax for Joy Ltd as on 31st March 20X5 assuming the tax rate is 32%.

Answer:

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 (W.N.1)	2,22,000	Taxable	(71,040)
Product Development Costs	60,000	0	60,000	Taxable	(19,200)
Trading investments	2,08,000	2,30,000	(22,000)	Deductible	7,040
Trade receivables	6,26,000	7,06,000 (W.N.2)	(80,000)	Deductible	25,600
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760
Deferred income – Government grants	(40,000)	0	(40,000)	Excluded	0
Liability for product warrantycosts	(16,000)	0	(16,000)	Deductible	5,120

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Health care benefits for employees	(70,000)	0	(70,000)	Deductible	22,400
Total DeferredTax Asset					65,920
Total DeferredTax Liability					(90,240)
Net Deferred Tax Liability					(24,320)

Working Notes:

1. Property Plant & Equipment as per tax records

	Rs.
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. Trade receivables – Provision for doubtful debts:

		Rs.
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 – Rs. 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- Rs. 50,000 from 20X3-20X4		
>1 year – 20% deducted in 20X4-20X5	10,000	
Total deduction for tax purpose B		(50,000)
Tax base of trade receivables A-B		7,06,000

Q4. Nov 2023, RTP

On 1st April, 20X1, an entity paying tax at 30% acquired a non-tax-deductible office building for ₹ 1,00,000 in circumstances in which Ind AS 12 prohibits recognition of the deferred tax liability associated with the temporary difference of ₹ 1,00,000. The building is depreciated over 10 years at ₹ 10,000 per year to a residual value of zero. The entity's financial year ends on 31st March.

On 1st April, 20X2, the carrying amount of the building is ₹ 90,000, and it is revalued upwards by ₹ 45,000 to its current market value of ₹ 1,35,000. There is no change to the estimated residual value of zero, or to the useful life of the building after revaluation.

Determine the carrying amount, depreciation for the year ended 31st March, 20X3 and defer tax thereafter till the useful life of the building. Further analyse the treatment and impact of defer tax since 31st March, 20X3 till the useful life of the building.

Answer

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Since there is no change to the estimated residual value of zero, or to the useful life of the building after revaluation, at the end of the 2nd year i.e. 31st March 20X3, the building will be depreciated over the next 9 years at ₹ 15,000 per year.

Following the revaluation, the temporary difference associated with the building is ₹ 1,35,000. Of this amount, only ₹ 90,000 arose on initial recognition, since ₹ 10,000 of the original temporary difference of ₹ 1,00,000 arising on initial recognition of the asset has been eliminated through depreciation of the asset. The carrying amount (which equals the temporary difference, since the tax base is zero) and depreciation during the year ended 31st March, 20X3 and thereafter may then be analysed as follows:

Year	Carrying amount a	Tax base b	Gross temporary difference (c= a-b)	Unrecognised temporary difference d	Recognised temporary difference (e=c-d)	Deferred tax liability f = e@30%
0	1,00,000	-	1,00,000	1,00,000	-	-
1	90,000	-	90,000	90,000	-	-
Reval	1,35,000	-	1,35,000	90,000	45,000	13,500
2	1,20,000	-	1,20,000	80,000	40,000	12,000
3	1,05,000	-	1,05,000	70,000	35,000	10,500
4	90,000	-	90,000	60,000	30,000	9,000
5	75,000	-	75,000	50,000	25,000	7,500
6	60,000	-	60,000	40,000	20,000	6,000
7	45,000	-	45,000	60,000	15,000	4,500
8	30,000	-	30,000	20,000	10,000	3,000
9	15,000	-	15,000	10,000	5,000	1,500
10	-	-	-	-	-	-

Note: The depreciation is allocated pro rata to the cost element and revalued element of the total carrying amount.

On 31st March, 20X3, the entity recognises a deferred tax liability based on the temporary difference of ₹ 45,000 arising on the revaluation (i.e., after initial recognition) giving a deferred tax expense of ₹ 13,500 (₹ 45,000 @ 30%) recognised in Other Comprehensive Income (OCI).

This has the result that the effective tax rate shown in the financial statements for the revaluation is 30% (₹ 45,000 gain with deferred tax expense of ₹ 13,500).

As can be seen from the table above, as at 31st March, 20X4 (year 3), ₹ 40,000 of the total temporary difference arose after initial recognition. The entity, therefore, provides for deferred tax of ₹ 12,000 (₹ 40,000 @ 30%), and a deferred tax credit of ₹ 1,500 (the reduction in the liability from ₹ 13,500 to ₹ 12,000) is recognised in profit or loss.

The deferred tax credit can be explained as the tax effect at 30% of the additional ₹ 5,000 depreciation relating to the revalued element of the building.

Q5. May 2022, RTP

Following is the summarized statement of profit and loss of EARTH Limited as per Ind AS for the year ended 31st March 20X1:

Particulars	₹ in Crore
Revenue from operations	1,160.00
Other income	56.00
Total Income (A)	1,216.00
Purchase of stock-in-trade	40.00
Changes in inventories of stock-in-trade	6.00
Employee benefits expense	116.00
Finance costs	130.00
Depreciation and amortization expense	30.00
Other expenses	300.00

Total Expenses (B)	622.00
Profit Before Tax (A-B)	594.00
Current tax	165.40
Deferred tax	1.50
Tax Expenses	166.90
Profit after Tax	427.10

Additional information:

• Corporate income tax rate applicable to EARTH Limited is 30%.

• Other income includes long-term capital gains of ₹ 10 crore which are taxable at the rate of 10%.

• Other expenses include the following items which are not deductible for income tax purposes:

Item	**₹ in Crore**
Penalties	1.00
Impairment of goodwill	44.00
Corporate Social Responsibility expense	6.00

• Other expenses include research and development (R & D) expenditure of ₹ 8 crore in respect of which a 200% weighted deduction is available under income tax laws.

• Other income includes dividends of ₹ 4 crore, which is exempt from tax.

• Profit before tax of ₹ 594 crore includes (i) agriculture income of ₹ 55 crore which is exempt from tax; and (ii) profit of ₹ 60 crore earned in the USA on which EARTH Limited is required to pay tax at the rate of 20%.

• Depreciation as per income tax laws is ₹ 25.0 crore.

During review of the financial statements of EARTH Limited, the CFO multiplied profit before tax by the income tax rate and arrived at ₹ 178.2 crore as the tax expense (₹ 594 crore x 30% = ₹ 178.2 crore). However, actual income tax expense appearing in the summarized statement of profit and loss is ₹ 166.9 crore.

The CFO has sought your help in reconciling the difference between the two tax expense amounts. Prepare a reconciliation containing the disclosure as required under the relevant Ind AS.

Answer

Reconciliation of income tax expense and current tax as per accounting profit for the year ended 31st March, 20X1

Particulars		**₹ in crore**
Accounting profit		594.00
Tax at the applicable tax rate of 30%		178.20
Tax effect of expenses that are not deductible in determining		
taxable profits:	0.30	
Penalties (1.00 x 30%)	13.20	
Impairment of goodwill (44.00 x 30%)	1.80	15.30
Corporate social responsibility expense (6.00 x 30%)		
Tax effect of expenses that are deductible in		
determining taxable profits:		(2.40)
Research and development expenses (8.00 x 30%)		
Tax effect of income that are exempted in determining		
taxable profits:	1.20	
Dividend income (Exempt) (4.00 x 30%)	16.50	(17.70)
Agriculture income (Exempt) (55.00 x 30%)		
Tax effect of income on which different tax rates are used for determining taxable profits:		
Differential income tax on long term capital gain [10.00	2.00	
x (30% - 10%)]	6.00	(8.00)
Foreign income in USA [60.00 x (30%-20%)]		165.40
Income tax expense (Current) reported in the Statement of		
Profit and Loss for the current year		

Reconciliation of deferred tax:

Particulars	**₹ in crore**

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Deferred tax in relation to depreciation and amortization [(30 – 25) x 30%]	1.50
Tax expense (deferred) reported in the Statement of Profit or Loss for the current year	1.50

Q6. May 2021, RTP

The entity has an identifiable asset ASSOTA with a carrying amount of ₹ 10,00,000. Its recoverable amount is ₹ 6,50,000. The tax base of ASSOTA is ₹ 8,00,000 and the tax rate is 30%. Impairment losses are not tax deductible. Entity expects to continue to earn profits in future.
For the identifiable asset ASSOTA, what would be the impact on the deferred tax asset/ liability at the end of the period.

Answer

As per Ind AS 36, the revised carrying amount of asset ASSOTA would be ₹6,50,000.
The tax base of asset ASSOTA is given as ₹8,00,000.
Carrying base of asset = ₹6,50,000
Tax base of asset = ₹8,00,000
Since tax base is greater than carrying base of asset, so deferred tax asset would be created on the temporary difference of ₹1,50,000 (₹8,00,000 – ₹6,50,000) at the given tax rate of 30%.
Hence, Deferred tax asset for the asset ASSOTA would be ₹1,50,000 x 30% = ₹45,000.

Q7. Nov 2020, RTP

On 1 January 2020, entity H acquired 100% share capital of entity S for ₹15,00,000. The book values and the fair values of the identifiable assets and liabilities of entity S at the date of acquisition are set out below, together with their tax bases in entity S's tax jurisdictions. Any goodwill arising on the acquisition is not deductible for tax purposes.
The tax rates in entity H's and entity S's jurisdictions are 30% and 40% respectively.

Acquisitions	**Book values ₹'000**	**Tax base ₹'000**	**Fair values ₹'000**
Land and buildings	600	500	700
Property, plant and equipment	250	200	270
Inventory	100	100	80
Accounts receivable	150	150	150
Cash and cash equivalents	130	130	130
Accounts payable	(160)	(160)	(160)
Retirement benefit obligations	(100)	-	(100)

You are required to calculate the deferred tax arising on acquisition of Entity S. Also calculate the Goodwill arising on acquisition.

Answer

Calculation of Net assets acquired (excluding the effect of deferred tax liability):

Net assets acquired	**Tax base ₹'000**	**Fair values ₹'000**
Land and buildings	500	700
Property, plant and equipment	200	270
Inventory	100	80
Accounts receivable	150	150
Cash and cash equivalents	130	130
Total assets	1,080	1,330
Accounts payable	(160)	(160)
Retirement benefit obligations	-	(100)
Net assets before deferred tax liability	920	1,070

Calculation of deferred tax arising on acquisition of entity S and goodwill

	₹'000	**₹'000**
Fair values of S's identifiable assets and liabilities (excluding deferred tax)		1,070
Less: Tax base		(920)

Temporary difference arising on acquisition		150
Net deferred tax liability arising on acquisition of entity S (₹150,000 @ 40%)		60
Purchase consideration		1,500
Less: Fair values of entity S's identifiable assets and liabilities (excluding deferred tax)	1,070	
Deferred tax liability	(60)	(1,010)
Goodwill arising on acquisition		490

Note: Since, the tax base of the goodwill is nil, taxable temporary difference of ₹4,90,000 arises on goodwill. However, no deferred tax is recognised on the goodwill. The deferred tax on other temporary differences arising on acquisition is provided at 40% and not 30%, because taxes will be payable or recoverable in entity S's tax jurisdictions when the temporary differences will be reversed.

Q8. Nov 2019, RTP

Jeevan India Limited is in the business of development of smart city. For development of smart city, Jeevan India Limited allots its land to customer on 99 years of lease. The customer is required to pay lease premium at the time of execution of lease deed and lease rent on annual basis over a period of 99 years.

The lease premium amount is the market value of land and lease rent is nominal amount say ₹ 1 per square metre per year. The lease premium is non-refundable. As per the lease terms, on completion of 99 years, the lease is renewable at mutual consent of lessor and lessee.

How would income in respect of lease premium collected by Jeevan India Limited (which is the market value of land and is not refundable) at the time of execution of lease deed be recognised as per Ind AS, if for subsequent years, only nominal lease rent is collected

Answer

Paragraph 5 of Ind AS 115 scopes out revenue arising from lease agreements. Principles enunciated under Ind AS 17, Leases would be applicable for revenue arising from leasing agreements.

Recognition of income in respect of lease would depend on its classification as per Ind AS 17, Leases.

If the lease of land is an operating lease, then it will be accounted for as given below

- Lessors shall present assets subject to operating leases in their balance sheet according to the nature of the asset.
- Lease income from operating leases shall be recognised in income on a straight-line basis over the lease term, unless either:

a) another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished, even if the payments to the lessors are not on that basis; or

b) the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary according to factors other than inflation, then this condition is not met.

The long lease term may be an indication that the lease is classified as a finance lease. If **it is a finance lease** then lessor Jeevan India Ltd. shall recognise assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to the net investment in the lease. The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Nominal lease rent collected every year will also be accounted every year on accrual basis.

Q9. May 2019, RTP

PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 2018, the following events affected the tax position of the group:

• QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of ₹ 30,00,000. QPR Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow QPR Ltd. to transfer the tax loss to other group companies. However, it allows QPR Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of PQR Ltd. do not
consider that QPR Ltd. will make taxable profits in the foreseeable future.
• During the year ended 31st March, 2018, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was ₹ 16,00,000. The development project began to generate economic benefits for PQR Ltd. from 1st January, 2018. The directors of PQR Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year
ended 31st March, 2018.
• On 1st April, 2017, PQR Ltd. borrowed ₹ 1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1st April 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March 2020 will be ₹ 1,30,43,800.
This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31st March, 2020.
Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of PQR Ltd. group at 31st March, 2018 as per Ind AS. The rate of corporate income tax is 30%

Answer

Impact on consolidated balance sheet of PQR Ltd. group at 31st March, 2018
• The tax loss creates a potential deferred tax asset for the PQR Ltd. group since its carrying value is nil and its tax base is ₹ 30,00,000. However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.

• The development costs have a carrying value of ₹ 15,20,000 (₹ 16,00,000 – (₹ 16,00,000 x 1/5 x 3/12)). The tax base of the development costs is nil since the relevant tax deduction has already been claimed. The deferred tax liability will be ₹ 4,56,000 (₹ 15,20,000 x 30%). All deferred tax liabilities are shown as non-current.

• The carrying value of the loan at 31st March, 2018 is ₹ 1,07,80,000 (₹ 1,00,00,000 – ₹ 200,000 + (₹ 98,00,000 x 10%)). The tax base of the loan is 1,00,00,000. This creates a deductible temporary difference of ₹ 7,80,000 and a potential deferred tax asset of ₹ 2,34,000 (₹ 7,80,000 x 30%).

Q10. Nov 2018, RTP

X Ltd. prepares consolidated financial statements to 31st March each year. During the year ended 31st March 2018, the following events affected the tax position of the group:

i. Y Ltd., a wholly owned subsidiary of X Ltd., made a loss adjusted for tax purposes of ₹ 30,00,000. Y Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow Y Ltd. to transfer the tax loss to other group companies.However, it allows Y Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of X Ltd. do not consider that Y Ltd. will make taxable profits in the foreseeable future.
ii. Just before 31st March, 2018, X Ltd. committed itself to closing a division after the year end, making a number of employees redundant. Therefore X Ltd. recognised a provision for closure costs of ₹ 20,00,000 in its statement of financial position as at 31st March, 2018. Income-tax Act allows tax deductions for closure costs only when the closure actually takes place. In the year ended 31 March 2019, X Ltd. expects to make taxable profits which are well in excess of ₹ 20,00,000. On 31st March, 2018, X Ltd. had taxable temporary differences from other sources which were greater than ₹ 20,00,000.
iii. During the year ended 31 March 2017, X Ltd. capitalised development costs which satisfied the criteria in paragraph 57 of Ind AS 38 'Intangible Assets'. The total amount capitalised was

₹ 16,00,000. The development project began to generate economic benefits for X Ltd. from 1st January 2018. The directors of X Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31 March 2018.

iv. On 1 April 2017, X Ltd. borrowed ₹ 1,00,00,000. The cost to X Ltd. of arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1 April 2017.The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31 March 2020 will be ₹ 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31st March,2020.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of X Ltd. group at 31 March, 2018 as per Ind AS. Assume the rate of corporate income tax is 20%.

Answer

i. The tax loss creates a potential deferred tax asset for the group since its carrying value is nil and its tax base is ₹ 30,00,000.

However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.

ii. The provision creates a potential deferred tax asset for the group since its carrying value is ₹ 20,00,000 and its tax base is nil.

This deferred tax asset can be recognised because X Ltd. is expected to generate taxable profits in excess of ₹ 20,00,000 in the year to 31st March, 2019.

The amount of the deferred tax asset will be ₹ 4,00,000 (₹ 20,00,000 x 20%).

This asset will be presented as a deduction from the deferred tax liabilities caused by the (larger) taxable temporary differences.

iii. The development costs have a carrying value of ₹ 15,20,000 (₹ 16,00,000 – (₹16,00,000 x 1/5 x 3/12)).

The tax base of the development costs is nil since the relevant tax deduction has already been claimed.

The deferred tax liability will be ₹ 3,04,000 (₹ 15,20,000 x 20%). All deferred tax liabilities are shown as non-current.

iv. The carrying value of the loan at 31st March, 2018 is ₹ 1,07,80,000 (₹ 1,00,00,000 –₹ 2,00,000 + (₹ 98,00,000 x 10%)).

The tax base of the loan is ₹ 1,00,00,000.

This creates a deductible temporary difference of ₹ 7,80,000 (₹ 1,07,80,000 –₹ 1,00,00,000) and a potential deferred tax asset of ₹ 1,56,000 (₹ 7,80,000 x 20%).Due to the availability of taxable profits next year (see part (ii) above), this asset can be recognised as a deduction from deferred tax liabilities.

Q11. May 2018, RTP

A's Ltd. profit before tax according to Ind AS for Year 20X1-20X2 is ₹ 100 thousand and taxable profit for year 20X1-20X2 is ₹ 104 thousand. The difference between these amounts arose as follows:

On 1st February, 20X2, it acquired a machine for ₹ 120 thousand. Depreciation is charged on the machine on a monthly basis for accounting purpose. Under the tax law, the machine will be depreciated for 6 months. The machine's useful life is 10 years according to Ind AS as well as for tax purposes. In the year 20X1-20X2, expenses of ₹ 8 thousand were incurred for charitable donations. These are not deductible for tax purposes.You are required to prepare necessary entries as at 31st March 20X2, taking current and deferred tax into account. The tax rate is 25%.

Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation.

Answer

Current tax= Taxable profit x Tax rate = ₹104 thousand x 25% = ₹26 thousand.

Computation of Taxable Profit:

	₹ in thousand
Accounting profit	100
Add: Donation not deductible 8	8

Less: Excess Depreciation	(4)
Total Taxable profit	104

	₹ in thousand	₹ in thousand
Profit & loss A/c Dr.	26	
To Current Tax		26

Deferred tax:

Machine's carrying amount according to Ind AS is ₹ 118 thousand (₹ 120 thousand – ₹ 2 thousand)

Machine's carrying amount for taxation purpose = ₹ 114 thousand (₹ 120 thousand – ₹ 6 thousand)

Deferred Tax Liability = ₹ 4 thousand x 25%

	₹ in thousand	₹ in thousand
Profit & loss A/c Dr.	1	
To Deferred Tax Liability		1

Tax reconciliation in absolute numbers:

	₹ in thousand
Profit before tax according to Ind AS	100
Applicable tax rate	25%
Tax	25
Expenses not deductible for tax purposes (₹ 8 thousand x 25%)	2
Tax expense (Current and deferred)	27

Tax rate reconciliation

	₹ in thousand
Applicable tax rate	25%
Expenses not deductible for tax purposes	2%
Average effective tax rate	27%

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Q1. Sep 2025 Exam, 6 marks

Drape Ltd. took a long-term loan of USD 30,000 from an entity registered in

U.S.A. on 1st April, 2024. Interest of USD 2,400 is payable annually on 31st March, starting from 31st March, 2025. The loan is repayable in USD on 31st March, 2030 and the effective annual interest rate implicit in the loan is 11%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:

- 1st April, 2024-USD 1 = Rs. 74.
- 31st March, 2025-USD 1 = Rs. 78.
- Average rate for the year ended 31st March, 2025 - USD 1 = Rs. 72.

The functional currency of the group is Indian Rupee.

Calculate (a) the initial measurement amount for the loan, (b) finance cost for the year 2024-2025, (c) closing balance of loan as at 31st March 2025 and (d) exchange gain / loss for the year 2024-2025.

Answer:

(i) Initial carrying amount of loan in books Loan amount received = USD 30,000 Present value of loan

Cash flow of interest USD 30,000 x 8% = 2,400 for 6 years.

PV of cash flow of interest USD 2,400 x 4.2305 = 10,153.20

PV of Repayment of loan USD 30,000 x 0.5346 = 16,038.00

Total 26,191.20

When effective interest rate is different from the contractual rate, it results into transaction cost due to which the initial present value of the loan is different from the transaction price. Accordingly, here difference of USD 3,808.80 (USD 30,000 – USD 26,191.20) will be recorded as transaction cost.

As per Ind AS 21, foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Loan to be converted in Rupees (Rs.) = USD 26,191.20 x Rs. 74/ USD = Rs. 19,38,149

Therefore, the loan would initially be recorded at Rs. 19,38,149.

(ii) **Calculation of Finance Cost for the year 2024 -2025**

The finance cost = USD 26,191.20 x 11% = USD 2,881

The finance cost would be recorded at an average rate for the period since it accrues over a period of time. Hence, the finance cost for financial year 2024-2025 in Rupees (Rs.) is Rs. 2,07,432 (USD 2,881 x Rs. 72/USD)

The actual payment of interest would be recorded at USD 2,400 x Rs. 78/ USD = Rs. 1,87,200

(iii) Calculation of closing balance of loan as at 31st March 2025

Period	Opening Financial Liability (USD) A	Interest @ 11% EIR (USD) B	Cash outflow (USD)	Closing balance of loan (USD) A+B-C

			C	
2024-2025	26,191.20	2,881	2,400	26,672.20

(iv) Computation of Exchange Gain/Loss for the year 2024 -2025

The loan balance is a monetary item, so it is translated at the rate of exchange at the reporting date.

So, the closing loan balance in Rupees (Rs.) is USD 26,672.20 x Rs. 78/USD = Rs. 20,80,432

In this case, the exchange difference is Rs. [20,80,432 - (19,38,149 + 2,07,432 – 1,87,200)] = Rs. 1,22,051.

This exchange loss of Rs. 1,22,051 is taken to profit and loss account.

Note:

Effective interest rate is more than the contractual rate of interest in general when an entity incurs any transaction cost or repayment of loan is not at par value. Since in the question, there is no transaction cost or no repayment information different from par value, effective interest rate should have been equivalent to contractual interest rate.

The above solution has been drawn considering Effective Interest Rate of 11%, leading to calculation of initial recognition of loan amount on the date of acquisition of loan and difference being treated as transaction cost.

However, alternatively one may draw the solution considering Effective Interest Rate of 11% (as given) only for calculation of finance cost without change in the initial recognition of loan amount on the date of acquisition of loan or considering interest rate of 8%.

Q2. Nov 2023 Exam, 6 marks

N Ltd. is engaged in the business of manufacturing of bottles for both, pharmaceutical companies and non-pharmaceutical companies. It has a wholly owned subsidiary, H Ltd., which is engaged in the business of pharmaceuticals. H Ltd. purchases the pharmaceutical bottles from its parent company. The demand of H Ltd. is very high and hence to cater to its shortfall, H Ltd. also purchases the bottles from other companies. Purchases are made at competitive prices.

N Ltd. sold pharmaceuticals bottles to H Ltd. for Euro 24 lakhs on 1st February, 2023. The cost of these bottles was Rs. 1660 lakhs in the books of N Ltd. at the time of sale. As at 31st March, 2023, all these bottles were lying as closing stock in the books of H Limited. Also as at 31st March, 2023, the entire amount against the supply of these bottles was payable by H Ltd.

The functional currency of:

- H Limited is Euro; and
- N Limited is INR.

Following additional information is available:

Exchange rate on 1st February, 2023 1 Euro =Rs. 83

Exchange rate on 31st March, 2023 1 Euro = Rs. 85

Provide the journal entries in the books of N Ltd. and H Ltd. on the transaction date(s) as well as 31st March, 2023, if any. Assume net realizable value of stock was always equal to its cost.

Answer:

Accounting treatment in the books of N Ltd. (Functional Currency INR)

N Ltd. will recognize sales of Rs. 1,992 lakhs (24 lakhs Euro x Rs. 83)

Profit on sale of inventory = Rs. 1,992 lakhs – Rs. 1,660 lakhs = Rs. 332 lakhs.

On balance sheet date, receivable from H Ltd. will be translated at closing rate i.e. 1 Euro = Rs. 85.

Therefore, unrealised forex gain will be recorded in standalone profit and loss of

Rs. 48 lakhs [i.e. (Rs. 85 - Rs. 83) x 24 lakhs]

Journal Entries

		(Rs. in lakhs)	(Rs. in lakhs)
1st February, 2023	H Ltd. A/c Dr. To Sales (Being revenue recorded on initial recognition)	1,992	 1,992
31st March, 2023	H Ltd. A/c Dr. To Foreign exchange difference (unrealised) (Being foreign exchange difference recorded at year end)	48	 48

Accounting treatment in the books of H Ltd. (Functional currency EURO)

H Ltd. will recognize inventory on 1st February, 2023 of Euro 24 lakhs which will also be its closing stock at year end.

1st February, 2023	Purchase Dr. To N Ltd.	24 lakhs	 24 lakhs

Q3. May 2022 Exam, 6 marks

GEM Ltd., an Indian company acquired 75% of the share capital of VEW Ltd. on 30th September, 2020, an entity registered as company in USA. The functional currency of GEM Ltd. is Rupees and its financial year end on 31st March, 2021. The functional currency of VEW Ltd. is USD.

i. On 30th September, 2020, the fair value of the Net Assets of VEW Ltd. was USD 10 million and the purchase consideration paid was USD 7.8 million. The exchange rate as at 30th September, 2020 was ₹ 71.5 per USD and at31st March, 2021 was ₹ 73.5 per USD.

ii. VEW Ltd. sold goods costing USD 1.9 million to GEM Ltd. for USD 3.1 million during the year ended 31st March, 2021. The exchange rate on the date of purchase by GEM Ltd. was ₹ 70.5 per USD and on 31st March, 2021 was ₹ 73.5 per USD.

50% of the goods purchased by GEM Ltd. from VEW Ltd. were unsold as at 31st March, 2021.

For (i) determine the value at which the Goodwill should be recognized in the financial statements of GEM Ltd. as at 31st March, 2021.
For (ii) determine the unrealized profit to be eliminated in the preparation of consolidated financial statements of GEM Ltd. for the year ending on 31st March, 2021.

Answer

i. Para 47 of Ind AS 21 requires that goodwill arose on business combination 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.

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When NCI is measured at proportionate share of net assets, the amount of goodwill will be as follows:

Net identifiable asset	Dr.	USD 10 million	
Goodwill (bal. fig.)	Dr.	USD 0.30 million	
To Bank (Purchase consideration)			USD 7.80 million
To NCI (10 x 25%)			USD 2.50 million

Thus, goodwill on reporting date in the books of GEM Ltd. would be
= USD 0.30 million x ₹ 73.50 = ₹ 22.05 million

Alternatively, when NCI is measured at fair value, the amount of goodwill will be as follows:

Net identifiable asset	Dr.	USD 10 million	
Goodwill (bal. fig.)	Dr.	USD 0.40 million	
To Bank (Purchase consideration)			USD 7.80 million
To NCI (7.8/75*25)			USD 2.60 million

Thus, goodwill on reporting date in the books of GEM Ltd. would be
= USD 0.40 million x ₹ 73.50 = ₹ 29.40 million

ii. Calculation of unrealised profit

Particulars	**USD in million**
Sale price of inventory	3.10
Cost of inventory	1.90
Profit earned by VEW Ltd.	1.20
Unrealised profit (1.20 x 50%) [a]	0.60
Exchange rate as on date of purchase of inventory [b]	₹ 70.50 / USD
Unrealized profit to be eliminated [a x b]	
= USD 0.60 million x ₹ 70.50	= ₹ 42.30 million

As per para 39 of Ind AS 21, income and expenses for each statement of profit and loss presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions.

In the given case, purchase of inventory is an expense item shown in the statement profit and loss. Hence, the exchange rate on the date of purchase of inventory is taken for calculation of unrealized profit which is to be eliminated while preparation of consolidated financial statements.

Q4. Dec 2021 Exam, 5 marks

Hari Ltd. purchased an equipment for 10,200 CAD from Canada supplier on credit basis on 31st January, 2020. Hari Ltd.'s functional currency is INR. The fair value of the equipment determined on 31st March, 2020 is 12,100 CAD. The payment to overseas supplier done on 31st March 2021 and the fair value of the equipment remains unchanged for the year ended on 31st March, 2021.

The exchange rates are as follow:

- On the date of transaction - 1 CAD = INR 57.68
- On 31st March, 2020 - 1 CAD = INR 62.12
- On 31st March 2021 -1 CAD = INR 69.24

Prepare the journal entries for the year ended on 31st March, 2020 and 31st March, 2021 according to Ind AS 21. Tax rate is 25%. Hari Ltd. follows revaluation model as per Ind AS 16 in respect of Property Plant & Equipment.

Answer

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Journal Entries

Purchase of an equipment on credit basis on 30th January 2020:

	₹	₹
Equipment A/c (10,200 CAD x ₹ 57.68) Dr. To Creditors – Equipment A/c (Being initial transaction recorded at exchange rate on the date of transaction)	5,88,336	 5,88,336

Exchange difference arising on translating monetary item on 31st March 2020:

	₹	₹
Profit & Loss A/c [(10,200 CAD x ₹ 62.12) – (10,200 CAD x ₹ 57.68)] Dr. To Creditors – Equipment A/c (Being loss on exchange difference recognised)	45,288	 45,288
Equipment A/c Dr. To Revaluation Surplus (OCI) (Being equipment revalued to 12,100 CAD [₹ 57.68 x (12,100 CAD – 10,200 CAD)])	1,09,592	 1,09,592
Equipment A/c Dr. To Revaluation Surplus (OCI) (Being equipment measured at the exchange rate on 31.3.2020 [12,100 CAD x (₹ 62.12 - ₹ 57.68)]	53,724	 53,724
Revaluation Surplus (OCI) [(1,09,592 + 53,724) x 25%] Dr. To Deferred Tax Liability (Being DTL created @ 25% of the total OCI amount)	40,829	 40,829

Exchange difference arising on translating monetary item and settlement of creditors on 31st March 2021:

	₹	₹
Creditors - Equipment A/c (10,200 CAD x ₹ 62.12) Dr. Profit & loss A/c [(10,200 CAD x (₹ 69.24 -₹ 62.12)] Dr. To Bank A/c (Being final settlement of creditors done)	6,33,624 72,624	 7,06,248
Equipment A/c [(12,100 CAD x (₹ 69.24 - ₹ 62.12)] Dr. To Revaluation Surplus (OCI) (Being equipment revalued)	86,152	 86,152
Revaluation Surplus (OCI) (86,152 x 25%) Dr. To Deferred Tax Liability (Being DTL created @ 25% of the total OCI amount)	21,538	 21,538

Q5. July 2021 Exam, 5 marks

SB Limited is engaged in the business of producing extracts from the natural plants for pharmaceuticals and Ayurvedic companies. It has a wholly owned subsidiary, UB Limited which is engaged in the business of pharmaceuticals. UB Limited purchases the pharmaceuticals extracts from its parent company. The demand of UB Limited is very high and hence to cater its shortfall, UB Limited also purchases the pharmaceutical extracts

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from other companies.

Purchases are made at the competitive prices.SB Limited sold pharmaceutical extracts to UB Limited for Euro 10 lakhs on 1st February, 2021. The cost of these extracts was ₹ 770 lakh in the books of SB Limited at the time of sale. At the year-end, i.e. 31st March 2021, all these pharmaceutical extracts were lying as closing stock and payable with UB Limited.

Euro is the functional currency of UB Limited while Indian-Rupee is the functional currency of SB Limited.
Following additional information is available:
Exchange rate on 1st February 2021 1 Euro = ₹ 85
Exchange rate on 31st March 2021 1 Euro = ₹ 88

Provide the accounting treatment of the above in the books of SB Limited and UB Limited. Also show its impact on consolidated financial statements. Support your answer by journal entries, wherever necessary. Assume NRV to be higher than the cost

Answer

Accounting treatment in the books of SB Ltd (Functional Currency INR)
SB Ltd will recognize sales of ₹ 850 lakh (10 lacs Euro x ₹ 85)
Profit on sale of inventory = 850 lakh – 770 lakh = ₹ 80 lakh.
On balance sheet date receivable from UB Ltd. will be translated at closing rate i.e. 1 Euro = ₹ 88. Therefore, unrealised forex gain will be recorded in standalone profit and loss of₹ 30 lakh [i.e. (₹ 88 - ₹ 85) x 10 lakh Euro].

Journal Entries

Date		(₹ in lakh)	(₹ in lakh)
1.2.2021	UB Ltd. A/c Dr. To Sales (Being revenue recorded on initial recognition)	850	850
31.3.2021	UB Ltd. A/c Dr. To Foreign exchange difference (unrealised) (Being foreign exchange difference recorded at year end)	30	30

Accounting treatment in the books of UB Ltd (Functional currency EURO)

Date		(₹ in Euros)	(₹ in Euros)
1.2.2021	Purchase account Dr. To SB limited 10 lakh (Being purchased recorded at the date of transaction)	10 lakh	10 lakh

UB Ltd will recognize inventory on 1st February, 2021 of Euro 10 lakh which will also be its closing stock at year end
Accounting treatment in the consolidated financial statements
Receivable and payable in respect of above mentioned sale / purchase between SB Ltd and UB Ltd will get eliminated

The closing stock of UB Ltd will be recorded at lower of cost or NRV.

Since the question ask to assume that NRV is higher than cost, inventory will be measured at cost only. Therefore, no write off is required.

The amount of closing stock of ₹ 850 lakh include two components–

- Cost of inventory for ₹ 770 lakh ; and
- Profit element of ₹ 80 lakh; and

At the time of consolidation, the second element amounting to ₹ 80 lakh will be eliminated from the closing stock.

Journal Entry

	(₹ in lakh)	(₹ in lakh)
Consolidated P&L A/c Dr. To Inventory (Being profit element of intra group transaction eliminated)	80	 80

Q6. Sep 2025, RTP

Parent A Ltd. is the reporting entity that has net investment in foreign operations in its two foreign Subsidiaries, B Ltd. and C Ltd.

In all the following scenarios, loans made between group entities are permanent in nature (that is, settlement is neither planned nor likely to occur):

Scenario 1

Parent A Ltd., with sterling as its functional currency, is preparing its financial statements to 31st March, 20X5. It has a loan receivable of US$ 1 million from its Subsidiary C Ltd. that has been outstanding for some time. The parent notified the subsidiary at the beginning of the financial year that no repayment of the amount will be requested for the foreseeable future.

The relevant exchange rate are as follows:

	31st March, 20X5	31st March, 20X4
£1=	US$1.82	US$1.45

Scenario 2

The facts are the same as in the above Scenario 1, except that Parent A Ltd. has a loan receivable from Subsidiary C Ltd. of £ 2,00,000 that has been outstanding for some time. The loan is treated by Parent A Ltd. as forming part of its net investment in Subsidiary C Ltd.

Required:

Determine the treatment of exchange differences in Standalone Financial Statements of both subsidiary and parent company and in Consolidated Financial Statements of parent company under both the scenarios.

Answer:

Scenario 1

The following exchange differences will arise in the financial statements of the individual entities if the loan is re-translated at the closing rate:

	31st March, 20X5
Standalone Financial Statements of Subsidiary C Ltd.	
No exchange difference arises in the foreign subsidiary because the loan payable is denominated in its functional currency	
Standalone Financial Statements of Parent A Ltd.	
Exchange difference on long-term loan receivable:	£

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On closing rate - US$ 1 million / $ 1.82/£	5,49,450
On opening rate - US$ 1 million / $ 1.45/£	6,89,655
Exchange loss	1,40,205

In Parent A Ltd.'s separate financial statements, the loan is regarded as a monetary item and any exchange difference is taken to profit or loss.

On consolidation, the re-translated long-term loan is regarded as part of the net investment in Subsidiary C Ltd., so the related exchange loss is recognised in other comprehensive income and accumulated as a separate component of equity as per para 32 of Ind AS 21. There would also be a corresponding exchange gain included in other comprehensive income, arising as part of the re-translation of the net assets (which include the US dollar loan creditor) of Subsidiary C Ltd. under the closing rate/net investment method.

Scenario 2

In the financial statements of the individual entities, the following exchange differences will arise if the loan is re-translated at the closing rate.

Parent A Ltd.

There is no exchange difference in the parent's financial statements in respect of the loan because it is denominated in sterling.

Subsidiary C Ltd.

Exchange difference on long-term loan payable:

	US $
On closing rate – £ 2,00,000 @ $ 1.82/£	3,64,000
On opening rate - £ 2,00,000 @ $ 1.45/£	2,90,000
Exchange loss	74,000
Exchange loss translated in £ at the closing rate @ $ 1.82/£	£ 40,659

The exchange loss of US $ 74,000 on the sterling loan is recognised in Subsidiary C Ltd.'s income statement, because the subsidiary is exposed to the foreign currency risk.

On consolidation, the inter-company loan will be cancelled. However, because the long-term loan is regarded as part of the net investment in the subsidiary, the exchange loss of £ 40,659 is recognised in other comprehensive income and accumulated as a separate component of equity in the consolidated financial statements. There is a corresponding exchange gain included in other comprehensive income, arising as part of the re-translation of the net assets of Subsidiary C Ltd. The effect is that the consolidated income statement will not reflect any exchange difference on the loan, which is consistent with the fact that the loan has no impact on group cash flows, unless the investment is sold.

Q7. Sep 2025, RTP

PQR Ltd. has entered into a fixed price contract on 1st February, 20X2 to provide annual maintenance services worth USD 10,000 which is rendered uniformly throughout the year over a period of two years (1st April, 20X2 – 31st March 20X4) to a foreign customer. As per the terms of the contract, it has received advance payment of USD 3,000 on 1st February, 20X2 and the balance is to be received on 31st March, 20X4.

The entity recognises revenue at the end of every year.

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How should the entity account for the said transactions, where the consideration is received in advance?

Answer:

If the advance received from the customer is determined to be in the nature of prepayments or progress payments, these are treated as non- monetary items.

Accordingly, in the instant case, PQR Ltd. receives the advance payment of USD 3,000 on 1st February which it translates into its functional currency using the exchange rate on 1st February, 20X2. Applying paragraph 23(b) of Ind AS 21, the entity does not update the translated amount of the nonmonetary liability.

Applying Ind AS 115, Revenue from Contracts with Customers, it recognises revenue over a period of two years.

Since, the entity recognises revenue at the end of the year, revenue of USD 5,000 will be recognised at the end of the first year.

PQR Ltd. has determined that the consideration of USD 3,000 relates to the service it has rendered in the first year. At the end of year 1, the entity is entitled to an unconditional right to USD 2,000 of the remaining consideration.

Accordingly, at the end of the first year, on 31st March 20X3, it recognises revenue of USD 5,000 out of which USD 3,000 will be recognised by derecognising the contract liability and no exchange fluctuation will be involved. Balance of USD 2,000 revenue will be recognised by translating the exchange rate at the date of transaction and a receivable (monetary asset) will be recognised and translated at the exchange rate as at 31st March 20X3.

It will update the translated amount of the receivable until the receivable is settled on 31st March 20X4 and recognises the corresponding gain or loss in profit or loss.

At the end of the second year on 31st March 20X4, it recognises the balance revenue of USD 5,000 using the exchange rate at the date of the transaction.

Q8. May 2025, RTP

P Ltd., incorporated in India owns 70% interest in foreign entity, S Ltd. P Ltd. has INR (Rs.) as its functional currency while S Ltd. has US dollars as its functional currency. P Ltd. sells its entire investment in S Ltd. for Rs. 3,200 thousand. The following information is provided:

Particulars	S's Total	P's share (70%)	NCI (30%)
Net assets	4,000	2,800	1,200
Foreign currency translation reserve gain	900	630	270

Required:

How does an entity account for cumulative translation adjustment (CTA) on disposal of a foreign subsidiary?

Answer:

As per paragraphs 48 and 48B of Ind AS 21, on the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (see Ind AS 1, Presentation of Financial Statements).

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Further, the standard states that on disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be derecognised, but shall not be reclassified to profit or loss.

Where the subsidiary is partially owned (that is, where a non- controlling interest exists) and the parent has sold its entire interest, the amount of the CTA that has been allocated to the non-controlling interest is derecognised, but it is not transferred to profit or loss. Derecognition of the non-controlling interest (that includes the non- controlling interest's share of CTA) will form part of the journal entry to recognise the gain or loss on disposal of the subsidiary.

In P Ltd.'s consolidated financial statements, the following amounts (Rs. in thousand) have been recognised in relation to its investment in S Ltd.:

- net assets of Rs. 4,000 and associated non-controlling interests of Rs. 1,200;

- foreign exchange gains of Rs. 900 were recognised in other comprehensive income, of which Rs. 270 was attributable to non- controlling interests and is therefore included in the Rs. 1,200 non- controlling interests;

- Rs. 630 of foreign exchange gains have been accumulated in a separate component of equity relating to P Ltd.'s 70% share in S Ltd.

P Ltd. sells its 70% interest in S Ltd. for Rs. 3,200 and records the following amounts:

Cash/Bank A/c	Dr.	3,200	
NCI	Dr.	1,200	
OCI	Dr.	630	
To Net assets			4,000
To Profit on disposal {630+(3,200-2,800)}			1,030

It can be seen that Rs. 630 of the foreign currency gains previously recognised in OCI, i.e. the amount attributed to P Ltd. is reclassified to profit or loss (profit on disposal) and adjusted from OCI. However,

Rs. 270 of such gains attributed to the non-controlling interests is not reclassified to profit or loss and is derecognised as a part of the NCI balance.

Q9. Nov 2023, RTP

Infotech Global Ltd. (a stand-alone entity) has a functional currency of USD and needs to translate its financial statements into the presentation currency (INR). The following is the draft financial statements of Infotech Global Ltd. prepared in accordance with its functional currency.

Balance Sheet

Particulars	**31st March, 20X3**	**31st March, 20X2**
	USD	**USD**
Property, plant and equipment	50,000	55,000
Trade Receivables	68,500	56,000
Inventory	8,000	5,000
Cash	40,000	35,000
Total assets	**1,66,500**	**1,51,000**
Share Capital	50,000	50,000
Retained earnings	29,500	18,000
Total Equity	**79,500**	**68,000**
Trade payables	40,000	38,000

Loan	47,000	45,000
Total liabilities	**87,000**	**83,000**
Total equity and liabilities	**1,66,500**	**1,51,000**

Statement of Profit and Loss

Particulars	**USD**
Revenue	1,77,214
Cost of sales	1,13,100
Gross Profit	**64,114**
Distribution costs	2,400
Administrative expenses	18,000
Other expenses	11,000
Finance costs	12,000
Profit before tax	**20,714**
Income tax expense	6,214
Profit for the year	**14,500**

Extracts from Statement of Changes in Equity

Particulars	**31st March, 20X3 (USD)**
Retained earnings at the beginning of the year	18,000
Profit for the year	14,500
Dividends	(3,000)
Retained earnings at the end of the year	**29,500**

• Share capital was issued when the exchange rate was USD 1 = INR 70.
• Retained earnings on 1st April, 20X1 was INR 4,00,000.
• At 31st March, 20X2, a cumulative gain of INR 4,92,000 has been recognised in the foreign exchange reserve, which is due to translation of entity's financial statements into INR in the previous years.
• Entity paid a dividend of USD 3,000 when the rate of exchange was USD 1 =INR 73.5
• Profit for the year 20X1-20X2 of USD 8,000, translated in INR at INR 5,72,000.
• Profit for the year 20X2-20X3 of USD 14,500, translated in INR at INR 10,72,985.
For the sake of simplicity, items of income and expense are translated at weighted average monthly rate as there has been no significant exchange rate fluctuation during the entire year and the business of the entity is not cyclical in nature.
Relevant exchange rates are as follows:

- Rate at 31st March, 20X2 USD 1= INR 73
- Rate at 31st March, 20X3 USD 1= INR 75

Prepare financial statements of Infotech Global Ltd. translated from functional currency (USD) to presentation currency (INR).

Answer

As per paragraph 39 of Ind AS 21, all assets and liabilities are translated at the closing exchange rate, which is USD 1 = INR 73 on 31st March, 20X2 and USD 1 = INR 75 on 31st March, 20X3.

In the given case, share capital is translated at the historical rate USD 1 = INR 70. The share capital will not be restated at each year end. It will remain unchanged.
Accordingly, the translated financial statements will be as follows:

Note 1: Retained earnings at 31st March, 20X3 and 31st March, 20X2:

Particulars	**31st March, 20X3**	**31st March, 20X2**
	INR	**INR**
Opening retained earnings	9,72,000	4,00,000
Profit for the year	10,72,985	5,72,000
Dividends paid (USD 3,000 x INR 73.5)	(2,20,500)	-
Closing retained earnings	**18,24,485**	**9,72,000**

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Balance Sheet

Particulars	31st March, 20X3			31st March, 20X2		
	USD	Rate	INR	USD	Rate	INR
Property, plant and equipment	50,000	75	37,50,000	55,000	73	40,15,000
Trade Receivables	68,500	75	51,37,500	56,000	73	40,88,000
Inventory	8,000	75	6,00,000	5,000	73	3,65,000
Cash	40,000	75	30,00,000	35,000	73	25,55,000
Total assets	**1,66,500**		**1,24,87,500**	**1,51,000**		**1,10,23,000**
Share Capital	50,000	70	35,00,000	50,000	70	35,00,000
Retained earnings (Refer note 1)	29,500		18,24,485	18,000		9,72,000
Foreign Exchange reserve (Balancing figure)			6,38,015	-		4,92,000
Total Equity	**79,500**		**59,62,500**	**68,000**		**49,64,000**
Trade payables	40,000	75	30,00,000	38,000	73	27,74,000
Loan	47,000	75	35,25,000	45,000	73	32.85,000
Total liabilities	**87,000**		**65,25,000**	**83,000**		**60,59,000**
Total equity and liabilities	**1,66,500**		**1,24,87,500**	**1,51,000**		**1,10,23,000**

The foreign exchange reserve is the exchange difference resulting from translating income and expense at the average exchange rate and assets and liabilities at the closing rate.

Other Comprehensive Income

Exchange differences on translating from USD to INR (6,38,015 - 4,92,000)	INR 1,46,015

Statement of Changes in Equity (INR)

Particulars	Share capital	Retained Earnings	Foreign exchange reserve	Total
Balance at 1st April, 20X2	35,00,000	9,72,000	4,92,000	49,64,000
Dividends	-	(2,20,500)	-	(2,20,500)
Profit for the year	-	10,72,985	-	10,72,985
Exchange difference (transferred to OCI)	-	-	1,46,015	1,46,015
Balance at 31st March, 20X3	**35.00.000**	**18.24.485**	**6.38.015**	**59.62.500**

Q10. May 2021, RTP

Monsoon Limited acquired, on 30 September, 20X2, 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Monsoon Limited is Indian Rupee and its financial year ends on 31 March, 20X3.

The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid is 17.5 million EURO on 30 September, 20X2.

The exchange rates as on 30 September, 20X2 was ₹ 82 per EURO and at 31 March, 20X3 was ₹ 84 per EURO.

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On acquisition of Mark limited, what is the value at which the goodwill / capital reserve has to be recognized in the financial statements of Monsoon Limited as on 31 March 20X3?

Answer

Para 47 of Ind AS 21 requires that goodwill arose on business combination 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 will be as follows:

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

Thus, goodwill on reporting date in the books of Monsoon Limited would be

= 1.4 million EURO x ₹ 84 = ₹ 117.6 million.

Q11. May 2021, RTP

An Indian entity, whose functional currency is rupees, purchases USD dominated bond at its fair value of USD 1,000. The bond carries stated interest @ 4.7% p.a. on its face value. The said interest is received at the year end. The bond has maturity period of 5 years and is redeemable at its face value of USD 1,250. The fair value of the bond at the end of year 1 is USD 1,060. The exchange rate on the date of transaction and at the end of year 1 are USD 1 = ₹ 40 and USD 1 = ₹ 45, respectively. The weighted average exchange rate for the year is 1 USD = ₹ 42.

The entity has determined that it is holding the bond as part of an investment portfolio whose objective is met both by holding the asset to collect contractual cash flows and selling the asset. The purchased USD bond is to be classified under the FVTOCI category.
The bond results in effective interest rate (EIR) of 10% p.a

Calculate gain or loss to be recognised in Profit & Loss and Other Comprehensive Income for year 1. Also pass journal entry to recognise gain or loss on above. (Round off the figures to nearest rupees)

Answer

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

Particulars	**USD**	**Exchange rate**	**₹**
Cost of the bond	1,000	40	40,000
Interest accrued @ 10% p.a.	100	42	4,200
Interest received (USD 1,250 x 4.7%)	(59)	45	(2,655)
Amortized cost at year-end	1,041	45	46,845
Fair value at year end	1,060	45	47,700
Interest income to be recognized in P & L 4,			4,200
Exchange gain on the principal amount [1,000 x (45-40)]			5,000
Exchange gain on interest accrual [100 x (45 - 42)]			300
Total exchange gain/loss to be recognized in P&L			5,300
Fair value gain to be recognized in OCI [45 x (1,060 - 1,041)]			855

Journal entry to recognize gain/loss

Bond (₹ 47,700 – ₹ 40,000)	Dr.	7,700	
Bank (Interest received)	Dr.	2,665	
To Interest Income (P & L)			4,200
To Exchange gain (P & L)			5,300
To OCI (fair value gain)			855

Q12. May 2021, RTP

On 1st April, 20X1, Makers Ltd. raised a long term loan from foreign investors. The investors subscribed for 6 million Foreign Currency (FCY) loan notes at par. It incurred incremental issue

costs of FCY 2,00,000. Interest of FCY 6,00,000 is payable annually on 31st March, starting from 31st March, 20X2. The loan is repayable in FCY on 31st March, 20X7 at a premium and the effective annual interest rate implicit in the loan is 12%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:

- 1st April, 20X1 - FCY 1 = ₹ 2.50.
- 31st March, 20X2 – FCY 1 = ₹ 2.75.
- Average rate for the year ended 31st Match, 20X2 – FCY 1 = ₹ 2.42. The functional currency of the group is Indian Rupee.

What would be the appropriate accounting treatment for the foreign currency loan in the books of Makers Ltd. for the FY 20X1-20X2? Calculate the initial measurement amount for the loan, finance cost for the year, closing balance and exchange gain / loss.

Answer

Initial carrying amount of loan in books

Loan amount received	= 60,00,000 FCY
Less: Incremental issue costs	= 2,00,000 FCY
	58,00,000 FCY

Ind AS 21, "The Effect of Changes in Foreign Exchange Rates" states that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Loan to be converted in INR = 58,00,000 FCY x ₹ 2.50/FCY
= ₹ 1,45,00,000

Therefore, the loan would initially be recorded at **₹ 1,45,00,000.**

Calculation of amortized cost of loan (in FCY) at the year end:

Period	Opening Financial Liability (FCY) A	Interest @ 12% (FCY) B	Cash Flow (FCY) C	Closing Financial Liability (FCY) A+B-C
20X1-20X2	58,00,000	6,96,000	6,00,000	58,96,000

The finance cost in FCY is 6,96,000

The finance cost would be recorded at an average rate for the period since it accrues over a period of time.
Hence, the finance cost for FY 20X1-20X2 in INR is ₹ 16,84,320 (6,96,000 FCY x ₹ 2.42 / FCY)

The actual payment of interest would be recorded at 6,00,000 x 2.75 = INR 16,50,000

The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date.

So the closing loan balance in INR is 58,96,000 FCY x INR 2.75 / FCY = **₹ 1,62,14,000**

The exchange differences that are created by this treatment are recognized in profit and loss.

In this case, the exchange difference is
₹ [1,62,14,000 - (1,45,00,000 + 16,84,320 – 16,50,000)] = **₹ 16,79,680.**
This exchange difference is taken to profit and loss.

Q13. May 2021, RTP

Global Limited, an Indian company acquired on 30th September, 20X1 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Global Limited is Rupees and its financial year end is 31st March, 20X2.

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i. The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid is 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.What is the value at which the goodwill has to be recognised in the financial statements of Global Limited as on 31st March, 20X2?

ii. Mark Limited sold goods costing 2.4 million EURO to Global Limited for 4.2 million EURO during the year ended 31st March, 20X2. The exchange rate on the date of purchase by Global Limited was ₹ 83 / EURO and on 31st March, 20X2 was ₹ 84 / EURO. The entire goods purchased from Mark Limited are unsold as on 31st March, 20X2. Determine the unrealised profit to be eliminated in the preparation of consolidated financial statements.

Answer

(i) Para 47 of Ind AS 21 requires that goodwill arose on business combination 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 will be as follows:

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

Thus, goodwill on reporting date would be 1.4 million EURO x ₹ 84

= ₹ 117.6 million

(ii)

Particulars	**EURO in million**
Sale price of Inventory	4,20
Unrealised Profit [a]	1.80

Exchange rate as on date of purchase of Inventory [b] ₹ 83 / Euro

Unrealized profit to be eliminated [a x b] ₹ 149.40 million

As per para 39 of Ind AS 21 "income and expenses for each statement of profit and loss presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions".

In the given case, purchase of inventory is an expense item shown in the statement profit and loss account. Hence, the exchange rate on the date of purchase of inventory is taken for calculation of unrealized profit which is to be eliminated on the event of consolidation.

Q14. May 2019, RTP

Supplier, A Ltd., enters into a contract with a customer, B Ltd., on 1st January, 2018 to deliver goods in exchange for total consideration of USD 50 million and receives an upfront payment of USD 20 million on this date. The functional currency of the supplier is INR. The goods are delivered and revenue is recognised on 31st March, 2018. USD 30 million is received on 1st April, 2018 in full and final settlement of the purchase consideration.

State the date of transaction for advance consideration and recognition of revenue. Also state the amount of revenue in INR to be recognized on the date of recognition of revenue. The exchange rates on 1st January, 2018 and 31st March, 2018 are ₹ 72 per USD and ₹ 75 per USD respectively.

Answer

This is the case of Revenue recognised at a single point in time with multiple payments. As per the guidance given in Appendix B to Ind AS 21:

A Ltd. will recognise a non-monetary contract liability amounting ₹ 1,440 million, by translating USD 20 million at the exchange rate on 1st January, 2018 ie ₹ 72 per USD.

A Ltd. will recognise revenue at 31st March, 2018 (that is, the date on which it transfers the goods to the customer).

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A Ltd. determines that the date of the transaction for the revenue relating to the advance consideration of USD 20 million is 1st January, 2018. Applying paragraph 22 of Ind AS 21, A Ltd. determines that the date of the transaction for the remainder of the revenue as 31st March, 2018.

On 31st March, 2018, A Ltd. will:

• derecognise the non-monetary contract liability of USD 20 million and recognise USD 20 million of revenue using the exchange rate as at 1st January, 2018 ie ₹ 72 per USD; and

• recognise revenue and a receivable for the remaining USD 30 million, using the exchange rate on 31st March, 2018 ie ₹ 75 per USD.

• The receivable of USD 30 million is a monetary item, so it should be translated using the closing rate until the receivable is settled.

Q15. Nov 2018, RTP

On 1st January, 2018, P Ltd. purchased a machine for $ 2 lakhs. The functional currency of P Ltd. is Rupees. At that date the exchange rate was $1= ₹ 68. P Ltd. is not required to pay for this purchase until 30th June, 2018. Rupees strengthened against the $ in the three months following purchase and by 31st March, 2018 the exchange rate was $1 = ₹ 65. CFO of P Ltd. feels that these exchange fluctuations wouldn't affect the financial statements because P Ltd. has an asset and a liability denominated in rupees. which was initially the same amount. He also feels that P Ltd. depreciates this machine over four years so the future year-end amounts won't be the same.

Examine the impact of this transaction on the financial statements of P Ltd. for the year ended 31st March, 2018 as per Ind AS.

Answer

As per Ind AS 21 'The Effects of Changes in Foreign Exchange Rates' the asset and liability would initially be recognised at the rate of exchange in force at the transaction date ie1st January, 2018. Therefore, the amount initially recognised would be ₹ 1,36,00,000 ($ 2,00 000 x ₹ 68).

The liability is a monetary item so it is retranslated using the rate of exchange in force at 31st March, 2018. This makes the closing liability of ₹ 1,30,00,000 ($ 2,00,000 x ₹ 65).

The loss on re-translation of ₹ 6,00,000 (₹ 1,36,00,000 – ₹ 1,30,00,000) is recognised in the Statement of profit or loss.

The machine is a non-monetary asset carried at historical cost. Therefore, it continues to be translated using the rate of ₹ 68 to $ 1.

Depreciation of ₹ 8,50,000 (₹ 1,36,00,000 x ¼ x 3/12) would be charged to profit or loss for the year ended 31st March, 2018.

The closing balance in property, plant and equipment would be ₹ 1,27,50,000 (₹ 1,36,00,000 – ₹ 1,30,00,000). This would be shown as a non-current asset in the statement of financial position.

Q16. May 2018, RTP

On 30th January, 20X1, A Ltd. purchased a machinery for $5,000 from USA supplier on credit basis. A's Ltd. functional currency is the Rupee. The exchange rate on the date of transaction is 1$= ₹ 60. The fair value of the machinery determined on 31st March, 20X1is $ 5,500. The exchange rate on 31st March, 20X1 is 1$= ₹ 65. The payment to overseas supplier done on 31st March 20X2 and the exchange rate on 31st March 20X2 is 1$= ₹ 67. The fair value of the machinery remain unchanged for the year ended on 31stMarch 20X2. Prepare the Journal entries for the year ended on 31st March 20X1 and year 20X2 according to Ind AS 21.

Answer

Journal Entries

Purchase of Machinery on credit basis on 30th January 20X1:

		₹	₹
Machinery A/c (5,000 x $ 60)	Dr.	3,00,000	
To Creditors			3,00,000

(Initial transaction will be recorded at exchange rate on the date of transaction)		

Exchange difference arising on translating monetary item on 31st March 20X1:

		₹	₹
Machinery A/c [(5,500 x $ 65) – (5,000 x $ 60)]	Dr.	57,500	
To Profit & loss a/c (Exchange Profit & Loss)			57,500
Profit & Loss A/c [(5,000 x $ 65) – (5,000 x $ 60)]		25,000	
Dr.			20,000
To Creditors			

Exchange difference arising on translating monetary item and settlement of creditors on 31st March 20X2:

		₹	₹
Creditors A/c (5,000 x $65)	Dr.	3,25,000	
Profit & loss A/c [(5,000 x ($ 67 -$ 65)]	Dr.	10,000	
To Bank A/c			3,35,000
Machinery A/c [(5,500*($ 67-$ 65))	Dr.	11,000	
To Profit & loss A/c			11,000

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Q1. May 2023 Exam, 4 marks

Mr. M has an investment in X Limited and Y Limited

i. Under what circumstances, Mr. M is a related party of X Limited and Y Limited?

ii. Will X Limited and Y Limited be related parties, if Mr. M has only significant influence over both X Limited and Y Limited?

Answer

i. As per para 9(a) of Ind AS 24, Mr. M will be considered as a related party to X Limited, when
   1. Mr. M has control or joint control over X Limited
   2. Mr. M has significant influence over X Limited

   Similar will be the circumstances for Mr. M being considered as related party to Y Limited.

ii. Even if Mr. X has only significant influence over both the entities i.e., X Limited & Y Limited, then both the entities (X Limited & Y Limited) will not be considered as related party, if no direct or indirect control is exercised on each other in any of the manner.

Q2. Jan 2026, RTP

Mr. A, Mr. B and Mr. C have direct interests of 40%, 10% and 10% respectively, of Trust T. The remaining 40% interest in Trust T is held by 20 unrelated investors.

Mr. A, Mr. B and Mr. C wish to control the trust, and so they enter into a contractual arrangement to act together. In this situation, assume that 1% interest constitutes one voting right.

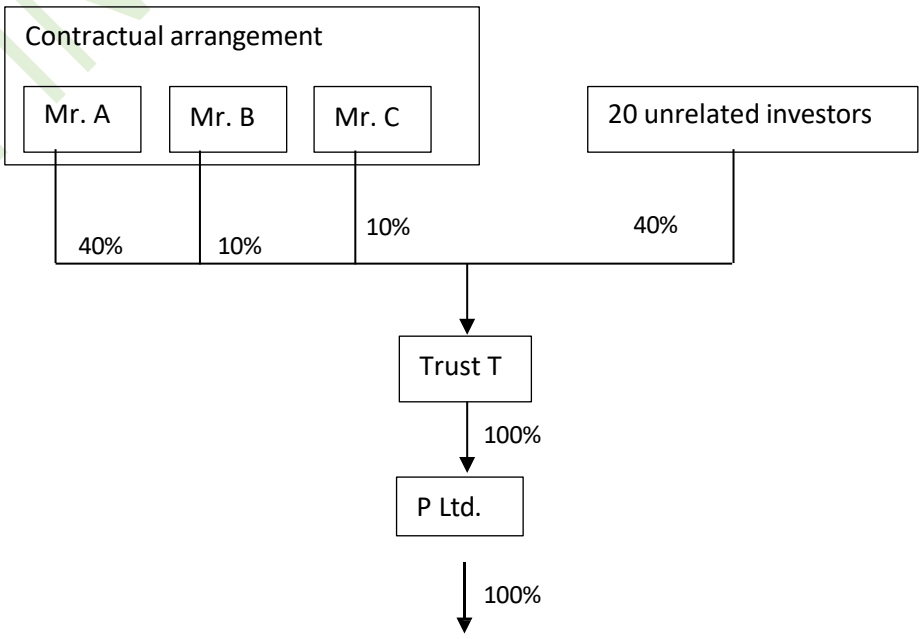
S Ltd. is a wholly owned subsidiary of P Ltd. and P Ltd. is wholly owned by Trust T.

Required:

Should a group of persons be disclosed as the ultimate controlling party where they have a contractual arrangement to act together?

Answer:

The following diagram shows the structure of the Group:



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S Ltd.

S Ltd.'s management should disclose Mr. A, Mr. B and Mr. C as the ultimate controlling party (as a group) of S Ltd. where they have a contractual arrangement to act together, irrespective of whether there were transactions between them and S Ltd. during the year.

The agreement between Mr. A, Mr. B and Mr. C provided them with a collective control over 60% (40%+10%+10%) of Trust T's voting rights. Mr. A, Mr. B and Mr. C form a group that controls Trust T, which controls P Ltd. and S Ltd.

Trust T should also be disclosed as the ultimate parent entity of S Ltd. in the notes to the financial statements, if this information is not disclosed elsewhere in information published with the financial statements.

Trust T would be the ultimate controlling party of S Ltd. and only Mr. A would be a related party of S Ltd. if the contractual arrangement to act together did not exist. Mr. A is related to S Ltd. because his 40% interest in Trust T gives him significant influence over S Ltd.

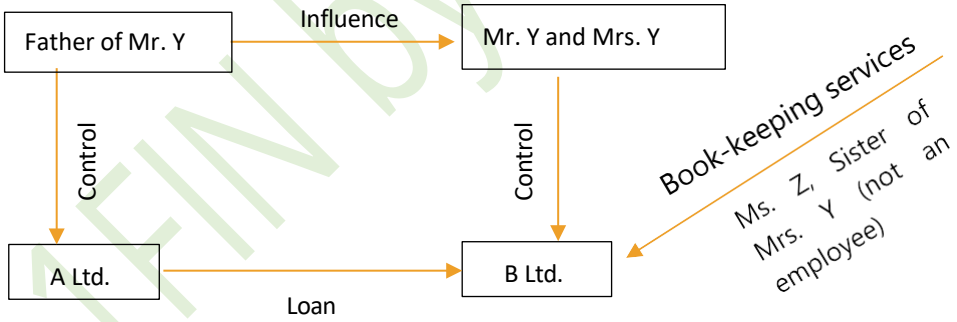
Q3. May 2025, RTP

Mr. Y's father owns 100% of the shares in A Ltd. Mr. Y and Mrs. Y own 100% of the shares in B Ltd. Ms. Z who is Mrs. Y's sister, provides book-keeping services from time to time to B Ltd. However, Ms. Z is not an employee of B Ltd. A Ltd. has increased its loan of Rs. 1,50,000 to B Ltd. to Rs. 2,00,000 during the year, for which A Ltd. charges a below market rate of interest.

Required:

I. State whether Mr. Y's father & Mrs. Y's sister are related party of B Ltd.
II. What disclosure is to be made in the financial statements of both A Ltd. & B Ltd. with respect to the loan given by A Ltd. to B Ltd.?
III. Whether B Ltd. is required to disclose the dealings with the sister of Mrs. Y in its financial statements?

Answer:



(i) Mr. Y's father and Mrs. Y's sister are related parties of B Ltd., if they are 'close family' of either Mr. Y or Mrs. Y. They are close family if they might be expected to influence, or be influenced by, Mr. Y or Mrs. Y in their dealing with B Ltd. Mr. Y's father and Mr. Y and Mrs. Y are 'close family', so Mr. Y's father is a related partly of B Ltd., which is controlled by Mr. Y and Mrs. Y.
Mr. Y's father has a controlling interest in A Ltd. A Ltd. is a related party of B Ltd.

(ii) Both entities should disclose the necessary details regarding the increase in the loan to Rs. 2,00,000 in their financial statements. A Ltd. should also disclose the amounts due to it from B Ltd. on the balance sheet date, together with any provisions and amounts written off. B Ltd. should disclose the amount that it owes to A Ltd. at the balance sheet date.

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(iii) B Ltd. would have to disclose the transactions with Mrs. Y's sister if the sister might be expected to influence, or be influenced by, either Mr. Y or Mrs. Y in their dealings with B Ltd. based on further facts of the case. In case the influence exists, following disclosures to be made as per para 18A of Ind AS 24 which states that amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

Q4. May 2023, RTP

In an arm's length transaction, Entity X buys 10,000 convertible preference shares in Company Z for cash payments of ₹ 40,000, with ₹ 25,000 payable immediately and ₹ 15,000 payable in two years. The market rate of annual interest for a two-year loan to the entity would be 6%. Explain the accounting treatment for the said transaction.

Answer

Ind AS 109 'Financial Instruments', defines a financial guarantee contract as 'a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Based on this definition, an evaluation is required to be done to ascertain whether the contract between director and Bank qualifies as a financial guarantee contract as defined in Appendix A to Ind AS 109. In the given case, it does qualify as a financial guarantee contract as:

• the reference obligation is a debt instrument (term loan);
• the holder i.e. Bank is compensated only for a loss that it incurs (arising on account of non-repayment); and
• the holder is not compensated for more than the actual loss incurred.

Ind AS 109 provides principles for accounting by the issuer of the guarantee. However, it does not specifically address the accounting for financial guarantees by the beneficiary. In an arm's length transaction between unrelated parties, the beneficiary of the financial guarantee would recognise the guarantee fee or premium paid as an expense.

It is also pertinent to note that the entity needs to exercise judgment in assessing the substance of the transaction taking into consideration relevant facts and circumstances, for example, whether the director is being compensated otherwise for providing guarantee. Based on such an assessment, an appropriate accounting treatment based on the principles of Ind AS should be followed.

In the given case, SEL is the beneficiary of the financial guarantee and it does not pay a premium or fees to its director for providing this financial guarantee. Accordingly, SEL will not be required to account for such financial guarantee in its financial statements considering the unit of account as being the guaranteed loan, in which case the fair value would be expected to be the face value of the loan proceeds that SEL received.

In the given case based on the limited facts provided, SEL will be required to make necessary disclosures of such financial guarantee in accordance with Ind AS 24 as follows:

(a) the amount of the transactions;

(b) the amount of outstanding balances, including commitments, and:
(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
(ii) details of any guarantees given or received;

(b) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due

from related parties.

Q5. May 2022, RTP

Entity A owns 30% of the share capital of entity B and has the ability to exercise significant influence over it.

Entity B holds the following investments:

- 70% of the share capital of its subsidiary, entity C; and
- 30% of the share capital of entity D, with the ability to exercise significant influence.

Entity A transacts with entities C and D. Should entity A disclose these transactions as related party transactions in its separate financial statements? Also explain the disclosure of such transactions in the financial statements of C and D as related party transaction.

Answer

Entity A should disclose its transactions with entity C in entity A's separate financial statements. Entity C is a related party of entity A, because entity C is the subsidiary of entity A's associate, entity B.

Entity A's management is not required to disclose entity A's transactions with entity D in its financial statements. Entity D is not a related party of entity A, because entity A has no ability to exercise control or significant influence over entity D.

Entity C is required to disclose its transactions with entity A in its financial statements, because entity A is a related partly.

Entity D is not required to disclose transactions with entity A, because they are not related parties.

Q6. Nov 2020, RTP

Mr. X owns 95% of entity A and is its director. He is also beneficiary of a trust that owns 100% of entity B, of which he is a director.

Whether entities A and B are related parties? Would the situation be different if:

a. Mr. X resigned as a director of entity A, but retained his 95% holding?
b. Mr. X resigned as a director of entities A and B and transferred the 95% holding in entity A to the trust?

Answer

Entities A and B are related parties, because the director (Mr. X) controls entity A and is a member of the key management personnel of entity B.

Answers to different given situations would be as under:

(a) Mr. X resigned as a director of entity A, but retained his 95% holding

Mr. X continues to control entity A through his 95% holding even though he is not (nominally) a director of the entity. Entities A and B are related if Mr. X controls the trust. Mr. X controls entity A and also, through the trust, controls entity B. Entities A and B are controlled by the same person, and so they are related parties.

Mr. X might still be a member of 'key management personnel' even though he is not (nominally) a director of entity A. Key management personnel includes, but is not restricted to, directors, which include those who are executive 'or otherwise' provided they had authority and responsibility for planning, directing and controlling the activities of the entity. There could be two reasons why

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entities A and B would continue to be related parties: Mr. X being a member of 'Key management personnel'
of entity A and Mr. X controlling entity A.

(b) Mr. X resigned as a director of entities A and B and transferred the 95% holding in entity A to the trust.

If Mr. X controls the trust, he controls entities A and B through the trust, so they will be related parties (see reason in (a) above)

Mr. X is a member of 'key management personnel' of the two entities (see (a) above) if, as seems likely, he continues to direct their operating and financial policies. The substance of the relationship and not merely the legal form should be considered. If Mr X is regarded as a member of the key management personnel of, say, entity A, entity B is a related party, because he exercises control or significant influence over entity B by virtue of his control over the trust.

Q7. Nov 2019, RTP

Uttar Pradesh State Government holds 60% shares in PQR Limited and 55% shares in ABC Limited. PQR Limited has two subsidiaries namely P Limited and Q Limited. ABC Limited has two subsidiaries namely A Limited and B Limited. Mr. KM is one of the Key management personnel in PQR Limited.

a. Determine the entity to whom exemption from disclosure of related party transactions is to be given. Also examine the transactions and with whom such exemption applies.

b. What are the disclosure requirements for the entity which has availed the exemption?

Answer

(a) As per para 18 of Ind AS 24, 'Related Party Disclosures', if an entity had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

However, as per para 25 of the standard a reporting entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

(i) a government that has control or joint control of, or significant influence over, the reporting entity; and

(ii) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity

According to the above paras, for Entity P's financial statements, the exemption in paragraph 25 applies to:

i. transactions with Government Uttar Pradesh State Government; and

ii. transactions with Entities PQR and ABC and Entities Q, A and B.

Similar exemptions are available to Entities PQR, ABC, Q, A and B, with the transactions with UP State Government and other entities controlled directly or indirectly by UP State Government. However, that exemption does not apply to transactions with Mr. KM. Hence, the transactions with Mr. KM needs to be disclosed under related party transactions.

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(b) It shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25:

(a) the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);

(b)the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

i. the nature and amount of each individually significant transaction; and

ii. for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

Q8. Nov 2018, RTP

ABC Ltd. is a long-standing customer of XYZ Ltd. Mrs. P whose husband is a director in XYZ Ltd. purchased a controlling interest in entity ABC Ltd. on 1st June, 2017. Sales of products from XYZ Ltd. to ABC Ltd. in the two-month period from 1st April 2017 to 31st May 2017 totalled ₹ 8,00,000. Following the shares purchased by Mrs. P, XYZ Ltd. began to supply the products at a discount of 20% to their normal selling price and allowed ABC Ltd. three months' credit (previously ABC Ltd. was only allowed one month's credit, XYZ Ltd.'s normal credit policy). Sales of products from XYZ Ltd. to ABC Ltd. in the ten-month period from 1st June 2017 to 31st March 2017 totalled ₹ 60,00,000. On 31st March 2018, the trade receivables of XYZ Ltd. included ₹ 18,00,000 in respect of amounts owing by ABC Ltd.

Analyse and show how the above event would be reported in the financial statements of XYZ Ltd. for the year ended 31 March 2018 and mention the disclosure requirements also as per Ind AS.

Answer

XYZ Ltd. would include the total revenue of ₹ 68,00,000 (₹ 60,00,000 + ₹ 8,00,000) from ABC Ltd. received / receivable in the year ended 31st March 2018 within its revenue and show ₹ 18,00,000 within trade receivables at 31st March 2018.

Mrs. P would be regarded as a related party of XYZ Ltd. because she is a close family member of one of the key management personnel of XYZ Ltd.

From 1st June 2017, ABC Ltd. would also be regarded as a related party of XYZ Ltd. because from that date ABC Ltd. is an entity controlled by another related party.

Because ABC Ltd. is a related party with whom XYZ Ltd. has transactions, then XYZ Ltd. should disclose:

– The nature of the related party relationship.
– The revenue of ₹ 60,00,000 from ABC Ltd. since 1st June 2017.
– The outstanding balance of ₹ 18,00,000 at 31st March 2018.

In the current circumstances it may well be necessary for XYZ Ltd. to also disclose the favourable terms under which the transactions are carried out.

Q9. May 2018, RTP

Mr. Atul is an independent director of a company X Ltd. He plays a vital role in the Management of X Ltd. and contributes in major decision making process of the organisation. X Ltd. pays sitting

fee of ₹ 2,00,000 to him for every Board of Directors' (BOD) meeting he attends. Throughout the year, X Ltd. had 5 such meetings which was attended by Mr. Atul.

Similarly, a non-executive director, Mr. Naveen also attended 5 BOD meetings and charged ₹ 1,50,000 per meeting. The Accountant of X Ltd. believes that they being not the employees of the organisation, their fee should not be disclosed as per related party transaction in accordance with Ind AS 24.

Examine whether the sitting fee paid to independent director and non-executive director is required to be disclosed in the financial statements prepared as per Ind AS?

Answer

As per paragraph 9 of Ind AS 24, Related Party Disclosures, "Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."

Accordingly, key management personnel (KMP) includes any director of the entity who are having authority and responsibility for planning, directing and controlling the activities of the entity. Hence, independent director Mr. Atul and non-executive director Mr. Naveen are covered under the definition of KMP in accordance with Ind AS.

Also as per paragraph 7 and 9 of Ind AS 19, 'Employee Benefits', an employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of the Standard, Employees include directors and other management personnel.

Therefore, contention of the Accountant is wrong that they are not employees of X Ltd.Paragraph 17 of Ind AS requires disclosure about employee benefits for key management personnel. Therefore, an entity shall disclose key management personnel compensation in total i.e. disclosure of directors' fee of (₹ 10,00,000 + ₹ 7,50,000) ₹ 17,50,000 is to be made as employees benefits (under various categories).

Since short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render therelated services, the sitting fee paid to directors will fall under it (as per Ind AS 19) and is required to be disclosed in accordance with the paragraph 17 of Ind AS 24.

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Q1. Sep 2025 Exam, 6 marks

On 31st March, 2024, Vanshika Ltd. granted options to its employees that gave them right to subscribe for equity shares in next 3 years at Rs. 112 per share. It also issued 2 lakhs warrants convertible into shares at Rs. 84.

As on 31st March, 2025:

Options outstanding	1,40,000
Profit after Tax, attributable to equity shareholders	Rs. 91,20,000
Average market price of equity shares	Rs. 140
Issued Equity share capital (Face value Rs. 10 each)	Rs. 50,00,000

There were no grants, exercises or lapses of options during the year. Also, none of the warrants was converted into shares during the year.

You are required to calculate Basic and Diluted EPS as at 31 st March, 2025.

Answer:

Calculation of Basic Earnings Per Share (EPS)

	2024-2025
Profit after tax	Rs. 91,20,000
Number of shares (Rs. 50,00,000 / Rs. 10 per share)	5,00,000
Basic EPS	Rs. 18.24

Calculation of Diluted EPS

(i) Adjusted number of shares		
a. Number of shares under options:		
Issued at full market price [(1,40,000 × 112) /140] = 1,12,000		
Options issued at nil consideration (dilutive) (1,40,000 – 1,12,000)		28,000
b. Number of shares under warrants:		
Issued at full market price [(2,00,000 × 84) / 140] = 1,20,000		
Warrants issued at nil consideration (dilutive) (2,00,000 – 1,20,000)		80,000
Number of dilutive shares under options and warrants		1,08,000
(ii) Calculation of Diluted EPS:		
Number of equity shares for basic EPS		5,00,000
Number of dilutive shares under options and warrants		1,08,000
Adjusted number of shares	(A)	6,08,000
Profit after tax	(B)	Rs. 91,20,000
Diluted EPS	(B/A)	Rs. 15

Q2. May 2025 Exam, 6 marks

Following information is given to you in respect of A Ltd. and B Ltd.:

Particulars	A Ltd.	B Ltd.
	Amount (Rs.)	Amount (Rs.)
Income (loss) from continuing operations	5,04,000	(3,60,000)
Income (loss) from discontinued operations	(8,40,000)	6,51,840
Net income (loss)	(3,36,000)	2,91,840
Weighted average number of shares outstanding	1,60,000	1,92,000
Incremental common share outstanding relating to stock options	32,000	51,200

From the above information, you are required to calculate the following:

(i) Basic and Diluted EPS of A Ltd. and
(ii) Diluted EPS of B Ltd.

Answer:

(i) Basic EPS of A Ltd.

Basic EPS (Continued Operations)	=	Profit from continued operations/Weighted average number of shares outstanding
	=	Rs. 5,04,000 / 1,60,000 = Rs. 3.15
Basic Loss per share (Discontinued operations)	=	Loss from discontinued operations / Weighted average number of shares outstanding
	=	(R 8,40,000) / 1,60,000 = (Rs. 5.25) s.
Overall Basic Loss per share	=	(R 3,36,000) / 1,60,000 = (Rs. 2.10) s.

Diluted EPS of A Ltd.

Diluted EPS = Profit for the year / Adjusted weighted average number of shares outstanding

DEPS (Continued Operations)	=	Profit from continued operations / Adjusted weighted average number of shares outstanding
	=	Rs. 5,04,000 / 1,92,000 = Rs. 2.625
Diluted Loss per share (Discontinued operations)	=	Loss from discontinued operations/ Adjusted weighted average number of shares outstanding
	=	(Rs. 8,40,000) / 1,92,000 = (Rs. 4.375)
Overall Diluted Loss per share	=	(Rs. 3,36,000) / 1,92,000 = (Rs. 1.75)

(ii) In case of B Ltd.'s loss from continuing operations, the potential shares are excluded since including those shares would result into anti- dilution effect on the control number (loss from continuing operations).

Therefore, the Diluted EPS of B Ltd will be calculated as under:

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Diluted EPS	=	Profit for the year / Adjusted weighted average number of shares outstanding
Overall Profit	=	Loss from continuing operations + Gain from discontinued operations
	=	(Rs. 3,60,000) + Rs. 6,51,840 = Rs. 2,91,840
Weighted average number of shares outstanding	=	1,92,000
Diluted EPS	=	Rs. 1.52

Q3. May 2022 Exam, 4 marks

GOLD Ltd., a manufacturing company, prepares its financial statements on 31st March every year. On 1st April, 2021, it had issued
(a) 10,00,000 ordinary shares and
(b) 6% convertible bonds amounting to ₹ 1,00,000, the terms of conversion being 120 ordinary shares for every ₹ 100.

On 30th June, 2021, ₹ 50,000 bonds converted to ordinary shares. The profit for the year ended 31st March, 2022 is ₹ 2,50,000. The applicable tax rate is 25%.
Calculate basic and diluted EPS. Ignore the need to split the convertible bonds into liability and equity element.

Answer

	Number of shares	**Profit (₹)**
Profit		2,50,000
Outstanding ordinary shares	10,00,000	
New shares on conversion (weighted average) [(9/12 x ₹ 50,000 / 100 x 120)]	45,000	
Figures for basic EPS 10,45,000/ 2,50,000		
Basic EPS is (₹ 2,50,000 / 10,45,000 shares) = ₹ 0.239 per share		
Dilution adjustments	60,000	
Unconverted shares (₹ 50,000 / 100 x 120)		2,250
Interest (₹ 50,000 x 6% x 0.75 net of tax)		
Converted shares pre conversion adjustment (3/12 x ₹ 50,000 / 100 x 120)	15,000	562.50
	11,20,000	2,52,812.50
Interest: [3/12 x ₹ 50,000 x 6% x 0.75 net of tax]		
Diluted EPS is (₹ 2,52,812.50 / 11,20,000 shares) = ₹ 0.226 per share		

Q4. Dec 2021 Exam, 8 marks

From the following information you are asked to calculate (a) Basic and Diluted EPS of Duck Ltd. and (b) Diluted EPS of Swan Ltd.:

	Duck Ltd.	Swan Ltd.
	Amount (₹)	**Amount (₹)**
Income/(Loss) from Continuing Operations	2,52,000	(1,80,000)
Income/(Loss) from Discontinued Operations	(4,20,000)	3,25,920
Net Income/(Loss)	(1,68,000)	1,45,920
Weighted Average Number of Shares outstanding	80,000	96,000
Incremental common shares outstanding relating to stock options	16,000	25,600

Answer

(a) For Duck Ltd.

I Calculation of Basic EPS

Basic EPS = Profit for the year / Weighted average number of shares outstanding

Basic EPS (Continued Operations) = Profit from continued operations / Weighted average number of shares outstanding

= ₹ 2,52,000 / 80,000 = ₹ 3.15

Basic Loss per share (Discontinued operations) = Loss from discontinued operations / Weighted average number of shares outstanding

= (₹ 4,20,000)/80,000 =(₹ 5.25)

Overall Basic Loss per share = (₹ 1,68,000) / 80,000 = (₹ 2.10) **(i)**

II Calculation of Diluted EPS

Diluted EPS = Profit for the year / Adjusted weighted average number of shares outstanding

EPS (Continued Operations) = Profit from continued operations / Adjusted weighted average number of shares outstanding

= ₹ 2,52,000 / 96,000 = ₹ 2.625

Loss per share (Discontinued operations) = Loss from discontinued operations/ Adjusted weighted average number of shares outstanding

= (₹ 4,20,000) / 96,000 = (₹ 4.375)

Overall Diluted Loss per share = (₹ 1,68,000) / 96,000 = (₹ 1.75) **(ii)**

Reporting Status:

The income from continuing operations is the control number, there is a dilution in basic EPS for income from continuing operations (reduction of EPS from ₹ 3.15 to ₹ 2.625). Therefore, even though there is an anti-dilution [Loss per share reduced from ₹ 2.10 (i) to ₹ 1.75 (ii) above], diluted loss per share of ₹ 1.75 is reported.

(b) For Swan Ltd.

Treatment of potential shares:

In case of loss from continuing operations, the potential shares are excluded since including those shares would result into anti-dilution effect on the control number (loss from continuing operations).

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Therefore, the diluted EPS will be calculated as under:
Diluted EPS = Profit for the year / Adjusted weighted average number of shares outstanding
Overall Profit = Loss from continuing operations + Gain from discontinued operations
= (₹ 1,80,000) + ₹ 3,25,920 = ₹ 1,45,920

Weighted average number of shares outstanding = 96,000
Diluted EPS = ₹ 1,45,920 / 96,000 = ₹ 1.52

Reporting Status:
The dilutive effect of the potential common shares on EPS for income from discontinued operations and net income would not be reported because of the loss from continuing operations

Q5. July 2021 Exam, 8 marks

At 31st March, 2019 the issued share capital of SB Limited consisted of 20,00,000 ordinary shares of ₹ 1 each. On 1st July 2019, the Company issued ₹ 25,00,000 of 8% convertible loan stock for cash at par. Each ₹ 100 nominal of the loan stock may be converted, at any time during the years ended 2024 to 2027, into the number of ordinary shares set out below:

- 31st March, 2024: 135 Ordinary Shares
- 31st March, 2025: 130 Ordinary Shares
- 31st March, 2026: 125 Ordinary Shares
- 31st March, 2027: 120 Ordinary Shares

If the loan stock is not converted by 2027, they would be redeemed at par.
It is assumed that the written equity conversion option is accounted for as a derivative liability and marked to market through profit or loss. The change in the options fair value reported on 31st March 2020 and 31st March 2021 amounted to losses of ₹ 5,000 and ₹ 5,300 respectively.

Further, it is assumed that there are no tax consequences arising from these losses.The profit before interest, fair value movements and taxation for the year ended 31st March, 2020 and 2021 amounted to ₹ 16,50,000 and ₹ 17,90,000 respectively and relate wholly to continuing operations. The rate of tax for both the periods is 33% (including cess and surcharge if any).
Calculate Basic and Diluted EPS for 31st March 2020 & 31st March 2021

Answer

	2021	2020
	₹	₹
Trading results		
A. Profit before interest, fair value movements and tax	17,90,000	16,50,000
	(2,00,000)	(1,50,000)
B. Interest on 8% convertible loan stock (2020: 9/12 × ₹ 2,00,000)	(5,300)	(5,000)
C. Change in fair value of embedded option	15,84,700	14,95,000
Profit before tax	(5,24,700)	(4,95,000)
Taxation @ 33% on (A-B)	10,60,000	10,00,000
Profit after tax		
Calculation of basic EPS	20,00,000	20,00,000
Number of equity shares outstanding	10,60,000	10,00,000
Earnings	53 paise	50 paise
Basic EPS		

Calculation of diluted EPS

Test whether convertibles are dilutive:

The saving in after-tax earnings, resulting from the conversion of ₹ 100 nominal of loan stock, amounts to
(₹ 100 × 8% × 67%) + (₹ 5,300 / 25,000) = ₹ 5.36 + ₹ 0.21 = ₹ 5.57.

There will then be 135 extra shares in issue.

Therefore, the incremental EPS is 4 paise (ie. ₹ 5.57 / 135). As this incremental EPS is less than the basic EPS at the continuing level, it will have the effect of reducing the basic EPS of 53 paise. Hence the convertibles are dilutive.,

	2021	2020
	₹	₹
Adjusted earnings		
Profit for basic EPS	10,60,000	10,00,000
Add: Interest and other charges on earnings saved as a result of the conversion	(2,00,000 + 5,300) 2,05,300	(1,50,000 + 5,000) 1,55,000
Less: Tax relief on interest portion		(49,500)
Adjusted earnings for equity	(66,000) 11,99,300	11,05,500

Adjusted number of shares
From the conversion terms, it is clear that the maximum number of shares issuable on conversion of ₹ 25,00,000 loan stock after the end of the financial year would be at the rate of 135 shares per ₹ 100 nominal (that is, 33,75,000 shares).

	2021	2020
	₹	₹
Number of equity shares for basic EPS	20,00,000	20,00,000
Maximum conversion at date of issue (33,75,000 × 9/12)	-- 33,75,000	25,31,250 --
Maximum conversion after balance sheet date	53,75,000	45,31,250
Adjusted shares	11,99,300	11,05,500
Adjusted earnings for equity	22 paise	24 paise
Diluted EPS (approx.)		

Q6. Nov 2020 Exam, 8 marks

The following information is available relating to Space India Limited for the Financial Year 2019-2020.

Net profit attributable to equity shareholders	₹ 90,000
Number of equity shares outstanding	16,000
Average fair value of one equity share during the year	₹ 90

Potential Ordinary Shares:

Options	900 options with exercise price of ₹ 75

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Convertible Preference	Shares 7,500 shares entitled to a cumulative dividend of ₹ 9 per share.Each preference share is convertible into 2 equity shares.
Applicable corporate dividend tax	8%
10% Convertible Debentures of₹ 100 each	₹ 10,00,000 and each debenture is convertible into 4 equity shares
Tax Rate	25%

You are required to compute Basic and Diluted EPS of the company for the Financial Year 2019-2020.

Answer

(i) Basic Earnings per share

	Year ended 31.3.2020
Net profit attributable to equity shareholders (A)	₹ 90,000
Number of equity shares outstanding (B)	16,000
Earnings per share (A/B)	₹ 5.625

(ii) Diluted earnings per share

Options are most dilutive as their earnings per incremental share is nil. Hence, for the purpose of computation of diluted earnings per share, options will be considered first. 10% convertible debentures being second most dilutive will be considered next and thereafter convertible preference shares will be considered (as per W.N.).

	Net profit attributable to equity shareholders ₹	**No. of equity shares**	**Net Profit attributable per share ₹**	
Net profit attributable to equity shareholders	90,000	16,000	5.625	
Options		150		
	90,000	16,150	5.572	Dilutive
10% Convertible debentures	75,000	40,000		
	1,65,000	56,150	2.939	Dilutive
Convertible Preference Shares	72,900	15,000		
	2,37,900	71,150	3.344	Anti-Dilutive

Since diluted earnings per share is increased when taking the convertible preference shares into account (₹ 2.939 to ₹ 3.344), the convertible preference shares are anti-dilutive and are ignored in the calculation of diluted earnings per share for the year ended 31 March 2020. Therefore, diluted earnings per share for the year ended
31 March 2020 is ₹ 2.939.

Working Note:
Calculation of incremental earnings per share and allocation of rank

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	Increase in earnings (1)	Increase in number of equity shares (2)	Earnings per incremental share (3) = (1) ÷ (2)	Rank
	₹		₹	
Options				
Increase in earnings	Nil			
No. of incremental shares issued for no consideration [900 x (90-75)/90]		150	Nil	1
Convertible Preference Shares				
Increase in net profit attributable to equity shareholders as adjusted by attributable dividend tax [(₹ 9 x 7,500) + 8% (₹ 9 x 7,500)]	72,900	15,000	4.86	3
No. of incremental shares (2 x 7,500)	75,000			
10% Convertible Debentures				
Increase in net profit [(₹ 10,00,000 x 10% x (1 – 0.25)]		40,000	1.875	2
No. of incremental shares (10,000 x 4)				

Note: Grossing up of preference share dividend has been ignored here. At present dividend distribution tax has been abolished. However, the question has been solved on the basis of the information given in the question.

Q1. May 2023, RTP

Company P has both ordinary shares and equity-classified preference shares in issue. The reconciliation of the number of shares during Year 1 is set out below:

Number of shares

Dates in Year 1	Transaction	Ordinary shares	Treasury shares	Preference shares
1st April	Balance	30,00,000	(5,00,000)	5,00,000
15th Apri	Bonus issue – 5% (no corresponding changes in	1,50,000	(25,000)	-
1st May	resources) Repurchase of shares	-	(2,00,000)	-
1st November	for cash Shares issued for cash	4,00,000	-	-

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31st March	Balance	35,50,000	(7,25,000)	5,00,000

The following additional information is relevant for Year 1.

- Company P's net profit for the year is ₹ 46,00,000.
- On 15th February, non-cumulative preference dividends of ₹ 1.20 per share were declared. The dividends were paid on 15th March. Preference shares do not participate in additional dividends with ordinary shares.
- Dividends on non-cumulative preference shares are deductible for tax purposes.

The applicable income tax rate is 30%.
The financial year of Company P ends on 31st March.
Determine the Basic EPS of the Company P for Year 1. Use the number of months or part of months, rather than the number of days in the calculation of EPS.

Answer

Determination of numerator for calculation of Basic EPS

The first step in the basic EPS calculation is to determine the profit or loss that is attributable to ordinary shareholders of Company P for the period.

Non-cumulative dividends paid on equity-classified preference shares are not deducted in arriving at net profit or loss for the period, but they are not returns to ordinary shareholders. Accordingly, these dividends are deducted from net profit or loss for the period in arriving at the numerator.

		(₹)
Net profit		46,00,000
Preference dividends (5,00,000 shares x 1.2)	(6,00,000)	
Related tax (₹ 6,00,000 x 30%)	1,80,000	(4,20,000)
Profit or loss attributable to P's ordinary shareholders		**41,80,000**
Accordingly, the numerator for calculation of Basic EPS is ₹ 41,80,000		

Determination of denominator for calculation of Basic EPS

The second step in the basic EPS calculation is to determine the weighted-average number of ordinary shares outstanding for the reporting period.

Number of shares	**Time weighting**	**Weight**	**Weighted average number of shares**
1st April – opening balance (30,00,000 – 5,00,000)	25,00,000	1	
15th April – bonus issue (1,50,000 – 25,000)	1,25,000		
1st April to 30th April	26,25,000	1/12	2,18,750
1st May – repurchase of shares	(2,00,000)		
1st May to 31st October	24,25,000	6/12	12,12,500
1st November – new shares issued	4,00,000		
1st November to 31st March	28,25,000	5/12	11,77,083
Weighted average number of shares for the year			**26,08,333**

The denominator for calculation of Basic EPS is 26,08,333 shares.
Basic EPS = ₹ 41,80,000 / 26,08,333 shares = ₹ 1.60 per share (approx.).

Q2. Nov 2022, RTP

Company S is a subsidiary of Company P.
Following facts are in respect of Company S:

- Company S has 10,000 ordinary shares and 1,000 options outstanding, of which Company P owns 9,000 shares and 500 options, respectively.
- The options have an exercise price of ₹ 40.
- The average market price of Company S's ordinary share was ₹ 50 in 20X1.
- In 20X1, Company S's profit was ₹ 30,000.

Following facts are in respect of Company P:

• Company P has 5,000 ordinary shares outstanding.

• In 20X1, Company P's profit (excluding any distributed and undistributed earnings of subsidiaries) was ₹ 7,000.

• The options outstanding are dilutive at P's level.

Determine the diluted EPS of Company P for the year 20X1. Ignore income tax.

Answer

To determine the diluted EPS of Company P, the diluted EPS of Company S has to be calculated first.

Calculation of Company S's diluted EPS:

Company S's earnings for the period	₹ 30,000
Weighted average ordinary shares	10,000
Incremental shares (refer W.N.)	
200	
Company S's diluted EPS	₹ 30,000/ (10,000 + 200) ₹ 2.94

Calculation of Company P's diluted EPS:

Company P's earning for the period	₹ 7,000
Company P's share of Company S's earning attributable to ordinary shares [(9,000 /10,000) x (2.94 x 10,000)]	₹ 26,460
Company P's share of Company S's earning attributable to options [(500 /1,000) x (2.94 x 200)]	₹ 294
Company P's weighted average ordinary shares outstanding	5,000
Company P's diluted EPS = (7,000 + 26,460 + 294) / 5,000 ₹ 6.75	

Working Note:

Computation of Incremental shares related to weighted average options outstanding:

All options are dilutive because their exercise price is below the average market price of Company S's ordinary shares for the period.

The incremental shares are calculated as follows:

Shares issued on assumed exercise of options	
1,000	
Less: Shares that would be issued at average market Price	[(40 x 1,000)/50] (800)
Incremental shares	200

Q3. May 2022, RTP

Following information pertains to an entity for the year ending 31st March 20X1:

Net profit for the year	₹ 12,00,000
Weighted average number of equity shares outstanding during the year	5,00,000 shares
Average market price per share during the year	₹ 20
Weighted average number of shares under option during the year	1,00,000 shares
Exercise price per share under option during the year	₹ 15

Calculate basic and diluted earnings per share.

Answer

Calculation of earnings per share

	Earnings	Shares	Per share
Profit attributable to equity holders	₹ 12,00,000		
Weighted average shares outstanding during year 20X1		5,00,000	
Basic earnings per share			**₹ 2.40**
		100,000	

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Weighted average number of shares under option			
Weighted average number of shares that would have been issued at average market price: (1,00,000 × ₹ 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.

Q4. May 2020, RTP

CAB Limited is in the process of preparation of the consolidated financial statements of the group for the year ending 31st March, 20X3 and the extract of the same is as follows:

Particulars	Attributable to CAB Limited	Non-controlling interest	Total (₹ in '000)
Profit for the year	39,000	3,000	42,000
Other Comprehensive Income	5,000	Nil	5,000
Total Comprehensive Income	44,000	3,000	47,000

The long-term finance of the company comprises of the following:

i. 20,00,00,000 equity shares at the beginning of the year and the company has issued 5,00,00,000 shares on 1st July, 20X2 at full market value.

ii. 8,00,00,000 irredeemable preference shares. These shares were in issue for the whole of the year ended 31st March, 20X3. The dividend on these preference shares is discretionary.

iii. ₹ 18 crores of 6% convertible debentures issued on 1st April, 20X1 and repayable on 31st March, 20X5 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 10 crores ordinary shares in the company. On 1st April, 20X1, the prevailing market interest rate for four-year convertible debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of ₹ 1 payable in four years is 0.74 and the cumulative present value of ₹ 1 payable at the end of years one to four is 3.31.In the year ended 31st March, 20X3, CAB Limited declared an ordinary dividend of 0.10 paise per share and a dividend of 0.05 paise per share on the irredeemable preference shares.

Compute the following:

• the finance cost of convertible debentures and its closing balance as on 31st March, 20X3 to be presented in the consolidated financial statements.

• the basic and diluted earnings per share for the year ended 31st March, 20X3.

Assume that income tax is applicable to CAB Limited and its subsidiaries at 25%.

Answer

Calculation of the liability and equity components on 6% Convertible debentures:

Present value of principal payable at the end of 4th year (₹ 1,80,000 thousand x 0.74)
= ₹ 1,33,200 thousand

Present value of interest payable annually for 4 years (₹ 1,80,000 thousand x 6% x 3.31)
= ₹ 35,748 thousand

Total liability component = ₹ 1,68,948 thousand

Therefore, equity component = ₹ 1,80,000 thousand – ₹ 1,68,948 thousand = ₹ 11,052 thousand

Calculation of finance cost and closing balance of 6% convertible debentures

Year	Opening balance ₹ in '000	Finance cost @ 8% ₹ in '000	Interest paid @ 6% ₹ in '000	Closing balance ₹ in '000

	a	b = a x 8%	c	d = a + b - c
31.3.20X2	1,68,948	13,515.84	10,800	1,71,663.84
31.3.20X3	1,71,663.84	13,733.11	10,800	1,74,596.95

Finance cost of convertible debentures for the year ended 31.3. 20X3 is ₹ 13,733.11 thousand and closing balance as on 31.3. 20X3 is ₹ 1,74,596.95 thousand.

Calculation of Basic EPS **₹ in '000**

Profit for the year	39,000
Less: Dividend on preference shares (80,000 thousand x ₹ 0.05)	(4,000)
Profit attributable to equity shareholders	**35,000**

Weighted average number of shares = 20,00,00,000 + {5,00,00,000 x (9/12)}
= 23,75,00,000 shares or 2,37,500 thousand shares

Basic EPS = ₹ 35,000 thousand / 2,37,500 thousand shares
= ₹ 0.147

Calculation of Diluted EPS **₹ in '000**

Profit for the year		39,000
Less: Dividend on preference shares (80,000 thousand x ₹ 0.05)		(4,000)
Profit attributable to equity shareholders		35,000
Add: Finance cost (as given in the above table)	13,733.11	
Less: Tax @ 25%	(3,433.28)	10,299.83
		45,299.83

Weighted average number of shares = 20,00,00,000 + {5,00,00,000 x (9/12)} + 10,00,00,000
= 33,75,00,000 shares or 3,37,500 thousand shares

Diluted EPS = ₹ 45,299.83 thousand / 3,37,500 thousand shares
= ₹ 0.134

Q5. May 2019, RTP

An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term, and are issued at par with a face value of ₹ 1,000 per bond, giving total proceeds of ₹ 2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 per cent. At the issue date, the market price of one ordinary share is ₹ 3. Income tax is ignored.

Calculate basic and diluted EPS when

Profit attributable to ordinary equity holders of the parent entity Year 1	₹ 1,000,000
Ordinary shares outstanding	1,200,000
Convertible bonds outstanding	2,000

Answer

Allocation of proceeds of the bond issue:

Liability component (Refer Note 1)	₹ 1,848,122
Equity component	₹ 151,878
	₹ 2,000,000

The liability and equity components would be determined in accordance with Ind AS 32. These amounts are recognised as the initial carrying amounts of the liability and equity components. The amount assigned to the issuer conversion option equity element is an addition to equity and is not adjusted.

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Basic earnings per share Year 1

$$=\frac{Rs.1,,000,000}{Rs.1,200,000}$$

= ₹0.83per ordinary share

Diluted earnings per share Year 1:

It is presumed that the issuer will settle the contract by the issue of ordinary shares. The dilutive effect is therefore calculated in accordance with the Standard.

$$=\frac{\text{Rs.}1,000,000 + \text{Rs.}166,331}{1,200,000 + 500,000}$$

= ₹ 0.69 per ordinary share

Notes:

1. This represents the present value of the principal and interest discounted at 9% –₹ 2,000,000 payable at the end of three years; ₹ 120,000 payable annually in arrears for three years.
2. Profit is adjusted for the accretion of ₹ 166,331 (₹ 1,848,122 × 9%) of the liabilitybecause of the passage of time. However, it is assumed that interest @ 6% for the year has already been adjusted.
3. 500,000 ordinary shares = 250 ordinary shares x 2,000 convertible bonds

Q6. May 2018, RTP

P Ltd. is a subsidiary company of ABC Ltd. It preparing both Separate financial statement (SFS) and consolidated financial statements (CFS) for the year ending on 31st March, 20XI. It has net profit after tax of ₹ 20,00,000 as per SFS & ₹ 16,00,000 as per CFS. Share capital of P Ltd. is 2,00,000 shares of ₹ 10 each. ABC Ltd. has acquired 80% shares of P Ltd. Accountant of P Ltd. had calculated following Basic EPS for its SFS:

Calculation of Basic EPS in its SFS	
Net Profit after tax	₹ 16,00,000
Number of equity shares attributable to Parent company ABC Ltd. (2,00,000 x 80%)	1,60,000 shares
Basic EPS	₹ 10 per share

Examine the correctness of the above presentation of Basic EPS.

Answer

As per paragraph 4 of Ind AS 33 "Earnings per Share", when an entity presents both consolidated financial statements and separate financial statements prepared in accordance with Ind AS 110, Consolidated Financial Statements, and Ind AS 27, Separate Financial Statements, respectively, the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements. In consolidated financial statements such disclosures shall be based on consolidated information and in separate financial statements such disclosures shall be based on information given in separate financial statements. An entity shall not present in consolidated financial statements, earnings per share based on the information given in separate financial statements and shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements.

Also paragraph 9 of the standard states that an entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entityand, if presented, profit or loss from continuing operations attributable to those equity holders.

Further, paragraph A1 of Appendix A of Ind AS 33 states that for the purpose of calculating earnings per share based on the consolidated financial statements, profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting for non- controlling interests.

Therefore. the requirements of paragraph 9 of Ind AS 33 have been provided in the context of calculating EPS in the consolidated financial statements of an entity.

The accountants of P Ltd. had followed this for calculation of Basic EPS in its SFS. Asper ITFG Bulletin 11, for SFS analogy may be drawn from paragraph 9 of Ind AS 33 that in case of separate financial statements, the parent entity mentioned in paragraph 9 will imply the legal entity of which separate financial statements are being prepared and accordingly, when an entity presents EPS in its separate financial statements, then the same shall be calculated based on the profit or loss attributable to its equity shareholders.

Hence, the presentation of Basic EPS by the Accountant of P Ltd. on the basis of consolidated financial statements in its separate financial statements is not correct. The correct presentation of Basic EPS would be as follows:

Calculation of Basic EPS of P Ltd. in SFS	
Net Profit after tax	₹ 20,00,000
No. of share issued	2,00,000 shares
Basic EPS	₹ 10 per share

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Q1. May 2025 Exam,4 Marks

Hero Ltd. reported a profit before tax of Rs. 8 lakhs for the third quarter ending 31st December 2024. On enquiry, you observe the following:

(i) Dividend income of Rs. 8 lakhs received during the quarter has been recognized to the extent of Rs. 2 lakhs only.

(ii) 60% of sales promotion expenses of Rs. 30 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in fourth quarter are expected to be high.

(iii) Rs. 4 lakhs extraordinary gain received in third quarter was allocated equally to the third and fourth quarter.

(iv) Cumulative loss of Rs. 30 lakhs resulting from change in method of inventory valuation was recognized in the third quarter. Out of this loss, Rs. 10 lakhs relate to previous quarters.

(v) Sale of investment in the first quarter resulted in a gain of Rs. 40 lakhs. The company had apportioned this equally to the four quarters.

You are required to discuss the treatment of the above observations and ascertain the adjusted profit /loss before tax for the third quarter.

Answer:

(b) As per para 37 and para 39 of Ind AS 34 "Interim Financial Reporting", seasonal or occasional revenue and cost within a financial year should not be anticipated or deferred as of interim date if it would not be appropriate to anticipate or defer the same at the end of the entity's financial year. Therefore, dividend income, extraordinary gain, and gain on sale of investment received during 3rd quarter should be recognised in the 3rd quarter only.

Similarly, sales promotion expenses incurred in the 3rd quarter should also be charged in the 3rd quarter only.

Further, as per the standard, if there is change in the accounting policy within the current financial year, then such a change should be applied retrospectively by restating the financial statements of prior interim periods of the current financial year.

The change in the method of inventory valuation is a change in the accounting policy. Therefore, the prior interim periods' financial statements should be restated by applying the change in the method of valuation retrospectively.

Accordingly, the adjusted profit before tax for the 3rd quarter will be as follows:

Statement showing Adjusted Profit Before Tax for the Third Quarter ending 31st December, 2024

	(Rs. in lakhs)
Profit before tax (as reported)	8
Add: Dividend income Rs. (8-2) lakhs	6
Extraordinary gain Rs. (4-2) lakhs	2
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively	10
	26
Less: Sales promotion expenses (60% of Rs. 30 lakhs)	(18)

Gain on sale of investment (occasional gain should not be deferred)	(10)
Adjusted Profit before tax for the third quarter	(2)

Q2. Nov 2024 Exam,4 Marks

Spicer Ltd., a listed company, prepares interim financial reports at the end of each quarter.

The following information is provided:

(i) On 1st April, 2023, Spicer Ltd. has brought forward losses of Rs. 620 lakh under Income Tax Act. No Deferred Tax Asset has been recognized by the management of the company for such losses in view of the uncertainty over company's ability to earn profits in the foreseeable future and set off these losses.

(ii) Due to sudden change in government policies, the company's business turned around and it has reported quarterly earnings of Rs. 650 lakh and Rs. 360 lakh respectively for the first two quarters of financial year 2023-2024 and anticipates net earnings of Rs. 720 lakh in the coming half year ended March 2024 of which Rs. 160 lakh will be the loss in the quarter ended December 2023.

(iii) The tax rate for the company is 25% with a 10% surcharge.

You are required to calculate the amount of Tax Expenses to be reported for each quarter of the financial year 2023-2024.

Answer:

It is assumed that net profit for all the quarters of the year 2023-2024 excludes the brought forward losses of Rs. 620 lakh.

Computation of estimated total earnings for the year 2023-2024

Quarter	Earnings before tax (in lakhs)
1	650 (actual)
2	360 (actual)
3	(160) (estimated)
4	720 + 160 = 880 (estimated)
	1,730 (estimated)

Tax rate for the company = 25 x 110% = 27.5%

Computation of Average Annual Effective Tax Rate

The estimated payment of the annual tax on earnings for the current year:

= (1,730-620) x 27.5% = Rs. 305.25 lakhs.

As per Ind AS 34, 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.

Thus, average annual effective tax rate = (305.25 / 1,730) × 100

= 17.645% (approx.)

Tax expense to be shown in each quarter.

Quarter	Earnings before tax (in lakhs)	Tax expense @ 17.645%

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1	650 (actual)	114.69
2	360 (actual)	63.52
3	(160) (estimated)	(28.23)
4	720 + 160 = 880 (estimated)	155.27
	1,730 (estimated)	305.25

Q3. Dec 2021 Exam,4 Marks

Pharma Ltd. manufactures surgical items. Pharma Ltd. has shown a net profit of ₹ 50,00,000 for the second quarter of 2020-2021.

Following adjustments are made while computing the net profit:

(i) Bad debts of ₹ 2,60,000 incurred during the quarter. 40% of the bad debts have been deferred to the next quarter.

(ii) Additional depreciation of ₹ 5,20,000 resulting from the change in the method of depreciation.

(iii) Exceptional loss of ₹ 8,16,000 incurred during the second quarter. 60% of exceptional loss has been deferred to next quarter.

(iv) ₹ 4,70,000 expenditure on account of sales expenses pertaining to the second quarter is deferred on the argument that the third quarter will have more sales, therefore, third quarter should be debited by higher expenditure. The expenditures are uniform throughout all quarters.

Analyse and ascertain the correct net profit to be shown in the interim financial results of the second quarter to be presented to the Board of Directors as per Ind AS 34.

Answer

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, ₹ 1,04,000 (₹ 2,60,000 x 40%) should be deducted from ₹ 50,00,000 in the second quarter itself.

(ii) Recognising additional depreciation of ₹ 5,20,000 in the same quarter is correct and is in tune with Ind AS 34.

(iii) Treatment of exceptional loss is not as per the principles of Ind AS 34, as the entire amount of ₹ 8,16,000 incurred during the second quarter should be recognized in the same quarter. Hence ₹ 4,89,600 (ie. ₹ 8,16,000 x 60%) which was deferred for next quarter should be deducted from the profits of second quarter only.

(iv) (a) As per Ind AS 34 the income and expense should be recognised when they are earned and incurred respectively. As per para 39 of Ind AS 34, the costs should be anticipated or deferred only when it is appropriate to anticipate or defer that type of cost at the end of the financial year; and

(b) Costs are incurred unevenly during the financial year of an enterprise.

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Therefore, the treatment done relating to deferment of ₹ 4,70,000 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 second quarter shall be

		₹
Net Profit of second quarter		50,00,000
Adjustments		
Less: Bad debts wrongly deferred to third quarter	1,04,000	
Exceptional loss wrongly deferred to third quarter	4,89,600	
Sales expenses wrongly deferred to third quarter	4,70,000	(10,63,600)
Revised Profit		39,36,400

Q4. July 2021 Exam,5 Marks

Heavy Limited has a plant with normal capacity to produce 90,000 units of a product per annum and expected fixed production overhead for the year is ₹ 18,00,000. There are no quarterly / seasonal variations.

Hence, normal expected production of each quarter is uniform. The actual production of the year is 87,000 units. The production details of each quarter are as under:

Quarter I:	20,000 units
Quarter II:	24,000 units
Quarter III:	23,500 units
Quarter IV:	19,500 units

Calculate the allocation of fixed production overhead for all the four quarters. Will the quarterly results affect annual result?

Give your answer as per Ind AS 34 read with Ind AS 2.

Answer

Since it is considered that there is no quarterly / seasonal variation, then normal expected production for each quarter is 22,500 units (90,000 units / 4 quarters) and fixed production overheads for the quarter are ₹ 4,50,000 (₹ 18,00,000 / 4 quarters).

Fixed production overhead to be allocated per unit of production in every quarter will be ₹ 20 per unit.

(Fixed overheads / Normal production i.e. ₹ 4,50,000 / 22,500 units

Particulars	Quarters			
	I	II	III	IV
Actual fixed production overheads on year to date basis (₹)	4,50,000	9,00,000	13,50,000	18,00,000
Actual production (Units)	20,000	24,000	23,500	19,500
Actual production year to date basis (Units)	20,000	44,000	67,500	87,000
Fixed overheads to be absorbed on year to date basis (₹)	4,00,000	8,80,000	13,50,000	17,40,000
Under recovery year to date (₹)	**50,000**	**20,000**	**NIL**	**60,000**

Quarter I:

Unallocated fixed production overheads ₹ 50,000 (i.e. ₹ 4,50,000 – ₹ 4,00,000) to be charged as expense as per Ind AS 2 and consequently as per Ind AS 34.

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Quarter II:
Since production increased in second quarter by 1,500 units (24,000 – 22,500) i.e. more than the normal expected production, hence ₹ 30,000 (1,500 units x ₹ 20 per unit) will be reversed by way of a credit to the statement of profit and loss of the 2nd quarter and debit to cost of production / inventory cost.

Quarter III:
Earlier, ₹ 50,000 was not allocated to production / inventory cost in the 1st quarter. Out of it, ₹ 30,000 was reversed in the 2nd quarter. To allocate entire ₹ 13,50,000 till third quarter to the production, as per Ind AS 34, remaining ₹ 20,000 (₹ 50,000 – ₹ 30,000) will be reversed by way of a credit to the statement of profit and loss of the 3rd quarter and debit to the cost of production / inventory cost.

Quarter IV:
Unallocated fixed production overheads ₹ 60,000 {i.e. ₹ 4,50,000 – (₹ 20 x 19,500)} in the4th quarter will be expensed off as per the principles of Ind AS 2 and Ind AS 34 by way of a charge to the statement of profit and loss.

For the year:
The cumulative result of all the quarters would also result in unallocated overheads of ₹ 60,000, thus, meeting the requirements of Ind AS 34 that the quarterly results should not affect the measurement of the annual result.

Q5. Nov 2020 Exam,6 Marks

Lal Ltd. provides you the following information for financial year 2019-2020:

Estimated Income for the year ended 31 March 2020:

Gross Annual Income (inclusive of Estimated Capital Gains of ₹ 4,00,000)	₹ 16,50,000
Quarter I	₹ 3,50,000
Quarter II	₹ 4,00,000
Quarter III (including Estimated Capital Gains of ₹ 4,00,000)	₹ 6,00,000
Quarter IV	₹ 3,00,000

Tax Rates	On Other Income	First ₹ 2,50,000	20%
		Balance Income	30%
	On Capital Gains		12%

Calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income.

Answer
As per 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.

	₹
Estimated annual income exclusive of estimated capital gain (16,50,000 – 4,00,000) (A)	12,50,000
Tax expense on other income:	

20% on ₹ 2,50,000		
30% on remaining ₹ 10,00,000		50,000
	(B)	3,00,000
		3,50,000
Weighted average annual income tax rate $= \frac{B}{A} = \frac{3,50,000}{12,50,000} = 28\%$		

Tax expense to be recognised in each of the quarterly reports:

		₹
Quarter I - ₹ 3,50,000 x 28%		98,000
Quarter II - ₹ 4,00,000 x 28%		1,12,000
Quarter III - ₹ (6,00,000 - 4,00,000) x 28%	56,000	
₹ 4,00,000 x 12%	48,000	1,04,000
Quarter IV - ₹ 3,00,000 x 28%		84,000
		3,98,000

Q6. Nov 2018 Exam, 5 Marks

Navya Limited manufacturer of ceramic tiles has shown a net profit of ₹ 15,00,000 for the first quarter of 2018-2019. Following adjustments were made while computing the net profit:

(i) Bad debts of ₹ 1,64,000 incurred during the quarter. 75% of the bad debts have been deferred for the next three quarters (25% for each quarter).

(ii) Sales promotion expenses of ₹ 5,00,000 incurred in the first quarter and 90% expenses deferred to the next three quarters (30% for each quarter) on the basis that the sales in these quarters will be high in comparison to first quarter.

(iii) Additional depreciation of ₹ 3,50,000 resulting from the change in the method of depreciation has been taken into consideration.

(iv) Extra-ordinary loss of ₹ 1,36,000 incurred during the quarter has been fully recognized in this quarter.

Discuss the treatment required under Ind AS 34 and ascertain the correct net profit to be shown in the Interim Financial report of first quarter to be presented to the Board of Directors.

Answer

As per Ind AS 34, Interim Financial Reporting, the quarterly net profit should be adjusted and restated as follows:

(i) Bad debts of ₹ 1,64,000 have been incurred during current quarter. Out of this, the company has deferred 75% i.e. ₹ 1,23,000 to the next 3 quarters. This treatment is not correct as the expenses incurred during an interim reporting period should be recognised in the same period unless conditions mentioned in Ind AS 34 are fulfilled. Accordingly, ₹ 1,23,000 should be deducted from the net profit of the current quarter ₹ 15,00,000.

(ii) Deferment of sales promotion expenses of ₹ 4,50,000 is not correct. It should be charged in the quarter in which the expenses have been incurred. Hence, it should be charged in the first quarter only.

(iii) Recognising additional depreciation of ₹ 3,50,000 in the same quarter is correct and is in tune with Ind AS 34.

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(iv) The treatment of extra-ordinary loss of ₹ 1,36,000 being recognised in the same quarter is correct.

Thus considering the above, the correct net profits to be shown in Interim Financial Report of the third quarter shall be ₹ 15,00,000 - ₹ 1,23,000 - ₹ 4,50,000 = ₹ 9,27,000.

Q7. May 2023, RTP

The entity's financial year ends on 31st March. What are the "reporting periods" for which financial statements (condensed or complete) in the interim financial report of the entity as on 30th September, 20X1 are required to be presented, if:

i. Entity publishes interim financial reports quarterly
ii. Entity publishes interim financial reports half-yearly.

Answer

Paragraph 20 of Ind AS 34, Interim Financial Reporting states as follows:"Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year.

b) statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.

c) statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

d) statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

Accordingly, periods for which interim financial statements are required to be presented are provided herein below:

(i) Entity publishes interim financial reports quarterly

The entity will present the following financial statements (condensed or complete) in its interim financial report of 30th September, 20X1:

Balance sheet at	30th September 20X1	31st March 20X1	-	-
Statement of profit and loss for	3 months ended 30th September 20X1	3 months ended 30th September 20X0	6 months ended 30th September 20X1	6 months ended 30th September 20X0
Statement of changes in equity for	6 months ended 30th September 20X1	6 months ended 30th September 20X0		

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Statement of cash flows for	6 months ended 30th September 20X1	6 months ended 30th September 20X0	-	-

(ii) Entity publishes interim financial reports half-yearly

The entity's financial year ends 31st March. The entity will present the following financial statements (condensed or complete) in its half-yearly interim financial report of 30th September, 20X1:

Balance sheet at	30th September, 20X1	31st March, 20X1
Statement of profit and loss for	6 months ending 30th September, 20X1	6 months ending 30th September, 20X0
Statement of changes in equity for	6 months ending 30th September 20X1	6 months ending 30th September 20X0
Statement of cash flows for	6 months ending 30th September 20X1	6 months ending 30th September 20

Q8. Nov 2022, RTP

PQR Ltd. is preparing its interim financial statements for quarter 3 of the year. How the following transactions and events should be dealt with while preparing its interim financials:

i. It makes employer contributions to government-sponsored insurance funds that are assessed on an annual basis. During Quarter 1 and Quarter 2 larger amount of payments for this contribution were made, while during the Quarter 3 minor payments were made (since contribution is made upto a certain maximum level of earnings per employee and hence for higher income employees, the maximum income reaches before year end).

ii. The entity intends to incur major repair and renovation expense for the office building. For this purpose, it has started seeking quotations from vendors. It also has tentatively identified a vendor and expected costs that will be incurred for this work.

iii. (iii) The company has a practice of declaring bonus of 10% of its annual operating profits every year. It has a history of doing so.

Answer

Paragraph 28 of Ind AS 34, Interim Financial Reporting states that an entity shall apply the same accounting recognition and measurement principles in its interim financial statements as are applied in its annual financial statements.

Further, paragraphs 32 and 33 of Ind AS 34, Interim Financial Reporting state that for assets, the same tests of future economic benefits apply at interim dates and at the end of an entity's financial year. Costs that, by their nature, would not qualify as assets at financial year-end would not qualify at interim dates either. Similarly, a liability at the end of an interim reporting period must represent an existing obligation at that date, just as it must at the end of an annual reporting period.

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An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised otherwise not. The Conceptual Framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.
Considering the above guidance, while preparing its interim financials, the transactions and events of the given case should be dealt with as follows:

i. If employer contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised using an estimated average annual effective contribution rate in its interim financial statements, even though a large portion of the payments have been made early in the financial year. Accordingly, it should work out an average effective contribution rate and account for the same accordingly, in its interim financials.

ii. The cost of a planned overhaul expenditure that is expected to occur in later part of the year is not anticipated for interim reporting purposes unless an event has caused the entity to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

iii. 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. Ind AS 19, Employee Benefits provides guidance in this regard.

A liability for bonus may arise out of legal agreement or constructive obligation because of which it has no alternative but to pay the bonus and accordingly, needs to be accrued in the annual financial statements.

Bonus liability is accrued in interim financial statements on the same basis as they are accrued for annual financial statements. In the instant case, bonus liability of 10% of operating profit for the year to date may be accrued.

In the given case, since the company has past record of declaring annual bonus every year, the same may be accrued using a reasonable estimate (applying the principles of Ind AS 19, Employee Benefits) while preparing its interim results.

Q9. Nov 2022, RTP

1. On 1st April 20X1, Nuogen Ltd. had granted 1,20,000 share options to its employees with the vesting condition being a service condition as follows:

• Vesting date : 31st March 20X2 - 80,000 share options (1-year vesting period since grant date)
• Vesting date : 31st March 20X5 - 40,000 share options (4-year vesting period since grant date)

Each option can be converted into one equity share of Nuogen Ltd. The fair value of the options on grant date, i.e., on 1st April 20X1 was ₹ 20.

Nuogen Ltd. is required to prepare financial statements in Ind AS for the financial year ending 31st March 20X4. The transition date for Ind AS being 1st April 20X2.

The entity has disclosed publicly the fair value of both these equity instruments as determined at the measurement date, as defined in Ind AS 102.

The previous applicable GAAP for the entity was IGAAP (AS) and therein, the entity had not adopted intrinsic method of valuation.

The share options have not been yet exercised by the employees of Nuogen Ltd. How the share based payment should be reflected in, the books of Nuogen Ltd. as on 31st March 20X4, assuming that the entity has erred by not passing any entry for the aforementioned transactions in the books of Nuogen Ltd. on grant date, i.e. 1st April 20X1?

Answer

For 80,000 share-based options vested before transition date:

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments **that vested before the date of transition to Ind AS**. Hence, Nuogen Ltd. may opt for the exemption given in Ind AS 101 for 80,000 share options vested before the transition date. However, since no earlier accounting was done for these share-based options under previous GAAP too, therefore this led to an error on the transition date, as detected on the reporting date i.e. 31st March, 20X4. Hence, being an error, no exemption could be availed by Nuogen Ltd. on transition date with respect to Ind AS 102.While preparing the financial statements for the financial year 20X3-20X4, an error has been discovered which occurred in the year 20X1-20X2, i.e., for the period which was earlier than earliest prior period presented. The error should be corrected by restating the opening balances of relevant assets and/or liabilities and relevant component of equity for the year 20X2-20X3. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2).

Accordingly, on retrospective calculation of Share based options with respect to 80,000 options, Nuogen Ltd. will create 'Share based payment reserve (equity)' by ₹ 16,00,000 and correspondingly adjust the same though Retained earnings.

For 40,000 share based options to be vested on 31st March, 20X5:

Since share-based options have not been vested before transition date, no option as per Ind AS 101 is available to Nuogen Ltd. The entity will apply Ind AS 102 retrospectively. However, Nuogen Ltd. did not account for the same at the grant date. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2). Adjustment is to be made by recognising the 'Share based payment reserve (equity)' and adjusting the retained earnings by ₹ 2,00,000.

Further, expenses for the year ended 31st March, 20X3 and share based payment reserve (equity) as at 31st March, 20X3 were understated because of non-recognition of 'employee benefits expense' and related reserve. To correct the above errors in the annual financial statements for the year ended 31st March, 20X4, the entity should restate the comparative amounts (i.e., those for the year ended 31st March, 20X3) in the statement of profit and loss. In the given case, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000

For the year ending 31st March, 20X4, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000.

Working Note:

Period	Lot	Proportion	Fair value	Cumulative expenses	Expenses
		a	b	d= b x a	e = d-previous period d
20X1-20X2	1 (1-year	1/1	16,00,000	16,00,000	16,00,000

	vesting period)				
20X1-20X2	2 (4-year vesting period)	1/4	8,00,000	2,00,000	2,00,000
20X2-20X3	2 (4-year vesting period)	2/4	8,00,000	4,00,000	2,00,000
20X3-20X4	2 (4-year vesting period)	3/4	8,00,000	6,00,000	2,00,000

Q10. Nov 2021, RTP

While preparing interim financial statements for the half-year ended 30 September 20X2, an entity discovers a material error (an improper expense accrual) in the interim financial statements for the period ended 30 September 20X1 and the annual financial statements for the year ended 31 March 20X2. The entity does not intend to restate the comparative amounts for the prior period presented in the interim financial statements as it believes it would be sufficient to correct the error by restating the comparatives in the annual financial statements for the year ended 31 March 20X3. Is this acceptable? Discuss in accordance with relevant Ind AS.

Answer

Paragraph 42 of Ind AS 8, inter alia, states that an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred.

Paragraph 28 of Ind AS 34 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statement s (except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements).

Paragraph 15B of Ind AS 34 cites 'corrections of prior period errors' as an example of events or transactions which need to be explained in an entity's interim financial report if they are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

Paragraph 25 of Ind AS 34, Interim Financial Statements, states as follows:
"While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from nondisclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period."

In view of the above, the entity is required to correct the error and restate the comparative amounts in interim financial statements for the half-year ended 30 September 20X2.

Q11. Nov 2020, RTP

An entity's accounting year ends is 31st December, but its tax year end is 31st March. The entity publishes an interim financial report for each quarter of the year ended 31st December, 2019. The

entity's profit before tax is steady at ₹10,000 each quarter, and the estimated effective tax rate is 25% for the year ended 31st March, 2019 and 30% for the year ended 31st March, 2020.

How the related tax charge would be calculated for the year 2019 and its quarters.

Answer

Table showing computation of tax charge:

	Quarter ending 31st March, 2019	**Quarter ending 30th June, 2019**	**Quarter ending 30th September, 2019**	**Quarter ending 31st December, 2019**	**Year ending 31st December, 2019**
	₹	**₹**	**₹**	**₹**	**₹**
Profit before tax	10,000	10,000	10,000	10,000	40,000
Tax charge	(2,500)	(3,000)	(3,000)	(3,000)	(11,500)
	7,500	7,000	7,000	7,000	28,500

Since an entity's accounting year is not same as the tax year, more than one tax rate might apply during the accounting year. Accordingly, the entity should apply the effective tax rate for each interim period to the pre-tax result for that period.

Q12. Nov 2019, RTP

An entity reports quarterly, earns ₹ 1,50,000 pre-tax profit in the first quarter but expects to incur losses of ₹ 50,000 in each of the three remaining quarters. The entity operates in a jurisdiction in which its estimated average annual income tax rate is 30%.

The management believes that since the entity has zero income for the year, its income-tax expense for the year will be zero. State whether the management's views are correct. If not, then calculate the tax expense for each quarter as well as for the year as per Ind AS 34.

Answer

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.

Accordingly, the management's contention that since the net income for the year will be zero no income tax expense shall be charged quarterly in the interim financial report, is not correct.

The following table shows the correct income tax expense to be reported each quarter inaccordance with Ind AS 34:

Period	**Pre-tax earnings (in ₹)**	**Effective tax rate**	**Tax expense (in ₹)**
First Quarter	(1,50,000)	30%	45,000
Second Quarter	(50,000)	30%	(15,000)
Third Quarter	(50,000)	30%	(15,000)
Fourth Quarter	(50,000)	30%	(15,000)
Annual	0		0

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Q13. Nov 2018, RTP

M Ltd. has three cash-generating units: A, B and C. Due to adverse changes in the technological environment, M Ltd. conducted impairment tests of each of its cash generating units. On 31st March, 2018, the carrying amounts of A, B and C are ₹ 100 lakhs, ₹ 150 lakhs and ₹ 200 lakhs respectively.

The operations are conducted from a headquarter. The carrying amount of the headquarter assets is ₹ 200 lakhs: a headquarter building of ₹ 150 lakhs and a research centre of ₹ 50 lakhs. The relative carrying amounts of the cash-generating units are a reasonable indication of the proportion of the head-quarter building devoted to each cash-generating unit. The carrying amount of the research centre cannot be allocated on a reasonable basis to the individual cash-generating units.

Following is the remaining estimated useful life of:

	A	**B**	**C**	**Head quarter assets**
Remaining estimated useful life	10	20	20	20

The headquarter assets are depreciated on a straight-line basis.
The recoverable amount of each cash generating unit is based on its value in use since net selling price for each CGU cannot be calculated. Therefore, Value in use is equal to

	A	**B**	**C**	**M Ltd. as a whole**
Recoverable amount	199	164	271	720*

*The research centre generates additional future cash flows for the enterprise as a whole. Therefore, the sum of the value in use of each individual CGU is less than the value in use of the business as a whole. The additional cash flows are not attributable to the headquarter building.

Calculate and show allocation of impairment loss as per AS 28. Ignore tax effects

Answer

1. Identification of Corporate Assets of M Ltd.

Here, the corporate assets are the headquarter building and the research centre.

For corporate building

Since, the carrying amount of the headquarter building can be allocated on a reasonable and consistent basis to the cash-generating units under review. Therefore, only a 'bottom-up' test is necessary.

For research centre

Since the carrying amount of the research centre cannot be allocated on a reasonable and consistent basis to the individual CGU under review. Therefore, a 'top-down' test will be applied in addition to the 'bottom-up' test.

2. Allocation of Corporate Assets

Since the estimated remaining useful life of A's CGU is 10 years, whereas the estimated remaining useful lives of B and C's CGU are 20 years, the carrying amount of the headquarter building is allocated to the carrying amount of each individual cash-generating unit on weight basis.

3. Calculation of a weighted allocation of the carrying amount of the headquarter building

(Amount in lakhs)

On 31st March, 2018	**A**	**B**	**C**	**Total**

Carrying amount (A)	100	150	200	450
Useful life	10 years	20 years	20 years	
Weighting based on useful life	1	2	2	
Carrying amount after weighting	100	300	400	800
Pro-rata allocation of the building	12.5% (100/800)	37.5% (300/800)	50% (400/800)	100%
Allocation of the carrying amount of the building (based on pro-rata above) (B)	18.75	56.25	75	150
Carrying amount (after allocation of the building)	118.75	206.25	275	600

4. Calculation of Impairment Losses

(i) Application of 'bottom-up' test **(Amount in ₹ lakhs)**

31st March, 2018	**A**	**B**	**C**
Carrying amount (after allocation of the building) (Refer Point 3 above)	118.75	206.25	275
Recoverable amount (given in the question)	199	164	271
Impairment loss	0	(42)	(4)

(ii) Allocation of the impairment losses for cash-generating units B and C

(Amount in ₹ lakhs)

Cash-generating unit	**B**	**C**
To headquarter building	(12) (42*56/206)	(1) (4*75/275)
To assets in cash-generating unit	(30) (42*150/206)	(30) (42*150/206)
	(42)	(4)

Since the research centre could not be allocated on a reasonable and consistent basis to A, B and C's CGU, M Ltd. compares the carrying amount of the smallest CGU to which the carrying amount of the research centre can be allocated (i.e., M as a whole) to its recoverable amount, in accordance with the 'top-down' test.

(iii) Application of the 'top-down' test **(Amount in ₹ lakhs)**

31st March, 2018	**A**	**B**	**C**	**Building**	**Research centre**	**M Ltd.**
Carrying amount	100	150	200	150	50	650
Impairment loss	-	(30)	(3)	(13)	-	(46)

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arising from the 'bottom-up' test						
Carrying amount after the 'bottom-up' test	100	120	197	137	50	604
Recoverable amount						720

Since recoverable amount is more than the carrying amount of M Ltd., no additional impairment loss has been resulted from the application of the 'top-down' test. Only an impairment loss of ₹ 46 lakhs will be recognized as a result of the application of the 'bottom-up' test.

Q14. May 2018, RTP

Himalaya Ltd. which is in a business of manufacturing and export of its product. Sometimes, back in 20X4, the Government put restriction on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth of ₹ 4,000 lakhs for ₹ 6,000 lakh at the end of the year 20X0. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on straight line basis. When Government put the restriction at the end of 20X4, the company recognised the impairment loss by determining the recoverable amount of assets for ₹ 2,720 lakh. In 20X6 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at ₹ 3,420 lakh.

Required:

i. Calculation and allocation of impairment loss in 20X4.
ii. (ii) Reversal of impairment loss and its allocation as per AS 28 in 20X6.

Answer

(i) Calculation and allocation of impairment loss in 20X4 **(Amount in ₹ lakhs)**

	Goodwill	**Identifiable assets**	**Total**
Historical cost	2,000	4,000	6,000
Accumulated depreciation/amortisation(4 yrs.)	(1,600)	(1,067)	(2,667)
Carrying amount before impairment	400	2,933	3,333
Impairment loss*	(400)	(213)	(613)
Carrying amount after impairment loss	0	2,720	2,720

*** Notes:**

1. As per para 87 of AS 28, an impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:
   a. first, to goodwill allocated to the cash-generating unit (if any); and
   b. then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.
   c. Hence, first goodwill is impaired at full value and then identifiable assets are impaired to arrive at recoverable value.
2. Since the goodwill has arisen on acquisition of assets, AS 14 comes into the picture. As per para 19 of AS 14, goodwill shall amortise over a period not exceeding five years unless a

somewhat longer period can be justified. Therefore, the amortization period of goodwill is considered as 5 years.

(ii) Carrying amount of the assets at the end of 20X6 **(Amount in ₹ lakhs)**

End of 20X6	**Goodwill**	**Identifiable assets**	**Total**
Carrying amount in 20X6	0	2,225	2,225
Add: Reversal of impairment loss (W.N.2)	-	175	175
Carrying amount after reversal of impairment loss	-	2,400	2,400

Working Note:

1. Calculation of depreciation after impairment till 20X6 and reversal of impairment loss in 20X6

(Amount in ₹ lakhs)

	Goodwill	**Identifiable assets**	**Total**
Carrying amount after impairment loss in 20X4	0	2,720	2,720
Additional depreciation (i.e. (2,720/11) x 2)	-	(495)	(495)
Carrying amount	0	2,225	2,225
Recoverable amount			3,420
Excess of recoverable amount over carrying amount			1,195

Note:

It is assumed that the restriction by the Government has been lifted at the end of the year 20X6.

2. Determination of the amount to be impaired by calculating depreciated historical cost of the identifiable assets without impairment at the end of 20X6

(Amount in ₹ lakhs)

End of 20X6	**Identifiable assets**
Historical cost	4,000
Accumulated depreciation	(266.67 x 6 years) = (1,600)
Depreciated historical cost	2,400
Carrying amount (in W.N. 1)	2,225
Amount of reversal of impairment loss	175

Notes:

1. As per para 107 of AS 28, in allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset should not be increased above the lower of:
    a. its recoverable amount (if determinable); and

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b. the carrying amount that would have been determined (net ofamortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.Hence impairment loss reversal is restricted to ₹ 175 lakhs only.

2. The reversal of impairment loss took place in the 6th year. However, goodwill is amortised in 5 years. Therefore, there would be no balance in the goodwill account in the 6th year even without impairment loss. Hence in W.N. 2 above there is no column for recalculation of goodwill.

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Q1. Nov 2023 Exam, 8 marks

Haymond Limited has three segments H, M & D. The following information is provided for the year ending 31st March, 2023:

(All amounts are Rs. in lakhs)

Particulars	Segments			Head Office
	H	M	D	
Sales to M	500	-	-	
Sales to D	-	5	-	
Other Sales (Domestic)	10	-	-	
Sales (Export)	680	170	40	
Operating Profit /(Loss) before tax	30	5	(8)	
Reallocated cost from Head Office	4	2	2	
Interest cost	2	3	1	
Fixed Assets	20	4	12	5
Net Current Assets	12	4	9	3
Long Term Liabilities	2	1	12	2

Other Information:

(i) Share Capital amounts to Rs. 40,00,000
(ii) Reserve & Surplus amounts to Rs. 12,00,000

Prepare segment information as per Ind AS 108.

Answer:

(A) Information about operating segment

(1) The company's operating segment comprise: H, M & D

(2) Segment revenue, results and other information

Haymond Ltd.
Segment Information / Report

(All amounts are Rs. in lakhs)

Particulars	Reportable Segments			Head Office/ Unallocated Items	Total
	H	M	D		
1. Segment Revenue					
Sales:					
Domestic	10	-	-	-	10
Export	680	170	40	-	890
External Sales	690	170	40		900
Inter-segment sales	500	5	-		505
Total Sales	1,190	175	40		1,405
Less: Inter-segment sales	(500)	(5)	-		(505)
Total Sales / Revenue	690	170	40		900
2. Results					
Segment result	30	5	(8)		27
Reallocated cost	(4)	(2)	(2)		(8)
Profit from operation before interest, taxation and Exceptional items	26	3	(10)		19
Finance cost (Interest expense)	(2)	(3)	(1)		(6)
Profit before tax and exceptional items	24	0	(11)		13
3. Information in relation to assets and liabilities					
Reportable segment non-current assets	20	4	12	5	41
Reportable segment net current assets	12	4	9	3	28

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Total Assets	32	8	21	8	69
Non-current liabilities	2	1	12	2	17

B. Geographical Information

	Domestic Sales	Export Sales	Rs. in lakhs Total
External sales	10	890	900

Q2. May 2023 Exam, 16 marks

A Limited operates in coating industry. Its business segments comprise Coating (consisting of decorative, automotive, industrial paints and related activities) and Others (consisting of chemicals, polymers and related activities).

Certain information for financial year 2022-2023 is given below:

						All amounts in ₹ lakhs
Segments	**External revenue(including GST)**	**GST**	**Other operating income**	**Result**	**Assets**	**Liabilities**
Coating	1,20,000	3,000	24,000	6,000	30,000	18,000
Others	42,000	1,800	9,000	2,400	18,000	6,000

Additional Information:

i. Unallocated income net of expenses is ₹ 18,00,00,000
ii. Interest and bank charges is ₹ 12,00,00,000
iii. Income tax expenses is ₹ 12,00,00,000 (current tax ₹ 11,70,00,000 and deferred tax ₹ 30,00,000)
iv. Unallocated Investments are ₹ 60,00,00,000 and other assets are ₹ 60,00,00,000.
v. Unallocated liabilities, Reserve & Surplus and Share Capital are ₹ 1,20,00,00,000,₹ 1,80,00,00,000 & ₹ 60,00,00,000 respectively.
vi. Depreciation amounts for coating & others are ₹ 6,00,00,000 and ₹ 1,80,00,000 respectively.
vii. Capital expenditure for coating and others are ₹ 30,00,00,000 and ₹ 12,00,00,000respectively.
viii. Revenue from outside India is ₹ 3,72,00,00,000 and segment asset outside India₹ 60,00,00,000.

Based on the above information, how A Limited would disclose information about reportable segment, revenue, profit or loss, assets and liabilities for financial year2022-2023.

Ignore corresponding figures for the previous year. Give figures in ₹ lakhs.

Answer

Segment information

Information about operating segment

(1) the company's operating segments comprise:

Coatings: consisting of decorative, automotive, industrial paints and related activities.

Others: consisting of chemicals, polymers and related activities.

(2) Segment revenues, results and other information:

(₹ in lakhs)

	Revenue	**Coating**	**Others**	**Total**
1.	**External revenue (gross)**	1,20,000	42,000	1,62,000
	GST	(3,000)	(1,800)	(4,800)
	Total revenue (net)	1,17,000	40,200	1,57,200
	Other operating income	24,000	9,000	33,000
	Total Revenue	1,41,000	49,200	1,90,200
2.	**Results**			
	Segment results	6,000	2,400	8,400
	Unallocated income (net of Unallocated expenses)			1,800
	Profit from operation before interest,			10,200

	taxation and exceptional items			
	Interest and bank charges			(1,200)
	Profit before exceptional items			9,000
	Exceptional items			Nil
	Profit before taxation			9,000
	Income taxes			
	Current taxes			(1,170)
	Deferred taxes			(30)
	Profit after taxation			7,800
3.				
	Other information			
	(a) Assets			
	Segment assets	30,000	18,000	48,000
	Investments			6,000
	Unallocated assets			6,000
	Total assets			60,000
	(b) Liabilities and Shareholder's funds	18,000	6,000	24,000
	Segment liabilities			12,000
	Unallocated liabilities			6,000
	Share capital			18,000
	Reserves and surplus			60,000
	Total liabilities and shareholder's funds			
		(3,000)	(1,200)	(4,200)
	(c) Others	(600)	(180)	(780)
	Capital expenditure			
	Depreciation			
	Geographical Information	**India**	**Outside India**	**Total**
	Revenue	1,53,000	37,200	1,90,200
	Segment assets	54,000	6,000	60,000
	Capital expenditure	4,200		4,200

Notes:

i. The operating segments have been identified in line with Ind AS 108, taking into account the nature of products, organisation structure, economic environment and internal reporting system.

ii. Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments. Unallocable assets include unallocable non current assets and other current assets. Unallocable liabilities include unallocable current liabilities and net deferred tax liability.

Q3. Nov 2022 Exam, 5 marks

Pharmaceuticals Limited has 5 operating segments namely K, L, M, N and O. The profit/loss of respective segments for the year ended 31st March, 2022 are as follows:

Segment	Profit / (Loss) (₹ in crore)
K	1,560
L	3,000
M	(4,600)
N	(9,000)
O	12,000
Total	2,960

Based on the quantitative thresholds, you are required to determine that which of the above segments would be considered as reportable segments for the year ending 31st March, 2022.

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Answer

With regard to quantitative thresholds to determine reportable segment relevant in context of instant case, paragraph 13(b) of **Ind AS 108 'Operating Segments'** may be noted which provides as follows:

"The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of

i. the combined reported profit of all operating segments that did not report a loss and
ii. the combined reported loss of all operating segments that reported a loss."

In compliance with Ind AS 108, the segment profit/loss of respective segment will be compared with the greater of the following:

i. All segments in profit, i.e., K, L and O – Total profit ₹ 16,560 crores.
ii. All segments in loss, i.e., M and N – Total loss ₹ 13,600 crores.

Greater of the above – ₹ 16,560 crores.

Based on the above, reportable segments will be determined as follows :

Segment	Profit / (Loss) (₹ in crore)	% age of ₹ 16,560 crore*	Reportable segment
K	1,560	9.42%	No
L	3,000	18.12%	Yes
M	(4,600)	27.78%	Yes
N	(9,000)	54.35%	Yes
O	12,000	72.46%	Yes
Total	2,960		

Hence, L, M, N, O are reportable segments.

Q4. July 2021 Exam, 8 marks

U Limited is operating in paint industry. Its business segments comprise paints (wall paints, lead paints, zinc paints, aluminium paints etc.), and others (consisting of primer, varnish, thinner and related products).

Certain information for financial year 2020-2021 is given below:

						All amounts in ₹ lakhs
Segments	**External revenue(including GST)**	**GST**	**Other operating income**	**Result**	**Assets**	**Liabilities**
Paints	10,000	250	2,000	500	2,500	1,500
Others	3,500	150	750	200	1,500	500

Additional Information:

i. Unallocated income (Net of expenses) is ₹ 1,50,00,000.
ii. Interest and bank charges is ₹ 1,00,00,000.
iii. Income tax expenses is ₹ 1,00,00,000 (Current tax ₹ 97,50,000 and deferred tax ₹ 2,50,000)
iv. Unallocated investments are ₹ 5,00,00,000 and other assets are ₹ 5,00,00,000.
v. Unallocated liabilities, reserve and surplus and share capital are ₹ 10,00,00,000, ₹ 15,00,00,000 and ₹ 5,00,00,000 respectively.
vi. Depreciation amounts for paints and others are ₹ 50,00,000 and ₹ 15,00,000respectively.
vii. Capital expenditure for paints and others are ₹ 2,50,00,000 and ₹ 1,00,00,000 respectively.
viii. Revenue from outside India is ₹ 31,00,00,000 and segment assets outside India is ₹ 5,00,00,000.

Based on the above information, how U Limited would disclose information about reportable segment revenue, profit or loss, assets and liabilities and others for financial year 2020-2021.

Ignore corresponding figures for the previous year.

Answer

Segment information

(A) Information about operating segment

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(1) the company's operating segments comprise:
Paints: consisting of wall paints, lead paints, zinc paints, aluminum paints etc.
Others: consisting of primer, varnish, thinner and related products.
(2) Segment revenues, results and other information:

(₹ in lakhs)

	Revenue	**Paints**	**Others**	**Total**
1.	**External revenue (gross)**	10,000	3,500	13,500
	GST	(250)	(150)	(400)
	Total revenue (net)	9,750	3,350	13,100
	Other operating income	2,000	750	2,750
	Total Revenue	11,750	4,100	15,850
2.	**Results**			
	Segment results	500	200	700
	Unallocated income (net of Unallocated expenses)			150
				850
	Profit from operation before interest, taxation and exceptional items			(100)
	Interest and bank charges			750
	Profit before exceptional items			Nil
	Exceptional items			750
	Profit before taxation			
	Income taxes			(97.5)
	Current taxes			(2.5)
	Deferred taxes			650
	Profit after taxation			
3.				
	Other information			
	(a) Assets	2,500	1,500	4,000
	Segment assets			500
	Investments			500
	Unallocated assets			5,000
	Total assets			
	(b) Liabilities and Shareholder's funds	1,500	500	2,000
	Segment liabilities			1,000
	Unallocated liabilities			500
	Share capital			1,500
	Reserves and surplus			5,000
	Total liabilities and shareholder's funds	(250)	(100)	
		(50)	(15)	
	(c) Others			
	Capital expenditure			
	Depreciation			
	Geographical Information	**India**	**Outside India**	**Total**
	Revenue	12,750	3,100	15,850
	Segment assets	4,500	500	5,000
	Capital expenditure(250+100)	350		350

Q5. Jan 2021 Exam, 4 marks

Heavy Goods Ltd. has 6 operating segments namely L-Q (below). The total revenues (internal and external), profits or losses and assets are set out below:

(In ₹)

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Segment	Inter Segment Sales	External Sales	Profit / loss	Total assets
L	4,200	12,300	3,000	37,500
M	3,500	7,750	1,500	23,250
N	1,000	3,500	(1,500)	15,750
O	0	5,250	(750)	10,500
P	500	5,500	900	10,500
Q	1,200	1,050	600	5,250
	10,400	35,350	3,750	1,02,750

Heavy Goods Ltd. needs to determine how many reportable segments it has.
You are required to advice Heavy Goods Ltd. as per the criteria defined in Ind AS 108.

Answer

As per paragraph 13 of Ind AS 108, an entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

a) Its reported revenue, including both sales to external customers and inter-segment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.

Combined total sales of all the segment = ₹ 10,400 + ₹ 35,350 = ₹ 45,750.
10% thresholds = 45,750 x 10% = 4,575.

b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of

i. the combined reported profit of all operating segments that did not report a loss and
ii. the combined reported loss of all operating segments that reported a loss.

In the given situation, combined reported profit = ₹ 6,000 and combined reported loss (₹ 2,250).
Hence, for 10% thresholds ₹ 6,000 will be considered.
10% thresholds = ₹ 6,000 x 10% = ₹ 600

c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Combined total assets of all the segment = ₹ 1,02,750
10% thresholds = ₹ 1,02,750 x 10% = 10,275
Accordingly, quantitative thresholds are calculated below:

Segments	L	M	N	O	P	Q	Reportable segments
% segment sales to total sales	**36.66%**	**24.59%**	**9.84%**	**11.48%**	**13.11%**	**4.92%**	L, M,O,P
% segment profit to total profits	**50%**	**25%**	**25%**	**12.5%**	**15%**	**10%**	L,M,N,O,P,Q
% segment assets to total assets	**36.50%**	**22.63%**	**15.33%**	**10.22%**	**10.22%**	**5.11%**	L,M,N,O,P

Segments L, M, O and P clearly satisfy the revenue and assets tests and they are separate reportable segments.

Segments N does not satisfy the revenue test, but it does satisfy the asset test and it is a reportable segment.

Segment Q does not satisfy the revenue or the assets test but is does satisfy the profits test.

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Therefore, Segment Q is also a reportable segment.
Hence, all segments i.e; L, M, N, O, P and Q are reportable segments.

Q6. Nov 2020 Exam, 6 marks

John Limited has identified four segments for which revenue data is given as per below:

	External Sale (₹)	Internal Sale (₹)	Total (₹)
Segment A	4,00,000	Nil	4,00,000
Segment B	80,000	Nil	80,000
Segment C	90,000	20,000	1,10,000
Segment D	70,000	6,20,000	6,90,000
Total sales	6,40,000	6,40,000	12,80,000

The following additional information is available with respect to John Limited:
Segment C is a high growing business and management expects that this segment to make a significant contribution to external revenue in coming years.
Discuss, which of the segments would be reportable under the threshold criteria identified in Ind AS 108 and why?

Answer

Threshold amount of 10% of total revenue is ₹ 1,28,000 (₹ 12,80,000 × 10%).
Segment A exceeds the quantitative threshold (₹ 4,00,000 > ₹ 1,28,000) and hence is a reportable segment.
Segment D exceeds the quantitative threshold (₹ 6,90,000 > ₹ 1,28,000) and hence is a reportable segment.
Segment B & C do not meet the quantitative threshold amount and may not be classified as reportable segment.

However, the total external revenue generated by these two segments A & D represent only 73.44% (₹ 4,70,000 / 6,40,000 x 100) of the entity's total external revenue. If the total external revenue reported by operating segments constitutes less than 75% of the entity's total external revenue, additional operating segments should be identified as reportable segments until at least 75% of the revenue is included in reportable segments.

In case of John Limited, it is given that Segment C is a high growing business and management expects this segment to make a significant contribution to external revenue in coming years. In accordance with the requirement of Ind AS 108, John Limited may designate segment C as a reportable segment, making the total external revenue attributable to reportable segments be 87.5% (₹ 5,60,000/ 6,40,000 x 100) of total entity's
external revenue.

In this situation, Segments A, C and D will be reportable segments and Segment B will be shown as other segment.

Alternatively, Segment B may be considered as a reportable segment instead of Segment C, based on the choice of John Ltd. 's management, if it meets the definition of operating segment.

If Segment B is considered as reportable segment, external revenue reported will be ₹ 4,00,000 + ₹ 80,000 + ₹ 70,000 = ₹ 5,50,000

% of Total External Revenue = ₹ 5,50,000 / ₹ 6,40,000 = 85.94%

Segments A, B and D will be reportable segments and Segment C will be shown as other segment.

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Q7. May 2018 Exam, 10 marks

Seeds Ltd. is operating in oil industry. Its business segments comprise crushing and refining. Certain information for financial year 2017-18 is given below:

						All amounts in ₹ lakhs
Segments	**External sales**	**TAX**	**Other operating income**	**Result**	**Assets**	**Liabilities**
Crushing	1,00,000	2,500	20,000	5,000	25,000	15,000
Refining	35,000	1,500	7,500	2,000	15,000	5,000

Additional Information: (₹ in lakh)

i. Unallocated revenue net of expenses is ₹ 1,500.
ii. Interest and bank charges is ₹ 1,000
iii. Income-tax expense is ₹ 1,000 (current tax ₹ 975 and deferred tax ₹ 25)
iv. Investments ₹ 5,000 and unallocated assets ₹ 5,000
v. Unallocated liabilities, Reserves & Surplus and Share capital are ₹ 10,000; ₹ 15,000 and ₹ 5,000 respectively.
vi. Depreciation amounts for crushing and refining are ₹ 500 and ₹ 150 respectively
vii. .Capital expenditure for crushing and refining are ₹ 2,500 and ₹ 1,000 respectively.
viii. Revenue from outside India is ₹ 15,000 and segment assets outside India ₹ 5,000.

Based on the above information, how Seeds Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 2017-18?

Answer

	Revenue	**Crushing**	**Refining**	**Total**
1.	**External Sales (gross)**	1,00,000	35,000	1,35,000
	TAX	(2,500)	(1,500)	(4,000)
	Total revenue (net)	97,500	33,500	1,31,000
	Other operating income	20,000	7,500	27,500
	Total Revenue	1,17,500	41,000	1,58,500
2.	**Results**			
	Segment results	5,000	2,000	7,000
	Unallocated income (net of Unallocated expenses)			1,500
				8,500
	Profit from operation before interest, taxation and exceptional items			(1,000)
	Interest and bank charges			7,500
	Profit before exceptional items			Nil
	Exceptional items			7,500
	Profit before taxation			
	Income taxes			(975)
	Current taxes			(25)
	Deferred taxes			6,500
	Profit after taxation			
3.				
	Other information			
	(a) Assets	25,000	15,000	40,000
	Segment assets			5,000
	Investments			5,000
	Unallocated assets			50,000
	Total assets			

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	(b) Liabilities and Shareholder's funds	15,000	5,000	20,000
	Segment liabilities			10,000
	Unallocated liabilities			5,000
	Share capital			15,000
	Reserves and surplus			50,000
	Total liabilities and shareholder's funds	(2,500)	(1,000)	(3,500)
		(500)	(150)	(650)
	(c) Others			
	Capital expenditure			
	Depreciation			
	Geographical Information	**India**	**Outside India**	**Total**
	Revenue	1,43,500	15,000	1,58,500
	Segment assets	35,000	5,000	40,000
	Capital expenditure	3,500	-	3,500

Note: Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments.

Q8. May 2022, RTP

XYZ Ltd. has eight segments namely A, B, C, D, E, F, G and H. The information regarding respective segments for the year ended 31st March, 20X1 is as follows:

Segments	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**
External sales	0	255	15	10	15	50	25	35
Inter-segment sales	100	60	30	5				
Total	**100**	**315**	**45**	**15**	**15**	**50**	**25**	**35**
Segment result Profit/(Loss)	**5**	**(90)**	**15**	**(5)**	**8**	**(5)**	**5**	**7**
Segment assets	**15**	**47**	**5**	**11**	**3**	**5**	**5**	**9**

Identify which of the above segments out of A to H would be considered as reportable segments of XYZ Ltd. for the year ending 31st March, 20X1?

Answer

An entity has eight segments and the relevant information is as follows:

Criterial 1: Segment revenue is 10% or more of total external + intersegment sales

Segments	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Total sales	100	315	45	15	15	50	25	35	600
% to total sales	16.7	52.5	7.5	2.5	2.5	8.3	4.2	5.8	
Reportable segments	A	B	-	-	-	-	-	-	

Criteria 2: 10% or more of segment result
Consider segment profit and loss separately in absolute terms

Segments	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**

Profit	5	-	15	-	8	-	5	7	40
Segments loss	-	90	-	5	-	5	-	-	100

Since segment loss is greater, we select 100 as evaluating the segment percentage

Segments	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
% to segment loss	5	90	15	5	8	5	5	7	
Reportable segments	-	B	C	-	-	-	-	-	

Criteria 2: 10% or more of segment assets

Segments	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Assets	15	47	5	11	3	5	5	9	100
%	15	47	5	11	3	5	5	9	100
Reportable segments	A	B	-	D	-	-	-	-	

Based on the above 3 criteria, the Reportable Segments are A, B, C & D

However, 75% test for external sales should also be checked.

Reportable Segments	**A**	**B**	**C**	**D**	**Total**
External sales	0	255	15	10	280
Total entity's sales (external)					405
% of reportable segments external sales to entity's sales					**69.14%**
Required percentage					**75%**

Hence, in the above scenario, additional operating segments need to be identified as reportable segments, till the 75% test is satisfied, even if those segments do not satisfy the quantitative threshold limits.

Q9. May 2020, RTP

ABC Limited has 5 operating segments namely A, B, C, D and E. The profit/ loss of respective segments for the year ended March 31, 20X1 are as follows:

Segment	**Profit/(Loss)** **(Rs. in crore)**
A	780
B	1,500
C	(2,300)
D	(4,500)

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E	6,000
Total	**1,480**

Based on the quantitative thresholds, which of the above segments A to E would be considered as reportable segments for the year ending March 31, 20X1?

Answer

With regard to quantitative thresholds to determine reportable segment relevant in context of instant case, paragraph 13(b) of Ind AS 108 may be noted which provides as follows:

"The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss."

In compliance with Ind AS 108, the segment profit/loss of respective segment will be compared with the greater of the following:

(i) All segments in profit, i.e., A, B and E – Total profit Rs. 8,280 crores.
(ii) All segments in loss, i.e., C and D – Total loss Rs. 6,800 crores.

Greater of the above – Rs. 8,280 crores.
Based on the above, reportable segments will be determined as follows:

Segment	Profit/(Loss) (Rs. in crore)	As absolute % of Rs. 8,280 crore	Reportable segment
A	780	9%	No
B	1,500	18%	Yes
C	(2,300)	28%	Yes
D	(4,500)	54%	Yes
E	6,000	72%	Yes

Hence B, C, D, E are reportable segments.

Q10. May 2019, RTP

An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations. Which cost formula should be used for Ind AS 108 disclosure purposes?

Answer

The entity should use First-In, First-Out (FIFO) method for its Ind AS 108 disclosures, even though it uses the weighted average cost formula for measuring inventories for inclusion in its financial statements. Where chief operating decision maker uses only one measure of segment asset, same measure should be used to report segment information.

Accordingly, in the given case, the method used in preparing the financial information for the chief operating decision maker should be used for reporting under Ind AS 108.

However, reconciliation between the segment results and results as per financial statements needs to be given by the entity in its segment report.

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Q1. Jan 2026 Exam, 5 marks

(b) Moose Limited has decided to present its first financials under Ind AS for the year ended 31st March 2025. The date of transition of Moose Limited to Ind AS is 1st April 2023. The following adjustments were made by Moose Limited upon transition to Ind AS:

(i) The Company opted to fair value its land as on the date on transition. The fair value of the land as on 1st April 2023 was Rs. 12.00 crores. The carrying amount of the said land as on 1st April, 2023 under the existing GAAP was Rs. 6.00 crores.

(ii) The Company had recognised a provision for proposed dividend of Rs. 40.00 lakhs and related dividend distribution tax of Rs. 12.00 lakhs for the year ended 31st March, 2023. It was written back as on transition opening balance sheet date.

(iii) The Company decided to show its investment in equity shares at fair value on the date of transition. The increase on account of fair valuation of shares is Rs. 50.00 lakhs.

(iv) The Company has an Equity Share Capital of Rs. 100.00 crores and Redeemable Preference Share Capital of Rs. 25.00 crores.

(v) The reserves and surplus as on 1st April 2023 before transition to Ind AS was Rs. 110.00 crores representing Rs. 60.00 crores of General Reserve and Rs. 10.00 crores of Capital Reserve created because of a business combination and balance is surplus in the Retained Earnings.

(vi) The company identified that the preference shares were in nature of financial liabilities.

Compute the balance of Total Equity (Equity share capital and other equity) as on 1st April 2023 after transition to Ind AS. Show reconciliation between total equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1st April 2023. Ignore impact of deferred tax.

Answer:

Computation of Balance of Total Equity as on 1st April, 2023 after transition to Ind AS

			Rs. in crore
Share capital-Equity share Capital			100.00
Other Equity			
General Reserve		60.00	
Capital Reserve		10.00	
Retained Earnings (110.00 – 60.00 – 10.00)	40.00		
Add: Increase in value of land (12.00 – 6.00)	6.00		
Add: Derecognition of proposed dividend (0.40 + 0.12)	0.52		
Add: Increase in value of Investment	0.50	47.02	117.02
Balance total equity as on 1st April 2023 after transition to Ind AS			217.02

Reconciliation between Total Equity as per AS and Ind AS to be presented in the Opening Balance Sheet as on 1st April 2023

		Rs. in crore
Equity share capital		100.00
Redeemable Preference share capital		25.00
		125.00
Reserves and Surplus		110.00
Total Equity as per AS		235.00

Adjustment due to reclassification		
Preference share capital classified as financial liability		(25.00)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1st April 2023		0.52
Adjustment due to remeasurement		
Increase in the value of land due to remeasurement at fair value	6.00	
Increase in the value of investment due to remeasurement at fair value	0.50	6.50
Equity as on 1st April, 2023 after transition to Ind AS		217.02

Q2. Sep 2025 Exam, 5 marks

Bee Kay Limited has voluntarily opted to adopt Indian Accounting Standards (Ind AS) from 1st April, 2025 in accordance with the Companies (Indian Accounting Standards) Rules, 2015.

The management has identified the following issues and has sought your guidance so that the Opening Ind AS Balance Sheet as on the date of transition can be prepared:

(i) Property, Plant and Equipment (PPE) comprise land held for capital appreciation purposes costing Rs. 15,00,000 and qualifies to be treated as Investment Property as per Ind AS. Besides Exchange differences of Rs. 1,50,000 were capitalized to depreciable PPE on which accumulated depreciation of Rs. 37,500 was recognized. The management intends to avail deemed cost exemption for using the previous GAAP carrying values as deemed cost at the date of transition.

(ii) Bee Kay Limited had acquired 70% shares of X Private Limited a few years ago thereby acquiring the control upon it at that time. It recognized a goodwill of Rs. 1,25,000 as per the erstwhile Accounting Standard by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition.

(iii) Company had given a loan of Rs. 10,00,000 at an interest rate of 7% per annum to an entity six years ago. Transaction costs were incurred separately for this loan. The loan is repayable in 10 equal instalments over the period of ten years along with accrued interest at the close of each year. The fair value of the loan as on the date of transition is Rs. 5,00,000 against the carrying amount of Rs. 4,00,000. The management says that it is a tedious task to compute the value of the loan by applying the effective interest rate method and has expressed its reluctance in doing so.

You are required to state necessary explanation for each of the items presented by the management of Bee Kay Limited in the form of notes, which may or may not require the adjustment on the date of transition.

Answer:

(i) **Property, Plant & Equipment:** Since the land held for capital appreciation purposes qualifies as investment property, such investment property should be reclassified from property, plant and equipment (PPE) to investment property and presented separately. As the Company has adopted the previous GAAP carrying values as deemed cost, all items of PPE and investment property should be carried at its previous GAAP carrying values of Rs. 15,00,000. As such, the past capitalised exchange differences require no adjustment in this case.

(ii) **Goodwill:** Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as on the date of acquisition. However, a first-time adopter may

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elect not to apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS. Hence, company can continue to carry the goodwill in its books of account as per the previous GAAP.

(iii) **Loan:** Para B8C of Ind AS 101 states that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS. Accordingly, Rs. 5,00,000 would be the gross carrying amount of loan and difference of Rs. 1,00,000 (Rs. 5,00,000 – Rs. 4,00,000) would be adjusted to retained earnings.

Q3. May 2024 Exam, 5 marks

A Limited has chosen to elect the deemed cost exemption for carrying value of its property, plant and equipment as per previous GAAP in accordance with Ind AS 101. However, it does not wish to select the exemption available as per Ind AS 101 of capitalising exchange fluctuation on long-term foreign currency monetary items to property, plant and equipment and accordingly, it did not opt to avail the exemption available as per Ind AS 101 for previous GAAP policy of capitalizing exchange fluctuation to PPE.

In such a case, how would the company be required to treat the foreign exchange fluctuation already capitalised to the cost of property, plant and equipment under previous GAAP and also what will be the treatment of fluctuation on long-term foreign currency monetary items on transition date and after the transition date to Ind AS by the company in light of the above options exercised by the company?

Answer:

Ind AS 101 permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS. Accordingly, the carrying value of property, plant and equipment as per previous GAAP as at the date of transition need not be adjusted for the exchange fluctuations capitalized to property, plant and equipment.

Separately, it allows a company to continue with its existing policy for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

Accordingly, given that Ind AS 101 provides these two choices independent of each other, it may be possible for an entity to choose the deemed cost exemption for all of its property, plant and equipment and not elect the exemption of continuing the previous GAAP policy of capitalising exchange fluctuation to property, plant and equipment.

In such a case, a harmonious interpretation of the two exemptions would require the company to recognise the property, plant and equipment at the transition date at the previous GAAP carrying value (without any adjustment for the exchanges differences capitalized under previous GAAP)

But, for the purposes of the first (and all subsequent) Ind AS financial statements, foreign exchange fluctuation on all long-term foreign currency borrowings that arose after the transition date would be recognised in the statement of profit and loss.

Q4. Nov 2023 Exam, 5 marks

Diamond Limited is transitioning to Ind AS. It has certain investments in Ruby Limited's Convertible Debt Instruments, which are currently (on the date of transition to Ind AS) exercisable and would provide Diamond Limited with a controlling stake over Ruby Limited on exercise of the conversion rights. Diamond Limited evaluated that Ruby Limited should be

treated as its subsidiary under Ind AS. Hence it would require consolidation in its Ind AS Consolidated Financial Statements. Ruby Limited was not considered as a Subsidiary, Associate or a Joint Venture under Previous GAAP.

How should Ruby Limited be consolidated on transition to Ind AS. Assume that Diamond Limited has opted to avail the exemption from retrospective re -statement of past business combinations as per applicable Ind AS?

Answer:

Ind AS 101 prescribes an optional exemption from retrospective restatement in relation to past business combinations. Ind AS 101 prescribes that when the past business combinations are not restated and a parent entity had not consolidated an entity as a subsidiary in accordance with its previous GAAP (either because it was not regarded as a subsidiary or no consolidated financial statements were required under previous GAAP), then the subsidiary's assets and liabilities would be included in the parent's opening consolidated financial statements at such values as would appear in the subsidiary's separate financial statements if the subsidiary were to adopt the Ind AS as at the parent's date of transition. For this purpose, the subsidiary's separate financial statements would be prepared as if it was a first-time adopter of Ind AS i.e. after applying the relevant first-time adoption mandatory exceptions and voluntary exemptions. In other words, the parent will adjust the carrying amount of the subsidiary's assets and liabilities to the amounts that Ind AS would require in the subsidiary's balance sheet.

The deemed cost of goodwill equals the difference at the date of transition between:

(a) the parent's interest in those adjusted carrying amounts; and
(b) the cost in the parent's separate financial statements of its investment in the subsidiary.

The measurement of non-controlling interest and deferred tax follows from the measurement of other assets and liabilities.

It may be noted here that the above exemption is available only under those circumstances where the parent, in accordance with the previous GAAP, has not presented consolidated financial statements for the previous year; or where the consolidated financial statements were prepared in accordance with the previous GAAP, but the entity was not treated as a subsidiary, associate or joint venture under the previous GAAP.

Q5. Dec 2021 Exam, 8 marks

Rainy Pvt Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006. The company has decided to present its first financials under Ind AS for the year ended 31st March, 2021. The transition date is 1st April, 2019.

The following adjustments were made upon transition to Ind AS:

i. The company opted to fair value its land as on the date on transition. The fair value of the land as on 1st April, 2019 was ₹ 95 lakh. The carrying amount as on 1st April, 2019 under the existing GAAP was ₹ 42.75 lakh.

ii. The company has recognised a provision for proposed dividend of ₹ 5.7 lakh and related dividend distribution tax of ₹ 1.65 lakh during the year ended 31st March, 2019. It was written back as on opening balance sheet date.

iii. The company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of ₹ 2 lakh as part of reserves. On first time adoption of Ind AS, the company intends to avail Ind AS exemption of resetting the cumulative translation difference to zero.

iv. The company had made an investment in subsidiary for ₹ 18.62 lakh that carried a fair value of ₹ 25.75 lakh as at the transition date. The company intends to recognise the investment at its fair value as at the date of transition.

v. The company has an Equity Share Capital of ₹ 760 lakh and Redeemable Preference Share Capital of ₹ 180 lakh. The company identified that the preference shares were in nature of financial liabilities.

vi. The Reserves and Surplus as on 1st April, 2019 before transition to Ind AS was ₹ 910 lakh representing ₹ 380 lakh of general reserve and ₹ 40 lakh of Capital Reserve acquired out of business combination and balance is surplus in the Retained Earnings.

What is the balance of total equity (Equity and other equity) as on 1st April, 2019 after transition to Ind AS? Show reconciliation between Total Equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1st April, 2019. Ignore deferred tax impact.

Answer

Computation of balance total equity as on 1st April, 2019 after transition to Ind AS

			₹ in lakh
Share capital- Equity share Capital			760.00
Other Equity			
General Reserve		380.00	
Capital Reserve		40.00	
Retained Earnings			
(910.00 – 380.00 – 40.00)	490.00		
Add: Increase in value of land			
(95.00 – 42.75)	52.25		
Add: Derecognition of proposed dividend	7.35		
(5.70 + 1.65)			
Add: Transfer of cumulative translation difference balance to retained earnings	7.13	558.73	978.73
Add: Increase in value of Investment			
(25.75 – 18.62)			1,738.73
Balance total equity as on 1st April, 2019 after transition to Ind AS			

Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1st April, 2019

		₹ in lakh
Equity share capital		760.00
Redeemable Preference share capital		180.00
		940.00
Reserves and Surplus		910.00
Total Equity as per AS		1,850.00
Adjustment due to reclassification:		
Preference share capital classified as financial liability		(180.00)
Adjustment due to de-recognition:		

Proposed dividend not considered as liability as on 1st April, 2019		7.35
Adjustment due to re-measurement:		
Increase in the value of Land due to re-measurement at fair value	52.25	
Resetting of cumulative translation difference balance to zero in Ind AS Transition date Balance Sheet	2.00	
Increase in the value of investment due to re-measurement at fair value	7.13	61.38
Equity as on 1st April, 2019 after transition to Ind AS		1,738.73

Q6. May 2023, RTP

ABC Ltd., a public limited company, is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India. It operates overseas projects directly and/or through subsidiaries, by participation in various joint arrangements and investment in associates. The company was following Accounting Standards as notified under the Companies (Accounting Standards) Rules until
31st March, 20X1. However, it has adopted Indian Accounting Standards (Ind AS) with effect from 1st April, 20X1.

The goodwill recognised in accordance with AS 21 and AS 27 was due to corporate structure and the line-by-line consolidation of subsidiaries'/proportionate consolidation of jointly controlled entities' financial statements which was prepared on historical costs convention. ABC Ltd. has not taken into consideration the valuation of underlying oil and gas reserves for which excess amount (i.e. goodwill calculated as per the relevant AS requirements) has been paid by the company at the time of acquisition. The company further considered that in oil and gas companies, the goodwill generated on acquisition of mineral rights either through jointly controlled entities or subsidiaries, inherently derives its value from the underlying mineral rights and, accordingly, value of such goodwill depletes as the underlying mineral resources are extracted.

Therefore, taking a prudent approach and considering the above substance, the company amortised the goodwill in respect of its subsidiaries / jointly controlled assets over the life of the underlying mineral rights using Unit of Production method. This allowed the company to utilise the value of goodwill over the life of mineral rights and completely charging off the goodwill over the life of the reserves.

For financial year 20X0-20X1, the company has availed transition exemption under Ind AS 101 and has not applied the principles of Ind AS 103.ABC Ltd. considering the substance over form of the goodwill to be in the nature of 'acquisition costs' intends to continue amortisation of the goodwill recognised under AS in respect of its subsidiaries / joint ventures (jointly controlled entities under AS) over
the life of the underlying mineral rights using Unit of Production method, under Ind AS also post transition date.

Comment on appropriateness of the accounting treatment, under Ind AS, for amortisation of the goodwill by the company and state whether the accounting treatment in respect of amortisation of goodwill is correct or not.

Answer

Point (g) of para C4 of Ind AS 101 states that the carrying amount of goodwill or capital reserve in the opening Ind AS Balance Sheet shall be its carrying amount in accordance with previous GAAP

at the date of transition to Ind AS after the two adjustments. One of the adjustment states that the standard requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill or capital reserve in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill or increase the carrying amount of capital reserve accordingly (and, if applicable, adjust deferred tax and non-controlling interests)

As per the facts given, the entity paid excess amount to avail the rights to use the underlying oil and gas reserves. However, since the rights was not recorded in the books at that time, the value of goodwill subsumed the value of that intangible asset which should be separately identified in the books. Hence, value of goodwill will be reduced accordingly and intangible asset for rights for using mine should be recognised.

Further, regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to Ind AS and in recognising any resulting impairment loss in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to
Ind AS. No other adjustments (eg- previous amortisation of goodwill) shall be made to the carrying amount of goodwill / capital reserve at the date of transition to Ind AS.

However, once goodwill is recognised in the opening transition date balance sheet, the entity has to follow the provisions of Ind AS, which states that goodwill is not amortised but rather tested forimpairment annually. Accordingly, the amortization of goodwill based on 'Unit of Production' method is not correct after implementation of Ind AS.

Q7. Nov 2022, RTP

1. On 1st April 20X1, Nuogen Ltd. had granted 1,20,000 share options to its employees with the vesting condition being a service condition as follows:

• Vesting date : 31st March 20X2 - 80,000 share options (1-year vesting period since grant date)
• Vesting date : 31st March 20X5 - 40,000 share options (4-year vesting period since grant date)
Each option can be converted into one equity share of Nuogen Ltd. The fair value of the options on grant date, i.e., on 1st April 20X1 was ₹ 20.

Nuogen Ltd. is required to prepare financial statements in Ind AS for the financial year ending 31st March 20X4. The transition date for Ind AS being 1st April 20X2.

The entity has disclosed publicly the fair value of both these equity instruments as determined at the measurement date, as defined in Ind AS 102.

The previous applicable GAAP for the entity was IGAAP (AS) and therein, the entity had not adopted intrinsic method of valuation.

The share options have not been yet exercised by the employees of Nuogen Ltd. How the share based payment should be reflected in, the books of Nuogen Ltd. as on 31st March 20X4, assuming that the entity has erred by not passing any entry for the aforementioned transactions in the books of Nuogen Ltd. on grant date, i.e. 1st April 20X1?

Answer

For 80,000 share-based options vested before transition date:

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments **that vested before the date of transition to Ind AS**. Hence, Nuogen Ltd. may opt for the exemption given in Ind AS 101 for 80,000 share options vested before the transition date. However, since no earlier accounting was done for these share-based options under previous GAAP too, therefore this led to an error on the transition date, as detected on the reporting date i.e. 31st March, 20X4. Hence, being an error, no exemption could be availed by Nuogen Ltd. on transition date with respect to Ind AS 102.While preparing the

financial statements for the financial year 20X3-20X4, an error has been discovered which occurred in the year 20X1-20X2, i.e., for the period which was earlier than earliest prior period presented. The error should be corrected by restating the opening balances of relevant assets and/or liabilities and relevant component of equity for the year 20X2-20X3. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2).

Accordingly, on retrospective calculation of Share based options with respect to 80,000 options, Nuogen Ltd. will create 'Share based payment reserve (equity)' by ₹ 16,00,000 and correspondingly adjust the same though Retained earnings.

For 40,000 share based options to be vested on 31st March, 20X5:
Since share-based options have not been vested before transition date, no option as per Ind AS 101 is available to Nuogen Ltd. The entity will apply Ind AS 102 retrospectively. However, Nuogen Ltd. did not account for the same at the grant date. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2). Adjustment is to be made by recognising the 'Share based payment reserve (equity)' and adjusting the retained earnings by ₹ 2,00,000.

Further, expenses for the year ended 31st March, 20X3 and share based payment reserve (equity) as at 31st March, 20X3 were understated because of non-recognition of 'employee benefits expense' and related reserve. To correct the above errors in the annual financial statements for the year ended 31st March, 20X4, the entity should restate the comparative amounts (i.e., those for the year ended 31st March, 20X3) in the statement of profit and loss. In the given case, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000

For the year ending 31st March, 20X4, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000.

Working Note:

Period	Lot	Proportion	Fair value	Cumulative expenses	Expenses
		a	b	d= b x a	e = d-previous period d
20X1-20X2	1 (1-year vesting period)	1/1	16,00,000	16,00,000	16,00,000
20X1-20X2	2 (4-year vesting period)	1/4	8,00,000	2,00,000	2,00,000
20X2-20X3	2 (4-year vesting period)	2/4	8,00,000	4,00,000	2,00,000
20X3-20X4	2 (4-year	3/4	8,00,000	6,00,000	2,00,000

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	vesting period)				

Q8. May 2022, RTP

GG Ltd., a listed company, prepares its first Ind AS financial statements for the year ending 31st March, 20X3. The date of transition is 1st April, 20X1. The functional andpresentation currency is Rupee. The financial statements as at and for the year ended 31st March, 20X3 contain an explicit and unreserved statement of compliance with Ind AS. Previously it was using Indian GAAP (AS) as base.

It has already published its first interim results of quarter 1, quarter 2 and quarter 3 of 20X2- 20X3 in accordance with Ind AS 34 and Ind AS 101. The interim financial report included the reconciliations both of total comprehensive income and of equity that are required by Ind AS 101.

Since issuing the interim financial report, its management has concluded that one of accounting policy choices applied at the interim should be changed for the full year.

How should GG Ltd. deal with the change in accounting policy under Ind AS framework?

Answer

The first annual Ind AS financial statements are prepared in accordance with the specific requirements of Ind AS 101. Subject to certain specified exemptions and exceptions, paragraph 7 of Ind AS 101 requires the entity to use the same accounting policies in its opening Ind AS balance sheet and throughout all periods presented. This overrideInd AS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first Ind AS financial statements.

GG Ltd. should include an explanation of the change in policy that it has made since the interim financial report, in the notes to the annual financial statements, in accordance with paragraph 27A of Ind AS 101. The disclosure note is likely to include information , similar to what Ind AS 8 would otherwise require, to help users of the financial statements to understand the changes that have been made. The entity should also ensure that the reconciliations of total comprehensive income and of equity, presented in the first Ind AS financial statements in accordance with paragraph 24 of Ind AS 101 are updated from
those included in the interim financial report to reflect the amended accounting policy.

Q9. Nov 2021, RTP

While preparing an opening balance sheet on the date of transition, an entity is required to:

a. recognise all assets and liabilities whose recognition is required by Ind AS;
b. reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and
c. apply Ind AS in measuring all recognised assets and liabilities.
d. Give examples for each of the above 4 categories

Answer

The examples of the items that an entity may need to recognise, derecognise, remeasure, reclassify on the date of transition are as under:

(a) recognise all assets and liabilities whose recognition is required by Ind AS:
    (i) customer related intangible assets if an entity elects to restate business combinations
    (ii) share-based payment transactions with non-employees
    (iii) recognition of deferred tax on land

(b) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but is a different type of asset, liability or component of equity in accordance with Ind AS:
    (i) redeemable preference shares that would have earlier been classified as equity;
    (ii) non-controlling interests which would have been earlier classified outside equity; and

(c) apply Ind ASs in measuring all recognised assets and liabilities:
    (i) discounting of long-term provisions
    (ii) measurement of deferred income taxes for all temporary differences instead of timing differences.

Q10. May 2021, RTP

HIM Limited having net worth of Rs. 250 crores is required to adopt Ind AS from 1 April, 20X2 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

Rahul, the senior manager, of HIM Ltd. has identified following issues which need specific attention of CFO so that opening Ind AS balance sheet as on the date of transition can be prepared:

Issue 1 : As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The carrying value of land as on the date of transition was Rs. 5,00,000. The land was acquired for a consideration of Rs. 5,00,000. However, the fair value of land as on the date of transition was Rs. 8,00,000.

Issue 2 : Under Ind AS, the Company has designated mutual funds as investments at fair value through profit or loss. The value of mutual funds as per previous GAAP was Rs. 4,00,000 (at cost). However, the fair value of mutual funds as on the date of transition was Rs. 5,00,000.

Issue 3 : Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is Rs. 1,80,000 as against the carrying amount of loan which at present equals Rs. 2,00,000.

Issue 4 : The company has declared dividend of Rs. 30,000 for last financial year. On the date of transition, the declared dividend has already been deducted by the accountant from the company's 'Reserves & Surplus' and the dividend payable has been grouped under 'Provisions'. The dividend was only declared by board of directors at that time and it was not approved in the annual general meeting of shareholders. However, subsequently when the meeting was held it was ratified by the shareholders.

Issue 5 : The company had acquired intangible assets as trademarks amounting to Rs. 2,50,000. The company assumes to have indefinite life of these assets. The fair value of the intangible assets as on the date of transition was Rs. 3,00,000. However, the company wants to carry the intangible assets at Rs. 2,50,000 only.

Issue 6 : After consideration of possible effects as per Ind AS, the deferred tax impact is computed as Rs. 25,000. This amount will further increase the portion of deferred tax liability. There is no requirement to carry out the separate calculation of deferred tax on account of Ind AS adjustments.

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding.

Prepare Ind AS Impact Analysis Report (Extract) for HIM Limited for presentation to the management wherein you are required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue for preparation of transition date balance sheet. Also pass journal entry for each issue.

Answer

Preliminary Impact Assessment on Transition to Ind AS in HIM Limited's Financial Statements

Issue 1: Fair value as deemed cost for property plant and equipment:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS 10, Property, Plant and Equipment is recognised at cost less depreciation	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, so the book value should be brought up to fair value. The resulting impact of fair valuation of land Rs. 3,00,000 should be adjusted in other equity.

Journal Entry on the date of transition

Particulars		Debit (Rs.)	Credit (Rs.)
Property Plant and Equipment	Dr.	3,00,000	
To Revaluation Surplus (OCI- Other Equity)			3,00,000

Issue 2: Fair valuation of Financial Assets:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per Accounting Standard, investments are measured at lower of cost and fair value.	On transition, financial assets including investments are measured at fair values except for investments in subsidiaries, associates	All financial assets (other than Investment in subsidiaries, associates and JVs' which are recorded at cost) are initially recognized at fair value.

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	and JVs' which are recorded at cost.	The subsequent measurement of such assets are based on its categorization either Fair Value through Profit & Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVTOCI) or at Amortised Cost based on business model assessment and contractual cash flow characteristics. Since investment in mutual fund are designated at FVTPL, increase of Rs. 1,00,000 in mutual funds fair value would increase the value of investments with corresponding increase to Retained Earnings.

Journal Entry on the date of transition

Particulars		**Debit (Rs.)**	**Credit (Rs.)**
Investment in mutual funds	Dr.	1,00,000	
To Retained earnings			1,00,000

Issue 3: Borrowings - Processing fees/transaction cost:

Accounting Standards (Erstwhile IGAAP)	**Ind AS**	**Impact on Company's financial statements**

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As per AS, such expenditure is charged to Profit and loss account or capitalised as the case may be	As per Ind AS, such expenditure is amortised over the period of the loan. Ind AS 101 states that if it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability.	Fair value as on the date of transition is Rs. 1,80,000 as against its book value of Rs. 2,00,000. Accordingly, the difference of Rs. 20,000 is adjusted through retained earnings.

Journal Entry on the date of transition

Particulars		**Debit (Rs.)**	**Credit (Rs.)**
Borrowings / Loan payable	Dr.	20,000	
To Retained earnings 20,000			20,000

Issue 4: Proposed dividend:

Accounting Standards (Erstwhile IGAAP)	**Ind AS**	**Impact on Company's financial statements**
As per AS, provision for proposed divided is made in the year when it has been	As per Ind AS, liability for proposed dividend is recognised in the	Since dividend should be deducted from retained earnings during the year when it has been declared and

declared and approved.	year in which it has been declared and approved	approved.Therefore, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment

Journal Entry on the date of transition

Particulars		**Debit (Rs.)**	**Credit (Rs.)**
Provisions	Dr.	30,000	
To Retained earnings			30,000

.**Issue 5 : Intangible assets:**

Accounting Standards (Erstwhile IGAAP)	**Ind AS**	**Impact on Company's financial statements**
The useful life of an intangible asset cannot be indefinite under IGAAP principles. The Company amortised brand/trademark on a straight line basis over maximum of 10 years as per AS 26.	The useful life of an intangible asset like brand/trademark can be indefinite. Not required to be amortised and only tested for impairment. Company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.	Consequently, there would be no impact as on the date of transition since company intends to use the carrying amount instead of book value at the date of transition.

Issue 6: Deferred tax

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Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, deferred taxes are accounted as per income statement approach.	As per Ind AS, deferred taxes are accounted as per balance sheet approach.	On date of transition to Ind AS, deferred tax liability would be increased by Rs. 25,000.

Journal Entry on the date of transition

Particulars		Debit (Rs.)	Credit (Rs.)
Retained earnings	Dr.	25,000	
To Deferred tax liability			25,000

Q11. May 2020, RTP

On April 1, 20X1, Sigma Ltd. issued 30,000 6% convertible debentures of face value of Rs. 100 per debenture at par. The debentures are redeemable at a premium of 10% on March 31, 20X5 or these may be converted into ordinary shares at the option of the holder.

The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is April 1, 20X3.

Suggest how should Sigma Ltd. account for this compound financial instrument on the date of transition.

The present value of Re. 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

End of year	6%	10%
1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

Answer

Ind AS 32, 'Financial Instruments: Presentation', requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 would involve separating two portions of equity. The first portion is recognised in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with Ind AS 101, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Ind AS.

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In the present case, since the liability is outstanding on the date of transition, Sigma Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, we will first measure the liability component by discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

	Rs.
Interest payments p.a. on each debenture	6
Present Value (PV) of interest payment on each debenture for years 1 to 4 (6 x 3.17) (Note 1)	19.02
PV of principal repayment on each debenture (including premium) 110 x 0.68 (Note 2)	74.80
Total liability component on each debenture (A)	93.82
Total equity component per debenture (Balancing figure) (B) = (C) – (A)	6.18
Face value per debenture (C)	100.00
Equity component per debenture	6.18
Total equity component for 30,000 debentures	1,85,400
Total debt amount (30,000 x 93.82)	28,14,600

Thus, on the date of transition, the amount of Rs. 30,00,000 being the amount of debentures will be split as under:

Debt	Rs.
	28,14,600
Equity	
	Rs. 1,85,400

Notes:

i. 3.17 is annuity factor of present value of Re. 1 at a discount rate of 10% for 4 years.
ii. On maturity, Rs. 110 will be paid (Rs. 100 as principal payment + Rs. 10 as premium)

Q12. Nov 2019, RTP

Mathur India Private Limited has to present its first financials under Ind AS for the year ended 31st March, 20X3. The transition date is 1st April, 20X1.

The following adjustments were made upon transition to Ind AS:

(a) The Company opted to fair value its land as on the date on transition.
The fair value of the land as on 1st April, 20X1 was Rs. 10 crores. The carrying amount as on 1st April, 20X1 under the existing GAAP was Rs. 4.5 crores.

(b) The Company has recognised a provision for proposed dividend of Rs. 60 lacs and related dividend distribution tax of Rs. 18 lacs during the year ended 31st March, 20X1. It was written back as on opening balance sheet date.

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(c) The Company fair values its investments in equity shares on the date of transition. The increase on account of fair valuation of shares is Rs. 75 lacs.

(d) The Company has an Equity Share Capital of Rs. 80 crores and Redeemable Preference Share Capital of Rs. 25 crores.

(e) The reserves and surplus as on 1st April, 20X1 before transition to Ind AS was Rs. 95 crores representing Rs. 40 crores of general reserve and Rs. 5 crores of capital reserve acquired out of business combination and balance is surplus in the Retained Earnings.

(f) The company identified that the preference shares were in nature of financial liabilities.

What is the balance of total equity (Equity and other equity) as on 1st April, 20X1 after transition to Ind AS? Show reconciliation between total equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1st April, 20X1.Ignore deferred tax impact.

Answer

Computation of balance total equity as on 1st April, 20X1 after transition to Ind AS

			Rs. in crore
Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95-5-40)	50		
Add: Increase in value of land (10-4.5)	5.5		
Add: De recognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	0.75	57.03	102.03
Balance total equity as on 1st April, 20X1 after transition to Ind AS			182.03

Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1st April, 20X1

		Rs. in crore
Equity share capital		50
Redeemable Preference share capital		25
		105
		95
Reserves and Surplus		

Total Equity as per AS		200
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1st April 20X1		0.78
Adjustment due to remeasurement		
Increase in the value of Land due to remeasurement at fair value	5.5	
Increase in the value of investment due to remeasurement at fair value	0.75	6.25
Equity as on 1st April, 20X1 after transition to Ind AS		182.03

Q13. May 2019, RTP

XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006.

The Company has decided to voluntary adopt Ind AS w.e.f 1st April, 2018 with a transition date of 1st April, 2017.

The Company has one Wholly Owned Subsidiary and one Joint Venture which are into manufacturing of automobile spare parts.

The -consolidated financial statements of the Company under Indian GAAP are as under:

Consolidated Financial Statements

(Rs. in Lakhs)

Particulars	**31.03.2018**	**31.03.2017**
Shareholder's Funds		
Share Capital	7,953	7,953
Reserves & Surplus	16,547	16,597
Non-Current Liabilities		
Long Term Borrowings	1,000	1,000
Long Term Provisions	1,101	691
Other Long-Term Liabilities	5,202	5,904
Current Liabilities		
Trade Payables	9,905	8,455
Short Term Provisions	500	475

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Total	**42,208**	**41,075**
Non-Current Assets		
Property Plant & Equipment	21,488	22,288
Goodwill on Consolidation of subsidiary and JV	1,507	1,507
Investment Property	5,245	5,245
Long Term Loans & Advances	6,350	6,350
Current Assets		
Trade Receivables	4,801	1,818
Investments ·	1,263	3,763
Other Current Assets	1,554	104
Total	**42,208**	**41,075**

Additional Information:
The Company has entered into a joint arrangement by acquiring 50% of the equity shares of ABC Pvt. Ltd. Presently, the same has been accounted as per the proportionate consolidated method. The proportionate share of assets and liabilities of ABC Pvt. Ltd. included in the consolidated financial statement of XYZ Pvt. Ltd. is as under:

Particulars	**Rs. in Lakhs**
Property, Plant & Equipment	1,200
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Trade Payables	75
Short Term Provisions	35

The Investment is in the nature of Joint Venture as per Ind AS 111.

The Company has approached you to advice and suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1st April, 2017.

Answer

As per paras D31AA and D31AB of Ind AS 101, when changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged. The balance of the investment in joint venture at the date of transition to Ind
AS, determined in accordance with paragraph D31AA above is regarded as the deemed cost of the investment at initial recognition.

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Accordingly, the deemed cost of the investment will be

Property, Plant & Equipment	1,200
Goodwill (Refer Note below)	119
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Total Assets	2054
Less: Trade Payables	75
Short Term Provisions	35
Deemed cost of the investment in JV	1944

Calculation of proportionate goodwill share of Joint Venture ie ABC Pvt. Ltd.

Property, Plant & Equipment	22,288
Goodwill (Refer Note below)	1,507
Long Term Loans & Advances	6,350
Trade Receivables	1,818
Other Current Assets	104
Total Assets	32,067
Less: Trade Payables	8,455
Short Term Provisions	475
Deemed cost of the investment in JV	23,137

Proportionate Goodwill of Joint Venture

= [(Goodwill on consolidation of subsidiary and JV/Total relative net asset) x Net asset of JV]

= (1507 / 23,137) x 1825 = 119 (approx.)

Accordingly, the proportional share of assets and liabilities of Joint Venture will be removed from the respective values assets and liabilities appearing in the balance sheet on 31.3.2017 and Investment in JV will appear under non-current asset in the transition date balance sheet as on 1.4.2017.

Adjustments made in I GAAP balance sheet to arrive at Transition date Ind AS Balance Sheet

Particulars	**31.3.2017**	**Ind AS Adjustment**	**Transition date Balance Sheet as per Ind AS**

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Non-Current Assets			
Property Plant & Equipment	22,288	(1,200)	21,088
Intangible assets - Goodwill on Consolidation	1,507	(119)	1,388
Investment Property	5,245	-	5,245
Long Term Loans & Advances	6,350	(405)	5,945
Non- current investment in JV	-	1,944	1,944
Current Assets -			
Trade Receivables	1,818	(280)	1,583
Investments	3.763	-	3,763
Other Current Assets	104	(50)	54
Total	**41,075**	**(110)**	**40,965**
Shareholder's Funds			
Share Capital	7,953	-	7,953
Reserves & Surplus	16,597	-	16,597
Non-Current Liabilities	1,000		
Long Term Borrowings	691		1,000
Long Term Provisions	5,904		691
Other Long-Term Liabilities			5,904
Current Liabilities	8,455		
Trade Payables	475	(75)	8,380
Short Term Provisions	**41,075**	(35)	440
Total		**(110)**	**40,965**

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Q14. May 2018, RTP

ABC Ltd is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Ltd. from the government (which holds 100% shareholding in ABC Ltd.) which is in the nature of promoters' contribution have been recognised in capital reserve and treated as part of shareholders' funds in accordance with the provisions of AS 12, Accounting for Government Grants.

State whether the accounting treatment of the grants in the nature of promoters' contribution as per AS 12 is also permitted under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance. If not, then what will be the accounting treatment of such grants recognised in capital reserve as per previous GAAP on the date of transition to Ind AS.

Answer

Paragraph 2 of Ind AS 20, "Accounting for Government Grants and Disclosure of Government Assistance" inter alia states that the Standard does not deal with government participation in the ownership of the entity.

Since ABC Ltd. is a Government company, it implies that government has 100% shareholding in the entity. Accordingly, the entity needs to determine whether the payment is provided as a shareholder contribution or as a government. Equity contributions will be recorded in equity while grants will be shown in the Statement of Profit and Loss.

Where it is concluded that the contributions are in the nature of government grant, the entity shall apply the principles of Ind AS 20 retrospectively as specified in Ind AS 101 'First Time Adoption of Ind AS'. Ind AS 20 requires all grants to be recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Unlike AS 12, Ind AS 20 requires the grant to be classified as either a capital or an income grant and does not permit recognition of government grants in the nature of promoter's contribution directly to shareholders' funds.

Where it is concluded that the contributions are in the nature of shareholder contributions and are recognised in capital reserve under previous GAAP, the provisions of paragraph 10 of Ind AS 101 would be applied which states that, which states that except in certain cases, an entity shall in its opening Ind AS Balance Sheet:

(a) recognise all assets and liabilities whose recognition is required by Ind AS;

(b) not recognise items as assets or liabilities if Ind AS do not permit such recognition;

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS; and

(d) apply Ind AS in measuring all recognised assets and liabilities ."Accordingly, as per the above requirements of paragraph 10(c) in the given case, contributions recognised in the Capital Reserve should be transferred to appropriate category under 'Other Equity' at the date of transition to Ind AS.

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Q1. Jan 2026 Exam, 10 marks

Zebra Limited is considering to grant an interest free loan of Rs. 25,00,000 to its wholly owned Indian subsidiary company, Camel Limited. No transaction cost is attached with this loan. With respect to other terms and conditions, the following alternate options are being considered:

- Option 1: The loan is interest free and is repayable on demand;
- Option 2: The loan is interest free and is repayable in a single bullet payment after 4 years from the date of granting of such loan. The current market rate of interest for similar loan is 12% per annum.
- Option 3: The said loan is interest free and will be repaid as and when Camel Limited has funds to repay the loan amount.

You are required to suggest as per applicable Ind AS, under each of the options, the accounting treatment of the above loan:

- in the standalone financial statements of Zebra Limited and Camel Limited; and
- in the consolidated financial statements of Zebra Limited. Also give journal entries under option 2.

Also suggest the accounting treatment as per applicable Ind AS, if in future periods, Camel Limited grants an interest free loan to Zebra Limited.

Answer:

Ind AS 109 requires that a financial assets and liabilities are recognized on initial recognition at its fair value, as adjusted for the transaction cost. In accordance with Ind AS 113, the fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Using the guidance, the interest-free loan will be accounted for as below in various scenarios:

Option 1: Since the loan is repayable on demand, it has fair value equal to cash consideration given i.e. Rs. 25,00,000. The parent and subsidiary recognize financial asset and liability, respectively, at the amount of loan given. Going forward, no interest is accrued on the loan. Upon repayment, both the parent and the subsidiary reverse the entries made at origination.

Option 2: The loan is repayable in single bullet payment after 4 years. Both parent and subsidiary recognize financial asset and liability, respectively, at fair value on initial recognition. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Accounting in the books of Zebra Ltd. (Parent)

Particulars		Dr. (Rs.)	Cr. (Rs.)
On the date of loan			
Loan to Camel Ltd. (Subsidiary) (25,00,000 x 0.636)	Dr.	15,90,000	
Deemed Investment (Capital Contribution) in Camel Ltd.	Dr.	9,10,000	
To Bank			25,00,000
(Being the loan given to Camel Ltd. and recognised at fair value)			
Accrual of Interest income			
Loan to Camel Ltd.	Dr.	1,90,800	
To Interest income (Profit and Loss Account)			1,90,800

(Being interest income accrued) – Year 1			
Loan to Camel Ltd.	Dr.	2,13,696	
To Interest income (Profit and Loss Account)			2,13,696
(Being interest income accrued) – Year 2			
Loan to Camel Ltd.	Dr.	2,39,340	
To Interest income (Profit and Loss Account)			2,39,340
(Being interest income accrued) – Year 3			
Loan to Camel Ltd.	Dr.	2,66,164	
To Interest income (Profit and Loss Account)			2,66,164
(Being interest income accrued) – Year 4			
On repayment of loan			
Bank	Dr.	25,00,000	
To Loan to Camel Ltd. (Subsidiary)			25,00,000

Accounting in the books of Camel Ltd. (Subsidiary)

Particulars		**Amount**	**Amount**
On the date of loan			
Bank	Dr.	25,00,000	
To Loan from Zebra Ltd. (Parent)			15,90,000
To Equity (Deemed Capital Contribution from Zebra Ltd.)			9,10,000
(Being the loan given to Camel Ltd. and recognised at fair value)			
Accrual of Interest			
Interest expense (Profit and Loss Account)	Dr.	1,90,800	
To Loan from Zebra Ltd.			1,90,800
(Being interest expense recognised) – Year 1			
Interest expense (Profit and Loss Account)	Dr.	2,13,696	
To Loan from Zebra Ltd.			2,13,696
(Being interest expense recognised) – Year 2			
Interest expense (Profit and Loss Account)	Dr.	2,39,340	
To Loan from Zebra Ltd.			2,39,340
(Being interest expense recognised) – Year 3			
Interest expense (Profit and Loss Account)	Dr.	2,66,164	
To Loan from Zebra Ltd.			2,66,164
(Being interest expense recognised) – Year 4			
On repayment of loan			
Loan from Zebra Ltd. (Payable)	Dr.	25,00,000	
To Bank			25,00,000

Working Notes:

1.	**Computation of Present value of loan**	
	Rate	12%
	Amount of Loan	25,00,000
	Year of Loan	4
	Present Value (25,00,000 x 0.636)	15,90,000
2.	**Computation of interest for Year 1**	
	Present Value at the beginning of the year	15,90,000
	Rate	12%
	Interest for 1st year	1,90,800
	Closing value at the end of year 1	17,80,800
3.	**Computation of interest for Year 2**	

	Present Value at the beginning of the year	17,80,800
	Rate	12%
	Interest for 2nd year	2,13,696
	Closing value at the end of year 2	19,94,496
4.	**Computation of interest for Year 3**	
	Present Value at the beginning of the year	19,94,496
	Rate	12%
	Interest for 3rd year	2,39,340
	Closing value at the end of year 3	22,33,836
5.	**Computation of interest for Year 4**	
	Present Value at the beginning of the year	22,33,836
	Rate	12%
	Interest for 4th year	2,66,164*
	Closing value at the end of year 4	25,00,000

*Difference of Rs. 1,896 (i.e. 2,68,060 - 2,66,164) is due to approximation.

Option 3: The loan will be repaid as and when Camel Ltd. has funds to repay the loan amount.

Generally, a loan, which is repayable when funds are available, can't be stated to be repayable on demand. Rather, the entities need to estimate repayment date and determine its measurement accordingly. If the loan is expected to be repaid in four years, its measurement will be the same as in option 2.

In the Consolidated Financial Statements (CFS), the loan and interest income/expense will get knocked-off as intra-group transaction in all three scenarios. Hence the above accounting will not have any impact in the CFS.

In case, Camel Limited grants interest free loan to Zebra Limited, i.e. the loan is given by the subsidiary to the parent company, the difference between fair value of the loan on initial recognition and its nominal value will be treated as dividend distribution by subsidiary and dividend income by the parent.

Q2. Sep 2025 Exam, 10 marks

On 1st April, 2021, Galaxy Limited issued 15,000, 8% Convertible Debentures with a face value of Rs. 100 each maturing on 31st March, 2026. The debentures are convertible into equity shares of Galaxy Limited at the option of the holder at a conversion price of Rs. 105 per share or are redeemable at face value of Rs. 100 each. Interest is payable annually in cash. At the date of issue, Galaxy Limited could have issued non-convertible debt with a 5 years term bearing a coupon interest rate of 12%. On 1st April, 2024, the convertible debentures have a fair value of Rs. 15,75,000. Galaxy Limited made a tender offer to debenture holders to repurchase the debentures for Rs. 15,75,000, which the holders accepted. At the date of repurchase, Galaxy Limited could have issued non-convertible debt with a 2 years term bearing a coupon interest rate of 9%.

You are required to:

(i) Provide the appropriate accounting entries for initial recognition as per the relevant Ind AS in the books of Galaxy Limited.
(ii) Calculate the stream of Interest Expenses across the five years of the term of the Debentures. (Rounding off adjustment, if any, be made in the interest calculation of financial year 2025-2026).
(iii) Provide the accounting entries at the time of repurchase of the convertible debentures.

The following present values of Rs. 1 at 8%, 9%, and 12% are supplied to you:

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5

8%	0.926	0.857	0.794	0.735	0.681
9%	0.917	0.842	0.772	0.708	0.650
12%	0.893	0.797	0.712	0.636	0.567

Answer:

(i) At the time of initial recognition

	Rs.
Liability component	
Present value of 5 yearly interest payments of Rs. 1,20,000, discounted at 12% annuity (1,20,000 x 3.605)	4,32,600
Present value of Rs. 15,00,000 due at the end of 5 years, discounted at 12%, compounded yearly (15,00,000 x 0.567)	8,50,500
	12,83,100
Equity component (Rs. 15,00,000 – Rs. 12,83,100)	2,16,900
Total proceeds	15,00,000

Note: Since Rs. 105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ Rs. 100 each only

Journal Entry

		Rs.	*Rs.*
Bank	Dr.	15,00,000	
To 8% Debentures (Liability component)			12,83,100
To 8% Debentures (Equity component)			2,16,900
(Being debentures initially recorded at fair value)			

(ii) Calculation of stream of interest expenses during the term of Debentures

	Opening Balance	**Finance cost @ 12%**	**Interest 8%**	**Closing Balance**
1	12,83,100	1,53,972	1,20,000	13,17,072
2	13,17,072	1,58,049	1,20,000	13,55,121
3	13,55,121	1,62,615	1,20,000	13,97,736
4	13,97,736	1,67,728	1,20,000	14,45,464
5	14,45,464	1,74,536*	1,20,000	15,00,000

* Difference of Rs. 1,080 (1,74,536 – 1,73,456) in the finance cost is due to rounding off and approximation to the nearest absolute figure

(iii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 12%	**Fair Value @ 9%**	**Difference**
	Rs.	***Rs.***	***Rs.***
Liability component			
Present value of 2 remaining yearly interest payments discounted at 12% and 9%,			

respectively. [Rs. 1,20,000 x (0.893 + 0.797)] [1,20,000 x (0.917 + 0.842)]	2,02,800	2,11,080	
Present value of Rs. 15,00,000 due in 2 years, discounted at 12% and 9%, compounded yearly, respectively (15,00,000 x (0.797) (15,00,000 x (0.842)	11,95,500	12,63,000	
Liability component	13,98,300	14,74,080	(75,780)
Equity component	2,16,900	1,00,920	1,15,980
Total	16,15,200	15,75,000	40,200

*See Note (i)

**Rs. 15,75,000 –Rs. 14,74,080 = Rs. 1,00,920

Journal Entries

		Rs.	***Rs.***
8% Debentures (Liability component)	Dr.	13,98,300	
Profit and loss A/c (Debt settlement expense)	Dr.	75,780	
To Bank A/c			14,74,080
(Being the repurchase of the liability component recognised)			
8% Debentures (Equity component)	Dr.	2,16,900	
To Bank A/c			1,00,920
To Retained Earnings/Reserves and Surplus A/c			1,15,980
(Being the cash paid for the equity component recognised)			

Note: Alternatively, one may adjust the liability component of debentures taking the closing balance as per amortization table and pass the following journal entry:

		Rs.	***Rs.***
8% Debentures (Liability component)	Dr.	13,97,736	14,74,080
Profit and loss A/c (Debt settlement expense)	Dr.	76,344	
To Bank A/c			
(Being the repurchase of the liability component recognised)			

Loss on Debt Settlement = Rs. 14,74,080 – Rs. 13,97,736 = Rs. 76,344.

Q3. May 2025 Exam, 10 marks

On 1st April, 2023, Mera Limited raised a term loan of Rs. 5,00,00,000 from Tera Finance Limited, a Non-Banking Finance Company on the following terms and conditions:

- Rate of Interest: 11% per annum payable annually on accrual basis.

- Repayment: The term loan would be repaid in five annual instalments of Rs. 1,00,00,000 each commencing from 31st March, 2024.

Mera Limited also incurred, upfront, a sum of Rs. 5,90,000 being loan processing charges.

The effective rate of interest on loan was 11.50% per annum.

Due to liquidity constraints, Mera Limited was unable to honour its obligation of repayment of the loan instalment which fell due on 31st March, 2025. Accordingly, it approached the

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lender on 31st March, 2025. Both the parties agreed to restructure the outstanding term loan on the following terms:

- Rate of Interest: The revised rate of interest on the outstanding loan would be 15% per annum payable annually on accrual basis.

- Repayment: The loan would be repaid in eight annual instalments of Rs. 50,00,000 each commencing from 31st March, 2026.

No further cost is incurred by Mera Limited towards restructuring of the loan.

You are required to record the necessary journal entries in the books of Mera Limited from 1st April, 2023 to 31st March, 2026 after giving effect to the changes in the terms of the loan.

The following present values of Rs. 1 are provided:

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
11%	0.901	0.812	0.731	0.659	0.593	0.535	0.482	0.434
11.5%	0.897	0.804	0.721	0.647	0.580	0.520	0.467	0.419
15%	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327

Answer:

On the date of initial recognition, the effective interest rate of the loan shall be computed keeping in view the contractual cash flows and upfront processing fee paid. The following table shows the amortisation of loan based on effective interest rate:

Date	Opening Balance	Cash outflows (principal)	Cash outflows (interest and fee)	Interest [EIR @ 11.50%]	Closing Balance (amortised cost)
	(a)	(b)	(c) = [(5,00,00,000 - instalments paid till previous year) x 11%]	(d)= [a x 11.50%]	(e) = (a) – (b) – (c) + (d)
1-Apr-2023	(5,00,00,000)	5,90,000			4,94,10,000
31-Mar-2024	4,94,10,000	1,00,00,000	55,00,000	56,82,150	3,95,92,150
31-Mar-2025	3,95,92,150	1,00,00,000	44,00,000	45,53,097	2,97,45,247
31-Mar-2026	2,97,45,247	1,00,00,000	33,00,000	34,20,703	1,98,65,950
31-Mar-2027	1,98,65,950	1,00,00,000	22,00,000	22,84,584	99,50,534
31-Mar-2028	99,50,534	1,00,00,000	11,00,000	11,49,466*	(0)

Difference of Rs. 5,155 (11,49,466 – 11,44,311) is due to rounding off.

a. 1st April, 2023

Particulars		(Rs.)	(Rs.)
Bank A/c	Dr.	4,94,10,000	
To Loan from Tera Finance Limited A/c			4,94,10,000
(Being loan recorded at its fair value less transaction costs on the initial recognition date)			

31st March, 2024

Particulars		(Rs.)	(Rs.)
Loan from Tera Finance Limited A/c	Dr.	98,17,850	
Interest expense (profit and loss)	Dr.	56,82,150	
To Bank A/c (1,00,00,000 + 55,00,000)			1,55,00,000
(Being first instalment of loan and payment of interest accounted for as an adjustment to the amortised cost of loan)			

31st March, 2025 – Before Mera Limited approached the bank

Particulars		(Rs.)	(Rs.)
Interest expense (profit and loss)	Dr.	45,53,097	
To Loan from Tera Finance Limited A/c			1,53,097
To Bank A/c			44,00,000
(Being loan payment of interest recorded by the Company before it approached the Bank for deferment of principal)			

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

Date	Cash flows (principal) (a)	Interest outflow @15% (b)	Discount factor @ 11.50% (c)	PV of cash flows (a + b) x c
31-Mar-2025	(4,00,00,000)			
31-Mar-2026	50,00,000	60,00,000	0.897	98,67,000
31-Mar-2027	50,00,000	52,50,000	0.804	82,41,000
31-Mar-2028	50,00,000	45,00,000	0.721	68,49,500
31-Mar-2029	50,00,000	37,50,000	0.647	56,61,250
31-Mar-2030	50,00,000	30,00,000	0.580	46,40,000
31-Mar-2031	50,00,000	22,50,000	0.520	37,70,000
31-Mar-2032	50,00,000	15,00,000	0.467	30,35,500
31-Mar-2033	50,00,000	7,50,000	0.419	24,09,250
PV of new contractual cash flows discounted at 11.50%				4,44,73,500
Carrying amount of loan (3,95,92,150 +1,53,097)				3,97,45,247
Difference				47,28,253
Percentage of difference to carrying amount				11.90%

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

The accounting entries for the same are included below:

b. 31st March, 2025 – Accounting for Extinguishment

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Particulars		(Rs.)	(Rs.)
Loan from Tera Finance Limited (old) A/c	Dr.	3,97,45,247	
Loss on modification of loan (profit and loss)	Dr.	2,54,753	
To Loan from Tera Finance Limited (new) A/c			4,00,00,000
(Being new loan accounted for at its principal amount by correspondingly derecognising the existing loan)			

31 March, 2026

Particulars		(Rs.)	(Rs.)
Loan from Tera Finance Limited A/c	Dr.	50,00,000	
Interest expense (profit and loss)	Dr.	60,00,000	
To Bank A/c			1,10,00,000
(Being first instalment of the principal of new loan and payment of interest accounted			

Q4. Nov 2024 Exam, 10 marks

On 1st January, 2023, Joe & Co Ltd., an Indian company which prepares its financial statements on a quarterly basis has entered into a written put option for USD ($) 40,000 with Box Ltd. to be settled in future on 31st December, 2023 for a rate equal to Rs. 78 per USD at the option of Box Ltd. Joe & Co. Ltd. did not receive any amount upon entering into the contract.

For the purpose of accounting, use the following information representing marked to market fair value of put option contract at each reporting date.

As at 31st March, 2023 - Rs. (50,000)

As at 30th June, 2023 - Rs. (30,000)

As at 30th September, 2023 - Rs. NIL

Spot rate of USD on 31st December, 2023 - Rs. 76 per USD.

Evaluate and explain whether the above option meets the definition of derivatives as laid down in Ind AS 109 and record the entries for each quarter ended till the date of actual purchase of USD.

Answer:

Assessment of the arrangement using the definition of derivative included under Ind AS 109

Derivative is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics:

a. its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
b. it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
c. it is settled at a future date.

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The contract meets the definition of a derivative as follows:

(a) the value of the contract to purchase USD at a fixed price changes in response to changes in foreign exchange rate.
(b) the initial amount received to enter into the contract is zero. A contract which would give the holder a similar response to foreign exchange rate changes would have required an investment of USD 40,000 on inception.
(c) the contract is settled in future

The derivative liability is a written put option contract.

As per Ind AS 109, derivatives are measured at fair value upon initial recognition and are subsequently measured at fair value through profit and loss.

- **Accounting on 1st January, 2023**

As there was no consideration paid and without evidence to the contrary the fair value of the contract on the date of inception is considered to be zero. Accordingly, no accounting entries shall be recorded on the date of entering into the contract.

- **Accounting on 31st March, 2023**

The value of the derivative put option contract shall be recorded as a derivative financial liability in the books of Joe & Co. Ltd. by recording the following journal entry:

Particulars	**Dr. (Rs.)**	**Cr. (Rs.)**
Profit and loss A/c Dr. To Derivative financial liability (Being mark to market loss on the put option contract recorded)	50,000	 50,000

- **Accounting on 30th June, 2023**

The change in value of the derivative put option contract shall be recorded as a derivative financial liability in the books of Joe & Co. Ltd. by recording the following journal entry:

Particulars	**Dr. (Rs.)**	**Cr. (Rs.)**
Derivative financial liability A/c Dr. To Profit and loss A/c (Being partial reversal of mark to market loss on the put option contract recorded)	20,000	 20,000

- **Accounting on 30th September, 2023**

The change in value of the derivative option contract shall be recorded at zero in the books of Joe & Co. Ltd. by recording the following journal entry:

Particulars	**Dr. (Rs.)**	**Cr. (Rs.)**
Derivative financial liability A/c Dr. To Profit and loss A/c (Being gain on mark to market of put option contract booked to make the value of the derivative liability as zero)	30,000	 30,000

- **Accounting on 31stDecember, 2023**

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The settlement of the derivative put option contract by actual purchase of USD 40,000 shall be recorded in the books of Joe & Co. Ltd. upon exercise by Box Ltd. by recording the following journal entry:

Particulars	Dr. (Rs.)	Cr. (Rs.)
Bank (USD Account) (@40,000 x Rs. 76) Dr.	30,40,000	
Profit and loss A/c Dr.	80,000	
To Bank (@ 40,000 x Rs. 78)		31,20,000
(Being loss on settlement of put option contract booked on actual purchase of USD)		

Q5. May 2024 Exam, 6 marks

The CFO of GOLD Limited, a manufacturing company, provided you the following information for your valuable opinion.

The Company had issued 8% convertible debentures amounting to Rs. 320 Lakhs on 1st April, 2022 and repayable on 31st March, 2026 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 250 Lakhs ordinary shares in the company. On 1st April, 2022, the prevailing market interest rate for four-year convertible debentures which had no right of conversion was 10%. Using an annual discount rate of 10%, the present value of Rs. 1 payable in 4th year is 0.683 and the cumulative present value of Rs. 1 payable at the end of years one to four is 3.169. From the above information you are required to calculate the finance cost of convertible debentures and its closing balance as on 31st March, 2024 to be presented in the financial statements.

Answer:

This instrument has two components –

1. Mandatory annual interest to be paid by the issuer on convertible debentures of Rs. 3,20,00,000 @ 8% till 4 years, and
2. Payment of the principal amount at the end of 4th year.

However, since the holder has the option to convert the debentures into shares on maturity, as per Ind AS 32, the instrument is a compound financial instrument which carries elements of both liability and equity.

Statement showing computation of liability and equity component in the compound financial instrument.

	Rs.
Present value of interest payable during 4 yearsdiscounted at 10% (i.e. Rs. 3,20,00,000 x 8% x 3.169) Present value of principal payable at the end of 4th year	81,12,640
discounted at 10% (Rs. 3,20,00,000 x 0.683)	2,18,56,000
Liability component of the compound financialinstrument	2,99,68,640
Equity component of the financial instrument(Balancing Figure)	20,31,360
Total proceed	3,20,00,000

Computation of finance cost to be charged to the financial instrument

Date	Opening balance a	Finance cost	Interest outflow	Outstanding balance at the end of the year

		b =a x 10%	3,20,00,000 x 8%	d = (a+b-c)
	Rs.	Rs.	Rs.	Rs.
31.3.2023	2,99,68,640	29,96,864	25,60,000	3,04,05,504
31.3.2024	3,04,05,504	30,40,550	25,60,000	3,08,86,054
31.3.2025	3,08,86,054	30,88,605	25,60,000	3,14,14,654
31.3.2026	3,14,14,654	31,45,346	25,60,000	3,20,00,000

Rs. 31,45,346 - Rs. 31,41,466 = Rs. 3,880 is due to approximation and rounding off.

According to the above table, finance cost to be charged in the Statement of Profit and Loss = Rs. 30,40,550.

The closing balance of liability component of convertible debentures to be presented in the balance sheet would be Rs. 3,08,86,054 and equity component would be Rs. 20,31,360.

Q6. May 2024 Exam, 10 marks

Dark Limited is engaged in the construction and operation of thermal power plants in the country. It has entered into a purchase contract for USD 2,00,000 with Bright Limited, on 1st October, 2023 for purchase of power plant equipment on 31st March 2024. It is pertinent to note that the functional currency of both companies is INR. Dark Limited and Bright Limited are listed companies in India and prepare their financial statements on a quarterly basis as per Ind AS.

Spot Rate as on 1st October, 2023 Rs./USD	75
Spot Rate as on 31st December ,2023 Rs./USD	82
Three month forward rate on 31st December, 2023 Rs./USD	70
Six month forward rate on 1st October, 2023 Rs./USD	80
Spot Rate on31st March, 2024 Rs./ USD	85

Assume that this contract has an embedded derivative that is not closely related and requires separation. You are required to pass the necessary Journal Entries in the books of Bright Limited from the inception of the contract till the actual sale of equipment.

Answer:

(a) The contract should be separated using the 6-month USD / Rs. forward exchange rate, as at the date of the contract (1 USD = Rs. 80). The two components of the contract are therefore:

- A sale contract for USD 2,00,000
- A six-month currency forward to purchase USD 2,00,000 at Rs. 80
- This gives rise to a gain or loss on the derivative, and a corresponding derivative asset or liability.

On delivery

1. Bright Ltd. records the sales at the amount of the host contract = Rs. 1,60,00,000
2. The embedded derivative is considered to expire.
3. The derivative asset or liability (i.e. the cumulative gain or loss) is settled by becoming part of the financial asset on delivery.
4. In this case, the carrying value of the currency forward at 31st March 2024 on maturity is = Rs. 2,00,000 (85 – 80) = Rs. 10,00,000 (profit/asset)

Below is the table summarising the computation of gain/ loss to be recorded at every period end

Date	Transaction	Sales	Debtors	Derivative Asset (Liability)	(Profit) Loss

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		Rs.	Rs.	Rs.	Rs.
1st Oct. 2023	EmbeddedDerivative	Nil Value			
31st Dec. 2023	Change in Fair Value of Embedded Derivatives MTM(80 - 70) x 2,00,000			(20,00,000)	20,00,000
31st Mar. 2024	Change in Fair Value of Embedded Derivatives (85 -70) x 2,00,000			30,00,000	(30,00,000)
31st Mar. 2024	Recording salesat forward rate	(1,60,00,000)	1,60,00,000		
31st Mar. 2024	Embedded derivative-settled against debtors		10,00,000	(10,00,000)	

Journal Entries to be recorded at every period end 1st October, 2023 – No entry to be made

31st December, 2023

Particulars		**Dr. Amount (Rs.)**	**Cr. Amount (Rs.)**
Profit and loss A/c	Dr.	20,00,000	
To Derivative financial liability A/c			20,00,000
(Being loss on mark to market of embeddedderivative booked)			

31st March, 2024

Particulars		**Dr. Amount (Rs.)**	**Cr. Amount (Rs.)**
Derivative financial asset A/c	Dr.	10,00,000	
Derivative financial liability A/c	Dr.	20,00,000	
To Profit and loss A/c			30,00,000
(Being gain on embedded derivative based on spot rate at the date of settlement booked)			

31st March, 2024

Particulars		**Dr. Amount (Rs.)**	**Cr. Amount (Rs.)**
Trade Receivable A/c	Dr.	1,60,00,000	
To Sales A/c			1,60,00,000
(Being sale booked at forward rate on thedate of transaction)			

31st March, 2024

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Trade Receivable A/c Dr. To Derivative financial asset A/c (Being derivative asset re-classified as a part of trade receivables, bringing it to spot rate on the date of sale)	10,00,000	10,00,000

Q7. Nov 2023 Exam, 14 marks

Ore Exploration Ltd. is engaged in the manufacturing of drilling and mining equipment for over last 25 years. The management of the company is planning to expand the manufacturing activities for which funds are needed. On 1st April, 2019, to meet out the financial requirement Ore Exploration Ltd. issued 50,000, Compulsory Convertible Cumulative Preference Shares (CCCPS) of Rs. 100 each. These preference shares carry a coupon rate of 12% p.a. and is payable every year. The Company has substantial profits for payment of preference dividend. Under the terms of instrument, every two preference shares are convertible into 1 equity share of Rs. 100 each at the end of 4th year. The prevailing annual market interest rate for a similar debt without conversion option is 15% per annum. The transaction cost of completing the issue process of the instrument is 3% of the proceeds. The effective interest rate is 16.60% per annum.

You are required to:

(i) Compute the liability and equity component;
(ii) Provide the 'liability' ledger account for various years at amortized cost using the effective interest rate;
(iii) Pass necessary accounting entries for the whole period.

Note: Use the following present values of Re. 1 at different discounting factors for the purpose of calculation, wherever required.

Year	1	2	3	4
13%	0.8850	0.7831	0.6931	0.6133
15%	0.8696	0.7561	0.6575	0.5718
18%	0.8475	0.7182	0.6086	0.5158

Answer:

This is a compound financial instrument with two components – liability representing present value of future cash outflows (i.e. dividend) and balance represents equity component.

(i) Computation of Liability & Equity Component

Date	Particulars	Cash Flow	Discount Factor @ 15%	Net present Value
1st April, 2019		0	1	0.00
31st March, 2020	Dividend	6,00,000	0.8696	5,21,760
31st March, 2021	Dividend	6,00,000	0.7561	4,53,660
31st March, 2022	Dividend	6,00,000	0.6575	3,94,500
31st March, 2023	Dividend	6,00,000	0.5718	3,43,080
Total Liability Component				17,13,000
Total Proceeds				50,00,000
				32,87,000

Total Equity Component (Bal fig)				

a. Allocation of transaction costs

Particulars	Amount	Allocation of 3% transaction Cost	Net Amount
Liability Component	17,13,000	51,390	16,61,610
Equity Component	32,87,000	98,610	31,88,390
Total Proceeds	50,00,000	1,50,000	48,50,000

b. Accounting for liability at amortised cost:

- Initial accounting = Present value of cash outflows less transaction costs
- Subsequent accounting = At amortised cost, ie, initial fair value adjusted for interest and repayments of the liability.

	Opening Financial Liability A	Interest @ 16.60% B	Cash Flow C	Closing Financial Liability A+B-C
1st April, 2019	16,61,610	-	-	16,61,610
31st March, 2020	16,61,610	2,75,827	6,00,000	13,37,437
31st March, 2021	13,37,437	2,22,015	6,00,000	9,59,452
31st March, 2022	9,59,452	1,59,269	6,00,000	5,18,721
31st March, 2023	5,18,721	81,279*	6,00,000	-

Difference of Rs. 4,829 (i.e. 86,108 – 81,279) is due to approximation.

(ii) Preference Shares (Liability) Account

Date	Particulars	Amount	Date	Particulars	Amount
31.3.2020	To Bank	6,00,000.00	1.4.2019	By Bank	16,61,610.00
31.3.2020	To Balance c/d	13,37,437.00	31.3.2020	By Finance Cost	2,75,827.00
		19,37,437.00			19,37,437.00
31.3.2021	To Bank	6,00,000.00	1.4.2020	By Balance b/d	13,37,437.00
31.3.2021	To Balance c/d	9,59,452.00	31.3.2021	By Finance Cost	2,22,015.00
		15,59,452.00			15,59,452.00
31.3.2022	To Bank	6,00,000.00	1.4.2021	By Balance b/d	9,59,452.00
31.3.2022	To Balance c/d	5,18,721.00	31.3.2022	By Finance Cost	1,59,269.00
		11,18,721.00			11,18,721.00
31.3.2023	To Bank	6,00,000.00	1.4.2022 31.3.2023	By Balance b/d By Finance Cost	5,18,721.00 81,279.00
		6,00,000.00			6,00,000.00

(iii) Journal Entries to be recorded for entire term of arrangement

Date	Particulars	Debit	Credit
1.4.2019	Bank A/c Dr. To Preference Shares (Liability) A/c To Equity Component of Preference shares A/c (Being compulsorily convertible preference shares issued. The same are divided into equity component and liability component as per the calculation)	48,50,000	 16,61,610 31,88,390
31.3.2020	Preference Shares (Liability) A/c Dr.	6,00,000	

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	To Bank A/c (Being dividend at the coupon rate of 12% paid to the shareholders)		6,00,000
31.3.2020	Finance cost A/c Dr. To Preference Shares (Liability) A/c (Being interest as per EIR recorded)	2,75,827	2,75,827
31.3.2021	Preference Shares (Liability) A/c Dr. To Bank A/c (Being dividend at the coupon rate of 12% paid to the shareholders)	6,00,000	6,00,000
31.3.2021	Finance cost A/c Dr. Preference Shares (Liability) A/c (Being interest as per EIR recorded)	2,22,015	2,22,015
31.3.2022	Preference Shares (Liability) A/c Dr. To Bank A/c (Being dividend at the coupon rate of 12% paid to the shareholders)	6,00,000	6,00,000
31.3.2022	Finance cost A/c Dr. Preference Shares (Liability) A/c (Being interest as per EIR recorded)	1,59,269	1,59,269
31.3.2023	Preference Shares (Liability) A/c Dr. To Bank A/c (Being dividend at the coupon rate of 12% paid to the shareholders)	6,00,000	6,00,000
31.3.2023	Finance cost A/c Dr. To Preference Shares (Liability) A/c (Being interest as per EIR recorded)	81,279	81,279
31.3.2023	Equity Component of Preference shares A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being Preference shares converted in equity shares and remaining equity component is recognised as securities premium)	31,88,390	25,00,000 6,88,390

Q8. Nov 2023 Exam, 14 marks

Poor Limited borrowed 120 Lakhs from a Scheduled Bank. The terms of loan are as under:

- Rate of Interest @ 10% per annum, payable yearly
- Tenure of Loan 12 Years.
- Principal to be paid at the end of tenure i.e. 12th Year.

Poor Limited defaulted in payment of Interest in year 5, 6, 7 and 8. A loan reschedule agreement took place at the end of 9th year with the Bank. As per the agreement, Poor Limited is required to pay Rs. 220 Lakhs at the end of 10th year. The default continued till the end of 10th year.

You are required to calculate as per relevant Ind AS:

(i) Book Value of the Loan at the end of the 10th Year.

(ii) Additional amount to be paid to the Bank on Account of Rescheduling.

(assume interest is compounded in the case of default).

1FIN by IndigoLearn

Answer:

(i) Computation of book value of the loan at the end of 10th year

= Rs. 1,20,00,000 x 1.10 x 1.10 x 1.10 x 1.10 x 1.10 x 1.10

= Rs. 2,12,58,732 (i.e. adding interest for 5th to 10th year)

(ii) Computation of additional amount to be paid to bank on rescheduling Rescheduled amount to be paid at the end of the 10th year = Rs. 2,20,00,000 Additional amount to be paid on rescheduling = Rs. 2,20,00,000 - Rs. 2,12,58,732

= Rs. 7,41,268

Q9. May 2023 Exam, 14 marks

Autumn Limited has a policy of providing subsidized loans to its employees for their personal purposes. Mrs. Jama Bai, a senior HR manager in the Company, took a loan of ₹ 12.00 lakhs on the following terms:

• Interest rate 4% per annum

• Loan disbursement date: 1st April, 2019

• The principal amount of the loan shall be recovered in 4 equal annual installments commencing from 31st March, 2020

• The accumulated interest computed on reducing balance at simple interest is collected in 3 equal annual installments after collection of the principal amount

• Mrs. Jama Bai must remain in service till the principal and interest are paid

• The market rate of a comparable loan to Mrs. Jama Bai is 9% per annum

• The present value of ₹ 1 at 9% per annum at the end of respective years is as follows:

Year ending 31st March	2020	2021	2022	2023	2024	2025	2026
Present Value	0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470

Under the assumption that no probable future economic benefits except the return of loan has been guaranteed by the employee, you are required to:

i. Provide the journal entries at the time of initial recognition of loan on 1st April, 2019and as at 31st March, 2020; and

ii. Prepare ledger account of 'Loan to Mrs. Jama Bai' from the inception of the loan till its final payment.

Answer

(i) Journal Entry

Date	**Particulars**	**Dr.**	**Cr.**
		₹	**₹**
1/4/2019	Loan to Mrs. Jama Bai A/c Dr. Pre-paid employee cost A/c Dr. To Bank A/c (Being loan to employee recorded at fair value)	10,43,638 1,56,362	 12,00,000
31/3/2020	Loan to Mrs. Jama Bai A/c Dr. To Finance Income A/c (Being finance income @ 9% recorded in the books)	93,927	 93,927
31/3/2020	Bank A/c Dr. To Loan to Mrs. Jama Bai A/c	3,00,000	 3,00,000

1FIN by IndigoLearn

	(Being installment received at the end of the year)		

(ii) **In the books of Autumn Ltd.**
Loan to Mrs. Jama Bai A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.2019	To Bank A/c	10,43,638	31.3.2020	By Bank A/c	3,00,000
31.3.2020	To Finance income (W.N.3)	93,927	31.3.2020	By Balance c/d	8,37,565
		11,37,565			11,37,565
1.4.2020		8,37,565	31.3.2021	By Bank A/c	3,00,000
31.3.2021	To Balance b/d	75,381	31.3.2021	By Balance c/d	6,12,946
	To Finance income (W.N.3)	9,12,946			9,12,946
1.4.2021		6,12,946	31.3.2022	By Bank A/c	3,00,000
31.3.2022		55,165	31.3.2022	By Balance c/d	3,68,111
	To Balance b/d				
	To Finance income	6,68,111			6,68,111
1.4.2022	(W.N.3)	3,68,111	31.3.2023	By Bank A/c	3,00,000
31.3.2023		33,130	31.3.2023	By Balance c/d	1,01,241
	To Balance b/d	4,01,241			4,01,241
	To Finance				
1.4.2023	income	1,01,241	31.3.2024	By Bank A/c	40,000
31.3.2024	(W.N.3)	9,112	31.3.2024	By Balance c/d	70,353
		1,10,353			1,10,353
	To Balance b/d				
1.4.2024	To Finance	70,353	31.3.2025	By Bank A/c	40,000
31.3.2025	income (W.N.3)	6,332	31.3.2025	By Balance c/d	36,685
		76,685			76,685
1.4.2024	To Balance b/d	36,685	31.3.2025	By Bank A/c	40,000
31.3.2025	To Finance income (W.N.3)	3,315*			
		40,0000			40,000
	To Balance b/d				
	To Finance income (W.N.3)				

*Difference of ₹ 13 (₹ 3,315 – ₹ 3,302) is due to approximation.

Working Notes:

1. Calculation of initial recognition amount of loan to employee

1FIN by IndigoLearn

Year	Estimated Cash Flows	PV Factor @9%	Present Value
	₹		₹
31/3/2020	3,00,000	0.9174	2,75,220
31/3/2021	3,00,000	0.8417	2,52,510
31/3/2022	3,00,000	0.7722	2,31,660
31/3/2023	3,00,000	0.7084	2,12,520
31/3/2024	40,000 (W.N.2)	0.6499	25,996
31/3/2025	40,000 (W.N.2)	0.5963	23,852
31/3/2026	40,000 (W.N.2)	0.5470	21,880
Fair Value of Loan			**10,43,638**

2. Computation of Interest to be paid

Year	Opening outstanding balance	Cash Flows	Principal outstanding at year end	Interest @ 4% on a	Cumulative Interest
	a	b	c	d	e
31/3/2020	12,00,000	3,00,000	9,00,000	48,000	48,000
31/3/2021	9,00,000	3,00,000	6,00,000	36,000	84,000
31/3/2022	6,00,000	3,00,000	3,00,000	24,000	1,08,000
31/3/2023	3,00,000	3,00,000	Nil	12,000	1,20,000
31/3/2024	1,20,000	40,000 (1,20,000/3)			
31/3/2025		40,000 (1,20,000/3)			
31/3/2026		40,000 (1,20,000/3)			

3. Computation of finance cost as per amortization table

Year	Opening balance	Interest @ 9%	Repayment	Closing Balance
	(1)	(2)	(3)	(1+2-3)
	₹	₹	₹	
1/4/2019				10,43,638
31/3/2020	10,43,638	93,927	3,00,000	8,37,565
31/3/2021	8,37,565	75,381	3,00,000	6,12,946
31/3/2022	6,12,946	55,165	3,00,000	3,68,111
31/3/2023	3,68,111	33,130	3,00,000	1,01,241
31/3/2024	1,01,241	9,112	40,000	70,353
31/3/2025	70,353	6,332	40,000	36,685
31/3/2026	36,685	3,315*	40,000	Nil

*Difference of ₹ 13 (₹ 3,315 – ₹ 3,302) is due to approximation.

Q10. May 2023 Exam, 5 marks

Weak Limited, which is a fully owned subsidiary company of Strong Limited approached Strong Limited for an interest free loan for mitigation of its financial difficulties.
Strong Limited provided the loan to Weak Limited on the following terms & conditions:

Nature of loan	Interest Free
Amount of loan	₹ 60,00,000
Date of disbursement of loan	1st April, 2021
Loan period	3 years

1FIN by IndigoLearn

Loan repayable by Weak Ltd. Market rate of interest for similar loan P.V. factor of ₹ 1 at the end of 3 rd year at 8% per annum is	On 31st March, 2024 8% (both for holding and subsidiary) per annum 0.7938

Assuming that there are no transaction costs, you are required to pass necessary accounting entries in the books of Weak Limited for all the three years.

Answer

Accounting in the books of Weak Ltd (Subsidiary)

Date	Particulars	Amount	Amount
1.4.2021	**On the date of loan** Bank A/c Dr. To Loan from Strong Ltd. (Payable) To Equity (Deemed capital contribution from ABC Ltd.) (Being the loan taken from Strong Ltd.recognised at fair value)	60,00,000	 47,62,800 12,37,200
31.3.2022	**At the end of Year 1** Interest expense (Finance cost) Dr. To Loan from Strong Ltd. (Payable) (Being interest expense recognised)	3,81,024	 3,81,024
31.3.2023	**At the end of Year 2** Interest expense (Finance cost) Dr. To Loan from Strong Ltd. (Payable) (Being interest expense recognised)	4,11,506	 4,11,506
31.3.2024	**At the end of Year 3** Interest expense (Finance cost) Dr. To Loan from Strong Ltd. (Payable) (Being interest expense recognised)	4,44,670*	 4,44,670
31.3.2024	**On repayment of loan** Loan from Strong Ltd. (Payable) Dr. To Bank A/c (Being loan repaid by Weak Ltd.)	60,00,000	 60,00,000

*Difference is due to approximation.Working Notes:
1. Present Value of Loan = ₹ 60,00,000 x 0.7938 = ₹ 47,62,800
2. Amortisation table for computation of interest:

Year	Opening balance	Interest @ 8%	Repayment	Closing Balance
	(1)	(2)	(3)	(1+2-3)
	₹	₹	₹	
1	47,62,800.00	3,81,024.00	-	51,43,824.00
2	51,43,824.00	4,11,506.00	-	55,55,330.00
3	55,55,330.00	4,44,670.00*	60,00,000.00	-

*Difference is due to approximation.

Q11. Nov 2022 Exam, 12 marks

On 1st April, 2021 "Fortunate Bank" has provided a loan of ₹ 25,00,000 to Mohan Limited for 4 years at 10% p.a. and the loan has been guaranteed by Surya Limited, which is a holding company

for Mohan Limited. Interest payments are made at the end of each year and the principal is repaid at the end of the loan term.

If Surya Limited had not issued a guarantee, 'Fortunate Bank' would have charged Mohan Limited an interest rate of 14% p.a. Surya Limited does not charge Mohan Limited for providing the guarantee.

On 31st March 2022, there is 2% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited.

On 31st March 2023, there is 4% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited.

On 31st March 2024, there is 5% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited.

You are required to provide accounting treatment of financial guarantee as per Ind AS 109 in the books of Surya Limited on initial recognition and in subsequent periods till 31st March, 2024.

Answer

1st April 2021

A financial guarantee contract is initially recognised at fair value. The fair value of the guarantee will be the present value of the difference between the net contractual cash flows required under the loan, and the net contractual cash flows that would have been required without the guarantee.

Particulars	**Year 1 (₹)**	**Year 2 (₹)**	**Year 3 (₹)**	**Year 4 (₹)**	**Total (₹)**
Cash flows based on interest rate of 14% (A)	3,50,000	3,50,000	3,50,000	3,50,000	14,00,000
Cash flows based on interest rate of 10% (B)	2,50,000	2,50,000	2,50,000	2,50,000	10,00,000
Interest on differential rate (C) = (A-B)	1,00,000	1,00,000	1,00,000	1,00,000	4,00,000
Discount factor @ 14%	0.877	0.769	0.675	0.592	
Interest on differential rate discounted @ 14%	87,700	76,900	67,500	59,200	2,91,300
Fair value of financial guaranteed contract (at inception)					**2,91,300**

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Alternative manner of presentation for the calculation of fair value of financial guaranteed contract (at inception)
(i) Interest on loan @ 10% = ₹ 2,50,000
Present value of cash flow of loan at concessional rate with guarantee @ 14%
= ₹ 2,50,000 x 2.9138 + ₹ 25,00,000 x 0.5921
= ₹ 7,28,450 + ₹ 14,80,250 = ₹ 22,08,700

(ii) Interest on loan at normal rate of 14% = ₹ 3,50,000
Present Value of Cash flow of loan at 14%
= ₹ 3,50,000 x 2.9138 + ₹ 25,00,000 x 0.5921
= ₹ 25,00,080 or ₹ 25,00,000
Difference (ii) – (i) = ₹ 25,00,000 - ₹ 22,08,700
Fair value of financial guaranteed contract (at inception) = ₹ 2,91,300

Journal Entry

Particulars	Debit (₹)	Credit (₹)
Investment in subsidiary Dr.	2,91,300	
To Financial guarantee (liability)		2,91,300
(Being financial guarantee initially recorded)		

31st March 2022
Subsequently at the end of the reporting period, financial guarantee is measured at the higher of:
- the amount of loss allowance; and
- the amount initially recognised less cumulative amortization, where appropriate.

At 31st March 2022, there is 2% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited. The 12-month expected credit losses are therefore ₹ 50,000 (₹ 25,00,000 x 2%).

The initial amount recognised less amortisation is ₹ 2,32,082 (Refer table below). The unwound amount is recognised as income in the books of Surya Limited, being the benefit derived by Mohan Limited not defaulting on the loan during the period.

Year ended on 31st March	Opening balance (a)	EIR @ 14% (b) = (a x 14%)	Benefits provided (c)	Closing balance (d) = (a) + (b) -(c)
	₹		₹	₹
2022	2,91,300	40,782	(1,00,000)	2,32,082
2023	2,32,082	32,491	(1,00,000)	1,64,573
2024	1,64,573	23,040	(1,00,000)	87,613
2025	87,613	12,387*	(1,00,000)	-

* Difference of ₹ 121 (₹ 12,387 – ₹ 12,266) is due to approximation.

The carrying amount of the financial guarantee liability after amortisation is therefore ₹ 2,32,082, which is higher than the 12-month expected credit losses of ₹ 50,000. The liability is therefore adjusted to ₹ 2,32,082 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	59,218	
To Profit and loss 59,218		59,218
(Being financial guarantee subsequently adjusted)		

31st March 2023

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At 31st March 2023, there is 4% probability that Mohan Limited will default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited. The 12-month expected credit losses are therefore ₹ 1,00,000 (₹ 25,00,000 x 4%).

The carrying amount of the financial guarantee liability after amortisation is ₹ 1,64,573, which is higher than the 12-month expected credit losses of ₹ 1,00,000. The liability is therefore adjusted to ₹ 1,64,573 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	67,509	
To Profit and loss 59,218		67,509
(Being financial guarantee subsequently adjusted)		

31st March 2024

At 31st March 2024, there is 5% probability that Mohan Limited will default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited. The 12-month expected credit losses are therefore ₹ 1,25,000 (₹ 25,00,000 x 5%).

The initial amount recognised less accumulated amortisation is ₹ 87,613, which is lower than the 12-month expected credit losses (₹ 1,25,000). The liability is therefore adjusted to ₹ 1,25,000 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	39,573*	
To Profit and loss 59,218		39,573*
(Being financial guarantee subsequently adjusted)		

* Note: The carrying amount at the end of 31st March 2023 will be ₹ 1,25,000 (i.e.₹ 1,64,573 less 12-month expected credit losses of ₹ 39,573).

Q12. Nov 2022 Exam, 5 marks

On 1st April 2021, Honey Limited acquired 40% interest in another entity, Smart Limited.Honey Limited determines that it is able to exercise significant influence over Smart Ltd.Honey Limited has paid total consideration of ₹ 95,00,000 for acquiring the interest in Smart Ltd. On the date of acquisition, the book value of Smart Ltd.'s net assets was ₹ 1,80,00,000 and their fair value was ₹ 2,20,00,000.

Honey Ltd. has determined that the difference of ₹ 40,00,000 pertains to an item of property, plant and equipment which has remaining useful life of 10 years.

During the year 2021-2022, Smart Ltd. made a profit of ₹ 16,00,000. Smart Limited paid a dividend of ₹ 24,00,000 on 31st March, 2022. Smart Limited also holds a long-term investment in equity securities. Under Ind AS, investment is classified as at FVTOCI in accordance with Ind AS 109 and Smart Ltd. recognized an increase in value of investment by ₹ 4,00,000 in OCI during the year. Ignore deferred tax implications, if any.

You are required to ascertain the closing balance of Honey Limited' s investments in Smart Limited as at 31st March, 2022 as per the relevant Ind AS. (Use equity method)

Answer

Calculation of Honey Ltd.'s investment in Smart Ltd. under equity method:

	₹	₹
Cost of investment		
Share in book value of net assets of Smart Limited (40% x 1,80,00,000)	72,00,000	
Share in fair valuation of net assets of Smart Limited (40% of (2,20,00,000-1,80,00,000)	16,00,000	
Goodwill on Investment in Smart Limited (95,00,000-72,00,000-16,00,000) (Balancing Figure)	7,00,000	95,00,000
Profit during the year		
Share in the profit reported by Smart Ltd. (40% of ₹ 16,00,000)	6,40,000	
Adjustment to reflect effect of fair valuation [40% of (₹ 40,00,000/10 years)]	(1,60,000)	
Share of profit in Smart Ltd. recognised in income by Honey Ltd.		4,80,000
Long term equity investment		
FVTOCI gain recognised in OCI (40% of ₹ 4,00,000)		1,60,000
Dividend received by Honey Ltd. during the year [40% of ₹ 24,00,000]		(9,60,000)
Closing balance of Honey Ltd.'s investment in Smart Ltd.		91,80,000

Q13. Nov 2022 Exam, 5 marks

ENG Ltd. has developed model to measure the expected credit loss based on the lifetime expected credit loss model. Accordingly, the company has estimated the following provisioning matrix:

	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
Default Rate	0.3%	1.6%	3.6%	6.6%	10.6%

The Company has a portfolio of trade receivables of ₹ 6 crores as on 31st March, 2022 and operates in only one geographical region. The customer base of the company consists of large number of small clients and trade receivables are categorized by common risk characteristics that are representative of customer's abilities to pay all amounts due as per the contractual terms.

The trade receivables do not have significant financing component. The above provision matrix is based on its historically observed default rate over the expected life of the trade receivables and is adjusted for forward looking estimate.

The company has asked you to suggest whether the above system of making the provision for the expected credit loss is in accordance with the applicable Ind AS? If yes, then determine the

expected credit loss for the Trade Receivables outstanding as on 31st March, 2022 on the following basis:

	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
% of Trade Receivables	50%	25%	13%	8%	4%

Answer

To determine the expected credit losses for the portfolio, ENG Ltd. should use a provision matrix. The provision matrix will be based on its historical observed default rates over the expected life of the trade receivables and shall be adjusted for forward -looking estimates. At every reporting date the historical observed default rate shall be updated and changes in the forward-looking estimates shall be analysed.

In this case, it is forecast that economic conditions will deteriorate over the next year. Therefore, as per para 5.5.15 of Ind AS 109, the loss allowance for trade receivables shall be measured at an amount equal to lifetime expected credit losses. On that basis, ENG Ltd. estimates the provision matrix.

The trade receivables from the large number of small customers amount to ₹ 6,00,00,000 and are measured using the provision matrix:

	Provision % age	Gross carrying amount	Default rate	Lifetime expected credit loss allowance (Gross carrying amount x lifetime expected credit loss rate)
a	**b**	**c= ₹ 6 crore x b**	**d**	**e = c x d**
		₹		**₹**
Current	50%	3,00,00,000	0.3%	₹ 90,000
1-30 days past due	25%	1,50,00,000	1.6%	₹ 2,40,000
31-60 days past due	13%	78,00,000	3.6%	₹ 2,80,000
61-90 days past due	8%	48,00,000	6.6%	₹ 3,16,800
More than 90 days past due	4%	24,00,000	10.6%	₹ 2,54,400
		6,00,00,000		**₹ 11,82,000**

Q14. May 2022 Exam, 14 marks

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X Ltd. issues ₹ 1.5 crore convertible bonds on 1st April, 2018. The bonds have a life of 8 years and a face value of ₹ 10 each and offer interest @ 5.5% p.a. payable at the end of each financial year.

Bonds are issued at their face value and each bond can be converted into one ordinary share of X Ltd. at any time in the next eight years.

Companies of a similar risk profile have recently issued debt with similar terms, without the option for conversion, at a rate of 7% p.a.
You are required to:

i. Provide the journal entries from financial year 2018-2019 to financial year 2021-2022;
ii. Calculate the interest expenses across all eight years of the life of the convertible bonds;
iii. Give the accounting entries if the holders of the bonds elect to convert the bonds to ordinary shares at the end of the fourth year (after receiving interest for the fourth year).

Answer

Journal Entries

		Dr. ()	Cr. ()
1st April, 2018	Bank A/c Dr. To Convertible bonds A/c (liability) (Refer W.N.) To Convertible bonds A/c (equity) (Refer W.N.) (Being recognition of convertible bonds at the date of issuance into liability and equity components)	1,50,00,000	 1,36,56,075 13,43,925
31st March, 2019	Interest expense A/c Dr. To Bank A/c To Convertible bonds A/c (liability) (Being interest expense recorded at market rate of 7% and actual interest paid @ 5.5%)	9,55,925	 8,25,000 1,30,925
31st March, 2020	Interest expense A/c Dr. To Bank A/c To Convertible bonds A/c (liability) (Being interest expense recorded at market rate of 7% and actual interest paid @ 5.5%)	9,65,090	 8,25,000 1,40,090
31st March, 2021	Interest expense A/c Dr. To Bank A/c To Convertible bonds A/c (liability) (Being interest expense recorded at market rate of 7% and actual interest paid @ 5.5%)	9,74,896	 8,25,000 1,49,896
31st March, 2021	Interest expense A/c Dr. To Bank A/c To Convertible bonds A/c (liability) (Being interest expense recorded at market rate of 7% and actual interest paid @ 5.5%)	9,85,389	 8,25,000 1,60,389

(ii) Table showing computation of interest expense at market rate and actual interest outflow @ 5.5%

Year	Date	Opening bond liability	Actual interest outflow @ 5.5%	Interest expense @ 7%	Increase in liability	Closing bond liability
		a	b =1.5 cr x 5.5%	c = a x 7%	d = c-b	e = a+d

0	1st April, 2018					1,36,56,075
1	31st March,	1,36,56,075	8,25,000	9,55,925	1,30,925	
2	2019	1,37,87,000	8,25,000	9,65,090	1,40,090	1,37,87,000
3	31st March,	1,39,27,090	8,25,000	9,74,896	1,49,896	1,39,27,090
4	2020	1,40,76,986	8,25,000	9,85,389	1,60,389	1,40,76,986
5	31st March,	1,42,37,375	8,25,000	9,96,616	1,71,616	1,42,37,375
6	2021	1,44,08,991	8,25,000	10,08,629	1,83,629	1,44,08,991
7	31st March,	1,45,92,620	8,25,000	10,21,483	1,96,483	1,45,92,620
8	2022	1,47,89,103	8,25,000	10,35,897*	2,10,897	
	31st March,					1,47,89,103
	2023					1,50,00,000
	31st March,					
	2024					
	31st March,					
	2025					
	31st March,					
	2026					

*Difference of ₹ 660 (10,35,897 -10,35,237) is due to rounding off

(iii) When holders of the bonds elect to convert the bonds to ordinary shares at the end of the fourth year (after receiving their interest payments), the entries would be:

		Dr. ()	Cr. ()
31st March, 2022	Convertible bonds A/c (liability) Dr.	1,42,37,375	
	Convertible bonds A/c (equity) Dr.	13,43,925	
	To Ordinary share capital A/c		1,55,81,300
	(Being bonds converted into ordinary shares of X Ltd.)		

Working Note:
Computation of equity and liability component of convertible bond at 7% market rate

	₹
Present value of principal to be received at the end of eight year discounted at 7% (1,50,00,000 x 0.582)	87,30,000
Annuity of annual interest discounted at 7% for 8 years (1,50,00,000 x 5.5% x 5.971)	49,26,075
Total present value (a)	1,36,56,075
Equity component (balancing figure) (a-b)	13,43,925
Total proceeds received from issuance of convertible bonds (b)	1,50,00,000

Q15. May 2022 Exam, 5 marks

X Ltd. has made a borrowing from RGD Bank for ₹ 20,000 at a fixed interest of 12% per annum. Loan processing fees were paid additionally amounting to ₹ 1,000 and the loan is payable in 4 half-yearly installments of ₹ 5,000 each.Details are as follows:

Particulars	Details
Loan amount	₹ 20,000
Date of loan (Starting Date)	1st April, 2020
Date of loan (Finishing Date)	31st March, 2022
Description of repayment	Repayment of loan starts from 30th September,
Installment amount	2020 (To be paid on half yearly basis)

Interest rate Interest charge Interest to be charged and paid Upfront fees	₹ 5,000 12% per annum Quarterly ₹ 1,000

Compute the interest to be charged to the statement of profit & loss every quarter over the period of loan. The effective interest rate is 16.60% per annum.

Answer

The loan taken by X Ltd. shall be measured at amortised cost as follows:
Initial measurement = At transaction price less processing fee ie. ₹ 19,000 (20,000 – 1,000)
Subsequent measurement = Interest to be accrued using effective rate of interest as follows:

Quarter	Opening balance	Interest @ 16.60%	Cash flows	Closing balance
	(A)	(B)=[(A) x16.60%/4]	(C) = [Refer column of D of W.N.]	(A) + (B) - (C)
1	19,000.00	789.00	600.00	19,189.00
2	19,189.00	796.00	5,600.00	14,385.00
3	14,385.00	597.00	450.00	14,532.00
4	14,532.00	603.00	5,450.00	9,685.00
5	9,685.00	402.00	300.00	9,787.00
6	9,787.00	406.00	5,300.00	4,893.00
7	4,893.00	203.00	150.00	4,946.00
8	4,946.00	204.00*		5,150.00

Working Note:

Quarter	Opening balance	Interest @ 12% p.a.	Principal repayment at quarter end	Total Cash flow	Closing balance
	(A)	(B) = [(A) x 12%/4]	(C)	(D) = (B) + (C)	(E) = (A) - (C)
1	20,000.00	600.00	-	600.00	20,000.00
2	20,000.00	600.00	5,000.00	5,600.00	15,000.00
3	15,000.00	450.00	-	450.00	15,000.00
4	15,000.00	450.00	5,000.00	5,450.00	10,000.00
5	10,000.00	300.00	-	300.00	10,000.00
6	10,000.00	300.00	5,000.00	5,300.00	5,000.00
7	5,000.00	150.00	-	150.00	5,000.00
8	5,000.00	150.00	5,000.00	5,150.00	

Q16. Dec 2021 Exam, 12 marks

KUPA Ltd. borrowed ₹ 95 lakh as loan from XYZ Bank on 1st April, 2018 at an interest rate of 10% p.a. KUPA Ltd. spent ₹ 1,80,912 as loan processing charges. Principal amount of loan is to be repaid in 5 equal instalments and the interest to be paid annually on accrual basis. Effective interest rate on loan is 10.8%.

On 31st March, 2020, KUPA Ltd. faced challenges in business because of sudden change in the technology. It approached XYZ Bank and renegotiated the terms of the loan. Interest rate changed to 15% p.a. Principal amount of loan is to be repaid in 8 equal instalments payable

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annually starting 31st March, 2021 and the interest is to be paid annually on accrual basis. Before approaching bank, KUPA Ltd. made the interest payment on 31st March, 2020.

You are required to record Journal entries in the books of KUPA Ltd. till 31st March, 2021, after giving effect of the changes in the terms of the loan on 31st March, 2020. Workings should form part of the answer.

PV of ₹ 1	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
10%	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467
10.8%	0.903	0.815	0.735	0.664	0.599	0.540	0.488	0.440
15%	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327

Answer

The following table shows the amortisation of loan based on effective interest rate:

Date	Opening Amortised cost	Cash flows (Principal)	Cash outflows (Interest @ 10% and fee)	Total cash flows	Interest @ EIR 10.80%	Closing Amortised cost
(1)	**(2)**	**(3)**	**(4)**	**(3 + 4 = 5)**	**(2 x 10.80% = 6)**	**(2- 5 + 6 =7)**
1st April, 2018		(95,00,000)	1,80,912	93,19,088		
31st March, 2019	93,19,088	19,00,000	9,50,000	28,50,000	10,06,462	74,75,550
31st March, 2020	74,75,550	19,00,000	7,60,000	26,60,000	8,07,359	56,22,909
31st March, 2021	56,22,909	19,00,000	5,70,000	24,70,000	6,07,274	37,60,183
31st March, 2022	37,60,183	19,00,000	3,80,000	22,80,000	4,06,100	18,86,283
31st March, 2023	18,86,283	19,00,000	1,90,000	20,90,000		2,03,717*

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

(i) On 1st April, 2018

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr.	93,19,088	
To Loan from bank A/c		93,19,088

(Being loan recorded at its fair value less transaction costs on the initial recognition date)		

(ii) On 31st March, 2019

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

(iii) On 31st March, 2020– Before KUPA Ltd. approached the bank

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

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

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

Date	Cash flows (principal)	Interest outflow @ 15%	Total cash outflow	Discounting factor @10.80%	PV of cash flows
31st March, 2020	(76,00,000)				
31st March, 2021	9,50,000	11,40,000	20,90,000	0.903	18,87,270
31st March, 2022	9,50,000	9,97,500	19,47,500	0.815	15,87,213
31st March, 2023	9,50,000	8,55,000	18,05,000	0.735	13,26,675
31st March, 2024	9,50,000	7,12,500	16,62,500	0.664	11,03,900
31st March, 2025	9,50,000	5,70,000	15,20,000	0.599	9,10,480
31st March, 2026	9,50,000	4,27,500	13,77,500	0.540	7,43,850

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31st March, 2027	9,50,000	2,85,000	12,35,000	0.488	6,02,680
31st March, 2028	9,50,000	1,42,500	10,92,500	0.440	4,80,700

PV of new contractual cash flows discounted @ 10.80% 86,42,768
Carrying amount of loan (93,19,088 - 18,43,538 + 47,359) (75,22,909)
Difference 11,19,859
Percentage of carrying amount 14.89%

Decision Making:
Considering a more than 10% change in PV of cash flows compared to the carrying value of the loan, the existing loan shall be considered to have been extinguished and the new loan shall be accounted for as a separate financial liability.
The accounting entries for the same are included below:
On 31st March, 2020 – Accounting for extinguishment

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

(iv) On 31st March, 2021

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

Q17. Dec 2021 Exam, 12 marks

Ram Limited is a company incorporated In India. It provides ₹ 25,00,000 interest free loan to its wholly owned Indian subsidiary Balram Limited. There are no transaction costs.

How should the loan be accounted for, in the light of provisions of related lnd AS, in the books of Ram Limited, Balram Limited and Consolidated Financial Statements of the group, considering the following scenarios:
i. The loan is repayable on demand.
ii. The loan is repayable after 3 years. The current market rate of interest for similar loan is 12% p.a. for both holding and subsidiary.
iii. The loan is repayable when Balram Limited has funds to repay the loan.
Briefly, analyse the above scenarios. Also pass Journal Entries in the books of Ram Limited and Balram Limited in case of Scenario (i) and (ii).
Present value of ₹ 1 payable in 3 years' time at an annual discount rate of 12% is 0.7118.

Answer

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Requirement of Ind AS: Ind AS 109 requires that financial assets and liabilities are recognized on initial recognition at its fair value, as adjusted for the transaction cost. In accordance with Ind AS 113 'Fair Value Measurement', the fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Using the guidance, the loan will be accounted for as below in various scenarios:

Scenario (i)

Since the loan is repayable on demand, it has fair value equal to cash consideration given. The parent and subsidiary recognize financial asset and liability, respectively, at the amount of loan given. Going forward, no interest is accrued on the loan.

Upon repayment, both the parent and the subsidiary reverse the entries made at origination.

Accounting in the books of Ram Ltd. (Parent)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan** Loan to Balram Ltd. (Subsidiary) Dr. To Bank (Being the loan is given to Balram Ltd. and recognised at fair value)	25,00,000	 25,00,000
2.	**At the time the Loan is received back:** Bank Dr. To Loan to Balram Ltd.(Subsidiary) (Being demand loan received)	25,00,000	 25,00,000

Accounting in the books of Balram Ltd. (Subsidiary)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan** Bank Dr. To Loan from Ram Ltd. (Being the loan is taken from Ram Ltd. and recognised at fair value)	25,00,000	 25,00,000
2.	**On repayment of loan** Loan from Ram Ltd. Dr. To Bank (Being demand loan paid)	25,00,000	 25,00,000

Scenario (ii)

Both parent and subsidiary recognize financial asset and liability, respectively, at fair value on initial recognition. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Accounting in the books of Ram Ltd. (Parent)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan** Loan to Balram Ltd. (Subsidiary) Dr. Deemed Investment (Capital Contribution) in Balram Ltd. Dr. To Bank (Being the loan is given to Balram Ltd. and recognised at fair value)	17,79,500 7,20,500	 25,00,000
2	**Accrual of Interest income**		

	Loan to Balram Ltd. Dr. To Interest income (Being interest income accrued) – Year 1	2,13,540	 2,13,540
3	**Accrual of Interest income** Loan to Balram Ltd. Dr. To Interest income (Being interest income accrued) – Year 2	2,39,165	 2,39,165
4	**Accrual of Interest income** Loan to Balram Ltd. Dr. To Interest income (Being interest income accrued) – Year 3	2,67,795	 2,67,795
5	**On receipt of loan** Bank Dr. To Loan to Balram Ltd. (Subsidiary) (Being term loan received)	25,00,000	 25,00,000

Accounting in the books of Balram Ltd. (Subsidiary)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan** Bank Dr. To Loan from Ram Ltd. To Equity (Deemed Capital Contribution from Ram Ltd.) (Being the loan is taken from Ram Ltd. and recognised at fair value)	25,00,000	 17,79,500 7,20,500
2	**Accrual of Interest income** Interest expense Dr. To Loan from Ram Ltd. (Being interest expense recognised) – Year 1	2,13,540	 2,13,540
3	**Accrual of Interest income** Interest expense Dr. To Loan from Ram Ltd. (Being interest expense recognised) – Year 2	2,39,165	 2,39,165
4	**Accrual of Interest income** Interest expense Dr. To Loan from Ram Ltd. (Being interest expense recognised) – Year 3	2,67,795	 2,67,795
5	**On repayment of loan** Loan from Ram Ltd. (Payable) Dr. To Bank (Being term loan paid)	25,00,000	 25,00,000

Working Notes:

1. Computation of present value of loan

Rate 12%
Amount of Loan 25,00,000
Year 3
Present Value 17,79,500

2. Computation of interest for Year I

Present Value 17,79,500
Rate 12%

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Period of interest - for 1 year 1
Closing value at the end of year 1 19,93,040
Interest for 1st year 2,13,540

3. Computation of interest for Year 2

Value of loan as at the beginning of Year 2 19,93,040
Rate 12%
Period of interest - for 2nd year 1
Closing value at the end of year 2 22,32,205
Interest for 2nd year 2,39,165

4. Computation of interest for Year 3

Value of loan as at the beginning of Year 3 22,32,205
Rate 12%
Period of interest - for 3rd year 1
Closing value at the end of year 3 25,00,000
Interest for 3rd year (25,00,000 – 22,32,205) 2,67,795*
* Difference of ₹ 70 [(22,32,205 x 12%) – 2,67,795] is due to approximation.

Scenario (iii)

Generally, a loan, which is repayable when funds are available, can't be stated to be repayable on demand. Rather, the entities need to estimate repayment date and determine its measurement accordingly. If the loan is expected to be repaid in three years, its measurement will be the same as in scenario (ii).

In the Consolidated Financial Statements (CFS) for all three scenarios (i), (ii) and (iii)
In the Consolidated Financial Statements (CFS), the loan and interest income / expense will get knocked-off as intra-group transaction in all the three scenarios. Hence the above accounting will not have any impact in the CFS.

Q18. Dec 2021 Exam, 5 marks

M Limited has made a security deposit whose details are given below:

Particulars	Details
Date of security deposit (starting date)	1st April, 2016
Date of security deposit (finishing date)	31st March, 2021
Description	Lease
Total lease period	5 years
Security deposit	₹ 20,00,000
Present value factor at the end of the 5th year	0.6499

Determine, how above financial asset should be measured and briefly explain measurement determined as such. Make necessary journal entries for accounting of the security deposit in the first year and last year.
Assume market rate for a deposit for similar period to be 9% p.a.

Answer

1FIN by IndigoLearn

The given security deposit is an interest free deposit redeemable at the end of lease term for ₹ 20,00,000. Hence, this involves collection of contractual cash flows and shall be accounted at amortised cost.

Upon initial measurement

Particulars	₹
Security deposit (A)	20,00,000
Present value of deposit at beginning (20,00,000 x 0.6499) (B)	(12,99,800)
Prepaid lease payment at beginning (A-B)	7,00,200

Journal Entries

Year 1 - beginning

Particulars	₹	₹
Security deposit A/c Dr.	12,99,800	
Prepaid lease rent (ROU Asset) Dr.	7,00,200	
To Bank A/c		20,00,000
(Recognised present value of security deposit and prepaid lease)		

Subsequently, every annual reporting year, interest income shall be accrued @ 9% per annum and prepaid expenses shall be amortised on straight line basis over the lease term.

Year 1 - end

Particulars	₹	₹
Security deposit A/c (12,99,800 x 9%) Dr.	1,16,982	
To Interest income A/c		1,16,982
(Recognised interest on security deposit)		
Depreciation (7,00,200 / 5 years) Dr.	1,40,040	
To Prepaid lease rent (ROU Asset)		1,40,040
(Prepaid lease depreciated for the year)		

Year 5- end

At the end of 5th year, the security deposit shall accrue ₹ 20,00,000 and prepaid lease expenses shall be fully amortised (i.e. depreciated as per Ind AS 116, this prepaid lease rent would be shown as ROU asset).Journal entry for realisation of security deposit

Particulars	₹	₹
Security deposit A/c (Refer W.N.) Dr.	1,65,227	
To Interest income A/c		1,65,227
(Recognised interest on security deposit)		
Depreciation (7,00,200 / 5 years) Dr.	1,40,040	
To Prepaid lease rent (ROU Asset)		1,40,040
(Prepaid lease depreciated for the year)		
Bank A/c Dr.	20,00,000	
To Security deposit A/c		20,00,000
(Security deposit paid back at the end of the lease term)		

Working Note:

Amortisation schedule

Year end	Opening balance	Interest income	Closing balance

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1	12,99,800	1,16,982	14,16,782
2	14,16,782	1,27,510	15,44,292
3	15,44,292	1,38,986	16,83,278
4	16,83,278	1,51,495	18,34,773
5	18,34,773	1,65,227*	20,00,000

* Difference is due to approximation

Q19. July 2021 Exam, 14 marks

Softech Limited has a policy of providing subsidized loans to its employees for the purpose of buying or construction of residential houses. Mrs. B is a Senior Manager in the Company. The Company granted a loan to her on the following terms:

- Principal amount : ₹ 25 lakh
- Interest rate: 4% for the first ₹ 10 lakh and 7% for the next ₹ 15 lakh
- Loan disbursed on: 1st January, 2019
- Tenure: 5 years
- Pre-payment: Full or partial Pre-payment at the option of the employee.
- The principal amount of loan shall be recovered in 5 equal installments and will be first applied to 7% interest bearing principal.
- The accrued interest shall be paid on an annual basis.
- Mrs. B must remain in service till the term of the loan ends.
- The market rate of a comparable loan available to Mrs. B, is 12% per annum.

Give your calculations by adopting the present value factor as :

31.12.2019	31.12.2020	31.12.2021	31.12.2022	31.12.2023
0.8929	0.7972	0.7118	0.6355	0.5674

Following table shows the contractually expected cash flows from the loan given to Mrs. B.

(Amount in ₹)

Date	**Outflows**	**Inflows**			**Principal outstanding**
		Principal	**Interest income (7%)**	**Interest income (4%)**	
1st January 2019	(25,00,000)				25,00,000
31st December 2019		5,00,000	1,05,000	40,000	20,00,000
31st December 2020		5,00,000	70,000	40,000	15,00,000
31st December 2021		5,00,000	35,000	40,000	10,00,000
31st December 2022		5,00,000	--	40,000	5,00,000
		5,00,000	--	20,000	--

1FIN by IndigoLearn

31st December 2023					

Mrs. B pre-pays ₹ 5,00,000 on 31st December 2020, reducing the outstanding principal as on date to ₹ 10,00,000.
Following table shows the actual cash flows from the loan given to Mrs. B, considering the Pre-payment event on 31st December, 2020:

(Amount in ₹)

Date	**Outflows**	**Inflows**			**Principal outstanding**
		Principal	**Interest income (7%)**	**Interest income (4%)**	
1st January 2019	(25,00,000)				25,00,000
31st December 2019		5,00,000	1,05,000	40,000	20,00,000
31st December 2020		5,00,000	70,000	40,000	15,00,000
31st December 2021		5,00,000	--	40,000	10,00,000
31st December 2022		--	--	--	--
31st December 2023					--

Record the journal entries (up to 31st December, 2020) in the books of Softech Limited considering the requirements of Ind AS 109.

Answer

As per Ind AS 109, a financial instrument is initially measured and recorded at its fair value. Therefore, considering the market rate of interest of similar loan available to Mrs. B is 12%, the fair value of the contractual cash flows shall be as follows:

Date	**Inflows**				**PV**
	Principal	**Interest income @ 7%**	**Interest income @ 4%**	**Discount factor @12%**	
31st December 2019	5,00,000	1,05,000	40,000	0.8929	5,75,921
	5,00,000	70,000	40,000	0.7972	4,86,292

1FIN by IndigoLearn

31st December 2020	5,00,000	35,000	40,000	0.7118	4,09,285
31st December 2021	5,00,000	--	40,000	0.6355	3,43,170
31st December 2022	5,00,000	--	20,000	0.5674	2,95,048
31st December 2023					
				Total (fair value)	21,09,716

Benefit to Mrs. B, to be considered a part of employee cost for Softech Limited ₹ 3,90,284 (₹ 25,00,000 – ₹ 21,09,716).

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

The amortization schedule of ₹ 21,09,716 loan is shown in the following table:

Date	**Opening outstanding loan**	**Total cash inflows (principal repayment + interest)**	**Interest @ 12%**	**Closing outstanding loan**
1st January 2019	21,09,716	--	--	21,09,716
31st December 2019	21,09,716	6,45,000	2,53,166	17,17,882
31st December 2020	17,17,882	6,10,000	2,06,146	13,14,028
31st December 2021	13,14,028	5,75,000	1,57,683	8,96,711
31st December 2022	8,96,711	5,40,000	1,07,605	4,64,316
31st December 2023	4,64,316	5,20,000	55,684*	--

* Difference of ₹ 34 (55,718 – 55,684) is due to approximation.

Journal Entries in the books of Softech Limited

a. 1st January 2019

Particulars	Dr. (₹)	Cr. (₹)
Loan to Mrs. B A/c Dr. Pre-paid employee cost A/c Dr. To Bank A/c (Being loan asset recorded at initial fair value)	21,09,716 3,90,284	 25,00,000

b. 31st December 2019

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr. To Interest income (profit and loss) @ 12% A/c To Loan to Mrs. B A/c (Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)	6,45,000	 2,53,166 3,91,834
Employee benefit (profit and loss) A/c Dr. To Pre-paid employee cost A/c (Being amortization of Pre-paid employee cost charged to profit and loss as employee benefit cost)	78,057	 78,057

On 31st December 2020, due to Pre-payment of a part of loan by Mrs. B, the carrying value of the loan shall be re-computed by discounting the future remaining cash flows by the original effective interest rate.
There shall be two sets of accounting entries on 31st December 2020, first the realisation of the contractual cash flow as shown in (c) below and then the accounting for the Pre-payment of ₹ 5,00,000 included in (d) below:

c. 31st December 2020

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr. To Interest income (profit and loss) @ 12% A/c To Loan to Mrs. B A/c (Being second instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)	6,10,000	 2,06,146 4,03,854
Employee benefit (profit and loss) A/c Dr. To Pre-paid employee cost A/c (Being amortization of Pre-paid employee cost charged to profit and loss as employee benefit cost)	78,057	 78,057

Computation of new carrying value of loan to Mrs. B:

Date	Inflows				PV
	Principal	Interest income @ 7%	Interest income @ 4%	Discount factor @12%	

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31st December 2021	5,00,000	--	40,000	0.8929	4,82,166
31st December 2022	5,00,000	--	20,000	0.7972	4,14,544
				Total (revised carrying value)	8,96,710
				Less: Current carrying value	(13,14,028)
				Adjustment required	4,17,318

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

d. 31st December 2020 prepayment

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr.	5,00,000	
To Pre-paid employee cost A/c		82,682
To Loan to Mrs. B A/c		4,17,318
(Being gain to Softech Limited recorded as an adjustment to pre-paid employee cost)		

Amortisation of employee benefit cost shall be as follows:

Date	Opening Balance	Amortised to P&L	Adjustment	Closing Balance
1st January 2019	3,90,284			3,90,284
31st December 2019	3,90,284	78,057		3,12,227
31st December 2020	3,12,227	82,682	78,057	1,51,488

Q20. July 2021 Exam, 6 marks

Government of India provides loans to MSMEs at a below-market rate of interest to fund the set-up of a new manufacturing facility. Sukshma Limited's date of transition to Ind AS is 1st April 2020.

In financial year 2014-2015, the Company had received a loan of ₹ 2.0 crore at a below -market rate of interest from the government. Under Indian GAAP, the Company had accounted for the loan as equity and the carrying amount was ₹ 2.0 crore at the date of transition. The amount repayable on 31st March 2024 will be ₹ 2.50 crore.

The Company has been advised to recognize the difference of ₹ 0.50 crores in equity by correspondingly increasing the value of various assets under property, plant & equipment by an equivalent amount on proportionate basis. Further, on 31st March 2024 when the loan has to be repaid, ₹ 2.50 crore should be presented as a deduction from property, plant & equipment.

Discuss the above treatment and share your views as per applicable Ind AS.

Answer

1FIN by IndigoLearn

Requirement as per Ind AS:

A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32. A first-time adopter shall apply the requirements in Ind AS 109 and Ind AS 20, prospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

Treatment to be done:

Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS Balance Sheet.

An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.
In the instant case, the loan meets the definition of a financial liability in accordance with Ind AS 32. Company therefore reclassifies it from equity to liability. It also uses the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening Ind AS balance sheet.
It calculates the annual effective interest rate (EIR) starting 1st April 2020 as below:
EIR = Amount / Principal(1/t) i.e. 2.50/2(1/4) i.e. 5.74%. approx.
At this rate, ₹ 2 crore will accrete to ₹ 2.50 crore as at 31st March 2024.
During the next 4 years, the interest expense charged to statement of profit and loss shall be:

Year ended	Opening amortised cost (₹)	Interest expense for the year (₹) @ 5.74% p.a. approx.	Closing amortised cost (₹)
31st March 2021	2,00,00,000	11,48,000	2,11,48,000
31st March 2022	2,11,48,000	12,13,895	2,23,61,895
31st March 2023	2,23,61,895	12,83,573	2,36,45,468
31st March 2024	2,36,45,468	13,54,532	2,50,00,000

An entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind AS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.
The accounting treatment is to be done as per above guidance and the advice which the company has been provided is not in line with the requirements of Ind AS 101.

Q21. Jan 2021 Exam, 14 marks

Lovely Limited has a policy of providing subsidized loans to its employees for the purpose of buying 2 Wheelers and 4 Wheelers vehicle. Simran who is a Sales Executive, took a loan for a Four-wheeler vehicle from the Company. The following were the terms of the loan:

- Principal Amount : ₹ 9,00,000
- Interest: 5% p.a. for the First ₹ 3,00,000 and 8% p.a. for the remaining amount.
- Loan disbursed date: 1st April 2017
- Loan Tenure: 3 Years
- Pre-payment : Full or Partial payment at the option of the employee.
- Simran shall remain in service till the term of the loan ends.The Principal amount should be recovered in 3 equal installments at the end of each year and will be first applied to 8% interest bearing principal.
- The accrued interest shall be paid on annual basis.

The market rate of a comparable loan available to Simran is 12% per annum.

Following table shows the expected contractual cash flows from the loan given to Simran.

(In ₹)

Date	Outflows	Inflows			Principal outstanding
		Principal	Interest income (8%)	Interest income (5%)	
01.04.2017	(9,00,000)				9,00,000
31.03.2018		3,00,000	48,000	15,000	6,00,000
31.03.2019		3,00,000	24,000	15,000	3,00,000
31.03.2020		3,00,000	--	15,000	-

Simran pre-pays ₹ 1,00,000 on 31st March, 2019.
Following table shows the actual cash flows from the loan, considering the prepayment on 31st March 2019.

(In ₹)

Date	Outflows	Inflows			Principal outstanding
		Principal	Interest income (8%)	Interest income (5%)	
01.04.2017	(9,00,000)				9,00,000
31.03.2018		3,00,000	48,000	15,000	6,00,000
31.03.2019		4,00,000	24,000	15,000	2,00,000
31.03.2020		2,00,000	--	10,000	-

You are required to pass journal entries in the books of Lovely Limited considering the requirements of Ind AS 109

Answer

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

Amount in ₹

Date	Inflows				PV
	Principal	Interest income @ 8%	Interest income @ 5%	Discount factor @12%	
31st December 2018	3,00,000	48,000	15,000	0.893	3,24,159
	3,00,000	24,000	15,000	0.797	2,70,183

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31st December 2019 31st December 2020	3,00,000	--	15,000	0.712	2,24,280
				Total (fair value)	8,18,622

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

The deemed employee cost is to be amortised over the period of loan i.e. the minimum period that Simran must remain in service.The amortization schedule of the ₹ 8,18,622 loan is shown in the following table:

Amount in ₹

Date	**Opening outstanding loan**	**Total cash inflows (principal repayment + interest)**	**Interest @ 12%**	**Closing outstanding loan**
1st January 2017	8,18,622	--	--	8,18,622
31st December 2018	8,18,622	3,63,000	98,235	5,53,857
31st December 2019	5,53,857	3,39,000	66,463	2,81,320
31st December 2020	2,81,320	3,15,000	33,680*	Nil

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

Journal Entries to be recorded at every period end:

a. 1 April 2017 –

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

b. 31 March 2018 –

Particulars	**Dr. (₹)**	**Cr. (₹)**
Bank A/c Dr. To Interest income A/c To Loan to employee A/c	3,63,000	 98,235 2,64,765

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(Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)		
Employee benefit (profit and loss) A/c Dr. To Pre-paid employee cost A/c (Being amortization of Pre-paid employee cost charged to profit and loss as employee benefit cost)	27,126	27,126

c. On 31 March 2019, due to Pre-payment of a part of loan by Simran, the carrying value of the loan shall be re-computed by discounting the future remaining cash flows by the original effective interest rate.

There shall be two sets of accounting entries on 31 March 2019, first the realisation of the contractual cash flow as shown below and then the accounting for the Pre-payment of ₹ 1,00,000 included in (d) below:

31 March 2019 –

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

Computation of new carrying value of loan to employee:

Date	**Inflows**				**PV**
	Principal	**Interest income @ 8%**	**Interest income @ 5%**	**Discount factor @12%**	
31st December 2020	2,00,000	--	10,000	0.893	1,87,530
				Total (revised carrying value)	1,87,530
				Less: Current carrying value	(2,81,320)
				Adjustment required	93,790

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

d. 31 March 2019 prepayment–

Particulars	**Dr. (₹)**	**Cr. (₹)**

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

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

Date	Loan outstanding	Total cash inflows (principal repayment + interest)	Interest @ 12%
31.03.2019 31.03.2020	1,87,530 --	 2,10,000	 22,470

Amortisation of employee benefit cost shall be as follows:

Date	Opening Balance	Amortised to P&L	Adjustment	Closing Balance
01.04.2017	81,378			81,378
31.03.2018	81,378	27,126		54,252
31.03.2019	54,252	27,126	6,210	20,916
31.03.2020	20,916		20,916	Nil

e. 31 March 2020 –

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

Q22. Jan 2021 Exam, 5 marks

Jewels Ltd. entered into a transaction to purchase 1,000 gms of platinum on 15th January, 2020. The transaction provides for a price payable which is equal to market value of 1,000 gms of platinum on 15th April 2020 and shall be settled by issue of such number of equity shares as is required to settle the aforementioned transaction, at a price of ₹ 100 per share on 15th April 2020. Whether this is to be classified as liability or equity as on 31st March 2020 as per Ind AS 109?

You are required to explain with reasons.

Answer

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There is a contract for purchase of 1,000 gms of platinum whose consideration varies in response to changing value of platinum. Analysing this contract as a derivative with all three of the following characteristics:

a) Value of contract changes in response to change in market value of platinum;
b) There is no initial net investment
c) It will be settled at a future date, i.e. 15th April 2020.

Since the above criteria are met, this is a derivative contract.

Now, a derivative contract that is settled in own equity other than exchange of fixed amount of cash for fixed number of shares is classified as 'liability'. In this case, since the contract results in issue of variable number of shares based on transaction price to be determined in future, hence, this shall be classified as 'derivative financial liability' as per Ind AS 109.

Q23. Nov 2020 Exam, 12 marks

On 1 April 2020, Star Limited has advanced a housing loan of ₹ 15 lakhs to one of its employee at an interest rate of 6% per annum which is repayable in 5 equal annual installments along with interest at each year end. Employee is not required to give any specific performance against this benefit. The market rate of similar loan for housing finance by banks is 10% per annum.

The accountant of the company has recognized the staff loan in the balance sheet equivalent to the amount of housing loan disbursed i.e. ₹ 15 lakhs. The interest income for the year is recognized at the contracted rate in the Statement of Profit and Loss by the company i.e. ₹ 90,000 (6% of ₹ 15 lakhs).

Analyze whether the above accounting treatment made by the accountant is in compliance with the relevant Ind AS. If not, advise the correct treatment of housing loan, interest and other expenses in the financial statements of Star Limited for the year 2020 -2021 along with workings and applicable Ind AS.

You are required to explain how the housing loan should be reflected in the Ind AS compliant Balance Sheet of Star Limited on 31 March 2021.

Answer

The accounting treatment made by the accountant is not in compliance with Ind AS 109 'Financial Instruments'. As per Ind AS 109, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value. The fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received.

After initial recognition, an entity shall measure a financial asset either at amortised cost or at fair value through profit and loss or fair value through other comprehensive income.Here, the loan given to employee is not at market rate. Hence, the fair value of the loan will not be equal to its initial loan proceeds. As per Ind AS 109, a financial instrument is initially measured and recorded in the books at its fair value. Further, interest income to
be recognised in the Statement of Profit and Loss will be the finance income recognised at effective rate of interest i.e. @ 10% and not the rate of interest charged by the company i.e. @ 6%.
The correct accounting treatment as per Ind AS 109 will be as under:

For measuring the fair value or present value of the loan at initial recognition, market rate of interest of similar loan is considered (level 1 observable input) ie @ 10%, to discount the cash outflows.
The fair value of the loan shall be as follows:

Date	Outstanding loan	Principal	Interest income@6%	Total inflow	Discount factor@10%	PV
31 March 2021	15,00,000	3,00,000	90,000	3,90,000	0.909	3,54,510
31 March 2022	12,00,000	3,00,000	72,000	3,72,000	0.826	3,07,272
31 March 2023	9,00,000	3,00,000	54,000	3,54,000	0.751	2,65,854
31 March 2024	6,00,000	3,00,000	36,000	3,36,000	0.683	2,29,488
31 March 2025	3,00,000	3,00,000	18,000	3,18,000	0.621	1,97,478
					Fair value of the loan	**13,54,602**

As per Ind AS 19, employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for termination of employment. Difference of loan proceeds and present value of the loan (fair value) will be treated as prepaid employee cost irrespective of the fact that employee is not required to give any specific performance against this benefit.

This is because employee is required to be in service of the company to continue availing the benefits of concessional rate of interest on housing loan. Practically, once the employee leaves the organisation, they have to repay the outstanding loan because the company provides the loan at concessional rate of interest
only to its employees.

Hence, it is an employee benefit given by the company to its employees. This deemed employee cost of ₹ 1,45,398 (15,00,000 – 13,54,602) will be deferred and amortised over the period of loan on straight line basis.

Calculation of amortised cost of loan to employees

Financial year ending on 31 March	Amortised cost (opening balance)	Interest to be recognised @ 10%	Repayment (including interest)	Amortised cost (closing balance)
2021	13,54,602	1,35,460	3,90,000	11,00,062
2022	11,00,062	1,10,006	3,72,000	8,38,068
2023	8,38,068	83,807	3,54,000	5,67,875
2024	5,67,875	56,788	3,36,000	2,88,663
2025	2,88,663	29,337*	3,18,000	--

* 2,88,663 x 10% = ₹ 28,866.
Difference of ₹ 471 (29,337 – 28,866) is due to approximation in computation.

Journal Entries to be recorded at every period end:

1. On 1 April 2020

Particulars	Dr. (₹)	Cr. (₹)
Loan to employee A/c Dr.	13,54,602	
Pre-paid employee cost A/c Dr.	1,45,398	
To Bank A/c		15,00,000
(Being loan asset recorded at initial fair value)		

2. On 31 March 2021

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr. To Finance income (profit and loss) @10% A/c To Loan to employee A/c (Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 10%)	3,90,000	 1,35,460 2,54,540
Employee benefit (profit and loss) A/c Dr. To Pre-paid employee cost A/c (1,45,398/5) (Being amortization of Pre-paid employee cost charged to profit and loss as employee benefit cost)	29,080	 29,080

The Following housing loan balances should appear in the financial statements:

Extracts of Balance sheet of Star Ltd. as at 31 March 2021

Non-current asset	
Financial asset	
Loan to employee (11,00,062 – 3,72,000 + 1,10,006)	8,38,068
Other non-current asset	87,238
Prepaid employee cost	
Current asset	
Financial asset	2,61,994
Loan to employee (3,72,000-1,10,006)	
Other current asset	29,080
Prepaid employee cost	

Deferred tax on temporary differences arising on the above-mentioned account balances (appearing in the balance sheet) should be recognised. However, in the absence of any tax rate in the question no deferred tax has been recognised.

Q24. Nov 2020 Exam, 6 marks

Parent Limited, prepares consolidated financial statements of the group on 31 March every year. During the year ended 31 March 2020, the following events affected the tax position of the group:

(i) S Limited, a wholly owned subsidiary of Parent Limited, incurred a loss of ₹ 20,00,000 which is adjustable from future taxable profits of the company for tax purposes. S Limited is unable to utilize this loss against previous tax liabilities. Income Tax Act does not allow S Limited to transfer the tax loss to other group companies.
However, it allows S Limited to carry forward the loss and utilize it against company's future taxable profits. The directors of Parent Limited estimate that S Limited will not make any taxable profits in the foreseeable future.

(ii) On 1 April 2019, Parent Limited borrowed ₹ 50,00,000. The cost incurred by Parent Limited for arranging the borrowing was ₹ 1,00,000 on the said date and this expenditure is qualified for deduction under the Income Tax Act for the accounting year 2019-2020. The loan was given for a three-year period. As per agreement, no
principal or interest was payable on the loan during the tenure of loan but the amount repayable on 31 March 2022 will be by way of a bullet payment of ₹ 65,21,900. As per Parent Limited, this equates to an effective annual interest rate of 10% on loan.

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As per the Income-tax Act, a further expense of ₹ 15,21,900 will be claimable from taxable income till the loan is repaid on 31 March 2022.
The rate of corporate income tax to be assumed @ 20%.
Explain and show how each of these events would affect the deferred tax assets/liabilities in the consolidated balance sheet of Parent Limited as at 31 March 2020 as per applicable Ind AS.
You are also required to examine whether the effective rate of interest arrived at by Parent Limited for the loan of ₹ 50,00,000 is in accordance with applicable Ind AS or not?

Answer

(i) The tax loss creates a potential deferred tax asset for the group since its carrying value is nil and its tax base is ₹ 20,00,000.
However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.

(ii) The carrying value of the loan at 31 March 2020 is ₹ 53,90,000
(₹ 50,00,000 –₹ 1,00,000 + (₹ 49,00,000 x 10%)).
The tax base of the loan is ₹ 50,00,000.
This creates a deductible temporary difference of ₹ 3,90,000 (₹ 53,90,000 –₹ 50,00,000) and a potential deferred tax asset of ₹ 78,000 (₹ 3,90,000 x 20%).
If there are prospects of availability of taxable profits in future, deferred tax asset can be recognised.

Amortisation Table for verification of effective rate of interest

Year	Opening balance (₹)	Interest @ 10% (₹)	Closing balance (₹)
	(A)	(B)	(A) + (B)
1	49,00,000 (50,00,000 – 1,00,000)	4,90,000	53,90,000
2	53,90,000	5,39,000	59,29,000
3	59,29,000	5,92,900	65,21,900

Since the closing balance calculated as per the above table on the basis of 10% matches with the bullet payment of ₹ 65,21,900, it assures that 10% rate of interest taken as effective rate of interest is correct and is in accordance with Ind AS 109. It considers the impact of cost of borrowing adjusted from the loan amount at initial recognition.

Q25. Nov 2018 Exam, 5 marks

How will you recognize and present the grants received from the Government in the following cases as per Ind AS 20?

i. A Ltd. received one acre of land to setup a plant in backward area (fair value of land ₹ 12 lakh and acquired value by Government is ₹ 8 lakhs).

ii. B Ltd. received an amount of loan for setting up a plant at concessional rate of interest from the Government.

iii. D Ltd. received an amount of ₹ 25 lakh for immediate start-up of a business without any condition.

iv. S Ltd. received ₹ 10 lakh for purchase of machinery costing ₹ 80 lakh. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis.

v. Government gives a grant of ₹ 25 lakh to U Limited for research and development of medicine for breast cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%.

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Answer

i. The land and government grant should be recognized by A Ltd. at fair value of ₹ 12,00,000 and this government grant should be presented in the books as deferred income. (Refer footnote 1

ii. As per para 10A of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', loan at concessional rates of interest is to be measured at fair value and recognised as per Ind AS 109. Value of concession is the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for as Government grant.

iii. ₹ 25 lakh has been received by D Ltd. for immediate start-up of business. Since this grant is given to provide immediate financial support to an entity, it should be recognised in the Statement of Profit and Loss immediately with disclosure to ensure that its effect is clearly understood, as per para 21 of Ind AS 20.

iv. ₹ 10 lakh should be recognized by S Ltd. as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 1,00,000 [₹ 10 lakh / 10 years] should be credited to profit and loss each year over period of 10 years. (Refer footnote 2)

v. As per para 12 of Ind AS 20, the entire grant of ₹ 25 lakh should be recognized immediately as deferred income and charged to profit and loss over a period of two years based on the related costs for which the grants are intended to compensate provided that there is reasonable assurance that U Ltd. will comply with the conditions attached to the grant.

Q26. Nov 2018 Exam, 4 marks

NAV Limited granted a loan of ₹ 120 lakh to OLD Limited for 5 years @ 10% p.a. which is Treasury bond yield of equivalent maturity. But the incremental borrowing rate of OLD Limited is 12%. In this case, the loan is granted to OLD Limited at below market rate of interest. Ind AS 109 requires that a financial asset or financial liability is to be measured at fair value at the initial recognition. Should the transaction price be treated as fair value?

If not, find out the fair value. What is the accounting treatment of the difference between the transaction price and the fair value on initial recognition in the book of NAV Ltd.? Present value factors at 12%:

Year	1	2	3	4	5
PVF	0.892	0.797	0.712	0.636	0.567

Answer

Since the loan is granted to OLD Ltd at 10% i.e below market rate of 12%. It will be considered as loan given at off market terms. Hence the Fair value of the transaction will be lower from its transaction price & not the transaction price.

Calculation of fair value

Year	Future cash flow (in lakh)	Discounting factor @ 12%	Present value (in lakh)
1	12	0.892	10.704
2	12	0.797	9.564
3	12	0.712	8.544
4	12	0.636	7.632
5	120+12=132	0.567	74.844

			111.288

The fair value of the transaction be ₹ 111.288 lakh.

Since fair value is based on level 1 input or valuation technique that uses only data from observable markets, difference between fair value and transaction price will be recognized in Profit and Loss as fair value loss i.e ₹ 120 lakh– ₹ 111.288 lakh= ₹ 8.712 lakh.

Note: One may also calculate the above fair value by the way of annuity on interest amount rather than separate calculation.

Q27. May 2018 Exam, 8 marks

S Limited issued redeemable preference shares to its Holding Company -H Limited. The terms of the instrument have been summarized below. Analyse the given situation, applying the guidance in Ind AS 109 'Financial Instruments', and account for this in the books of H Limited.

Nature	Non-cumulative redeemable preference shares
Repayment	Redeemable after 3 years
Date of Allotment	1st April 2015
Date of Repayment	31st March 2018
Total Period	3 Years
Value of Preference Shares issued	5,00,00,000
Dividend Rate	0.0001% Per Annum
Market rate of interest	12% Per Annum
Present value factor	0.7118

Answer

1. Analysis of the financial instrument issued by S Ltd. to its holding company H Ltd.
Applying the guidance in Ind AS 109, a 'financial asset' shall be recorded at its fair value upon initial recognition. Fair value is normally the transaction price. However, sometimes certain type of instruments may be exchanged at off market terms (ie, different from market terms for a similar instrument if exchanged between market participants).

For example, a long-term loan or receivable that carries no interest while similar instruments if exchanged between market participants carry interest, then fair value for such loan receivable will be lower from its transaction price owing to the loss of interest that the holder bears. In such cases where part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument.

In the above case, since S Ltd has issued preference shares to its Holding Company– H Ltd, the relationship between the parties indicates that the difference in transaction price and fair value is akin to investment made by H Ltd. in its subsidiary. This can further be substantiated by the nominal rate of dividend i.e.0.0001% mentioned in the terms of the instrument issued.

Computations on initial recognition:	**₹**
Transaction value of the Redeemable preference shares	5,00,00,000
Less: Present value of loan component @ 12% (5,00,00,000 x .7118)	(3,55,90,000)
Investment in subsidiary	1,44,10,000

Subsequently, such preference shares shall be carried at amortised cost at each reporting date as follows:

Year	Date	Opening Balance	Interest @ 12%	Closing balance
	1st April, 2015	3,55,90,000	-	3,55,90,000

1	31st March, 2016	3,55,90,000	42,70,800	3,98,60,800
2	31st March, 2017	3,98,60,800	47,83,296	4,46,44,096
3	31st March, 2018	4,46,44,096	53,55,904*	5,00,00,000

* ₹ 4,46,44,096 x 12% = ₹ 53,57,292. The difference of ₹ 1,388 (₹ 53,57,292 –₹ 53,55,904) is due to approximation in present value factor.

2. In the books of H Ltd.

Journal Entries to be done at every reporting date

Date	Particulars	Amount	Amount
1st April, 2015	Investment (Equity portion) Dr. Redeemable Preference Shares Dr. To Bank (Being initial recognition of transaction recorded)	1,44,10,000 3,55,90,000	 5,00,00,000
31st March, 2016	Redeemable Preference Shares Dr. To Interest income (Being interest income on loan component recognized)	42,70,800	42,70,800
31st March, 2017	Redeemable Preference Shares Dr. To Interest income (Being interest income on loan component recognized)	47,83,296	47,83,296
31st March, 2018	Redeemable Preference Shares Dr. To Interest income (Being interest income on loan component recognized)	53,55,904	53,55,904
31st March, 2018	Bank Dr. To Redeemable Preference Shares (Being settlement of transaction done at the end of the third year)	5,00,00,000	5,00,00,000

Q28. May 2018 Exam, 8 marks

On 1st January 2017, Expo Limited agreed to purchase USD ($) 40,000 from E&I Bank in future on 31st December 2017 for a rate equal to ₹ 65 per USD. Expo Limited did not pay any amount upon entering into the contract. Expo Limited is a listed company in India and prepares its financial statements on a quarterly basis.

Using the definition of derivative included in Ind AS 109 and following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for each quarter ended till the date of actual purchases of USD.

For the purpose of accounting, use the following information representing marked to market fair value of forward contracts at each reporting date:

As at 31st March, 2017 ₹ (50,000)
As at 30th June, 2017 ₹ (30,000)
As at 30th September, 2017 ₹ 24,000

Spot rate of USD on 31st December, 2017 ₹ 62 per USD

Answer

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Assessment of the arrangement using the definition of derivative included under Ind AS 109.

Derivative is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics:

a. its value changes in response to the change in foreign exchange rate (emphasis laid)
b. it requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts with similar response to changes in market factors.
c. it is settled at a future date.

Upon evaluation of contract in question, on the basis of the definition of derivative, it is noted that the contract meets the definition of a derivative as follows:

a. the value of the contract to purchase USD at a fixed price changes in response to changes in foreign exchange rate.
b. the initial amount paid to enter into the contract is zero. A contract which would give the holder a similar response to foreign exchange rate changes would have required an investment of USD 40,000 on inception.
c. the contract is settled in future

The derivative is a forward exchange contract.
As per Ind AS 109, derivatives are measured at fair value upon initial recognition and are subsequently measured at fair value through profit and loss.

Accounting in each Quarter

(i) Accounting on 1st January 2017

As there was no consideration paid and without evidence to the contrary the fair value of the contract on the date of inception is considered to be zero. Accordingly, no accounting entries shall be recorded on the date of entering into the contract.

(ii) Accounting on 31st March 2017

Particulars	Dr. (₹)	Cr. (₹)
Profit and loss A/c Dr. To Derivative financial liability (Being mark to market loss on forward contract recorded)	50,000	 50,000

(iii) Accounting on 30th June 2017

Particulars	Dr. (₹)	Cr. (₹)
Derivative financial liability A/c Dr. To Profit and Loss A/c (Being partial reversal of mark to market loss on forward contract recorded)	20,000	 20,000

(iv) Accounting on 30th September 2017

Particulars	Dr. (₹)	Cr. (₹)
Derivative financial liability A/c Dr. Derivative financial asset A/c Dr To Profit and Loss A/c (Being gain on mark to market of forward contract booked as derivative financial asset and reversal of derivative financial liability)	30,000 24,000	 54,000

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(v) Accounting on 31st December 2017

The settlement of the derivative forward contract by actual purchase of USD 40,000

Particulars	Dr. (₹)	Cr. (₹)
Cash (USD Account) (USD 40,000 x ₹ 62)	24,80,000	
Dr.	1,44,000	
Profit and loss A/c Dr.		26,00,000
To Cash (USD 40,000 x ₹ 65)		24,000
To Derivative financial asset A/c		
(Being loss on settlement of forward contract booked on actual purchase of USD)		

Q1. May 2026, RTP

On 1st April 2XX0, Zx Co originates a 10-year 6% Rs. 1,00,000 loan. The loan carries an annual interest rate of 6% payable at the end of each year and the loan is repayable at par at the end of year 10. Zx charges Rs. 3,000 non-refundable loan origination fee to the borrower and it also incurs Rs. 5,000 in direct loan origination costs. The contract specifies that the borrower has an option to pre-pay the instrument and that no penalty will be charged for pre-payment. The contract meets the SPPI criteria. At inception, Zx expects the borrower not to pre-pay.

The effective interest rate is approximately 5.7317%.

What is the carrying amount on initial recognition and what impact does the pre-payment feature have on the amortised cost calculations?

Answer:

The initial carrying amount of the loan asset is calculated as follows:

	Rs.
Loan principal	1,00,000
Origination fees charged to borrower	(3,000)
Origination costs incurred by lender	5,000
Carrying amount of loan	1,02,000

Because the entity expects the borrower not to pre-pay, the amortisation period is equal to the instrument's full term.

The carrying amount of the loan over the period to maturity, assuming that the entity continues to expect the borrower not to pre-pay, will be as follows:

	Opening Carrying amount	Cash in flows (coupon)	Interest-income@ 5.7317%	Amortisation of net fees	Closing Carrying amount
		Rs.	Rs.	Rs.	Rs.
	a	b=1,00,000 x 6%	c=a x 5.7317%	d=b-c	e=a-d
1 Apr 2XX0					1,02,000
31 Mar 2XX1	1,02,000	6,000	5,846	154	1,01,846
31 Mar 2XX2	1,01,846	6,000	5,838	162	1,01,684
31 Mar 2XX3	1,01,684	6,000	5,828	172	1,01,512
31 Mar 2XX4	1,01,512	6,000	5,818	182	1,01,330
31 Mar 2XX5	1,01,330	6,000	5,808	192	1,01,138

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31 Mar 2XX6	1,01,138	6,000	5,797	203	1,00,935
31 Mar 2XX7	1,00,935	6,000	5,785	215	1,00,721
31 Mar 2XX8	1,00,721	6,000	5,773	227	1,00,494
31 Mar 2XX9	1,00,494	6,000	5,760	240	1,00,254
31 Mar 2X10	1,00,254	6,000	5,746	254	1,00,000
		60,000	58,000	2,000	
31 Mar 2X10		Repayment of principal			(1,00,000)
31 Mar 2X10		Carrying value of loan			Nil

The effective interest income for the period is calculated by applying the effective interest rate of 5.7317% to the loan's amortised cost at the end of the previous reporting period. The annual interest income decreases each year, to reflect the decrease in the asset's carrying value as the initial net fee is amortised. So, the difference between the calculated effective income for a given reporting period and the loan's coupon is the amortisation of the transaction costs during that reporting period. The loan's amortised cost at the end of the previous period less amortisation in the current reporting period gives the loan's amortised cost at the end of the current period. By maturity date, the net fees received are fully amortised and the loan's carrying amount is equal to the face amount, which is then repaid in full.

Q2. Jan 2026, RTP

A Ltd. has issued Optionally Convertible Debentures (OCD) amounting to Rs. 300 crores to B Ltd. on following terms:

- Tenor : 4 years
- Coupon : Nil
- IRR : 15% p.a.

During the tenor of OCDs, A Ltd. can call the OCD and redeem it with stated IRR.

The market rate for similar debt without conversion features is 17% p.a.

B Ltd. can also ask for conversion at any time before maturity based on following formula:

No of equity shares = (Investment amount + applicable IRR) / (Face value of equity share; i.e. Rs. 10)

If redemption or conversion doesn't happen before maturity, then OCDs will be redeemed mandatorily at maturity in same manner as for conversion.

Required:

How is this instrument accounted for in the books of A Ltd. in the following two scenarios:

Scenario A – When B Ltd. opts for conversion before maturity at the end of year 1

Scenario B – When B Ltd. doesn't opt for conversion and OCDs are redeemed at maturity.

Answer:

OCD issued by A Ltd. is a compound financial instrument. The host instrument will be classified as liability, since there is contractual obligation to pay cash towards interest (i.e. guaranteed IRR of 15% p.a.) and principal repayment that issuer A Ltd. cannot avoid. The equity conversion option is accounted as equity.

Date	***Particulars***	***Amount (rounded off in***

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				crores)	
Day 1	Bank		Dr.	300	
	To Equity (balancing figure representing residual interest)				20
	To Debentures (future cash flows discounted @17%)				280
	(Initial recognition of the financial instrument in the nature of a compound instrument comprising of elements of debt and equity)				
Subsequent Accounting					
End of Year 1	Interest on Debentures		Dr.	48	
	To Debentures (classified under "Liability component of compound financial instrument")				48
	(Interest recognised in P&L @17% i.e. 280 x 17%)				

Scenario A – When B Ltd opts for conversion at end of year 1

Since conversion was allowed under the original terms of instrument, the entity should determine the amortised cost of liability component using the original IRR till the conversion date. It will derecognise the liability component and recognises it as equity.

There is no gain or loss on early conversion.

Date	***Particulars***		***Amount (rounded off in crores)***	
End of Year 1	Debentures [280 + 48]	Dr.	328	
	To Equity Share Capital			328
	(Conversion of OCD into equity shares of the Company)			

Scenario B – When B doesn't opt for conversion and OCDs are redeemed at maturity

Date	***Particulars***		***Amount (rounded off in Crores)***	
End of Year 1-4	Interest on debentures interest for 4 years)	Dr. (cumulative	245	
	To Debentures			245
	(Interest recognised in P&L @ 17%)			
End of Year 4	Debentures [280 + 245]	Dr.	525	
	To Bank			525
	(Being debentures redeemed)			

Working Note:

Computation of maturity value of OCD as per the formula stated by B Ltd.:

Year	**Opening balance (In crores)**	**Interest @15% IRR (In crores)**	**Closing balance (In crores)**
1	300	45	345
2	345	51.75	396.75
3	396.75	59.5125	456.2625
4	456.2625	68.439	524.7015 or 525
		224.7015 or 225	

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Q3. Sep 2025, RTP

Zx issues a fixed-rate loan for Rs. 500,000 and incurs issue costs of Rs. 20,000, resulting in an initial carrying value of Rs. 480,000. The loan carries an interest rate of 8% per annum, and it is repayable at par at the end of year 10. However, under the contract, Zx can call the loan at any time after year 4 by paying a fixed premium of Rs. 30,000. The fair value of the option is Rs. 10,000 at inception. The effective interest rate amounts to 8.30213%.

Required:

(i) How is the embedded issuer-only call feature accounted for by Zx, the issuer initially?
(ii) Explain the accounting of the loan when

(a) In years 1 and 2, there is no change in interest rate since inception for an instrument of similar maturity and credit rating. The option's fair value (time value) at the end of year 2 is Rs. 6,000.

(b) At the end of year 3, interest rates have fallen, and the option's fair value increases to Rs. 9,000.

(c) At the end of year 4, interest rates have fallen further. The option's fair value increases to Rs. 20,000, and the entity decides to repay the loan at the end of year 4.

Answer:

It is first necessary to determine whether the call option is closely related to the host debt instrument. Because the fixed premium is required to be paid whenever the call option is exercised after year 4, it is not known if it will be equal to the present value of any interest lost during the remaining term after exercise of the option. Additionally, the call option's exercise price is Rs. 5,30,000 (inclusive of the premium) therefore, it is unlikely to be approximately equal to the debt instrument's amortised cost in year 4, or at any subsequent year. Consequently, the call option shall be separated from the host debt contract and accounted for separately. This assumes that the expected life of the instrument is the full 10-year term. Even if the expected life is assumed to be four years, the 10-year loan with a call option after four years is economically same as a four-year loan with a six-year extension option. Because there is no concurrent adjustment to the interest rate after four years, the term extension option would not be closely related, and it would need to be accounted for separately. Thus, whichever way the loan and option are viewed, the embedded derivative needs to be separated.

Even though the option is out of the money at inception, because the option's exercise price is greater than the debt instrument's carrying value, it has a time value.

Since the value of a callable bond is equal to the value of a straight bond less the value of the option feature, the accounting entries at inception is:

		Dr (Rs.)	Cr. (Rs.)
Embedded option (derivative asset)	Dr.	10,000	
Cash	Dr.	4,80,000	
To Debt instrument (host)			4,90,000

Since the call option will be fair valued and accounted for separately, with fair value movements taken to profit or loss, it has no impact on the entity's estimate of future cash flows; accordingly, the amortisation period will be the debt host's period to original maturity. The amortisation schedule is shown below:

	Opening amortised cost Rs.	Interest expense @ 8.30213% Rs.	Cash payments Rs.	Closing amortised cost Rs.
Year 1	490,000	40,680	40,000	490,680
Year 2	490,680	40,737	40,000	491,417
Year 3	491,417	40,798	40,000	492,216
Year 4	492,216	40,864	40,000	493,080
Year 5	493,080	40,936	40,000	494,016
Year 6	494,016	41,014	40,000	495,030
Year 7	495,030	41,098	40,000	496,128
Year 8	496,128	41,189	40,000	497,317
Year 9	497,317	41,288	40,000	498,605
Year 10	498,605	41,395	540,000	-

The entity would recognize interest expense in profit or loss and the loan's amortised cost in the balance sheet each year, in accordance with the above amortisation schedule.

In years 1 and 2, there is no change in interest rate since inception for an instrument of similar maturity and credit rating. The option's fair value (time value) at the end of year 2 is Rs. 6,000. The decrease in fair value of Rs. 4,000 since inception will be reported in profit or loss, and the option will be recorded at Rs. 6,000 at the end of year 2.

At the end of year 3, interest rates have fallen, and the option's fair value increases to Rs. 9,000. The increase in value of Rs. 3,000 will be recorded in profit or loss, and the option will be recorded at its fair value of Rs. 9,000 at the end of year 3.

At the end of year 4, interest rates have fallen further. The option's fair value increases to Rs. 20,000, and the entity decides to repay the loan at the end of year 4.

The accounting entries, to reflect the change in the option's fair value and the loan's early repayment at the end of year 4, are as follows:

		Dr (Rs.)	Cr. (Rs.)
Embedded option	Dr.	11,000	
To Profit or loss			11,000
(Early repayment of loan)			
Debt instrument (host)	Dr.	4,93,080	
Loss on de- recognition of liability	Dr.	56,920	
To Embedded option (derivative asset)			20,000
To Cash			5,30,000

Q4. Sep 2025, RTP

On 1st April, 20X1, ABC Ltd. issues a 10- year bond with a par value of Rs. 15,00,000 and an annual fixed coupon rate of 8%, which is consistent with market rates for bonds with similar characteristics. ABC Ltd. uses Secured Overnight Financing Rate (SOFR) as its benchmark interest rate. At the date of inception of the bond, SOFR is 5%. At the end of the first year:

- SOFR has decreased to 4.75%; and
- The fair value of bond is Rs. 15,38,110. This value is consistent with an interest rate of 7.6%.
- The remaining cash flows on bond are Rs. 1,20,000 per year for nine years and Rs. 15,00,000 at the end of nineth year. These cash flows discounted at 7.6% equals Rs. 15,38,110.

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ABC Ltd. assumes a flat yield curve, that all changes in interest rates result from a parallel shift in the yield curve, and that the changes in SOFR are the only relevant changes in market conditions.

Following discounting factors may be considered

Discount rate @7.75%	Present value of Rs. 1 payable
At the end of year 9	51.1 paise
Cumulatively for the years 1–9	6.312
At the end of year 10	47.4 paise
Cumulatively for the years 1–10	6.786

Required

What is the amount transferred to the OCI at the end of Year 1 ?

Answer:

The amount of change in fair value of the bond that is not attributable to changes in market conditions giving rise to market risk is estimated as follows:

Step (a)

The bond's IRR at the start of the period is 8%.

Step (b)

Because the benchmark interest rate (SOFR) is 5%, the instrument - specific component of the IRR is 3%.

Step (c)

The contractual cash flows of the instrument at the end of the period are:

- Interest of Rs. 1,20,000 [Rs. 15,00,000 x 8%] per year for the next 9 years.
- Principal repayment of Rs. 15,00,000 at the end of 9th year.

The present value of these cash flows is calculated using a discount rate of 7.75%. This rate is arrived at as below:

- 4.75% end of period SOFR, plus
- 3% instrument - specific component calculated as at the start of the period

This gives a notional present value of Rs. 15,23,670

= [(15,00,000 x 0.511) + (1,20,000 x 6.312)].

Step (d)

The fair value of the liability at the end of the period is Rs. 15,38,110. Hence, ABC Ltd. should present Rs. 14,440 [Rs. 15,38,110 – Rs. 15,23,670] in the OCI.

Q5. May 2025, RTP

On 1st April, 2X01, A Ltd. issued a 10% convertible debenture with a face value of Rs. 1,000 maturing on 31st March, 2X11. The debenture is convertible into equity share of A Ltd. at a conversion price of Rs. 25 per share. Interest is payable half-yearly in cash. At the date of issue, A Ltd. could have issued non-convertible debt with a ten-year term bearing a coupon interest rate of 11%.

On 1st January, 2X06, the convertible debenture has a fair value of Rs. 1,700.

A Ltd. makes a tender offer to the holder of the debenture to repurchase the debenture for Rs. 1,700, which the holder accepts. On the date of repurchase, A Ltd. could have issued non-convertible debt with a five-year term bearing a coupon interest rate of 8%.

Required

How does A Ltd. account for the repurchase?

Answer:

In the financial statements of A Ltd., the carrying amount of the debenture is allocated on issue as follows:

	Rs.
Liability component	
Present value of 20 half-yearly interest payments of Rs. 50, discounted at 11% (Rs. 50 x 11.95)	598
Present value of Rs. 1,000 due in 10 years, discounted at 11%, compounded half-yearly (Rs. 1,000 x 0.342)	342
	940
Equity component	
Difference between Rs. 1,000 total proceeds and Rs. 940 allocated above	60
Total proceeds	**1,000**

The repurchase price is allocated as follows:

	Carrying Value (Rs.)	Fair Value (Rs.)	Difference (Rs.)
Liability component:			
Present value of 10 remaining half- yearly interest Payments of Rs. 50, discounted at 11% and 8% respectively	377	406	
Present value of Rs. 1,000 due in 5 years, discounted at 11% and 8%, compounded half yearly, respectively	585	676	
	962	1,082	(120)
Equity component	60	618	(558)
Total	**1,022**	**1,700**	**(678)**

A Ltd. recognises the repurchase of the debenture as follows:

Liability component	Dr.	962	1,082
Debt settlement expense (P&L)	Dr.	120	
To Cash			
(To recognize the repurchase of the liability component)			
Equity component	Dr.	60	618
Reserves and Surplus	Dr.	558	
To Cash			
(To recognize the cash paid for the equity component)			

The debt settlement expense represents the difference between the carrying value of the debt component and its fair value.

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Q6. May 2025, RTP

On 1st April, 20X1, ABC Ltd. issues a 10- year bond with a par value of Rs. 15,00,000 and an annual fixed coupon rate of 8%, which is consistent with market rates for bonds with similar characteristics. ABC Ltd. uses Secured Overnight Financing Rate (SOFR) as its benchmark interest rate. At the date of inception of the bond, SOFR is 5%. At the end of the first year:

- SOFR has decreased to 4.75%; and
- The fair value of bond is Rs. 15,38,110. This value is consistent with an interest rate of 7.6%.
- The remaining cash flows on bond are Rs. 1,20,000 per year for nine years and Rs. 15,00,000 at the end of nineth year. These cash flows discounted at 7.6% equals Rs. 15,38,110.

ABC Ltd. assumes a flat yield curve, that all changes in interest rates result from a parallel shift in the yield curve, and that the changes in SOFR are the only relevant changes in market conditions.

Following discounting factors may be considered

Discount rate @7.75%	**Present value of Rs. 1 payable**
At the end of year 9	51.1 paise
Cumulatively for the years 1–9	6.312
At the end of year 10	47.4 paise
Cumulatively for the years 1–10	6.786

Required

What is the amount transferred to the OCI at the end of Year 1 ?

Answer:

The amount of change in fair value of the bond that is not attributable to changes in market conditions giving rise to market risk is estimated as follows:

Step (a)

The bond's IRR at the start of the period is 8%.

Step (b)

Because the benchmark interest rate (SOFR) is 5%, the instrument - specific component of the IRR is 3%.

Step (c)

The contractual cash flows of the instrument at the end of the period are:

- Interest of Rs. 1,20,000 [Rs. 15,00,000 x 8%] per year for the next 9 years.
- Principal repayment of Rs. 15,00,000 at the end of 9th year.

The present value of these cash flows is calculated using a discount rate of 7.75%. This rate is arrived at as below:

- 4.75% end of period SOFR, plus
- 3% instrument - specific component calculated as at the start of the period

This gives a notional present value of Rs. 15,23,670

= [(15,00,000 x 0.511) + (1,20,000 x 6.312)].

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Step (d)

The fair value of the liability at the end of the period is Rs. 15,38,110. Hence, ABC Ltd. should present Rs. 14,440 [Rs. 15,38,110 – Rs. 15,23,670] in the OCI.

Q7. Nov 2023, RTP

On 1st April, 20X1, a bank provides an entity with a four-year loan of ₹ 5,000 on normal market terms, including charging interest at a fixed rate of 8% per year. Interest is payable at the end of each year. The figure of 8% is the market rate for similar four-year fixed-interest loans with interest paid annually in arrears. Transaction cost of ₹ 100 is incurred on originating the loan. Effective interest rate in this case is 8.612%.

In 20X1-20X2, the entity experienced financial difficulties. On 31st March, 20X2, the bank agreed to modify the terms of the loan. Under the new terms, the interest payments in 20X2-20X3 to 20X4-20X5 will be reduced from 8% to 5%. The entity paid the bank a fee of ₹ 50 for paperwork relating to the modification.

Analyse whether the modification of the loan terms constitutes an extinguishment of the original financial liability or not.

Answer

Since the interest was initially set at the market rate, on 1st April, 20X1 the entity on initial recognition will measure the loan at the transaction price, less transaction costs i.e. at ₹ 4,900.

The following is the original amortised cost calculation at 1st April, 20X1:

Time	**Carrying amount at 1st April**	**Effective Interest @ 8.612%**	**Cash outflow**	**Carrying amount at 31st March**
	(a)	**(b=ax8.612%)**	**(c=5000x8%)**	**(d = a + b - c)**
20X1-20X2	4,900.00	421.99	(400.00)	4,921.99
20X2-20X3	4,921.99	423.88	(400.00)	4,945.87
20X3-20X4	4,945.87	425.94	(400.00)	4,971.81
20X4-20X5	4,971.81	428.19	(5,400.00)	–

At 31st March, 20X2:

1. The present value of the remaining cash flows of the original financial liability is₹ 4,921.99 discounted at the original effective interest rate of 8.612%.

2. The present value of the cash flows under the new terms discounted using theoriginal effective interest rate is ₹ 4,537.25 (Refer W.N.). Including the ₹ 50 fee, the present value of the total cash flows is ₹ 4,587.25.

3. The difference between ₹ 4,921.99 and ₹ 4,587.25 is ₹ 334.74 which is only 6.8%(₹ 334.74 ÷ ₹ 4,921.99) of the present value of the remaining cash flows of the original financial liability.

The entity applies its judgement to decide whether the terms of the instruments exchanged are substantially different. Since the difference of the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is less than 10% of the present value of the remaining cash flows of the

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original financial liability, this modification should not be considered a substantial modification of the terms of the
existing loan. Therefore, the modification would not be accounted for as an extinguishment of the original financial liability.

Working Note:
The calculation of the present value of the cash flows under the new terms discount edusing the original effective interest rate is as follows:

Time	**Cash outflow**	**Discounting factor @ 8.612%**	**Present value at 31st March**
31st March, 20X3	250.00	0.921	230.25
31st March, 20X4	250.00	0.848	212.00
31st March, 20X5	5,250.00	0.780	4,095.00
Total present value			4,537.25

Q8. May 2023, RTP

In an arm's length transaction, Entity X buys 10,000 convertible preference shares in Company Z for cash payments of ₹ 40,000, with ₹ 25,000 payable immediately and ₹ 15,000 payable in two years. The market rate of annual interest for a two-year loan to the entity would be 6%. Explain the accounting treatment for the said transaction.

Answer

Ind AS 109 'Financial Instruments', defines a financial guarantee contract as 'a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Based on this definition, an evaluation is required to be done to ascertain whether the contract between director and Bank qualifies as a financial guarantee contract as defined in Appendix A to Ind AS 109. In the given case, it does qualify as a financial guarantee contract as:

- the reference obligation is a debt instrument (term loan);
- the holder i.e. Bank is compensated only for a loss that it incurs (arising on account of non-repayment); and
- the holder is not compensated for more than the actual loss incurred.

Ind AS 109 provides principles for accounting by the issuer of the guarantee. However, it does not specifically address the accounting for financial guarantees by the beneficiary. In an arm's length transaction between unrelated parties, the beneficiary of the financial guarantee would recognise the guarantee fee or premium paid as an expense.

It is also pertinent to note that the entity needs to exercise judgment in assessing the substance of the transaction taking into consideration relevant facts and circumstances, for example, whether the director is being compensated otherwise for providing guarantee. Based on such an assessment, an appropriate accounting treatment based on the principles of Ind AS should be followed.

In the given case, SEL is the beneficiary of the financial guarantee and it does not pay a premium or fees to its director for providing this financial guarantee. Accordingly, SEL will not be required to account for such financial guarantee in its financial statements considering the unit of account as

being the guaranteed loan, in which case the fair value would be expected to be the face value of the loan proceeds that SEL received.

In the given case based on the limited facts provided, SEL will be required to make necessary disclosures of such financial guarantee in accordance with Ind AS 24 as follows:

(a) the amount of the transactions;

(b) the amount of outstanding balances, including commitments, and:

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

(ii) details of any guarantees given or received;

(b) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Q9. Nov 2022, RTP

On 1st April, 20X1 an entity granted an interest-free loan of ₹ 5,00,000 to an employee for a period of three years. The market rate of interest for similar loans is 5% per year.

On 31st March, 20X3, because of financial difficulties, the employee asked to extend the interest-free loan for further three years. The entity agreed. Under the restructured terms, repayment will take place on 31st March, 20X7. However, the entity only expects to receive a payment of ₹ 2,50,000, given the financial difficulty of the employee.

Explain the accounting treatment on initial recognition of loan and after giving effect of the changes in the terms of the loan as per Ind AS 109. Support your answer with Journal entries and amortised cost calculation, as on the date of initial recognition and on the date of change in terms of loan.

Answer

As the loan is not at a market interest rate, hence it is not recorded at the transaction price of ₹ 5,00,000. Instead, the entity measures the loan receivable at the present value of the future cash inflows discounted at a market rate of interest available for a similar loan.

The present value of the loan receivable (financial asset) discounted at 5% per year is ₹ 5,00,000 ÷ (1.05)3 = ₹ 4,32,000. Therefore, ₹ 4,32,000 is recorded on initial measurement of the loan receivable. This amount will accrete to ₹ 5,00,000 over the three-year term using the effective interest method.

The difference between ₹ 5,00,000 and ₹ 4,32,000 i.e., ₹ 68,000 is accounted for as prepaid employee cost in accordance with Ind AS 19 'Employee Benefits', which will be deferred and amortised over the period of loan on straight line basis.

The journal entries on initial recognition are:

		₹	₹
Loan receivable (financial asset)	Dr.	4,32,000	
Prepaid employee cost (asset)	Dr.	68,000	
To Cash / Bank (financial asset)			5,00,000
(Being loan granted to the employee recognised)			

The amortised cost calculation at 1st April, 20X1 is as follows:

Period	Carrying amount at 1st April	Interest at 5%	Cash inflow	Carrying amount at 31st March
20X1-20X2	4,32.000	21,600	-	4,53,600
20X2-20X3	4,53.000	22,680	-	4,76,280
20X3-20X4	4,76,000	23,720*	(5,00,000)	-

*Difference of ₹ 94 (₹ 23,814 – ₹ 23,720) is due to approximation.

On 31st March, 20X3, the carrying amount of the loan receivable is ₹ 4,76,280.

As a result of that modification, on 31st March, 20X3, the present value of estimated cash flows is recalculated to be ₹ 2,05,750 using the asset's original effective interest rate of 5% (₹ 2,50,000 ÷ $(1.05)^4$).

An impairment loss of ₹ 2,70,530 (₹ 4,76,280 – ₹ 2,05,750) is recognised in profit or loss in the year 20X2-20X3.

The carrying amount of the loan receivable may be reduced directly, as follows:

	₹	₹
Profit or loss - impairment loss Dr. To Loan receivable 2,70,530 (Being impairment loss recognised)	2,70,530	 2,70,530

In this case, the loan receivable will be measured at ₹ 2,05,750 at 31st March, 20X3.

The revised amortised cost calculation at 1st April, 20X3 is as follows:

Period	Carrying amount at 1st April	Interest at 5%(the original effective interest rate)	Cash inflow	Carrying amount at 31st March
20X3-20X4	2,05,750	10,288	-	2,16,038
20X4-20X5	2,16,038	10,802	-	2,26,840
20X5-20X6	2,26,840	11,342	-	2,38,182
20X6-20X7	2,38,182	11,818	(2,50,000)	-

Q10. May 2022, RTP

ABC Ltd. issues 4% 1,00,000 OCPS at a face value of ₹ 100 per share on 1st April, 20X1 and these are redeemable after 5 years, ie, on 31st March, 20X6. Dividend is noncumulative. Each preference shares entitles the holders to 10 equity shares and the preference shares are optionally convertible by the holder at any time until maturity.

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How will the preference shares be classified at initial recognition assuming that a comparable instrument carries a market interest rate of 7%? Provide journal entries for year 1. Will this classification be changed subsequently in case there is likelihood that OCPS will be encashed at the end of the maturity period?

Answer

The OCPS is redeemable at the end of the 5th year. Hence, the preference share contains a liability component. Further the dividend payable on the preference shares is non-cumulative. The holder may also be able to convert the preference shares at his option any time until maturity.

Paragraph AG 37 of Ind AS 32, Financial Instruments: Presentation states that non-cumulative dividends paid at the discretion of the issuer entity is part of equity element.

Paragraph 29 of Ind AS 32, Financial Instruments: Presentation, requires separate recognition of components of a financial instrument that (a) creates a financial liability of the entity; and (b) grants an option to the holder of the instrument to convert it into fixed number of equity instruments of the entity.

From the above paragraphs it is clear that OCPS issued by ABC Ltd. has a financial liability component as well as an equity component, making it a compound financial instrument.

As per paragraph 32, in case of compound financial instruments, the issuer first determines the carrying amount of the financial liability component by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity represented by (a) non-cumulative dividend feature and (b) option to convert the preference shares for fixed number of pre-determined ordinary shares is then determined by deducting the fair value of the financial liability component from the fair value of the compound financial instrument as a whole.

Measurement and recognition (Calculations have been done at full scale):

At 7% market rate of interest, the fair value of the financial liability component of the OCPS is ₹ 71,29,862 [100,000 OCPS x ₹ 100 x (1/ (1+7%))5]

The fair value of the equity component is (residual value) ₹ 28,70,138 [₹ 1,00,00,000 - ₹ 71,29,862]

Journal Entries

1st April, 20X1	**On Initial recognition**		
	Bank Dr.	1,00,00,000	
	To OCPS (Financial liability)		71,29,862
	To OCPS (Equity)		28,70,138
	(Being OCPS issued and recognised)		
31st March, 20X2	**Interest expense – unwinding of discount**		
	Interest expense@7% (Refer W.N.)Dr.	4,99,090	
	To OCPS (Financial liability)		4,99,090
	(Being interest recorded as per EIR)		
	Interest entry will be passed every year till conversion option is not exercised		

	Whenever the option is exercised by the holder to **convert to equity shares** OCPS (Financial liability) Dr. To OCPS (Equity)	Balance on date of exercise of the option	

As per paragraph 30, in case of a convertible financial instrument, the classification of the liability and equity components is not revised as a result of change in the likelihood that a conversion option will be exercised.

In other words, the amount attributable to equity component on initial recognition shall remain in equity and will not be reclassified even if the OCPS are ultimately redeemed in cash by the issuer.

31st March, 20X6	If redeemed in cash on maturity OCPS (financial liability) (Refer W.N.) Dr. To Bank (Being OCPS redeemed on maturity)	1,00,00,000	1,00,00,000

Working Note:

Calculation of the amortised cost of the financial liability (at full scale):

Year	Opening Balance(₹)	Interest @ 7%	Repayment Closing	Balance (₹)
1	71,29,862	4,99,090	-	76,28,952
2	76,28,952	5,34,027		81,62,979
3	81,62,979	5,71,409		87,34,388
4	87,34,388	6,11,407		93,45,795
5	93,45,795	6,54,206	10,000,000	-

Q11. Nov 2021, RTP

On 1st April, 20X1, PS Limited issued 6,000, 9% convertible debentures with a face value of ₹ 100 each maturing on 31st March, 20X6. The debentures are convertible into equity shares of PS Limited at a conversion price of ₹ 105 per share. Interest is payable annually in cash. At the date of issue, non-convertible debt could have been issued by the company at coupon rate of 13%. On 1st April, 20X4, the convertible debentures have a fair value of ₹ 6,30,000. PS Limited makes a tender offer to debenture-holders to repurchase the debentures for ₹ 6,30,000 which the debenture holders accepted. At the date of repurchase, PS Limited could have issued non-convertible debt with a 2 year term bearing coupon interest @ 10%.

Show accounting entries in the books of PS Limited for recording of equity and liability component:

i. At the time of initial recognition
ii. At the time of repurchase of the convertible debentures

Answer

(i) At the time of initial recognition

	₹
Liability component	
Present value of 5 yearly interest payments of ₹ 54,000, discounted at 13% annuity (54,000 x 3.517)	1,89,918
Present value of ₹ 6,00,000 due at the end of 5 years, discounted at 13%, compounded yearly (6,00,000 x 0.543)	3,25,800
	5,15,718
Equity component	
(₹ 6,00,000 – ₹ 5,15,718)	84,282
Total proceeds	6,00,000

Note: Since ₹ 105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ ₹ 100 each only.

Journal Entry

	₹	₹
Bank Dr.	6,00,000	
To 9% Debentures (Liability component)		5,15,718
To 9% Debentures (Equity component)		84,282
(Being debentures initially recorded at fair value)		

(ii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 13%	Fair Value @ 10%	Difference
	₹	₹	₹
Liability component Present value of 2 remaining yearly interest payments of ₹ 54,000, discounted at 13% and 10%, respectively Present value of ₹ 6,00,000 due in 2 years, discounted at 13% and 10%, compounded yearly,	90,072	93,690	

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respectively	4,69,800	4,95,600	
Liability component	5,59,872	5,89,290	(29,418)
Equity component	84,282*	40,710**	43,572
Total	6,44,154	6,30,000	14,154

*See Note (i)

**6,30,000 – 5,89,290 = 40,710

Journal Entries

		₹	₹
9% Debentures (Liability component)	Dr	5,59,872	
Profit and loss A/c (Debt settlement expense)	Dr.	29,418	
To Bank A/c			5,89,290
(Being the repurchase of the liability component recognised)			
9% Debentures (Equity component) Dr.		84,282	
To Bank A/c			40,710
To Retained Earnings A/c			43,572
(Being the cash paid for the equity component recognised)			

Q12. Nov 2021, RTP

i. Entity A owns 250 ordinary shares in company XYZ, an unquoted company. Company XYZ has a total share capital of 5,000 shares with nominal value of ₹ 10. Entity XYZ'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). Entity A's management estimates that the discount for the lack of marketability of company XYZ's shares and restrictions on their transfer is 20%. Entity A values its holding in company XYZ's shares based on earnings.Determine the fair value of Entity A's investment in XYZ's shares.

ii. Based on the facts given in the aforementioned part (i), assume that, Entity A estimates the fair value of the shares it owns in company XYZ using a net asset valuation technique. The fair value of company XYZ's net assets including those recognised in its balance sheet and those that are not recognised is ₹ 8,50,000.Determine the fair value of Entity A's investment in XYZ's shares.

Answer

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

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

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

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

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

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

Q13. May 2021, RTP

How will you capitalise the interest when qualifying assets are funded by borrowings in the nature of bonds that are issued at discount?

Y Ltd. issued at the start of year 1, 10% (interest paid annually and having maturity period of 4 years) bonds with a face value of ₹ 2,00,000 at a discount of 10% to finance a qualifying asset which is ready for intended use at the end of year 2.

Compute the amount of borrowing costs to be capitalized if the company amortizes discount using Effective Interest Rate method by applying 13.39% p.a. of EIR.

Answer

Capitalisation Method

As per the Standard, borrowing costs may include interest expense calculated using the effective interest method. Further, capitalisation of borrowing cost should cease where substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Thus, only that portion of the amortized discount should be capitalised as part of the cost of a qualifying asset which relates to the period during which acquisition, construction or production of the asset takes place.

Capitalisation of Interest

Hence based on the above explanation the amount of borrowing cost of year 1 & 2 are to be capitalised and the borrowing cost relating to year 3 & 4 should be expensed.

Quantum of Borrowing

The value of the bond to Y Ltd. is the transaction price ie ₹ 1,80,000 (2,00,000 – 20,000)

Therefore, Y Ltd will recognize the borrowing at ₹ 1,80,000.

Computation of the amount of Borrowing Cost to be Capitalised

Y Ltd will capitalise the interest (borrowing cost) using the effective interest rate of 13.39% for two years as the qualifying asset is ready for intended use at the end of the year 2, the details of which are as follows:

Year	**Opening Borrowing**	**Interest expense @ 13.39% to be capitalised**	**Total**	**Interest paid**	**Closing Borrowing**
	(1)	**(2)**	**(3)**	**(4)**	**(5) = (3) – (4)**
1	1,80,000	24,102	2,04,102	20,000	1,84,102
2	1,84,102	24,651	2,08,753	20,000	1,88,753
		48,753			

Accordingly, borrowing cost of ₹ 48,753 will be capitalized to the cost of qualifying asset.

Q14. May 2021, RTP

On 1 April 20X1, Sun Limited guarantees a ₹10,00,000 loan of Subsidiary – Moon Limited, which Bank STDK has provided to Moon Limited for three years at 8%.

Interest payments are made at the end of each year and the principal is repaid at the end of the loan term.

If Sun Limited had not issued a guarantee, Bank STDK would have charged Moon Limited an interest rate of 11%. Sun Limited does not charge Moon Limited for providing the guarantee.

On 31 March 20X2, there is 1% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited.

On 31 March 20X3, there is 3% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited.

Provide the accounting treatment of financial guarantee as per Ind AS 109 in the books of Sun Ltd., on initial recognition and in subsequent periods till 31 March 20X3.

Answer

1 April 20X1

A financial guarantee contract is initially recognised at fair value. The fair value of the guarantee will be the present value of the difference between the net contractual cash flows required under the loan, and the net contractual cash flows that would have been required without the guarantee.

Particulars	**Year 1 (₹)**	**Year 2 (₹)**	**Year 3 (₹)**	**Total (₹)**
Cash flows based on interest rate of 11% (A)	1,10,000	1,10,000	1,10,000	3,30,000
Cash flows based on interest rate of 8% (B)	80,000	80,000	80,000	2,40,000
Interest rate differential (A-B)	30,000	30,000	30,000	90,000
Discount factor @ 11%	0,901	0.812	0.731	
Interest rate differential discounted at 11%	27,030	24,360	21,930	73,320
Fair value of financial guarantee contract (at inception)				**73,320**

Journal Entry

Particulars		**Debit (₹)**	**Credit (₹)**
Investment in subsidiary	Dr.	73,320	
To Financial guarantee (liability)			73,320
(Being financial guarantee initially recorded)			

31 March 20X2

Subsequently at the end of the reporting period, financial guarantee is measured at the higher of:

- the amount of loss allowance; and

- the amount initially recognised less cumulative amortization, where appropriate.

At 31 March 20X2, there is 1% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited. The 12-month expected credit losses are therefore ₹10,000 (₹10,00,000 x 1%).

The initial amount recognised less amortisation is ₹51,385 (₹73,320 + ₹8,065 (interest accrued based on EIR)) – ₹30,000 (benefit of the guarantee in year 1) Refer table below.
The unwound amount is recognised as income in the books of Sun Limited, being the benefit derived by Moon Limited not defaulting on the loan during the period.

Year	Opening balance ₹	EIR @ 11%	Benefits provided ₹	Closing balance ₹
1	73,320	8,065	(30,000)	51,385
2	51,385	5,652	(30,000)	27,037
3	27,037	2,963*	(30,000)	-

* Difference is due to approximation

The carrying amount of the financial guarantee liability after amortisation is therefore ₹ 51,385, which is higher than the 12-month expected credit losses of ₹ 10,000. The liability is therefore adjusted to ₹ 51,385 (the higher of the two amounts) as follows:

Journal Entry

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	21,935	
To Profit or loss		21,935
(Being financial guarantee subsequently adjusted)		

31 March 20X3
At 31 March 20X3, there is 3% probability that Moon Limited will default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited. The 12-month expected credit losses aretherefore ₹ 30,000 (₹ 10,00,000 x 3%).

The initial amount recognised less accumulated amortisation is ₹ 27,037, which is lower than the 12-month expected credit losses (₹ 30,000). The liability is therefore adjusted to ₹ 30,000 (the higher of the two amounts) as follows:

Journal Entry

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	21,385*	
To Profit or loss (Note)		21,385
(Being financial guarantee subsequently adjusted)		

* The carrying amount at the end of 31 March 20X2 = ₹ 51,385 less 12-month expected credit losses of ₹ 30,000.

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Q15. Nov 2020, RTP

An Indian entity, whose functional currency is rupees, purchases USD dominated bond at its fair value of USD 1,000. The bond carries stated interest @ 4.7% p.a. on its face value. The said interest is received at the year end. The bond has maturity period of 5 years and is redeemable at its face value of USD 1,250. The fair value of the bond at the end of year 1 is USD 1,060. The exchange rate on the date of transaction and at the end of year 1 are USD 1 = ₹ 40 and USD 1 = ₹ 45, respectively. The weighted average exchange rate for the year is 1 USD = ₹ 42.

The entity has determined that it is holding the bond as part of an investment portfolio whose objective is met both by holding the asset to collect contractual cash flows and selling the asset. The purchased USD bond is to be classified under the FVTOCI category.

The bond results in effective interest rate (EIR) of 10% p.a.

Calculate gain or loss to be recognised in Profit & Loss and Other Comprehensive Income for year 1. Also pass journal entry to recognise gain or loss on above. (Round off the figures to nearest rupees)

Answer

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

Particulars	**USD**	**Exchange rate**	**₹**
Cost of the bond	1,000	40	40,000
Interest accrued @ 10% p.a.	100	42	4,200
Interest received (USD 1,250 x 4.7%)	(59)	45	(2,655)
Amortized cost at year-end	1,041	45	46,845
Fair value at year end	1,060	45	47,700
Interest income to be recognized in P & L			4,200
Exchange gain on the principal amount [1,000 x (45-40)]			5,000
Exchange gain on interest accrual [100 x (45 - 42)]			300
Total exchange gain/loss to be recognized in P&L			5,300
Fair value gain to be recognized in OCI [45 x (1,060 - 1,041)]			855

Journal entry to recognize gain/loss

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

Q16. Nov 2019, RTP

An entity purchases a debt instrument with a fair value of ₹ 1,000 on 15th March, 20X1 and measures the debt instrument at fair value through other comprehensive income. The instrument has an interest rate of 5% over the contractual term of 10 years, and has a 5%

effective interest rate. At initial recognition, the entity determines that the asset is not a purchased or original credit-impaired asset.

On 31st March 20X1 (the reporting date), the fair value of the debt instrument has decreased to ₹ 950 as a result of changes in market interest rates. The entity determines that there has not been a significant increase in credit risk since initial recognition and that ECL should be measured at an amount equal to 12 month ECL, which amounts to ₹ 30.

On 1st April 20X1, the entity decides to sell the debt instrument for ₹ 950, which is its fair value at that date.

Pass journal entries for recognition, impairment and sale of debt instruments as per Ind AS 109. Entries relating to interest income are not to be provided.

Answer

On Initial recognition

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

On Impairment of debt instrument

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

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

On Sale of debt instrument

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

Q17. May 2019, RTP

KK Ltd. has granted an interest free loan of ₹ 10,00,000 to its wholly owned Indian Subsidiary YK Ltd. There is no transaction cost attached to the said loan. The Company has not finalised any terms and conditions including the applicable interest rates on such loans. The Board of Directors of the Company are evaluating various options and has requested your firm to provide your views under Ind AS in following situations:

i. The Loan given by KK Ltd. to its wholly owned subsidiary YK Ltd. is interest free and such loan is repayable on demand.

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ii. The said Loan is interest free and will be repayable after 3 years from the date of granting such loan. The current market rate of interest for similar loan is 10%. Considering the same, the fair value of the loan at initial recognition is ₹ 8,10,150.

iii. The said loan is interest free and will be repaid as and when the YK Ltd. has funds to repay the Loan amount.

Based on the same, KK Ltd. has requested you to suggest the accounting treatment of the above loan in the stand-alone financial statements of KK Ltd. and YK Ltd. and also in the consolidated financial statements of the group. Consider interest for only one year for the above loan.

Further the Company is also planning to grant interest free loan from YK Ltd. to KK Ltd. in the subsequent period. What will be the accounting treatment of the same under applicable Ind AS?

Answer

Scenario (i)

Since the loan is repayable on demand, it has fair value equal to cash consideration given. KK Ltd. and YK Ltd. should recognize financial asset and liability, respectively, at the amount of loan given (assuming that loan is repayable within a year). Upon, repayment, both the entities should reverse the entries that were made at the origination.

Journal entries in the books of KK Ltd.

At origination		
Loan to YK Ltd. A/c Dr.	₹ 10,00,000	
To Bank A/c		₹ 10,00,000
On repayment		
Bank A/c Dr.	₹ 10,00,000	
To Loan to YK Ltd. A/c		₹ 10,00,000

Journal entries in the books of KK Ltd.

At origination		
Bank A/c Dr.	₹ 10,00,000	
To Loan from KK Ltd. A/c		₹ 10,00,000
On repayment		
Loan from KK Ltd. A/c Dr.	₹ 10,00,000	
To Bank A/c		₹ 10,00,000

.In the consolidated financial statements, there will be no entry in this regard since loan receivable and loan payable will get set off.

Scenario (ii)

Applying the guidance in Ind AS 109, a 'financial asset' shall be recorded at its fair value upon initial recognition. Fair value is normally the transaction price. However, sometimes certain type of instruments may be exchanged at off market terms (ie, different from market terms for a similar instrument if exchanged between market participants).

If a long-term loan or receivable that carries no interest while similar instruments if exchanged between market participants carry interest, then fair value for such loan receivable will be lower from its transaction price owing to the loss of interest that the holder bears. In such cases where

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part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. The difference in fair value and transaction cost will treated as investment in Subsidiary YK Ltd.

Both KK Ltd. and YK Ltd. should recognise financial asset and liability, respectively, at fair value on initial recognition, i.e., the present value of ₹ 10,00,000 payable at the end of 3 years using discounting factor of 10%. Since the question mentions fair value of the loan at initial recognition as ₹ 8,10,150, the same has been considered. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Journal entries in the books of KK Ltd. (for one year)

At origination		
Loan to YK Ltd. A/c Dr.	₹ 8,10,150	
Investment in YK Ltd. A/c Dr.	₹ 1,89,850	
To Bank A/c		₹ 10,00,000
During periods to repayment- to recognise interest		
Year 1 – Charging of Interest		
Loan to YK Ltd. A/c Dr.	₹ 81,015	
To Interest income A/c		₹ 81,015
Transferring of interest to Profit and Loss		
Interest income A/c Dr.	₹ 81,015	
To Profit and Loss A/c		₹ 81,015
On repayment		
Bank A/c Dr.	₹ 10,00,000	
To Loan to YK Ltd. A/c		₹ 10,00,000
Note- Interest needs to be recognised in statement of profit and loss. The same cannot be adjusted against capital contribution recognised at origination.		

Journal entries in the books of YK Ltd. (for one year)

At origination		
Bank A/c Dr.	₹ 10,00,000	
To Loan from KK Ltd. A/c		₹ 8,10,150
To Equity Contribution in KK Ltd. A/c		₹ 1,89,850
During periods to repayment- to recognise interest		
Year 1		
Interest expense A/c Dr.	₹ 81,015	
To Loan from KK Ltd. A/c		₹ 81,015

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On repayment		
Loan from KK Ltd. A/c Dr.	₹ 10,00,000	
To Bank A/c		₹ 10,00,000

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

Scenario (iii)

Generally, a loan which is repayable when funds are available, cannot be stated as loan repayable on demand. Rather the entity needs to estimate the repayment date and determine its measurement accordingly by applying the concept prescribed in Scenario (ii).

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

In case the subsidiary YK Ltd. is planning to grant interest free loan to KK Ltd., then the difference between the fair value of the loan on initial recognition and its nominal value should be treated as dividend distribution by YK Ltd. and dividend income by the parent KK Ltd

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Q1. Nov 2020 Exam, 8 Marks

P Limited and S Limited are in business of manufacturing garments. P Limited holds 30% of equity shares of S Limited for last several years. P Limited obtains control of S Limited when it acquires further 65% stake of S Limited's shares, thereby resulting in a total holding of 95% on 31 December 2019. The acquisition had the following features:

(i) P Limited transfers cash of ₹ 50,00,000 and issues 90,000 shares on 31 December 2019. The market price of P Limited's shares on the date of issue was ₹ 10 per share. The equity shares issued as per this transaction will comprise 5% of the post-acquisition capital of P Limited.

(ii) P Limited agrees to pay additional consideration of ₹ 4,00,000, if the cumulative profits of S Limited exceeds ₹ 40,00,000 over the next two years. At the acquisition date, it is not considered probable that extra consideration will be paid. The fair value of contingent consideration is determined to be ₹ 2,00,000 at the acquisition date.

(iii) P Limited spent acquisition-related costs of ₹ 2,00,000.

(iv) The fair value of the NCI is determined to be ₹ 5,00,000 at the acquisition date based on market price. P Limited decided to measure non-controlling interest at fair value for this transaction.

(v) P Limited has owned 30% of the shares in S Limited for several years. At 31 December 20.19, the investment is included in P Limited's consolidated balance sheet at ₹ 8,00,000. The fair value of previous holdings accounted for using the equity method is arrived at ₹ 18,00,000.

The fair value of S Limited's net identifiable assets at 31 December 2019 is ₹ 45,00,000, determined in accordance with Ind AS 103.

Analyze the transaction and determine the accounting under acquisition method for the business combination by P Limited.

Answer

Identify the acquirer

In this case, P Limited has paid cash consideration to shareholders of S Limited. Further, the shares issued to S Limited pursuant to the acquisition do not transfer control of P Limited to erstwhile shareholders of S Limited. Therefore, P Limited is the acquirer and S Limited is the acquiree.

Determine acquisition date

As the control over the business of S Limited is transferred to P Limited on 31 December 2019, that date is considered as the acquisition date.

Determine the purchase consideration

The purchase consideration in this case will comprise of the following:

Cash consideration	₹ 50,00,000
Equity shares issued (90,000 x 10 i.e., at fair value)	₹ 9,00,000
Contingent consideration (at fair value)	₹ 2,00,000
Fair value of previously held interest	₹ 18,00,000
Total purchase consideration	₹ 79,00,000

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Acquisition cost incurred by and on behalf of P Limited for acquisition of S Limited should be recognised in the Statement of Profit and Loss. As such, an amount of ₹ 2,00,000 should be recognised in the Statement of Profit and Loss.

Fair value of identifiable assets and liabilities
The fair value of identifiable net assets (as given in the question) ₹ 45,00,000.

Non-Controlling Interest
The management has decided to recognise NCI at its fair value, which is given in the question as ₹ 5,00,000.

Re-measure previously held interests in case business combination is achieved in stages
In this case, the control has been acquired in stages i.e., before acquisition to control, P Limited exercised significant influence over S Limited. As such, the previously held interest should be measured at fair value and the difference between the fair value and the carrying amount as at the acquisition date should be recognised in the Statement of Profit and Loss. As such, an amount of ₹ 10,00,000 (i.e. 18,00,000 – 8,00,000) will be
recognised in the Statement of Profit and Loss.

Determination of goodwill or gain on bargain purchase
Goodwill should be calculated as follows: **(₹)**

Total consideration	79,00,000
Recognised amount of any non-controlling interest	5,00,000
	(45,00,000)
Less: Fair value of net identifiable assets	39,00,000
Goodwill	

Q2. Nov 2019 Exam, 8 Marks

MNC Ltd. is in process of setting up a medicine manufacturing business which is at very initial stage. For this purpose, MNC Ltd. as part of its business expansion strategy acquired on 1st April, 2019, 100% shares of Akash Ltd., a company that manufactures pharmacy products. The purchase consideration for the same was by way of a share exchange valued at ₹ 38 crore. The fair value of Akash Ltd.'s assets and liabilities were ₹ 68 crore and ₹ 50 crore respectively, but the same does not include the following:

(i) A patent owned by Akash Ltd. for an established successful new drug that has a remaining life of 6 years. A consultant has estimated the value of this patent to be ₹ 8 crore. However, the outcome of clinical trails for the same are awaited. If the trails are successful, the value of the drug would fetch the estimated ₹ 12 crore.

(ii) Akash Ltd. has developed and patented another new drug which has been approved for clinical use. The cost of developing the drug was ₹ 13 crore. Based on early assessment of its sales success, a reputed valuer has estimated its market value at ₹ 19 crore. However, there is no active market for the patent.

(iii) Akash Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the company has been granted an exclusive five-year license on 1st April, 2018 to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is valuable asset which assures guaranteed sales and the cost to acquire the license is estimated at ₹ 7 crore of remaining period of life. It is expected to generate at least equivalent revenue. Suggest the accounting treatment of the above transactions with reasoning under applicable Ind AS in the books of MNC Ltd.

Answer

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As per para 13 of Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.

Based on the above, the company can recognise following Intangible assets while determining Goodwill / Bargain Purchase for the transaction:

(i) Patent owned by Akash Ltd.:

The patent owned will be recognised at fair value by MNC Ltd. even though it was not recognised by Akash Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 6 years. Since the company is awaiting the outcome of the trials, the value of the patent should be valued at ₹ 8 crore. It cannot be estimated at ₹ 12 crore and the extra ₹ 4 crore should only be disclosed as a contingent asset and not recognised.

(ii) Patent internally developed by Akash Ltd.:

As per para 18 of Ind AS 103 'Business Combination', the acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. Since the patent developed has been approved for clinical use, it is an identifiable asset, hence the same will be measured at fair value ie ₹ 19 crore on the acquisition date.

(iii) Grant of Licence to Akash Ltd. by the Government:

As regards to the five-year license, applying para 18 of Ind AS 103, grant asset will be recognised at fair value on the acquisition date by MNC Ltd. On acquisition date, the fair value of the license asset is ₹ 7 crore. However, since the question does not mention about the fair value of the identifiable liability with respect to grant of license for the acquirer, it is assumed that the fair value of the liability with respect to grant, for acquirer is nil. Therefore, only, the grant asset (license) would be recognised at ₹ 7 crore in the books of acquirer MNC Ltd.

Hence the revised working would be as follows:

Fair value of net assets of Akash Ltd. (68-50)	₹ 18 crore
Add: Patent (8 + 19) ₹ 27 crore	₹ 7 crore
Add: License	(Nil)
Less: Grant for License	₹ 52 crore
	(₹ 38 crore)
Purchase Consideration	₹ 14 crore
Capital Reserve	

Q3. May 2019 Exam, 8 Marks

Deepak Ltd., an automobile group acquires 25% of the voting ordinary shares of Shaun Ltd., another automobile business, by paying, ₹ 4,320 crore on 01.04.2017. Deepak Ltd. accounts its investment in Shaun Ltd. using equity method as prescribed under Ind AS 28. At 31.03.2018, Deepak Ltd. recognised its share of the net asset changes of Shaun Ltd. using equity accounting as follows:

	(₹ in crore)
Share of Profit or Loss	378
Share of Exchange difference in OCI	54
Share of Revaluation Reserve of PPE in OCI	27

The carrying amount of the investment in the associate on 31.03.2018 was therefore ₹ 4,779 crore (4,320 + 378 + 54 + 27).

On 01.04.2018, Deepak Ltd. acquired remaining 75% of Shaun Ltd. for cash ₹ 13,500 crore. Fair value of the 25% interest already owned was ₹ 4,860 crore and fair value of Shaun Ltd.' s identifiable net assets was ₹ 16,200 crore as on 01.04.2018.

How should such business combination be accounted for in accordance with the applicable Ind AS?

Answer

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 profit or 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 of directly the previously held equity interest.

Applying the above, Deepak Ltd. records the following entry in its consolidated financial statements:

		(₹ in crore)	
		Debit	**Credit**
Identifiable net assets of Shaun Ltd.	Dr.	16,200	
Goodwill (W.N.1)	Dr.	2,160	
Foreign currency translation reserve	Dr.	54	
PPE revaluation reserve	Dr.	27	
To Cash 13,500To Investment in associate -Shaun Ltd.			4,779 27
To Retained earnings (W.N.2)			135
To Gain on previously held interest in Shaun Ltd. recognised in Profit or loss (W.N.3)			
(Recognition of acquisition of Shaun Ltd.)			

Working Notes:

1. Calculation of Goodwill

	₹ in crore
Cash consideration	13,500
Add: Fair value of previously held equity interest in Shaun Ltd.	4,860
Total consideration	18,360
Less: Fair value of identifiable net assets acquired	(16,200)
Goodwill	2,160

2. The credit to retained earnings represents the reversal of the unrealized gain of ₹ 27 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 Shaun Ltd. is calculated as follows:

	₹ in crore
Fair Value of 30% interest in Shaun Ltd. at 1st April, 2018	4,860
Carrying amount of interest in Shaun Ltd. at 1st April, 2018	(4,779)
	81
Unrealised gain previously recognised in OCI	54
Gain on previously held interest in Shaun Ltd. recognised in profit or loss	135

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Q4. Nov 2018 Exam, 16 Marks

Prepare the Consolidated Balance Sheet as on 31st March, 2018 of a group of companies comprising Usha Limited, Nisha Limited and Sandhya Limited. Their summarized balance sheets on that date are given below:

Amounts ₹ in lakh

	Usha Ltd.	Nisha Ltd.	Sandhya Ltd.
Equity and Liabilities			
Shareholder's Equity			
Share capital (₹ 10 per share)	300	200	160
Reserves	90	50	40
Retained earnings	80	25	30
Current Liabilities			
Trade Payables	235	115	90
Bills Payable			
Usha Ltd.	--	35	--
Sandhya Ltd.	15	--	--
	720	425	320
Assets			
Non-Current Assets			
Tangible assets	160	180	150
Investment:			
16 lakh shares in Nisha Ltd.	170	--	--
12 lakh shares in Sandhya Ltd.	--	140	--
Current Assets			
Cash in hand and at Bank	114	20	20
Bills Receivable	36	--	15
Trade Receivables	130	50	110
Inventories	110	35	25
	720	425	320

The following additional information is available:

(i) Usha Ltd. holds 80% shares in Nisha Ltd. and Nisha Ltd. holds 75% shares in Sandhya Ltd. Their holdings were acquired on 30th September, 2017.

(ii) The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

(iii) On 1st April, 2017, the following balances stood in the books of Nisha Limited and Sandhya Limited.

₹ in lakh

	Nisha Limited	Sandhya Limited
Reserves	40	30
Retained earnings	10	15

(iv) ₹ 5 Lakh included in the inventory figure of Nisha limited, is inventory which has been purchased from Sandhya Limited at cost plus 25%.

(v) The parent company has adopted an accounting policy to measure Non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of Nisha Limited and Sandhya Limited are the same as respective face values.

(vi) The capital profit preferably is to be adjusted against cost of control.
Note: Analysis of profits and notes to accounts must be a part of your answer.

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Answer

Consolidated Balance Sheet of the Group as on 31st March, 2018

Particulars	Note No	. (₹ in lakh)
ASSETS		
Non-current assets		
Property, plant and equipment	1	490
Current assets		
(a) Inventories	2	169
(b) Financial assets		
Trade receivables	3	290
Bills receivable	4	1
(c) Cash and cash equivalents	5	154
Total assets		1,104
EQUITY & LIABILITIES		
Equity attributable to owners of the parent		
Share capital		300
Other Equity		
Reserves (W.N.5)		97
Retained Earnings (W.N.5)		89.9
Capital Reserve (W.N.3)		94
Non-controlling interests (W.N.4)		83.10
Total equity		664
LIABILITIES		
Non-current liabilities Nil		Nil
Current liabilities		
(a) Financial Liabilities		
(i) Trade payables	6	440
Total liabilities		440
Total equity and liabilities		1,104

Notes to Accounts **(₹ in lakhs)**

1.	**Property Plant & Equipment**		
	Parent	160	
	Nisha Ltd.	180	
	Sandhya Ltd.	150	490
2.	**Inventories**		
	Parent	110	
	Nisha Ltd. (35-1)	34	
	Sandhya Ltd.	25	169
3.	**Trade Receivables**		
	Parent	130	
	Nisha Ltd.	50	
	Sandhya Ltd.	110	290
4.	**Bills Receivable**		
	Parent (36-35)	1	
	Sandhya Ltd. (15-15)	-	1
5.	**Cash & Cash equivalents**		
	Parent	110	
	Nisha Ltd.	20	
	Sandhya Ltd.	20	154
6.	**Trade Payables**		
	Parent	235	
	Nisha Ltd.	115	
	Sandhya Ltd.	90	440

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Working notes

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

		Nisha Ltd		Sandhya Ltd.
.Reserves as on 31.3.2017		40		30
Increase during the year 2017-2018	10		10	
Increase for the half year till 30.9.2017		5		5
Balance as on 30.9.2017 (A)		45		35
Total balance as on 31.3.2018		50		40
Post-acquisition balance		5		5

		Nisha Ltd		Sandhya Ltd.
.Reserves as on 31.3.2017		10		15
Increase during the year 2017-2018	15		15	
Increase for the half year till 30.9.2017		7.5		7.5
Balance as on 30.9.2017 (B)		17.5		22.5
Total balance as on 31.3.2018		25		30
Post-acquisition balance		7.5		7.5
Less: Un Realised gain on inventories (5 x 25%)		-		(1)
		7.5		6.5
Post-acquisition balance for CFS				
Total balance on the acquisition date ie.30.9.2017 (A+B)		62.5		57.5

2.Calculation of Effective Interest of Parent company ie. Usha Ltd. in Sandhya Ltd.

Acquisition by Usha Ltd. in Nisha Ltd. = 80%
Acquisition by Nisha Ltd. in Sandhya Ltd. = 75%
Acquisition by Group in Sandhya Ltd. (80% x 75%) = 60%
Non-controlling Interest = 40%

3.Calculation of Goodwill / Capital Reserve on the acquisition date

	Nisha Ltd.	Sandhya Ltd.
Investment or consideration	170	(140 × 80%)112
Add: NCI at Fair value		
(200 x 20%) 40	40	
(160 x 40%) 64		64
	210	176
Less: Identifiable net assets (Share capital + Increase in the Reserves and Surplus till acquisition date)	(200+62.5)(262.5)	(160+57.5)(217.5)
Capital Reserve	52.5	41.5
Total Capital Reserve (52.5 + 41.5)		94

1. Calculation of Non Controlling Interest

	Nisha Ltd.	Sandhya Ltd.
At Fair Value (See Note 3) 40 64	40	64
Add: Post Acquisition Reserves (See Note 1)	(5× 20%) 1	(5 × 40%) 2
Add: Post Acquisition Retained Earnings (See Note 1)	(7.5 × 20%) 1.5	(6.5 × 40%) 2.6
Less: NCI share of investment in Sandhya Ltd.*	(140x20%) (28)*	
	14.5	68.6
Total (14.5 + 68.6)		83.1

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*Note:The Non-controlling interest in Nisha Ltd. will take its proportion in Sandhya Ltd. So they have to bear their proportion in the investment made by Nisha Ltd. (as a whole) in Sandhya Ltd.

2. Calculation of Consolidated Other Equity

	Reserves	Retained Earnings
Usha Ltd. 90 80	90	80
Add: Share in Nisha Ltd. 4	(5 x 80%) 4	(7.5 × 80%) 6
Add: Share in Sandhya Ltd.	(5 ×60%) 3	(6.5 ×60%) 3.9
	97	89.9

Note: In the above solution, it is assumed date the sale of goods by Sandhya Ltd. is done after acquisition of shares by Nisha Ltd. Alternatively, one may assume that the sale has either been done before acquisition of shares by Nisha Ltd. in Sandhya Ltd. or sale has been throughout the year. Accordingly, there treatment for
unrealized gain may vary.

Q5. May 2025 RTP

On 1st January, 20X1, H Ltd. acquired all of the share capital of S Ltd. for Rs. 15,00,000. The book values and the fair values of the identifiable assets and liabilities of S Ltd. at the date of acquisition are set out below, together with their tax bases in S Ltd.'s tax jurisdictions. Any goodwill arising on the acquisitions is not deductible for tax purposes. The tax rates in H Ltd.'s and S Ltd.'s tax jurisdictions are 30% and 40% respectively.

Net assets acquired	**Book values Rs. '000**	**Tax base Rs. '000**	**Fair values Rs. '000**
Land and buildings	600	500	700
Property, plant and equipment	250	200	270
Inventory	100	100	80
Accounts receivable	150	150	150
Cash and cash equivalents	130	130	130
Total assets	1,230	1,080	1,330
Accounts payable	(160)	(160)	(160)
Retirement benefit obligations	(100)	-	(100)
Net assets before deferred tax liability	970	920	(1070)
Deferred tax liability on diiferences between book values and tax bases (Rs. 50 @40%)	(20)		
Net assets at acquisition	950	920	1,070

Calculate deferred tax arising on acquisition of S Ltd. and goodwill based on the above information.

Answer:

Calculation of deferred tax arising on acquisition of S Ltd. and goodwill

	Rs.'000	**Rs.'000**

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Fair values of S Ltd.'s identifiable assets and liabilities (excluding deferred tax)		1,070
Less: Tax base		(920)
Temporary difference arising on acquisition		150
Net deferred tax liability arising on acquisition of S Ltd. (Rs. 1,50,000 @ 40%)– replaces book deferred tax		60
Purchases consideration		1,500
Fair values of S Ltd.'s identifiable assets and liabilities (excluding deferred tax)	1,070	
Deferred tax	(60)	1,010
Goodwill arising on acquisition		490

The tax base of the goodwill is nil, so a taxable temporary difference of

Rs. 4,90,000 arises on the goodwill. No deferred tax is recognised on the goodwill. The deferred tax on other temporary differences arising on acquisitions is provided at 40% (not 30%), because taxes will be payable or recoverable in S Ltd.'s tax jurisdictions when the temporary differences are reversed.

Q6. May 2025 RTP

On 1st April, 20X1, PQR Ltd. acquired 30% of the shares of XYZ Ltd. for Rs. 8,000 crores. At 31st March, 20X2, PQR Ltd. recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

Share of profit or loss	700
Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50

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

Fair value of the 30% interest already owned	9,000
Fair value of XYZ Ltd's identifiable net assets	30,000

Required

How should such business combination be accounted for?

Answer:

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 profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised 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.

Applying the above, PQR Ltd. records the following entry in its consolidated financial statements:

		Dr.	Cr.
Identifiable net assets of XYZ Ltd.	Dr.	30,000	
Goodwill (W.N.1)	Dr.	4,000	
Foreign currency translation reserve	Dr.	1,00	
PPE revaluation reserve	Dr.	50	
To Cash			25,000

To Investment in associate- XYZ Ltd. (W.N.3)			8,850
To Retained earnings (W.N.2)			50
To Gain on previously held interest in XYZ recognized in Profit or loss (W.N.4)			250
(To recognize acquisition of XYZ Ltd.)			

Working Notes :

1. Goodwill calculated as follows

Cash consideration	25,000
Fair value of previously held equity interest in XYZ	9,000
Total consideration	34,000
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 Rs. 50 crores 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 carrying amount of the investment in the associate on 31st March, 20X2 would be as follows:

Investment in Associate	8,000
Share of profit or loss	700
Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50
	8,850

3. The gain on the previously held equity interest in XYZ Ltd. is calculated as follows:

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 (W.N.3)	(8,850)
	150
Unrealised gain previously recognized in OCI	100
Gain on previously held interest in XYZ Ltd.	
recognized in profit or loss	250

Q7. May 2024 RTP

On 1st April 20X1, Pride Limited acquired 30% of the ordinary shares of Famous Limited for Rs. 4,000 crores. Pride Limited accounts for its investment in Famous Limited using the equity method as prescribed under Ind AS 28. On 31st March 20X2, Pride Limited recognized its share of the net asset changes of Famous Limited using equity method accounting as follows:

Share of profit	Rs. 350 crore
Share of exchange difference in OCI	Rs. 50 crore
Share of revaluation reserve of PPE in OCI	Rs. 25 crore

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The carrying amount of the investment in the associateon 31st March 20X2 is therefore Rs. 4,425 crore (4,000 + 350 + 50 + 25).

On 1st April 20X2, Pride Limited acquired the remaining 70% of Famous Limited for cash Rs. 12,500 crore.

The following additional information is relevant at that date:

Fair Value of 30% interest in Famous Limited as on 1st April 20X2	Rs. 4,500 crore
Fair Value of Net Identifiable Assets ofFamous Limited as on 1st April 20X2	Rs. 15,000 crore

You are required to

i. Determine the acquisition date for Pride Ltd.
ii. Determine the gain on previously held interest in Pride Ltd. and suggest the accounting treatment on acquisition date as per Ind AS 103.
iii. Compute the amount of goodwill arising on the acquisition of Famous Ltd.
iv. Pass necessary journal entry on the acquisition date.

Answer:

Acquisition date for accounting of business combination is

The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. In the given case, the acquisition date is 1st April, 20X2 i.e. when Pride Ltd. acquired 100% holding of Famous Ltd.

(ii) Computation of gain on previously held interest

An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture. If the investment in an associate becomes a investment in a subsidiary, the entity shall account for its investment in accordance with Ind AS 103 and Ind AS 110.

Ind AS 103 provides that in a business combination achieved in stages, the acquirer is required to remeasure the previously held equity interest at its acquisition date fair value and recognise any gain or loss in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in the 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.

The gain on previously held equity interest in Famous Ltd. is calculated as follows:

Fair value of 30% interest as on 1st April, 20X2	Rs. 4,500 crore
Carrying value of 30% investment as on31st March, 20X2	(Rs. 4,425 crore)
Gain on previously held interest	Rs. 75 crore
Unrealised gain previously recognised in OCI	Rs. 50 crore
Total gain recognised in Profit and loss	Rs. 125 crore

(iii) Computation of goodwill

For 70% share	Rs. 12,500 crore
For 30% share	Rs. 4,500 crore
Total amount of purchase consideration	Rs. 17,000 crore
Less: Fair value of net identifiable assets	(Rs. 15,000 crore)
Goodwill	Rs. 2,000 crore

(iv) Journal Entry on 1st April, 20X2

		Rs. in crore	
Net Identifiable Assets	Dr.	15,000	
Goodwill (W.N.1)	Dr.	2,000	
Foreign currency translation reserve	Dr.	50	
PPE revaluation reserve	Dr.	25	
To Cash			12,500
To Investment in Associate – FamousLtd.			4,425
To Retained Earnings (W.N.)			25
To Gain on previously held interest recognised in profit and loss (Refer point (ii) above)			125

Working Note:

The credit to retained earnings represents the reversal of the unrealised gain of Rs. 25 crore in OCI related to the revaluation of PPE. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.

Q8. Nov 2023 RTP

Mini Limited is a manufacturing entity in textile industry. Mini Limited decided to reduce the cost of manufacturing by setting up its own power plant for their captive consumption. As per market research report, there was non-operational power plant in nearby area. Hence, it decided to acquire that power plant which was having capacity of 80MW along with all entire labour force. This Power entity was owned by another entity Max Limited. Mini Limited approached Max Limited for acquisition of 80MW power plant at following terms:

i. Mini Limited will seek an independent valuation for determining fair value of 80MW power plant.
ii. Value of other Non-current assets acquired, and Non–current financial liabilities assumed is ₹ 11.10 million and ₹ 32 million respectively.
iii. Consideration agreed between both the parties is at ₹ 51 million.

Both the parties agreed to the terms and entered into agreement on 1st April, 20X1 with immediate effect.

Due to unavoidable circumstances, valuation could not be completed by the time Max Limited finalizes its financial statements for the year ending 31st March, 20X1. Max Limited's annual financial statements records the fair value of 80 MW Power Plant at ₹ 46.90 million with remaining useful life at 40 years.

Max Limited also has license to operate that power plant unrecorded in books. As on 31st March, 20X1, it has fair value of ₹ 5 million.

Six months after acquisition date, Mini Limited received the independent valuation, which estimated the fair value of 80MW Power Plant as ₹ 54.90 million.CFO of Mini Limited, wants you to work upon following aspects of the transaction:

a. Determine whether transaction should be accounted as asset acquisition or business combination.

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b. Calculate Goodwill / Bargain Purchase due to the above acquisition.
c. Pass necessary journal entities in the books of Mini Limited as per Ind AS 103 and prepare balance sheet as on date of acquisition
d. Determine whether any adjustment is required in case of valuation received subsequent to acquisition. If yes, pass the necessary entries in the books of Mini Limited.

Balance Sheet of Mini Limited as at 31st March, 20X1

Particulars	**(₹ in Million)**
ASSETS	
Non-current assets	
Property, plant and equipment	2,158
Capital work-in-progress	12
Deferred Tax Assets (Net)	324
Other non-current assets	25
Total non-current assets	**2,519**
Current assets	
Inventories	368
Financial assets	
(i) Investments	45
(ii) Trade Receivables	762
(iii) Cash and Cash Equivalents	110
(iv) Bank balances other than (iii) above	28
(v) Other financial assets	267
Total current assets	**1,580**
Total assets	**4,099**
EQUITY AND LIABILITIES	
Equity	
Equity Share Capital	295
Other equity	
Equity component of compound financial instruments	717
Reserves and surplus	**2,481**
Total equity	**3,493**
Liabilities	
Non-current liabilities	
Financial Liabilities	
Borrowings	268
Total non-current liabilities	**268**
Current liabilities	
Financial Liabilities	
(i) Trade payables	302
Other current liabilities	36
Total current liabilities	**338**
Total liabilities	**606**
Total equity and liabilities	**4,099**

Answer

(a) Ind AS 103 defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods and services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

In the given scenario, acquisition of power plant along with its labour force will be considered as integrated set of activity as it is capable of being generating power. Hence, transaction will be considered as business combination and not asset acquisition and acquisition method of accounting will be applied.

Thus, following will be the case:

i. Acquirer – Mini Ltd;
ii. Acquiree – Max Ltd;
iii. Acquisition date – 1st April, 20X1

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(b) Calculation of Goodwill:

Particulars		₹ in Million
Purchase consideration	(A)	51
Fair Value of Power Plant – PPE		46.90
Fair Value of other non-current assets		11.10
Fair Value of Intangible Asset (License) – Refer Note 1 below		5
Non-Current Liabilities assumed		(32)
Value of net assets acquired (B)		31
Goodwill		20

Note 1: The licence to operate power plant is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill though acquirer cannot sell or transfer it separately from the acquired power plant. Intangible Assets needs to be recorded by the acquirer at the time of accounting for acquisition though not recorded by the acquiree in its book.

(c) Journal Entries for acquiring power plant

Particulars	₹ in Million	₹ in Million
Fair Value of Power Plant Dr. 46.90	46.90	
Fair Value of other assets Dr. 11.10	11.10	
Fair Value of License acquired Dr. 5	5	
Goodwill Dr. 20	20	
To Liabilities assumed 32		32
To Bank (PC paid) 51		51

Balance Sheet of Mini Limited as at 1st April, 20X1

Particulars	(₹ in Million)
ASSETS	
Non-current assets	
Property, plant and equipment	2,204.00
Intangible Asset (License acquired in business combination)	5
Capital work-in-progress	12.00
Goodwill on acquisition	20.00
Deferred Tax Assets (Net)	324.00
Other non-current assets	36.10
Total non-current assets	**2,602.00**
Current assets	
Inventories	368.00
Financial assets	
(i) Investments	45.00
(ii) Trade Receivables	762.00
(iii) Cash and Cash Equivalents	59.00
(iv) Bank balances other than (iii) above	28.00
(v) Other financial assets	267.00
Total current assets	**1,529.00**
Total assets	**4,131.00**
EQUITY AND LIABILITIES	
Equity	
Equity Share Capital	295.00
Other equity	
Equity component of compound financial instruments	717.00
Reserves and surplus	**2,481.00**
Total equity	**3,493.00**
Liabilities	
Non-current liabilities	
Financial Liabilities	
Borrowings	300.00
Total non-current liabilities	**300.00**
Current liabilities	

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Financial Liabilities	
(i) Trade payables	302.00
Other current liabilities	36.00
Total current liabilities	**338.00**
Total liabilities	**638.00**
Total equity and liabilities	**4,131.00**

Notes to Accounts

1. Property, Plant and Equipment

Particulars	**(₹ in Million)**
PPE value as on 1st April, 20X1	2,158.00
Add: Fair Value of Power Plant acquired	46.90
Total	2,204.90

2. Other Non-current Assets

Particulars	**(₹ in Million)**
Other non-current assets value as on 1st April, 20X1	25.00
Add: Fair Value of Non-current assets acquired	11.10
Total	36.10

3. Cash and Cash equivalents

Particulars	**(₹ in Million)**
Cash and Cash equivalents as on 1st April, 20X1	110
Less: Payment of Purchase consideration transferred	(51)
Total	59

4. Non-current Liabilities

Particulars	**(₹ in Million)**
Non-current Liabilities value as on 1st April, 20X1	268
Add: Non-current liabilities assumed in acquisition	32
Total	300

(d) Subsequent Accounting: Ind AS 103 provides a measurement period window, wherein if all the required information is not available on the acquisition date, then entity can do price allocation on provisional basis. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts
and circumstances that existed as on the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. Any change i.e. increase or decrease in the net assets acquired due to new information available during the measurement period which existed on the acquisition date will be adjusted against goodwill.
Accordingly, in the financial statements for half year ending 30th September, 20X1, Mini Limited will retrospectively adjusts the prior year information as follows:

i. the carrying amount of PPE (including power plant) as of 1st April, 20X1 is increased by ₹ 8 million (i.e. ₹ 54.90 million minus ₹ 46.90 million). The adjustment is measured as the fair value adjustment at the acquisition date less the additional depreciation that would have been recognised if the
ii. asset's fair value at the acquisition date had been recognised from that date [(80,00,000/40) x (6/12) = 0.1 million]
iii. the carrying amount of goodwill as of 1st April, 20X1 is decreased by ₹ 8 million; and
iv. depreciation expense for the period ending 30th September, 20X1 will increase by ₹ 0.1 million disclose in its financial statements of 1st April, 20X1, that the initial accounting for the business combination has not been completed because the valuation of property, plant and equipment has not yet been received;
v. disclose in its financial statements of 30th September, 20X1, the amounts and explanation of the adjustments to the provisional values recognised during the current reporting period. Therefore, Mini Limited discloses that comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by ₹ 8 million, offset by decrease in goodwill of ₹ 8 million.

Journal Entries

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(1) PPE (Power Plant) Dr. To Goodwill	₹ 8 Million	 ₹ 8 Million
(2) Depreciation Dr. To Provision for Depreciation	₹ 0.1 Million	 ₹ 0.1 Million

Q9. May 2023 RTP

In October 20X1, IHL acquired 75% of Very Relevant Limited by paying cash consideration of ₹ 0.80 million. The fair value of non-controlling interest on the date of acquisition is ₹ 0.20 million. The value of Very Relevant Limited's identifiable net assets as per Ind AS 103 is ₹ 1.10 million. With respect to acquisition of Very Relevant Limited, determine the value of gain on bargain purchases, when NCI is measured as per:
(a) Fair value method
(b) Proportionate share of net identifiable assets method.

Answer

(a) When NCI is measured as per fair value method

	₹ in million
Fair value of consideration transferred	0.80
Fair value of non-controlling interest	0.20
	1.00
Value of Very Relevant Limited's identifiable net assets as per Ind AS 103	(1.10)
Gain on bargain purchase	0.10

(b) When NCI is measured as per proportionate share method

	₹ in million
Fair value of consideration transferred	0.80
Proportional share of non-controlling interest in the net identifiable assets of acquiree (1.10 x 25%)	0.275
	1.075
Value of Very Relevant Limited's identifiable net assets as per Ind AS 103	(1.10)
Gain on bargain purchase	0.025

Q10. Nov 2022 RTP

How should contingent consideration payable in relation to a business combination be accounted for on initial recognition and at the subsequent measurement in the following cases:
(a) On 1st April 20X1, A Ltd. acquires 100% interest in B Ltd. As per the terms of agreement the purchase consideration is payable in the following 2 tranches:

- an immediate issuance of 10 lakhs shares of A Ltd. having face value of ₹ 10 per share;
- a further issuance of 2 lakhs shares after one year if the profit before interest and tax of B Ltd. for the first year following acquisition exceeds ₹ 1 crore.

The fair value of the shares of A Ltd. on the date of acquisition is ₹ 20 per share. Further, the management has estimated that on the date of acquisition, the fair value of contingent consideration is ₹ 25 lakhs.
During the year ended 31st March, 20X2, the profit before interest and tax of B Ltd. exceeded ₹ 1 crore. As on 31st March, 20X2, the fair value of shares of A Ltd. is ₹ 25 per share.
(b) Continuing with the fact pattern in (a) above except for:

- The number of shares to be issued after one year is not fixed.
- Rather, A Ltd. agreed to issue variable number of shares having a fair value equal to ₹ 40 lakhs after one year, if the profit before interest and tax for the first year following acquisition exceeds ₹ 1 crore.

Answer

Paragraph 39 of Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration

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arrangement. The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.
With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32 Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.

(a) (i) In the given case, the amount of purchase consideration to be recognized on initial recognition shall as follows:

Fair value shares issued (10,00,000 x ₹ 20)	₹ 2,00,00,000
Fair value of contingent consideration	₹ 25,00,000
Total purchase consideration	₹ 2,25,00,000

(ii) Subsequent measurement of contingent consideration payable for business combination

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfillment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.
As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.
In the given case, the obligation to pay contingent consideration amounting to ₹ 25,00,000 is recognised as a part of equity and therefore not be re-measured subsequently or on issuance of shares.

(b) (i) In the given case, the amount of purchase consideration to be recognized on initial recognition is as follows:

Fair value shares issued (10,00,000 x ₹ 20)	₹ 2,00,00,000
Fair value of contingent consideration	₹ 25,00,000
Total purchase consideration	₹ 2,25,00,000

(ii) Subsequent measurement of contingent consideration payable for business combination

In the given case, the contingent consideration will be classified as liability as per Ind AS 32.
As per paragraph 58 of Ind AS 103, contingent consideration not classified as equity should be measured at fair value at each reporting date and changes in fair value should be recognised in profit or loss.
As at 31st March, 20X2 (being the date of settlement of contingent consideration), the liability would be measured at its fair value and the resulting loss of ₹ 15,00,000 (₹ 40,00,000 – ₹ 25,00,000) should be
recognised in the profit or loss for the period. A Ltd. would recognize issuance of 1,60,000 (₹ 40,00,000 / 25) shares at a premium of ₹ 15 per share.

Q11. May 2022 RTP

Entity A acquires entity B. Entity A agrees with the former shareholders of entity B to pay ₹ 900, with an additional payment of ₹ 500 if the subsequent earnings of entity B reach a specified target in three years. The former shareholders also become employees. On the acquisition date, the fair value of the net assets of entity B amount to ₹ 850, and the fair value of additional payment is estimated at ₹ 200. At the acquisition date, the outflow of additional payment is not probable.
Over the next three years, the cumulative earnings of entity B (before considering the effects of the additional payments) amount to ₹ 1,050. At the end of year three, entity A pays ₹ 500 as the conditions were met.
State the impact on the financial position and results of classifying the payments as remuneration and contingent consideration.

Answer

The impact on the financial position and results of classifying the payments as remuneration and contingent consideration is tabulated as follows:

	Additional Payment is classified as

	Remuneration	Contingent consideration
Consideration	900	900
Fair value of additional payment	0	200
Total consideration	**900**	**1,100**
Fair value of net assets	(850)	(850)
Goodwill at acquisition date	**50**	**250**
Subsequent changes in additional payment	0	0
Total Goodwill	**50**	**250**
Cumulative earnings (before considering additional payment)	1,050	1,050
	(500)	(300)
Impact of additional payment	**550**	**750**
Reported results across three years		

Q12. Nov 2021 RTP

Company X is engaged in the business of exploration & development of Oil & Gas Blocks. Company X currently holds participating interest (PI) in below mentioned producing Block as follows:

Block Name	Company X	Company Y	Company Z	Total
AWM/01	30%	60%	10%	100%

For the above Block, Company X, Y & Z has entered into unincorporated Joint Venture. Company Y is the Operator of the Block AWM/01. Company X & Company Z are the Joint Operators. Company Y incurs all the expenditure on behalf of Joint Venture and raise cash call to Company X & Company Z at each month end in respect of their share of expenditure incurred in Joint Venture. All the manpower and requisite facilities /machineries owned by the Joint venture and thereby owned by all the Joint Operators.

For past few months, due to liquidity issues, Company Z defaulted in payment of cash calls to operators. Therefore, company Y (Operator) has issued notice to company Z for withdrawal of their participating right from on 01.04.20X1. However, company Z has filed the appeal with arbitrator on 30.04.20X1.

Financial performance of company Z has not been improved in subsequent months and therefore company Z has decided to withdraw participating interest rights from Block AWM/01 and entered into sale agreement with Company X & Company Y. As per the terms of the agreement, dated 31.5.20X1, Company X will receive 33.33% share & Company Y will receive 66.67% share of PI rights owned by Company Z.

Company X is required to pay ₹1 Lacs against 33.33% share of PI rights owned by Company Z.

After signing of sale agreement, Operator (company Y) approach government of India for modification in PSC (Production Sharing Contract) i.e. removal of Company Z from PSC of AWM/01 and government has approved this transaction on 30.6.20X1.Government approval for the modification in PSC is essential given the industry in which the joint-operators operate.

Balance sheet of Company X & Company Z are as follows:

Particulars	Company X		Company Z	
	31.5.20X1	30.6.20X1	31.5.20X1	30.6.20X1
	₹	₹	₹	₹
Assets				
Non-Current Assets				
Property, Plant & Equipment	5,00,000	10,00,000	1,50,000	3,00,000
Right of Use Asset	1,00,000	2,00,000	10,000	20,000
Development CWIP	50,000	1,00,000	50,000	1,00,000
Financial Assets				
Loan receivable	25,000	50,000	25,000	50,000
Total Non-Current Assets	**6,75,000**	**13,50,000**	**2,35,000**	**4,70,000**
Current assets				
Inventories	1,00,000	2,00,000	15,000	30,000
Financial Assets				

Trade receivables	1,50,000	3,00,000	50,000	1,00,000
Cash and cash equivalents	2,00,000	4,00,000	1,00,000	2,00,000
Other Current Assets	2,25,000	50,000	25,000	50,000
Total Current Assets	**6,75,000**	**9,50,000**	**1,90,000**	**3,80,000**
Total Assets	**13,50,000**	**23,00,000**	**4,25,000**	**8,50,000**
Equity and Liabilities				
Equity				
Equity share capital	3,00,000	3,00,000	1,00,000	1,00,000
Other equity	2,00,000	3,00,000	75,000	2,50,000
Total Equity	**5,00,000**	**6,00,000**	**1,75,000**	**3,50,000**
Liabilities				
Non-Current Liabilities				
Provisions	4,00,000	8,00,000	1,00,000	2,00,000
Other Liabilities	*1,50,000*	3,00,000	50,000	1,00,000
Total Non-Current Liabilities	***5,50,000***	**11,00,000**	**1,50,000**	**3,00,000**
Current Liabilities				
Financial Liabilities				
Trade Payables	3,00,000	6,00,000	1,00,000	2,00,000
Total Current Liabilities	**3,00,000**	**6,00,000**	**1,00,000**	**3,00,000**
Total Liabilities	**13,00,000**	**23,00,000**	**4,25,000**	**8,50,000**

Additional Information:

1. Fair Value of PPE & Development CWIP owned by Company Z as per Market participant approach is ₹ 5,00,000 & ₹ 2,00,000 respectively.
2. Fair Value of all the other assets and liabilities acquired are assumed to be at their carrying values (except cash & cash equivalents). Cash and cash equivalents of Company Z are not to be acquired by Company X as per the terms of agreement.
3. Tax rate is assumed to be 30%.
4. As per Ind AS 28, all the joint operators are joint ventures whereby each parties that have joint control of the arrangement have rights to the net assets of the arrangement and therefore every operator records their share of assets and liabilities in their books.

You need to determine the following:

1. Whether the above acquisition falls under business or asset acquisition as defined under business combination standard Ind AS 103?
2. Determine the acquisition date in the above transaction.
3. Prepare Journal entries for the above-mentioned transaction.
4. Draft the Balance Sheet for Company X based on your analysis in Part 1 above as at acquisition date.

Answer

(1) Ind AS 103 defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

For a transaction to meet the definition of a business combination (and for the acquisition method of accounting to apply), the entity must gain control of an integrated set of assets and activities that is more than a collection of assets or a combination of assets and liabilities.

To be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs.

Therefore, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

In the aforesaid transaction, Company X acquired share of participating rights owned by Company Z for the producing Block (AWM/01). The output exist in this transaction (Considering AWM/01) is a producing block. Also all the manpower and requisite facilities / machineries are owned by Joint venture and thereby all the Joint Operators. Hence, acquiring participating rights tantamount to acquire inputs (Expertise Manpower & Machinery) and it is critical to the ability to

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continue producing outputs. Thus, the said acquisition will fall under the Business Acquisition and hence standard Ind AS 103 is to be applied for the same.

(2) As per paragraph 8 of Ind AS 103, acquisition date is the date on which the acquirer obtains control of the acquiree. Further, paragraph 9 of Ind AS 103 clarifies that the date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date.

An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date. Since government of India (GOI) approval is a substantive approval for Company X to acquire control of Company Z's operations, the date of acquisition cannot be earlier than the date on which approval is obtained from GOI. This is pertinent given that the approval from GOI is considered to be a substantive process and accordingly, the acquisition is considered to be completed only on receipt of such approval. Hence acquisition date in the above scenario is 30.6.20X1.

(3) Journal entry for acquisition

Particulars		**Amount (₹)**	**Amount (₹)**
Property Plant & Equipment	Dr.	1,66,650	
Right-of-use Asset	Dr.	6,666	
Development CWIP	Dr.	66.660	
Financial Assets - Loan Receivables	Dr.	16.665	
Inventories	Dr.	9,999	
Trade Receivables	Dr.	33,330	
Other Current Assets	Dr.	16,665	
To Provisions			66,660
To Other Liabilities			33,330
To Trade Payables			66,660
To Deferred Tax Liability			29,997
To Cash & Cash Equivalent (Purchase consideration)			1,00,000
To Gain on bargain purchase (Other Comprehensive Income)			19,998
(Being assets acquired and liabilities assumed from Company Z recorded at fair value along gain on bargain purchase)			

(4) Balance Sheet of Company X as at 30.6.20X1
(Pre & Post Acquisition of PI rights pertaining to Company Z)

Particulars	**Pre-Acquisition**	**Adjustments**	**Post-Acquisition**
	30.6.20X1		**30.6.20X1**
Assets			
Non - Current Assets			
Property Plant & Equipment	10,00,000	1,66,650	11,66,650
Right of Use Asset	2,00,000	6,666	2,06,666
Development CWIP	1,00,000	66,660	1,66,660
Financial Assets			
Loan receivable	50,000	16,665	66,665
Total Non-Current Assets	**13,50,000**		**16,06,641**
Current assets			
Inventories	2,00,000	9,999	2,09,999
Financial Assets			
Trade receivables	3,00,000	33,330	3,33,330
Cash and cash equivalents	4,00,000	(1,00,000)	3,00,000
Other Current Assets	50,000	16,665	66,665
Total Current Assets	**9,50,000**		**9,09,994**
Total Assets	**23,00,000**		**25,16,635**
Equity and Liabilities			
Equity			

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Equity share capital	3,00,000	-	3,00,000
Other equity	3,00,000	-	3,00,000
Capital Reserve (OCI)	-	19,988	19,988
Total Equity	**6,00,0**		**6,19,988**
Liabilities	**00**		
Non-Current Liabilities			
Provisions		66,660	8,66,660
Other Liabilities	8,00,000	33,330	3,33,330
Deferred Tax Liability	3,00,000	29,997	29,997
Total Non-Current Liabilities	-		**12,29,987**
Current Liabilities	**11,00,000**		
Financial liabilities			
Trade Payables		66,660	6,66,660
Total Current Liabilities	6,00,000		**6,66,660**
Total Equity and Liabilities	**6,00,000**		**25,16,635**
	23,00,000		

Working Notes

1. Determination of Company Z's balance acquired by Company X on 30.6.20X1 (Acquisition Date)

Particulars	**As per Company Z Books 30.6.20X1**	**Carrying Value 33.33% Share**	**Acquisition Date Value**	**Remarks**
	₹	**₹**	**₹**	
Assets				
Non-Current Assets				
Property Plant & Equipment	3,00,000	99,990	1,66,650	Note 1
Right of Use Asset	20,000	6,666	6,666	
Development CWIP	1,00,000	33,330	66,660	Note 2
Financial Assets				
Loan receivable	50,000	16,665	16,665	
Total Non-Current Assets	**4,70,000**	**1,56,561**	**2,56,641**	
Current assets				
Inventories	30,000	9,999	9,999	
Financial Assets				
Trade receivables	1,00,000	33,330	33,330	
Cash and cash equivalents	2,00,000	66,660	66,660	
Other Current	50,000	16,665	16,665	
Total Current Assets 3	**3,80,000**	**1,26,654**	**1,26,654**	
Liabilities				
Non-Current Liabilities				
Provisions	2,00,000	66,660	66,660	
Other Liabilities	1,00,000	33,330	33,330	
Total Non-Current Liabilities	**3,00,000**	**99,990**	**99,990**	
Current Liabilities				
Financial liabilities				
Trade Payables	2,00,000	66,660	66,660	
Total Current Liabilities	**2,00,000**	**66,660**	**66,660**	

Note 1: Fair Value of PPE:

Fair Value of PPE in Company Z Books	₹ 5,00,000
33.33% Share acquired by Company X	₹ 1,66,650

Note 2: Fair Value of Development CWIP:

Fair Value of PPE in Company Z Books	₹ 2,00,000

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33.33% Share acquired by Company X	₹ 66,660

2. Computation Goodwill/Bargain Purchase Gain

Particulars	**As at 30.6.20X1 (₹)**
Total Non - Current Assets	2,56,641
Total Current Assets (Except Cash & Cash Equivalent of ₹ 66,660) (1,26,654 – 66,660)	59,994
Total Non-Current Liabilities	(99,990)
Total Current Liabilities (66,660)	(66,660)
Total Deferred Tax Liability (Refer Working note 3)	(29,997)
Net Assets Acquired	**1,19,988**
Less: Consideration Paid	(1,00,000)
Gain on Bargain Purchase (To be transferred to OCI)	**19,988**

*In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination in which the value of net assets acquired in a business combination exceeds the purchase consideration. The acquirer shall recognise the resulting gain in other comprehensive income on the acquisition date and accumulate the same in equity as capital reserve, if the reason for bargain purchase gain is clear and evidence exist. If there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, then the gain shall be recognised directly in equity as capital reserve. Since in above scenario it is clearly evident that due to liquidity issues, Company Z has to withdraw their participating right from AWM/01. The said bargain purchase gain should be transferred to other comprehensive income on the acquisition date.

3. Computation of Deferred Tax Liability arising on Business Combination

Particulars	**Acquisition Date Value (₹)**
Total Non - Current Assets	2,56,641
Total Current Assets (Except Cash & Cash Equivalent of ₹ 66,660)	59,994
Total Non-Current Liabilities	(99,990)
Total Current Liabilities	(66,660)
Net Assets Acquired at Fair Value	**1,49,985**
Book value of Net Assets Acquired	49,995
Temporary Difference	**99,990**
DTL @ 30% on Temporary Difference	**29,997**

Note: As per Ind AS 103, in case an entity acquires another entity step by step through series of purchase then the acquisition date will be the date on which the acquirer obtains control. Till the time the control is obtained the investment will be accounted as per the requirements of other Ind AS 109, if the investments are covered under that standard or as per Ind AS 28, if the investments are in
Associates or Joint Ventures.
If a business combination is 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 profit or loss or other comprehensive income, as appropriate.
Since in the above transaction, company X does not hold any prior interest in Company Z & company holds only 30% PI rights in Block AWM/01 through unincorporated joint venture, this is not a case of step acquisition.

Q13. May 2021 RTP

Bima Ltd. acquired 65% of shares on 1 June, 20X1 in Nafa Ltd. which is engaged in production of components of machinery. Nafa Ltd. has 1,00,000 equity shares of ₹ 10 each. The quoted market price of shares of Nafa Ltd. was ₹ 12 on the date of acquisition. The fair value of Nafa Ltd.'s identifiable net assets as on 1 June, 20X1 was ₹ 80,00,000.

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Bima Ltd. wired ₹ 50,00,000 in cash and issued 50,000 equity shares as purchase consideration on the date of acquisition. The quoted market price of shares of Bima Ltd. on the date of issue was ₹ 25 per share.

Bima Ltd. also agrees to pay additional consideration of ₹ 15,00,000, if the cumulative profit earned by Nafa Ltd. exceeds ₹ 1 crore over the next three years. On the date of acquisition, Nafa Ltd. assessed and determined that it is considered probable that the extra consideration will be paid. The fair value of this consideration on the date of acquisition is ₹ 9,80,000. Nafa Ltd. incurred ₹ 1,50,000 in relation to the acquisition. It measures Non-controlling interest at fair value.

How will the acquisition of Nafa Ltd. be accounted by Bima Ltd., under Ind AS 103? Prepare detailed workings and pass the necessary journal entry.

Answer

Computation of Goodwill / Capital reserve on consolidation as per Ind AS 103

Particulars	**₹**
Cost of investment:	
Share exchange (50,000 x 25)	12,50,000
Cash consideration	50,00,000
Contingent consideration	9,80,000
Consideration transferred at date of acquisition [A]	72,30,000
Fair value of non-controlling interest at date of acquisition [B] (1,00,000 x 35% x 12)	4,20,000
Total [C] = [A] + [B]	76,50,000
Net assets acquired at date of acquisition [D]	(80,00,000)
Capital Reserve [D] – [C]	3,50,000

In a business combination, acquisition-related costs (including stamp duty) are expensed in the period in which such costs are incurred and are not included as part of the consideration transferred. Therefore, ₹ 1,50,000 incurred by Nafa Ltd. in relation to acquisition, will be ignored by Bima Ltd.

Journal entry at the date of acquisition by Bima Limited as per Ind AS 103:

		₹	₹
Identifiable net assets	Dr.	80,00,000	
To Equity share capital (50,000 x 10)			5,00,000
To Securities Premium (50,000 x 15)			7,50,000
To Cash			50,00,000
To Provision for contingent consideration to Nafa Ltd.			9,80,000
To Non-controlling Interest			4,20,000
To Capital Reserve			3,50,000

Q14. Nov 2020 RTP

Veera Limited and Zeera Limited are both in the business of manufacturing and selling of Lubricant. Veera Limited and Zeera Limited shareholders agree to join forces to benefit from lower delivery and distribution costs. The business combination is carried out by setting up a new entity called Meera Limited that issues 100 shares to Veera Limited's shareholders and 50 shares to Zeera Limited's shareholders in exchange for the transfer of the shares in those entities. The number of shares reflects the relative fair values of the entities before the combination. Also respective company's shareholders gets the voting rights in Meera Limited based on their respective shareholding.

Determine the acquirer by applying the principles of Ind AS 103 'Business Combinations'.

Answer

As per para B15 of Ind AS 103, in a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree. Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including:

The relative voting rights in the combined entity after the business combination -
The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity.
Based on above mentioned para, acquirer shall be either of the combining entities (i.e. Veera Limited or Zeera Limited), whose owners as a Group retain or receive the largest portion of the voting rights in the combined entity.
Hence, in the above scenario Veera Limited's shareholder gets 66.67% share (100 / 150 x 100) and Zeera Limited's shareholder gets 33.33% share in Meera Limited. Hence, Veera Limited is acquirer as per the principles of Ind AS 103.

Q15. May 2019 RTP

How should contingent consideration payable in relation to a business combination be accounted for on initial recognition and at the subsequent measurement as per Ind AS in the following cases:
(i) On 1 April 2016, A Ltd. acquires 100% interest in B Ltd. As per the terms of agreement the purchase consideration is payable in the following 2 tranches:
a. an immediate issuance of 10 lakhs shares of A Ltd. having face value of INR 10 per share;
b. a further issuance of 2 lakhs shares after one year if the profit before interest and tax of B Ltd. for the first year following acquisition exceeds INR 1 crore.
i. The fair value of the shares of A Ltd. on the date of acquisition is INR 20 per share. Further, the management has estimated that on the date of acquisition, the fair value of contingent consideration is ₹25 lakhs.
ii. During the year ended 31 March 2017, the profit before interest and tax of B Ltd. exceeded ₹1 crore. As on 31 March 2017, the fair value of shares of A Ltd. is ₹25 per share.
iii Continuing with the fact pattern in (a) above except for:
c. The number of shares to be issued after one year is not fixed.
d. Rather, A Ltd. agreed to issue variable number of shares having a fair value equal to ₹40 lakhs after one year, if the profit before interest and tax for the first year following acquisition exceeds ₹1 crore. A Ltd. issued shares with ₹40 lakhs after a year.

Answer

Paragraph 37 of Ind AS 103, inter alia, provides that the consideration transferred in a business combination should be measured at fair value, which should be calculated as the sum of (a) the acquisition-date fair values of the assets transferred by the acquirer, (b) the liabilities incurred by the acquirer to former owners of the acquiree and (c) the equity interests issued by the acquirer.
Further, paragraph 39 of Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.
With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32 or other applicable Ind AS, i.e., for the rare case of non-financial contingent consideration.
Paragraph 40 provides that the acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of Ind AS 32, Financial Instruments: Presentation. The acquirer shall classify as an asset a right to the return of previously transferred consideration if
specified conditions are met. Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.
(i) In the given case the amount of purchase consideration to be recognized **on initial recognition** shall be as follows:

Fair value of shares issued (10,00,000 x ₹20)	₹2,00,00,000
Fair value of contingent consideration	₹25,00,000
Total purchase consideration	₹2,25,00,000

Subsequent measurement of contingent consideration payable for business combination

In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:

(a) There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavorable conditions (for the issuer of the instrument).

(b) If the instrument will or may be settled in the issuer's own equity instruments, then it is:

(i) a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or

(ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfilment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.

Here, the obligation to pay contingent consideration amounting to ₹25,00,000 is recognized as a part of equity and therefore not re-measured subsequently or on issuance of shares.

(ii) The amount of purchase consideration to be recognized **on initial recognition** is shall be as follows:

Fair value of shares issued (10,00,000 x ₹20)	₹2,00,00,000
Fair value of contingent consideration	₹25,00,000
Total purchase consideration	₹2,25,00,000

Subsequent measurement of contingent consideration payable for business combination

The contingent consideration will be classified as liability as per Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration not classified as equity should be measured at fair value at each reporting date and changes in fair value should be recognized in profit or loss.

As at 31 March 2017, (being the date of settlement of contingent consideration), the liability would be measured at its fair value and the resulting loss of ₹15,00,000 (₹40,00,000 - ₹25,00,000) should be recognized in the profit or loss for the period. A Ltd. would recognize issuance of 160,000 (₹40,00,000/25) shares at a premium of ₹15 per share.

Q16. May 2018 RTP

ABC Ltd. prepares consolidated financial statements upto 31st March each year. On 1st July 2017, ABC Ltd. acquired 75% of the equity shares of JKL Ltd. and gained control of JKL Ltd. the issued shares of JKL Ltd. is 1,20,00,000 equity shares. Details of the purchase consideration are as follows:

- On 1st July, 2017, ABC Ltd. issued two shares for every three shares acquired in JKL Ltd. On 1st July, 2017, the market value of an equity share in ABC Ltd. was ₹ 6.50 and the market value of an equity share in JKL Ltd. was ₹ 6.

- On 30th June, 2018, ABC Ltd. will make a cash payment of ₹ 71,50,000 to the former shareholders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 2017. On 1st July, 2017, ABC Ltd. would have to pay interest at an annual rate of 10% on borrowings.

-On 30th June, 2019, ABC Ltd. may make a cash payment of ₹ 3,00,00,000 to the former shareholders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 2017.This payment is contingent upon the revenues of ABC Ltd. growing by 15% over the two-year period from 1st July, 2017 to 30th June, 2019.

On 1st July, 2017, the fair value of this contingent consideration was ₹ 2,50,00,000. On 31 st March, 2018,the fair value of the contingent consideration was ₹ 2,20,00,000.On 1st July, 2017, the carrying values of the identifiable net assets of JKL Ltd. in the books of that company was ₹ 6,00,00,000. On 1st July, 2017, the fair values of these net assets was ₹ 7,00,00,000. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31st March, 2018, JKL Ltd. had a poorer than expected operating performance. Therefore, on 31st March, 2018 it was necessary for ABC Ltd. to recognise an impairment of the goodwill arising on acquisition of JKL Ltd., amounting to 10% of its total computed value.

Compute the impairment of goodwill in the consolidated financial statements of ABC Ltd.under both the methods permitted by Ind AS 103 for the initial computation of the non-controlling interest in JKL Ltd. at the acquisition date

Answer

Computation of goodwill impairment

	NCI at fair value	**NCI at of net assets**
	₹ in '000	**₹ in '000**
Cost of investment		
Share exchange (12,000 x 75% x 2/3 x ₹ 6.50)	39,000	39,000
Deferred consideration (7,150 / 1.10)	6,500	6,500
Contingent consideration	25,000	25,000
Non-controlling interest at date of acquisition:		
Fair value – 3000 x ₹ 6	18,000	
% of net assets – 68,000 (Refer W.N.) x 25%		17,000
Net assets on the acquisition date (Refer W.N.)	(68,000)	(68,000)
Goodwill on acquisition	20,500	19,500
Impairment @ 10%	2,050	2,050

Working Note:

Net assets on the acquisition date	₹ '000
Fair value at acquisition date 70,000	70,000
Deferred tax on fair value adjustments [20% x (70,000 – 60,000)]	68,000
(2,000)	

Q17. Nov 2018 RTP

Smart Technologies Inc. is a Company incorporated in India in 1998 having business in the field of development and installation of softwares, trading of computer peripherals and other IT related equipment and provision of cloud computing services along with other services incidental thereto. It is one of the leading brands in India.

After witnessing immense popularity and support in its niche market, Smart Technologies further grew by bringing its subsidiaries namely:

Company Name	**Principle Activity**
Cloudustries India Private Limited	Provision of cloud computing services.
MicroFly India Private Limited	Trading of computer peripherals like mouse, keyboard, printer etc.

Smart Technologies started preparing its financial statements based on Ind AS from 1st April, 2015 on voluntary basis. The Microfly India Pvt. Ltd. is planning to merge the business of Cloudstries India Pvt. Ltd. with its own for which it presented before the members in the meeting the below extract of latest audited Balance Sheet of Cloudustries (prepared on the basis of Ind AS) for the year ended 31st March, 2017:

Balance Sheet as at March 31, 2017 **(₹ in Crores)**

Assets	
Non-current assets	
Property, plant and Equipment	15.00
	15.00
Current Assets	
(a) Financial assets	
Trade Receivables	10.00
Cash and cash equivalents	10.00
Other current assets	8.00
Total	**43.00**

Equity and Liabilities	
Equity	
Equity Share Capital	45.00
Other Equity	
Reserves and Surplus (Accumulated Losses)*	(24.80)
	20.20
Liabilities	
Non-current Liabilities	
Financial liabilities	
Borrowings	2.80
Current Liabilities	20.00
	22.80
Total	**43.00**

*The Tax Loss carried forward of the company is ₹ 27.20 crores

On September 5, 2017, the merger got approved by the Directors. The purchase consideration payable by MicroFly to Cloudustries was fixed at ₹ 18.00 crores payable in cash and that MicroFly take over all the assets and liabilities of Cloudustries.

Present the statement showing the calculation of assets/liabilities taken over as period AS. Also mention the accounting of difference between consideration and assets/liabilities taken over.

Answer

Before the merger, Cloudustries and MicroFly are the subsidiary of Smart Technologies Inc. As the control is not transitory, the proposed merger will fall under the category of Business combination of entities under common control, it will be accounted as per Appendix C of Ind AS 103 "Business Combination" and Pooling of Interest Method would be applied.

Statement showing the calculation of assets/liabilities taken over and treatment of difference between consideration and assets/liabilities taken over:

(a) Net asset taken over: **(₹ in crore)**

Assets taken over:	
Property, Plant and Equipment	15.00
Cash and cash equivalents	10.00
Other current assets	8.00
Trade Receivables	10.00
Total - A	**43.00**
Less: Liabilities taken over:	
Borrowings	2.80
Current Liabilities	20.00
Total - B	**22.80**
Net Asset taken over (A-B)	**20.20**

(c) Treatment of difference between consideration and assets/liabilities taken over:

(₹ in crore)

Net Asset taken over - A	20.20
Less: Purchase Consideration - B	18.00
Difference (A – B)	**1.80**

The difference between consideration and assets/liabilities taken over of ₹ 1.80 crore shall be transferred to capital reserve.

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Q1. Jan 2026 Exam, 14 marks

On 1st April 2024, A Limited acquired 80% of the equity share capital of S Limited. On the said date, the share capital and other equity (represented entirely by retained earnings) of S Limited were Rs. 10.00 lakhs and Rs. 2.50 lakhs respectively.

To the selling shareholders, A Limited:

- paid initial cash consideration of Rs. 20.00 lakhs;
- issued fresh 4,00,000 equity shares of a nominal value of Rs. 1 per share at current market price of Rs. 2 per share;
- agreed to pay a further Rs. 6.00 lakhs after 3 years i.e. on 31st March 2027.

A Limited's cost of capital is 10% per annum. The appropriate discount factor for Rs. 1 @ 10% per annum receivable at the end of:

- 1st year is 0.91;
- 2nd year is 0.83;
- 3rd year is 0.75.

Both A Limited and S Limited prepare their financial statements as per the Companies (Indian Accounting Standards) Rules, 2015.

The Balance Sheet of A Limited and S Limited as at 31st March 2025 is as under:

	(All amounts in Rs. in lakhs)	
Particulars	**A Limited**	**S Limited**
ASSETS		
Non-current assets		
- Property, plant and equipment	60.00	30.00
- Financial assets		
• Investment (in S Limited at cost)	20.00	-
Current assets		
- Inventories	7.00	12.00
- Financial assets		
• Trade receivables	4.50	10.00
• Cash and cash equivalents	2.00	4.00
Total Assets	**93.50**	**56.00**
EQUITY AND LIABILITIES		
EQUITY		
Equity share capital (Rs. 1 per share)	40.00	10.00
Other equity		
- Retained earning	15.00	6.00
LIABILITIES		
Non-current liabilities		
- Financial liabilities		

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• Borrowings	25.00	25.00
Current liabilities		
- Financial liabilities		
• Trade payables	13.50	15.00
Total Equity and Liabilities	**93.50**	**56.00**

The following additional information is provided:

- Since its incorporation, S Limited has been selling some of its products under the brand name 'BLISS'. At the acquisition date, A Limited valued this brand at Rs. 8.00 lakhs with a remaining life of 10 years with NIL residual value. A Limited amortizes its intangible assets on straight line method. The brand is not recognized in S Limited's Balance Sheet;
- As at 31st March 2025, goodwill recognized on consolidation is to be impaired by 25%;
- A Limited Group measures the non-controlling interest at fair value;
- Equity shares of S Limited were quoted at Rs. 4 per share on the date of acquisition;
- Immediately after acquisition i.e. on 1st April 2024, A Limited (which also sells capital equipment) sold a capital equipment costing Rs. 4.00 lakhs to S Limited at Rs. 5.00 lakhs. This capital equipment is recorded as Property, Plant and Equipment by S Limited. The useful life of the equipment on the date of transfer was 10 years with NIL residual value. The equipment is depreciated on straight line method.
- A Limited is yet to record issuance of shares and deferred consideration in its books of account.

You are required to prepare Consolidated Balance Sheet of A Limited as at 31st March 2025. Workings should form part of your answer.

Answer:

Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd. as at 31st March 2025

Particulars	**Note No.**	**Rs. in lakhs**
I. Assets		
(1) Non-Current Assets		
(i) Property Plant & Equipment	1	89.10
(ii) Goodwill (W.N.3)		15.00
(ii) Intangible Asset - Brand	1	7.20
(2) Current Assets		
(i) Inventories	1	19.00
(ii) Financial Assets		
(a) Trade Receivables	1	14.50
(b) Cash & Cash Equivalents	1	6.00
Total Assets		**150.80**
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital	2	44.00
(ii) Other Equity	3	15.79
(2) Non-Controlling Interest (W.N.5)		7.56
(3) Non-Current Liabilities		
(i) Financial Liabilities		

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(a) Borrowings	1	50.00
(b) Other – Contingent Consideration	1	4.95
(4) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	1	28.50
Total Equity & Liabilities		**150.80**

Note: It is assumed that depreciation on capital equipment has already been accounted for by S Ltd. for the year 2024-2025 based on its purchase price.

Notes to Accounts

1. Assets and Liabilities

Particulars	A Ltd.	S Ltd.	Adjustments	Total
Property, Plant and Equipment	60.00	30.00	-1.00+0.10	89.10
Intangible Assets (Brand)	-	-	+8.00-0.80	7.20
Investments	20.00	-	- 20.00	-
Inventories	7.00	12.00		19.00
Trade Receivables	4.50	10.00		14.50
Cash and Cash Equivalents	2.00	4.00		6.00
Borrowings	25.00	25.00		50.00
Other Non-current financial liability (Deferred consideration) (W.N.7)	4.95	-		4.95
Trade Payables	13.50	15.00		28.50

2. Equity Share Capital

	Rs. in lakhs
44 lakhs equity shares of Rs. 1 each, fully paid	44.00
– (Out of which 4 lakh equity shares of Rs. 1 each, fully paid issued for consideration other than cash)	
	44.00

3. Consolidated Other Equity

	Rs. in lakhs
Retained Earnings (W.N.6)	11.79
Securities Premium (4,00,000 shares x Rs. 1)	4.00
	15.79

Working Notes:

1. Calculation of purchase consideration at the acquisition date i.e. 1st April 2024

	Rs. in lakhs
Payment made by A Ltd. to S Ltd.	
Cash	20.00
Equity shares (4,00,000 shares x Rs. 2.00)	8.00
Present value of deferred consideration (Rs. 6,00,000 x 0.75)	4.50
Total consideration	32.50

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2. Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 2024

	Rs. in lakhs
Share capital of S Ltd.	10.00
Retained Earnings of S Ltd.	2.50
Fair value increase due to identifiable asset - Brand	8.00
Net worth on acquisition date	20.50

3. Calculation of Goodwill at the acquisition date (1st April 2024) and 31st March 2025

	Rs. in lakhs
Purchase consideration (W.N.1)	32.50
Non-controlling interest at fair value (10,00,000 x 20% x 4)	8.00
	40.50
Less: Net worth (W.N.2)	(20.50)
Goodwill as on 1st April 2024	20.00
Less: Impairment @ 25%	(5.00)
Goodwill as on 31st March 2025	15.00

4. Calculation of Property, Plant and Equipment as on 31st March 2025

		Rs. in lakhs
A Ltd.		60.00
S Ltd.	30.00	
Less: Elimination of gain on mutual transaction (5.00 – 4.00)	(1.00)	
	29.00	
Add: Excess depreciation on gain on mutual transaction [(5.00 – 4.00)/10 years]	0.10	29.10
		89.10

5. Calculation of post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 2025

		NCI (20%)	A Ltd. (80%)
Acquisition date balance (10,00,000 shares x 20% x Rs. 4)		8.00	
Closing balance of Retained Earnings	6.00		
Less: Pre-acquisition balance	(2.50)		
Post-acquisition Retained Earnings before adjustments	3.50		
Less: Amortisation of Brand (8/10 years)	(0.80)		
Add: Excess depreciation on PPE (1.00 x 1/10) (W.N.4)	0.10		
Post-acq. Retained Earnings after adjustments	2.80	0.56	2.24
Less: Impairment on Goodwill (20 x 25%) in 20:80		(1.00)	(4.00)
		7.56	(1.76)

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6. Consolidated Retained Earnings as on 31st March 2025

	Rs. in lakhs
A Ltd.	15.00
Less: A Ltd.'s share of post-acquisition loss in S Ltd. (W.N.5)	(1.76)
Less: Finance cost on deferred consideration (W.N.7)	(0.45)
Less: Gain on sale of capital equipment (5.00 – 4.00)	(1.00)
Retained Earnings as on 31st March 2025	11.79

7. Calculation of value of deferred consideration as on 31st March 2025

	Rs. in lakhs
Value of deferred consideration as on 1st April 2024 (W.N.1)	4.50
Add: Finance cost for the year 2024-2025 (4.50 x 10%)	0.45
Deferred consideration as on 31st March 2025	4.95

Q2. Sep 2025 Exam, 14 marksh

R Limited is a subsidiary of Z Limited. Their respective balance sheet as at 31st March, 2025 is as under:

	Note No.	Z Ltd. (Rs. in lakhs)	R Ltd. (Rs. in lakhs)
I. Assets			
Non-current assets			
(i) Property, plant and equipment	4	450	248
(ii) Intangible assets	5	75	45
(iii) Investments		375	68
Current assets			
(i) Inventories		75	75
(ii) Financial assets			
a. Trade receivables	6	110	120
b. Cash and cash equivalents		85	135
Total Assets		**1,170**	**691**
II. Equity and Liabilities			
Equity			
(i) Share Capital	1	720	360
(ii) Other Equity	2	315	225
Liabilities			
Current Liabilities			
(i) Financial liabilities			
a. Bank overdraft		45	30
b. Trade payables	3	90	76
Total Equity and Liabilities		**1,170**	**691**

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Notes to the Balance Sheet:

Note No.		Z Ltd. (Rs. in Lakhs)	R Ltd. (Rs. in Lakhs)
1.	**Share capital:**		
	(i) Equity shares of Rs. 10 each	600	300
	(ii) 10% Preference shares of Rs. 10 each	120	60
		720	360
2.	**Other equity:**		
	(i) General reserve	120	75
	(ii) Retained earnings	195	150
		315	225
3.	**Trade payables:**		
	(i) Sundry creditors	90	69
	(ii) Bills payable	Nil	7
		90	76
4.	**Property, plant and equipment:**		
	(i) Machinery	210	135
	(ii) Furniture and fixture	240	113
		450	248
5.	**Intangible asset:**		
	Goodwill	75	45
6.	**Trade receivables:**		
	(i) Sundry debtors	106	120
	(ii) Bills receivable	4	Nil
		110	120

Additional Information

(a) Z Ltd. acquired 12,00,000 equity shares of R Ltd. on 1st April, 2024 and further acquired 13,50,000 equity shares of R Ltd. on 1st January, 2025 at a cost of Rs. 1,44,00,000 and Rs. 1,55,25,000 respectively.

(b) The Preference share capital of R Ltd. includes nominal value of Rs. 22,50,000 held by Z Ltd. acquired on 1st April, 2024 at a cost of Rs. 54,00,000.

(c) The retained earnings of R Ltd. had a credit balance of Rs. 45,00,000 as on 1st April, 2024 and that of General Reserve on that date was Rs. 30,00,000.

(d) R Ltd. had paid dividend @ 12% on its paid-up equity share capital out of its retained earnings' balance on 1st April, 2024 for the year 2023-2024. The entire dividend received by Z Ltd. in August 2024 has been credited to its retained earnings.

(e) On 1st October, 2024, machinery of R Ltd. was overvalued by Rs. 15,00,000 for which necessary adjustments are to be made. The Company charges depreciation @ 10% on W.D.V. basis.

(f) Bills receivables of Z Ltd. were drawn upon R Ltd. out of which bills amounting to Rs. 3,00,000 have been discounted with bank.

(g) You are required to prepare consolidated balance sheet (In Rs. without rounding off) of Z Ltd. and its subsidiary R Ltd. as on 31st March, 2025 with the assumption that the group has adopted fair value method to measures NCI and the fair value of each equity share of R Ltd. is Rs. 14 per share as on the date of acquisition of control by Z Ltd. and also on 31st March 2025. Ignore taxation and adjustment, if any, of preference dividend.

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Answer:

	Notes No.	Rs.
Assets		
Non-current assets		
(i) Property, plant and equipment	1	6,83,75,000
(ii) Intangible assets	1	75,00,000
(iii) Financial assets		
a. Investments	1	89,75,000
Current assets		
(i) Inventories	1	1,50,00,000
(ii) Financial assets		
a. Trade receivables	1	2,26,00,000
b. Cash and cash equivalents	1	2,20,00,000
Total		14,44,50,000
Equity and Liabilities		
Equity		
(i) Share capital	2	7,20,00,000
(ii) Other equity	3	3,79,96,875
(iii) Non-controlling interest (W.N.3)		1,07,53,125
Current Liabilities		
(i) Financial liabilities		
a. Bank overdraft	1	75,00,000
b. Trade payables	1	1,62,00,000
Total		14,44,50,000

Notes to Accounts

Note 1: Assets and Liabilities

Particulars	Z Ltd.	R Ltd.	Adjustments	Rs.
Property, Plant andEquipment	4,50,00,000	2,48,00,000	-15,00,000 + 75,000	6,83,75,000
Intangible Assets	75,00,000	45,00,000	-45,00,000	75,00,000
Investments	3,75,00,000	68,00,000	-1,44,00,000 - 1,55,25,000 - 54,00,000	89,75,000
Inventories	75,00,000	75,00,000		1,50,00,000
Trade Receivables	1,10,00,000	1,20,00,000	-4,00,000	2,26,00,000
Cash and Cash Equivalents	85,00,000	1,35,00,000		2,20,00,000
Bank Overdraft	45,00,000	30,00,000		75,00,000
Trade Payables	90,00,000	76,00,000	-4,00,000	1,62,00,000

Note 2: Share Capital

	Rs.
60 lakhs Equity shares of Rs. 10 each, fully paid	6,00,00,000
10%, 12 lakhs Preference Share of Rs. 10 each fully paid	1,20,00,000
	7,20,00,000

Note 3: Consolidated Other Equity

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		Rs.
General Reserve	W.N.1	1,29,56,250
Retained Earnings	W.N.1	2,17,78,125
Capital Reserve	W.N.2	32,62,500
		3,79,96,875

Working Notes:

1. Consolidated Other Equity

Particulars	**General Reserve**	**Retained Earnings**
Standalone - Z Ltd.	1,20,00,000	1,95,00,000
Add: Fair Value gain of existing stake [(12 lakh x 14) – 144 lakhs]		24,00,000
Less: Loss on cancellation of preference shares (54 lakhs - 22.5 lakhs)		(31,50,000)
Add: Share in post-acquisition Profits		
(W.N.4(i))	9,56,250	
(W.N.4(ii))		30,28,125
	1,29,56,250	**2,17,78,125**

2. Computation of bargain purchase i.e. capital reserve

(i) Computation of net worth (net identifiable assets) as on 1st January 2025

	Rs.
Share Capital	3,00,00,000
Pre-acquisition Retained Earnings (after adjusting downward revaluation of machinery)	1,00,12,500
Pre-acquisition General Reserve	63,75,000
Adjustment for Goodwill since it has no fair value	(45,00,000)
Net worth or Net Identifiable assets	**4,18,87,500**

(ii) Computation of bargain purchase i.e. capital reserve

		Rs.
Net worth or Net identifiable assets		4,18,87,500
Purchase consideration (155.25 lakhs + 168 lakhs)	3,23,25,000	
NCI [30 lakhs shares x 15% x Rs. 14]	63,00,000	(3,86,25,000)
Bargain purchase (capital reserve)		**32,62,500**

3. Non-Controlling Interest A/c (at Fair Value)

	Rs.
NCI at fair value as on 1st January 2025	63,00,000
Post-acquisition General Reserve (W.N.4(i))	1,68,750
Post-acquisition Retained Earnings (W.N.4(ii))	5,34,375
Preference share capital (60 lakh – 22.50 lakh)	37,50,000

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NCI at fair value as on 31st March 2025	**1,07,53,125**

4. Analysis of Other Equity

(i) General Reserve

		Rs.
Closing balance as on 31st March 2025		75,00,000
Less: Opening Balance (45.00 - 36.00)	pre	(30,00,000)
Net Profit transferred during the year		45,00,000
For 9 months till 31st December 2024	pre	33,75,000
For 3 months from 1st Jan. 2025 to 31st Mar. 2025	post	11,25,000
Total pre-acquisition reserve (30.00 lakh+33.75 lakh)	pre	63,75,000
Share of Z Ltd. in post-acquisition reserve (85%)	post	9,56,250
Share of NCI in post-acquisition reserve (15%)	post	1,68,750

(ii) Retained Earnings (RE)

		Rs.
Closing balance as on 31st March, 2025		1,50,00,000
Less: Opening balance 45,00,000		
Less: Dividend @12% (300 lakhx12%) (36,00,000)	Pre	(9,00,000)
During the year		1,41,00,000
For 9 months till 31st December, 2024	Pre	1,05,75,000
For 3 months from 1st Jan. 2025 to 31st Mar. 2025	Post	35,25,000
Add: Saving in Depreciation for 3 months (from 1st January 2025 to March 2025)		37,500
Net post-acquisition RE	Post	35,62,500
Total pre-acquisition RE (9.00 + 105.75)	Pre	1,14,75,000
Less: Downward revaluation of machinery		(15,00,000)
Add: Saving in depreciation for 3 months (from 1st October 2024 to 31st December 2024)		37,500
	Pre	1,00,12,500
Share of Z Ltd. in post-acquisition RE (85%)	Post	30,28,125
Share of NCI in post-acquisition RE (15%)	Post	5,34,375

Note:

1. At page 4 of the Question Paper under additional information (a) the second acquisition of 13,50,000 equity shares on 1st January 2025 has been done at Rs. 1,55,25,000. This implies that fair value per share is Rs. 11.50 (1,55,25,000/13,50,000). However, in the last para of the question at the same page, the fair value of R Ltd.'s share is mentioned as Rs. 14 per share on the date of acquisition.

   The above solution has been drawn considering fair value of R Ltd.'s share as Rs. 14 per share for the purpose of computation of gain or loss on existing stake and bargain purchase.

   However, alternatively one can draw a solution considering fair value of R Ltd.'s share as Rs. 11.5 per share for the purpose of computation of gain or loss on existing stake and bargain purchase

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only. In such a case, the amount of consolidated retained earnings and bargain purchase i.e. capital reserve will be Rs. 1,87,78,125 and Rs. 62,62,500 respectively.

5. Furthermore, the above solution has been drawn considering goodwill being residuary in nature, has no fair value. However, one may draw a solution considering goodwill as an identifiable asset.

Q3. May 2025 Exam, 14 marks

A Limited and B Limited are engaged in the manufacture of pharmaceuticals. On 1st June, 2024, A Limited acquired 15% of equity shares of B Limited. On 1st October, 2024, A Limited obtains control of B Limited when it acquires a further 55% of B Limited's shares, thereby resulting into a total holding of 70%. The fair value of the shares of B Limited was Rs. 40 per share as on that date.

Prior to the acquisition of additional 55% stake by A Limited on 1st October, 2024, the Balance Sheets of the two companies stood as under:

Particulars	A Ltd.	B Ltd.
Assets		
Non-Current Assets		
Property, Plant and Equipment	600	400
Investments	210	-
(6,00,000 Shares of B Ltd. acquired on 1st June, 2024)		
Current Assets		
Inventories	500	150
Financial Assets		
Trade receivables	450	300
Cash and cash equivalents	400	100
Other Current Assets	200	230
Non-current assets held for sale	-	250
Total	**2,360**	**1,430**
Equity and Liabilities		
Equity		
Share Capital – Equity Shares of Rs. 100 each	500	-
Share Capital – Equity Shares of Rs. 10 each	-	400
Other Equity	810	225
Non-Current Liabilities		
Financial Liabilities		
Long-term Borrowings	250	200
Long-term Provisions	50	70
Deferred Tax Liability	40	-
Current Liabilities		
Financial Liabilities		
Short-term Borrowings	400	285

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Trade Payables	310	250
Total	**2,360**	**1,430**

In consideration of the additional stake acquired by A Limited on 1st October, 2024, it agreed to pay to each selling shareholder of B Limited a sum of Rs. 15 per share in cash and issue 1 Equity Share of Rs. 100 each of A Limited in lieu of 8 Equity Shares of Rs. 10 each held by the selling shareholder in B Limited. The fair value of the shares of A Limited as on 1st October, 2024 is Rs. 160 per share.

In addition to the above:

(a) A Limited agreed to pay an additional payment as consideration that is higher of Rs. 35 lakhs and 25% of any excess profit in the first year, after acquisition over its profits in the preceding one year made by B Limited. This additional amount would be due after 2 years. B Limited has earned Rs. 10 lakhs profit in the preceding year and expects to earn another Rs. 20 lakhs.

(b) A Limited also agreed to pay one of the promoter shareholders of B Limited a payment of Rs. 15 lakhs provided he stays with the company for two years after acquisition.

(c) A Limited had a certain equity settled share-based payment award (Original award) which was replaced by the new award issued by B Limited. As per the original terms, the vesting period was 4 years and as of the acquisition date, the employees of B Limited have already served 2 years of service. As per the replaced award, the vesting period is reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as under:

(i) Original Award: Rs. 5 lakhs
(ii) Replacement Award: Rs. 8 lakhs

(d) The fair value exercise resulted in the following:

i. The fair value of Property, Plant and Equipment and Inventory of B Limited as on 1st October, 2024 was Rs. 480 lakhs and Rs. 170 lakhs respectively.
ii. The carrying value of Non-Current Asset held for sale of Rs. 250 lakhs of B Limited represents its fair value less cost to sell in accordance with the relevant Ind AS.
iii. B Limited has developed and patented a new drug for Parkinson disease which has been approved for clinical use. The cost of developing the drug was Rs. 140 lakhs. Based on early assessment of its sales success, the valuer has estimated its market value at Rs. 200 lakhs.
iv. B Limited had a lawsuit for infringement of Trademark pending with a competitor who had made a claim of Rs. 50 lakhs. B Limited has disclosed the same as a contingent liability as it is not probable that the amount would be payable. Management reliably estimated the fair value of the liability to be 10 lakhs. Any sum which would be paid in respect of the lawsuit would be tax deductible.

(e) The cost of capital of A Limited is 10%. The appropriate discount factor for Rs. 1 @ 10% payable at the end of 1st year is 0.91 and 2nd year is 0.83.

(f) The applicable tax rate for both the entities is 30%.

Unless stated otherwise, all items have a fair value and tax base equal to their carrying amounts at the acquisition date. A Limited chooses to measure the Non- Controlling Interest in B Limited as per Proportionate Share of identifiable net assets method.

You are required to prepare the opening Consolidated Balance Sheet of A Limited as on 1st October, 2024 as per the applicable Ind AS. Working Notes should form part of your answer.

Answer:

Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd. as at 1st October, 2024

	Notes No.	Rs. in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	1,080.00
Goodwill	2	461.95
Intangible assets (patents)		200.00
Current assets		
Inventories	3	670.00
Financial assets		
Cash and cash equivalents	4	170.00
Trade receivables	5	750.00
Other current assets	6	430.00
Assets held for sale		250.00
Total		**4,011.95**
Equity and Liabilities		
Equity	7	775.00
Other equity	8	1007.50
Non-controlling interest (W.N.4)		248.40
Non-current liabilities		
Financial liabilities		
Long-term borrowings	9	450.00
Long-term provisions	10	149.05
Deferred tax liabilities	11	127.00
Current Liabilities		
Financial liabilities		
Short-term borrowings	12	685.00
Trade payables	13	560.00
Provision for lawsuit damages		10.00
Total		**4,011.95**

Notes to Accounts

1. Property, Plant and Equipment Rs. in lakhs

Particulars			
A Ltd.		600.00	
B Ltd.	400.00		
Add: Fair value gain	80.00	480.00	1,080.00

2. Goodwill

Particulars	
Goodwill on acquisition of B Ltd. (Refer W.N.5)	461.95

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3. Inventories

Particulars			
A Ltd.		500.00	
B Ltd.	150.00		
Add: Fair value given	20.00	170.00	670.00

4. Cash and cash equivalents

Particulars			
A Ltd.	400.00		
Less: Paid to B Ltd.'s Shareholders	(330.00)	70.00	
B Ltd.		100.00	170.00

Note: The additional consideration paid to promoter shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expense in the income statement by A Ltd.

5. Trade receivables

Particulars		
A Ltd.	450.00	
B Ltd.	300.00	750.00

6. Other current assets

Particulars		
A Ltd.	200.00	
B Ltd.	230.00	430.00

7. Equity

Particulars	
Equity Share Capital 7,75,000 Equity shares of Rs. 100 each (Out of the above, 2,75,000 Equity shares of Rs. 100 each allotted to shareholders of B Ltd for consideration other than cash)	775.00

8. Other equity

Particulars			
A. Retained earnings of A Ltd.	810.00		
Add: Gain on previously acquired shares of A Ltd.	30.00	840.00	
B. Replacement award		2.50	
C. Security premium (2,75,000 shares x Rs. 60)		165.00	1007.50

9. Long-term borrowings

Particulars		
A Ltd.	250.00	
B Ltd.	200.00	450.00

10. Long term provisions

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Particulars			
A Ltd.	50.00		
Add: Deferred consideration	29.05	79.05	
B Ltd.		70.00	149.05

11. Deferred tax liabilities

Particulars		
Deferred tax liability of A Ltd	40.00	
Deferred tax liability (W.N. 2)	87.00	127.00

12. Short term borrowings

Particulars		
A Ltd.	400.00	
B Ltd.	285.00	685.00

13. Trade payables

Particulars		
A Ltd.	310.00	
B Ltd.	250.00	560.00

Working Notes:

1. Calculation of purchase consideration

Investment in B Ltd.			
Shares acquired			
On 1st June, 2024	15%	[(400/10) x 15% x Rs. 40]	240.00
On 1st October, 2024	55%		
Own equity given		(40 x 55%) x 1/8 x Rs.160	440.00
Cash		(40 x 55%) x Rs. 15	330.00
Contingent consideration		(35 x 0.83)	29.05
Replacement award		(5 x 2/4)	2.50
			1041.55

2. Calculation of deferred tax on assets and liabilities acquired as part of the business combination

Item	Rs. in lakhs				
	Book value	Fair value	Tax base	Taxable (deductible) temporary difference	Deferred tax assets (liability) @ 30%
Property, plant and equipment	400.00	480.00	400.00	80.00	(24.00)
Intangible assets		200.00	0.00	200.00	(60.00)
Inventories	150.00	170.00	150.00	20.00	(6.00)
Trade receivables	300.00	300.00	300.00	-	-
Cash and cash equivalents	100.00	100.00	100.00	-	-
Other current assets	230.00	230.00	230.00	-	-
Non-current asset held	250.00	250.00	250.00	-	-

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for sale					
(A)	1,430.00	1,730.00	1,430.00	300.00	(90.00)
Trade payables	250.00	250.00	250.00	-	-
Long-term provisions	70.00	70.00	70.00	-	-
Short-term borrowings	285.00	285.00	285.00	-	-
Contingent liability	-	10.00	-	(10.00)	3.00
(B)	605.00	615.00	605.00	(10.00)	3.00
Deferred tax liabilities (A-B)					(87.00)

3. Calculation of fair value of identifiable net assets acquired

	Rs. in lakhs	Rs. in lakhs
Property, plant and equipment	480.00	
Intangible assets	200.00	
Inventories	170.00	
Trade receivables	300.00	
Cash and cash equivalents	100.00	
Non-current asset held for sale	250.00	
Other current assets	230.00	
Total assets		1,730.00
Less: Long-term borrowings	200.00	
Trade payables	250.00	
Long-term provisions	70.00	
Short-term borrowings	285.00	
Contingent liabilities	10.00	
Deferred tax liabilities	87.00	
Total liabilities		(902.00)
Net identifiable assets		828.00

4. Calculation of NCI by proportionate share of identifiable net assets

Identifiable net assets of S Ltd. on 1st October, 2024 (Refer W.N.3) = Rs. 828.00 lakhs

NCI on 1st October, 2024 = 828.00 lakhs x 30% = 248.40 lakhs

5. Calculation of Goodwill

Particulars	Rs. in Lakhs
Fair Value of Net Identifiable Assets	828.00
Less: NCI	(248.40)
	579.60
Less: Purchase Consideration	(1041.55)
Goodwill on 1st October, 2024	461.95

Q4. May 2025 Exam, 5 marks

Tiger Gems Ltd. and Mammoth Minerals Ltd. are engaged in extraction of coal and minerals from coal-fields, which they own and operate independently of each other.

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In May 2024, Tiger Gems Ltd. and Mammoth Minerals Ltd. jointly acquired an underground 'Luminuos' Coal mine in the ratio of 55:45. Both the companies agreed to share services and costs. Decisions relating to 'Luminuos' Coal mine requires unanimous agreement of both the parties. No separate entity is incorporated.

The extraction of coal and minerals from Coal mine is done through huge machines. These machines can extract only upto 95%. The remaining coal is irrecoverable and remains in the Coal mine until the mine is decommissioned. As per the laws in force, the Coal mine should be decommissioned at the end of its useful life.

(i) Discuss whether the joint arrangement between Tiger Gems Ltd. and Mammoth Minerals Ltd. is a Joint Operation or Joint Venture.

(ii) Discuss the accounting for the unextracted coal and mineral as per Ind AS 16 and Ind AS 37 with respect to aforesaid 'Luminuous' Coal mine.

Answer:

Determination of Joint Arrangement

As per Ind AS 111 'Joint Arrangements', a joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The structure and form of the arrangement determines the nature of the relationship.

Joint Operation: A joint arrangement which is NOT structured through a separate vehicle is a joint operation. In such a case, the contractual arrangement establishes the parties' rights and obligations.

Joint Venture: A Joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operator accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation in accordance with the relevant Ind AS.

The arrangement between Tiger Gems Ltd. and Mammoth Minerals Ltd. is a joint operation as no separate vehicle is formed and the companies have agreed to share services and costs with decisions regarding the underground 'Luminous' coal mine requiring unanimous agreement of both the parties.

Both the companies should recognize their share of the asset as Property, Plant and Equipment.

(iii) Accounting for the unextracted coal and mineral

As per para 16 of Ind AS 16 'Property, Plant and Equipment', the cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Further, para 45 of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', provides that where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

Thus, costs incurred by an entity in respect of obligations for dismantling, removing and restoring the site on which an item of property, plant and equipment is situated are recognized and measured in accordance with Ind AS 16 and Ind AS 37.

Each of the entities in the joint arrangement should recognize their respective share of the cost of decommissioning of the underground storage facility.

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However, as per para 29 of Ind AS 37 where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Accordingly, each of the entities in the joint arrangement should also disclose the share of the cost of decommissioning of the underground facility, to be borne by another joint arrangement entity, as a contingent liability.

As per Ind AS 16, Property, Plant and Equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.)

Thus, both the entities should classify and account for their share of irrecoverable coal and minerals as property, plant and equipment, as the irrecoverable coal and minerals is necessary for the storage facility to perform its function. Therefore, the irrecoverable coal and minerals, being a part of the storage facility, should be capitalized as a component of the storage facility asset, and should be depreciated to its residual value over the life of the storage facility.

Q5. Nov 2024 Exam, 14 marks

The balance sheets of H Ltd. and S Ltd. as on 31st March, 2024 were as follows:

Particulars	H Ltd.	S Ltd.
	Rs. in Lakhs	
Assets:		
Non-Current Assets		
Property, plant and equipment	14,800	6,000
Financial Assets: Investment		
Investment in S Ltd.	5,800	
1,000 Debentures in S Ltd.	1,500	
Current Assets		
Inventories	2,600	2,000
Financial Assets		
Trade receivables (due from S Ltd. Rs. 160 lakh)	4,000	3,000
Dividend receivable	320	-
Cash and cash equivalent	500	2,000
Total	**29,520**	**13,000**
Equity and Liabilities		
Equity		
Equity Share Capital (Rs. 10 per share)	10,000	4,000
Other Equity (Retained Earnings)	16,320	5,000
Non-current Liabilities		
13% Debentures of Rs. 100 each		3,000
Current Liabilities		
Financial Liabilities:		
Trade Payables (due to H Ltd. Rs. 120 lakh)	1,700	600
Dividend Payable		400
Other Liabilities	1,500	
Total	**29,520**	**13,000**

Additional Information:

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I. On 1st April, 2023, S Ltd. had 400 lakh shares of Rs. 10 each and Rs. 3,000 lakh in its Retained Earnings in Other Equity. H Ltd. acquired 80% share of S Ltd. on 1st April, 2023 at a consideration of Rs. 5,800 lakh in cash.

II. The following changes in book value of identifiable net assets of S Ltd. as on 1st April, 2023 are to be considered for arriving the fair value of identifiable net assets and to record the changes in their fair value on the said date. These changes in fair values are to be considered while drawing consolidated Financial Statement of the Group.

Assets	Book value	Fair value
PPE	Rs. 2,500 lakhs	Rs. 2,800 lakhs
Inventory	Rs. 500 lakhs	Rs. 200 lakhs

The rate of depreciation on PPE is 10% p.a.

(iii) NCI was to be measured at fair value based on purchase consideration.

(iv) Goodwill was impaired by Rs. 100 lakh.

(v) H Ltd. sold goods worth Rs. 200 lakh to S Ltd. on credit at a profit of 20% on sales. 50% of the goods were still lying unsold.

(vi) S Ltd. issued a cheque of Rs. 40 lakh in favour of H Ltd. as a part payment of the goods purchased from it in March, 2024. The cheque is yet to be received by H Ltd.

(vii) Dividend payable represents the dividend declared out of pre-acquisition profit. H Ltd. credited its share of dividend from S Ltd. to its profits.

Prepare the Consolidated Balance Sheet of the Group as at 31st March, 2024.

Answer:

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2024

	Notes No.	Rs. in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	21,070
Goodwill	2	150
Current assets		
Inventory	3	4,275
Financial assets		
Cash and cash equivalents	4	2,540
Trade receivables	5	6,840
Dividend receivable	6	Nil
Total		**34,875**
Equity and Liabilities		
Equity		
Share capital - Equity shares of Rs. 10 each		10,000
Other equity	7	16,292
Non-controlling interest (W.N.4)		1,824
Non-current liabilities		
Financial liabilities		
Borrowings- 13% Debentures	8	2,999

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Current Liabilities		
Financial liabilities		
Trade payables	9	2,180
Dividend payable	10	80
Other liabilities		1,500
Total		**34,875**

Notes to Accounts

1. Property, Plant and Equipment

Particulars		**Rs.**	**Rs.**
H Ltd.		14,800	
S Ltd.	6,000		
Add: Fair value gain	300		
Less: Additional depreciation due to fair value gain	(30)	6,270	21,070

2. Goodwill

Particulars	**Rs.**	**Rs.**
Goodwill on acquisition of S Ltd. (Refer W.N.3)	250	
Less: Impairment	(100)	150

3. Inventory

Particulars		**Rs.**	**Rs.**
H Ltd.		2,600	
S Ltd.	2,000		
Less: Fair value loss	(300)		
Less: Unrealised gain (200/80% x 20% x 50%)	(25)	1,675	4,275

4. Cash and cash equivalent

Particulars	**Rs.**	**Rs.**	**Rs.**
H Ltd.	500		
Add: Cheque in Transit	40	540	
S Ltd.		2,000	2,540

5. Trade Receivable

Particulars		**Rs.**	**Rs.**
H Ltd.	4,000		
Less: Mutual transaction	(160)	3,840	
S Ltd.		3,000	6,840

6. Dividend Receivable

Particulars	**Rs.**	**Rs.**
H Ltd.	320	
Less: Mutual transaction	(320)	Nil

7. Other Equity (Retained Earnings)

Particulars	**Rs.**	**Rs.**

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H Ltd.	16,320	
Less: Share of pre-acquisition dividend (400 x 80%)	(320)	16,000
Post acquisition RE of S Ltd. (W.N.1)	2,370	
Less: Share of NCI in post-acquisition RE of S Ltd. (2,370 x 20%)	(474)	1,896
Less: Impairment of goodwill (100 x 80%)		(80)
Less: Loss on cancellation of debentures (mutual holding) (W.N.5)		(1,499)
Less: Unrealised gain (W.N.6)		(25)
		16,292

8. Borrowings (13% Debentures)

Particulars	**Rs.**	**Rs.**
S Ltd.	3,000	
Less: Mutual holding by H Ltd. (1,000 Debentures x Rs. 100)	(1)	2,999

9. Trade Payables

Particulars		**Rs.**	**Rs.**
H Ltd.		1,700	
S Ltd.	600		
Less: Mutual transaction	(120)	480	2,180

10. Dividend Payables

Particulars	**Rs.**	**Rs.**
S Ltd.	400	
Less: Mutual transaction	(320)	80

Working Notes:

1. Analysis of Retained Earnings of S Ltd.

Closing balance as on 31st March, 2024	5,000
Less: Pre-acquisition Retained Earnings as on 1st April, 2023 (3,000 – 400)	(2,600)
	2,400
Less: Additional depreciation	(30)
Post-acquisition Retained Earnings	2,370

2. Computation of net worth (net identifiable assets) as on 1st April, 2023

Share Capital of S Ltd.	4,000
Pre-acquisition Retained Earnings	3,000
Fair value gain on PPE (2,800 – 2,500)	300
Fair value loss on inventory (500 - 200)	(300)
Net Worth or Net Identifiable Assets	7,000

3. Computation of Goodwill on acquisition date of S Ltd. Rs. in lakhs

Purchase consideration	5,800

NCI (by fair value method) as on 1st April, 2023 [(5,800/80%) x 20%]	1,450
	7,250
Less: Net worth or Net Identifiable Assets (W.N.2)	(7,000)
Goodwill as on 1st April, 2023	250

4. Non-Controlling Interest as on 31st March, 2024 Rs. in lakhs

NCI (by fair value method) as on 1st April, 2023	1,450
Less: Share of pre-acquisition dividend (400 x 20%)	(80)
Post-acquisition Retained Earnings (2,370 x 20%)	474
Less: Share of impairment of Goodwill (100 x 20%)	(20)
NCI as on 31st March, 2024	1,824

5. Loss on settlement of Debentures held by H Ltd. Rs. in lakhs

Investment in Debentures by H Ltd.	1,500
Less: Nominal value of debentures held by H Ltd. (1,000 x Rs. 100)	(1)
Loss on settlement of investment in Debentures	1,499

6. Computation of unrealised gain by H Ltd. on sale of goods to S Ltd.

Cost price of the goods sold	200
Sales price of the goods sold (200/80%)	250
Profit on sale of such goods	50
Unrealized gain on 50% unsold goods (50 x 50%)	25

Note: In the above solution, it is assumed that in additional information (v), Rs. 200 lakh is the cost price of the goods for H Ltd. which is sold to S Ltd. at Rs. 250 lakhs i.e. after 20% profit on sales. However, alternatively it may be assumed that Rs. 200 lakhs is the sales price of the goods for H Ltd. profit will be Rs. 200 lakhs x 20% i.e. Rs. 40 lakhs. In such a situation, the answer will be as follows:

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2024

	Notes No.	Rs. in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	21,070
Goodwill	2	150
Current assets		
Inventory	3	4,280
Financial assets		
Cash and cash equivalents	4	2,540
Trade receivables	5	6,840
Dividend receivable	6	Nil
Total		34,880
Equity and Liabilities		
Equity		
Share capital - Equity shares of Rs. 10 each		10,000
Other equity	7	16,297
Non-controlling interest (W.N.4)		1,824

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Non-current liabilities		
Financial liabilities		
Borrowings - 13% Debentures	8	2,999
Current Liabilities		
Financial liabilities		
Trade payables	9	2,180
Dividend payable	10	80
Other liabilities		1,500
Total		34,880

Notes to Accounts

2. Property, Plant and Equipment

Particulars		**Rs.**	**Rs.**
H Ltd.		14,800	
S Ltd.	6,000		
Add: Fair value gain	300		
Less: Additional depreciation due to fair value gain	(30)	6,270	21,070

3. Goodwill

Particulars	**Rs.**	**Rs.**
Goodwill on acquisition of S Ltd. (Refer W.N.3)	250	
Less: Impairment	(100)	150

4. Inventory

Particulars		**Rs.**	**Rs.**
H Ltd.		2,600	
S Ltd.	2,000		
Less: Fair value loss	(300)		
Less: Unrealised gain (W.N.6)	(20)	1,680	4,280

5. Cash and cash equivalent

Particulars	**Rs.**	**Rs.**	**Rs.**
H Ltd.	500		
Add: Cheque in Transit	40	540	
S Ltd.		2,000	2,540

6. Trade Receivables

Particulars		**Rs.**	**Rs.**
H Ltd.	4,000		
Less: Mutual transaction	(160)	3,840	
S Ltd.		3,000	6,840

7. Dividend Receivables

Particulars	**Rs.**	**Rs.**

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H Ltd.	320	
Less: Mutual transaction	(320)	Nil

8. Other Equity (Retained Earnings)

Particulars	**Rs.**	**Rs.**
H Ltd.	16,320	
Less: Share of pre-acquisition dividend (400 x 80%)	(320)	16,000
Post acquisition RE of S Ltd. (W.N.1)	2,370	
Less: Share of NCI in post-acquisition RE of S Ltd. (2,370 x 20%)	(474)	1,896
Less: Impairment of goodwill (100 x 80%)		(80)
Less: Loss on cancellation of debentures (mutual holding) (W.N.5)		(1,499)
Less: Unrealised gain (W.N.6)		(20)
		16,297

9. Borrowings (13% Debentures)

Particulars	**Rs.**	**Rs.**
S Ltd.	3,000	
Less: Mutual holding by H Ltd. (1,000 Debentures x Rs. 100)	(1)	2,999

10. Trade Payables

Particulars		**Rs.**	**Rs.**
H Ltd.		1,700	
S Ltd.	600		
Less: Mutual transaction	(120)	480	2,180

11. Dividend Payables

Particulars		
S Ltd.	400	
Less: Mutual transaction	(320)	80

Working Notes:

1. Analysis of Retained Earnings of S Ltd. Rs. in lakhs

Closing balance as on 31st March, 2024	5,000
Less: Pre-acquisition Retained Earnings as on 1st April, 2023 (3,000 – 400)	(2,600)
	2,400
Less: Additional depreciation	(30)
Post-acquisition Retained Earnings	2,370

2. Computation of net worth (net identifiable assets) as on 1stApril, 2023

Rs. in lakhs

Share capital of S Ltd.	4,000
Pre-acquisition Retained Earnings	3,000

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Fair value gain on PPE (2,800 – 2,500)	300
Fair value loss on inventory (500 - 200)	(300)
Net Worth or Net Identifiable Assets	7,000

3. Computation of Goodwill on acquisition date of S Ltd. Rs. in lakhs

Purchase consideration	5,800
NCI (by fair value method) as on 1st April, 2023 [(5,800 / 80%) x 20%]	1,450
	7,250
Less: Net worth or Net Identifiable Assets (W.N.2)	(7,000)
Goodwill as on 1st April, 2023	250

4. Non-controlling Interest as on 31st March, 2024 Rs. in lakhs

NCI (by fair value method) as on 1st April, 2023	1,450
Less: Share of pre-acquisition dividend (400 x 20%)	(80)
Post-acquisition Retained Earnings (2,370 x 20%)	474
Less: Share of impairment of Goodwill (100 x 20%)	(20)
NCI as on 31st March, 2024	1,824

5. Loss on settlement of Debentures held by H Ltd. Rs. in lakhs

Investment in Debentures by H Ltd.	1,500
Less: Nominal value of debentures held by H Ltd. (1,000 x Rs. 100)	(1)
Loss on settlement of investment in Debentures	1,499

6. Computation of unrealised gain by H Ltd. on sale of goods to S Ltd.

Rs. in lakhs

Sales price of the goods sold	200
Profit on sale of such goods (200 x 20%)	40
Unrealized gain on 50% unsold goods (40 x 50%)	20

Q6. May 2024 Exam, 14 marks

The Accountant Mr. Ramesh Kanna of 'H' Limited submitted to you the following Standalone Balance Sheet extracts as at 31st March 2024:

	H Ltd.		S Ltd.		A Ltd.	
Assets						
Non-current assets						
(a) Property, Plant and Equipment	5,50,000		4,80,000		2,50,000	
(b) Financial Assets						
Investments:				4,80,000		2,50,000
14,000 shares inS Ltd.	5,60,000					
4,000 shares inA Ltd.	1,00,000	12,10,000				
Current assets						
(a) Inventory	4,85,000		3,82,500		2,45,500	

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(b) Financial Assets						
Cash and cash equivalents	89,000		98,000		1,77,000	
Trade receivables	3,95,000	9,69,000	3,05,000	7,85,500	1,78,500	6,01,000
Total Assets		**21,79,000**		**12,65,500**		**8,51,000**
Equity & Liabilities						
Shareholder's Equity						
(a) Equity Share Capital (Rs. 10 per share)	5,00,000		2,00,000		1,00,000	
(b) Other Equity						
Retained earnings	9,00,000	**14,00,000**	7,50,000	**9,50,000**	4,24,000	**5,24,000**
Non-current liabilities						
(a) Financial Liabilities						
Borrowing–Term Loans		**4,00,000**		**1,50,000**		**1,00,000**
Current liabilities						
(a) Financial Liabilities						
Trade payables		**3,79,000**		**1,65,500**		**2,27,000**
Total Equity and Liabilities		**21,79,000**		**12,65,500**		**8,51,000**

The following additional information is made available in respect of these companies:

(i) H Limited purchased the shares in S Limited on 31st October 2023 when retrained earnings of S Limited was Rs. 500,000 and the shares in A Limited were acquired on 30th June 2023 when its retained earnings stood at Rs. 1,75,000.

(ii) Inventory of A Limited as on 31st March, 2024 include inventory valued at Rs. 60,000 which had been purchased from H Limited, on 1st January, 2024 at cost plus 20%.

(iii) Trade payable of H Limited includes Rs. 25,000 payable to A Limited, the amount receivable being recorded in the receivables of A Limited.

(iv) Goodwill in respect of the acquisition of S Limited has been fully impaired. The recoverable amount of the investment in A Limited exceeds its' carrying value at 31st March 2024. Non-controlling interest is valued at the proportionate share of the identifiable net assets.

(v) 10% dividends we declared by both H Limited and S Limited whereas A Limited declared 15% dividend for the year 2023-24.

(vi) On 31st March, 2024, S Limited made a bonus issue of one equity share for every two shares held by the shareholders of S Limited.

(vii) Dividends were declared but were not accounted for by all these companies in the books before the year end. Similarly, the bonus issued by S Limited was not reflected in the balance sheet as on 31st March, 2024.

You are required to take note of the above available information and draw the consolidated Balance Sheet of H Limited as at 31st March 2024. Notes to accounts are not required.

Answer:

Alternative A: Ignored the adjustment for dividend completely as it has to be approved in the AGM.

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. and Associate A Ltd. as at 31st March, 2024

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	Rs.
Assets	
Non-current assets	
Property, plant and equipment (Rs. 5,50,000 + Rs. 4,80,000)	10,30,000
Goodwill (Rs. 70,000- Impaired Rs. 70,000)	Nil
Financial assets	
Investment in A Ltd. (W.N.1 (iii))	2,05,600
Current assets	
Inventory (Rs. 4,85,000+ Rs. 3,82,500)	8,67,500
Financial assets	
Cash and cash equivalents (Rs. 89,000 + Rs. 98,000)	1,87,000
Trade receivables (Rs. 3,95,000+Rs. 3,05,000)	7,00,000
Total	29,90,100
Equity and Liabilities	
Equity	
Share capital - Equity shares of Rs. 10 each	5,00,000
Other equity (W.N.4+ W.N.1(i))	11,10,600
Non-controlling interest (W.N.3)	2,85,000
Non-current liabilities	
Financial liabilities	
Borrowings-term loans (Rs. 4,00,000 + Rs. 1,50,000)	5,50,000
Current Liabilities	
Financial liabilities	
Trade payables (Rs.3,79,000+Rs. 1,65,500)	5,44,500
Total	29,90,100

Working Notes:

1. Computation of Investment in Associate A Ltd. as per Equity method

(i) Capital reserve on the date of acquisition

The cost of the investment is lower than the net fair value of the investee's identifiable assets and liabilities. Hence there is capital reserve calculated as follows:

	Rs.
Cost of acquisition of investment	1,00,000
H Ltd.'s share in fair value of net assets of A Ltd. on the date of acquisition [(1,00,000 + 1,75,000) x 40%]	(1,10,000)
Capital Reserve	10,000

Capital reserve is recorded directly in equity.

(ii) Share in profit of A Ltd.

	Rs.
Share in post-acquisition profit of A Ltd. [(4,24,000 - 1,75,000) x 40%]	99,600

(iii) Closing balance of investment of Associate A Ltd. at the end of the year

	Rs.

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Cost of acquisition of investment	1,00,000
Add: Capital reserve	10,000
Share in post-acquisition profit	99,600
Less: Unrealised gain on inventory [(60,000 x20/120) x 40%]	(4,000)
Closing balance of investment	2,05,600

2. Analysis of Retained Earnings of S Ltd.

(i) Retained Earnings (RE) of S Ltd.

Closing balance as on 31st March, 2024	7,50,000
Less: Pre-acquisition as on 31st October, 2023	(5,00,000)
Post-acquisition Profit	**2,50,000**

(ii) Computation of net worth (net identifiable assets) as on 31st October, 2023

Share Capital of S Ltd.	2,00,000
Pre-acquisition Retained Earnings	5,00,000
Net Identifiable assets	**7,00,000**

(iii) Computation of Goodwill on acquisition date of S Ltd.

Purchase consideration	5,60,000	
NCI as per proportionate sharemethod (7,00,000 x 30%)	2,10,000	7,70,000
Less: Net worth or Net IdentifiableAssets		(7,00,000)
Goodwill		70,000

3. Non-Controlling Interest as on 31st March, 2024

NCI (by proportionate share method) as on31st October, 2023	2,10,000
Post-acquisition Retained Earnings (W.N.4)	75,000
NCI as on 31st March, 2024	2,85,000

4. Consolidated Retained Earnings

Particulars	**H Ltd Rs.**	**S Ltd. Rs.**
Opening Balance of Retained Earnings	9,00,000	
Post-acquisition Retained Earnings(W.N.2(i))		2,50,000
Less: Unrealised gain on downstreamtransaction with Associate A Ltd.	(4,000)	
Less: Impairment of Goodwill onacquisition of S Ltd.	(70,000)	
Add: Share of profit and loss in AssociateA Ltd.	99,600	
Less: Share of NCI in post-acquisitionRetained Earnings [2,50,000 x 30%]		(75,000)
	9,25,600	**1,75,000**
Total Consolidated Retained Earnings	11,00,600	

Note: Bonus issue by a subsidiary is a transaction with owner in their capacity as owner. Therefore, bonus issue is only a transfer from one component of equity to the other thereby not changing the equity. Accordingly, though bonus issue shall be accounted in the individual financial statements of subsidiary, the same shall not have any effect in consolidated financial statements of the Group.

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Alternative B: Considered dividend as declared but not paid Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. and

Associate A Ltd. as at 31st March, 2024

	Rs.
Assets	
Non-current assets	
Property, plant and equipment (Rs. 5,50,000 + Rs.4,80,000)	10,30,000
Goodwill (Rs.70,000- Impaired Rs.70,000)	Nil
Financial assets	
Investment in A Ltd. (Refer W.N.1 (iii))	1,99,600
Current assets	
Inventory (Rs.4,85,000 + Rs.3,82,500)	8,67,500
Financial assets	
Cash and cash equivalents (Rs.89,000+ Rs.98,000)	1,87,000
Trade receivables (Rs.3,95,000+Rs.3,05,000)	7,00,000
Other Receivables	
(Dividend receivable from A Ltd. (Rs.15,000 x 40%)	6,000
Total	29,90,100
Equity and Liabilities	
Equity	
Share capital - Equity shares of Rs.10 each	5,00,000
Other equity (W.N.4+W.N.1(i))	10,60,600
Non-controlling interest (W.N.3)	2,79,000
Non-current liabilities	
Financial liabilities	
Borrowings- term loans (Rs.4,00,000 + Rs.1,50,000)	5,50,000
Current Liabilities	
Financial liabilities	
Trade payables (Rs.3,79,000+Rs.1,65,500)	5,44,500
Other payables	56,000
[Dividend payable to NCI by S Ltd. (Rs. 20,000 x 30%) Rs. 6,000+ Dividend payable by H Ltd. to its shareholders Rs.50,000)	
Total	29,90,100

Working Notes:

1. Computation of Investment in Associate A Ltd. as per Equity method

(i) Capital reserve on the date of acquisition

	Rs.
Cost of acquisition of investment	1,00,000
Less: H Ltd.'s share in fair value of net assets of A Ltd. on the date of acquisition [(1,00,000 + 1,75,000) x 40%]	(1,10,000)

The

Capital Reserve	10,000

cost of the investment is lower than the net fair value of the investee's identifiable assets and liabilities. Hence there is capital reserve calculated as follows:

Capital reserve is recorded directly in equity.

(ii) Share in profit of A Ltd.

	Rs.
Share in post-acquisition profit of A Ltd.[(4,24,000-1,75,000) x 40%]	99,600
Less: Dividend (1,00,000 x 15% x 40%)	(6,000)
Share in profit of A Ltd.	93,600

(iii) Closing balance of investment of Associate A Ltd. at the end of the year

2.

	Rs.
Cost of acquisition of investment	1,00,000
Add: Capital reserve	10,000
Share in post-acquisition profit	93,600
Less: Unrealised gain on inventory[(60,000 x 20/120) x 40%]	(4,000)
Closing balance of investment	1,99,600

Analysis of Retained Earnings of S Ltd.

(i) Retained Earnings (RE) of S Ltd.

Closing balance as on 31st March, 2024	7,50,000
Less: Pre-acquisition as on 31st October, 2023	(5,00,000)
Post-acquisition Profit	2,50,000

(ii) Computation of net worth (net identifiable assets) as on 31st October, 2023

Share Capital of S Ltd.	2,00,000
Add: Pre-acquisition Retained Earnings	5,00,000
Net Identifiable assets	7,00,000

(iii) Computation of Goodwill on acquisition date of S Ltd. Rs.

Purchase consideration	5,60,000	
NCI as per proportionate share method (7,00,000 x 30%)	2,10,000	7,70,000
Less: Net worth or Net IdentifiableAssets		(7,00,000)
Goodwill		70,000

3. Non-Controlling Interest as on 31st March, 2024

NCI (by proportionate share method) as on31st October, 2023	2,10,000
Post-acquisition Retained Earnings (W.N.4)	69,000
NCI as on 31st March, 2024	2,79,000

4. Consolidated Retained Earnings

Particulars	**H Ltd.** Rs.	**S Ltd.** Rs.

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Opening Balance of Retained Earnings	9,00,000	
Post-acquisition Retained Earnings (W.N.2(i))		2,50,000
Less: Unrealised gain on downstream transaction with Associate A Ltd.	(4,000)	
Less: Impairment of Goodwill on acquisitionof S Ltd.	(70,000)	
Add: Share of profit and loss in AssociateA Ltd.	93,600	
Less: Dividend payable by H Ltd.	(50,000)	(20,000)
Add: Dividend Income receivable from S Ltd.	14,000	
Add: Dividend income receivable from A Ltd.	6,000	
Less: Share of NCI in post-acquisitionRetained Earnings [(2,50,000 - 20,000) x 30%]		(69,000)
	8,89,600	1,61,000
Total Consolidated Retained Earnings		10,50,600

Note: Bonus issue by a subsidiary is a transaction with owner in their capacity as owner. Therefore, bonus issue is only a transfer from one component of equity to the other thereby not changing the equity. Accordingly, though bonus issue shall be accounted in the individual financial statements of subsidiary, the same shall not have any effect in consolidated financial statements of the Group.

Alternative C: Considered dividend as declared and paid

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. and Associate A Ltd. as at 31st March, 2024

	Rs.
Assets	
Non-current assets	
Property, plant and equipment (Rs. 5,50,000 + Rs.4,80,000)	10,30,000
Goodwill (Rs.70,000- Impaired Rs.70,000)	Nil
Financial assets	
Investment in A Ltd. (Refer W.N.1 (iii))	1,99,600
Current assets	
Inventory (Rs.4,85,000+ Rs.3,82,500)	8,67,500
Financial assets	
Cash and cash equivalents [(Rs.89,000 - Rs.50,000 + Rs.14,000 + Rs.6,000) + (Rs.98,000 - Rs.20,000)]	1,37,000
Trade receivables (Rs.3,95,000+Rs.3,05,000)	7,00,000
Total	29,34,100
Equity and Liabilities	
Equity	
Share capital - Equity shares of Rs.10 each	5,00,000
Other equity (W.N.4+W.N.1(i))	10,60,600
Non-controlling interest (W.N.3)	2,79,000
Non-current liabilities	
Financial liabilities	
Borrowings- term loans (Rs.4,00,000 + Rs.1,50,000)	5,50,000
Current Liabilities	
Financial liabilities	

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Trade payables (Rs. 3,79,000+Rs. 1,65,500)	5,44,500
Total	29,34,100

Working Notes:

1. Computation of Investment in Associate A Ltd. as per Equity method

(i) Capital reserve on the date of acquisition

The cost of the investment is lower than the net fair value of the investee's identifiable assets and liabilities. Hence there is capital reserve calculated as follows:

	Rs.
Cost of acquisition of investment	1,00,000
Less: H Ltd.'s share in fair value of net assets ofA Ltd. on the date of acquisition [(1,00,000 + 1,75,000) x 40%]	(1,10,000)
Capital Reserve	10,000

Capital reserve is recorded directly in equity.

(ii) Share in profit of A Ltd.

	Rs.
Share in post-acquisition profit of A Ltd. [(4,24,000 -1,75,000) x 40%]	99,600
Less: Dividend (1,00,000 x 15% x 40%)	(6,000)
Share in profit of A Ltd.	93,600

(iii) Closing balance of investment of Associate A Ltd. at the end of the year

	Rs.
Cost of acquisition of investment	1,00,000
Add: Capital reserve	10,000
Share in post-acquisition profit	93,600
Less: Unrealised gain on inventory [(60,000 x20/120) x 40%]	(4,000)
Closing balance of investment	1,99,600

2. Analysis of Retained Earnings of S Ltd.

(i) Retained Earnings (RE) of S Ltd.

Closing balance as on 31st March, 2024	7,50,000
Less: Pre-acquisition as on 31st October, 2023	(5,00,000)
Post-acquisition Profit	2,50,000

(ii) Computation of net worth (net identifiable assets) as on 31st October, 2023

Share Capital of S Ltd.	2,00,000
Pre-acquisition Retained Earnings	5,00,000
Net Identifiable assets	7,00,000

(iii) Computation of Goodwill on acquisition date of S Ltd.

Purchase consideration	5,60,000	

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NCI as per proportionate share method (7,00,000 x 30%)	2,10,000	7,70,000
Less: Net worth or Net Identifiable Assets		(7,00,000)
Goodwill		70,000

3. Non-Controlling Interest as on 31st March, 2024

NCI (by proportionate share method) as on31st October, 2023	2,10,000
Post-acquisition Retained Earnings (W.N.4)	69,000
NCI as on 31st March, 2024	2,79,000

4. Consolidated Retained Earnings

Particulars	H Ltd.	S Ltd.
Opening Balance of Retained Earnings	9,00,000	
Post-acquisition Retained Earnings (W.N.2(i))		2,50,000
Less: Unrealised gain on downstreamtransaction with Associate A Ltd.	(4,000)	
Less: Impairment of Goodwill on acquisition of S Ltd.	(70,000)	
Add: Share of profit and loss in AssociateA Ltd.	93,600	
Less: Dividend paid	(50,000)	(20,000)
Add: Dividend Income received fromS Ltd.	14,000	
Add: Dividend income received fromA Ltd.	6,000	
Less: Share of NCI in post-acquisitionRetained Earnings [(2,50,000 - 20,000) x 30%]		(69,000)
	8,89,600	1,61,000
Total Consolidated Retained Earnings		10,50,600

Note: Bonus issue by a subsidiary is a transaction with owner in their capacity as owner. Therefore, bonus issue is only a transfer from one component of equity to the other thereby not changing the equity. Accordingly, though bonus issue shall be accounted in the individual financial statements of subsidiary, the same shall not have any effect in consolidated financial statements of the Group.

Q7. Nov 2023 Exam, 20 marks

The extracts of the Balance Sheets of Hammer Ltd. and its subsidiary Sleek Ltd. as on 31st March, 2023 are given below:

Particulars	Note No.	Hammer Ltd. (Rs.)	Sleek Ltd. (Rs.)

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I. ASSETS			
A. Non-Current Assets			
Property, Plant and Equipment	1	6,00,000	3,25,000
Intangible Assets	2	1,25,000	75,000
Investments		6,25,000	1,25,000
B. Current Assets			
Inventories		1,25,000	1,60,000
Financial Assets			
Trade receivables		3,25,000	2,90,000
Cash and Cash equivalents		1,50,000	3,50,000
Total Assets		19,50,000	13,25,000
II. EQUITY AND LIABILITIES			
A. Equity			
Equity Share Capital (Rs.10 each)		10,00,000	5,00,000
Other Equity	3	5,50,000	3,75,000
B. Non- Current Liabilities			
Financial Liabilities			
Borrowings	4		1,00,000
C. Current Liabilities			
Financial Liabilities			
Short term borrowings			
Bank Overdraft		1,00,000	50,000
Trade Payables		3,00,000	3,00,000
Total Equity and Liabilities		19,50,000	13,25,000

Notes to Accounts

Note No.	Particulars	Hammer Ltd. (Rs.)	Sleek Ltd. (Rs.)
1	Property, Plant and Equipment		
	(a) Plant and Machinery	2,00,000	1,25,000
	(b) Furniture and Fittings	4,00,000	2,00,000
2		6,00,000	3,25,000
	Intangible Assets		
3	Goodwill	1,25,000	75,000
	Other Equity		
	(a) General Reserve	2,00,000	1,25,000
	(b) Retained Earnings	3,50,000	2,50,000
4		5,50,000	3,75,000
	Borrowings		
	8% Debentures of Rs.100 each	-	1,00,000

Additional information:

Hammer Ltd. acquired 20,000 equity shares of Sleek Ltd. on 1st April, 2022 at a cost of Rs.2,40,000 and further acquired 17,500 equity shares on 1st October, 2022 at a cost of Rs.1,92,500;

The 8% debentures of Sleek Ltd. includes debentures held by Hammer Ltd. of nominal value of Rs.35,000. These were acquired by Hammer Ltd. on 1st January, 2022 at a cost of Rs.84,000;

The retained earnings of Sleek Ltd. had a credit balance of Rs.75,000 as on 1st April, 2022. On that date the balance of General Reserve was Rs.50,000;

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- Sleek Ltd. had paid dividend @ 10% on its paid-up equity share capital out of the balance of retained earnings as on 1st April, 2022 for the financial year 2021-2022. The entire dividend received by Hammer Ltd. was credited in its statement of profit and loss;
- As per the resolution dated 28th February 2023, Sleek Ltd. had allotted bonus shares @ 1 equity share for every 10 shares held out of its general reserve. The accounting effect has not been given;
- Trade receivables of Hammer Ltd. includes bills receivables of Rs.2,00,000 drawn upon Sleek Ltd. Out of this, bills of Rs. 50,000 have been discounted with bank;
- During the financial year 2022-2023, Hammer Ltd. purchased goods from Sleek Ltd., of Rs.25,000 at a sales price of Rs. 30,000, 40% of these goods remained unsold on 31st March, 2023;
- On 1st October, 2022, machinery of Sleek Ltd. was overvalued by 20,000 for which necessary adjustments are to be made. Depreciation is charged @ 10% per annum:
- The parent company i.e., Hammer Ltd. has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume the fair value per equity share of Sleek Ltd. at Rs. 11 on the date when control of Sleek Ltd. was acquired by Hammer Ltd.

You are required to prepare a consolidated balance sheet, as per Ind AS, of Hammer Ltd. and its subsidiary Sleek Ltd. as at 31st March, 2023.

Answer:

Consolidated Balance Sheet of Hammer Ltd. as at 31st March, 2023

	Notes No.	**Rs. in lakhs**
Assets		
Non-current assets		
Property, plant and equipment	1	9,06,000
Intangible assets	1	2,00,000
Financial assets		
Investment	1	2,33,500
Current assets		
Inventories	1	2,83,000
Financial assets		
Trade receivables	1	4,65,000
Cash and cash equivalents	1	5,00,000
Total		25,87,500
Equity and Liabilities		
Equity		
Share capital - Equity shares of Rs. 10 each	2	10,00,000
Other equity	3	7,47,750
Non-controlling interest (W.N.)		1,74,750
Non-current liabilities:		
Financial liabilities		
Borrowings	1	65,000
Current Liabilities:		
Financial liabilities		
Bank Overdraft	1	1,50,000
Trade payables	1	4,50,000
Total		25,87,500

Notes to Accounts

Note 1: Assets and Liabilities

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Particulars	Hammer Ltd.	Sleek Ltd.	Adjustments	Total
Property, Plant and Equipment	6,00,000	3,25,000	-20,000+1,000	9,06,000
Intangible Assets	1,25,000	75,000		2,00,000
Investments	1,92,500*	1,25,000	-84,000	2,33,500
Inventories	1,25,000	1,60,000	-2,000	2,83,000
Trade Receivables	3,25,000	2,90,000	-1,50,000	4,65,000
Cash and Cash Equivalents	1,50,000	3,50,000		5,00,000
Borrowings	0	1,00,000	-35,000	65,000
Bank Overdraft	1,00,000	50,000		1,50,000
Trade Payables	3,00,000	3,00,000	-1,50,000	4,50,000

*6,25,000 – 2,40,000-1,92,500

Note 2: Equity Share Capital

1,00,000 equity shares of Rs. 10 each, fully paid	10,00,000
	10,00,000

Note 3: Consolidated Other Equity

General Reserve	W.N.1	2,28,125
Retained Earnings	W.N.1	3,64,625
Capital Reserve	W.N.2	1,55,000
		7,47,750

Working Notes:

1. Consolidated Other Equity

Particulars	General Reserve	Retained Earnings
Standalone - Hammer Ltd.	2,00,000	3,50,000
Less: Fair Value Loss of existing stake [2,40,000 - (20,000 x 11)]		(20,000)
Less: Loss on cancellation of debentures		(49,000)
Add: Share in Post-acquisition Profits	28,125	83,625
	2,28,125	3,64,625

2. Computation of Goodwill or Bargain Purchase for (75% stake)

(i) Computation of net worth (net identifiable assets) as on 1 st October, 2022

Share Capital	5,00,000
Pre-acquisition Retained Earnings (after adjusting downward revaluation of machinery)	1,17,500
Pre-acquisition General Reserve	37,500
Bonus issue*	50,000
Net Identifiable assets	7,05,000

*Note: Bonus shares issued in 1:10 ratio i.e. Rs. 50,000 and bonus issue has not been accounted for yet. The opening balance of the general reserve is Rs. 50,000 while the closing balance is Rs. 1,25,000 which implies that Rs. 75,000 have been

transferred during the year and this amount should be allocated between pre and post-acquisition based on time proportion. Therefore, the general reserve on the date of acquisition will be Rs. 50,000 + 50% of Rs. 75,000 i.e. Rs. 37,500 = Rs. 87,500. Here, it should be noted that the date of bonus issue is 28th February, 2023 and bonus amount is Rs. 50,000. Since the balance of post-acquisition general reserve (50% of Rs. 75,000 i.e. Rs. 37,500) is insufficient, it is assumed that bonus shares are issued from pre-acquisition general reserve i.e. balance on the date of acquisition assuming that transfer to general reserve, in general, is an appropriation of profit

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which is done at the end of the year. This implies that outstanding balance in general reserve at the time of bonus issue is the opening balance.

However, one may assume otherwise like insufficient post-acquisition balance of

Rs. 12,500 (50,000 – 37,500) has only been adjusted through pre-acquisition share of Rs. 87,500 or first adjustment of bonus issue has been done and later bifurcation of remaining balance has been done into pre and post-acquisition. In such a case balance of consolidated general reserve (post-acquisition), net worth, bargain

purchase and NCI will undergo a change.

(ii) Computation of bargain purchase i.e capital reserve

Net worth or Net identifiable assets		7,05,000
Purchase consideration (1,92,500 + 2,20,000)		
NCI [12,500 shares x Rs. 11 (i.e. Rs. 1,92,500 / 17,500 shares)]	4,12,500	
Bargain purchase (capital reserve)	1,37,500	5,50,000
		1,55,000

3. Non-Controlling Interest A/c (at Fair Value)

NCI at fair value as on 1st October, 2023	1,37,500
Post-acquisition General Reserve	9,375
Post-acquisition Retained Earnings	27,875
NCI at fair value as on 31st March, 2023	1,74,750

4. Analysis of Other Equity

(i) General Reserve

Closing balance as on 31st March, 2023		1,25,000
Less: Opening Balance	pre	(50,000)
Net Profit transferred during the year		75,000
For 6 months till 30th September, 2022	pre	37,500
For 6 months from 1st October, 2022 to 31st March, 2023	post	37,500
Total pre-acquisition reserve (50,000 + 37,500)	pre	87,500
Less: Bonus issue	pre	(50,000)
Balance General Reserve	pre	37,500
Share of Hammer Ltd. in pre-acquisition reserve (75%)	pre	28,125
Share of NCI in pre-acquisition reserve (25%)	pre	9,375
Share of Hammer Ltd. in post-acquisition reserve (75%)	post	28,125
Share of NCI in post-acquisition reserve (25%)	post	9,375

(ii) Retained Earnings (RE)

Closing balance as on 31st March, 2023		2,50,000
Less: Opening balance 75,000		
Less: Dividend @10% (50,000)	pre	(25,000)
During the year		2,25,000
For 6 months till 30th September, 2022	pre	1,12,500
For 6 months from 1st October 2022 to 31st March, 2023	post	1,12,500
Add: Saving in Depreciation (W.N.5)		1,000
Less: Unrealised Gain [(30,000-25,000) x 40%]		(2,000)
Net post-acquisition RE	post	1,11,500
Total pre-acquisition RE (25,000 + 1,12,500)	pre	1,37,500
Less: Downward revaluation of machinery		(20,000)
	pre	1,17,500
Share of Hammer Ltd. in pre-acquisition RE (75%)	pre	88,125

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Share of NCI in pre-acquisition RE (25%)	pre	29,375
Share of Hammer Ltd. in post-acquisition RE (75%)	post	83,625
Share of NCI in post-acquisition RE (25%)	post	27,875

5. Plant and Machinery balance as on 31st March 2023

Balance as on 31.3.2023 as given in question (after depreciation)	1,25,000
Less: Downward revaluation less depreciation saving	(19,000)*
	1,06,000

Saving in depreciation = Rs. 20,000 - Rs. 19,000 = Rs. 1,000.

Q8. May 2023 Exam, 15 marks

The draft balance sheets of Swan Limited and Duck Limited as at 31st March 2023 is as under:

		Amount ₹ in lakhs
Particulars	**Swan Limited**	**Duck Limited**
Assets		
Non-Current Assets		
Property, Plant and Equipment	800	1,000
Investments	900	240
Current Assets		
Inventories	360	260
Financial Assets		
- Trade Receivables	1,040	540
- Cash & Cash Equivalents	520	290
Other Current Assets	700	350
Total	4,320	4,320
	Swan Limited	**Duck Limited**
Equity and Liabilities		
Equity		
Share Capital		
- Swan Limited: Equity Shares of ₹ 10 each	1,200	--
- Duck Limited: Equity Shares of ₹ 100 each	--	900
Other Equity	1,450	420
Non-Current Liabilities		
Financial Liabilities	700	500
- Long-Term Borrowings	140	200
Long-Term Provisions	80	--
Deferred Tax		
Current Liabilities	250	290
Financial Liabilities	500	370
- Short-Term Borrowings	4,320	2,680
- Trade Payables		
Total		

On 1st April 2023, Swan Limited acquired 80% equity shares of Duck Limited. Swan Limited agreed to pay to each shareholder of Duck Limited, ₹ 20 per equity share in cash and to issue five equity shares of ₹ 10 each of Swan Limited in lieu of every six shares held by the shareholders of Duck Limited. The fair value of the shares of Swan Limited was ₹ 100 per share as on the date of acquisition.

Swan Limited also agreed to pay an additional consideration being higher of ₹ 90 lakhs and 30% of any excess profits in the first year, after acquisition, over Duck Limited's profits in the preceding 12 months (financial year 2022-2023) made by Duck Limited.The additional amount will be due in 3 years post the date of acquisition. Duck Limited earned ₹ 30 lakhs profit in the preceding year and expects to earn ₹ 40 lakhs in financial
year 2023-2024.

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The fair value exercise resulted in the following:

i. Fair value of Property, Plant and Equipment and Investments of Duck Limited on 1st April, 2023 was ₹ 1,200 lakhs and ₹ 300 lakhs respectively.

ii. Duck Limited owns a popular brand name that meets the recognition criteria for Intangible Assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of ₹ 250 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.

iii. Following is the statement of contingent liabilities of Duck Limited as on 1st April, 2023:

Particulars	**Fair Value (₹ in lakhs)**	**Remarks**
Law suit filed by a customer for a claim of ₹ 20 lakhs	5	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. Any amount which would be paid in respect of lawsuit will be tax deductible.
Income tax demand of ₹ 70 lakhs raised by tax authorities. Duck Limited has challenged the demand in the High Court	20	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

iv. Duck Limited had certain equity settled share-based payment awards (original award) which were replaced by the new awards issued by Swan Limited. As per the terms of original awards, the vesting period was 5 years and as of the acquisition date the employees of Duck Limited had already served 2 years of service. As per the new awards, the vesting period has been reduced to 1 year (1 year from the acquisition date). The fair value of the award on acquisition date was as follows:

Original Awards: ₹ 12 lakhs

New Awards: ₹ 18 lakhs.

v. Further, Swan Limited has also agreed to pay one of the founder shareholder of Duck Limited a sum of ₹ 15 lakhs provided he stays with the Company for two years after the acquisition.

vi. The acquisition cost of Swan Limited for Duck Limited was ₹ 26 lakhs.

vii. The applicable tax rate for both the companies is 30%.

viii. Assume 10% per annum discount rate.

ix. Also, assume, unless stated otherwise, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

You are required to prepare opening Consolidated Balance Sheet of Swan Limited as on 1st April 2023. Working Notes should form part of your answer.

Answer

Consolidated Balance Sheet of Swan Ltd as on 1st April, 2023

	Notes No.	**₹ in lakhs**
Assets		
Non-Current Assets		
Property, Plant and Equipment	9	2,000.00
Intangible assets	10	250.00
Financial Assets		
Investments	11	1,200.00
Current Assets		
Inventories	12	620.00
Financial Assets		
- Trade Receivables	13	1,580.00
- Cash & Cash Equivalents	14	640.00
Other Current Assets	15	1,050.00
Total		7,340.00
Equity and Liabilities		
Equity		

Share capital - Equity shares of ₹ 10 each	1	1,260.00
Other equity	2	2,475.18
Non-controlling interest (W.N.4)		330.70
Non-current liabilities		
Financial liabilities	3	1,200.00
Long-term borrowings	4	407.62
Long-term provisions	5	231.50
Deferred tax liability		
Current Liabilities		
Financial liabilities	6	540.00
Short-term borrowings	7	870.00
Trade payables	8	25.00
Short-term provision		
Total		7,340.00

Notes to Accounts (All figures are ₹ in lakhs)

1. Equity Share capital

Equity shares of ₹ 10 each as per the balance sheet before	1,200	
acquisition of Duck Ltd.	60	1,260
Shares allotted to Duck Ltd. (7,50,000 x 80% x ₹ 10)		

2.Other Equity

As per the balance sheet before acquisition of Duck Ltd.		
1,450	1,424	
Less: Acquisition cost	(26) 4.80	
Replacement award	540	
Security Premium (7,50,000 shares x 80% x ₹ 90)	506.38	2,475.18
Capital Reserve (W.N.5)		

3. Long-term borrowings

As per the balance sheet before acquisition of Duck Ltd.	700	
Duck Ltd.	500	1,200

4. Long-term provisions

As per the balance sheet before acquisition of Duck Ltd.	140	
	67.62	
Deferred consideration	200	407.62
Duck Ltd.		

5. Deferred tax liability

As per the balance sheet before acquisition of Duck Ltd.	80	
Deferred tax impact due to acquisition of Duck Ltd. (W.N.2)	151.50	231.50

6. Short term borrowings

As per the balance sheet before acquisition of Duck Ltd.	250	
Duck Ltd.	290	540

7. Trade payables

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As per the balance sheet before acquisition of Duck Ltd.	500	
Duck Ltd.	370	870

8. Short-term provisions

Law suit damages	5	
Income-tax demand	20	25

9. Property, plant and equipment

As per the balance sheet before acquisition of Duck Ltd.	800	
Duck Ltd.	1,200	2,000

10. Intangible assets

Brand of Duck Ltd. acquired		250

11. Investment

As per the balance sheet before acquisition of Duck Ltd.	900	
Duck Ltd.	300	1,200

12. Inventories

As per the balance sheet before acquisition of Duck Ltd.	360	
Duck Ltd.	260	620

13. Trade receivables

As per the balance sheet before acquisition of Duck Ltd.	1,040	
Duck Ltd.	540	1,580

14. Cash and cash equivalents

As per the balance sheet before acquisition of Duck Ltd.	520		
Less: Acquisition cost paid	(26)		
Less: Paid to Duck Ltd.	(144)	350	
Duck Ltd.		290	640

15. Other current assets

As per the balance sheet before acquisition of Duck Ltd.	700	
Duck Ltd.	350	1,050

Working Notes:

1. Computation of Purchase Consideration

Particulars	**No. of shares**	**₹ in lakhs**
Share capital of Duck Ltd.		900
Number of shares	9,00,000	
Shares to be issued (5 shares against 6 shares of Duck Ltd.)	7,50,000	
Fair value of Swan Ltd.'s share is ₹ 100 per share		
Purchase consideration		
Shares issued (7,50,000x 80% x ₹ 100 per share) (A)		600
Cash payment (₹ 20 x 9,00,000 x 80%) (B)		144
Deferred consideration (discounting ₹ 90 lakhs for 3 years @10%) (C)		67.62

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Replacement award [Market based measure of the acquiree award (12) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (5) of the acquiree award (ie 12 x 2/5)] (D)		4.80
Purchase consideration for 70% shares (A + B + C + D)		816.42

2. Computation of deferred tax impact due to change in fair value of asset and liabilities acquired

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	1,000	1,200	200
Intangible assets (Brand)	-	250	250
Investment	240	300	60
Less: Contingent liability acquired		1,750	510
Provision for lawsuit damages			(5)
Net difference in fair value			505
Deferred tax liability @ 30%			151.5

3. Computation of fair value of net identifiable assets acquired from Duck Ltd.

Particulars		Book value
Total assets as per the balance sheet		2,680
Add: Fair value adjustment in PPE and Investment (200+60)		260
Add: Intangible assets (Brand)		250
Fair value of total identifiable assets		3,190
Less: Total liabilities as per the balance sheet (500+200+290+370)		(1,360)
Less: Contingent liability acquired		
Lawsuit damages	5	(25)
Income tax demand	20	(151.50)
Less: Defer tax liability (W.N.2)		1,653.50
Fair value of net identifiable assets (100%)		

4. Computation of non-controlling interest in Duck Ltd. (Proportionate share basis)

Non-controlling interest (1,653.50 x 20%) = 330.70

5. Computation of capital reserve on acquisition of Duck Ltd.

Particulars	Book value
Fair value of net identifiable assets	1,653.50
Less: Purchase consideration	(816.42)
Less: NCI (W.N.4)	(330.70)
Capital reserve	506.38

Notes:

a) The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, ₹ 4.8 lakh (12 x 2/5) is considered as a part of purchase consideration and is credited to Swan Ltd.'s equity as this will be settled in its own equity. Since the fair value of the award on the acquisition date is ₹ 18 lakh the balance of (18 - 4.8) ₹ 13.2 lakh will be recorded as employee expense in the books of Duck Ltd. over the remaining life, which is 1 year in this scenario.

b) With respect to deferred consideration, ₹ 90 lakh is the minimum payment to be paid after 3 years. The other element is if company meet certain target then theywill get 30% of that or ₹ 90 lakh whichever is higher. In the given case, since the minimum what is expected to be paid

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the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.

c) The additional consideration of ₹ 15 lakhs to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the statement of profit and loss of Duck Ltd.

Q9. May 2023 Exam, 5 marks

On 1st April 2021, P Limited acquired 100% interest in S Limited for ₹ 75.00 lakhs when the fair value of the net assets of S Limited was ₹ 60.00 lakhs. Goodwill of ₹ 15.00 lakhs arose on consolidation. On 31st March, 2023, P Limited disposed off 80% interest in S Limited for ₹ 114.00 lakhs. As on the date of disposal, the carrying value of the net assets of S Limited excluding goodwill was ₹ 1,20,00,000. The fair value of the
remaining interest is ₹ 28,50,000.

You are required to:

i. Calculate the gain or loss on sale of disposal, and

ii. Pass necessary journal entries on disposal of 80% interest in S Limited in P Limited's separate and consolidated financial statements as on 31st March, 2023.

Answer

(a) In P Ltd.'s Separate Financial Statements

(i) Calculation of Gain or Loss on disposal in P Ltd.'s separate financial statements

	₹ in lakhs
Sales proceeds	114.0
Less: Cost of investment in subsidiary (75 x 80%)	(60.0)
Gain on sale in parent's account	54.00

(ii) Journal Entry in P Limited's separate financial statements ₹ in lakhs

Date	**Particulars**	**₹ in lakhs**	
		Dr.	**Cr.**
31.3.2023	Bank A/c Dr.	114.00	
	Investment in Associates Dr.	15.00	
	To Investment in subsidiary A/c		75.00
	To Gain on sale of subsidiary A/c		54.00
31.3.2023	Gain on sale of subsidiary A/c Dr.	54	
	To Statement of Profit and Loss		54

Note: In case of partial disposal of investment leading to significant influence because of loss of control, the above solution has been provided by applying proportionate approach. However, cost of retained investment on the date of loss of control has not been defined in Ind AS 27 'Separate Financial Statements'. Therefore, paragraphs 10 and 11(a) of Ind AS 8 (i.e. in the absence of accounting policy that specifically applies to a transaction, management shall refer to, and consider the applicability of the requirements in Ind AS dealing with similar and related issues) have been applied. Further, para 25(b) of Ind AS 110 inter alia states that recognition of investment retained in the former subsidiary to be the fair value which shall be regarded as the fair value on initial recognition of a financial asset in accordance with Ind AS 109 or, when appropriate, the cost on initial
recognition of an investment in an associate or joint venture.

Accordingly, following **ALTERNATE** solution may also be considered:

(i) Calculation of Gain or Loss on disposal in P Ltd.'s separate financial statements:

	₹ in lakhs
Sales proceeds	114.0
Fair value of 20% interest retained	28.50
Less: Cost of investment in subsidiary	142.50
Gain on sale in parent's account	(75.0)

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		67.5	

(ii) Journal Entry in P Limited's separate financial statements

Date	Particulars	₹ in lakhs	
		Dr.	Cr.
31.3.2023	Bank A/c Dr.	114.00	
	Investment in Associates at cost (as per para 25 Ind AS 110) Dr.	28.50	
	To Investment in subsidiary A/c		75.00
	To Gain on sale of subsidiary A/c		67.50
31.3.2023	Gain on sale of subsidiary A/c Dr.	67.50	
	To Statement of Profit and Loss		67.50

(b) In P Ltd.'s Consolidated Financial Statements

(i) Calculation of Gain or Loss on disposal in P Ltd.'s consolidated financial statements

	₹ in lakhs
Sales proceeds	114.0
Fair value of 20% interest retained	28.50
	142.50
Less: Net assets disposed, including goodwill (1,20,00,000 + 15,00,000)	(135.00)
Gain on sale in the group's financial statements	7.50

(ii) Journal Entry in P Limited's consolidated financial statements

Date	Particulars	₹ in lakhs	
		Dr.	Cr.
31.3.2023	Bank A/c Dr.	114.00	
	Fair value of Net identifiable assets Dr.	28.50	
	To Net asset of subsidiary A/c		120.00
	To Goodwill		15.00
	To Gain on sale of subsidiary A/c		7.50
31.3.2023	Gain on sale of subsidiary A/c Dr.	7.50	
	To Statement of Profit and Loss		7.50

Note:
The above solution has been drawn on the assumption that the retained investment had led to significant influence. Accordingly, investment in an associate has been accounted for on partial disposal of investment by P Ltd. However, it may alternatively be assumed that the retained investment, after loss of control due to partial disposal of investment, does not lead to significant influence on S Ltd. In such a situation, retained interest will be measured at fair value in P Ltd.'s Separate Financial Statements as given in the alternate solution and main solution will not be applicable in such a case.

Q10. Nov 2022 Exam, 15 marks

Given below are the balance sheets of a group of companies comprising X Ltd., Y Ltd. and Z Ltd. as on 31st March, 2022:

(₹ in Lakhs)

	X Ltd.	Y Ltd.	Z Ltd.
Assets			
Non-current Assets			
Property, plant and equipment	1,120	1,260	1,050
Investment:		1,190	
112 lakh shares in Y Ltd.			980
84 lakh shares in Z Ltd.			

Current assets	770	245	175
Inventories			
Financial assets:	910	350	770
Trade receivables	252	-	105
Bills receivables	798	140	140
Cash in hand and at bank	5,040	2,975	2,240
Equity and Liabilities			
Shareholder's equity			
Share capital (₹ 10 per share)	2,100	1,400	1,120
Other equity:	630	350	280
Reserves	560	175	210
Retained earnings			
Current liabilities			
Financial liabilities:	1,645	805	630
Trade payables			
Bills payable			
X Ltd.			
Y Ltd	5,040	2,975	2,240

The following additional information is available:

(i) X Ltd. holds 80% shares in Y Ltd. and Y Ltd. holds 75% shares in Z Ltd. Their holdings were acquired on 30th September, 2021.

(ii) The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

(iii) On 1st April 2021, the following balances stood in the books of Y Ltd. and Z Ltd.

		(₹ in lakhs)
	Y Limited	**Z Limited**
Reserve	280	210
Retained earnings	70	105

(iv) ₹ 35 lakhs included in the inventory figure of Y Ltd. is inventory which has been purchased from Z Ltd. at cost plus 25%.

(v) The parent company has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume that market price of the shares of Y Ltd. and Z Ltd. are the same as their respective face values.

(vi) Y Ltd. purchased goods from Z Ltd. after acquiring the shares of Z Ltd.

You are required to prepare consolidated balance sheet, as at 31st March 2022, of the group of companies X Limited, Y Limited and Z Limited.

Answer

Consolidated Balance Sheet of the Group as on 31st March, 2022

Particulars	**Note No.**	**₹ in lakh**
ASSETS		
Non-current assets		
(a) Property, Plant and Equipment	1	3,430.00
Current Assets		
(a) Inventories	2	1,183.00
(b) Financial assets		
(i) Trade receivables	3	2,142.00
(ii) Cash and Cash equivalents	4	1,078.00
Total assets		7,833.00
EQUITY & LIABILITIES		
Equity attributable to owners of parent		2,100.00
(a) Share Capital	5	1,966.30
(b) Other Equity		581.70
Non-controlling interests (W.N.4)		4,648.00
Total equity		

LIABILITIES		
Non-current liabilities		Nil
Current liabilities		
(a) Financial Liabilities	6	
(i) Trade payables		3,185.00
Total liabilities		3,185.00
Total Equity and Liabilities		7,833.00

Notes to Accounts **(₹ in lakh)**

1.	Property, Plant & Equipment		
	X Ltd.	1,120.00	
	Y Ltd.	1,260.00	
	Z Ltd.	1,050.00	3,430.00
2.	Inventories		
	X Ltd.	770.00	
	Y Ltd. (245 – 7)	238.00	
	Z Ltd.	175.00	1,183.00
3.	Trade Receivables		
	X Ltd.	910.00	
	Y Ltd.	350.00	
	Z Ltd.	770.00	
	(A)	2,030.00	
	Bills Receivables		
	X Ltd.(252 – 245)	7.00	
	Z Ltd.	105.00	
	(B)	112.00	
	Total Trade Receivables (A+B)		2,142.00
4.	Cash & Cash equivalents		
	X Ltd.	798.00	
	Y Ltd.	140.00	
	Z Ltd.	140.00	1,078.00
5.	Other Equity		
	Reserve (W.N.5)	679.00	
	Retained Earnings (W.N.5)	629.30	
	Capital Reserve (W.N.3)	658.00	1,966.30
6.	Trade Payables		
	X Ltd.	1,645.00	
	Y Ltd.	805.00	
	Z Ltd.	630.00	
	(A)	3,080.00	
	Bills payable		
	X Ltd.	105.00	
	Y Ltd. (245 - 245)	-	
	(B)	105.00	
	Total Trade Payables (A+B)		3,185.00

***Note:** Bills Payable of X Ltd. is not reflecting as Bills Receivable of Y Ltd. This may happen since Y Ltd. may have discounted/endorsed the same to the bank/third party.

Working Notes:

1. Analysis of Reserves and Surplus

(₹ in lakh)

		Y Ltd.		**Z Ltd.**
Reserves as on 31.3.2021		280.00		210.00

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Increase during the year 2021-2022	70.00		70.00	
Increase for the half year till 30.9.2021		35.00		35.00
Balance as on 30.9.2021 (A)		315.00		245.00
Total balance as on 31.3.2022		350.00		280.00
Post-acquisition balance of Reserves		35.00		35.00
Retained Earnings as on 31.3.2021		70.00		105.00
Increase during the year 2021-2022	105.00		105.00	
Increase for the half year till 30.9.2021		52.50		52.50
Balance as on 30.09.2021 (B)		122.50		157.50
Total balance as on 31.3.2022		175.00		210.00
Post-acquisition balance of RE		52.50		52.50
Less: Unrealised Gain on inventories [(35 ÷ 125) x 25]		-		(7.00)
Post-acquisition balance of RE for CFS		52.50		45.50
Total balance on the acquisition date i.e. 30.9.2021 (A+B)		437.50		402.50

2. Calculation of Effective Interest of X Ltd. in Z Ltd.

Acquisition by X Ltd. in Y Ltd. = 80%
Non-controlling Interest of Y Ltd. = 20%
Acquisition by Y Ltd. in Z Ltd. = 75%
Acquisition by Group in Z Ltd. (80% x 75) = 60%
Non-controlling Interest of Z Ltd = 40%

3. Calculation of Goodwill / Capital Reserve on acquisition of subsidiaries

₹ in lakhs

	Y Ltd.	**Z Ltd.**
Investment or consideration	1,190.00	(980 x 80%) 784.00
Add: NCI at Fair value	(1,400 x 20%) 280.00	(1,120 x 40%) 448.00
	1,470.00	1,232.00
Less: Identifiable net assets (Share Capital + Increase in the Reserves and Surplus till acquisition date)	(1,400+437.50) (1,837.50)	(1,120+402.50) (1,522.50)
Capital Reserve	367.50	290.50
Total Capital Reserve (367.50 + 290.50)		**658.00**

4. Calculation of Non-controlling Interest

₹ in lakhs

	Y Ltd.	**Z Ltd.**
At Fair Value (See Note 3)	280.00	448.00
Add: Post Acquisition Reserves (See Note 1)	(35 x 20%) 7.00	(35 x 40%) 14.00
Add: Post-acquisition retained earnings (See Note 1)	(52.50 x 20%) 10.50	(45.50 x 40%) 18.20
Less: NCI share of investment in Z Ltd.	(980 x 20%) (196.00)*	-
	101.50	480.20
Total (101.50 + 480.20)		581.70

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

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5.Calculation of Consolidated Other Equity

₹ in lakhs

	Reserves	Retained Earnings
X Ltd.	630.00	560.00
Add: Share in Y Ltd.	(35 x 80%) 28.00	(52.50 x 80%) 42.00
Add: Share in Z Ltd.	(35 x 60%) 21.0	(45.50 x 60%) 27.30
	679.00	629.30

In the above solution, it is assumed that profits of Z Ltd. has been earned evenly throughout the year irrespective of post-acquisition sale of goods to Y Ltd.

Alternatively, profit on sale of goods to Y Ltd. is deducted from total profit of Z Ltd.before distribution of total profit of Z Ltd. into pre-acquisition and post-acquisition.

In such a case, the solution will be as follows:

Consolidated Balance Sheet of the Group as on 31st March, 2022

Particulars	Note No.	₹ in lakh
ASSETS		
Non-current assets		
(a) Property, Plant and Equipment	1	3,430.00
Current Assets		
(a) Inventories	2	1,183.00
(b) Financial assets		
(i) Trade receivables	3	2,142.00
(ii) Cash and Cash equivalents	4	1,078.00
Total assets		7,833.00
EQUITY & LIABILITIES		
Equity attributable to owners of parent		2,100.00
(a) Share Capital	5	1,966.30
(b) Other Equity		581.70
Non-controlling interests (W.N.4)		4,648.00
Total equity		
LIABILITIES		Nil
Non-current liabilities		
Current liabilities		
(a) Financial Liabilities	6	3,185.00
(i) Trade payables		3,185.00
Total liabilities		7,833.00
Total Equity and Liabilities		

Notes to Accounts **(₹ in lakh)**

1.	Property, Plant & Equipment		
	X Ltd.	1,120.00	
	Y Ltd.	1,260.00	
	Z Ltd.	1,050.00	3,430.00
2.	Inventories		
	X Ltd.	770.00	
	Y Ltd. (245 – 7)	238.00	
	Z Ltd.	175.00	1,183.00
3.	Trade Receivables		
	X Ltd.	910.00	
	Y Ltd.	350.00	
	Z Ltd.	770.00	
	(A)	2,030.00	
	Bills Receivables		
	X Ltd.(252 – 245)	7.00	
	Z Ltd.	105.00	

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	(B)	112.00	
	Total Trade Receivables (A+B)		2,142.00
4.	Cash & Cash equivalents		
	X Ltd.	798.00	
	Y Ltd.	140.00	
	Z Ltd.	140.00	1,078.00
5.	Other Equity		
	Reserve (W.N.5)	679.00	
	Retained Earnings (W.N.5)	629.30	
	Capital Reserve (W.N.3)	658.00	1,966.30
6.	Trade Payables		
	X Ltd.	1,645.00	
	Y Ltd.	805.00	
	Z Ltd.	630.00	
	(A)	3,080.00	
	Bills payable		
	X Ltd.	105.00	
	Y Ltd. (245 - 245)	-	
	(B)	105.00	
	Total Trade Payables (A+B)		3,185.00

***Note:** Bills Payable of X Ltd. is not reflecting as Bills Receivable of Y Ltd. This may happen since Y Ltd. may have discounted/endorsed the same to the bank/third party.

Working Notes:

2. Analysis of Reserves and Surplus

(₹ in lakh)

		Y Ltd.		Z Ltd.
Reserves as on 31.3.2021		280.00		210.00
Increase during the year 2021-2022	70.00		70.00	
Increase for the half year till 30.9.2021		35.00		35.00
Balance as on 30.9.2021 (A)		315.00		245.00
Total balance as on 31.3.2022		350.00		280.00
Post-acquisition balance of Reserves		35.00		35.00
Retained Earnings as on 31.3.2021		70.00		105.00
Increase during the year 2021-2022	105.00		105.00	
Increase for the half year till 30.9.2021		52.50		52.50
Balance as on 30.09.2021 (B)		122.50		157.50
Total balance as on 31.3.2022		175.00		210.00
Post-acquisition balance of RE		52.50		52.50
Less: Unrealised Gain on inventories [(35 ÷ 125) x 25]		-		(7.00)
Post-acquisition balance of RE for CFS		52.50		45.50
Total balance on the acquisition date i.e. 30.9.2021 (A+B)		437.50		402.50

2. Calculation of Effective Interest of X Ltd. in Z Ltd.

Acquisition by X Ltd. in Y Ltd. = 80%
Non-controlling Interest of Y Ltd. = 20%
Acquisition by Y Ltd. in Z Ltd. = 75%
Acquisition by Group in Z Ltd. (80% x 75) = 60%
Non-controlling Interest of Z Ltd = 40%

3. Calculation of Goodwill / Capital Reserve on acquisition of subsidiaries

₹ in lakhs

	Y Ltd.	Z Ltd.
Investment or consideration	1,190.00	(980 x 80%) 784.00
Add: NCI at Fair value	(1,400 x 20%) 280.00	(1,120 x 40%) 448.00
	1,470.00	1,232.00
Less: Identifiable net assets (Share Capital + Increase in the Reserves and Surplus till acquisition date)	(1,400+437.50) (1,837.50)	(1,120+402.50) (1,522.50)
Capital Reserve	367.50	290.50
Total Capital Reserve (367.50 + 290.50)		658.00

4. Calculation of Non-controlling Interest

₹ in lakhs

	Y Ltd.	Z Ltd.
At Fair Value (See Note 3)	280.00	448.00
Add: Post Acquisition Reserves (See Note 1)	(35 x 20%) 7.00	(35 x 40%) 14.00
Add: Post-acquisition retained earnings (See Note 1)	(52.50 x 20%) 10.50	(45.50 x 40%) 18.20
Less: NCI share of investment in Z Ltd.	(980 x 20%) (196.00)*	-
	101.50	480.20
Total (101.50 + 480.20)		581.70

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

5. Calculation of Consolidated Other Equity

₹ in lakhs

	Reserves	Retained Earnings
X Ltd.	630.00	560.00
Add: Share in Y Ltd.	(35 x 80%) 28.00	(52.50 x 80%) 42.00
Add: Share in Z Ltd.	(35 x 60%) 21.0	(45.50 x 60%) 27.30
	679.00	629.30

Q11. Nov 2022 Exam, 8 marks

Jackson Limited is engaged in manufacturing and trading activities. It is in the process of preparation of consolidated financial statements of the group for the year ended on 31st March 2022. During the year 2021-2022, the company made a profit (after tax) of ₹ 2,10,00,000 of which ₹ 10,00,000 is attributable to Non-Controlling Interest (NCI).

The long-term finance of the company comprises the following:

A. 10 crore equity shares of ₹ 1 each at the beginning of the year and the company has further issued 2,50,00,000 shares on 1st October 2021 at full market value.

B. 40 lakh irredeemable preference shares of ₹ 10 each. These shares were in issue for the whole of the year ended 31st March 2022. The payment of dividend on these preference shares is discretionary.

C. ₹ 9 crore of 6% convertible debentures issued on 1st April, 2020 and repayable on 31st March, 2025 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 5 crore ordinary shares in the company. On 1st April, 2021 the prevailing market interest rate for 5 yearly convertible debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of ₹ 1 payable in five years is 0.68 and the cumulative present value of ₹ 1 payableat the end of years one to five is 3.99.

In the year ended 31st March, 2022 Jackson Limited declared a dividend of ₹ 0.10 per share on the irredeemable preference shares.

You are required to:

i. Compute the finance cost of convertible debentures and its closing balance as on 31st March, 2022 to be presented in the consolidated financial statements.

ii. Compute the basic and diluted earnings per share for the year ended 31st March, 2022. Assume that applicable income tax rate is 30% for Jackson Limited and its subsidiaries.

Answer

(i) Calculation of the liability and equity components on 6% Convertible debentures:

Present value of principal payable at the end of 5th year (₹ 90,000 thousand x 0.68)
= ₹ 61,200 thousand

Present value of interest payable annually for 5 years (₹ 90,000 thousand x 6% x 3.99)
= ₹ 21,546 thousand

Total liability component = ₹ 82,746 thousand

Therefore, equity component = ₹ 90,000 thousand – ₹ 82,746 thousand = ₹ 7,254 thousand

Calculation of finance cost and closing balance of 6% convertible debentures

Year	Opening balance ₹ in '000	Finance cost @ 8% ₹ in '000	Interest paid @ 6% ₹ in '000	Closing balance ₹ in '000
	a	b = a x 8%	c	d = a + b - c
31.3.2021	82,746	6,620	5,400	83,966
31.3.2022	83,966	6,717	5,400	85,283

Finance cost of convertible debentures for the year ended 31.3.2022 is ₹ 6,717 thousand and closing balance as on 31.3.2022 is ₹ 85,283 thousand.

(ii) (a) Calculation of Basic EPS **₹ in '000**

Profit for the year attributable to parent company	20,000
Less: Dividend on preference shares (4,000 thousand x ₹ 0.10)	(400)
Profit attributable to equity shareholders	19,600

Weighted average number of shares = 10,00,00,000 + {2,50,00,000 x (6/12*)}
= 11,25,00,000 shares or 1,12,500 thousand shares

Basic EPS = ₹ 19,600 thousand / 1,12,500 thousand shares
= ₹ 0.174

(b) Calculation of Diluted EPS **₹ in '000**

Profit for the year attributable to parent company		20,000
Less: Dividend on preference shares (4,000 thousand x ₹ 0.10)		(400)
		19,600
Add: Finance cost (as given in the above table)		
6,717.00		4,701.90
Less: Tax @ 30%	(2,015.10)	24,301.90

Weighted average number of shares = 10,00,00,000 + {2,50,00,000 x (6/12)*} + 5,00,00,000
= 16,25,00,000 shares or 1,62,500 thousand shares

Diluted EPS = ₹ 24,301.90 thousand / 1,62,500 thousand shares = ₹ 0.150

Q12. May 2022 Exam, 15 marks

The draft Balance Sheet of JAY Ltd. and KAY Ltd. as at 31st March 2021 is given below:

PARTICULARS	JAY Limited (₹ in lakh)	KAY Limited (₹ in lakh)
ASSETS		
NON-CURRENT ASSETS		
Property, Plant & Equipment	400	500
Investments	450	120
CURRENT ASSETS		
Inventories	180	130
Financial Assets		
- Trade Receivables	520	270
- Cash & Cash Equivalents	260	145

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- Others	350	175
TOTAL	2,160	1,340
EQUITY AND LIABILITIES		
EQUITY		
Share Capital		
- JAY Limited: Equity Shares of ₹ 10 each		
- KAY Limited: Equity Shares of ₹ 100 each		
OTHER EQUITY	725	210
NON-CURRENT LIABILITIES		
Financial Liabilities		
- Long Term Borrowings	350	250
Long Term Provisions	70	80
Deferred Tax	40	20
CURRENT LIABILITIES		
Financial Liabilities		
- Short Term Borrowings	125	145
- Trade Payables	250	185
TOTAL	2,160	1,340

Other information:

a. JAY Ltd. acquired 75% shares of KAY Ltd. on 1st April, 2021 by issuing its own shares in the ratio of 2 shares of JAY Ltd. for every 3 shares of KAY Ltd. The fair value of the shares of JAY Ltd. was ₹ 50 per share.

b. The fair value exercise resulted in the following:

i. Fair value of Property, Plant & Equipment of KAY Ltd. on 1st April, 2021 was ₹ 425 lakh;

ii. JAY Ltd. also agreed to pay an additional payment as consideration that is higher of ₹ 45 lakh and 30% of any excess profits in the first year, after acquisition, over its profits in the preceding 12 months made by KAY Ltd. This additional amount will be due after 3 years. KAY Ltd. has earned ₹ 15 lakh profit in the preceding year and expects to earn another ₹ 20 lakh;

iii. In addition to the above, JAY Ltd. also had agreed to pay one of the founder shareholder a payment of ₹ 22 lakh provided he stays with the Company for 3 years after acquisition;

iv. KAY Ltd. had certain equity settled share based payment award (original award) which got replaced by the new awards issued by JAY Ltd. As per the original terms, the vesting period was 5 years and as of the acquisition date the employees of KAY Ltd. have already served 2 years of service. As per the replaced awards, the vesting period has been reduced to 1 year (1 year from the acquisition date). The fair value of the award on the acquisition date was as follows:

- Original award - ₹ 6 lakh
- Replacement award - ₹ 9 lakh

v. KAY Ltd. had a lawsuit pending with a customer who made a claim of₹ 70 lakh. Management reliably estimated the fair value of the liability to be ₹ 7.5 lakh;

vi. The applicable tax rate for both entities is 30%.

You are required to prepare consolidated balance sheet of JAY Ltd. as on 1st April, 2021. Assume 10% per annum discount rate. Management notes and working notes should form part of your answer.

Answer

Consolidated Balance Sheet of JAY Ltd. as on 1st April, 2021

(₹ in lakh)

	Amount
Assets	
Non-Current Assets:	
Property, plant and equipment	825.00
Financial assets	
Investment	570.00
Current assets:	

Inventories	310.00
Financial assets	
Trade receivables	790.00
Cash and cash equivalents	405.00
Others	525.00
Total	3,425.00
Equity and Liabilities	
Equity	
Share capital - Equity shares of ₹ 10 each	622.50
Other Equity	1,120.38
Non-controlling Interest	150.56
Non-Current liabilities:	
Financial Liabilities	
Long term borrowings	600.00
Long term provisions	183.81
Deferred tax	35.25
Current Liabilities:	
Financial Liabilities	
Short term borrowings	270.00
Trade payables	435.00
Provision for Lawsuit damages	7.50
Total	3,425.00

Management Notes:

a. As per Ind AS 103, the acquirer is required to record the assets and liabilities acquired at their respective fair value. Accordingly, the PPE of KAY Ltd. will be recorded at ₹ 425 lakh.

b. The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, ₹ 2.4 lakh (6 x 2/5) is considered as a part of purchase consideration and is credited to JAY Ltd. equity as this will be settled in its own equity. The balance of ₹ 6.60 lakh (₹ 9 lakh –₹ 2.4 lakh) will be recorded as compensation expense in the post combination financial statements over the remaining life, which is 1 year in this scenario.

c. There is a difference between contingent consideration and deferred consideration. In the given case ₹ 45 lakh is the minimum payment to be paid after 3 years and accordingly will be considered as deferred consideration. The other element is if company meet certain target, then they will get 30% of that or ₹ 45 lakh whichever is higher. In the given case, the minimum what is expected to be paid has been considered and the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.

d. The additional consideration of ₹ 22 lakh to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be consideredas employee compensation and will be recorded as post combination expenses in the income statement of JAY Ltd.

Working Notes:

1. Computation for Purchase consideration

Particulars		**Amount (₹)**
Share capital of KAY Ltd.		4,50,00,000
Number of shares	4,50,000	
Shares to be issued 3:2	3,00,000	
Fair value ₹ per share		50
		₹ in lakh
PC (3,00,000 x 75% x ₹ 50 per share) (A)		112.50
Deferred consideration after discounting ₹ 45 lakh for 3 years @ 10% (P.V. Factor 0.7513) (B)		33.81

Replacement award market-based measure of the acquiree award (6) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (5) of the acquiree award ie (6 x 2/5) (C)		2.40
PC in lakh (A+B+C)		148.71

2. Allocation of Purchase price

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	500.00	425.00	(75.00)
Investment	120.00	120.00	
Inventories	130.00	130.00	
Financial assets:			
Trade receivables	270.00	270.00	
Cash and cash equivalents	145.00	145.00	
Others	175.00	175.00	
	1,340.00	1,265.00	(75.00)
Less: Long term borrowings	(250.00)	(250.00)	
Long term provisions	(80.00)	(80.00)	
Deferred tax	(20.00)	(20.00)	
Short term borrowings	(145.00)	(145.00)	
Trade payables	(185.00)	(185.00)	
Contingent liability	-	(7.50)	(7.50)
Net assets (X)	660.00	577.50	(82.50)
Deferred tax asset on FV adjustment (82.50 x 30%) (Y)		24.75	
Net assets (X+Y)		602.25	
Non-controlling interest (602.50 x 25%) rounded off		150.56	
Purchase consideration (PC)		148.71	
Capital Reserve (Net assets –NCI – PC)		302.98	

3. Computation of consolidated amounts of consolidated financial statements

(₹ in lakh)

	JAY Ltd.	KAY Ltd. (pre-acquisition)	PPA Allocation	Total
Assets				
Non-current assets:				
Property, plant and equipment	400.00	500.00	(75.00)	825.00
Investment	450.00	120.00		570.00
Current assets:				
Inventories	180.00	130.00		310.00
Financial assets:				
Trade receivables	520.00	270.00		790.00
Cash and cash equivalents	260.00	145.00		405.00
Others	350.00	175.00	-	525.00
Total	2,160.00	1,340.00	(75.00)	3,425.00
Equity and Liabilities				
Equity				
Share capital - Equity shares of ₹ 10 each Shares allotted to KAY Ltd.	600.00		22.50	622.50

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(W.N.1)(3,00,000 x 75% x ₹ 10 per share)	725.00			1,120.38
			2.40	
Other Equity			90.00	
Replacement award (W.N.1)				
Security Premium(W.N.1)			302.98	
(3,00,000 shares x 75% x ₹ 40)	-		150.56	150.56
Capital Reserve (W.N.2)				
Non-controlling interest (W.N.2)				
Non-current liabilities:	350	250		600
Financial liabilities	70.00	80.00	33.81	183.81
Long term borrowings	40.00	20.00	(24.75)	35.25
Long term provisions (W.N.1)				
Deferred tax (W.N.2)				
Current liabilities:	125.00	145.00		270.00
Financial liabilities	250.00	185.00		435.00
Short term borrowings	-	-	7.50	7.50
Trade payable	**2,160.00**	**680.00**	**585.00**	**3,425.00**
Liability for lawsuit damages				
Total				

Q13. May 2022 Exam, 6 marks

GEM Ltd., an Indian company acquired 75% of the share capital of VEW Ltd. on 30th September, 2020, an entity registered as company in USA. The functional currency of GEM Ltd. is Rupees and its financial year end on 31st March, 2021. The functional currency of VEW Ltd. is USD.

i. On 30th September, 2020, the fair value of the Net Assets of VEW Ltd. was USD 10 million and the purchase consideration paid was USD 7.8 million. The exchange rate as at 30th September, 2020 was ₹ 71.5 per USD and at 31st March, 2021 was ₹ 73.5 per USD.

ii. VEW Ltd. sold goods costing USD 1.9 million to GEM Ltd. for USD 3.1 million during the year ended 31st March, 2021. The exchange rate on the date of purchase by GEM Ltd. was ₹ 70.5 per USD and on 31st March, 2021 was ₹ 73.5 per USD. 50% of the goods purchased by GEM Ltd. from VEW Ltd. were unsold as at 31st March, 2021.

For (i) determine the value at which the Goodwill should be recognized in the financial statements of GEM Ltd. as at 31st March, 2021.

For (ii) determine the unrealized profit to be eliminated in the preparation of consolidated financial statements of GEM Ltd. for the year ending on 31st March, 2021.

Answer

i) Para 47 of Ind AS 21 requires that goodwill arose on business combination 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.

When NCI is measured at proportionate share of net assets, the amount of goodwill will be as follows:

Net identifiable asset	Dr.	USD 10 million	
Goodwill (bal. fig.)	Dr.	USD 0.30 million	
To Bank (Purchase consideration)			USD 7.80 million
To NCI (10 x 25%)			USD 2.50 million

Thus, goodwill on reporting date in the books of GEM Ltd. would be

= USD 0.30 million x ₹ 73.50 = ₹ 22.05 million

Alternatively, when NCI is measured at fair value, the amount of goodwill will be as follows:

Net identifiable asset	Dr.	USD 10 million	
Goodwill (bal. fig.)	Dr.	USD 0.40 million	
To Bank (Purchase consideration)			USD 7.80 million
To NCI (7.8/75*25)			USD 2.60 million

Thus, goodwill on reporting date in the books of GEM Ltd. would be

= USD 0.40 million x ₹ 73.50 = ₹ 29.40 million

(ii) Calculation of unrealised profit

Particulars	USD in million
Sale price of inventory	3.10
Cost of inventory	1.90
Profit earned by VEW Ltd.	1.20
Unrealised profit (1.20 x 50%) [a]	0.60

Exchange rate as on date of purchase of inventory [b] ₹ 70.50 / USD
Unrealized profit to be eliminated [a x b] = USD 0.60 million x ₹ 70.50
= ₹ 42.30 million

As per para 39 of Ind AS 21, income and expenses for each statement of profit and loss presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions. In the given case, purchase of inventory is an expense item shown in the statement profit and loss. Hence, the exchange rate on the date of purchase of inventory is taken for calculation of unrealized profit which is to be eliminated while preparation of consolidated financial statements.

Q14. Dec 2021 Exam, 12 marks

Ram Limited is a company incorporated In India. It provides ₹ 25,00,000 interest free loan to its wholly owned Indian subsidiary Balram Limited. There are no transaction costs.
How should the loan be accounted for, in the light of provisions of related Ind AS, in the books of Ram Limited, Balram Limited and Consolidated Financial Statements of the group, considering the following scenarios:

i. The loan is repayable on demand.
ii. The loan is repayable after 3 years. The current market rate of interest for similar loan is 12% p.a. for both holding and subsidiary.
iii. The loan is repayable when Balram Limited has funds to repay the loan.

Briefly, analyse the above scenarios. Also pass Journal Entries in the books of Ram Limited and Balram Limited in case of Scenario (i) and (ii).Present value of ₹ 1 payable in 3 years' time at an annual discount rate of 12% is 0.7118.

Answer

Requirement of Ind AS: Ind AS 109 requires that financial assets and liabilities are recognized on initial recognition at its fair value, as adjusted for the transaction cost. In accordance with Ind AS 113 'Fair Value Measurement', the fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to
be paid.
Using the guidance, the loan will be accounted for as below in various scenarios:
Scenario (i) Since the loan is repayable on demand, it has fair value equal to cash consideration given. The parent and subsidiary recognize financial asset and liability, respectively, at the amount of loan given. Going forward, no interest is accrued on the loan.
Upon repayment, both the parent and the subsidiary reverse the entries made at origination.

Accounting in the books of Ram Ltd. (Parent)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan** Loan to Balram Ltd. (Subsidiary) Dr. To Bank (Being the loan is given to Balram Ltd. and recognised at fair value)	25,00,000	 25,00,000
2.	**At the time the Loan is received back:** Bank Dr. To Loan to Balram Ltd. (Subsidiary) (Being demand loan received)	25,00,000	 25,00,000

Accounting in the books of Balram Ltd. (Subsidiary)

S. No.	Particulars	Amount	Amount

1.	**On the date of loan** Bank Dr. To Loan from Ram Ltd. (Being the loan is taken from Ram Ltd. and recognised at fair value)	25,00,000	 25,00,000
2.	**On repayment of loan** Loan from Ram Ltd. Dr. To Bank (Being demand loan paid)	25,00,000	 25,00,000

Scenario (ii)

Both parent and subsidiary recognize financial asset and liability, respectively, at fair value on initial recognition. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Accounting in the books of Ram Ltd. (Parent)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan** Loan to Balram Ltd. (Subsidiary) Dr. Deemed Investment (Capital Contribution) in Balram Ltd. Dr. To Bank (Being the loan is given to Balram Ltd. and recognised at fair value)	17,79,500 7,20,500	 25,00,000
2.	**Accrual of Interest income** Loan to Balram Ltd. Dr. To Interest income (Being interest income accrued) – Year 1	2,13,540	 2,13,540
3.	Loan to Balram Ltd. Dr. To Interest income (Being interest income accrued) – Year 2	2,39,165	 2,39,165
4.	Loan to Balram Ltd. Dr. To Interest income (Being interest income accrued) – Year 3	2,67,795	 2,67,795
5.	**On receipt of loan** Bank Dr. To Loan to Balram Ltd. (Subsidiary) (Being term loan received)	25,00,000	 25,00,000

Accounting in the books of Balram Ltd. (Subsidiary)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan** Bank Dr. To Loan from Ram Ltd. To Equity (Deemed Capital Contribution from Ram Ltd.) (Being the loan is taken from Ram Ltd. and recognised at fair value)	25,00,000	 17,79,500 7,20,500
2.	**Accrual of Interest** Interest expense Dr. To Loan from Ram Ltd. (Being interest expense recognised) – Year 1	2,13,540	 2,13,540
3.	Interest expense Dr. To Loan from Ram Ltd. (Being interest expense recognised) – Year 2	2,39,165	 2,39,165

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4.	Interest expense Dr. To Loan from Ram Ltd. (Being interest expense recognised) – Year 3	2,67,795	 2,67,795
5.	**On repayment of loan** Loan from Ram Ltd. (Payable) Dr. To Bank (Being term loan paid)	25,00,000	 25,00,000

Working Notes:

1.	**Computation of present value of loan**	
	Rate	12%
	Amount of Loan	25,00,000
	Year	3
	Present Value	17,79,500
2.	**Computation of interest for Year I**	
	Present Value	17,79,500
	Rate	12%
	Period of interest - for 1 year 1	1
	Closing value at the end of year 1	19,93,040
	Interest for 1st year	2,13,540
3.	**Computation of interest for Year 2**	
	Value of loan as at the beginning of Year 2	19,93,040
	Rate	12%
	Period of interest - for 2nd year	1
	Closing value at the end of year 2	22,32,205
	Interest for 2nd year	2,39,165
4.	**Computation of interest for Year 3**	
	Value of loan as at the beginning of Year 3	22,32,205
	Rate	12%
	Period of interest - for 3rd year 1	1
	Closing value at the end of year 3	25,00,000
	Interest for 3rd year (25,00,000 – 22,32,205)	2,67,795*

* Difference of ₹ 70 [(22,32,205 x 12%) – 2,67,795] is due to approximation.

Scenario (iii)

Generally, a loan, which is repayable when funds are available, can't be stated to be repayable on demand. Rather, the entities need to estimate repayment date anddetermine its measurement accordingly. If the loan is expected to be repaid in three years, its measurement will be the same as in scenario (ii).

In the Consolidated Financial Statements (CFS) for all three scenarios (i), (ii) and (iii)

In the Consolidated Financial Statements (CFS), the loan and interest income / expense will get knocked-off as intra-group transaction in all the three scenarios. Hence the above accounting will not have any impact in the CFS.

Q15. Dec 2021 Exam, 5 marks

From the following data, determine in each case:

(i) Non-controlling interest at the date of acquisition (using proportionate share method) and at the date of consolidation.

(ii) Goodwill or gain on bargain purchase.

(iii) Amount of Holding Company's share of profit in the Consolidated Balance Sheet assuming Holding Company's own retained earnings to be ₹ 4,00,000 in each basis.

Case	Subsidiary Company	% of Shares Owned	Cost	Date of Acquisition 1.4.2020		Consolidation Date 31.3.2021	
				Share Capital (A)	Retained Earnings (B)	Share Capital (C)	Retained Earnings (D)

Case 1	P	90%	2,80,000	2,00,000	1,00,000	2,00,000	1,40,000
Case 2	Q	85%	2,08,000	2,00,000	60,000	2,00,000	40,000
Case 3	R	80%	1,12,000	1,00,000	40,000	1,00,000	40,000
Case 4	S	100%	2,00,000	1,00,000	80,000	1,00,000	1,12,000

The Company has adopted an accounting policy to measure non-controlling interest at NCI's proportionate share of the acquiree's Identifiable Net Assets. It may be assumed that the fair value of acquiree's net identifiable assets is equal to their book values.

Answer

Non-controlling Interest = the equity in a subsidiary not attributable, directly or indirectly, to a parent. Equity is the residual interest in the assets of an entity after deducting all its liabilities i.e. in this given case Share Capital + Balance in Statement of Profit & Loss (Assuming it to be the net aggregate value of identifiable assets in accordance with Ind AS)

(1) Calculation of amount of NCI at the date of acquisition and consolidation

Case	% of shares owned by NCI [E]	Non-controlling interest as at the date of acquisition [E] x [A + B]	Non-controlling interest as at the date of consolidation [E] x [C + D]
Case 1	[100-90] 10%	30,000	34,000
Case 2	[100-85] 15%	39,000	36,000
Case 3	[100-80] 20%	28,000	28,000
Case 4	[100-100] Nil	Nil	Nil

(2) Calculation of Goodwill or Gain on bargain purchase

Case	Consideration [G]	Non-controlling interest [H]	Net Identifiable assets [A] + [B] = [I]	Goodwill [G]+[H] - [I]	Gain on bargain purchase [I]-[G]-[H]
Case 1	2,80,000	30,000	3,00,000	10,000	Nil
Case 2	2,08,000	39,000	2,60,000	Nil	13,000
Case 3	1,12,000	28,000	1,40,000	Nil	Nil
Case 4	2,00,000	Nil	1,80,000	20,000	Nil

(3) In each case the following amount (shown in column No. O) shall be added or deducted from the balance of holding company's retained earnings of ₹ 4,00,000:

Case	% Share Holding [K]	Retained earnings as on 1.4.2020 [L]	Retained earnings as on consolidation date 31.3.2021 [M]	Retained earnings post-acquisition [N] = [M] - [L]	Amount to be added / (deducted) from holding's retained earnings [O] = [K] x [N]
Case 1	90%	1,00,000	1,40,000	40,000	36,000
Case 2	85%	60,000	40,000	(20,000)	(17,000)
Case 3	80%	40,000	40,000	Nil	Nil
Case 4	100%	80,000	1,12,000	32,000	32,000

Q16. July 2021 Exam, 16 marks

Given below are the balance sheets of a group of companies comprising LX Limited, MX Limited and NX Limited as on 31st March 2021:

₹ in lakh

Particulars	LX Limited	MX Limited	NX Limited

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Assets			
Non-current Assets			
Property, Plant and Equipment	1,500	1,600	1,400
Investment			
17.0 lakh share in MX Limited	2,620	-	-
9.6 lakh shares in NX Limited	-	1,350	-
Current Assets			
Inventories	1,230	730	1,180
Financial Assets			
Trade Receivables	1,415	270	620
Bills Receivables	650	60	-
Cash in hand and at Bank	1,085	90	150
	8,500	4,100	3,350
Equity and Liabilities			
Shareholders' Equity			
Share Capital (₹ 100 per share)	3,400	2,000	1,600
Other Equity			
Reserves	1,150	810	580
Retained earnings	1,030	600	310
Current Liabilities			
Financial Liabilities			
Trade Payables	2,920	690	805
Bills Payable	-	-	
MX Limited			55
	8,500	4,100	3,350

LX Limited holds 85% shares in MX Limited, which were acquired on 1st April 2020 and MX Limited holds 60% shares in NX Limited, which were acquired on 30th September 2020.

The following balances stood in the books of MX Limited and NX Limited as on 1st April 2020:

	MX Limited	**NX Limited**
	₹ in lakh	**₹ in lakh**
Reserves	760	520
Retained earnings	480	150

The business activities of NX Limited are not seasonal in nature.

The parent company has adopted an accounting policy to measure non-controlling interest at fair value applying Ind AS 103. The fair value is to be determined at quoted market price. The given market price of MX Limited is ₹ 120 per share and NX Limited is ₹ 125per share.

Prepare the consolidated Balance Sheet as on 31st March 2021 of the group of companies LX Limited, MX Limited and NX Limited.

Answer

Consolidated Balance Sheet of the Group as at 31st March, 2021

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

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

Notes to Accounts

(₹ in lakh)

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

Working Notes:

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

	MX Ltd.		**NX Ltd.**
Reserves as on 1.4.2020	760		520
Increase during the year 2020-2021 (580 - 520)		60	30
Increase for the half year till 30.9.2020	760		550
Balance on acquisition date (A)	810		580
Total balance as on 31.3.2021	50		30
Post-acquisition balance	480		150
Retained Earnings as on 1.4.2020		160	
Increase during the year 2020-2021 (310 - 150)			80
Increase for the half year till 30.9.2020	480		230

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Balance on acquisition date (B)	600		310
Total balance as on 31.3.2021	120		80
Post-acquisition balance	1,240		780
Total balance on the acquisition date (A+B)			

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

Acquisition by LX Ltd. in MX Ltd. = 85%
Acquisition by MX Ltd. in NX Ltd. = 60%
Acquisition by Group in NX Ltd. (85% x 60%) = 51%
Non-controlling Interest = 49%

3. Calculation of Goodwill / Capital Reserve on the acquisition

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

4. Calculation of Non-controlling Interest

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

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

5. Calculation of Consolidated Other Equity

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

Q17. July 2021 Exam, 5 marks

SB Limited is engaged in the business of producing extracts from the natural plants for pharmaceuticals and Ayurvedic companies. It has a wholly owned subsidiary, UB Limited which is engaged in the business of pharmaceuticals. UB Limited purchases the pharmaceuticals extracts from its parent company. The demand of UB Limited is very high and hence to cater its shortfall, UB Limited also purchases the pharmaceutical extracts
from other companies. Purchases are made at the competitive prices.SB Limited sold pharmaceutical extracts to UB Limited for Euro 10 lakhs on 1st February, 2021. The cost of these extracts was ₹ 770 lakh in the books of SB Limited at the time of sale. At the year-end, i.e. 31st March 2021, all these pharmaceutical extracts

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were lying as closing stock and payable with UB Limited.
Euro is the functional currency of UB Limited while Indian-Rupee is the functional currency of SB Limited.
Following additional information is available:

Exchange rate on 1st February 2021 1 Euro = ₹ 85

Exchange rate on 31st March 2021 1 Euro = ₹ 88

Provide the accounting treatment of the above in the books of SB Limited and UB Limited.
Also show its impact on consolidated financial statements. Support your answer by journal entries, wherever necessary. Assume NRV to be higher than the cost.

Answer

Accounting treatment in the books of SB Ltd (Functional Currency INR)

SB Ltd will recognize sales of ₹ 850 lakh (10 lacs Euro x ₹ 85)
Profit on sale of inventory = 850 lakh – 770 lakh = ₹ 80 lakh.
On balance sheet date receivable from UB Ltd. will be translated at closing rate i.e. 1 Euro = ₹ 88.
Therefore, unrealised forex gain will be recorded in standalone profit and loss of₹ 30 lakh [i.e. (₹ 88 - ₹ 85) x 10 lakh Euro].

Journal Entries

Date		(₹ in lakh)	(₹ in lakh)
1.2.2021	UB Ltd. A/c Dr. To Sales (Being revenue recorded on initial recognition)	850	850
31.3.2021	UB Ltd. A/c Dr. To Foreign exchange difference (unrealised) (Being foreign exchange difference recorded at year end)	30	30

Accounting treatment in the books of UB Ltd (Functional currency EURO)

Date		(₹ in Euros)	(₹ in Euros)
1.2.2021	Purchase account Dr. To SB limited (Being purchased recorded at the date of transaction)	10 lakh	10 lakh

UB Ltd will recognize inventory on 1st February, 2021 of Euro 10 lakh which will also be its closing stock at year end

Accounting treatment in the consolidated financial statements

Receivable and payable in respect of above mentioned sale / purchase between SB Ltd and UB Ltd will get eliminated
The closing stock of UB Ltd will be recorded at lower of cost or NRV.
Since the question ask to assume that NRV is higher than cost, inventory will be measured at cost only. Therefore, no write off is required.
The amount of closing stock of ₹ 850 lakh include two components–

- Cost of inventory for ₹ 770 lakh ; and
- Profit element of ₹ 80 lakh; and

At the time of consolidation, the second element amounting to ₹ 80 lakh will be eliminated from the closing stock.

Journal Entry

	(₹ in lakh)	(₹ in lakh)
Consolidated P&L A/c Dr. To Inventory (Being profit element of intra group transaction eliminated)	80	80

Q18. Jan 2021 Exam, 15 marks

On 1st April 2017, A Limited acquired 80% of the share capital of S Limited. On acquisition date the share capital and reserves of S Ltd. stood at ₹ 5,00,000 and ₹ 1,25,000 respectively. A Limited paid initial cash consideration of ₹ 10,00,000. Additionally, A Limited issued 2,00,000 equity shares with a nominal value of ₹ 1 per share at current market value of ₹ 1.80 per share.

It was also agreed that A Limited would pay a further sum of ₹ 5,00,000 after three years. A Limited's cost of capital is 10%. The appropriate discount factor for ₹ 1 @ 10% receivable at the end of

1st year : 0.91
2nd year : 0.83
3rd year : 0.75

The shares and deferred consideration have not yet been recorded by A limited.

Below are the Balance Sheet of A Limited and S Limited as at 31st March, 2019:

	A Limited (₹ 000)	S Limited (₹ 000)
Non-current assets:		
Property, plant & equipment	5,500	1,500
Investment in S Limited at cost	1,000	
Current assets:		
Inventory	550	100
Receivables	400	200
Cash	200	50
	7,650	1,850
Equity:	2,000	500
Share capital	1,400	300
Retained earnings	3,400	800
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

Further information:

i. On the date of acquisition the fair values of S Limited's plant exceeded its book value by ₹ 2,00,000. The plant had a remaining useful life of five years at this date;
ii. The consolidated goodwill has been impaired by ₹ 2,58,000; and
iii. The A Limited Group, values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of the 20% non-controlling interest was ₹ 3,80,000.

You are required to prepare Consolidated Balance Sheet of A Limited as at 31st March, 2019. (Notes to Account on Consolidated Balance Sheet is not required).

Answer

Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd. as at 31st March, 2019

Particulars	₹ in 000s
I. Assets	
(1) Non-current assets	
(i) Property Plant & Equipment (W.N.4)	
(ii) Intangible asset – Goodwill (W.N.3)	7,120.00
(2) Current Assets	1,032.00
(i) Inventories (550 + 100)	
(ii) Financial Assets	650.00
(a) Trade Receivables (400 + 200)	
(b) Cash & Cash equivalents (200 + 50)	600.00
Total Assets	250.00
	9,652.00
II. Equity and Liabilities	
(1) Equity	
(i) Equity Share Capital (2,000 + 200)	2,200.00

(ii) Other Equity	
(a) Retained Earnings (W.N.6)	1190.85
(b) Securities Premium	160.00
(2) Non-Controlling Interest (W.N.5)	347.40
(3) Non-Current Liabilities (3,000 + 400)	3,400.00
(4) Current Liabilities (W.N.8)	2,353.75
Total Equity & Liabilities	**9,652.00**

Notes:

1. Since the question required not to prepare Notes to Account, the column of Note to Accounts had not been drawn.
2. It is assumed that shares were issued during the year 2018-2019 and entries are yet to be made.

Working Notes:

1. Calculation of purchase consideration at the acquisition date i.e. 1st April, 2017

	₹ in 000s
Payment made by A Ltd. to S Ltd.	
Cash	1,000.00
Equity shares (2,00,000 shares x ₹ 1.80)	360.00
Present value of deferred consideration (₹ 5,00,000 x 0.75)	375.00
Total consideration	1,735.00

2. Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 2017

	₹ in 000s
Share capital of S Ltd.	500.00
Reserves of S Ltd.	125.00
Fair value increase on Property, Plant and Equipment	200.00
Net worth on acquisition date	825.00

3. Calculation of Goodwill at the acquisition date i.e. 1st April, 2017 and 31st March, 2019

	₹ in 000s
Purchase consideration (W.N.1)	1,735.00
Non-controlling interest at fair value (as given in the question)	380.00
	2,115.00
Less: Net worth (W.N.2)	(825.00)
Goodwill as on 1st April 2017	1,290.00
Less: Impairment (as given in the question)	258.00
Goodwill as on 31st March 2019	1,032.00

4. Calculation of Property, Plant and Equipment as on 31st March 2019

			₹ in 000s
A Ltd.			5,500.00
S Ltd.		1,500.00	
Add: Net fair value gain not recorded yet	200.00		
Less: Depreciation [(200/5) x 2]	(80.00)	120.00	1,620.00
			7,120.00

5. Calculation of Post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 2019

		₹ in 000s	**₹ in 000s**
		NCI (20%)	**A Ltd. (80%)**
Acquisition date balance		380.00	Nil
Closing balance of Retained Earnings	300.00		

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Less: Pre-acquisition balance	(125.00)		
Post-acquisition gain	175.00		
Less: Additional Depreciation on PPE [(200/5) x 2]	(80.00)	19.00	76.00
Share in post-acquisition gain	95.00	(51.60)	(206.40)
Less: Impairment on goodwill	258.00	347.40	(130.40)

6. Consolidated Retained Earnings as on 31st March 2019

	₹ in 000s
A Ltd.	1,400.00
Add: Share of post-acquisition loss of S Ltd. (W.N.5)	(130.40)
Less: Finance cost on deferred consideration (37.5 + 41.25) (W.N.7)	(78.75)
Retained Earnings as on 31st March 2019	1,190.85

7. Calculation of value of deferred consideration as on 31st March 2019

	₹ in 000s
Value of deferred consideration as on 1st April 2017 (W.N.1)	375.00
Add: Finance cost for the year 2017-2018 (375 x 10%)	37.50
	412.50
Add: Finance cost for the year 2018-2019 (412.50 x 10%)	41.25
Deferred consideration as on 31st March 2019	453.75

8. Calculation of current Liability as on 31st March 2019

	₹ in 000s
A Ltd.	1,250.00
S Ltd.	650.00
Deferred consideration as on 31st March 2019 (W.N.7)	453.75
Current Liability as on 31st March 2019	2,353.75

Q19. Jan 2021 Exam, 5 marks

On 1st April 2019, an entity purchased an office block (building) for ₹ 50,00,000 and paid a non-refundable property transfer tax and direct legal cost of ₹ 2,50,000 and ₹ 50,000 respectively while acquiring the building.

During 2019, the entity redeveloped the building into two-story building. Expenditures on re-development were:

- ₹ 1,00,000 Building plan approval;
- ₹ 10,00,000 construction costs (including ₹ 60,000 refundable purchase taxes); and
- ₹ 40,000 due to abnormal wastage of material and labour.

When the re-development of the building was completed on 1st October 2019, the entity rents out Ground Floor of the building to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products.

The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.

How will the entity account for all the above mentioned expenses in the books of account?

Also, discuss how the above building will be shown in Consolidated financial statement of the entity as a group and in its separate financial statements as per relevant Ind AS.

Answer

In accordance with Ind AS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalised. Therefore, the initial purchase price of the building would be:

Particulars	Amount (₹)
Purchase amount	50,00,000
Non-refundable property tax	2,50,000
Direct legal cost	50,000

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	53,00,000
Expenditures on redevelopment:	
Building plan approval	1,00,000
Construction costs (10,00,000 – 60,000)	9,40,000
Total amount to be capitalised at 1st October 2019	63,40,000

Treatment of abnormal wastage of material and labour:

As per Ind AS 16, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. It will be charged to Profit and Loss in the year it is incurred. Hence, abnormal wastage of ₹ 40,000 will be expensed off in Profit & Loss in the financial year 2019-2020.

Accounting of property- Building

When the property is used as an administrative centre, it is not an investment property, rather it is an 'owner occupied property'. Hence, Ind AS 16 will be applicable.

When the property (land and/or buildings) is held to earn rentals or for capital appreciation (or both), it is an Investment property. Ind AS 40 prescribes the cost model for accounting of such investment property.

Since equal value can be attributed to each floor, Ground Floor of the building will be considered as Investment Property and accounted as per Ind AS 40 and First Floor would be considered as Property, Plant and Equipment and accounted as per Ind AS 16.

Cost of each floor = ₹ 63,40,000 / 2 = ₹ 31,70,000

As on 1st October 2019, the carrying value of building vis-à-vis its classification would be as follows:

(i) In Separate Financial Statements: The Ground Floor of the building will be classified as investment property for ₹ 31,70,000, as it is property held to earn rentals. While First Floor of the building will be classified as item of property, plant and equipment for ₹ 31,70,000.

(ii) In Consolidated Financial Statements: The consolidated financial statements present the parent and its subsidiary as a single entity. The consolidated entity uses the building for the supply of goods. Therefore, the leased-out property to a subsidiary does not qualify as investment property in the consolidated financial

statements. Hence, the whole building will be classified as an item of Property, Plant and Equipment for ₹ 63,40,000.

Q20. Nov 2020 Exam, 8 marks

P Limited and S Limited are in business of manufacturing garments. P Limited holds 30% of equity shares of S Limited for last several years. P Limited obtains control of S Limited when it acquires further 65% stake of S Limited's shares, thereby resulting in a total holding of 95% on 31 December 2019. The acquisition had the following features:

(i) P Limited transfers cash of ₹ 50,00,000 and issues 90,000 shares on 31 December 2019. The market price of P Limited's shares on the date of issue was ₹ 10 per share. The equity shares issued as per this transaction will comprise 5% of the post-acquisition capital of P Limited.

(ii) P Limited agrees to pay additional consideration of ₹ 4,00,000, if the cumulative profits of S Limited exceeds ₹ 40,00,000 over the next two years. At the acquisition date, it is not considered probable that extra consideration will be paid. The fair value of contingent consideration is determined to be ₹ 2,00,000 at the acquisition date.

(iii) P Limited spent acquisition-related costs of ₹ 2,00,000.

(iv) The fair value of the NCI is determined to be ₹ 5,00,000 at the acquisition date based on market price. P Limited decided to measure non-controlling interest at fair value for this transaction.

(v) P Limited has owned 30% of the shares in S Limited for several years. At 31 December 20.19, the investment is included in P Limited's consolidated balance sheet at ₹ 8,00,000. The fair value of previous holdings accounted for using the equity method is arrived at ₹ 18,00,000.

The fair value of S Limited's net identifiable assets at 31 December 2019 is ₹ 45,00,000, determined in accordance with Ind AS 103.

Analyze the transaction and determine the accounting under acquisition method for the business combination by P Limited.

Answer

Identify the acquirer

In this case, P Limited has paid cash consideration to shareholders of S Limited. Further, the shares issued to S Limited pursuant to the acquisition do not transfer control of P Limited to erstwhile shareholders of S Limited. Therefore, P Limited is the acquirer and S Limited is the acquiree.

Determine acquisition date

As the control over the business of S Limited is transferred to P Limited on 31 December 2019, that date is considered as the acquisition date.

Determine the purchase consideration

The purchase consideration in this case will comprise of the following:

Cash consideration	₹ 50,00,000
Equity shares issued (90,000 x 10 i.e., at fair value)	₹ 9,00,000
Contingent consideration (at fair value)	₹ 2,00,000
Fair value of previously held interest	₹ 18,00,000
Total purchase consideration	₹ 79,00,000

Acquisition cost incurred by and on behalf of P Limited for acquisition of S Limited should be recognised in the Statement of Profit and Loss. As such, an amount of ₹ 2,00,000 should be recognised in the Statement of Profit and Loss.

Fair value of identifiable assets and liabilities

The fair value of identifiable net assets (as given in the question) ₹ 45,00,000.

Non-Controlling Interest

The management has decided to recognise NCI at its fair value, which is given in the question as ₹ 5,00,000.

Re-measure previously held interests in case business combination is achieved in stages

In this case, the control has been acquired in stages i.e., before acquisition to control, P Limited exercised significant influence over S Limited. As such, the previously held interest should be measured at fair value and the difference between the fair value and the carrying amount as at the acquisition date should be recognised in the Statement of Profit and Loss. As such, an amount of ₹ 10,00,000 (i.e. 18,00,000 – 8,00,000) will be
recognised in the Statement of Profit and Loss.

Determination of goodwill or gain on bargain purchase

Goodwill should be calculated as follows: **(₹)**

Total consideration	79,00,000
Recognised amount of any non-controlling interest	5,00,000
Less: Fair value of net identifiable assets	(45,00,000)
Goodwill	39,00,000

Q21. Nov 2020 Exam, 6 marks

Entity H holds a 20% equity interest in Entity S (an associate) that in turn has a 100% equity interest in Entity T. Entity S recognised net assets relating to Entity T of ₹ 10,000 in its consolidated financial statements. Entity S sells 20% of its interest in Entity T to a third party (a non-controlling shareholder) for ₹ 3,000 and recognises this transaction as an equity transaction in accordance with the provisions of Ind AS 110, resulting in a credit in Entity S's equity of ₹ 1,000.

The financial statements of Entity H and Entity S are summarised as follows before and after the transaction:

Before			
H's consolidated financial statements			
Assets	**(₹)**	**Liabilities**	**(₹)**
Investment in S	2,000	Equity	2,000
Total	2,000	Total	2,000
S's consolidated financial statements			
Assets	**(₹)**	**Liabilities**	**(₹)**
Assets (from T)	10,000	Equity	10,000
Total	10,000	Total	10,000

The financial statements of S after the transaction are summarised below:

After
S's consolidated financial statements

Assets	(₹)	Liabilities	(₹)	
Assets (from T)	10,000	Equity	10,000	
Cash	3,000	Equity transaction Impact with non- controlling interest	1,000	
				11,000
		Equity attributable to owners		2,000
Total	13,000	Non-controlling interest		13,000
		Total		

Although Entity H did not participate in the transaction, Entity H's share of net assets in Entity S increased as a result of the sale of S's 20% interest in T. Effectively, H's share in S's net assets is now ₹ 2,200 (20% of ₹ 11,000) i.e., ₹ 200 in addition to its previous share.

How this equity transaction that is recognised in the financial statements of Entity S reflected in the consolidated financial statements of Entity H that uses the equity method to account for its investment in Entity S?

Answer

Ind AS 28 defines the equity method as "a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income."

Ind AS 28, states, inter alia, that when an associate or joint venture has subsidiaries,associates or joint ventures, the profit or loss, other comprehensive income, and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies.

The change of interest in the net assets / equity of the associate as a result of the investee's equity transaction is reflected in the investor's financial statements as 'share of other changes in equity of investee' (in the statement of changes in equity) instead of gain in

Statement of profit and loss, since it reflects the post-acquisition change in the net assets of the investee as per the provisions of Ind AS 28 and also faithfully reflects the investor's share of the associate's transaction as presented in the associate's consolidated financial statements.

Thus, in the given case, Entity H recognises ₹ 200 as change in other equity instead of in statement of profit and loss and maintains the same classification as of its associate, Entity S, i.e., a direct credit to equity as in its consolidated financial statements.

Q22. Nov 2019 Exam, 16 marks

The Balance Sheet of David Ltd. and Parker Ltd. as of 31st March, 2019 is given below:

(₹ in lakh)

	David Ltd.	Parker Ltd.
Assets		
Non-current assets:		
Property, plant and equipment	400	600
Investment	300	200
Current assets:		
Inventories	300	100
Financial assets		
Trade receivables	400	200
Cash and cash equivalents	150	200
Others	300	300
Total	1,850	1,600
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 100 each for Parker Ltd.	500	400
& ₹ 10 each for David Limited	700	275

Other Equity		
Non-current liabilities:	200	300
Long term borrowings	100	80
Long term provisions	20	55
Deferred tax		
Current liabilities:	130	70
Short term borrowings	200	320
Trade payables	1,850	1,600
Total		

Other Information :

i. David Ltd. acquired 70% shares of Parker Ltd. on 1st April, 2019·by issuing its own shares in the ratio of 1 share of David Ltd. for every 2 shares of Parker Ltd. The fair value of the shares of David Ltd. was ₹ 50 per share.

ii. The fair value exercise resulted in the following :

1. Fair value of property, plant and equipment (PPE) on 1st April, 2019 was ₹ 450 lakh.
2. David Ltd. agreed to pay an additional payment as consideration that is higher of ₹ 30 lakh and 25% of any excess profits in the first year after acquisition, over its profits in the preceding 12 months made by Parker Ltd. This additional amount will be due after 3 years. Parker Ltd. has earned ₹ 20 lakh profit in the preceding year and expects to earn another ₹ 10 lakh.
3. In addition to above, David Ltd. also has agreed to pay one of the founder shareholder-Director a payment of ₹ 25 lakh provided he stays with the Company for two years after the acquisition.
4. Parker Ltd. had certain equity settled share-based payment award (original award) which got replaced by the new awards issued by David Ltd. As per the original term, the vesting period was 4 years and as of the acquisition date the employees of Parker Ltd. have already served 2 years of service. As per the replaced awards, the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:
   Original award - ₹ 6 lakh
   Replacement award - ₹ 9 lakh
5. Parker Ltd. had a lawsuit pending with a customer who had made a claim of₹ 35 lakh. Management reliably estimated the fair value of the liability to be ₹ 10 lakh.
6. The applicable tax rate for both entities is 40%.

You are required to prepare opening consolidated balance sheet of David Ltd. as on 1st April, 2019 along with workings. Assume discount rate of 8%.

Answer

Consolidated Balance Sheet of David Ltd as on 1stApril, 2019

(₹ in lakh)

	Amount
Assets	
Non-current assets:	
Property, plant and equipment	850.00
Investment	500.00
Current assets:	
Inventories	400.00
Financial assets:	
Trade receivables	600.00
Cash and cash equivalents	350.00
Others	600.00
Total	3,300.00
Equity and Liabilities	
Equity	
Share capital - Equity shares of ₹ 100 each	514.00
Other Equity	1,067.49
Non Controlling Interest	173.70
Non-current liabilities:	

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Financial liabilities:	
Long term borrowings	500.00
Long term provisions (100+80+23.81)	203.81
Deferred tax	11.00
Current liabilities:	
Financial liabilities:	
Short term borrowings	300.00
Trade payables	520.00
Provision for law suit damages	10.00
Total	3,300.00

Working Notes:

a. Fair value adjustment- As per Ind AS 103, the acquirer is required to record the assets and liabilities at their respective fair value. Accordingly, the PPE will be recorded at ₹ 450 lakh.

b. The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, ₹ 3 lakh (6 x 2/4) is considered as a part of purchase consideration and is credited to David Ltd equity as this will be settled in its own equity. The balance of ₹ 3 lakh will be recorded as employee expense in the books of Parker Ltd over the remaining life, which is 1 year in this scenario.

c. There is a difference between contingent consideration and deferred consideration. In the given case, ₹ 30 lakh is the minimum payment to be paid after 3 years and accordingly will be considered as deferred consideration. The other element is if company meet certain target then they will get 25% of that or ₹ 30 lakh whichever is higher. In the given case, since the criteria is the minimum what is expected to be paid, the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 8%.

d. The additional consideration of ₹ 25 lakh to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the income statement of Parker Ltd.

Working Notes:

1. Computation of Purchase Consideration **₹ in lakh**

Particulars		**Amount**
Share capital of Parker Ltd.		400
Number of shares	4,00,000	
Shares to be issued 2:1	2,00,000	
Fair value per share		50
Purchase consideration (2,00,000x70%x₹ 50 per share) (A)		70.00
Deferred consideration after discounting ₹ 30 lakh for 3 years @ 8% (B)		23.81
Replacement award - Market based measure of the acquiree award i.e Fair value of original award (6) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (4) of the acquiree award ie (6 x 2 / 4) (C)		3.00
Purchase consideration (A+B+C)		96.81

3. Allocation of Purchase consideration

Particulars	**Book value (A)**	**Fair value (B)**	**FV adjustment (A-B)**
Property, plant and equipment	600	450	(150)
Investment	200	200	-
Inventories	100	100	-
Financial assets: -			
Trade receivables	200	200	-
Cash and cash equivalents	200	200	-
Others	300	300	

Less: Financial Liabilities			
Long term borrowings	(300)	(300)	-
Long term provisions	(80)	(80)	-
Deferred tax	(55)	(55)	-
Financial Liabilities			
Short term borrowings	(170)	(170)	-
Trade payables	(320)	(320)	-
Contingent liability	-	(10)	(10)
Net assets (X)	675	515	(160)
Deferred tax asset on fair value adjustment	-	64	160
(160 x 40%) (Y)		579	
Net assets (X+Y)		173.70	
Non-controlling interest (NCI)			
(579 x 30%) rounded off		308.49	
Capital reserve (Net assets – NCI – PC)		96.81	
Purchase consideration (PC)			

3. Computation of Consolidated amounts of consolidated financial statements

	David Ltd.	Parker Ltd. (pre-acquisition)	PPA Allocation	Total
Assets				
Non-current assets:				
Property, plant and equipment	400	600	(150)	850
Investment	300	200		500
Current assets:				
Inventories	300	100		400
Financial assets:				
Trade receivables	400	200		600
Cash and cash equivalents	150	200		350
Others	300	300		600
Total	1,850	1,600	(150)	3300
Equity and Liabilities				
Equity				
Share capital- Equity shares of ₹ 100 each	500			
		14		
Shares allotted to Parker Ltd. (2,00,000 x 70% x ₹ 10 per share)				514
Other Equity	700			700
Other Equity			3	3
Replacement award				
Security premium			56	56
(2,00,000 shares x 70% x ₹ 40)			308.49	308.49
Capital reserve	0		173.70	173.70
Non-controlling interest				
Non-current liabilities:				
Financial Liabilities	200	300		500
Long term borrowings	100	80	23.81	203.81
Long term provisions	20	55	(64)	11
Deferred tax				
Current liabilities:				
Financial Liabilities	130	170		300
Short term borrowings	200	320	0	520
Trade payable			10	10
Liability for lawsuit damages	1,850	925	525	3,300

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Total				

Q23. Nov 2019 Exam, 4 marks

Parent A holds 100% in its subsidiary B. Parent A had acquired B, 10 years back and had decided to account for the acquisition under the purchase method using fair values of the subsidiary B in its consolidated financial statements.

During the current year, A decides to merge B with itself.

For the purpose of this proposed merger, what values of B should be used for accounting under the Ind AS?

Answer

The acquisition of B Ltd. by A Ltd. is business combination under common control. In such a situation, pooling of interest method should be applied. However, B Ltd. is 100% subsidiary of A Ltd. and A Ltd. in its Consolidated financial statements use to give the carrying values of assets and liabilities of B Ltd. at fair value (as per acquisition under purchase method). Hence the carrying value for the purpose of pooling of interest method will be the values given in Consolidated financial statements and not in Separate financial statements.

In other words, since B Ltd. is merging with A Ltd. (i.e. parent) nothing has changed and the transaction only means that the assets, liabilities and reserves of B Ltd. which were appearing in the consolidated financial statements of Group A immediately before the merger would now be a part of the separate financial statements of A Ltd. Accordingly, it would be appropriate to recognise the carrying value of the assets, liabilities and reserves pertaining to B Ltd as appearing in the consolidated financial statements of A Ltd.

Q24. May 2019 Exam, 15 marks

Summarised Balance Sheets of PN Ltd. and SR Ltd. as on 31st March, 2018 were given as below:

(Amount in ₹)

Particulars	**PN Ltd.**	**SR Ltd.**
Assets		
Land & building	4,68,000	5,61,600
Plant & Machinery	7,48,800	4,21,200
Investment in SR Ltd.	12,48,000	-
Inventories	3,74,400	1,13,600
Trade Receivables	1,86,500	1,24,800
Cash & Cash equivalents	45,200	24,900
Total Assets	**30,70,900**	**12,46,100**
Equity & Liabilities		
Equity Share Capital (Shares of ₹ 100 each fully paid)	15,60,000	6,24,000
	9,36,000	3,12,000
Other Reserves	1,78,400	2,55,800
Retained Earnings	1,46,900	34,300
Trade Payables	2,49,600	20,000
Short-term borrowings	30,70,900	12,46,100
Total Equity & Liabilities		

i. PN Ltd. acquired 70% equity shares of ₹ 100 each of SR Ltd. on 1st October, 2017.

ii. The Retained Earnings of SR Ltd. showed a credit balance of ₹ 93,600 on 1st April, 2017 out of which a dividend of 12% was paid on 15th December, 2017.

iii. PN Ltd. has credited the dividend received to its Retained Earnings.(iv) Fair value of Plant & Machinery of SR Ltd. as on 1st October, 2017 was ₹ 6,24,000.

iv. The rate of depreciation on Plant & Machinery was 10% p.a.

v. Following are the increases on comparison of Fair Value as per respective Ind AS with book value as on 1st October, 2017 of SR Ltd. which are to be considered while consolidating the Balance Sheets:

   a. Land & Buildings ₹ 3,12,000
   b. Inventories ₹ 46,800
   c. Trade Payables ₹ 31,200.

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vi. The inventory is still unsold on Balance Sheet date and the Trade Payables are not yet settled.
vii. Other Reserves as on 31st March, 2018 are the same as was on 1st April, 2017.
viii. The business activities of both the company are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

Prepare the Consolidated Balance Sheet as on 31st March, 2018 of the group of entities PN Ltd. and SR Ltd. as per Ind AS.

Answer

Consolidated Balance Sheet of PN Ltd. and its subsidiary SR Ltd. as on 31st March, 2018

Particulars	Note No.	₹
I. Assets		
(1) Non-current assets		
(i) Property, Plant & Equipment	1	26,83,200
(ii) Goodwill	2	89,402
(2) Current Assets		
(i) Inventories	3	5,34,800
(ii) Financial Assets		
(a) Trade Receivables	4	3,11,300
(b) Cash & Cash equivalents	5	70,100
Total Assets		36,88,802
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital	6	15,60,000
(ii) Other Equity	7	11,39,502
(2) Non-controlling Interest (W.N.3)		5,07,300
(3) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	8	2,12,400
(b) Short term borrowings	9	2,69,600
Total Equity & Liabilities		36,88,802

Notes to accounts

			₹
1.	**Property, Plant & Equipment**		
	Land & Building (4,68,000 + 5,61,600 + 3,12,000)	13,41,600	
	Plant & Machinery (W.N.5)	13,41,600	26,83,200
2.	**Goodwill**		89,402
3.	**Inventories**		
	PN Ltd.	3,74,400	
	SR Ltd. (1,13,600 +46,800)	1,60,400	5,34,800
4.	**Trade Receivables**		
	PN Ltd.	1,86,500	
	SR Ltd.	1,24,800	3,11,300
5.	**Cash & Cash equivalents**		
	PN Ltd.	45,200	
	SR Ltd.	24,900	70,100
8.	**Trade Payables**		
	PN Ltd.	1,46,900	
	SR Ltd. (34,300 + 31,200)	65,500	2,12,400
9.	**Short-term borrowings**		
	PN Ltd.	2,49,600	
	SR Ltd.	20,000	2,69,600

Statement of Changes in Equity:

6. Equity share Capital

Balance at the beginning of the reporting period ₹	Changes in Equity share capital during the year ₹	Balance at the end of the reporting period ₹

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15,60,000	0	15,60,000

7. Other Equity

	Share application money	Equity component	Reserves & Surplus			Total ₹
			Capital reserve ₹	Retained Earnings ₹	Other Reserves ₹	
Balance at the beginning of the reporting period				0	9,36,000	9,36,000
Total comprehensive income for the year			0	1,78,400		1,78,400
Dividends			0	(52,416)		(52,416)
Total comprehensive income attributable to parent			0	77,518		77,518
Gain on Bargain purchase				0		0
Balance at the end of reporting period				2,03,502	9,36,000	11,39,502

Working Notes:

1. Adjustments of Fair Value

The Plant & Machinery of SR Ltd. would stand in the books at ₹ 4,44,600 on 1st October, 2017, considering only six months' depreciation on ₹ $(\frac{4,21,200}{90\%})$= 4,68,000; total depreciation being ₹4,68,000 ×10% ×$\frac{6}{12}$ = 23,400.

The value put on the assets being ₹ 6,24,000 there is an appreciation to the extent of ₹ 1,79,400.

Acquisition date profits of SR Ltd.	**₹**
Reserves on 1.4.2017	3,12,000
Profit& Loss Account Balance on 1.4.2017	93,600
Profit for 2017-2018: Total [₹ 2,55,800-(93,600-74,880)]x 6/12 i.e. ₹ 1,18,540 upto 1.10.2017	1,18,540
Total Appreciation	5,07,000*
Total	10,31,140
Holding Co. Share (70%)	7,21,798

*Appreciation = Land & Building ₹ 3,12,000 + Inventories ₹ 46,800 + Plant & Machinery ₹ 1,79,400 – Trade Payables ₹ 31,200 = ₹ 5,07,000

2. Post-acquisition profits of SR Ltd.	**₹**
Profit after 1.10.2017 [2,55,800 - (93,600-74,880)] x 6/12	1,18,540
Less: 10% depreciation on ₹ 6,24,000 for 6 months less depreciation already charged for 2nd half of 2017-2018 on ₹ 4,68,800 (ie 31,200 - 23,400)	(7,800)
	1,10,740

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Total	77,518
Share of holding Co. (70%)	33,222
Share of NCI (30%)	

3. Non-controlling Interest ₹

Par value of 1872 shares	1,87,200
Add: 30% Acquisition date profits [(10,31,140 – 74,880) x 30%]	2,86,878
30% Post-acquisition profits [W.N.2]	33,222
	5,07,300

4. Goodwill ₹

Amount paid for 4,368 shares		12,48,000
Less : Par value of shares	4,36,800	
Acquisition date profits-share of PN Ltd.	7,21,798	(11,58,598)
Goodwill		89,402

5. Value of Plant & Machinery: ₹

PN Ltd.		7,48,800
SR Ltd.	4,21,200	
Add: Appreciation on 1.10.2017	1,79,400	
	6,00,600	
Add: Depreciation for 2nd half charged on pre-revalued value	23,400	
	(31,200)	
Less: Depreciation on ₹ 6,24,000 for 6 months		5,92,800
		13,41,600

6. Consolidated Profit & Loss account ₹

PN Ltd. (as given)	1,78,400	
Less: Dividend	(52,416)	1,25,984
Share of PN Ltd. in post-acquisition profits(W.N.2)		77,518
		2,03,502

Note: Alternatively, the solution can be done on Net Assets approach on the date of acquisition. In such a situation, answer in substance will be same. However, presentation of working notes will be as below:

1. Net assets of SR Ltd. on the date of acquisition ₹

Share Capital	6,24,000
Reserves on 1.4.2017	3,12,000
Profit & Loss Account Balance on 1.4.2017	93,600
Profit for 2017-2018: Total [₹ 2,55,800-(93,600-74,880)] x 6/12 i.e.	1,18,540
₹ 1,18,540 upto 1.10.2017	5,07,000*
Total Appreciation	16,55,140
Total	11,58,598
Holding Co. Share (70%)	4,96,542
Non-controlling Interest (30)	

*Appreciation = Land and Building ₹ 3,12,000 + Inventories ₹ 46,800+ Plant & Machinery ₹ 1,79,400 – Trade Payables ₹ 31,200 = ₹ 5,07,000

3. Non-controlling Interest ₹

30% Share in net assets of SR Ltd on 1st October, 2017	4,96,542
30% Post-acquisition profits [WN 2]	33,222
	(22,464)

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Less: Dividend received (30% x 12% x 6,24,000)	5,07,300

4. Goodwill

	₹
Amount paid for 4,368 shares	12,48,000
Acquisition date profits share of PN Ltd.	(11,58,598)
Goodwill	89,402

Q25. May 2019 Exam, 12 marks

Shiv Ltd. purchased 70% stake in Shyam Ltd. for ₹ 21,22,400 on 01.04.2016. On the date of the acquisition, Shyam Ltd.'s assets & liabilities were ₹ 54,88,000 and ₹ 4,48,000 respectively. The net assets position of Shyam Ltd. as on 31.03.2017 and 30.09.2017 were ₹ 78,40,000 and ₹ 1,10,60,000 respectively, the increase resulting from profits earned during the period. On 01.10.2017, Shiv Ltd. retained 30% stake in Shyam Ltd. and sold balance for ₹ 50,00,000.

Discuss the nature of the relationship between the two companies on the relevant dates and the accounting adjustments that are necessary as a result of any change in the relationship as per relevant Accounting Standard.

Also, calculate the profit arising on part sale of investment, carrying value of the portion unsold & Goodwill/Capital Reserve that arises on change in nature of the investment.

Answer

Shyam Ltd. became a subsidiary of Shiv Ltd. on 1st April, 2016 when 70% thereof was acquired. The holding–subsidiary relationship continued till 30th September, 2017 and from 1st October, 2017 the relationship between the two companies will change to Associate.

As per para 24 of AS 21, "Consolidated Financial Statements", the carrying value of the investment at the date it ceases to be subsidiary is regarded as cost thereafter. Accordingly, if the nature of the investee changes to that of an associate, the carrying amount of the investment in Consolidated Financial Statements of the investor, as on date it ceases to be a subsidiary, would be considered as cost of investment in the associate. Goodwill or capital reserve arising on account of the change in the nature of the investment will be computed as on the date of such change.

Accordingly, when a part of the investment takes the form of an investment in an associate, the results of operations of the subsidiary will be included in the consolidated statement of Profit and Loss for the period from the beginning of the period until it ceased to be a subsidiary.

Ascertainment of Gain or Loss
on disposal of part of the investment in Shyam Ltd.

		₹
Proceeds received on sale of 40% holdings in Shyam Ltd.		50,00,000
Net Assets of Shyam Ltd. on the date of disposal	1,10,60,000	
Less: Minority's interest in Shyam Ltd. on the date of disposal	(33,18,000)	
Share of Shiv Ltd. in Net Assets	77,42,000	
Less: Capital reserve on acquisition (Refer W.N.)	(14,05,600)	
Total value of investment in consolidated financial statements of Shiv Ltd.	63,36,400	
Less: Carrying Value of investment disposed off		36,20,800
[(63,36,400 / 70%) x 40%]		13,79,200
Profit on sale of 40% investment		

Carrying value of the investment retained in the Consolidated Financial Statements

		₹
Total value of investment in consolidated financial statements of Shiv Ltd.	63,36,400	
Less: Carrying value of investment disposed off	(36,20,800)	
Carrying Value of the investment retained in consolidated financial statements including capital reserve		27,15,600
This amount of ₹ 27,15,600 would be used to apply the equity method of accounting as specified in AS 23		

Capital reserve arising on the carrying value of unsold portion of the investment

	₹
Carrying value of 30% holdings in Shyam Ltd. as on 1st October, 2017	27,15,600
Less: Share in value of equity of Shyam Ltd., as at date of investment when subsidiary relationship is transformed to an associate (1,10,60,000 x 30%)	(33,18,000)
Capital reserve arising on such investment under Equity method as per AS 23	(6,02,400)

Working Note:

Calculation of Goodwill / Capital Reserve on the Date of Acquisition of Shares in Shyam Ltd.

	₹
Net Assets on Acquisition date (₹ 54,88,000 – ₹ 4,48,000)	50,40,000
70% thereof	35,28,000
Less: Cost of investment	(21,22,400)
Capital reserve on acquisition	14,05,600

Q26. Nov 2018 Exam, 16 marks

Prepare the Consolidated Balance Sheet as on 31st March, 2018 of a group of companies comprising Usha Limited, Nisha Limited and Sandhya Limited. Their summarized balance sheets on that date are given below:

Amounts ₹ in lakh

	Usha Ltd.	Nisha Ltd.	Sandhya Ltd.
Equity and Liabilities			
Shareholder's Equity			
Share capital (₹ 10 per share)	300	200	160
Reserves	90	50	40
Retained earnings	80	25	30
Current Liabilities			
Trade Payables	235	115	90
Bills Payable			
Usha Ltd.	--	35	--
Sandhya Ltd.	15	--	--
	720	425	320
Assets			
Non-Current Assets			
Tangible assets	160	180	150
Investment:			
16 lakh shares in Nisha Ltd.	170	--	--
12 lakh shares in Sandhya Ltd.	--	140	--
Current Assets			
Cash in hand and at Bank	114	20	20
Bills Receivable	36	--	15
Trade Receivables	130	50	110
Inventories	110	35	25
	720	425	320

The following additional information is available:

(i) Usha Ltd. holds 80% shares in Nisha Ltd. and Nisha Ltd. holds 75% shares in Sandhya Ltd. Their holdings were acquired on 30th September, 2017.

(ii) The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

(iii) On 1st April, 2017, the following balances stood in the books of Nisha Limited and Sandhya Limited.

₹ in lakh

	Nisha Limited	Sandhya Limited
Reserves	40	30
Retained earnings	10	15

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(iv) ₹ 5 Lakh included in the inventory figure of Nisha limited, is inventory which has been purchased from Sandhya Limited at cost plus 25%.
(v) The parent company has adopted an accounting policy to measure Non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of Nisha Limited and Sandhya Limited are the same as respective face values.
(vi) The capital profit preferably is to be adjusted against cost of control.
Note: Analysis of profits and notes to accounts must be a part of your answer.
Answer

Consolidated Balance Sheet of the Group as on 31st March, 2018

Particulars	**Note No**	**. (₹ in lakh)**
ASSETS		
Non-current assets		
Property, plant and equipment	1	490
Current assets		
(a) Inventories	2	169
(b) Financial assets		
Trade receivables	3	290
Bills receivable	4	1
(c) Cash and cash equivalents	5	154
Total assets		1,104
EQUITY & LIABILITIES		
Equity attributable to owners of the parent		
Share capital		300
Other Equity		
Reserves (W.N.5)		97
Retained Earnings (W.N.5)		89.9
Capital Reserve (W.N.3)		94
Non-controlling interests (W.N.4)		83.10
Total equity		664
LIABILITIES		
Non-current liabilities Nil		Nil
Current liabilities		
(a) Financial Liabilities		
(i) Trade payables	6	440
Total liabilities		440
Total equity and liabilities		1,104

Notes to Accounts **(₹ in lakhs)**

1.	**Property Plant & Equipment**		
	Parent	160	
	Nisha Ltd.	180	
	Sandhya Ltd.	150	490
2.	**Inventories**		
	Parent	110	
	Nisha Ltd. (35-1)	34	
	Sandhya Ltd.	25	169
3.	**Trade Receivables**		
	Parent	130	
	Nisha Ltd.	50	
	Sandhya Ltd.	110	290
4.	**Bills Receivable**		
	Parent (36-35)	1	
	Sandhya Ltd. (15-15)	-	1
5.	**Cash & Cash equivalents**		
	Parent	110	
	Nisha Ltd.	20	

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	Sandhya Ltd.	20	154
6.	**Trade Payables**		
	Parent	235	
	Nisha Ltd.	115	
	Sandhya Ltd.	90	440

Working notes

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

		Nisha Ltd		Sandhya Ltd.
.Reserves as on 31.3.2017		40		30
Increase during the year 2017-2018	10		10	
Increase for the half year till 30.9.2017		5		5
Balance as on 30.9.2017 (A)		45		35
Total balance as on 31.3.2018		50		40
Post-acquisition balance		5		5

		Nisha Ltd		Sandhya Ltd.
.Reserves as on 31.3.2017		10		15
Increase during the year 2017-2018	15		15	
Increase for the half year till 30.9.2017		7.5		7.5
Balance as on 30.9.2017 (B)		17.5		22.5
Total balance as on 31.3.2018		25		30
Post-acquisition balance		7.5		7.5
Less: Un Realised gain on inventories (5 x 25%)		- 7.5		(1) 6.5
Post-acquisition balance for CFS				
Total balance on the acquisition date ie.30.9.2017 (A+B)		62.5		57.5

2. Calculation of Effective Interest of Parent company ie. Usha Ltd. in Sandhya Ltd.

Acquisition by Usha Ltd. in Nisha Ltd. = 80%
Acquisition by Nisha Ltd. in Sandhya Ltd. = 75%
Acquisition by Group in Sandhya Ltd. (80% x 75%) = 60%
Non-controlling Interest = 40%

3.Calculation of Goodwill / Capital Reserve on the acquisition date

	Nisha Ltd.	Sandhya Ltd.
Investment or consideration	170	(140 × 80%)112
Add: NCI at Fair value		
(200 x 20%) 40	40	
(160 x 40%) 64		64
	210	176
Less: Identifiable net assets (Share capital + Increase in the Reserves and Surplus till acquisition date)	(200+62.5)(262.5)	(160+57.5)(217.5)
Capital Reserve	52.5	41.5
Total Capital Reserve (52.5 + 41.5)		94

4. Calculation of Non Controlling Interest

	Nisha Ltd.	Sandhya Ltd.
At Fair Value (See Note 3) 40 64	40	64
Add: Post Acquisition Reserves (See Note 1)	(5× 20%) 1	(5 × 40%) 2
Add: Post Acquisition Retained Earnings (See Note 1)	(7.5 × 20%) 1.5 (140x20%) (28)*	(6.5 × 40%) 2.6

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Less: NCI share of investment in Sandhya Ltd.*	14.5	68.6
Total (14.5 + 68.6)		83.1

*Note:The Non-controlling interest in Nisha Ltd. will take its proportion in Sandhya Ltd. So they have to bear their proportion in the investment made by Nisha Ltd. (as a whole) in Sandhya Ltd.

5. Calculation of Consolidated Other Equity

	Reserves	Retained Earnings
Usha Ltd. 90 80	90	80
Add: Share in Nisha Ltd. 4	(5 x 80%) 4	(7.5 × 80%) 6
Add: Share in Sandhya Ltd.	(5 ×60%) 3	(6.5 ×60%) 3.9
	97	89.9

Note: In the above solution, it is assumed date the sale of goods by Sandhya Ltd. is done after acquisition of shares by Nisha Ltd. Alternatively, one may assume that the sale has either been done before acquisition of shares by Nisha Ltd. in Sandhya Ltd. or sale has been throughout the year. Accordingly, there treatment for unrealized gain may vary.

Q27. May 2018 Exam, 15 marks

Hold Limited acquired 100% ordinary shares of ₹ 100 each of Sub Limited on 1st October, 2017. On 31st March, 2018 the summarized Balance Sheets of the two companies were as given below:

Particulars	Hold Limited (₹)	Sub Limited (₹)
I. Assets		
(1) Non-current Assets		
(i) Property, Plant & Equipment		
(a) Land & Building	30,00,000	36,00,000
(b) Plant & machinery	48,00,000	27,00,000
(ii) Investment in Sub Limited	68,00,000	
(2) Current Assets		
(i) Inventory	24,00,000	7,28,000
(ii) Financial Assets		
(a) Trade Receivables	11,96,000	8,00,000
(b) Cash & Cash Equivalents	2,90,000	1,60,000
Total	1,84,86,000	79,88,000
II Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital (Shares of ₹ 100 each fully paid)	1,00,00,000	40,00,000
(ii) Other Equity		
(a) Other Reserves	48,00,000	20,00,000
(b) Retained Earnings	11,44,000	16,40,000
(2) Current Liabilities		
Financial Liabilities		
(a) Bank Overdraft	16,00,000	-
(b) Trade Payable	9,42,000	3,48,000
Total	**1,84,86,000**	**79,88,000**

The retained earnings of Sub Limited showed a credit balance of ₹ 6,00,000 on 1st April, 2017 out of which a dividend of 10% was paid on 1st November 2017. Hold Limited has credited the dividend received to retained earnings account. There was no fresh addition to other reserves in case of both companies during the current financial year. There was no opening balance in the retained earnings in the books of Hold

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Limited.

Following are the changes in fair value as per respective Ind AS from the book value as on 1st October, 2017 in the books of Sub Limited which is to be considered while consolidating the Balance Sheets.

i. Fair value of Plant and Machinery was ₹ 40,00,000. (Rate of depreciation on Plant and Machinery is 10% p.a.)
ii. Land and Building appreciated by ₹ 20,00,000.
iii. Inventories increased by ₹ 3,00,000.
iv. Trade payable increased by ₹ 2,00,000.

Prepare Consolidated Balance Sheet as on 31st March, 2018. The Balance Sheet should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013.

Answer

Consolidated Balance Sheet of Hold Ltd. and its subsidiary, Sub Ltd.as on 31st March, 2018

Particulars	**Note No.**	**₹**
I. Assets		
(1) Non-current assets	1	1,72,00,000
Property, Plant & Equipment		
(2) Current Assets		
Inventories	2	34,28,000
Financial Assets		
Trade Receivables	3	19,96,000
Cash & Cash equivalents	4	4,50,000
Total Assets		2,30,74,000
II. Equity and Liabilities		
(1) Equity		
Equity Share Capital	5	1,00,00,000
Other Equity	6	99,84,000
(2) Current Liabilities		
Financial Liabilities		
Short term borrowings	7	16,00,000
Trade Payables	8	14,90,000
Total Equity & Liabilities		2,30,74,000

It may be noted that the consolidation adjustments in respect of tax effect, in particular, deferred tax effect of temporary differences associated with fair value adjustments, determined in accordance with Ind AS 12 'Income Taxes', will affect the above consolidated balance sheet.

Notes to accounts

			₹
1.	**Property Plant & Equipment**		
	Land & Building	86,00,000	
	Plant & Machinery	86,00,000	1,72,00,000
2.	**Inventories**	24,00,000	
	Hold Ltd.	10,28,000	34,28,000
	Sub Ltd.		
3.	**Trade Receivables**		
	Hold Ltd.	11,96,000	
	Sub Ltd.	8,00,000	19,96,000
4.	**Cash & Cash equivalents**		
	Hold Ltd.	2,90,000	
	Sub Ltd.	1,60,000	4,50,000
7.	**Short-term borrowings**		16,00,000
	Bank overdraft of Hold Ltd.		

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8.	**Trade Payables** Hold Ltd. Sub Ltd.	 9,42,000 5,48,000	 14,90,000

Statement of changes in Equity:

5. Equity share Capital

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
1,00,00,000	0	1,00,00,000

6. Other Equity

	Reserves & Surplus			Total
	Capital Reserve	Other reserves	Retained Earnings	
Balance at the beginning		48,00,000		48,00,000
Profit or loss for the year (W.N.4)		0	14,14,000	14,44,000
Other comprehensive income for the year		0	0	0
Total comprehensive income for the year		0	14,14,000	14,14,000
Dividends		0	0	0
Gain on Bargain purchase on acquisition of a subsidiary* (W.N.5)	37,70,000			37,70,000
Balance at the end of reporting period	**37,70,000**	**48,00,000**	**14,14,000**	**99,84,000**

* It is assumed that there exists no clear evidence for classifying the acquisition of the subsidiary as a bargain purchase and, hence, the bargain purchase gain has been recognised directly in capital reserve. If, however, there exists such a clear evidence, the bargain purchase gain would be recognised in other comprehensive
income and then accumulated in capital reserve. In both the cases, closing balance of capital reserve will be ₹ 37,70,000.

Working Notes:

1. Adjustments of Fair Value- Total Appreciation

	₹
Plant & Machinery (W.N.7)	11,50,000
Land and Building	20,00,000
Inventories	3,00,000
Less: Trade Payables	(2,00,000)
	32,50,000

2. Pre-acquisition reserves of Sub Ltd.

	₹	₹
Other Reserves on 1.4.2017		20,00,000
Retained earnings Balance on 1.4.2017		6,00,000
Retained earnings balance as on 31.3.2018	16,40,000	
Less: Retained earnings balance as on 1.4.2017	(6,00,000)	
Add back: Dividend	4,00,000	
Profit for the year 2017-2018	14,40,000	

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Profit for 6 months (14,40,000 x 6/12)		7,20,000
Share of Hold Ltd.		33,20,000

There will be no Non-controlling Interest as 100% shares of Sub Ltd. are held by Hold Ltd.

3. Post-acquisition profits of Sub Ltd. ₹

Profit for 6 months from 1.10.2017 to 31.3.2018 (14,40,000 x 6/12)	7,20,000
Less: Additional depreciation on account of revaluation of Plant and Machinery for 6 months [(40,00,000 x 10% x 6/12) – (30,00,000 x 10% x 6/12)]	(50,000)
Adjusted post-acquisition profit attributable to Hold Ltd.	6,70,000

4. Consolidated profit or loss for the year ₹

Hold Ltd.	
Retained earnings on 31.3.2018	11,44,000
Less: Retained earnings as on 1.4.2017	(0)
Profits for the year 2017-2018	11,44,000
Less: Elimination of intra-group dividend	(4,00,000)
Adjusted profit for the year	7,44,000
Sub Ltd.	
Adjusted profit attributable to Hold Ltd. (W.N.3)	6,70,000
Consolidated profit or loss for the year	14,14,000

5. Goodwill/Gain on bargain purchase ₹

Amount paid for 40,000 shares of Sub Ltd.		68,00,000
Less: Share of Hold Ltd. in pre-acquisition equity of Sub Ltd.	40,00,000	
Share capital	33,20,000	
Pre-acquisition reserves of Sub Ltd. (W.N.2)	32,50,000	(1,05,70,000)
Fair value adjustments (W.N.1)		37,70,000
Gain on Bargain Purchase		

6. Value of Plant & Machinery ₹

Hold Ltd.		48,00,000
Sub Ltd. Book value as on 31.3.2018 27,00,000		
Book value as on 1.4.2017 (27,00,000/90%)	30,00,000	
Less: Depreciation @ 10% for 6 months	(1,50,000)	
	28,50,000	
Add: Appreciation on 1.10.2017 (Balancing fig. i.e., 40,00,000 – 28,50,000)	11,50,000	
Revalued amount (given)	40,00,000	
Less: Depreciation on ₹ 40,00,000 @ 10% for 6 months	(2,00,000)	
		38,00,000
		86,00,000

7. Consolidated retained earnings

	Hold Ltd.	Sub Ltd.	Total
As given	11,44,000	16,40,000	27,84,000
Consolidation Adjustments:			
(i) Elimination of pre-acquisition element [6,00,000 + 7,20,000]	0	(13,20,000)	(13,20,000)
(ii) Elimination of intra-group dividend	(4,00,000)	4,00,000	0
(iii) Impact of fair value adjustments	0	(50,000)	(50,000)

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Adjusted retained earnings consolidated	7,44,000	6,70,000	14,14,000

Note: The above solution has been drawn by making following assumptions, at required places:

i. Hold Ltd. measures the investment in Sub Ltd. at cost (less impairment, if any) in its separate financial statements as permitted in Ind AS 27, Separate Financial Statements.
ii. Increase in land and buildings represents only land element.
iii. Depreciation on plant and machinery is on WDV method.
iv. Fair value adjusted trade payables continue to exist on 31.3.2018.
v. Inventories are valued at cost, being lower than NRV and that application of cost formula for the purposes of consolidated financial statements results in entire fair value adjustment to be included in the carrying amount of inventories of Sub Ltd. on 31.3.2018.

Q28. May 2018 Exam, 10 marks

XYZ Limited acquired 70% of equity shares of TUV Limited on 1st April, 2010 at cost of ₹ 20,00,000 when TUV Limited had an equity share capital of ₹ 20,00,000 and reserve and surplus of ₹ 1,60,000. In the four consecutive years, TUV Limited, fared badly and suffered losses of ₹ 5,00,000, ₹ 8,00,000, ₹ 10,00,000 and ₹ 2,40,000 respectively.

Thereafter in 2014-15, TUV Limited, experienced turnaround and registered an annual profit of ₹ 1,00,000. In the next two years i.e. 2015-16 and 2016-17, TUV Limited recorded annual profits of ₹ 2,00,000 and ₹ 3,00,000 respectively. Calculate the minority interests and cost of control at the end of each year for the purpose of consolidation, as per AS 21 "Consolidated Financial Statements".

Answer

Calculation of Minority interests and cost of control at the end of each year, as per AS 21

Year	Profit / (Loss)	Minority Interest (30%)	Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by XYZ Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 2010		6,48,000 (W.N.)				
2010-2011	(5,00,000)	(1,50,000)	(3,50,000)			4,88,000 (W.N.)
2011-2012	(8,00,000)	4,98,000 (2,40,000)	(5,60,000)			4,88,000
2012-2013	-	2,58,000				
	(10,00,000)	(3,00,000)	(7,00,000)			4,88,000
		(42,000)				
	Loss of minority borne by Holding Co.	42,000	(42,000)	42,000	42,000	
		Nil	(7,42,000)			
2013-2014	(2,40,000)	- (on application of AS 21)	(2,40,000)	72,000	1,14,000	4,88,000
2014-2015	1,00,000	Nil - (on application of AS 21)	1,00,000	(30,000)	84,000	4,88,000
2015-2016	2,00,000	Nil -	2,00,000	(60,000)	24,000	4,88,000

2016-2017	3,00,000	(on application of AS 21) Nil 90,000 (24,000) (application of AS 21) 66,000	2,10,000 (24,000) 2,34,000	(24,000)	Nil	4,88,000

Working Note:

Calculation of Minority interest and Cost of control on 1.1.2010

		Share of Holding Co.	Minority Interest
	100%	**70%**	**30%**
	(₹)	**(₹)**	**(₹)**
Share Capital	20,00,000	14,00,000	6,00,000
Reserve	1,60,000	1,12,000	48,000
		15,12,000	6,48,000
Less: Cost of investment		(20,00,000)	
Goodwill		4,88,000	

Q1. May 2026, RTP

Following is the Balance Sheets of M ltd. and N Ltd. of two different dates:

	M Ltd. (As on 31.3.20X2) Rs.	**N Ltd. (As on 31.12.20X1) Rs.**
ASSETS		
Non-current Assets		
Property, Plant and Equipment	6,50,000	4,05,000
Financial Assets		
Investments:		
40,000 shares in N Ltd.	8,00,000	–
1,000 Debentures in N Ltd.	1,50,000	–
Current assets:		
Inventory	2,00,000	3,50,000
Financial Assets		
Trade Receivables	1,50,000	2,65,000
Cash and cash equivalents	80,000	1,05,000
Total	**20,30,000**	**11,25,000**
EQUITY AND LIABILITIES		
Equity Shares of Rs. 10 each	10,00,000	5,00,000
Retained Earnings	4,50,000	2,05,000
Non-current Liabilities		
Financial Liabilities		
13% Debentures (Rs. 100 each)	–	3,00,000

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Current liabilities		
Financial Liabilities		
Trade Payables	3,80,000	80,000
Other liabilities	2,00,000	40,000
Total	**20,30,000**	**11,25,000**

On 5th January 20X2, certain inventory of N Ltd. costing Rs. 20,000 were completely destroyed by fire. The insurance company paid 75% of the claim. On 20th January 20X2, M Ltd. sold goods to N Ltd. Costing Rs. 1,50,000 at an invoice price of cost plus 20%. 50% of those goods were resold by N Ltd. to M Ltd. within 31st March 20X2 (these were then sold by M Ltd. to a third party before 31st March, 20X2). As on 31st March, 20X2, N Ltd. owes Rs. 60,000 to M Ltd. in respect of those goods. Pre-acquisition profits of N Ltd. on the date of acquisition was Rs. 75,000.

NCI is measured as per fair value method on the date of acquisition. Fair value of the share of N Ltd. as on the date of acquisition is Rs. 18 per share.

Prepare Consolidated Balance Sheet as on 31st March, 20X2 after making necessary adjustments in the Balance sheet of N Ltd. Ignore Notes to Accounts

Answer:

Consolidated Balance Sheet of M Ltd and its subsidiary N Ltd. as at 31st March 20X2

I.	**ASSETS**			
	A.	Non-Current Assets		
		1.	Property, Plant and Equipment (6,50,000 + 4,05,000)	10,55,000
		2.	Goodwill (W.N.7)	4,05,000
	B.	Current Assets		
		1.	Inventories (W.N.8)	6,05,000
		2.	Financial Assets	
			a. Trade Receivables (W.N.9)	3,55,000
			b. Cash and cash equivalents (80,000+1,05,000+15,000 Insur. claim)	2,00,000
Total				**26,20,000**
II.	**EQUITY AND LIABILITIES**			
	A.	Equity		
		1.	Equity Share Capital	
			Issued, subscribed and fully paid up	
			1,00,000 equity shares of Rs. 10 each	10,00,000
		2.	Other Equity	
			Retained Earnings (W.N.10)	5,09,000
		3.	Non-Controlling Interest (W.N.6)	2,11,000
	B.	Liabilities		
		1.	Non-Current Liabilities	
			a. Financial Liabilities	
			Borrowings [13% Debentures (2,000 × 100)]	2,00,000
		2.	Current liabilities	
			a. Financial Liabilities	
			Trade Payables (W.N.9)	4,60,000

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b. Other Current liabilities (2,00,000 + 40,000)	2,40,000
Total	**26,20,000**

Working Notes:

1. Shareholding pattern

Particulars	Number of Shares	% of holding
M Ltd.	40,000	80%
Non-Controlling interest	10,000	20%

2. Analysis of Retained Earnings of N Ltd.

	Rs.
Closing balance as on 31.3.20X1	2,05,000
Pre-acquisition Profits	(75,000)
Post-acquisition Profits	1,30,000
Less: Loss of inventory by fire (W.N.3)	(5,000)
Add: Profit from sale of goods purchased from M Ltd. (W.N.4)	30,000
	1,55,000

3. Loss of inventory by fire

	Rs.
Cost of goods destroyed by fire	20,000
Less: Insurance Claim received (20,000 × 75/100)	(15,000)
Loss of inventory by fire	5,000

4. Profit from Sale of goods

	Rs.
Cost of goods sold by M Ltd.	1,50,000
Add: Profit by M Ltd. (1,50,000 × 20%)	30,000
Invoice price of M Ltd. (i.e., Cost to N Ltd.)	1,80,000
Cost of goods sold back by N Ltd. to M Ltd. (1,80,000 × 50%)	90,000
Net payable (given in the question)	60,000
Sale value of goods sold by N Ltd. to M Ltd. (1,80,000 – 60,000)	1,20,000
Profit on sale by N Ltd. to M Ltd. (1,20,000 – 90,000)	30,000

5. Apportionment of profits of N Ltd.

Particulars	Pre-acquisition	Post-acquisition
Retained Earnings (W.N.3)	75,000	1,55,000
M Ltd – 80%		1,24,000
NCI – 20%		31,000

6. Non-Controlling Interest as per fair value method

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Particulars	Rs.
Share capital / Fair Value of shares held by NCI (10,000 Shares × Rs. 18)	1,80,000
Share of post-acquisition retained earnings (W.N.5)	31,000
Total	**2,11,000**

7. Computation of Goodwill

Particulars		Rs.
Cost of investment		8,00,000
Add: Fair Value of Shares held by Non-Controlling Interest (10,000 Shares × Rs. 18)		1,80,000
		9,80,000
Less: Fair value of net identifiable assets or net worth		
Share capital of N Ltd.	5,00,000	
Pre-acquisition retained earnings	75,000	(5,75,000)
Goodwill		**4,05,000**

8. Computation of Inventory to be shown in CBS

Particulars	Rs.
Aggregate value of inventory (2,00,000 + 3,50,000)	5,50,000
Add: Invoice price of goods purchased from M Ltd	1,80,000
Less: Cost of goods resold to M Ltd	(90,000)
Less: Loss of inventory by fire	(20,000)
	6,20,000
Less: Unrealised profit (90,000 x 20/120)	(15,000)
Net Inventory for CBS	6,05,000

9. Computation of Consolidated Trade Receivables and Trade Payables

Particulars	Trade Receivables	Trade Payables
	Rs.	Rs.
Aggregate balance	4,15,000	4,60,000
Less: Inter-company owings	(60,000)	(60,000)
Net for CBS	**3,55,000**	**4,60,000**

10. Retained Earnings for CBS

Particulars	Rs.
M Ltd. Balances	4,50,000
Add: M Ltd.'s share of post-acquisition profits (W.N.5)	1,24,000
Less: Unrealised profit on inventory (W.N.8)	(15,000)
Less: Loss on cancellation of debentures [1,50,000 - (1,000 x 100)]	(50,000)
Net for CBS	5,09,000

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Q2. Sep 2025, RTP

Beta Limited (investee) has issued 2,000 equity shares which are outstanding at the reporting date. On this date, Beta issues 1,000 share options to its employees, which can be converted into 1,000 equity shares of Beta. The grant-date fair value of each option issued is Rs. 1. The options will vest over five years and all 1,000 options are expected to vest.

Beta recognises share-based remuneration expense of Rs. 200 in its profit or loss and an offsetting credit to equity in the current year. Alpha Limited (investor) holds 600 shares of Beta. Alpha has significant influence over Beta. Alpha recognises its share of the remuneration expense in its profit or loss as part of income from the equity- accounted investees. It records the offsetting credit as a reduction of its investment in Beta.

At the end of the vesting period, all options vest and are exercised. The exercise price is Rs. 3 per option. The face value per share is Rs. 1.

Required

(i) Pass journal entries in the books of Beta Limited and Alpha Limited for recording share-based payment expenses for the first year.

(ii) Pass Journal entries for exercising of option in the 5th year, in the books of Beta Limited.

(iii) In the books of Alpha Limited, compute the loss on dilution of shares of Beta Limited and pass journal entries for the same. Beta has net assets totalling Rs. 11,000, immediately before the shares are issued.

Answer:

Journal Entries to be recorded over the five-year vesting period:

	Rs.	Rs.
In Beta's books		
Share based payments remuneration (profit or loss) Dr.	200	
To Shareholders' equity (ESOP reserve)		200
(To recognise share based payment at associate level)		
In Alpha's books		
Share based payment remuneration (profit or loss) Dr.	60	
Investment in associate		60
(To recognise share based payment at investor level)		

Journal Entries in the books of Beta to recognise share issue:

		Rs.	Rs.
Cash	Dr.	3,000	
Shareholders' equity (ESOP reserve)	Dr.	1,000	
To Share capital			1,000
To Share premium			3,000
(To recognise exercise of options at the associate level)			

2. Accounting in the Financial Statements of Alpha

The issue of new share options results in a dilution of Alpha's interest in Beta by 10% [30% - {(600/(2,000+1000)x100}]. However, Alpha maintains significant influence over Beta.

Alpha calculates loss on dilution as below.

Alpha's share of net assets before exercise (11,000 x 30%)	3,300

Alpha's share of net assets after exercise ((11,000+3,000) x 20%)	(2,800)
Cumulative adjustment required	500
Less: Adjustment previously recognized for share based payment expense (60 x 5 years)	(300)
Loss on dilution	200

Alpha passes the following entry to recognise dilution

		Rs.	Rs.
Loss on dilution (profit or loss)	Dr.	200	
To Investment in associate			200
(To recognize dilution of investment in associate)			

Q3. Sep 2025, RTP

H Ltd. purchased a 100% subsidiary S Ltd. for Rs. 500,000 at the end of March, 20X3, when the fair value of the S Ltd.'s net assets was

Rs. 400,000. H Ltd. sold 60% of its investment in the S Ltd. in March, 20X5 for Rs. 675,000, leaving H Ltd. with 40% investment and significant influence. At the date of disposal, the carrying value of the net assets of S Ltd., excluding goodwill, is Rs. 800,000. The fair value of the investment in S Ltd. retained is proportionate to the fair value of the 60% investment sold.

Required:

Compute gain or loss for H Ltd. on sale of 60% stake in S Ltd. for the purpose of separate financial statements and consolidated financial statements.

Answer:

Computation of gain on the sale of 60% investment in Separate Financial Statements of H Ltd.'s for the year ended 31st March, 20X5

	Rs.
Sale proceeds	6,75,000
Less: Cost of investment in S Ltd. (5,00,000 x 60%)	(3,00,000)
Gain on sale in the parent's financial statements	3,75,000

Consolidated Financial Statements of H Ltd.'s for the year ended 31st March, 20X5

In the consolidated financial statements, the group will calculate the gain or loss on disposal differently. The carrying amounts of all of the assets, including goodwill and the full amount of any cumulative exchange differences and any FVOCI-reserve previously recognised in equity, are de-recognised. when control is lost. This is compared to the proceeds received and the fair value of the investment retained.

The gain on disposal will be calculated as follows:

	Rs.
Sale proceeds	6,75,000
Add: Fair value of 40% interest retained	4,50,000
	11,25,000
Less: Net assets disposed, including goodwill	
(8,00,000 + 1,00,000)	(9,00,000)
Gain on sale in the group's financial statements	2,25,000

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This gain on loss of control would be recorded in profit or loss. The gain or loss includes the gain of Rs. 1,35,000 (Rs. 6,75,000 - (Rs. 9,00,000 x 60%)) on the portion sold. However, it also includes a gain on remeasurement of the 40% retained interest of Rs. 90,000 (Rs. 4,50,000 - Rs. 3,60,000). The entity will need to disclose the portion of the gain that is attributable to remeasuring any remaining interest to fair value that is Rs. 90,000).

Q4. Sep 2025, RTP

A Ltd. owns 100% of a subsidiary B Ltd. It disposes of 60% of its interest in the subsidiary for Rs. 360 million and loses control of the subsidiary. It will de-consolidate the subsidiary and account for the remaining 40% interest as an associate using the equity method of accounting. At the disposal date, the fair value of the retained investment in B Ltd. is determined to be Rs. 240 million. The carrying value of the identifiable net assets of the subsidiary is Rs. 440 million, excluding goodwill. There is Rs. 60 million of goodwill recorded related to the previously acquired interests in the subsidiary. A Ltd. tested the subsidiary's goodwill and long-lived assets prior to disposal and there was no impairment. There is Rs. 4 million credit in the available-for-sale reserve and Rs. 10 million credit in the revaluation reserve relating to the subsidiary B Ltd. The tax consequences of the gain have been ignored.

Required:

I. Pass Journal Entries for sale of 60% stake of B Ltd. on disposal date
II. Compute gain on 40% retained investment

Answer:

The accounting entry on the disposal date for the 60% interest sold, the gain recognised on the 40% retained investment and the de-recognition of the subsidiary is as follows:

		Rs. in million	
Cash / Bank A/c	Dr.	360	
Investment in associate	Dr.	240	
Available -for-sale reserve	Dr.	4	
Revaluation reserve	Dr.	10	
To Net assets (including goodwill)			500
To Retained earnings			10
To Gain on disposal of controlling interest			104

The Rs. 104 million gain on the interest sold and the retained investment is recognised in the income statement and is disclosed in the consolidated financial statements.

(ii) Computation of remeasurement of the retained non-controlling investment to fair value:

	Rs. in million
Fair value of retained investment	240
Percentage retained of carrying value of subsidiary [(440+ 60) x 40%]	(200)
Gain on retained investment	40

The gain or loss on the interest sold and on the retained investment recognised in the income statement, is calculated as follows:

	Rs. in

	million
Fair value of the consideration	360
Fair value of retained investment	240
	600
Less: Carrying value of former subsidiary's net assets (440 + 60)	(500)
Available for sale reserve transferred to income	4
Gain on interest sold and on retained investment	104

Q5. May 2025, RTP

X Ltd. acquired a 10% interest in V Ltd. for Rs. 50,000 on 1st June, 20X6. The investment in V Ltd. was accounted for as equity investment (not held for trading) for which irrevocable option has been availed for subsequent measurement of financial assets at FVTOCI. X Ltd. recognized an increase in fair value of Rs. 30,000 in other comprehensive income for the year ended 31st March, 20X7. X Ltd. acquired an additional 25% interest in V Ltd. for Rs. 2,00,000 on 1st April, 20X7 and achieved significant influence. The fair value of V Ltd.'s net assets was Rs. 2,50,000 at June, 20X6 and had increased to Rs. 4,00,000 on 1st April, 20X7. V Ltd. recorded profits after dividends of Rs. 1,00,000 between 1st June, 20X6 and 1st April, 20X7.

How should X Ltd. account for an investment in V Ltd. on account of piecemeal acquisition when such investment provides X Ltd. significant influence over V Ltd.? Pass necessary journal entries for the same.

Answer:

While applying equity method, paragraph 10 of Ind AS 28 requires, the investment in an associate to be initially recognized at cost. However, it doesn't include any specific guidance on how to account for existing investment, which is accounted for under Ind AS 109, that subsequently becomes an associate or a joint venture. One may apply the fair value approach, by drawing an analogy from paragraph 42 of Ind AS 103.

Paragraph 42 of Ind AS 103, 'Business Combinations', deals with the situation where control over an acquiree is achieved in stages. In such a case, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisitions- date fair value and recognize the resulting gain or loss, if any, in profit or loss or OCI, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree on OCI. If so, the amount that was recognized in OCI shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

On application of the above guidance, following accounting will be done:

Computation of goodwill on gaining significant influence on V Ltd.

Particulars	Rs.
Fair value of previously held 10% interest [2,00,000/25% x10%]	80,000
Fair value of additional 25% (amount paid)	2,00,000
Cost of investment in associate V Ltd.	2,80,000
Less: Fair value of identifiable net assets acquired (4,00,000 x 35%)	(1,40,000)
Goodwill	1,40,000

Journal Entries

Particulars		Amount (Rs.)	Amount (Rs.)
Investment A/c (10%)	Dr.	30,000	
To OCI (Equity)			30,000
Investment A/c (35%)	Dr.	2,80,000	
To Bank A/c			2,00,000
To Investment (FVTOCI) (10%)			80,000
OCI (Equity)	Dr.	30,000	
To Retained Earning			30,000

Q6. Nov 2024, RTP

On 1st April 20X1, A Limited acquired 80% of the share capital of S Limited. On the acquisition date the share capital and reserves of S Ltd. stood at Rs. 5,00,000 and Rs. 1,25,000 respectively. A Limited paid initial cash consideration of Rs. 10,00,000. Additionally, A Limited issued 2,00,000 equity shares with a nominal value of Rs. 1 per share at current market value of Rs. 1.80 per share.

It was also agreed that A Limited would pay a further sum of Rs. 5,00,000 after three years. A Limited's cost of capital is 10%. The appropriate discount factor for Rs. 1 @ 10% receivable at the end of

1st year: 0.91

2nd year: 0.83

3rd year: 0.75

The shares and deferred consideration have not yet been recorded by A limited.

Below are the Balance Sheet of A Limited and S Limited as at 31st March, 20X3:

	A Limited (Rs. 000)	S Limited (Rs. 000)
Non-current assets:		
Property, plant & equipment	5,500	1,500
Investment in S Limited at cost	1,000	
Current assets:		
Inventory	550	100
Receivables	400	200
Cash	200	50
	7,650	1,850
Equity:		
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	800
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

Further information:

I. On the date of acquisition, the fair values of S Limited's plant exceeded its book value by Rs. 2,00,000. The plant had a remaining useful life of five years at this date;
II. The consolidated goodwill has been impaired by Rs. 2,58,000; and
III. The A Limited Group, values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of the 20% non-controlling interest was Rs. 3,80,000.

You are required to prepare Consolidated Balance Sheet of A Limited as at 31st March, 20X3. (Notes to Account on Consolidated Balance Sheet is not required).

Answer:

Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd. as at 31st March, 20X3

Particulars	**Rs. in 000s**
I. Assets	
(1) Non-current assets	
(i) Property Plant & Equipment (W.N.4)	7,120.00
(ii) Intangible asset – Goodwill (W.N.3)	1,032.00
(2) Current Assets	
(i) Inventories (550 + 100)	650.00
(ii) Financial Assets	
(a) Trade Receivables (400 + 200)	600.00
(b) Cash & Cash equivalents (200 + 50)	250.00
Total Assets	9,652.00
II. Equity and Liabilities	
(1) Equity	
(i) Equity Share Capital (2,000 + 200)	2,200.00
(ii) Other Equity	
(a) Retained Earnings (W.N.6)	1190.85
(b) Securities Premium	160.00
(2) Non-Controlling Interest (W.N.5)	347.40
(3) Non-Current Liabilities (3,000 + 400)	3,400.00
(4) Current Liabilities (W.N.8)	2,353.75
Total Equity & Liabilities	9,652.00

Notes:

1. Since the question required not to prepare Notes to Account, the column of Note to Accounts had not been drawn.
2. It is assumed that shares were issued during the year 20X2-20X3 and entries are yet to be made.

Working Notes:

1. Calculation of purchase consideration at the acquisition date i.e. 1st April, 20X1

	Rs. in 000s
Payment made by A Ltd. to S Ltd.	
Cash	1,000.00
Equity shares (2,00,000 shares x Rs.1.80)	360.00
Present value of deferred consideration (Rs.5,00,000 x 0.75)	375.00
Total consideration	1,735.00

2. Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 20X1

	Rs. in 000s
Share capital of S Ltd.	500.00
Reserves of S Ltd.	125.00
Fair value increase on Property, Plant and Equipment	200.00
Net worth on acquisition date	825.00

3. Calculation of Goodwill at the acquisition date i.e. 1st April, 20X1 and 31st March, 20X3

	Rs.in 000s
Purchase consideration (W.N.1)	1,735.00
Non-controlling interest at fair value (as given in the question)	380.00
	2,115.00
Less: Net worth (W.N.2)	(825.00)
Goodwill as on 1st April 20X1	1,290.00
Less: Impairment (as given in the question)	(258.00)
Goodwill as on 31st March 20X3	1,032.00

4. Calculation of Property, Plant and Equipment as on 31st March 20X3

			Rs.in 000s
A Ltd.			5,500.00
S Ltd.		1,500.00	
Add: Net fair value gain not recorded yet	200.00		
Less: Depreciation [(200/5) x 2]	(80.00)	120.00	1,620.00
			7,120.00

5. Calculation of post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 20X3

		Rs. in 000s	Rs. in 000s
		NCI (20%)	A Ltd. (80%)
Acquisition date balance		380.00	Nil
Closing balance of Retained Earnings	300.00		
Less: Pre-acquisition balance	(125.00)		
Post-acquisition gain	175.00		
Less: Additional Depreciation on PPE [(200/5) x 2]	(80.00)		
Share in post-acquisition gain	95.00	19.00	76.00
Less: Impairment on goodwill	258.00	(51.60)	(206.40)
		347.40	(130.40)

6. Consolidated Retained Earnings as on 31st March 20X3

	Rs.in 000s
A Ltd.	1,400.00
Add: Share of post-acquisition loss of S Ltd. (W.N.5)	(130.40)
Less: Finance cost on deferred consideration (37.5 + 41.25) (W.N.7)	(78.75)

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Retained Earnings as on 31st March 20X3	1,190.85

7. Calculation of value of deferred consideration as on 31st March 20X3

	Rs.in 000s
Value of deferred consideration as on 1st April 20X1 (W.N.1)	375.00
Add: Finance cost for the year 20X1-20X2 (375 x 10%)	37.50
	412.50
Add: Finance cost for the year 20X2-20X3 (412.50 x 10%)	41.25
Deferred consideration as on 31st March 20X3	453.75

8. Calculation of current Liability as on 31st March 20X3

	Rs.in 000s
A Ltd.	1,250.00
S Ltd.	650.00
Deferred consideration as on 31st March 20X3 (W.N.7)	453.75
Current Liability as on 31st March 20X3	2,353.75

Q7. May 2024, RTP

At the beginning of its current financial year, AB Limited holds 90% equity interest in BC Limited.

During the financial year, AB Limited sells 70% of its equity interest in BC Limited to PQR Limited for a total consideration of Rs. 56 crore and consequently loses control of BC Limited.

At the date of disposal, fair value of the 20% interest retained by AB Limited is Rs. 16 crore and the net assets of BC Limited are fair valued at Rs. 60 crore.

These net assets include the following:

1. Debt investments classified as fair value through other comprehensive income (FVOCI) of Rs. 12 crore and related FVOCI reserve of Rs. 6 crore.
2. Net defined benefit liability of Rs. 6 crore that has resulted in a reserve relating to net measurement losses of Rs. 3 crore.
3. Equity investments (considered not held for trading) of Rs. 10 crore for which irrevocable option of recognising the changes in fair value in FVOCI has been availed and related FVOCI reserve of Rs. 4 crore.
4. Net assets of a foreign operation of Rs. 20 crore and related foreign currency translation reserve of Rs. 8 crore.

In consolidated financial statements of AB Limited, 90% of the above reserves were included in equivalent equity reserve balances, with the 10% attributable to the non-controlling interest included as part of the carrying amount of the non-controlling interest.

What would be the accounting treatment on loss of control in the consolidated financial statements of AB Limited?

Answer:

Paragraph 25 of Ind AS 110 states that, "if a parent loses control of a

subsidiary, the parent:

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a) derecognises the assets and liabilities of the former subsidiary from the consolidated balance sheet.
b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant Ind AS. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with Ind AS 109 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.
c) recognises the gain or loss associated with the loss of control

attributable to the former controlling interest."

Paragraph B98(c) of Ind AS 110 states that, on loss of control over a subsidiary, a parent shall reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind AS, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis specified in paragraph B99.

As per paragraph B99, if a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

In view of the basis in its consolidated financial statements, AB Limited shall:

a) re-classify the FVOCI reserve in respect of the debt investments of Rs. 5.4 crore (90% of Rs. 6 crore) attributable to the owners of the parent to the statement of profit or loss in accordance with paragraph B5.7.1A of Ind AS 109, Financial Instruments which requires that the cumulative gains or losses previously recognised in OCI shall be recycled to profit and loss upon derecognition of the related financial asset. This is reflected in the gain on disposal. Remaining 10% (i.e., Rs. 0.6 crore) relating to non- controlling interest (NCI) is included as part of the carrying amount of the non-controlling interest that is derecognised in calculating the gain or loss on loss of control of the subsidiary.
b) transfer the reserve relating to the net measurement losses on the defined benefit liability of Rs. 2.7 crore (90% of Rs. 3 crore) attributable to the owners of the parent within equity to retained earnings. It is not reclassified to profit or loss. The remaining 10% (i.e., Rs. 0.3 crore) attributable to the NCI is included as part of the carrying amount of NCI that is derecognised in calculating the gain or loss on loss of control over the subsidiary. No amount is reclassified to profit or loss, nor is it transferred within equity, in respect of the 10% attributable to the non-controlling interest.
c) reclassify the cumulative gain on fair valuation of equity investment of Rs. 3.6 crore (90% of Rs. 4 crore) attributable to the owners of the same parent from OCI to retained earnings under equity as per paragraph B5.7.1 of Ind AS 109, Financial Instruments, which provides that in case an entity has made an irrevocable election to recognise the changes in the fair value of an investment in an equity instrument not held for trading in OCI, it may subsequently transfer the cumulative amount of gains or loss within equity. The remaining 10% (i.e., Rs. 0.4 crore) related to the NCI are derecognised along with the balance of NCI and not reclassified to profit and loss.

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d) (d) reclassify the foreign currency translation reserve of Rs. 7.2 crore (90% × Rs. 8 crore) attributable to the owners of the parent to statement of profit or loss as per paragraph 48 of Ind AS 21 'The Effects of Changes in Foreign Exchange Rates', which specifies that the cumulative amount of exchange differences relating to the foreign operation, recognised in OCI, shall be reclassified from equity to profit or loss on the disposal of foreign operation. This is reflected in the gain on disposal. Remaining 10% (i.e., Rs. 0.8 crore) relating to the NCI is included as part of the carrying amount of the NCI that is derecognised in calculating the gain or loss on the loss of control of subsidiary, but is not reclassified to profit or loss in pursuance of paragraph 48B of Ind AS 21, which provides that the cumulative exchange differences relating to that foreign operation attributed to NCI shall be derecognised on disposal of the foreign operation, but shall not be reclassified to profit or loss.

The impact of loss of control over BC Limited on the consolidated financial statements of AB Limited is summarised below: (Rs. in crore)

Particular	**Amount (Dr)**	**Amount (Cr)**	**P&L Impact**	**RE Impact**
Gain / Loss on Disposalon Investments				
Bank	56			
Non-controlling interest (Derecognised)	6			
Investment at FV (20% Retained)	16			
Gain on Disposal (P&L)		18	18	
balancing figure				
De-recognition of total netassets of subsidiary	60			
Reclassification of FVTOCI reserve on debt instruments to profit orloss				
FVTOCI reserve on debt instruments (6 cr. x 90%)	5.4			
To Profit and loss		5.4	5.4	
Reclassification of net measurement loss reserveto profit or loss				
Reserve and Surplus	2.7			-2.7
To Net measurementloss reserve (FVTOCI) [(3 cr.x 90%)]		2.7		
Reclassification of FVTOCI reserve on equity instruments to retained earnings				
FVTOCI reserve on equityinstruments (4 crux 90%)	3.6			
To Reserve and Surplus		3.6	3.6	
Foreign currency translation reserve reclassified to profit or loss				

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Foreign currency translation reserve (FVOCI) [8 cr. x 90%]	7.2			
To Profit and loss		7.2	7.2	
Total			**30.6**	**0.9**

Q8. Nov 2023, RTP

Entity A owns all the share capital of Entity B and controls Entity B. On 1st April, 20X2, Entity A acquired a building from Entity B, for ₹ 600 lakhs, that the group plans to use as its new head office. Entity B had purchased the building from a third party on 1st April, 20X1 for ₹ 525 lakhs. At that time, the building was assessed to have a useful life of 21 years and a residual value of Nil. On 1st April, 20X2, the carrying amount of the building was ₹ 500 lakhs in Entity B's individual financial statements. The estimated remaining useful life of the building measured from 1st April, 20X2 is 20 years and the residual value of the building is still Nil. The method of depreciation followed is straight-line.

Pass necessary Journal Entries for recording the above transactions in the books of Entity B, Entity A and the Group's general ledger.

Answer

Journal Entries in the books of Entity B

	₹ in lakhs	₹ in lakhs
1st April, 20X1		
Building A/c (Property, plant and equipment) Dr.	525	
To Bank A/c		525
(To recognise the purchase of the building for cash)		
31st March, 20X2		
Depreciation (Refer W.N.) Dr.	25	
To Building A/c (Property, plant and equipment)		25
(To recognise depreciation on building for its use in the year 20X1-20X2)		
1st April, 20X2		
Bank A/c Dr.	600	
To Building A/c (Property, plant and equipment)		500
To Profit on sale of Building		100
(To recognise the sale of the building for cash)		

Journal Entries in the books of Entity A

	₹ in lakhs	₹ in lakhs
1st April, 20X2		
Building A/c (Property, plant and equipment) Dr.	600	
To Bank A/c		600
(To recognise the purchase of the building for cash from Entity B)		
31st March, 20X3	30	
Depreciation (Refer W.N.) Dr.		30
To Building A/c (Property, plant and equipment)		
(To recognise depreciation on building for its use in the year 20X2-20X3)		

Journal Entries in the books of Group

	₹ in lakhs	₹ in lakhs
31st March, 20X3		
Profit on sale of Building Dr.	100	
To Building A/c (Property, plant and equipment)		100
(To eliminate the effects of the intragroup transaction)		
Building A/c (Property plant and equipment) Dr.	5	

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To Depreciation A/c (W.N.) (To eliminate the effects of the intragroup transaction)		5

Working Note:

Computation of Depreciation and its Adjustment in the Group's Financial Statements

	In Individual financial statements of Entity B/Entity A	For adjustment in the books of Group
Particulars	**₹ in lakhs**	**₹ in lakhs**
Cost of Building on 1st April, 20X1 for Entity B	525	
525	21 years	
Useful life	25	25
Depreciation per year (₹ 525 lakhs / 21 years)	600	
25 25	20 years	
Cost of Building on 1st April, 20X2 for Entity A	30	30
600		(5)
Useful life 20 years		
Depreciation per year (₹ 600 lakhs / 20 years)		
30 30		
Reversal of depreciation in the books of Group		

Q9. Nov 2023, RTP

Ishwar Ltd. holds investments in Vinayak Ltd. The draft balance sheets of two entities at 31st March, 20X4 were as follows:

Particulars	**Ishwar Ltd. ₹ in '000s**	**Vinayak Ltd. ₹ in '000s**
Assets		
Non-current Assets		
Property, Plant and Equipment	26,20,000	18,50,000
Investment	21,15,000	NIL
Total non-current assets	47,35,000	18,50,000
Current Assets		
Inventories	6,00,000	3,75,000
Trade Receivables	4,50,000	3,30,000
Cash and Cash Equivalents	75,000	60,000
Total current assets	11,25,000	7,65,000
TOTAL ASSETS	58,60,000	26,15,000
Equity and Liabilities		
Equity		
Share Capital (₹ 1 shares)	7,00,000	5,00,000
Retained Earnings	28,65,000	10,50,000
Other Components of Equity	12,50,000	50,000
Total Equity	48,15,000	16,00,000
Non-current Liabilities		
Provisions	6,250	NIL
Long-term Borrowings	4,13,750	4,50,000
Deferred Tax	2,25,000	1,40,000
Total Non-current Liabilities	6,45,000	5,90,000
Current Liabilities		
Trade and Other Payables	3,00,000	2,50,000
Short-term Borrowings	1,00,000	1,75,000
Total Current Liabilities	4,00,000	4,25,000
TOTAL EQUITY AND LIABILITIES	58,60,000	26,15,000

Additional Information:

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Ishwar Ltd.'s investment in Vinayak Ltd.
On 1st April, 20X1, Ishwar Ltd. acquired 400 million shares in Vinayak Ltd. by means of a share exchange of one share in Ishwar Ltd. for every two shares acquired in Vinayak Ltd. On 1st April, 20X1, the market value of one share of Ishwar Ltd. was ₹ 7.
Ishwar Ltd. appointed a professional firm for conducting due diligence for acquisition of Vinayak Ltd., the cost of which amounted to ₹ 15 million. Ishwar Ltd. included these acquisition costs in the carrying amount of the investment in Vinayak Ltd. in the draft balance sheet of Ishwar Ltd. There has been no change to the carrying amount of this investment in Ishwar Ltd.'s own balance sheet since 1st April, 20X1.
On 1st April, 20X1, the individual financial statements of Vinayak Ltd. showed the following balances:
- Retained earnings ₹ 750 million
- Other components of equity ₹ 25 million
The directors of Ishwar Ltd. carried out a fair value exercise to measure the identifiable assets and liabilities of Vinayak Ltd. at 1st April, 20X1. The following matters emerged:
- Property having a carrying amount of ₹ 800 million (land component ₹ 350 million, buildings component ₹ 450 million) had an estimated fair value of ₹ 1,000 million (land component ₹ 400 million, buildings component ₹ 600 million). The buildings component of the property had an estimated useful life of 30 years at 1st April, 20X1.
- Plant and equipment having a carrying amount of ₹ 600 million had an estimated fair value of ₹ 700 million. The estimated remaining useful life of this plant at 1st April, 20X1 was four years. None of this plant and equipment had been disposed of between 1st April, 20X1 and 31st March, 20X4.
- On 1st April, 20X1, the notes to the financial statements of Vinayak Ltd. disclosed contingent liability. On 1st April, 20X1, the fair value of this contingent liability was reliably measured at ₹ 30 million. The contingency was resolved in the year ended 31st March, 20X2 and no payments were required to be made by Vinayak Ltd. in respect of this contingent liability.
- The fair value adjustments have not been reflected in the individual financial statements of Vinayak Ltd. In the consolidated financial statements, the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary
differences is 20%.
The directors of Ishwar Ltd. used the proportion of net assets method when measuring the non-controlling interest in Vinayak Ltd. in the consolidated balance sheet.
Impairment review of goodwill on acquisition of Vinayak Ltd.
No impairment of the goodwill on acquisition of Vinayak Ltd. was evident when the reviews were carried out on 31st March, 20X2 and 20X3. On 31st March, 20X4, the directors of Ishwar Ltd. carried out a further review and concluded that the recoverable amount of the net assets of Vinayak Ltd. at that date was ₹ 2,000 million. Vinayak Ltd.is regarded as a single cash generating unit for the purpose of measuring goodwill impairment.
Provision On 1st April, 20X3, Ishwar Ltd. completed the construction of a non-current asset with an estimated useful life of 20 years. The costs of construction were recognised in property, plant and equipment and depreciated appropriately. Ishwar Ltd. has a legal obligation to restore the site on which the non-current asset is located on 31st March, 2X43. The estimated cost of this restoration work, at 31st March, 2X43 prices, is ₹ 125 million. The directors of Ishwar Ltd. have made a provision of
₹ 6.25 million (1/20 x ₹ 125 million) in the draft balance sheet at 31st March, 20X4.
An appropriate annual discount rate to use in any relevant calculations is 6% and at this rate the present value of ₹ 1 payable in 20 years is 31.2 paise.Prepare the consolidated balance sheet of Ishwar Ltd. at 31st March, 20X4. Consider deferred tax implications.

Answer

Consolidated Balance Sheet of Ishwar Ltd. at 31st March, 20X4

Particulars	**₹ in '000s**
Assets Non-current Assets:	

Property, Plant and Equipment [(26,20,000 + 18,50,000) + {(2,00,000 (W.N.1) – 15,000 (W.N.1)) + (1,00,000 (W.N.1) – 75,000 (W.N.1)) + (39,000 – 1,950) (WN 7)}]	47,17,050
Investment (21,15,000 – 14,00,000 – 15,000)	7,00,000
Goodwill (W.N.2)	1,85,600
Total non-current assets	56,02,650
Current Assets:	
Inventories (6,00,000 + 3,75,000)	9,75,000
Trade Receivables (4,50,000 + 3,30,000)	7,80,000
Cash and Cash Equivalents (75,000 + 60,000)	1,35,000
Total current assets	18,90,000
TOTAL ASSETS	74,92,650
Equity and Liabilities	
Equity attributable to equity holders of the parent	
Share Capital	7,00,000
Retained Earnings (W.N.5)	30,31,960
Other Components of Equity (W.N.6)	12,70,000
	50,01,960
Non-controlling Interest (W.N.4)	3,53,600
Total equity	53,55,560
Non-current Liabilities	
Provisions (39,000 + 2,340 (W.N.7))	41,340
Long-term Borrowings (4,13,750 + 4,50,000)	8,63,750
Deferred Tax (W.N.8)	4,07,000
Total non-current liabilities	13,12,090
Current Liabilities	
Trade and Other Payables (3,00,000 + 2,50,000)	5,50,000
Short-term Borrowings (1,00,000 + 1,75,000)	2,75,000
Total Current Liabilities	8,25,000
TOTAL EQUITY AND LIABILITIES	74,92,650

Working Notes:

1. Computation of Net Assets of Vinayak Ltd.

	1st April, 20X1 (Date of acquisition) ₹ in '000s	**31st March, 20X4 (Date of consolidation) ₹ in '000s**
Share Capital	5,00,000	5,00,000
Retained Earnings:		
Per accounts of Vinayak Ltd.	7,50,000	10,50,000
Fair Value Adjustments:		
Property (10,00,000 – 8,00,000)*	#2,00,000	$2,00,000
Extra depreciation due to Buildings appreciation*((6,00,000 – 4,50,000) x 3/30)		$(15,000)
Plant and Equipment (7,00,000 – 6,00,000)*	#1,00,000	$1,00,000
Extra depreciation due to Plant and Equipment appreciation* (1,00,000 x ¾)		$(75,000)
Contingent Liability*	#(30,000)	$NIL
Other Components of Equity	25,000	50,000
Deferred Tax on Fair Value Adjustments*:		
Date of acquisition (20% x #2,70,000 (from above))	(54,000)	

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Date of Consolidation (20% x $2,10,000 (from above))		(42,000)
Net Assets for Consolidation	14,91,000	17,68,000

The post-acquisition increase in Net Assets is ₹ 2,77,000 (₹ 17,68,000 –₹ 14,91,000). ₹ 25,000 of this increase is due to changes in Other Components of Equity and the remaining ₹ 2,52,000 due to changes in retained earnings.

2. Computation of Goodwill on Consolidation Vinayak Ltd.

	₹ in '000s
Cost of Investment:	
Shares issued to acquire Vinayak Ltd. (4,00,000 x ½ x ₹ 7)	14,00,000
Non-controlling Interests at the date of acquisition:	
Vinayak Ltd. – 20% x ₹ 1,491,000 (from W.N.1)	2,98,200
	16,98,200
Net Assets at the date of acquisition:	
Vinayak Ltd. (W.N.1)	(14,91,000)
Goodwill before Impairment	2,07,200
Less: Impairment of Goodwill (refer W.N.3)	(21,600)
Goodwill reported in Consolidated Balance Sheet	1,85,600

3. Impairment of Goodwill on acquisition of Vinayak Ltd.

	Vinayak Ltd. ₹ in '000s
Net Assets of Vinayak Ltd. at 31st March, 20X4 (W.N.1)	17,68,000
Grossed up Goodwill on acquisition (100/80 x ₹ 2,07,200) (Refer Note 1 below)	2,59,000
	20,27,000
Recoverable amount of Vinayak Ltd. as a CGU	(20,00,000)
Therefore, gross impairment will be	27,000
Impairment attributed to Parent (refer Note 2 below)	21,600

Note 1: Grossing up of Goodwill

As per Para C4 of Appendix C to Ind AS 36 Impairment of Assets – If an entity measures non-controlling interests at its proportionate interest in the net identifiable assets of a subsidiary at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related Cash Generating Unit but is not recognised in the parent's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Note 2: Allocation of Impairment of Goodwill

Since the non-controlling interests of Vinayak Ltd. are measured at proportionate share of identifiable net assets of Vinayak Ltd., the goodwill computed is entirely attributable only to the parent of Vinayak Ltd. Accordingly, the impairment also would be attributed entirely to the parent of Vinayak Ltd., and not to the non-controlling interest.

4. Computation of Non-controlling Interest (NCI)

	Vinayak Ltd. ₹ in '000s
NCI at the date of acquisition (W.N.2)	2,98,200
Share of post-acquisition increase in net assets (20% x ₹ 2,77,000 (from W.N.1))	55,400
	3,53,600

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5. Computation of consolidated Retained Earnings

	₹ in '000s
Balance as per accounts of Ishwar Ltd.	28,65,000
Adjustments:	
Acquisition costs	(15,000)
Restoration Provision (W.N.7)	1,960
Share of Vinayak Ltd.'s post-acquisition profits	
(80% x ₹ 2,52,000 (W.N.1))	2,01,600
Impairment of Goodwill (W.N.3)	(21,600)
	30,31,960

6. Other Components of Equity

	₹ in '000s
Balance as per accounts of Ishwar Ltd.	12,50,000
Share of Vinayak Ltd.'s post-acquisition balance	
(80% x ₹ 25,000 (W.N.1))	20,000
	12,70,000

7. Computation of Restoration Provision

	₹ in '000s
Provision for Restoration originally required (₹ 1,25,000 x 0.312)	39,000
One year's unwinding of discount (₹ 39,000 x 6%) A	(2,340)
One year's depreciation of capitalized cost (₹ 39,000 x 1/20) B	(1,950)
Original provision incorrectly made C	6,250
So retained earnings adjustment equals [C -A – B]	1,960

8. Computation of Deferred Tax

	₹ in '000s
Ishwar Ltd. + Vinayak Ltd.	3,65,000
Fair value adjustments in Vinayak Ltd. (from W.N.1)	42,000
	4,07,000

Q10. May 2023, RTP

'High Speed Limited' manufactures and sells cars. The Company wants to foray into the two-wheeler business and therefore it acquires 30% interest in Quick Bikes Limited for ₹ 5,00,000 as at 1st November, 20X1 and an additional 25% stake as at 1st January, 20X2 for ₹ 5,00,000 at its fair value.

Following is the Balance Sheet of Quick Bikes Limited as at 1st January, 20X2:

Liabilities	Carrying value	Fair value	Assets	Carrying value	Fair value
Share capital	1,00,000		Plant and Equipment	3,50,000	7,50,000
Reserves	5,50,000		Investment in Bonds	4,00,000	5,00,000
Trade payables	1,50,000	1,50,000	Trade Receivables	50,000	50,000
Total	8,00,000		Total	8,00,000	

Quick Bikes Limited sells the motorcycles under the brand name 'Super Start' which has a fair value of ₹ 3,50,000 as at 1st January, 20X2. This is a self- generated brand therefore Quick Bikes Limited has not recognized the brand in its books of accounts. Following is the separate balance sheet of High Speed Limited as at 1st January, 20X2:

Liabilities	Amount	Assets	Amount
Share capital 5,00,000	5,00,000	Plant and equipment	13,50,000
Reserves 15,00,000	15,00,000	Investment in Quick	10,00,000
Short term loans	4,00,000	Bike	80,000

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Trade payables	3,00,000	Trade Receivables	5,20,000
Other liabilities	2,50,000	Cash and bank balances	
Total	29,50,000	Total	29,50,000

In relation to the acquisition of Quick Bikes Limited, you are required to:
(i) Pass the necessary journal entries to give effect of business combination in accordance with Ind AS 103 as at acquisition date 1st January, 20X2. NCI is measured by the entity at fair value. Provide working notes, Ignore deferred tax implication; and
(ii) Prepare a consolidated balance sheet of High Speed Limited as at 1st January, 20X2

Answer

(i) Journal Entry

	₹	₹
Plant and Equipment Dr.	7,50,000	
Investment in bonds Dr.	5,00,000	
Trade Receivables Dr.	50,000	
Brand Dr.	3,50,000	
Goodwill (balancing figure) Dr.	5,00,000	
To Investment in Quick Bikes		10,00,000
To Profit or loss A/c (W.N.1)		1,00,000
To Trade Payables		1,50,000
To NCI (W.N.3)		9,00,000
(Being assets and liabilities acquired at fair value and previous investment considered at fair value on the acquisition date)		

Working Notes:

1. Calculation of fair value of shares on the acquisition date 1st January, 20X2

25% Shares purchase on 1st January, 20X2 (fair value)	₹ 5,00,000
30% Shares purchase on 1st November, 20X1 at ₹ 5,00,000	
Fair value = [(5,00,000 / 25%) x 30%]	₹ 6,00,000
Total consideration at fair value on acquisition date	₹ 11,00,000
Less: Cost of investment	(₹ 10,00,000)
Gain charged to Profit or Loss (5,00,000 + 5,00,000)	₹ 1,00,000

2. Computation of Net Identifiable Assets at fair value

	₹
Plant and Equipment	7,50,000
Investment in bonds	5,00,000
Trade Receivables	50,000
Self-generated Brand	3,50,000
	16,50,000
Less: Trade Payables	(1,50,000)
Net Identifiable Assets at fair value	15,00,000

3. Measurement of Non-controlling Interest (on fair value basis)

Share of NCI (100- 30-25)	45%
Taking fair value of shares on 1st January, 20X2 as a base [(11,00,000/ 55%) x 45%]	₹ 9,00,000

(ii) Consolidated Balance Sheet of High Speed Limited as at 1st January, 20X2

	Note No.	₹
Assets		
Non-current assets		
(a) Property, plant and equipment	1	21,00,000
(b) Intangible asset	2	8,50,000
(c) Investment in bonds		5,00,000
Current Assets		
(a) Financial assets		

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(i) Trade receivables	3	1,30,000
(ii) Cash and cash equivalents	4	5,20,000
		41,00,000
Equity and Liabilities		
Equity		
(a) Equity share capital		5,00,000
(b) Other Equity	5	16,00,000
Non-controlling Interest (W.N.3)		9,00,000
Current Liabilities		
(a) Financial liabilities		
(i) Borrowings	6	4,00,000
(ii) Trade Payables	7	4,50,000
(b) Other Current Liabilities	8	2,50,000
		41,00,000

Notes to Accounts

S. No.		₹	₹
1.	Property, plant and equipment		
	High Speed Ltd.	13,50,000	
	Quick Bikes Ltd.	7,50,000	21,00,000
2.	Intangible asset		
	Goodwill	5,00,000	
	Brand value of Quick Bikes Ltd.	3,50,000	8,50,000
3.	Trade Receivables		
	High Speed Ltd.	80,000	
	Quick Bikes Ltd.	50,000	1,30,000
4.	Cash and cash equivalents		
	Quick Bikes Ltd.		5,20,000
5.	Other Equity - Reserves		
	High Speed Ltd.	15,00,000	
	Add: Gain on investment in Quick Bikes Ltd.	1,00,000	16,00,000
6.	Borrowings		
	Short term loans of High Speed Ltd.		4,00,000
7.	Trade Payables		
	High Speed Ltd.	3,00,000	
8.	Quick Bikes Ltd.	1,50,000	4,50,000
	Other Current Liabilities		
	High Speed Ltd.		2,50,000

Q11. May 2022, RTP

Identify the type of joint arrangements in each of the following scenarios:

(i)X Ltd and Y Ltd, manufacturing similar type of mobile phones, form a joint arrangement to manufacture and sell mobile phones. Under the terms of the arrangement, both X Ltd and Y Ltd are to use their own assets to manufacture the mobile phones and both are responsible for liabilities related to their respective manufacture. The arrangement also lays down the distribution revenues from the

sale of the mobile phones and expenses incurred thereof. X Ltd however has exclusive control over the marketing and distribution functions and does not require the consent of Y Ltd in this aspect. No separate entity is created for the arrangement.

(ii) Continuing with (i) above, what would be the classification of the joint arrangement if X Ltd and Y Ltd both jointly control all the relevant activities of the Joint arrangement including the marketing and the distribution functions?

(iii) What would be the classification of the joint arrangement if under the terms of the arrangement, a separate entity is created to manufacture the mobile phones.

(iv) Continuing with (iii) above, the joint arrangement is a means of manufacturing mobile phones on a common platform but the output of the joint arrangement is purchased by both X Ltd and Y

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Ltd in the ratio of 50:50. The joint arrangement cannot sell output to third parties. The price of the output sold to X Ltd and Y Ltd is set by both the parties to the arrangement to cover the production costs and other administrative costs of the joint arrangement entity.
(v) Would your answer in (iv) above be different if X Ltd and Y Ltd sold their respective share of output to third parties?i) Assume that in (iv) above, the contractual terms of the arrangement were modified so that the joint arrangement entity is not obliged to sell the output to X Ltd and Y Ltd but was able to sell the output to third parties.

Answer

For a joint arrangement to be either a joint operation or joint venture, it depends on whether the parties to the joint arrangement have rights to the assets and obligations for liabilities (will be a joint operation) OR whether the parties to the joint arrangement have rights to the net assets of the arrangement (will be joint venture).

(i) In order to fit into the definition of a joint arrangement, the parties to the joint arrangement should have joint control over the arrangement. In the given case, decisions relating to relevant activities, ie, marketing and distribution, are solely controlled by X Ltd and such decisions do not require the consent of Y Ltd. Hence, the joint control test is not satisfied in this arrangement and the arrangement does not fit into the definition of a joint arrangement in accordance with the Standard.

(ii) Where X Ltd and Y Ltd both jointly control all the relevant activities of the arrangement and since no separate entity is formed for the arrangement, the joint arrangement is in the nature of a joint operation.

(iii) Where under a joint arrangement, a separate vehicle is formed to give effect to the joint arrangement, then the joint arrangement can either be a joint operation or a joint venture.

Hence in the given case, if:

(a) The contractual terms of the joint arrangement, give both X Ltd and Y Ltd rights to the assets and obligations for the liabilities relating to the arrangement, and the rights to the corresponding revenues and obligations for the corresponding expenses, then the joint arrangement will be in the nature of a joint operation.

(b) The contractual terms of the joint arrangement, give both X Ltd and Y Ltd. rights to the net assets of the arrangement, then the joint arrangement will be in the nature of a joint venture.

(iv) Where the rights to assets and liabilities to obligations are not clear from the contractual arrangement, then other facts and circumstances also need to be considered to determine whether the joint arrangement is a joint operation or a joint venture.

When the provision of the activities of the joint venture is primarily to produce output and the output is available / distributed only to the parties to the joint arrangement in some pre-determined ratio, then this indicates that the parties have substantially all the economic benefits of the assets of the arrangement. The only source of cash flows to the joint arrangement is receipts from parties through their purchases of the output and the parties also have a liability to fund the settlement of liabilities of the separate entity. Such an arrangement indicates that the joint arrangement is in the nature of a joint operation.

In the given case, the output of the joint arrangement is exclusively used by X Ltd .and Y Ltd. and the joint arrangement is not allowed to sell the output to outside parties. Hence, the joint arrangement between X Ltd. and Y Ltd. is in the nature of a joint operation.

(v) It makes no difference whether the output of the joint arrangement is exclusively for use by the parties to the joint arrangement or the parties to the arrangement sold their share of the output to third parties.

Hence, even if X Ltd. and Y Ltd. sold their respective share of output to third parties,the fact still remains that the joint arrangement cannot sell output directly to third parties. Hence, the joint arrangement will still be deemed to be in the nature of a joint operation.

(vi) Where the terms of the contractual arrangement enable the separate entity to sell the output to third parties, this would result in the separate entity assuming demand, inventory and credit risks. Such facts and circumstances would indicate that the arrangement is a joint venture.

Q12. Nov 2021, RTP

PP Ltd., a non-investment entity, is the parent of Praja Ltd. within the meaning of Ind AS 110 'Consolidated Financial Statements'. The investment in Praja Ltd. was carried in the separate financial statements of PP Ltd. at fair value with changes in fair value recognised in the other comprehensive income. On 1st April, 20X2, PP Ltd.qualifies as one that is an investment entity. Carrying amount of the investment on 1st April, 20X2 was ₹ 8,00,000. The fair value of its investment in Praja Ltd was ₹ 10,00,000 on that date. PP Ltd had recognised in OCI an amount of ₹ 1,00,000 as a previous fair value increase related to the investment in Praja Ltd.

How would PP Ltd account for the investment in Praja Ltd on the date of change of its classification/status as an investment entity, in its separate financial statements?

Answer

(i) On the date of change, ie, 1st April, 20X2, PP Ltd (the parent) becoming an investment entity, its investment in Praja Ltd (the subsidiary) shall be at fair value through profit and loss in accordance with Ind AS 109. Accordingly, the new carrying amount will be ₹ 10,00,000.

(ii) The difference between the new carrying amount and the carrying amount of the investment on the date of change will be recognised in the profit and loss. Hence, PP Ltd will recognise an amount of ₹ 2,00,000 (₹ 10,00,000 – ₹ 8,00,000) in profit and loss as gain.

(iii) Any fair value adjustments previously recognised in OCI in respect of subsidiary ie Praja Ltd. shall be treated as if the investment entity had disposed off the subsidiaryat the date of change in status, ie, amounts shall be reclassified from OCI to the profit and loss on the date of change of status. Therefore, ₹ 1,00,000 shall be reclassified from OCI to the profit and loss.

Particulars	**₹**	**₹**
Carrying amount of investment in Praja Ltd [as per (i) above]		10,00,000
Amounts recognised in profit and loss relating to investment in Praja Ltd		
As per (ii) above	2,00,000	
As per (iii)	1,00,000	3,00,000

Q13. Nov 2021, RTP

Solar Limited has an 80% interest in its subsidiary, Mars Limited. Solar Limited holds a direct interest of 25% in Venus Limited. Mars Limited also holds a 30% interest in Venus Limited. The decisions concerning relevant activities of Venus Limited require a simple majority of votes. How should Solar Limited account for its investment in Venus Limited in its consolidated financial statements?

Answer

In the present case, Solar Limited controls Mars Limited (since it holds 80% of its voting rights). Consequently, it also controls the voting rights associated with 30% equity interest held by Mars Limited in Venus Limited. Solar Limited also has 25% direct equity interest and related voting power in Venus Limited. Thus, Solar Limited controls 55% (30% + 25%) voting power of Venus Limited. As the decisions concerning relevant activities of Venus Limited require a simple majority of votes. Solar Limited controls Venus Limited and should therefore consolidate it in accordance with Ind AS 110.

Although, Solar Limited controls Venus Limited, its entitlement to the subsidiary's economic benefits is determined on the basis of its actual ownership interest. For the purposes of the consolidated financial statements, Solar Limited's share in Venus Limited is determined as 49% [25% + (80% × 30%)]. As a result, 51% of profit or loss, other comprehensive income and net assets of Venus Limited shall be attributed to the non-controlling interests in the consolidated financial statements (this comprises 6%

attributable to holders of non-controlling interests in Mars Limited [reflecting 20% interest of non-controlling shareholders of Mars Limited in 30% of Venus Limited] and 45% to holders of non-controlling interests in Venus Limited)

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Q14. Nov 2020, RTP

A company, AB Ltd. holds investments in subsidiaries and associates. In its separate financial statements, AB Ltd. wants to elect to account its investments in subsidiaries at cost and the investments in associates as financial assets at fair value through profit or loss (FVTPL) in accordance with Ind AS 109, Financial Instruments. Whether AB Limited can carry investments in subsidiaries at cost and investments in associates in accordance with Ind AS 109 in its separate financial statements?

Answer

Paragraph 10 of Ind AS 27, Separate Financial Statements inter-alia provides that, when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109, Financial Instruments in its separate financial statements. Further, the entity shall apply the same accounting for each category of investments.

It may be noted that although the 'category' is used in number of Standards, it is not defined in any of the Ind AS. It seems that subsidiaries, associates and joint ventures would qualify as separate categories. Thus, the same accounting policies are applied for each category of investments - i.e. each of subsidiaries, associates and joint ventures. However, paragraph 10 of Ind AS 27 should not be read to mean that, in all circumstances, all investments in associates are one 'category' of investment and all investment s in joint ventures or an associate are one 'category' of investment. These categories can be further divided into sub-categories provided the sub-category can be defined clearly and objectively and results in information that is relevant and reliable. For example, an investment entity parent can have investment entity subsidiary (at fair value through profit or loss) and non-investment entity subsidiary (whose main purpose is to provide services that relate to the investment entity's investment activities) as separate categories in its separate financial statements. In the present case, investment in subsidiaries and associates are considered to be different categories of investments. Further, Ind AS 27 requires to account 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, AB Limited can carry its investments in subsidiaries at cost and its investments in associates as financial assets in accordance with Ind AS 109 in its separate financial statements.

Q15. May 2020, RTP

Gamma Limited, a parent company, is engaged in manufacturing and retail activities. The group holds investments in different entities as follows:

- Gamma Limited holds 100% Investment in G Limited and D Limited;
- G Limited and D Limited hold 60% and 40% in GD Limited respectively;
- Delta Limited is a 100% subsidiary of GD Limited

Firstly, Gamma Limited wants you to suggest whether GD Limited can avail the exemption from the preparation and presentation of consolidated financial statements as per applicable Ind AS?

Secondly, if all other facts remain the same as above except that G Limited and D Limited are both owned by an Individual (say, Mr. X) instead of Gamma Limited, then explain whether GD Limited can avail the exemption from the preparation and presentation of consolidated financial statements.

Answer

As per paragraph 4(a) of Ind AS 110, an entity that is a parent shall present consolidated financial statements. This Ind AS applies to all entities, except as follows:

A parent need not present consolidated financial statements if it meets all the following conditions:

(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

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(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind AS's, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this Ind AS.

In accordance with the above, it may be noted that as per paragraph 4(a)(i) above, a parent need not present consolidated financial statements if it is a:

— wholly-owned subsidiary; or

— is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements.

Although GD Limited is a partly-owned subsidiary of G Limited, it is the wholly-owned subsidiary of Gamma Limited (and therefore satisfies the condition 4(a)(i) of Ind AS 110 without regard to the relationship with its immediate owners, i.e. G Limited and D Limited). Thus, GD Limited being the wholly owned subsidiary fulfils the conditions as mentioned under paragraph 4(a)(i) and is not required to inform its other owner D Limited of its intention not to prepare the consolidated financial statements.

Thus, in accordance with the above, GD Limited may take the exemption given under paragraph 4(a) of Ind AS 110 from presentation of consolidated financial statements.

In Alternative Scenario, where both G Limited and D Limited are owned by an individual Mr. X, then GD Limited is ultimately wholly in control of Mr. X (i.e., an individual) and hence it cannot be considered as a wholly owned subsidiary of an entity.

This is because Ind AS 110 makes use of the term 'entity' and the word 'entity' includes a company as well as any other form of entity. Since, Mr. X is an 'individual' and not an 'entity', therefore, GD Limited cannot be considered as wholly owned subsidiary of an entity.

Therefore, in the given case, GD Limited is a partially-owned subsidiary of another entity. Accordingly, in order to avail the exemption under paragraph 4(a), its other owner, D Limited should be informed about and do not object to GD Limited not presenting consolidated financial statements. Further, for the purpose of consolidation of G Limited and D Limited, GD Limited will be required to provide relevant financial information as per Ind AS.

Q16. May 2020, RTP

AB Limited and BC Limited establish a joint arrangement through a separate vehicle PQR, but the legal form of the separate vehicle does not confer separation between the parties and the separate vehicle itself. Thus, both the parties have rights to the assets and obligations for the liabilities of PQR. As neither the contractual terms nor the other facts and circumstances indicate otherwise, it is concluded that the arrangement is a joint operation and not a joint venture.

Both the parties own 50% each of the equity interest in PQR. However, the contractual terms of the joint arrangement state that AB Limited has the rights to all of Building No. 1 owned by PQR and the obligation to pay all of the debt owed by PQR to a lender XYZ. AB Limited and BC Limited have rights to all other assets in PQR, and obligations for all other liabilities of PQR in proportion of their equity interests (i.e. 50% each).

PQR's summarized balance sheet is as follows: **(Rs. in crore)**

	Amount
Building 1	240
Building 2	200
Cash	40
Total Assets	480
Equity	140
Debt owed to XYZ	240
Employee benefit plan obligation	100
Total Liabilities	480

How would AB Limited present its interest in PQR in its financial statements?

Answer

Paragraph 20 of Ind AS 111 states that "a joint operator shall recognise in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;
(b) its liabilities, including its share of any liabilities incurred jointly;
(c) its revenue from the sale of its share of the output arising from the joint operation;
(d) its share of the revenue from the sale of the output by the joint operation; and
(e) its expenses, including its share of any expenses incurred jointly."

The rights and obligations, as specified in the contractual arrangement, that an entity has with respect to the assets, liabilities, revenue and expenses relating to a joint operation might differ from its ownership interest in the joint operation. Thus a joint operator needs to recognise its interest in the assets, liabilities, revenue and expenses of the joint operation on the basis (bases) specified in the contractual arrangement, rather than in proportion of its ownership interest in the joint operation.

Thus, AB Limited would record the following in its financial statements, to account for its rights to the assets of PQR and its obligations for the liabilities of PQR.

	Rs. in crore
Assets	
Cash	20
Building 1*	240
Building 2	100
Liabilities	
Debt owned to XYZ (third party)**	240
Employees benefit plan obligation	50

* Since AB Limited has the rights to all of Building No. 1, it records the amount in its entirety.
** AB Limited has obligation for the debt owed by PQR to XYZ in its entirety.

Q17. Nov 2019, RTP

What will be the accounting treatment of dividend distribution tax in the consolidated financial statements in case of partly-owned subsidiary in the following scenarios:

Scenario 1: H Limited (holding company) holds 12,000 equity shares in S Limited (Subsidiary of H Limited) with 60% holding. Accordingly, S Limited is a partly-owned subsidiary of H Limited. During the year 20X1, S Limited paid a dividend @ ₹ 10 per share and DDT @ 20% on it.Should the share of H Limited in DDT paid by S Limited amounting to ₹ 24,000 (60% x ₹ 40,000) be charged as expense in the consolidated profit and loss of H Limited?

Scenario 2 (A): Extending the situation given in scenario 1, H Limited also pays dividend of ₹ 300,000 to its shareholders and DDT liability @ 20% thereon amounts to ₹ 60,000. As per the tax laws, DDT paid by S Ltd. of ₹ 24,000 is allowed as set off against the DDT liability of H Ltd., resulting in H Ltd. paying ₹ 36,000 (₹ 60,000 – ₹ 24,000) as DDT to tax authorities.

Scenario 2(B)

If in (A) above, H Limited pays dividend amounting to ₹ 100,000 with DDT liability @ 20% amounting to ₹ 20,000.

Scenario (3):

Will the answer be different for the treatment of dividend distribution tax paid by associate in the consolidated financial statement of investor, if as per tax laws the DDT paid by associate is not allowed set-off against the DDT liability of the investor?

Answer

Scenario 1: Since H Limited is holding 12,000 shares it has received ₹ 1,20,000 as dividend from S Limited. In the consolidated financial statements of H Ltd., dividend income earned by H Ltd. and dividend recorded by S Ltd. in its equity will both get eliminated as a result of consolidation adjustments. Dividend paid by S Ltd. to the 40% non-controlling interest (NCI) shareholders will be recorded in the Statement of Changes in Equity as reduction of NCI balance (as shares are classified as equity as per Ind AS 32).

DDT of ₹ 40,000 paid to tax authorities has two components- One ₹ 24,000 (related to H Limited's shareholding and other ₹ 16,000 (40,000 x 40%) belong to non controlling interest (NCI)

shareholders of S Limited). DDT of ₹ 16,000 (pertaining to non-controlling interest (NCI) shareholders) will be recorded in the Statement of Changes in Equity along with dividend. DDT of ₹ 24,000 paid outside the consolidated Group shall be charged as tax expense in the consolidated statement of profit and loss of H Ltd.

In accordance with the above, in the given case, CFS of H limited will be as under:

Transactions	H Ltd.	S Ltd.	Consol Adjustments	CFS H Ltd
Dividend Income (P&L)	1,20,000	-	(1,20,000)	-
Dividend (in Statement of Changes in Equity by way of reduction of NCI)	-	(2,00,000)	1,20,000	(80,000)
DDT (in Statement of Changes in Equity by way of reduction of NCI)	-	(40,000)	24,000	(16,000)
DDT (in Statement of P&L)	-	-	(24,000)	(24,000)

Scenario 2 (A): If DDT paid by the subsidiary S Ltd. is allowed as a set off against the DDT liability of its parent H Ltd. (as per the tax laws), then the amount of such DDT should be recognised in the consolidated statement of changes in equity of parent H Ltd.

In the given case, share of H Limited in DDT paid by S Limited is ₹ 24,000 and entire ₹ 24,000 was utilised by H Limited while paying dividend to its own shareholders.

Accordingly, DDT of ₹ 76,000 (₹ 40,000 of DDT paid by S Ltd. (of which ₹16,000 is attributable to NCI) and ₹ 36,000 of DDT paid by H Ltd.) should be recognised in the consolidated statement of changes in equity of parent H Ltd. No amount will be charged to consolidated statement of profit and loss. The basis for such accounting would be that due to Parent H Ltd's transaction of distributing dividend to its shareholders (a transaction recorded in Parent H Ltd's equity) and the related DDT set-off, this DDT paid by the subsidiary is effectively a tax on distribution of dividend to the shareholders of the parent company.

In accordance with the above, in the given case, CFS of H limited will be as under:

Transactions	H Ltd.	S Ltd.	Consol Adjustments	CFS H Ltd
Dividend Income (P&L)	1,20,000	-	(1,20,000)	-
Dividend (in Statement of Changes in Equity)	(3,00,000)	(2,00,000)	1,20,000	(3,80,000)*
DDT (in Statement of Changes in Equity)	(36,000)	(40,000)	-	(76,000)*

*Dividend of ₹ 80,000 and DDT of ₹ 16,000 will be reflected as reduction from non-controlling interest.

Scenario 2(B): In the given case, share of H Limited in DDT paid by S Limited is ₹24,000 out of which only ₹ 20,000 was utilised by H Limited while paying dividend by its own. Therefore, balance ₹ 4,000 should be charged in the consolidated statement of profit and loss.

In accordance with the above, in the given case, CFS of H limited will be as under:

Transactions	H Ltd.	S Ltd.	Consol Adjustments	CFS H Ltd
Dividend Income (P&L)	1,20,000	-	(1,20,000)	-
Dividend (in Statement of Changes in Equity)	(1,00,000)	(2,00,000)	1,20,000	(1,80,000)*
DDT (in Statement of Changes in Equity)	-	(40,000)	4,000	(36,000)*
DDT (in Statement of P&L)	-	-	(4,000)	(4,000)

*Dividend of ₹ 80,000 and DDT of ₹ 16,000 will be reflected as reduction from non-controlling interest.

Scenario (3): Considering that as per tax laws, DDT paid by associate is not allowed set off against the DDT liability of the investor, the investor's share of DDT would be accounted by the investor company by crediting its investment account in the associate and recording a corresponding debit adjustment towards its share of profit or loss of the associate.

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Q18. May 2019, RTP

Angel Ltd. has adopted Ind AS with a transition date of 1st April, 2017. Prior to Ind AS adoption, it followed Accounting Standards notified under Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as "IGAAP").

It has made investments in equity shares of Pharma Ltd., a listed company engaged in the business of pharmaceuticals. The shareholding pattern of Pharma Ltd. is given below:

Shareholders (refer Note 1)	**Percentage shareholding as on 1st April, 2017**
Angel Ltd.	21%
Little Angel Ltd. (refer Note 2)	24%
Wealth Master Mutual Fund (refer Note 3)	3%
Individual public shareholders (refer Note 4)	52%

Notes:

(1) None of the shareholders have entered into any shareholders' agreement.

(2) Little Angel Ltd. is a subsidiary of Angel Ltd. (under Ind AS) in which Angel Ltd. holds 51% voting power.

(3) Wealth Master Mutual Fund is not related party of either Little Angel Ltd. or Pharma Ltd.

(4) Individual public shareholders represent 17,455 individuals. None of the individual shareholders hold more than 1% of voting power in Pharma Ltd.

All commercial decisions of Pharma Ltd. are taken by its directors who are appointed by a simple majority vote of the shareholders in the annual general meetings ("AGM"). The following table shows the voting pattern of past AGMs of Pharma Ltd.:

Shareholders	**AGM for the financial year:**		
	2013-14	**2014-15**	**2015-16**
Angel Ltd.	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions
Little Angel Ltd.	Attended and voted as per directions of Angel Ltd	Attended and voted as per directions of Angel Ltd	Attended and voted as per directions of Angel Ltd
Wealth Master Mutual Fund	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors
Individuals	7% of the individual shareholders attended the AGM. All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors.	8% of the individual shareholders attended the AGM . All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors.	6% of the individual shareholders attended the AGM . All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors.

Pharma Ltd. has obtained substantial long term borrowings from a bank. The loan is payable in 20 years from 1st April, 2017. As per the terms of the borrowing, following actions by Pharma Ltd. will require prior approval of the bank:

- Payment of dividends to the shareholders in cash or kind;
- Buyback of its own equity shares;

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• Issue of bonus equity shares;
• Amalgamation of Pharma Ltd. with any other entity; and
• Obtaining additional loans from any entity.

Recently, the Board of Directors of Pharma Ltd. proposed a dividend of ₹ 5 per share. However, when the CFO of Pharma Ltd. approached the bank for obtaining their approval, the bank rejected the proposal citing concerns over the short-term cash liquidity of Pharma Ltd. Having learned about the developments, the Directors of Angel Ltd. along with the Directors of Little Angel Ltd. approached the bank with a request to re-consider its decision. The Directors of Angel Ltd. and Little Angel Ltd. urged the bank to approve a reduced dividend of at least ₹ 2 per share. However, the bank categorically
refused to approve any payout of dividend.

Under IGAAP, Angel Ltd. has classified Pharma Ltd. as its associate. As the CFO of Angel Ltd., you are required to comment on the correct classification of Pharma Ltd. on transition to Ind AS.

Answer

To determine whether Pharma Limited can be continued to be classified as an associate on transition to lnd AS, we will have to determine whether Angel Limited controls Pharma Limited as defined under Ind AS 110.

An investor controls an investee if and only if the investor has all the following:

(a) Power over investee
(b) Exposure, or rights, to variable returns from its involvement with the investee
(c) Ability to use power over the investee to affect the amount of the investor's returns.

Since Angel Ltd. does not have majority voting rights in Pharma Ltd. we will have to determine whether the existing voting rights of Angel Ltd. are sufficient to provide it power over Pharma Ltd.

Analysis of each of the three elements of the definition of control:

Elements / conditions	**Analysis**
Power over investee	Angel Limited along with its subsidiary Little Angel Limited (hereinafter referred to as "the Angel group")does not have majority voting rights in Pharma Limited. Therefore, in order to determine whether Angel group have power over Pharma Limited. we will need to analyse whether Angel group, by virtue of its non-majority voting power, have practical ability to unilaterally direct the relevant activities of Pharma Limited. In other words, we will need to analyse whether Angel group has de facto power over Pharma Limited. Following is the analysis of de facto power of Angel over Pharma Limited: - The public shareholding of Pharma Limited (that is, 52% represents thousands of shareholders none individually holding material shareholding, - The actual participation of Individual public shareholders in the general meetings is minimal (that is, in the range of 6% to 8%). - Even the public shareholders who attend the meeting do not consult with each other to vote. - Therefore, as per guidance of Ind AS 110, the public shareholders will not be able to outvote Angel group (who is the largest shareholder group) in any general meeting. Based on the above-mentioned analysis, we can conclude that Angel group has de facto power over Pharma Limited.
Exposure, or rights, to variable returns from its involvement with the investee	Angel group has exposure to variable returns from its involvement with Pharma Limited by virtue of its equity stake.
Ability to use power over the investee to affect the amount of the investor's	Angel group has ability to use its power (in the capacity of a principal and not an agent) to affect the amount of returns from Pharma Limited because it is in the position to appoint directors of

returns	Pharma Limited who would take all the decisions regarding relevant activities of Pharma Limited. Here, it is worthwhile to evaluate whether certain rights held by the bank would prevent Angel Limited's ability to use the power over Pharma Limited to affect its returns. It is to be noted that, all the rights held by the bank in relation to Pharma Limited are protective in nature as they do not relate to the relevant activities (that is, activities that significantly affect he Pharma Limited's returns) of Pharma Limited. As per Ind AS 110, protective rights are the rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate. Therefore, the protective rights held by the bank should not be considered while evaluating whether or not Angel Group has control over Pharma Limited.
Conclusion: Since all the three elements of definition of control is present, it can be concluded that Angel Limited has control over Pharma Limited.	

Since it has been established that Angel Limited has control over Pharma Limited, upon transition to Ind AS, Angel Limited shall classify Pharma Limited as its subsidiary.

Q19. Nov 2018, RTP

On 1st April 2017 Alpha Ltd. commenced joint construction of a property with Gama 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 30thSeptember 2017 and utilisation of the property started on 1st January 2018 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 2017. 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.

Answer

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 Alpha Ltd. and Gama 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 Alpha Ltd. and the same amount in the property, plant and equipment of Gama Ltd.

The depreciation charge for the year ended 31 March 2018 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 or loss of the company and the same amount in the statement of profit or loss of Gama 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 or loss of Alpha Ltd. and Gama Ltd. in equal proportions- ₹ 27,00,000 each.

Q1. Sep 2025 Exam, 5 marks

Which specific Computer Technology can be used in under-mentioned scenarios to reduce burden and streamline the process? Give reasons in support of your answer.

(i) Koyal Ltd. has 8 subsidiaries including 2 foreign subsidiaries and 2 foreign associate companies, each maintaining their own financial data independently. Koyal Ltd. prepares consolidated financial statements in accordance with Ind AS 110 every year. This whole process needs to be accurate, consistent and completed in time, but Koyal Ltd. is struggling for the same.

(ii) Doham Ltd. is a financial institution which deals with high-profile people and Mr. Salil, who works for Doham Ltd. handles sensitive customer data, such as personal information and transaction records. He is under stress all the time and needs support.

Answer:

(i) In the given scenario, to streamline its financial reporting processes, Koyal Ltd. should leverage Robotic Process Automation (RPA) to automate the process of extracting financial data from the subsidiary systems and consolidating it into the parent company's financial system.

The bots retrieve the relevant financial information, perform necessary currency conversions, and reconcile intercompany transactions, ensuring accurate and timely consolidation.

RPA bots are programmed to identify intercompany transactions within the consolidated financial data. The bots automatically eliminate these transactions by adjusting the corresponding accounts and generating elimination entries, simplifying the process and reducing the potential for errors.

The bots retrieve the consolidated financial data from the parent company's financial system and apply the necessary consolidation adjustments. They perform calculations for non-controlling interests, equity, and comprehensive income attributable to the parent and non- controlling interests.

The bots generate the consolidated balance sheet, income statement, statement of changes in equity, and cash flow statement, ensuring accuracy and consistency in the financial reporting process.

(ii) In the given scenario, to streamline its financial reporting processes and to handle sensitive customer data, an entity should utilize blockchain technology. Doham Ltd., being a financial institution, can implement a secure and encrypted blockchain network to store and share customer data. The finance professional can ensure the integrity and security of the data by leveraging blockchain's cryptographic algorithms and consensus mechanisms. This eliminates the risk of unauthorized access, data tampering, or data loss.

With blockchain, the finance professional can confidently handle customer data, knowing that it is protected by a robust and transparent system, enhancing data privacy, and maintaining the trust of customers and regulatory bodies.

Q2. May 2025 Exam, 5 marks

Discuss any five key impacts of Blockchain on Financial Reporting.

Answer:

Key Impacts of Blockchain on Financial Reporting

1. Enhanced Transparency: Blockchain technology provides a decentralized and immutable ledger, where transactions are recorded and stored in a transparent and tamper-proof manner.

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This increased transparency ensures that financial data is accurately captured and can be easily audited, promoting trust and reliability in financial reporting.

2. Improved Data Integrity: Blockchain's distributed ledger ensures that each transaction is verified and encrypted, preventing unauthorized modifications or tampering. This feature enhances data integrity, reducing the risk of fraudulent activities and errors in financial reporting.

3. Streamlined Audit Processes: Blockchain technology enables real- time access to financial data, eliminating the need for time-consuming and manual data reconciliation processes. Auditors can directly access the blockchain ledger to verify transactions, reducing audit time and enhancing efficiency in financial reporting.

4. Enhanced Security: Blockchain incorporates advanced cryptographic algorithms, making it highly secure against unauthorized access or data breaches. Financial data stored on the blockchain is encrypted and protected, minimizing the risk of data manipulation or unauthorized disclosure, thus strengthening the security of financial reporting.

5. Simplified Reconciliation: Blockchain's decentralized ledger eliminates the need for reconciling multiple versions of data across different systems. With a single shared source of truth, financial reporting processes become more streamlined, reducing reconciliation efforts and potential errors.

6. Cost Reduction: By eliminating intermediaries and central authorities, blockchain reduces the costs associated with traditional financial reporting processes. It eliminates the need for third-party verification and reconciliation, leading to cost savings for organizations.

7. Enhanced Audit Trail: Blockchain maintains a comprehensive and immutable audit trail of all transactions, providing a transparent and traceable record of financial activities. This audit trail simplifies the identification and investigation of any irregularities or discrepancies, improving the accuracy and reliability of financial reporting.

8. Real-time Financial Reporting: With blockchain's real-time data availability and consensus mechanism, financial reporting can be performed more frequently and with greater accuracy. Organizations can generate up-to-date financial statements, enabling stakeholders to make informed decisions based on the most current financial information.

Q3. Nov 2024 Exam, 5 marks

An entity provides broadband services to its customers along with voice call service. Customer buys modem from the entity. However, customer can also get the connection from the entity and modem from any other vendor. The installation activity requires Ltd. effort and the cost involved is almost insignificant. It has various plans where it provides either broadband services or voice call services or both.

Comment on how to identify whether the performance obligations under the contract are distinct by using an automated process?

Answer:

To identify the performance obligations under the contract and determine if they are distinct, an automated process can be implemented using technology. The following steps can be taken:

a. Analyze the clauses in the contract related to the services provided (broadband services, voice call services, modem sales).
b. Each clause should be codified using appropriate parameters or tags to capture the relevant information.
c. Assign Boolean values (0 or 1) to each parameter or tag in the codified clauses.
d. Use "0" to represent "No" and "1" to represent "Yes" for each parameter.

e. Define the criteria for evaluating the performance obligations based on the parameters and their Boolean values.
f. Consider factors such as the type of service involved, benefits derived by the customer, and promises made in the contract regarding the transfer of goods or services.
g. Develop an automated algorithm or script that evaluates the Boolean values of the parameters according to the defined criteria.
h. Calculate scores or weights for each parameter based on their significance in determining performance obligations.
i. Utilize the scores or weights assigned to the parameters to determine if the performance obligations are distinct.
j. If the total score exceeds a certain threshold, consider it a separate performance obligation.

The automated process should flag and identify these distinct performance obligations based on the evaluation results.

Considering the above facts, the following conclusion arises: There are three separate obligations

- Broadband Service
- Voice Call Services
- Modem

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