Indian Accounting Standard 32, 109 & 107

FINANCIAL INSTRUMENTS

1. Illustration – Security Deposit

A Ltd has made a security deposit for lease whose details are described below. Make necessary journal entries for accounting of the deposit in the first year and last year. Assume market interest rate for a deposit for similar period to be 12% per annum.

Date of Security Deposit (Starting Date)	**1-Apr-20X1**
Date of Security Deposit (Finishing Date)	**31-Mar-20X6**
Total Lease Period	**5 years**
Discount rate	**12.00%**
Security deposit (A)	**10,00,000**

Present value factor at the 5th year 0.567427

Solution

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

Amount of deposit		**10,00,000.00**
PV of deposit which will be repaid after 5 years (10,00,000 x 0.567427)		5,67,427.00
Excess amount over FV		4,32,573.00

Present value of deposit is recognised as an asset and accounted for using amortised cost method. The excess amount over fair value of deposit is recognised as a prepaid lease rent of ROU Asset and amortised over the life of the asset.

Deposit Amortisation schedule

Year	**Op Bal**	**Int @ 12%**	**Closing bal**	**Amortisation of ROU Asset**
1	5,67,427.00	68,091.24	6,35,518.24	86,515

2	6,35,518.24	76,262.19	7,11,780.43	86,515
3	7,11,780.43	85,413.65	7,97,194.08	86,515
4	7,97,194.08	95,663.29	8,92,857.37	86,515
5	8,92,857.37	1,07,142.88	10,00,000.25	86,515
		4,32,573		

Year 1 Journal Entries		
Initial Recognition		
Security Deposit (Financial Asset) Dr.	5,67,427.00	
ROU Asset	4,32,573.00	
To Bank		10,00,000.00
End of Year 1		
Security Deposit (Financial Asset) Dr.	68,091.24	
To Interest Income		68,091.24
Interest Income Dr.	68,091.24	
To Profit & Loss		68,091.24
Amortisation - ROU Asset	86,514.60	
To ROU Asset		86,514.60
Profit & Loss Dr.	86,514.60	
To Amortisation ROU Asset		86,514.60
Journal Entries for Last Year		
Security Deposit (Financial Asset) Dr.	1,07,142.88	
To Interest Income		1,07,142.88
Amortisation - ROU Asset	86,514.60	
To ROU Asset		86,514.60
Bank Dr.	10,00,000.00	
To Security Deposit (FA)		10,00,000.00

2. Illustration FVTOCI & ACM

Investment in Debentures – Rs. 1,00,000

Transaction cost – Rs. 2,000

ROI on debentures – 10%

Tenure – 3 years

Effective Interest rate – 9.207%

Pass journal entries.

Solution

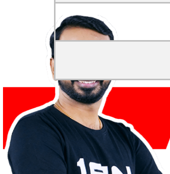
Year	Op. Balance	Interest @ 9.207%	Payment	Closing Balance	FV (Assumed)	Carrying Amount (FVTOCI before Gain)	Gain
1	1,02,000	9,391	10,000	1,01,391	1,05,000	1,01,391	3,609
2	1,01,391	9,335	10,000	1,00,726	1,02,000	1,04,335	(2,335)
3	1,00,726	9,274	10,000	1,00,000	1,00,000	1,01,274	(1,274)

Carrying Amount for FVTOCI =

FV at end of Previous Year + Interest – Payment.

Journal Entries

			ACM			FVTOCI
Year 1	Financial Asset Dr.	1,02,000			1,02,000	
	To Bank		1,02,000			1,02,000
End of Y1	Financial Asset Dr.	9,391			9,391	
	To Interest Inc		9,391			9,391
	(Recognition of Income)					
	Bank A/c Dr.	10,000			10,000	
	To Financial Asset		10,000			10,000
	(Receipt of interest)					
	Financial Asset Dr.				3,609	
	To OCI					3,609
	(FV gain)					
Year 2	Financial Asset Dr.	9,335			9,335	
	To Interest Inc		9,335			9,335
	(Recognition of Income)					
	Bank A/c Dr.	10,000			10,000	
	To Financial Asset		10,000			10,000
	(Receipt of interest)					
	OCI Dr.				2,335	
	To Financial Asset					2,335
	(FV Loss)					



Year 3	Financial Asset Dr.	9,274			9,274	
	To Interest Inc		9,274			9,274
	(Recognition of Income)					
	Bank A/c Dr.	110,000			110,000	
	To Financial Asset		110,000			110,000
	(Receipt of interest and principal)					
	OCI Dr.				1,274	
	To Financial Asset					1,274
	(FV Loss)					

3. Illustration

An entity acquires a financial asset for CU 100 plus a purchase commission of CU 2. Initially, the entity recognises the asset at CU 102. The reporting period ends one day later, when the quoted market price of the asset is CU 100. If the asset were sold, a commission of CU 3 would be paid. How would transaction costs be accounted in books of the entity?

Initial recognition

Financial Asset Dr. 102

To Bank. 102

At year end

OCI Dr. 2

To Financial Asset 2.

4. Illustration

XYZ Ltd. is a company incorporated in India. It provides INR 10,00,000 interest free loan to its wholly owned Indian subsidiary (ABC). There are no transaction costs.

How should the loan be accounted for, in the Ind AS financial statements of XYZ, ABC and consolidated financial statements of the group?

Consider the following scenarios:

a) The loan is repayable on demand.

b) The loan is repayable after 3 years. The current market rate of interest for similar loan is 10% p.a. for both holding and subsidiary.

c) The loan is repayable when ABC has funds to repay the loan.

Solution

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 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 (a)

- Since the loan is **repayable on demand**, the **fair value equals ₹10,00,000**.
- No interest income or expense is recognised.
- Accounting treatment is straightforward - 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.

Scenario (b)

The loan is **interest-free** but **not repayable on demand**, so it's measured at **fair value** using market interest rate (10% p.a.). 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.

Amount of loan repayable	**10,00,000.00**	
Tenure	3 Years	
PV @ 10%	7,51,314.80	FV of Loan given
Excess amount given	2,48,685.20	

Loan amortisation schedule

Year	**Op bal**	**Int**	**Closing bal**
1	7,51,314.80	75,131.48	8,26,446.28
2	8,26,446.28	82,644.63	9,09,090.91
3	9,09,090.91	90,909.09	10,00,000.00

Date	*Company*	*Particulars*	*Dr (₹)*	*Cr (₹)*
On disbursement	Holding	Loan (FA) A/c Dr.	7,51,314.80	
		Investment in ABC Ltd. (Equity Contribution) Dr.	2,48,685.20	
		To Bank A/c		10,00,000.00
	Subsidiary	Bank A/c Dr.	10,00,000.00	
		To Loan (FL)		7,51,314.80
		To Equity – Shareholder Contribution		2,48,685.20
End of Year 1	Holding	Loan (FA) A/c Dr.	75,131.48	
		To Interest Income (P&L)		75,131.48
	Subsidiary	Interest Expense A/c Dr.	75,131.48	
		To Loan (FL)		75,131.48
End of Year 2	Holding	Loan (FA) A/c Dr.	82,644.63	
		To Interest Income (P&L)		82,644.63
	Subsidiary	Interest Expense A/c Dr.	82,644.63	
		To Loan (FL)		82,644.63
End of Year 3	Holding	Loan (FA) A/c Dr.	90,909.09	
		To Interest Income (P&L)		90,909.09
	Subsidiary	Interest Expense A/c Dr.	90,909.09	
		To Loan (FL)		90,909.09
On repayment	Holding	Bank A/c Dr.	10,00,000.00	
		To Loan (FA) A/c.		10,00,000.00
	Subsidiary	To Loan (FL) Dr.	10,00,000.00	
		To Bank A/c		10,00,000.00

Scenario (c)

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 (b).

5. Illustration

On 1 January 20X1, NKT Ltd. subscribes to convertible preference shares of VT Ltd. The conversion ratio varies as below:

Conversion upto 31 March 20X1: 1 equity share of VT Ltd. for each preference share held

Conversion upto 30 June 20X1: 1.5 equity share of VT Ltd. for each preference share held

Conversion upto 31 December 20X1: 2 equity share of VT Ltd. for each preference share held.

Examine whether the financial instrument will be classified as equity.

6. Illustration

On 1 January 20X1, STAL Ltd. subscribes to convertible preference shares of ATAL Ltd. The preference shares are convertible as below:

Convertible 1:1 if another strategic investor invests in the issuer within one year

Convertible 1.5:1: if a prospectus filing is successfully completed within 2 years

Convertible 2:1: if a binding agreement for sale of majority stake by equity shareholders is entered into within 3 years

Convertible 3:1: if none of these events occur in 3 years' time.

Examine whether the financial instrument will be classified as equity.

Solution

In this case the four events can be viewed as discrete because the achievement of each one of these can occur independently of the other (as they relate to different periods). The arrangement can therefore be considered to be economically equivalent to four separate contracts. The price per share and the amount of shares to be issued is fixed in each of these discrete periods, with each event relating to a different year and therefore a separate risk. The "fixed for fixed" test is therefore met.

The instrument is therefore classified as "equity instrument".

7. Illustration

D Ltd. issues preference shares to G Ltd. for a consideration of Rs. 10 lakhs. The holder has an option to convert these preference shares to a fixed number of equity instruments of the issuer anytime up to a period of 3 years. If the option is not exercised by the holder, the preference shares are redeemed at the end of 3 years. The preference shares carry a coupon of RBI base rate plus 1% p.a. and is payable at the end of every year.

The prevailing market rate for similar preference shares, without the conversion feature or issuer's redemption option, is RBI base rate plus 4% p.a. On the date of contract, RBI base rate is 9% p.a.

Calculate the value of the liability and equity components.

Solution

Coupon		**10%**		
Rate without conv/redem		13%		

Total value of compound instrument		10,00,000.00		
Annual dividend payable		1,00,000.00		
PV of dividend at 13% for 3 years		1,00,000.00	x 2.3611	2,36,110.00
PV of principal at 13% at end of 3 years		10,00,000.00	x 0.6930	6,93,000.00
		Fair value of FL		9,29,110.00
		Equity		70,890.00
Year	Op bal of FL	Int @ 13%	Payout	Closing bal
1	9,29,110	1,20,784.30	1,00,000.00	9,49,894
2	9,49,894	1,23,486.26	1,00,000.00	9,73,381
3	9,73,381	1,26,619.47	11,00,000.00	0

8. Illustration

ABC Company issued 10,000 compulsory cumulative convertible preference shares (CCCPS) as on 1 April 20X1 @ Rs. 150 each. The rate of dividend is 10% payable every year. The preference shares are convertible into 5,000 equity shares of the company at the end of 5th year from the date of allotment. When the CCCPS are issued, the prevailing market interest rate for similar debt without conversion options is 15% per annum. Transaction cost on the date of issuance is 2% of the value of the proceeds.

Key terms:

Date of Allotment	**01-Apr-20X1**	
Date of Conversion	**01-Apr-20X6**	
Number of Preference Shares		**10,000**
Face Value of Preference Shares	**150**	
Total Proceeds		**15,00,000**
Rate of dividend	**10%**	
Market Rate for Similar Instrument		**15%**
Transaction Cost	**30,000**	
Face value after conversion		**10**
Effective interest rate		**15.86%**

Solution

FV of Prefernce shares		**15,00,000.00**			
Coupon		10%			
Annual dividend		1,50,000.00	Liability stream		
Market rate of int		15%			

PV of Liab		1,50,000 x PVAF (15%, 5 years)			
		1,50,000 x 3.3522			
			Less: Transaction cost		net Amount
	Fair value of FL	5,02,830.00	10,056.60		4,92,773.40
	Equity	9,97,170.00	19,943.40		9,77,226.60
Year	Op bal of FL	Int @ 15.86%	Payout	Closing bal	
1	4,92,773	78,153.86	1,50,000.00	4,20,927	
2	4,20,927	66,759.06	1,50,000.00	3,37,686	
3	3,37,686	53,557.05	1,50,000.00	2,41,243	
4	2,41,243	38,261.20	1,50,000.00	1,29,505	
5	1,29,505	20,495.43	1,50,000.00	0	
		(bal figure)			
Journal entries					
1-Apr-X1	Bank Dr.	14,70,000			
	To Financial Liability (PS)		4,92,773		
	To equity (PS)		9,77,227		
	–				
31-Mar-x2	Interest Expense Dr.	78,153.86			
	To Financial Liability (PS)		78,153.86		
	Financial Liability (PS)	150000			
	To Bank		150000		
01-Apr-X6	Conversion				
	No of equity shares	5,000			
	Face value	50,000.00			
	Total Equity	9,77,226.60			
	Securities premium	9,27,226.60			
	Entry for conversion				

	Equity (PS). Dr.	9,77,226.60			
	To Equity share cap		50,000.00		
	To Securities Premium		9,27,226.60		

9. Illustration

X Ltd. issues Rs. 1.5 crore convertible bonds on 1st April, 2018. The bonds have a life of 8 years and a face value of Rs. 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).

(14 Marks)

Solution

Face value of Debentures Convertible		**1,50,00,000.00**		
Coupon 5.5% - Interest payable annually		8,25,000.00		
Applicable discount rate - Market rate		7%		
Step - 1 Determine the fair value of Financial Liability				
PV of Interest payments discounted at 7% for 8 years			8,25,000 x PVAF(7%,8 Years)	
			8,25,000 x 5.971	49,26,075.00
PV of principal payment at end of 8th year			1,50,00,000 x 0.582	
				87,30,000.00

		Fair value of Financial Liability		1,36,56,075.00
		Total FV of Comp Instrument		1,50,00,000.00
		Value of equity		13,43,925.00
Interest schedule for 8 years				
Yr ended 31 Mar	Op bal	Int @ 7%	Payout	Closing bal
2019	1,36,56,075	9,55,925.25	8,25,000.00	1,37,87,000
2020	1,37,87,000	9,65,090.02	8,25,000.00	1,39,27,090
2021	1,39,27,090	9,74,896.32	8,25,000.00	1,40,76,987
2022	1,40,76,987	9,85,389.06	8,25,000.00	1,42,37,376
2023	1,42,37,376	9,96,616.30	8,25,000.00	1,44,08,992
2024	1,44,08,992	10,08,629.44	8,25,000.00	1,45,92,621
2025	1,45,92,621	10,21,483.50	8,25,000.00	1,47,89,105
2026	1,47,89,105	10,35,895.34	8,25,000.00	1,50,00,000

Journal entries	**1st Apri 2018**			
2018-19	Bank A/c Dr.		1,50,00,000	
	To Conv. Debentures (Fin. Liab)			1,36,56,075
	To Conv. Debentures (equity)			13,43,925
	(Being recognition of Fin liab and equity on issue of conv debentures)			
31-Mar-19	Interest Expense Dr.		9,55,925	
	To Conv. Debentures (Fin. Liab)			9,55,925
	(Being interest expense recognised)			
31-Mar-19	Conv. Debentures (Fin Liab)		8,25,000	
	To Bank			8,25,000
	(Being annual coupon paid)			
31-Mar-20	Interest Expense Dr.		9,65,090	
	To Conv. Debentures (Fin. Liab)			9,65,090

	(Being interest expense recognised)			
31-Mar-20	Conv. Debentures (Fin Liab)		8,25,000	
	To Bank			8,25,000
	(Being annual coupon paid)			
If conversion	at end of fourth year			
	Conv. Debentures (Fin Liab) Dr.		1,42,37,376	
	Conv. Debentures (equity) Dr.		13,43,925	
	To Equity share capital			1,55,81,300.65
	(Being conversion into equity shares)			

10. Illustration

Entity PQR borrows Rs. 100 crores from CFDH Bank on 1 April 20X1. Interest is payable at 12% p.a. and there is a bullet repayment of principal at the end of the term. Term of the loan is 6 years.

The loan includes an option to prepay the loan at 1st April each year with a prepayment penalty of 3%. There are no transaction costs. Without the prepayment option, the interest rate quoted by bank is 11% p.a.

Analyse

Solution

Identify the host contract and embedded derivative, if any

In the given case,

- Host is a debt instrument comprising annual interest payment at 12% p.a. and bullet principal repayment at the end of 6 years.
- Option to prepay the debt at INR 103 crores is an embedded derivative

Compute the Amortised Cost & Calculate the difference between the exercise price and amortised cost

Whether the prepayment option is likely to be exercised or not, the amortised cost of the host debt instrument should be calculated as present value (PV) of expected cash flows using a fair market interest rate for a debt without the prepayment option (11% p.a. in this case).

Year	Payment	PVF @ 11%	PV	Interest @ 11%	Closing balance	Prepayment	Diff	%
A	B	C	D	E	F	G	H	I
			D=B x C	OP Balance x 11%	F = OB +E − B		H = F-G	I=H/F
1	12	0.9009	10.81	11.46	103.69	103.00	0.69	0.66%
2	12	0.8116	9.74	11.41	103.09	103.00	0.09	0.09%
3	12	0.7311	8.77	11.34	102.43	103.00	-0.57	-0.55%
4	12	0.6587	7.90	11.27	101.70	103.00	-1.30	-1.28%
5	12	0.5934	7.12	11.19	100.89	103.00	-2.11	-2.09%
6	112	0.5346	59.88	11.10	-0.01			
			104.22					

The management of Entity PQR may formulate an appropriate accounting policy to determine what constitutes "approximately equal". In this case, if the management determines that a difference of more than 2% will indicate that the option's exercise price is not approximately equal to the amortised cost of the host debt instrument, it will need to separate the embedded derivative.

11. Illustration

Company A, an Indian company whose functional currency is Rs. enters into a contract to purchase machinery from an unrelated local supplier, company B. The functional currency of company B is also Rs. . However, the contract is denominated in USD, since the machinery is sourced by company B from a US based supplier. Payment is due to company B on delivery of the machinery.

Contract/order date **9 September 20X1**

Delivery/payment date **31 December 20X1**

Purchase price **USD 1,000,000**

USD/Rs. Forward rate on 9 September

20X1 for 31 December 20X1 maturity **67.8**

USD/Rs. Spot rate on 9 September 20X1 66.4

USD/Rs. Forward rates for 31 December, on:

30 September **67.5**

31 December (spot rate) **67.0**

Company A is required to analyse if the contract for purchase of machinery (a capital asset) from company B contains an embedded derivative and whether this should be separately

accounted for on the basis of the guidance in Ind AS 109. Also give necessary journal entries for accounting the same.

Solution

Key Points

Nature of Contract:

- Company A entered into a **USD-denominated contract** to purchase machinery.
- This contract includes an **embedded foreign currency derivative** because:
  - The **host contract** (machinery purchase) is **non-financial** and not measured at FVTPL.
  - The **requirement to settle in USD** behaves like a standalone **USD-INR forward contract**.
  - **USD is not the functional currency** of either party.
  - Machinery is **not routinely denominated in USD** in global trade.
  - USD is **not a commonly used currency for domestic transactions** in India.

Accounting Treatment:

- **Company A must separate** the **embedded derivative** and recognize it **separately as a derivative financial instrument**.
- The **separated embedded derivative** is a **USD-INR forward contract** initiated on **9 September 20X1**, with a **notional amount of USD 1,000,000** at a **forward rate of 67.8**, maturing on **31 December 20X1**.
- Since the **forward rate at inception is equal to the market rate**, the **initial fair value of the derivative is zero**.

Subsequent Measurement:

- The **forward contract is measured at fair value** at each reporting date.
- **Changes in fair value are recognized in the Statement of Profit & Loss**.

Quarter-End and Settlement Accounting:

- At each quarter-end, the fair value of the embedded derivative is reassessed, and any **gain or loss is recorded in profit & loss**.
- On **settlement (31 December 20X1)**, Company A records the final **gain/loss on the derivative instrument** based on the difference between the contractual and prevailing exchange rates.

Conclusion

Company A is required to **separate and recognize the embedded foreign currency derivative** in its USD purchase contract and account for it at **fair value through profit or loss (FVTPL)** until settlement.

The following is the accounting treatment at quarter-end and on settlement:

At Inception	**9-Sep-X1**		

The entity separates embedded derivative and host contract. No accounting entry for embedded derivative is passed			
since the initial fair value of a forward is NIL.			
Fair value gain or loss	30-Sep-X1		
(67.8-67.5) x 1,000,000	3,00,000		
Journal Entry			
Derivative Asset Dr.	3,00,000		
To P&L		3,00,000	
(Gain on forward leg)			
	31-Dec-X1		
Fair value gain or loss			
(67.5-67) x 1,000,000	5,00,000		
Journal Entry			
Derivative Asset Dr.	5,00,000		
To P&L		5,00,000	
(Gain on forward leg)			
On purchase of machinery			
Property, Plant & Equipment	6,78,00,000		
To Derivative Asset		8,00,000	
To Bank		6,70,00,000	

12. Illustration

Company Z is engaged in the business of importing oil seeds for further processing as well as trading purposes. It enters into the following types of contracts as on 1 October 20X1:

Particulars	Contract 1	Contract 2	Contract 3
Nature of Contract	Import of oil seeds froma foreign supplier	Purchase of oil seeds froma domestic producer / supplier	Contract to sell oilseeds on the commodity exchange
Quantity and rate	100 MT at USD 400 perMT to be delivered as on 31 March 20X2	50 MT at Rs. 30,000 per MTto be delivered as on 31 January 20X2	50 MT at USD 450 per MT, maturing as on 15 January 20X2
Net settlement clause includedin the contract	Yes	Yes	Yes

Net settlement inpractice for similar contracts	There have also been several instances of theoil seeds being sold prior to or shortly after taking delivery. These instances of netsettlement constitute approximately 30 per cent of the value of total import contracts.	Yes – company Z has netsettled some of the domestic purchase contracts. However, these instances constitute only 1 per cent of the total domestic purchase contracts in value. The remaining contracts are settled by taking delivery of oil seeds whichare used for further processing.	Yes – these contracts are required to be net settled with the exchange on the maturity date. Company Z enters intothese types of derivative contracts to hedge the risks on its domestic oil seeds purchase contracts

Company Z is required to determine if the contracts entered into for purchase and sale of oil seeds are derivatives within the scope of Ind AS 109 or are executory contracts outside the scope of Ind AS 109.

Solution

Company Z must assess whether its **purchase and sale contracts for oil seeds** qualify as **derivative instruments under Ind AS 109** or if they are **executory contracts (outside its scope).**

Contract 1: Import of Oil Seeds from a Foreign Supplier

This contract **falls within the scope of Ind AS 109** as a **derivative instrument** because it **permits net settlement** and there is a **history of similar contracts being settled in cash or resold before/after delivery** (30% of similar contracts). Since the contract behaves like a **forward contract** to purchase **100 MT at USD 400 per MT**, Company Z must **recognize it as a derivative instrument from 1 October 20X1**. The contract should be **measured at fair value through profit or loss (FVTPL)**, with fair value changes recorded in the **statement of profit and loss** at each reporting date.

Contract 2: Purchase of Oil Seeds from a Domestic Producer

This contract **qualifies for the 'own-use' exemption** under Ind AS 109 and is considered an **executory contract, not a derivative**. Although it permits net settlement, Company Z has only **rarely settled similar contracts in cash (1% of total transactions)**, and in most cases, the **oil seeds are physically received and processed**. Since the company's **business practice involves taking delivery**, Ind AS 109 does **not apply**, and the contract remains **outside the scope of derivative accounting**.

Contract 3: Sale of Oil Seeds on Commodity Exchange

This contract **falls within Ind AS 109** as a **derivative instrument** because it is **executed on a commodity exchange** and **must be settled in cash** upon maturity. The contract is primarily used by Company Z to **hedge risks related to**

its domestic oil seed purchases, further reinforcing its nature as a **financial instrument** rather than an executory contract. Therefore, Company Z must **recognize this contract as a derivative and measure it at FVTPL** in accordance with Ind AS 109.

Conclusion

Contracts that **allow and have a history of net settlement** generally **qualify as derivatives** under **Ind AS 109**, whereas contracts intended for **physical delivery and own use** are **executory contracts** outside its scope.

Summary of Treatment:

- **Contract 1 (Import of Oil Seeds)** → ✅ **Derivative**, recognized and measured at **FVTPL**.
- **Contract 2 (Domestic Purchase)** → ❌ **Executory Contract (Own-use exemption applies)**, not within Ind AS 109 scope.
- **Contract 3 (Commodity Exchange Sale)** → ✅ **Derivative**, recognized and measured at **FVTPL**.

13. Illustration

Sea Ltd. has lent a sum of Rs.10 lakhs @ 18% per annum for 10 years. The loan had a Fair Value of Rs.12,23,960 at the effective interest rate of 13%. To mitigate prepayment risks but at the same time retaining control over the loan, Sea Ltd. transferred its right to receive the Principal amount of the loan on its maturity with interest, after retaining rights over 10% of principal and 4% interest that carries Fair Value of Rs.29,000 and Rs.1,84,620 respectively.

The consideration for the transaction was Rs.9,90,000. The interest component retained included a 2% fee towards collection of principal and interest that has a Fair Value of Rs.65,160. Defaults, if any are deductible to a maximum extent of the company's claim on Principal portion. You are required to show the Journal Entries to record de recognition of the Loan

Answer:

Calculation of securitized component of loan

		Rs.	Rs.
Fair Value			12,23,960
Less: Principal strip receivable (fair value)		29,000	
Less: Interest strip receivable (fair value)	1,19,460		
Less: Value of service asset (fair value)	<u>65,160</u>	<u>1,84,620</u>	<u>2,13,620</u>
			10,10,340

Apportionment of carrying amount in the ratio of fair values

	Fair value(₹)		Apportionment (₹)
Securitized component of loan	10,10,340	$\frac{10,10,340 \times 10,00,000}{12,23,960}$	8,25,468
Principal strip receivable	29,000	$\frac{29,000 \times 10,00,000}{12,23,960}$	23,694
Interest strip receivable	1,19,460	$\frac{1,19,460 \times 10,00,000}{12,23,960}$	97,601
Servicing asset	65,160	$65,160 \times 10,00,000$	53,237

		12,23,960	

Entries to record the de recognition of the Loan

		₹	₹
Bank A/c	Dr.	9,90,000	
To Loan A/c			8,25,468
To Profit & Loss A/c			1,64,532
(Being entry for securitization of 90% principal with 14% interest)			
Interest strip A/c	Dr.	97,601	
Servicing asset A/c	Dr.	53,237	
Principal strip A/c	Dr.	23,694	
To Loan A/c			1,74,532
(Being entry for interest, servicing asset and principal strips received)			

14. Illustration

On 1 January 20X0, XYZ Ltd. issues 10 year bonds for Rs. 10,00,000, bearing interest at 10% (payable annually on 31st December each year). The bonds are redeemable on 31 December 20X9 for Rs. 10,00,000. No costs or fees are incurred. The effective interest rate is therefore 10%. On 1 January 20X5 (i.e. after 5 years) XYZ Ltd. and the bondholders agree to a modification in accordance with which:

- **the term is extended to 31 December 20Y1;**
- **interest payments are reduced to 5% p.a.;**
- **the bonds are redeemable on 31 December 20Y1 for Rs. 15,00,000; and**
- **legal and other fees of Rs. 1,00,000 are incurred.**

XYZ Ltd. determines that the market interest rate on 1 January 20X5 for borrowings on similar terms is 11%.

Applicable rate for discounting	**10%**		
Cashflows under modified terms			
PV of 15,00,000 after 7 years @ 10%	0.5131	7,69,650	PVF(10%,7 Y)
PV of 50,000 yearly for 7 years @ 10%	4.8684	2,43,420.00	PVAF (10%, 7 YEARS)
PV of legal and other fees		1,00,000.00	
PV of modified cashflows		11,13,070.00	
Value of existing loan		10,00,000.00	
	Diff	1,13,070.00	

		11.31%	>10% hence substantial
1. Derecognise old liability			
2. Recognise new liability	FV considering revised rate of interest.		
FV of revised / modified liability		PV	
PV of 15,00,000 at 11% after 7 years	0.4817	7,22,550	
PV of 50,000 at 11% for 7 years	4.7122	2,35,610	
		9,58,160	Fair value
Dr. Financial Liability (Bonds)	10,00,000.00		
Cr. Gain on derecognition		41,840.00	
Cr. Financial Liability (bonds/11%)		9,58,160.00	
P&L Dr.	1,00,000.00		
To Bank		1,00,000.00	
Total Loss Booked	1,00,000 – 41,840	58,160	

15. Illustration

On 1 January 20X0, XYZ Ltd. issues 10 year bonds for Rs. 1,000,000, bearing interest at 10% (payable annually on 31st December each year). The bonds are redeemable on 31 December 20X9 for Rs. 1,000,000. No costs or fees are incurred. The effective interest rate is therefore 10%. On 1 January 20X5 (i.e. after 5 years) XYZ Ltd. and the bondholders agree to a modification in accordance with which:

- **no further interest payments are made**
- **the bonds are redeemed on the original due date (31 December 20X9) for Rs. 1,600,000;**
- **legal and other fees of Rs. 50,000 are incurred.**

On 1 January 20X5, the discounted present value of the remaining cash flows of the original financial liability is Rs. 10,00,000.

Particulars			
PV of cashflows under revised terms using original rate			
PV of repayments (Rs. 16,00,000) at 10%, 5 years		PVIF	PV
Amount	16,00,000	0.6209	9,93,440.00
PV of fees paid on date of modification	50,000	1.00	50,000.00

PV of cashflows under revised term			10,43,440.00
PV of original loan			10,00,000.00
			43,440.00
		%	4%
Since, the change in cashflows is less than 10% of PV of existing loan, modification accounting is followed			
Alternative 1			
Diff in PV of cashflows under revised terms and old terms are recognised in P&l	6,560	Gain in P&l	
Any fee etc is alos recognised in P&L	50,000.00	Recognised in P&L	
	43,440.00	Net amt recognised in P&L	
Profit & Loss Dr.	43,440.00		
Financial Liab. Dr	6,560.00		
To Bank		50,000	
Year	Op bal	Int @ 10%	Closing bal
X5	9,93,440	99,344.00	10,92,784.00
X6	10,92,784	1,09,278.40	12,02,062.40
X7	12,02,062	1,20,206.24	13,22,268.64
X8	13,22,269	1,32,226.86	14,54,495.50
X9	14,54,496	1,45,504.55	16,00,000.05
Alternative 2			
Carrying amount of existing liability	10,00,000		
Less: Fees paid	50,000		
Net Carrying amount	9,50,000	PV at beginning	
Amount to be repaid	16,00,000	Future value	
FV = PV x (1+r)^n			
16,00,000 = 9,50,000*(1+r)^5			
(1+r)^5 = 16,00,000/9,50,000			
(1+r)^5=	1.684210526		
1+r	1.1099		
r=	10.99%		

Year	Op bal	Int @ 10.99%	Closing bal
X5	9,50,000	1,04,405.00	10,54,405.00
X6	10,54,405	1,15,879.11	11,70,284.11
X7	11,70,284	1,28,614.22	12,98,898.33
X8	12,98,898	1,42,748.93	14,41,647.26
X9	14,41,647	1,58,437.03	16,00,084.29
Date of modification			
Financial Liability Dr.	50,000.00		
To Bank		50,000.00	

16. Illustration

Wheel Co. Limited borrowed Rs. 500,000,000 from a bank on 1 January 20X1. The original terms of the loan were as follows:

- **Interest rate: 11%**
- **Repayment of principal in 5 equal instalments**
- **Payment of interest annually on accrual basis**
- **Upfront processing fee: Rs. 5,870,096 Effective interest rate on loan: 11.50%**

On 31 December 20X2, Wheel Co. Limited approached the bank citing liquidity issues in meeting the cash flows required for immediate instalments and re-negotiated the terms of the loan with banks as follows:

- **Interest rate 15%**
- **Repayment of outstanding principal in 10 equal instalments starting 31 December 20X3**
- **Payment of interest on an annual basis**

Record journal entries in the books of Wheel Co. Limited till 31 December 20X3, after giving effect of the changes in the terms of the loan on 31 December 20X2

Payment Schedule					
Years	Principal	Payment	Closing bal	Interest @ 11%	Total
-	50,00,00,000	(58,70,096)	50,00,00,000		49,41,29,904
1		(10,00,00,000)	40,00,00,000	(5,50,00,000)	(15,50,00,000)
2		(10,00,00,000)	30,00,00,000	(4,40,00,000)	(14,40,00,000)
3		(10,00,00,000)	20,00,00,000	(3,30,00,000)	(13,30,00,000)
4		(10,00,00,000)	10,00,00,000	(2,20,00,000)	(12,20,00,000)

5		(10,00,00,000)	-	(1,10,00,000)	(11,10,00,000)
					0

Amortisation Schedule					
Years	Op bal	Interest Exp 11.5%	Interest paid	Principal paid	Closing bal
1	49,41,29,904	5,68,24,939	5,50,00,000	10,00,00,000	39,59,54,843
2	39,59,54,843	4,55,34,807	4,40,00,000	10,00,00,000	29,74,89,650
3	29,74,89,650	3,42,11,310	3,30,00,000	10,00,00,000	19,87,00,960
4	19,87,00,960	2,28,50,610	2,20,00,000	10,00,00,000	9,95,51,570
5	9,95,51,570	1,14,48,430	1,10,00,000	10,00,00,000	(0)

Journal Entries			
1-Jan-X1	Bank A/c Dr.	49,41,29,904	
	To Financial Liab (Loan)		49,41,29,904
31-Dec-X1	Int. Expense Dr.	5,68,24,939	
	To Financial Liab		5,68,24,939
31-Dec-X1	Financial Liab Dr.	15,50,00,000	
	To Bank		15,50,00,000
31-Dec-X2	Int. Expense Dr.	4,55,34,807	
	To Financial Liab		4,55,34,807
31-Dec-X2	Financial Liab	4,40,00,000	
	To Bank		4,40,00,000
	Closing bal of Fin. Liab	39,74,89,650	Carrying amount after payment of interest

	Calculation of PV of cashflows considering new terms at 11.5%		
	Principal o/s	40,00,00,000	on 31-Dec-X2
	Revised instalment	4,00,00,000	

Calculation of PV of cashflows considering new terms at 11.5%

	Principal o/s	**40,00,00,000**	**on31-Dec-X2**					
	Revised instalment	4,00,00,000						
Years	Principal Paid	Interest Paid at 15%	Principal Balance	Total CF	PVF@11.5%	PV	PV@15%	PV
31-Dec-X2			40,00,00,000					
X3	4,00,00,000	6,00,00,000	36,00,00,000	10,00,00,000	0.8969	8,96,90,000	0.8696	8,69,56,522
X4	4,00,00,000	5,40,00,000	32,00,00,000	9,40,00,000	0.8044	7,56,13,600	0.7561	7,10,77,505
X5	4,00,00,000	4,80,00,000	28,00,00,000	8,80,00,000	0.7214	6,34,83,200	0.6575	5,78,61,428
X6	4,00,00,000	4,20,00,000	24,00,00,000	8,20,00,000	0.6470	5,30,54,000	0.5718	4,68,83,766
X7	4,00,00,000	3,60,00,000	20,00,00,000	7,60,00,000	0.5803	4,41,02,800	0.4972	3,77,85,432
X8	4,00,00,000	3,00,00,000	16,00,00,000	7,00,00,000	0.5204	3,64,28,000	0.4323	3,02,62,932
X9	4,00,00,000	2,40,00,000	12,00,00,000	6,40,00,000	0.4667	2,98,68,800	0.3759	2,40,59,971
X10	4,00,00,000	1,80,00,000	8,00,00,000	5,80,00,000	0.4186	2,42,78,800	0.3269	1,89,60,303
X11	4,00,00,000	1,20,00,000	4,00,00,000	5,20,00,000	0.3754	1,95,20,800	0.2843	1,47,81,645
X12	4,00,00,000	60,00,000	-	4,60,00,000	0.3367	1,54,88,200	0.2472	1,13,70,496
						45,15,28,200		40,00,00,000
				PVofexisitingloan		39,74,89,649.90		
				Difference		5,40,38,550.10		
						13.59%		

Financial Liability (Old) Dr.		**39,74,89,650**	
Profit & loss		25,10,350	
To Financial liability (New)			40,00,00,000
(Derecognition of old loan and recognition of new loan)			

17. Illustration

JK Ltd. has an outstanding unsecured loan of Rs. 90 crores to a bank. The effective interest rate (EIR) of this loan is 10%. Owing to financial difficulties, JK Ltd. is unable to service the debt and approaches the bank for a settlement.

The bank offers the following terms which are accepted by JK Ltd.:

- 2/3rd of the debt is unsustainable and hence will be converted into 70% equity interest in JK Ltd. The fair value of net assets of JK Ltd. is Rs. 80 crores.

- 1/3rd of the debt is sustainable and the bank agrees to certain moratorium period and decrease in interest rate in initial periods. The present value of cash flows as per these revised terms calculated using original EIR is Rs. 25 crores. The fair value of the cash flows as per these revised terms is Rs. 28 crores

Fair value of the consideration paid is Rs. 56 crores (70% of Rs. 80 crores) plus Rs. 28 crores i.e. Rs.

84 crores.

Accordingly, 2/3rd of the original financial liability is extinguished through issue of equity shares and terms of 1/3rd of the original financial liability have been modified. JK Ltd. will need to evaluate if this modification tantamount to "substantial modification" or not.

Solution

Applying the guidance contained in Appendix D to Ind AS 109:

• Difference between the fair value of equity instruments (Rs. 56 crores) and 2/3rd of the original financial liability (2/3rd of Rs. 90 crores = Rs. 60 crores) i.e. Rs. 4 crores will be recognised as a gain in the statement of profit and loss

• Carrying amount of original financial liability which is not extinguished (1/3rd of Rs. 90 crores

= Rs. 30 crores) is compared with the present value of cash flows as per these revised terms (Rs. 25 crores)

• As the difference is more than 10%, this results in substantial modification of the original financial liability. Resultantly, the existing financial liability (Rs. 30 crores) will be extinguished and the new financial liability will be recognised at its fair value i.e. Rs. 28 crores.

• The difference i.e. Rs. 2 crores will be recognised as a gain in the statement of profit and loss.

18. Illustration

Company M, a manufacturer, has a portfolio of trade receivables of CU 30 million in 20X1 and operates only in one geographical region. The customer base consists of a large number of small clients and the trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The trade receivables do not have a significant financing component in accordance with Ind AS 115. In accordance with paragraph 5.5.15 of Ind AS 109 the loss allowance for such trade receivables is always measured at an amount equal to lifetime expected credit losses.

Please use the following information of debtors outstanding:

	Gross carrying amount
Current	CU 15,000,000
1-30 days past due	CU 7,500,000
31-60 days past due	CU 4,000,000
61-90 days past due	CU 2,500,000
More than 90 days past due	CU 1,000,000
	CU 30,000,000

Company M uses following default rates for making provisions:

	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%

Solution

Category	Gross amount (Mio)	Loss rate	ECL
Current	15.00	0.30%	0.0450
1-30	7.50	1.60%	0.1200
31-60	4.00	3.60%	0.1440
60-90	2.50	6.60%	0.1650
>90	1.00	10.60%	0.1060
	30.00		0.5800

19. Illustration

As part of staff welfare measures, Y Co Ltd. has contracted to lend to its employees sums of money at 5% per annum rate of interest. The amounts lent are to be repaid in five equal instalments for principal along with the interest. The market rate of interest is 10% per annum for comparable loans. Y lent Rs. 1,600,000 to its employees on 1st January 20X1.

Following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for the year ended 31 December 20X1, for the transaction and also compute the value of loan initially to be recognised and amortised cost for all subsequent years.

For the purpose of calculation, following discount factors at interest rate of 10% per annum may be adopted –

At the end of year –

Year	**Present value factor**
1	**.909**
2	**.827**
3	**.751**
4	**.683**
5	**.620**

Solution

Year	**Op Bal**	**Interest @ 5%**	**Repayment of Prin.**	**Total Payment**	**Closing bal**	**PVF @ 10%**	**PV**
1	16,00,000	80,000	3,20,000	4,00,000	12,80,000	0.909	3,63,600
2	12,80,000	64,000	3,20,000	3,84,000	9,60,000	0.827	3,17,568
3	9,60,000	48,000	3,20,000	3,68,000	6,40,000	0.751	2,76,368
4	6,40,000	32,000	3,20,000	3,52,000	3,20,000	0.683	2,40,416
5	3,20,000	16,000	3,20,000	3,36,000	0	0.620	2,08,320
						Total PV	14,06,272.00
						Actual loan	16,00,000.00
						Diff	1,93,728.00
						Term	5.00
						Annual expense	38,746

Year	**Op Bal**	**Int @ 10%**	**Payment**	**Closing bal**	
1	14,06,272	1,40,627.20	4,00,000	11,46,899	
2	11,46,899	1,14,689.92	3,84,000	8,77,589	
3	8,77,589	87,758.91	3,68,000	5,97,348	

4	5,97,348	59,734.80	3,52,000	3,05,083	
5	3,05,083	30,917.28	3,36,000	0	
	Initial Recognition				
	1-Jan-X1	Financial Asset Dr.		14,06,272	
		Prepaid Employee Cost Dr.		1,93,728	
		To Bank			16,00,000
	31-Dec-X1	Financial Asset Dr.		1,40,627	
		To Interest Income			1,40,627
		Bank A/c Dr.		4,00,000	
		To Financial Asset			4,00,000
		Employee Benefit Expense Dr.		38,746	
		To Prepaid Employee Cost			38,746

20. Illustration

A Ltd. issued redeemable preference shares to a Holding Company – Z Ltd. The terms of the instrument have been summarized below. Account for this in the books of Z Ltd.

Nature : Non-cumulative redeemable preference shares

Repayment: Redeemable after 5 years

Date of Allotment: 1-Apr-20X1

Date of repayment: 31-Mar-20X6

Total period: 5.00 years

Value of preference shares issued: 100,000,000

Dividend rate 0.0001%

Market rate of interest 12% per annum

Present value factor 0.56743

Solution

PV of 100,000,000 at 12% = 0.56743 x 100,000,000

=56,743,000

Liability Component = Rs. 56,743,000

Equity Component = Rs. 43,257,000

Cash Dr. Rs. 100,000,000

To Financial Liability Rs 56,743,000

To Equity Rs. 42,257,000

21. Illustration

On 1st January 20X1, SamCo. Ltd. agreed to purchase USD ($) 20,000 from JT Bank in future on 31st December 20X1 for a rate equal to Rs. 68 per USD. SamCo. Ltd. did not pay any amount upon entering into the contract. SamCo Ltd. is a listed company in India and prepares its financial statements on a quarterly basis.

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 purchase of USD.

For the purposes of accounting, please use the following information representing marked to market fair value of forward contracts at each reporting date:

16 dis

31-Mar : (25,000)

30-Jun : (15,000)

30-Sep : 12,000

Spot rate on 31-Dec : 66 per USD (FV = 20,000 x (66-68) i.e (40,000)

Solution

1-Jan-X1	No entry since initial FV of forward contract is Nil.		
31-Mar-X1	P&L Dr.	25,000	
	To Derivative Liab		25,000

30-Jun-X1	Derivative Liab Dr.	10,000	
	To P&L		10,000
30-Sep-X1	Derivative Asset Dr.	12,000	
	Derivative Liability Dr.	15,000	
	To P&L		27,000
31-Dec-X1	P&L	52,000	
	To Derivative Asset		12,000
	To Derivative Liability		40,000
31-Dec-X1	Bank (USD) [20000 x 66]	13,20,000	
	Derivative Liab	40,000	
	To Bank		13,60,000
31-Dec-X1	Bank (USD) [20000 x 66]	13,20,000	
	P&L Dr	52,000	
	To Derivative Asset		12,000
	To Bank		13,60,000

22. Illustration

Entity A (an Rs. functional currency entity) enters into a USD 1,000,000 sale contract on 1 January 20X1 with Entity B (an Rs. functional currency entity) to sell equipment on 30 June 20X1.

Spot rate on 1 January 20X1: Rs. /USD 45

Spot rate on 31 March 20X1: Rs. /USD 57

Three-month forward rate on 31 March 20X1: Rs. /USD 45

Six-month forward rate on 1 January 20X1: Rs. /USD 55

Spot rate on 30 June 20X1: Rs. /USD 60

Assume that this contract has an embedded derivative that is not closely related and requires separation. Please provide detailed journal entries in the books of Entity A for accounting of such embedded derivative until sale is actually made.

Solution

June forward on 1st January		**55**	
June forward on 31st March		45	
Loss		10	per USD
Total loss & liability to be booked		1,00,00,000	
Spot on 30th June		60	
Previous MTM rate		45	
Gain		15	
Total Gain		1,50,00,000	
1-Jan-X1	No entry		
31-Mar-X1	P&L (Loss) Dr.	1,00,00,000	
	To Derivative Liability		1,00,00,000
	(Being loss on derivative)		
30-Jun-X1	Derivative Liability Dr.	1,00,00,000	
	Derivative Asset Dr.	50,00,000	
	To P&L		1,50,00,000
30-Jun-X1	Trade Receivable Dr.	5,50,00,000	
	To Revenue		5,50,00,000
	(Being revenue recognised		
	considering fwd rate on 1st Jan)		
30-Jun-X1	Bank Dr	6,00,00,000	
	To Trade receivables		5,50,00,000
	To Derivative Asset		50,00,000
30-Jun-X1	Trade Receivables Dr.	50,00,000	
	To Derivative Assets		50,00,000

23. Illustration

Wheel Co. Limited has a policy of providing subsidized loans to its employees for the purpose of buying or building houses. Mr. X, who's executive assistant to the CEO of Wheel Co. Limited, took a loan from the Company on the following terms:

- **Principal amount: 1,000,000**
- **Interest rate: 4% for the first 400,000 and 7% for the next 600,000**
- **Start date: 1 January 20X1**
- **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 annual instalments and will be first applied to 7% interest bearing principal**
- **The accrued interest shall be paid on an annual basis**
- **Mr. X must remain in service till the term of the loan ends**

The market rate of a comparable loan available to Mr. X, is 12% per annum.

Mr. S, pre-pays Rs. 200,000 on 31 December 20X2, reducing the outstanding principal as at that date to Rs. 400,000. Record journal entries in the books of Wheel Co. Limited considering the requirements of Ind AS 109.

Year	**Op bal**	**Loan @ 4%**	**Loan @ 7%**	**Int @ 4%**	**Int @ 7%**	**Repayment - Pri**	**Repayment Int**	**Total CF**
1	10,00,000	4,00,000	6,00,000	16,000	42,000	2,00,000	58,000	2,58,000
2	8,00,000	4,00,000	4,00,000	16,000	28,000	2,00,000	44,000	2,44,000
3	6,00,000	4,00,000	2,00,000	16,000	14,000	2,00,000	30,000	2,30,000
4	4,00,000	4,00,000	-	16,000	0	2,00,000	16,000	2,16,000
5	2,00,000	2,00,000	-	8,000	0	2,00,000	8,000	2,08,000
Year	Principal	Int	Total	PVF @ 12%	PV			
1	2,00,000	58,000	2,58,000	0.8929	2,30,368			
2	2,00,000	44,000	2,44,000	0.7972	1,94,517			
3	2,00,000	30,000	2,30,000	0.7118	1,63,714			
4	2,00,000	16,000	2,16,000	0.6355	1,37,268			
5	2,00,000	8,000	2,08,000	0.5674	1,18,019			
			Total		8,43,886			
			Loan amount		10,00,000			

			Excess		1,56,114	Prepaid employee cost		
Year	Op bal	Int @ 12%	Payment	Closing bal				
1	8,43,886	1,01,266	2,58,000	6,87,153				
2	6,87,153	82,458	2,44,000	5,25,611				
3	5,25,611	63,073	2,30,000	3,58,684				
4	3,58,684	43,042	2,16,000	1,85,726				
5	1,85,726	22,274	2,08,000	0				

Journal Entries					
	1-Jan-X1				
		Financial Asset DR.		8,43,886	
		Prepaid employee cost		1,56,114	
		To Bank			10,00,000
	31-Dec-X1	Financial Asset Dr.		1,01,266	
		To Interest Income			1,01,266
		Bank A/c Dr		2,58,000	
		To Finanical Asset			2,58,000
		Employee Cost Dr.		31,223	
		To Prepaid Employee Cost			31,223
	31-Dec-X2	Financial Asset Dr.		82,458	
		To Interest Income			82,458
		Bank A/c Dr		2,44,000	

		To Finanical Asset			2,44,000
		Employee Cost Dr.		31,223	
		To Prepaid Employee Cost			31,223

	Determine the FV of loan at 12% on 31st Dec X2							
Year	Op bal	Loan @ 4%	Loan @ 7%	Int @ 4%	Int @ 7%	Repayment - Pri	Repayment Int	Total CF
3	4,00,000	4,00,000	-	16,000	0	2,00,000	16,000	2,16,000
4	2,00,000	2,00,000	-	8,000	0	2,00,000	8,000	2,08,000

Year	**Cashflow**	**PVF**	**PV**		
3	2,16,000	0.89290	1,92,866		
4	2,08,000	0.79720	1,65,818		
			3,58,684	FV of loan after prepayment	
			5,25,611	Carrying amount	
			1,66,927	Reduction in carrying amount	
	Total Amount paid		2,00,000		
	Difference		33,073	Reduction of prepaid cost	
	Prepayment entry				
	Bank A/c Dr		2,00,000		
	To Financial Asset			1,66,927	
	To Prepaid Emp. Cost			33,073	

Revised amortisation schedule				
Year	Op bal	Int @ 12%	Payment	Closing bal

3	3,58,684	43,042	2,16,000	1,85,726
4	1,85,726	22,274	2,08,000	0
	Year 3 Entries			
	Financial Asset Dr.		43,042	
	To Interest Income			43,042
	Bank A/c Dr		2,16,000	
	To Finanical Asset			2,16,000
	Employee Cost Dr.		30,298	
	To Prepaid Employee Cost			30,298

WN Prepaid balance			
	Initial recognition		1,56,114
	Written off in 2 years		62,446
	Closing balance on 31-12-X2		93,668
	Adjustment		33,073
	Closing balance on 31-12-X2		60,595
	Amortisation		30,298

24. Illustration – Nov-22 [12 Marks]

On 1st April, 2021 "Fortunate Bank" has provided a loan of Rs. 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.

Solution

A financial guarantee contract is initially measured at FV. FV may be the transaction price or the PV of benefits under the guarantee

Year	Loan	Int @ 14%	Int @ 10%	Benefit	PV @ 14%	PV of benefits
1	25,00,000	3,50,000	2,50,000	1,00,000	0.8772	87,720
2	25,00,000	3,50,000	2,50,000	1,00,000	0.7695	76,950
3	25,00,000	3,50,000	2,50,000	1,00,000	0.6750	67,500
4	25,00,000	3,50,000	2,50,000	1,00,000	0.5921	59,210
						2,91,380.00

In the books of Surya Ltd				
Investment in Subsidiary (Mohan)			2,91,380	
To Financial Liability (Guarantee)				2,91,380.00

Amortisation schedule of financial guarantee							
Year	Op Balance	Int @ 14%	Benefits expired	Closing bal	Expected Loss	Carrying amt	Income

1	2,91,380	40,793	1,00,000.00	2,32,173	50,000.00	2,32,173.20	59,207
2	2,32,173	32,504	1,00,000.00	1,64,677	1,00,000.00	1,64,677.45	67,496
3	1,64,677	23,055	1,00,000.00	87,732	1,25,000.00	1,25,000.00	39,677
4	87,732	12,268	1,00,000.00	(0)			

31-Mar-22				
	Dr. Financial Liability		59,207	
	Cr. P&L			59,207
31-Mar-23	Dr. Financial Liability		67,496	
	Cr. P&L			67,496
31-Mar-24	Dr. Financial Liability		39,677	
	Cr. P&L			39,677

25. **Illustration**

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 ?

Solution:

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.

26. Illustration

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?

Solution:

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: (Rs.)

Liability component	Dr.	962	
Debt settlement expense (P&L)	Dr.	120	
To Cash			1,082
(To recognize the repurchase of the liability component)			
Equity component	Dr.	60	
Reserves and Surplus	Dr.	558	
To Cash			618
(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.

27. Illustration

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.

Solution:

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

BUSINESS COMBINATION AND CORPORATE RESTRUCTURING
Illustrations

28. Illustration

On 1st April, 20X1, PQR Ltd. acquired 30% of the voting ordinary shares of XYZ Ltd. for Rs. 8,000 crore. PQR Ltd. accounts its investment in XYZ Ltd. using equity method as prescribed under Ind AS 28. At 31st March, 20X2, PQR Ltd. recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

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

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

On 1st April, 20X2, PQR Ltd. acquired the remaining 70% of XYZ Ltd. for cash Rs. 25,000 crore.

The following additional information is relevant at that date:

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

How should such business combination be accounted for?

Solution

Ind AS 103 states 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**. The resulting **gain or loss** shall be **recognised** in the **Statement of Profit and Loss** or **Other Comprehensive Income (OCI)**, as appropriate.
In **prior reporting periods**, if the acquirer had **recognised changes in value** of its **equity interest** in the acquiree through **OCI**, then such accumulated amounts must be **reclassified** on the **same basis** as if the acquirer had **directly disposed** of the previously held equity interest.

Journal Entry for Acquisition of XYZ Ltd.
(Rs. in crore)

Particulars	Debit	Credit	Recognised in
Identifiable Net Assets of XYZ Ltd. A/c Dr.	30,000		Balance Sheet
Goodwill (W.N.1) A/c Dr.	4,000		Balance Sheet
Foreign Currency Translation Reserve A/c Dr.	100		Trf to PL
PPE Revaluation Reserve A/c Dr.	50		Reclassified to RE
To Cash		25,000	Cash paid
To Investment in Associate – XYZ Ltd.		8,850	Investment derecognised
To Retained Earnings (W.N.2)		50	PPE revaluation
To Gain on Previously Held Interest in XYZ Ltd.		250	Total Gain
(Being acquisition of XYZ Ltd. recognised)			

1. Calculation of Goodwill

Particulars	Amount
Cash Consideration	25,000
Add: Fair Value of Previously Held Equity Interest	9,000
Total Consideration Transferred	34,000
Less: Fair Value of Identifiable Net Assets Acquired	(30,000)
Goodwill	4,000

2. **Credit to Retained Earnings** → reversal of **unrealised gain** of **Rs. 50 crore** in **Other Comprehensive Income (OCI)** related to **PPE revaluation**. As per **Ind AS 16**, this amount is **not reclassified** to **Profit or Loss**.
3. **Computation of Gain on Previously Held Interest**
(Rs. in crore)

Particulars	Amount
Fair Value of 30% Interest in XYZ Ltd. at 1st April, 20X2	9,000
Less: Carrying Amount of Interest in XYZ Ltd. at 1st April, 20X2	(8,850)
Subtotal	150
Add: Unrealised Gain Previously Recognised in OCI	100
Gain on Previously Held Interest recognised in P&L	250

29. Illustration

ABC Ltd. acquires PQR Ltd. for a consideration of Rs. 1 crore. Four years ago, ABC Ltd. had granted a ten-year license allowing PQR Ltd. to operate in Europe. The cost of the license was Rs. 2,50,000. The contract allows either party to terminate the franchise at a cost of the unexpired initial fee plus 20%. At the date of acquisition, the settlement amount is Rs. 1,80,000 [(Rs. 2,50,000 x 6/10) + 20%].

ABC Ltd. has acquired PQR Ltd., because it sees high potential in the European market and wishes to exploit it. ABC Ltd. calculates that under current economic conditions and at current prices it could grant a six-year franchise for a price of Rs. 4,50,000.

How is the license accounted for as part of the business combination?

Solution

Ind AS 103 states that an acquirer and acquiree may have a **pre-existing relationship**, which can be:

- **Contractual** (e.g., vendor-customer, licensor-licensee)
- **Non-contractual** (e.g., plaintiff-defendant).

If the business combination **settles a pre-existing relationship**, the acquirer must recognize a **gain or loss**, determined as follows:

1. **For a non-contractual relationship** (e.g., lawsuit): Recognized at **fair value**.
2. **For a contractual relationship**, the recognized amount is the lesser of:

    (i) The **favourable/unfavourable difference** compared to market terms.

    (ii) The **stated settlement amount** in the contract.

Application to Given Case:

- **License recognized at ₹4,50,000** (fair value based on remaining contractual life).
- **Loss on contract settlement**: Lesser of:
    - **₹3,00,000** (difference between fair value ₹4,50,000 and unamortized value ₹1,50,000).
    - **₹1,80,000** (termination cost).

Since ₹1,80,000 is lower, it is recognized as **settlement loss**.

₹1 crore paid is split as:

- **₹98.2 lakh** → Consideration for business combination.
- **₹1.8 lakh** → Recognized separately as a **settlement loss** on the re-acquired right.

30. Illustration

X Ltd. agreed to takeover Y Ltd. as on 1 October, 2018. No Balance Sheet of Y Ltd. was prepared on that date: Summarised Balance Sheets of X Ltd. and Y Ltd. as at 31st March 2018 is as below.

Liabilities	X Ltd (Rs.)	Y Ltd (Rs.)	Assets	X Ltd (Rs.)	Y Ltd (Rs.)
Equity of Rs.10 each fully paid	20,00,000	15,00,000	Fixed assets	15,50,000	12,60,000
Reserves and Surplus:			Current Assets:		
Reserve	3,90,000	3,40,000	Stock	5,35,500	3,81,500
Profit & Loss A/c	3,30,000	1,60,000	Debtors	3,49,500	2,31,000
Creditors	85,000	75,000	Bank	3,40,000	1,80,000
			Miscellaneous Expenditure:		

			Preliminary Expenses	30,000	22,500
Total	**28,05,000**	**20,75,000**	**Total**	**28,05,000**	**20,75,000**

Additional information available:

(i) For the six months period from 1st April 2018, X Ltd. and Y Ltd. made profits of Rs. 5,40,000 and Rs. 3,60,000 respectively, after writing off depreciation @ 10% per annum on their fixed assets.

(ii) Both the companies paid on 1 August 2018, equity dividends of 10%. Dividend tax at 15% was paid, by each of them on such payments.

(iii) Goodwill of Y Ltd. was valued at Rs.1,68,900 on the date of takeover. Stock of Y Ltd., subject to an abnormal item of Rs. 8,500 to be fully written off, would be appreciated by 20% for purpose of takeover.

(iv) X Ltd. would issue to Y Ltd.'s shareholders fully paid equity shares of Rs.10 each, on the basis of the comparative intrinsic values of the shares on the date of takeover.

You are required to:

(1) Calculate consideration to be transferred by X Ltd.

(2) Calculate Number of shares to be issued by X Ltd. to Y Ltd.

(3) Ascertain closing bank balance which will appear in the Balance Sheet of X Ltd. (After absorption of Y Ltd.).

Solution

	Working Notes	X	Y	Combined Value for BS
1	**Calculation of Cash and Bank Balances**			
	Opening balance as on 1st April	3,40,000	1,80,000	
	Add: Profit for the period	5,40,000	3,60,000	
	Add: Depreciation	77,500	63,000	
	Less: Dividends paid @ 10%	(2,00,000)	(1,50,000)	
	Less: Dividend tax @ 15%	(30,000)	(22,500)	
	Closing cash balance	7,27,500	4,30,500	11,58,000
2	**Closing Balance in Profit & Loss**			
	Opening balance	3,30,000	1,60,000	
	Add: Profits earned	5,40,000	3,60,000	
	Less: Dividends	(2,00,000)	(1,50,000)	
	Less: Dividend tax	(30,000)	(22,500)	
	Closing balance	6,40,000	3,47,500	
3	**Net Assets on 1st October**	**X**	**Y**	**Combined Value for BS**
	Property, Plant & Equipment [After depreciation]	14,72,500	11,97,000	26,69,500
	Stock [Y = (381,500 – 8,500) × 1.2]	5,35,500	4,47,600	9,83,100
	Debtors	3,49,500	2,31,000	5,80,500
	Cash & Bank	7,27,500	4,30,500	11,58,000
	Goodwill at agreed value	–	1,68,900	1,68,900
	Total Assets	30,85,000	24,75,000	55,60,000
	Less: Creditors	(85,000)	(75,000)	(1,60,000)
	Net Assets	30,00,000	24,00,000	
	No of Shares	2,00,000	1,50,000	
	Intrinsic value per share	15	16	
	No of shares of X to be issued to acquire Y	–	–	1,60,000

	[24,00,000 / 15]			
	Face Value (160,000 × 10)	–	–	16,00,000
	Securities Premium (160,000 × 5)	–	–	8,00,000
	Net Assets taken over (other than goodwill)	–	–	22,31,100
	Consideration Paid	–	–	24,00,000
	Goodwill	–	–	1,68,900
	Existing Shares in X	2,00,000	–	
	New shares held by Y's former owners	1,60,000	–	

Balance sheet of X Ltd		
Assets		
1. Non - Current Assets		
Property, Plant & Equipment		26,69,500
Intangible Assets - Goodwill		1,68,900
2. Current Assets		
Inventories		9,83,100
Financial Assets – Accounts receivable		17,38,500
Total Assets		55,60,000
Equity and Liabilities		
1. Equity		
Share Capital		36,00,000
Other Equity		
- Securities Premium		8,00,000
- Reserves		3,90,000
- Profit and Loss		6,10,000
2. Current Liabilities		1,60,000
Total Equities and Liabilities		55,60,000

31. Illustration – Accounting acquirer being different from legal acquirer

AX Ltd. and BX Ltd. amalgamated from 1st January, 20X2. A new Company ABX Ltd. with shares of Rs. 10 each was formed to take over the businesses of the existing companies.

Summarized Balance Sheet as on 31-12-20X1

ASSETS	AX(000)	BX(000)
Non Current Assets		
Property, Plant and Equipment	8,500	7,500
Financial assets		
Investment	1,050	550
Current assets		
Inventory	1,250	2,750
Financial assets		
Trade receivables	1,800	4,000
Cash and Cash equivalent	450	400
Total	13,050	15,200

EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs. 10 each)	6,000	7,000
Other equity	3,050	2,700
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings (12% Debentures)	3,000	4,000
Current liabilities		
Financial liabilities		
Trade payables	1,000	1,500
Total	13,050	15,200

ABX Ltd. issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies. Also the new debentures were issued in exchange of the old series of both the companies.
Prepare a note showing purchase consideration and discharge thereof and draft the Balance Sheet of ABX Ltd.

The fair value of net assets of AX and BX limited are as follows:

Assets	**AX Ltd. ('000)**	**BX Ltd. ('000)**
Property, Plant and Equipment	**9,500**	**1,000**
Inventory	**1,300**	**2,900**
Fair value of the business	**11,000**	**14,000**

Solution

Sometimes the legal acquirer may not be the accounting acquirer. In the given scenario although ABX Ltd. is issuing the shares but BX Ltd. post-merger will have control and is bigger in size which is a clear indicator that BX Ltd. will be an accounting acquirer.

Determining the Accounting Acquirer
('000)

	AX Ltd.	BX Ltd
Fair Value	11,000	14,000
Face Value per share	10	10
No. of shares to be issued	1,100	1,400
i.e. Total No. of shares in ABX Ltd. = 2,500 thousand shares		
Thus, % Held by shareholders of each Company in Combined Entity	44% 1100/2500	56% 1400/2500

In this case ABX is the legal acquirer & since owners of BX controls the combined entity, BX is the accounting acquirer. AX Ltd is the accounting acquiree.

Computation of Purchase Consideration
BX ltd has 700(000)shares existing in issue.
Post merger, 700 (000) shares represent 56% and BX will issue sufficient number of shares to ensure that shareholders of AX ltd have 44% stake.

Shareholders of	% Stake	Shares (000)
BX	56	700
AX	44	No of Shares = 700 x 44/56

		= 550

Purchase consideration issued by BX Ltd for accounting is 5,50,000 shares.

Step 1 - Determine the purchase consideration	**'000**		
No of shares issued by BX Ltd	550		
Fair value per share of BX Ltd (FV of Business / No of shares)	20	[14,000/700]	
Total Consideration	11,000		
Step - 2 Fair value of net assets of Acquiree	AX	Book value of BX	Combined
PPE	9,500	7,500	17,000
Inventory	1,300	2,750	4,050
Investments	1,050	550	1,600
Trade Receivables	1,800	4,000	5,800
Cash	450	400	850
Total Assets	14,100	15,200	29,300
Borrowings	3,000	4,000	7,000
Trade Payables	1,000	1,500	2,500
Total Liabilities	4,000		
FV of identified Net Assets	10,100		
Step - 3 Goodwill (11,000 – 10,100)	900		

Consolidated balance sheet after acquisition

Assets		
Non Current Assets		
- Property, Plant & Equipment	17,000	[Acquirer(BV) + Acquiree (FV)]
- Goodwill	900	
- Financial Assets		
Investments	1,600	
Current Assets		
Inventory	4,050	
Financial Assets		
- Trade Receivable	5,800	
- Cash & Cash eq.	850	
Total Assets	30,200	
Equity & Liabilities		
Equity		
- Equity share capital	12,500	Reflect BX structure

- Other Equity	8,200	Only BX
Non Current Liabilities		
- Financial Liabilties		
12% Debentures	7,000	AX (FV) + BX (BV)
Current Liabilities		
- Financial Liabilties		
Trade payables	2,500	AX (FV) + BX (BV)
	30,200	
Note		
Other equity		
General Reserve	2,000	
P&L	500	
Investment Allowance reserve	100	
Export Profit reserve	100	
Securities premium (550 x 10)	5500	
	8200	

32. Illustration

The balance sheet of Professional Ltd & Dynamic Ltd is given below

Assets	Professional Ltd	Dynamic Ltd
Non-Current Assets:		
Property, plant and equipment	300	500
Investment	400	100
Current assets:		
Inventories	250	150
Financial assets		
Trade receivables	450	300
Cash and cash equivalents	200	100
Others	400	230
Total	2,000	1,380
Equity and Liabilities		
Equity		
Share capital- Equity shares of Rs. 100 each of Dynamic Ltd. and Rs. 10 each of Professional Ltd.	500	400
Other Equity	810	225
Non-Current liabilities:		
Financial liabilities		
Long term borrowings	250	200
Long term provisions	50	70
Deferred tax	40	35
Current Liabilities:		
Financial liabilities		
Short term borrowings	100	150
Trade payables	250	300

Total	2,000	1,380

Other information

- **Professional Ltd. acquired 70% shares of Dynamic Ltd. on 1st April, 20X2 by issuing its own shares in the ratio of 1 share of Professional Ltd. for every 2 shares of Dynamic Ltd. The fair value of the shares of Professional Ltd was Rs. 40 per share.**

- **The fair value exercise resulted in the following: (all nos in Lakh)**
  - **Fair value of PPE on 1st April, 20X2 was Rs. 350 lakhs.**
  - **Professional Ltd also agreed to pay an additional payment as consideration that is higher of 35 lakh and 25% of any excess profits in the first year, after acquisition, over its profits in the preceding 12 months made by Dynamic Ltd. This additional amount will be due after 2 years. Dynamic Ltd has earned Rs. 10 lakh profit in the preceding year and expects to earn another Rs. 20 Lakh.**
- **In addition to above, Professional Ltd also had agreed to pay one of the founder shareholder a payment of Rs. 20 lakh provided he stays with the Company for two year after the acquisition.**
- **Dynamic Ltd had certain equity settled share based payment award (original award) which got replaced by the new awards issued by Professional Ltd. As per the original term the vesting period was 4 years and as of the acquisition date the employees of Dynamic 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- Rs. 5 lakh**
  - **Replacement award-Rs. 8 lakh.**
- **Dynamic Ltd had a lawsuit pending with a customer who had made a claim of Rs. 50 lakh. Management reliably estimated the fair value of the liability to be Rs. 5 lakh.**
- **The applicable tax rate for both entities is 30%.**

You are required to prepare opening consolidated balance sheet of Professional Ltd as on 1st April, 20X2. Assume 10% discount rate.

Solution

	Step 1 Purchase Consideration	
	No of Shares in Dynamic acquired	70% x 400,00,000 /100
		2,80,000
	No of shares issued (1 for 2)	2,80,000/2 =1,40,000
	FV of each share in professional ltd	Rs. 40
1	FV of shares issued as PC (in lacs)	1.4 lacs x Rs. 40 = 56
2	PV of deferred consideration at 10% for 2 years	$\frac{35}{(1.1)^2}$ =28.93
3	Replacement award [WN-1]	2.50
	Total Purchase Consideration	87.43

Note –

- **when deferred tax implications are involved, plot book value and fair value like below or compute Deferred tax separately**
- **Whenever there is a gain – it results in DTL and vice versa**

		Dynamic	
Step 2 - Identifiable Net Assets Acquired	Book Value	Fair Value	Difference
Property, Plant & Equipment	500	350	150
Investment	100	100	-
Inventories	150	150	-
Trade Receivables	300	300	
Cash	100	100	
Others	230	230	

Total Assets	1,380	1230	
Less: Liabilities			
Long term borrowings	(200)	(200)	
Long term provisions	(70)	(70)	
Deferred Tax	(35)	(35)	
[Represent existing DTL]			
Short term borrowings	(150)	(150)	
Trade Payables	(300)	(300)	
FV of Contingent Liability	-	(5)	5
Total difference for DTA ***Since both items result in loss, there would be a DTA**			155
Deferred Tax Asset @ 30% x 155	-	46.50	
FV of Net Assets Acquired		516.50	
WN 1 - Replacement Award			
Original Award FV	5.00		
Original vesting period	4 Years		
Vesting period completed	2 years		
Revised vesting period	3 Years		
Pre acquisition value	5 x 2/4 = 2.50		
Value of replacement award	8.00		
Post acquisition compensation 8-2.5	5.50		
Step 3 - Calculation of Goodwill or gain on bargain purch.			
1. FV of purchase consideration	87.43		
2. Value of NCI [30% of 516.50]	154.95		
Total	242.38		
FV of Net assets acquired	516.50		
Gain on bargain purchase	274.12		

Consolidated Balance Sheet	
1. Assets	
Non-Current Assets	
Property,Plant & Equip. [300+350]	650
Investment [400+100]	500
Current Assets	
Inventories [250+150]	400
Financial Assets	
Trade Receivables [450+300]	750
Cash & CE [200+100]	300

Others [400+230]	630
Total Assets	3,230.00
Equity & Liabilities	
Equity	
Equity Share Capital [note 1]	514
Other Equity [Note 2]	1,128.62
NCI	154.95
Non-Current Liabilities	
Financial Liabilities	
Long term borrowings [250+200]	450
Deferred Consideration	28.93
Long term provisions [50+70]	120
Deferred tax [40+35-46.5]	28.50
Current Liabilities	
Financial Liabities	
Short term borrowings [100+150]	250
Trade payables [250+300]	550
Provision for law suit	5
	3,230.00
Note 1 - Equity Share capital	
50 lakhs shares of Rs. 10 each	500
1.4 lakhs shares of Rs. 10 each issued	14
	514
Note 2 - Other Equity	
Other equity of Prof ltd	810
Securities premium [1.4 x 30]	42
SBP Reserve	2.50
Capital Reserve	274.12
	1,128.62

Notes for treatment of various items

- The Rs. 35 lakhs minimum payment is a deferred consideration at PV (10%), not contingent consideration since it is payable irrespective of profits.
- The Rs. 20 lakhs employment-linked payment is a post-acquisition compensation, not part of purchase consideration.
- The fair value of replacement award given should be split between pre acquisition and post acquisition. Pre acqusition value = FV of acquiree award x Vesting competed / Higher of existing and new period
- As per Ind AS 103, a contingent liability is measured at fair value,
- Any difference between book value and fair value of net assets on acquisition is considered for deferred tax.

Illustration

H Ltd. acquired equity shares of S Ltd., a listed company, in two tranches as mentioned in the below table:

Date	Equity stake purchased	Remarks
1st November, 20X6	15%	The shares were purchased based on the quoted price on the stock exchange on the relevant dates.
1st January, 20X7	45%	

Both the above-mentioned companies have Rupees as their functional currency. Consequently, H Ltd. acquired control over S Ltd. on 1st January, 20X7. Following is the Balance Sheet of S Ltd. as on that date: (Rs. in crores)

Particulars	Carrying Value	Fair value
ASSETS:		
Non-current assets		
Property, plant and equipment	40.0	90.0
Intangible assets	20.0	30.0
Financial assets – Investments	100.0	350.0
Current assets		
Inventories	20.0	20.0
Financial assets		
Trade receivables	20.0	20.0
Cash held in functional currency	4.0	4.0
Other current assets		
Non-current asset held for sale	4.0	4.5
TOTAL ASSETS	208.0	
EQUITY AND LIABILITIES:		
Equity		
(a) Share capital (face value Rs. 100)	12.0	50.4
(b) Other equity	141.0	Not applicable
Non-current liabilities		
(a) Financial liabilities – Borrowings	20.0	20.0
Current liabilities		
(a) Financial liabilities – Trade payables	28.0	28.0
(b) Provision for warranties	3.0	3.0
(c) Current tax liabilities	4.0	4.0
TOTAL EQUITY AND LIABILITIES	208.0	

Other information:

Following is the statement of contingent liabilities of S Ltd. as on 1st January, 20X7:

Particulars	Fair value (Rs. in crore)	Remarks
Law suit filed by a customer for a claim of Rs. 2 crore	0.5	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 law suit will be tax deductible.
Income tax demand of Rs. 7 crore raised by tax authorities; S Ltd. has challenged the demand in the court.	2.0	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

In relation to the above-mentioned contingent liabilities, S Ltd. has given an indemnification undertaking to H Ltd. up to a maximum of Rs. 1 crore. Rs. 1 crore represents the acquisition

date fair value of the indemnification undertaking. Any amount which would be received in respect of the above undertaking shall not be taxable.

The tax bases of the assets and liabilities of S Ltd. is equal to their respective carrying values being recognised in its Balance Sheet. Carrying value of non-current asset held for sale of Rs. 4 crore represents its fair value less cost to sell in accordance with the relevant Ind AS.

In consideration of the additional stake purchased by H Ltd. on 1st January, 20X7, it has issued to the selling shareholders of S Ltd. 1 equity share of H Ltd. for every 2 shares held in S Ltd. Fair value of equity shares of H Ltd. as on 1st January, 20X7 is Rs. 10,000 per share.

On 1st January, 20X7, H Ltd. has paid Rs. 50 crore in cash to the selling shareholders of S Ltd. Additionally, on 31st March, 20X9, H Ltd. will pay Rs. 30 crore to the selling shareholders of S Ltd. if return on equity of S Ltd. for the year ended 31st March, 20X9 is more than 25% per annum. H Ltd. has estimated the fair value of this obligation as on 1st January, 20X7 and 31st March, 20X7 as Rs. 22 crore and Rs. 23 crore respectively. The change in fair value of the obligation is attributable to the change in facts and circumstances after the acquisition date. Quoted price of equity shares of S Ltd. as on various dates is as follows:

Date	Quoted price
As on November, 20X6	Rs. 350 per share
As on 1st January, 20X7	Rs. 395 per share
As on 31st March, 20X7	Rs. 420 per share

On 31st May, 20X7, H Ltd. learned that certain customer relationships existing as on 1st January, 20X7, which met the recognition criteria of an intangible asset as on that date, were not considered during the accounting of business combination for the year ended 31st March, 20X7. The fair value of such customer relationships as on 1st January, 20X7 was Rs. 3.5 crore (assume that there are no temporary differences associated with customer relations; consequently, there is no impact of income taxes on customer relations).

On 31st May, 20X7 itself, H Ltd. further learned that due to additional customer relationships being developed during the period 1st January, 20X7 to 31st March, 20X7, the fair value of such customer relationships has increased to Rs. 4 crore as on 31st March, 20X7.

On 31st December, 20X7, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and that more information is not obtainable.

H Ltd. and S Ltd. are not related parties and follow Ind AS for financial reporting. Income tax rate applicable is 30%.

You are required to provide your detailed responses to the following, along with reasoning and computation notes:

(a) What should be the goodwill or bargain purchase gain to be recognised by H Ltd. in its financial statements for the year ended 31st March, 20X7. For this purpose, measure non-controlling interest using proportionate share of the fair value of the identifiable net assets of S Ltd.

(b) Will the amount of non-controlling interest, goodwill, or bargain purchase gain so recognised in (a) above change subsequent to 31st March, 20X7? If yes, provide relevant journal entries.

(c) What should be the accounting treatment of the contingent consideration as on 31st March, 20X7?

Solution

	Rs. In Lacs
Step - 1 Purchase consideration	

1. FV of exisiting 15% stake - WN 1	711
2. Cash paid to existing shareholders	5,000
3. FV of shares issued WN 1	27,000
4. FV of deferred consideration	2,200
Total Purchase consideration	34,911

Step 2: FV of Net Assets Acquired

Assets	BV (Rs. in Lacs)	FV (Rs. in Lacs)	Diff (BV–FV)
PPE	**4,000**	**9,000**	**(5,000)**
Intangible Assets	**2,000**	**3,000**	**(1,000)**
Inventories	**10,000**	**35,000**	**(25,000)**
Trade Receivables	**2,000**	**2,000**	**–**
Cash	**2,000**	**2,000**	**–**
Other current assets	**400**	**400**	**–**
NCA Held for Sale* [WN-2]	**400**	**400**	**–**
Indemnification Assets	**–**	**100**	**No DT impact**
Total Assets	**20,800**	**51,900**	**(31,000)**
Liabilities			
Borrowings	**(2,000)**	**(2,000)**	**–**
Trade Payables	**(2,800)**	**(2,800)**	**–**
Provision for Warranties	**(300)**	**(300)**	**–**
Current Tax Liabilities	**(400)**	**(400)**	**–**
FV of Lawsuit	**–**	**(50)**	**50**
FV of Tax Demand	**–**	**(200)**	**–**
Deferred Tax Liability (WN)	**–**	**(9,285)**	**–**
Total Liabilities	**(5,500)**	**(15,035)**	**50**
Net		**36,865**	**(30,950)**
NCI @ 40%		**14,746**	

Step 3 – Computation of Goodwill

A	**FV of Net Asset [Step 2]**	**36,865**
B	Purchase consideration [Step 1]	34,911
	Value of NCI [Step 2]	14,746
	Total B	49,657
	Goodwill B-A	12,792

	Working Note			
1	No of shares in S Ltd held by H Ltd	No	Rate on 1st Jan	Amount
	Total shares in S [12,00,00,000/100]	12,00,000		
	FV of Existing stake - 15%	1,80,000	395	7,11,00,000
	Purchased on 1st Jan - 45%	5,40,000		

	No of shares issued by H Ltd (5,40,000/2)	2,70,000	10,000	2,70,00,00,000

2 Existing stake is valued using market price available on date of acquisition

3 As per Ind AS 103, the acquirer should recognise the contingent liabilities at fair value even if the payment of the same is not probable. Hence, the Contingent liabilities have been recognised at fair value on date of acquisition at 2.5 crores.

4 Ind AS 103 requires recognition of indemnification assets on date of acquistion. Since S ltd has given an undertaking to indemnify H ltd to the extent of 1 crore, the same is recognised as an asset.

5 As an exception to the fair value rule, Non Current assets held for sale are recognised as per Ind AS 105 i.e. at FV less costs to sell. Accordingly NCA held for sale are recognised at 4 crores.

6 The contingent consideration is recognised at Fair value on date of acqusition.

7 Customer relationships have not been recognsied on 1st of Jan (date of acquistion) since no information is available on that date. The asset will be accounted during the measurement period based on information obtained about conditions exsiting on acquisition date.

8 Deferred tax has been recognised for differences arising due to fair valuation. No deferred tax is recognised on contingent tax liability. Since the indemnification asset is not taxable, there is no deferred tax consequence.

Computation of Deferred Tax

Total of Temporary difference	**(30,950)**
Tax Rate	30%
Deferred Tax Liability	(9,285)

b) Measurement Period		
Value of customer list as on 1st Jan	350	
[Value determined on 1st May]		
Accounting entry to update the values		
Customer Relationship Dr.	350	
To Goodwill [60%]		210
To NCI [40%]		140

Since the value of assets have increased, the impact would be reduction of goodwill for parent and increase in share of NCI.

The adjustment to values of assets and goodwill /nci will be done retrospectively. Hence, the values on 31st March 20X7 will be restated in the current period.

As per Ind AS 103, an entity may restate amounts which are recognised provisionally as on the date of acquisition. The restatement must be completed in the measurement period up to a maximum of 1 year from date of acquisition

Assets and liabilities may be adjusted based on information available for the conditions existing on the date of acquistion. Any changes in value due to conditions arising after date of acquisition is not adjusted. Hence, the increase in customer relationship in the period 1-

Jan and 31-Mar-X7 will not be adjusted. Also as per Ind AS 38, self generated customer relationship cannot be recognised.

C) Increase in FV of contingent consideration

Since H Ltd has an obligation to pay cash, the contingent consideration is a financial liability Contingent consideration will be measured at FV at every reporting period. As on 31st March the FV is 23 crores as compared to 22 crores on date of acquisition. The increase in FV will be recognised in P&L.

P&L Dr.	**100**	
To Liability for contingent consideration		100

34. Illustration – Common control transaction

AX Ltd. and BX Ltd. amalgamated from 1st January, 20X2. A new Company ABX Ltd. with shares of Rs. 10 each was formed to take over the businesses of the existing companies.

Summarized Balance Sheet as on 31-12-20X1

ASSETS	AX(000)	BX(000)
Non Current Assets		
Property, Plant and Equipment	8,500	7,500
Financial assets		
Investment	1,050	550
Current assets		
Inventory	1,250	2,750
Financial assets		
Trade receivables	1,800	4,000
Cash and Cash equivalent	450	400
Total	13,050	15,200
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of Rs. 10 each)	6,000	7,000
Other equity	3,050	2,700
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings (12% Debentures)	3,000	4,000
Current liabilities		
Financial liabilities		
Trade payables	1,000	1,500
Total	13,050	15,200

ABX Ltd. issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies. Also the new debentures were issued in exchange of the old series of both the companies.
Prepare a note showing purchase consideration and discharge thereof and draft the Balance Sheet of ABX Ltd assuming that it is a common control transaction.

The fair value of net assets of AX and BX limited are as follows:

Assets	AX Ltd. ('000)	BX Ltd. ('000)
Property, Plant and Equipment	9,500	1,000
Inventory	1,300	2,900
Fair value of the business	11,000	14,000

Solution

Since it's a common control transaction, we will consider book value of assets.

Computation of Net Assets

Particulars	Book Value AX	Book Value BX	Total
PPE	8,500	7,500	16,000
Inventory	1,250	2,750	4,000
Investments	1,050	550	1,600
Trade Receivables	1,800	4,000	5,800
Cash	450	400	850
Total Assets	**13,050**	**15,200**	**28,250**
Borrowings	3,000	4,000	7,000
Trade Payables	1,000	1,500	2,500
Total Liabilities	**4,000**	**5,500**	**9,500**
Net Assets	**9,050**	**9,700**	**18,750**
Reserves	**AX**	**BX**	**Total**
GR	1,500	2,000	3,500
P&L	1,000	500	1,500
IAR	500	100	600
EPR	50	100	150
Total Reserves	**3,050**	**2,700**	**5,750**
Purchase Consideration	**6,000**	**7,000**	**13,000**
Shares to be issued in ratio of Net Assets	$\frac{13,000 \times 9,050}{18,750}$	$\frac{13,000 \times 9,700}{18,750}$	
	6,274.67	6,725.33	**13,000**

The balance sheet can be prepared by adding the book values of both entities.

Balance Sheet of ABX Ltd	
Assets	
Non Current Assets	
- Property, Plant & Equipment	16,000
- Financial Assets	
Investments	1,600
Current Assets	
Inventory	4,000
Financial Assets	
- Trade Receivable	5,800
- Cash & Cash eq.	850
Total Assets	28,250
Equity & Liabilities	
Equity	
- Equity share capital	13,000
- Other Equity	5,750
Non Current Liabilities	
- Financial Liabilties	
12% Debentures	7,000

Current Liabilities	
- Financial Liabilties	
Trade payables	2,500
	28,250
Note	
Equity Share capital	13,000
(1300000 shares of Rs. 10 each)	
Other equity	
General Reserve	3,500
P&L	1,500
Investment Allowance reserve	600
Export Profit reserve	150
	5,750

35. Illustration

Maxi Mini Ltd. has 2 divisions - Maxi and Mini. The draft information of assets and liabilities as on 31st October X1 is given below.

Particulars	Maxi Division	Mini Division	Total (₹ in crores)
Property, Plant and Equipment			
Cost	600	300	900
Less: Depreciation	(500)	(100)	(600)
W.D.V. (A)	**100**	**200**	**300**
Current Assets	400	300	700
Less: Current Liabilities	(100)	(100)	(200)
Net Current Assets (B)	**300**	**200**	**500**
Total Assets (A + B)	**400**	**400**	**800**
Financed by:			
Loan Funds (secured on PPE)	–	100	100
Own Funds:			
Equity Share Capital (₹10 per share, fully paid)	–	–	50
Other Equity	–	–	650
Total Own Funds (B)	**?**	**?**	**700**
Total (A + B)	**400**	**400**	**800**

It is decided to form a new company Mini Ltd. to take over the assets and liabilities of Mini division.

Accordingly, Mini Ltd. was incorporated to take over at Balance Sheet figures, the assets and liabilities of that division. Mini Ltd. is to allot 5 crore equity shares of Rs. 10 each in the company to the members of Maxi Mini Ltd. in full settlement of the consideration. The members of Maxi Mini Ltd. are therefore to become members of Mini Ltd. as well without having to make any further investment.

(a) You are asked to pass journal entries in relation to the above in the books of Maxi Mini Ltd. and Mini Ltd. Also show the Balance Sheets of the 2 companies as on the morning of 1st November, 20X2, showing corresponding previous year's figures.

(b) The directors of the 2 companies ask you to find out the net asset value of equity shares pre and post demerger.

(c) Comment on the impact of demerger on "share holders wealth".

Solution

- This is a case of demerger under common control (shareholders remain the same).
- Assets and liabilities of the Mini Division will be transferred to the new company, Mini Ltd., at their book values as per scheme.

JE in books of Maxi Mini Ltd		
Provision for Depreciation Dr.	100	
Current Liabilities Dr.	100	
Loan Funds Dr.	100	
Loss on Reconstruction (RE/CR) Dr	300	
To PPE		300
To Current Assets		300
JE in the Books of Mini Ltd (Assuming common control)		
PPE Dr.	200	
Current Assets	300	
To Current Liabilities		100
To Loan		100
To Equity Share Capital		50
To capital reserve		250
(Being assets and liabilities taken over from maxi mini ltd)		
Net Asset value per equity share	Maxi Mini	Mini
Pre demerger		
Shareholder's equity / Net Assets	700	
No of shares	5	
NAV per share	140	
Post demerger		
Shareholder's equity [700-300] / [50+250]	400	300
No of shares	5	5
Value per share	80	60

c) The NAV per share in the demerged company (Maxi mini) is Rs. 140. After demerger the shareholders hold share is demerged company with NAV of Rs. 80 and in the resulting company (mini) of Rs. 60. Hence the shareholder's wealth has not changed.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS OF GROUP ENTITIES

Illustrations

36. Illustration [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. Rs. in '000s	Vinayak Ltd. Rs. 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 (Rs. 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:

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 Rs. 7.

Ishwar Ltd. appointed a professional firm for conducting due diligence for acquisition of Vinayak Ltd., the cost of which amounted to Rs. 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 Rs. 750 million
- Other components of equity Rs. 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 Rs. 800 million (land component Rs. 350 million, buildings component Rs. 450 million) had an estimated fair value of Rs. 1,000 million (land component Rs. 400 million, buildings component Rs. 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 Rs. 600 million had an estimated fair value of Rs. 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 Rs. 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 Rs. 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 Rs. 125 million.

The directors of Ishwar Ltd. have made a provision of Rs. 6.25 million (1/20 x Rs. 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 Rs. 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.

1	Date of Acqusition	1-Apr-X1			
	Date of Consolidation	31-Mar-X4			

2	Controlling stake	80%			
	NCI	20%			
3	Net Assets/Reserves analysis				
		DOC	DOA	Post acq	
	Share Capital	5,00,000	5,00,000		
	Retained Earnings	10,50,000	7,50,000	3,00,000	
	Other components of equity	50,000	25,000	25,000	
	Fair value adjustment				
	Land	50,000	50,000	-	
	Building	1,50,000	1,50,000	-	
	Depreciation on Building				
	[150,000 x 3/30]	-15,000	0	(15,000)	
	Plant & equip	1,00,000	1,00,000	-	
	Depreciation on Plant	-75000	0	(75,000)	
	FV of Contingent Liability	0	-30000	30,000	
	Deferred Tax Liabilitiy	-42000	-54000	12,000	
	(Specific to FV adjustments on DOA)	17,68,000	14,91,000	2,77,000	
	NCI [20%]		298200	55400	
	Ishwar's 80%			221600	
			Other component	20,000	
			Retained earnings	2,01,600	
WN	Deferred Tax				

	Increase in value of Net Assets	2,10,000	2,70,000		
	Deferred tax liability	42,000	54,000		
3	Calculation of Goodwill				
	FV Consideration	14,00,000			
	NCI. - Prop net assets	2,98,200			
		16,98,200			
	FV of Net Assets	14,91,000			
	Goodwill	2,07,200			
	Less: Impairment	21600			
	Carrying amt	1,85,600			
4	Impairment				
	Net Assets on Date of Consolidation	17,68,000	Carrying amount		
	Goodwill	2,59,000	207200/80*100	Goodwill is grossed up	
	Total carrying amount	20,27,000			
	Recoverable Amount	20,00,000			
	Impairment	27,000			
	Parent's Share	21,600	Imp of GW		
5	Rectification of decommissioning expenses			Actual Entry	

	Actual Prov. restoration required	39000	Dr. PPE	Dr. P&L	6250
			Cr. Liability	Cr. Liab	6250
	Interest on provision @ 6%	2340	Dr. P&L		
			Cr. Liability		
	Dep on Restoration	1950	Dr. P&L		
			Cr. PPE		
	Total expense to be recognised	4290			
	Actual recognised	6250			
	Balance to be credited	1960			
	The rectification entry				
	Dr. PPE	37050			
	Cr. Liability		35090		
	Cr. P&L		1960		
6	NCI Balance				
	Date of Acquisition	298200			
	Add: Post acquisition share	55400			
		353600			
7	Consolidated Reserves				
	Retained Earnings				
	Balance as per Ishwar's BS	2865000			
	Less: Acquisition cost	-15000			
	Add: Rectification of Decomm prov	1960			
	Less: Goodwill Impairment	-21600			
	Add: Share from vinayak	201600			
		3031960			

8	Consolidated Other component of equity				
	Balance as per Ishwar's BS	1250000			
	Add: Post acquisition share	20000			
		1270000			
	Consolidated Balance Sheet of Ishwar				
	Assets	Ishwar's	Vinayak's	Adjusments	Consolidated
	Non Current Assets				
	PPE	2620000	1850000	247050	4717050
	Investment	2115000		-1415000	700000
	Goodwill				185600
	Total Non Current				5602650
	Current Assets				
	Inventories	600000	375000		975000
	Trade Receivables	450000	330000		780000
	Cash & Cash equivalent	75000	60000		135000
	Total Current				1890000
	Total Assets				7492650
	Equity				
	Share Capital	700000			700000
	Retained Earnings				3031960
	Other components of Equity				1270000

	NCI				353600
				Total Equity	5355560
	Non-Current Liabilities				
	Provisions				41340
	Long term borrowings	413750	450000		863750
	Deferred Tax	225000	140000	42000	407000
	Total Non Current				1312090
	Current Liabilities				
	Trade & Other payables	300000	250000		550000
	Short Term Borrowings	100000	175000		275000
	Total current Liabilities				825000
	Total Equity & Liabilities				7492650
	]				
	WN - PPE				
	Land	50,000			
	Building	1,50,000			
	Depreciation on Building				
	[150,000 x 3/30]	-15,000			
	Plant & equip	1,00,000			
	Depreciation on Plant	-75000			
	Rectification of Decomm.	37050			
		2,47,050			

37. Illustration [May 2024, 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 in S Ltd.	5,60,000					
4,000 shares in A Ltd.	1,00,000	12,10,000				
Current assets						
(a) Inventory	4,85,000		3,82,500		2,45,500	
(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.

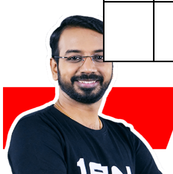
(v) 10% dividends we declared by both H Limited and S Limited whereas A Limited declared 15% dividend for the year 2023-24.

(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

	Assumed Dividend declared but not paid			
		S Ltd	A Ltd (Associate)	
1	Date of Acquisition	31-Oct-23	30-Jun-23	
2	Controlling Stake	70%	Investment in A	40%
	NCI	30%		
3	**Analysis of Reserves of S Ltd**	DOC	DOA	Post Acquisition
	Equity Share Capital	2,00,000	2,00,000	0
	Retained Earnings	7,50,000	500000	2,50,000
	RE - capitalised	-1,00,000		
	Bonus Shares	1,00,000		



	Total	9,50,000	7,00,000	2,50,000
			Parent's Share	1,75,000
			NCI	75,000
			Dividend to NCI	-6000
4	***Goodwill Computation***			
	FV of Purchase Consideration	5,60,000		
	NCI on DOA	210000	[30% of 700000]	
	Total	7,70,000		
	Less: Identifiable NA	-7,00,000		
	Goodwill	70,000		
	Less: Impairment	-70000	[Written off against RE]	
	Carrying Amount	-		
5	Investment in Associate			
	Cost of Invesmtent	1,00,000		
	Share in Net Assets			
	[40% of 275000]	1,10,000.00		
	Capital Reserve	10,000.00		
	Carrying amount of investment in A		represents net assets	
	Cost of Investment in A	100000		
	Add: Capital Reserve	10,000		
	Add: share in post acq profits			
	[40% of (424000-175000]	99600		
	Less: Dividend Receivable	-6000		Dr. Dividend Receivable / Cash
		2,03,600		Cr. Investment in A

	Less: Unrealised profit on inventory			
	[60000/120*20*40%]	-4000		
	Carrying Amount as on 31st March	1,99,600		
6	Carrying amount of NCI			
	NCI on DOA	2,10,000		
	Add: Share in Post Acq profits	75,000		
	Less: Dividend payable	(6,000)		
	Carrying Amount	2,79,000		
7	Consolidated Retained earnings			
	Parent's Retained Earnings	900000		
	Add: Post acquistion RE of S	1,75,000		
	Less: Goodwill Impaired	-70000		
	Add: Share in Profits [A Ltd]	99600		
	Less: Unrealised Profit (inventory)	-4000		
	Less: Dividend declared	-50000		Dr. RE
	Total	1050600		Cr. Div Payable
	Consolidated Balance Sheet of H Ltd			
		H	S	Consolidated
	Property Plant and Equipment	5,50,000	4,80,000	10,30,000
	Financial Assets			
	Investment in A Ltd [WN 6]			1,99,600
	Current Assets			
	Inventory	4,85,000	3,82,500	8,67,500

	Financial Assets			
	Cash & CE	89,000	98,000	1,87,000
	Trade Receivables	3,95,000	3,05,000	7,00,000
	Dividend Receivable			6,000
				29,90,100
	Equity & Liabilities			
	Shareholder's Equity			
	Equity Share Capital			5,00,000
	Other Equity [RE + CR]			10,60,600
	(11,00,600-50,000 + 10,000)			
	NCI			2,79,000
	Financial liabilities			
	Borrowing - Term loan	4,00,000	1,50,000	5,50,000
	Trade Payables	3,79,000	1,65,500	5,44,500
	Dividend Payable	50,000	6,000	56,000
				29,90,100

38. **Illustration Sep 25 (14 Marks)**

R Limited is a subsidiary of Z Limited. Their respective balance sheet as at 31st March, 2025 is as under:

Particulars	Note No.	Z Ltd.	R Ltd.
I. Assets			
Non-current assets			
(i) Property, Plant & 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 & 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**

Notes to 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 **1 April 2024** and **13,50,000 equity shares** on **1 January 2025** at a cost of ₹1,44,00,000 and ₹1,55,25,000 respectively.

b. R Ltd.'s preference share capital includes **₹22,50,000** held by Z Ltd., acquired on 1 April 2024 at a cost of ₹54,00,000.

c. Retained earnings of R Ltd. on 1 April 2024 = ₹45,00,000; General Reserve = ₹30,00,000.

d. R Ltd. paid **12% equity dividend** for FY 2023–24 out of its opening retained earnings. Z Ltd. credited the dividend received in August 2024 to its retained earnings.

e. Machinery of R Ltd. was **overvalued by ₹15,00,000** on **1 October 2024**; depreciation @10% WDV.

f. Bills receivable of Z Ltd. include bills drawn on R Ltd., of which **₹3,00,000** were discounted with bank.

Solution

Note : The treatment given by ICAI for preference shares are inconsistent in suggested answer published due to following reasons

1. If preference share is treated as equity, elimination should happen in similar lines with equity of subsidiary and hence there should not be any loss on cancellation but rather preference share should be considered as a part of computation of Capital reserve.

2. In India, Preference shares cannot be issued as irredeemable and hence, it is in the nature of financial liability.

As per ICAI treatment, the preference share held by minority interest is added to minority interest and accordingly the solution will change as indicated.

WN 1 Goodwill / Capital Reserve

Particulars	No. of Shares	FV	Amount (₹ in lakhs)	% **Stake for Reference**
Fair value of Net Assets	WN 3		**418.875**	
FV of Existing Stake	12	14	**168.000**	40.00%
FV of Consideration	–	13.5	**155.250**	45.00%
NCI @ FV	4.5	14	**63.000**	15.00%
Total Consideration			**386.250**	
Capital Reserve			**32.625**	

WN 2 – Profits earned during the year

Retained Earnings (₹ in lakhs)

Dr — Particulars	Amount	Cr — Particulars	Amount
To Dividends	36.00	By Balance b/d	45.00
To General Reserve	45.00	By P&L	186.00
To Balance c/d	150.00		
Total	**231.00**	**Total**	**231.00**

General Reserve (₹ in lakhs)

Dr — Particulars	Amount	Cr — Particulars	Amount
To Balance c/d	75.00	By Balance b/d	30.00

		By P&L	45.00
Total	**75.00**	**Total**	**75.00**

Alternatively,

Particulars	31-Mar-25	01-Apr-24	Dividend	For the Year	Pre	Post
General Reserve	75	30	–	45	33.750	11.250
Retained Earnings	150	45	36	141	105.750	35.250

Profit for the year = Closing – Opening + Dividend

WN 3 Identifiable Net Assets on DOA

Particulars	GR	RE	Equity	FV Adj	FV of INA
Bal on 1st April	30.000	45.000	–	–	75.000
Profit for 9 Months	33.750	105.750	–	–	139.500
Less: Dividends	–	(36.000)	–	–	(36.000)
Less: GW (Since not identifiable)*	–	–	(45.000)	(45.000)	(45.000)
Less: PM FV	–	–	(14.625)	(14.625)	(14.625)
As on 1st Jan	63.750	114.750	300.000	(59.625)	418.875

*** ICAI has taken different assumptions in different attempts on Goodwill. In Hammer Ltd illustration, Goodwill has been considered as separate asset and question is solved accordingly. Even in this attempt, suggested answer considers both assumptions.**

WN 4 – Post Acquisition Profits

Particulars		
Post Acquisition Profits (3/12)	11.250	35.250
Depreciation of FV Adjustment for 3 months	–	0.375
Total	**11.250**	**35.625**
Parent	9.563	30.281
NCI	1.688	5.344

WN 5 – Computation of Depreciation on Revaluation of Plant & Machinery

Particulars	Amount (₹ lakhs)
Overvaluation as on 1/10	(15.000)
Depreciation @ 10% [for 3 months]	(0.375)
Balance as on 1-Jan	**(14.625)**
Depreciation for 3 months	(0.375)
Balance as on 31st March	**(14.250)**

Consolidated Balance Sheet of Z Ltd. **as at 31st March 2025**

Particulars	Note No.	Amount (₹)	ICAI Solution
Assets			
Non-current assets			
(i) Property, plant and equipment	1	6,83,75,000	6,83,75,000
(ii) Intangible assets	1	75,00,000	75,00,000
(iii) Financial assets			
a. Investments	1	89,75,000	89,75,000
Current assets			
(i) Inventories	1	1,50,00,000	1,50,00,000
(ii) Financial assets			
a. Trade receivables	1	2,26,00,000	2,26,00,000
b. Cash and cash equivalents	1	2,20,00,000	2,20,00,000
Total		**14,44,50,000**	**14,44,50,000**
Equity and Liabilities			
Equity			
(i) Share capital	2	6,00,00,000	7,20,00,000
(ii) Other equity	3	3,79,96,875	3,79,96,875
(iii) Non-controlling interest	4	70,03,125	1,07,53,125
Non Current Liabilities			
Financial Liability (PSC)	1	1,57,50,000	
Current Liabilities			
(i) Financial liabilities			
a. Bank overdraft	1	75,00,000	75,00,000
b. Trade payables	1	1,62,00,000	1,62,00,000
Total		**14,44,50,000**	**14,44,50,000**

Notes to Accounts

Note 1: Assets and Liabilities

Particulars	Z Ltd. (₹)	R Ltd. (₹)	Adjustments	Total (₹)
Property, Plant & Equipment	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 & Cash Equivalents	85,00,000	1,35,00,000	−	2,20,00,000
Preference Share Capital	1,20,00,000	60,00,000	-22,50,000	157,50,000
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

Particulars	If PS is liability (₹)	ICAI (₹)
60 lakh Equity Shares of ₹10 each, fully paid	6,00,00,000	6,00,00,000
10%, 12 lakh Preference Shares of ₹10 each, fully paid		1,20,00,000
Total Share Capital	6,00,00,000	**7,20,00,000**

Note 3: Consolidated Other Equity

Particulars	GR (₹)	RE (₹)	CR (₹)
Z Ltd	12,000,000	19,500,000	–
Add: Post Acquisition	956,250	3,028,125	–
Gain on FV of Investment	–	2,400,000	–
Loss on cancellation of PS	–	–3,150,000	–
Total	**12,956,250**	**21,778,125**	**3,262,500**
Grand Total Other Equity			**37,996,875**

Note – 4

Particulars	**Amount**	**ICAI**
On DOA	63.00000	63.00000
Post Acquisition Share	7.03125	7.03125
Share in PSC		37.50
	70.03125	107.53125

39. Illustration [Nov 2023 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.)**
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**

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
		6,00,000	3,25,000
2.	**Intangible Assets**		
	Goodwill	1,25,000	75,000
3.	**Other Equity**		
	(a) General Reserve	2,00,000	1,25,000
	(b) Retained Earnings	3,50,000	2,50,000
		5,50,000	3,75,000
4.	**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;

- 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:

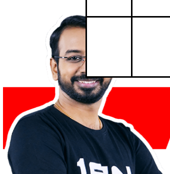
- The parent company i.e., Hammer Ltd. has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume the fair value per equity share of Sleek Ltd. at Rs. 11 on the date when control of Sleek Ltd. was acquired by Hammer Ltd.

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.

1	Date of Control/Acquisition	01-Oct-22				
2	Controlling Interest					
	[20000+17500]/50000	75%				
	NCI [No of shares = 12,500]	25%				
3	Analysis of Reserves / Calculation of Net Assets					
		31-Mar-23	**01-Apr-22**	**Adj for 6 months**	**01/10/22**	**Post Acquisition**
	Equity Share Capital	5,00,000	5,00,000			
	Add: Bonus issue	50,000	50,000			
	Closing ESC	5,50,000	5,50,000		5,50,000	
			(Notional)			
	General Reserve	1,25,000	50,000			
	Less: Bonus issue	(50,000)	(50,000)			
	Closing balance after bonus	75,000	-	37,500	37,500	37,500
	Retained Earnings	250000	75000			
	Less: dividends		-50000			

		2,50,000	25,000	1,12,500	1,37,500	1,12,500
	Less: Unrealised Profits					-2000
	Less: Overvaluation of P&M	-20000			-20000	0
	Add: Savings in dep	1,000			0	1000
	Total				7,05,000	1,49,000
				Parent	75%	1,11,750
				NCI	25%	37,250
4	Capital Reserve					
	FV of consideration					
	- FV of existing stake	2,20,000				
	- Consideration trf	1,92,500	4,12,500.00			
	FV of NCI	1,37,500	1,37,500.00			
	Total		**5,50,000**			
	FV of Net Assets		7,05,000			
	Capital Reserve		1,55,000			
5	NCI balance					
	Openign Balance		1,37,500			
	Add: Share in Post acq profits		37,250			
			1,74,750			
6	Consolidated Other Equity					

General Reserve	2,00,000			
Retained Earnings	3,50,000			
Share of Post Acq earning	1,11,750			
Loss on FV of stake	-20000			
Loss on cancellation of debt	-49000			
Capital reserve	1,55,000	7,47,750		
Consolidated Balance sheet of Hammer Ltd				
1. Assets				
A. Non Current Assets	Hammer	Sleek	Adj	Consolidated
PPE	600000	325000	-19000	906000
Intangible Assets	125000	75000		200000
Investments	625000	125000	-516500	233500
B Current Assets				
Inventories	1,25,000	1,60,000	(2,000)	283000
Financial Assets				
Trade Receivables	3,25,000	2,90,000	(1,50,000)	465000
Cash & Cash Equivalent	1,50,000	3,50,000		500000
Total				2587500
Equity and Liabilities				
Equity Share capital				1000000
Other Equity				747750
NCI				1,74,750.00
Non Current Liabilities				



	Financial Liabilities					
	Borrowing	-	1,00,000	(35,000)	65,000	
	Current Liabilities					
	FL					
	Short term borrowings					
	Bank OD	1,00,000	50,000		150000	
	Trade Payable	3,00,000	3,00,000	(1,50,000)	4,50,000	
	Total				2587500	

40. Illustration

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
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 consolidate financial statements.
b. Ignore the possibility that the transaction could be classified as a reverse acquisition of C Ltd. by B Ltd.

Solution:

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 (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 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

41. Illustration

A Ltd. Acquired 70% equity shares of B Ltd. On 1.4.20X1 at cost of Rs. 10,00,000 when B Ltd. Had an equity share capital of Rs. 10,00,000 and other equity of Rs. 80,000. In the four consecutive years B Ltd. Fared badly and suffered losses of Rs. 2,50,000, Rs. 4,00,000, Rs. 5,00,000 and Rs. 1,20,000 respectively. Thereafter in 20X5-20X6, B Ltd. Experienced turnaround and registered an annual profit of Rs. 50,000. In the next two years i.e. 20X6-20X7 and 20X7-20X8, B Ltd. Recorded annual profits of Rs. 1,00,000, and Rs. 1,50,000 respectively. Show the non- controlling interests and goodwill at the end of each year for the purpose of consolidation. Assume that the assets are at fair value

Solution

1	**Calculation of Goodwill**		
	FV of consideration	10,00,000	
	Value of NCI	3,24,000	[30% of 10,80,000]
	Total	13,24,000	
	FV of Net identifiable assets	10,80,000	
	Goodwill	**2,44,000**	

Year	**Profit/Loss**	**NCI [30%]**	**Parent's share**	**Goodwill**
01-04-X1		3,24,000	-	2,44,000
31-Mar-X2	(2,50,000)	(75,000)	(1,75,000)	2,44,000
Closing balance		2,49,000		
31-Mar-X3	(4,00,000)	(1,20,000)	(2,80,000)	2,44,000
Closing balance		1,29,000		
31-Mar-X4	(5,00,000)	(1,50,000)	(3,50,000)	2,44,000
Closing balance		(21,000)		
31-Mar-X5	(1,20,000)	(36,000)	(84,000)	2,44,000
Closing balance		(57,000)		
31-Mar-X6	50,000	15,000	35,000	2,44,000
Closing balance		(42,000)		
31-Mar-X7	1,00,000	30,000	70,000	2,44,000
		(12,000)		
31-Mar-X8	1,50,000	45,000	1,05,000	2,44,000
		33,000		

42. Illustration

Entity P sells a 20% interest in a wholly owned subsidiary to outside investors for Rs. 100 lakh in cash. The carrying value of the subsidiary's net assets is Rs. 300 lakh, including goodwill of 65 lakh from the subsidiary's initial acquisition.

Pass journal entries to record the transaction.

Solution

When a parent sells part of its interest in a subsidiary but **control is retained**, any difference between the **fair value of consideration received** and the **carrying amount of NCI** is **adjusted in other equity**.

Cash A/c Dr. 100 lakhs

To NCI 60 Lakhs (300 x 20%)

To Other Equity 40 Lakhs

The difference between the cash received (100 lakh) and the increase in NCI (60 lakh) = 40 lakh. This is attributed to the parent's other equity because it represents a **gain on partial disposal of interest in a subsidiary** without losing control.

43. Illustration

A Ltd. Acquired 70% shares of B Ltd. On 1.4.20X0 when the fair value of net assets of B Ltd. was Rs. 200 lakh. During 20X0-20X1, B Ltd. Made profit of Rs. 100 lakh. Individual and consolidated balance sheets as on 31.3.20X1 are as follows:

Rs. lakh

	A	B	Group
Assets			
Goodwill			10
PPE	627	200	827
Financial assets:			
Investments	150		
Cash	200	30	230
Other current assets	23	70	93
	1,000	300	1160
Equity and liability			
Share capital	200	100	200
Other equity	800	200	870
Non-controlling interest			90
	1,000	300	1160

A Ltd. Acquired another 10% stake in B Ltd. On 1.4.20X1 at Rs. 32 lakh. The proportionate carrying amount of the non-controlling interest is Rs. 30 lakh. Show the individual and consolidated balance sheet of the group immediately after the change in non-controlling interest.

Solution

Since the parent company retains control, this transaction is considered a "transaction with owners in their capacity as owners". The difference between the consideration paid (Rs. 32 lakh) and the proportionate carrying amount of the NCI (Rs. 30 lakh), i.e., Rs. 2 lakh, is adjusted in the other equity of the parent in the consolidated balance sheet.

Particulars	**A**	**B**	**Group**		
Assets					
Goodwill			10		
PPE	627	200	827		
Financial Asset					
Investments	182		-		
Cash	168	30	198	(32)	Cash paid is reduced
Other Current Assets	23	70	93		
Total	1,000	300	1,128		
Equity & Liability					
Share capital	200	100	200		
Other equity	800	200	868	(2)	Difference
NCI			60	(30)	Owners of parent have acquired stake from NCI and hence reduced
	1,000	300	1,128		

In CFS

Dr. NCI	**30**	
Dr. Other equity	**2**	
Cr. Cash		**32**

In standalone financial statements

Investments in Sub	**32**	
To Cash		**32**

44. Illustration

Prepare the consolidated Balance Sheet as on 31st March, 20X2 of a group of companies comprising P Limited, S Limited and SS Limited. Their balance sheets on that date are given below:

	P Ltd.	**S Ltd.**	**SS Ltd.**
Assets			
Non-Current Assets			
Property, Plant and Equipment	**320**	**360**	**300**
Investment:			
32 lakh shares in S Ltd.	**340**		

24 lakh shares in SS Ltd.		280	
Current Assets			
Inventories	220	70	50
Financial Assets			
Trade Receivables	260	100	220
Bills Receivables	72	-	30
Cash in hand and at Bank	228	40	40
	1440	850	640
Equity and Liabilities			
Shareholder's Equity			
Share Capital (Rs. 10 per share)	600	400	320
Other Equity			
Reserves	180	100	80
Retained earnings	160	50	60
Current Liabilities			
Financial Liabilities			
Trade Payables	470	230	180
Bills Payable			
P Ltd.		70	
SS Ltd.	30	-	-
	1440	850	640

The following additional information is available:

(i) P Ltd. Holds 80% shares in S Ltd. and S Ltd. holds 75% shares in SS Ltd. Their holdings were acquired on 30th September, 20X1.

(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, 20X1 the following balances stood in the books of S Ltd. And SS Ltd.

Rs. in Lakhs

	S Ltd	SS Ltd
Reserves	80	60
Retained Earnings	20	30

(iv) Rs. 10 lakhs included in the inventory figure of S Ltd, is inventory which has been purchased from SS 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 market prices of S Ltd and SS Ltd are the same as respective face values.

1	Determination of share of P				
		Controlling	NCI		
	S Ltd	80%	20%		
	SS Ltd	60%	40%		
		[80% x 75%]	25% NCI of SS		
			20% of 75%	NCI of S Ltd	

2	Date of Control	30-Sep-X1		
	Date of Consolidation	30-Mar-X2		
3	Determination of Post acq. Profits			
	S Ltd	Reserves	Ret. Earnings	Total
	As on 31st March X2	100	50	
	As on 1st April X1	80	20	
	Profit earned in the year	20	30	50
	Profits upto 30-Sep-X1 (1/2 of profits) [For goodwill calc]	10	15	25
	Profits post acquisition	10	15	25
	Share of Parent [80%]	8	12	20
	Share of NCI [20%]	2	3	5
	SS Ltd	Reserves	Ret. Earnings	
	As on 31st March X2	80	60	
	As on 1st April X1	60	30	
	Profit earned in the year	20	30	50
	Profits upto 30-Sep [For goodwill]	10	15	25
	Profits post acquisition	10	15	25
	Less: Unrealised profit		(2)	(2)
	Post acq. Profits for consolidation	10	13	23
	Share of P [60%]	6	7.8	13.80
	NCI [40%]	4	5.2	9.20
3	FV of Identifiable Net Assets	S Ltd	SS Ltd	
	Share capital	400	320	
	Reserves (01-4-X1)	80	60	
	Retained earnings (01-04-x1)	20	30	
	Pre acquisition profits as per above	25	25	
	Net Assets (DOA)	**525**	**435**	
4	Goodwill / CR	S	SS	
	FV of Consideration	340	224.00	[80% of 280]
	Value of NCI (FV)	80	128	
		[400 x 20%]	[320 x 40%]	
	Total	**420**	**352**	
	Net Assets	525	435	
	Capital Reserve	105	83	188
5	**Calculation of Unrealised Profits**			
	25% profit on cost			
	Sale value	10		
	Profit [10 x 25/125]	2		

6	NCI Balance	S Ltd	SS Ltd		
	FV on DOA	80	128		
	Add: Post acquisition profit	5.00	9.20		
	Total	85.00	137.20		
	Less: 20% of 280	(56)			
	Closing Balance	29	137.20	166.20	
7	Calculation of Other equity balance				
		P	S	SS	
	Retained Earnings	160	12	7.80	179.80
	Reserves	180	8	6	194.00

	P Ltd	S Ltd	SS Ltd	Adjustments	Group
Non-Current Assets					
PPE	320	360	300		980
Investments	340	280	-		-
Current Assets					
Inventory	220	70	50	(2)	338
Trade Receivables	260	100	220		580
Bills Receivables	72	-	30	(100)	2
Cash in Hand/Bank	228	40	40	-	308
Total Assets					2,208
Equity & Liabilities					
Shareholder's Equity					
Share Capital	600	400	320		600
Other Equity					
Reserves	180	100	80		179.80
Retained Earnings	160	50	60		194
Capital Reserve					188.00
NCI					
Financial Liabilities					
Trade Payables	470	230	180		880.00
Bills Payable	30	70		(100)	0.00
Total Liabilities & Equity					2,208

45. Illustration

AT Ltd. Purchased a 100% subsidiary for Rs. 50,00,000 on 31st March 20X1 when the fair value of the net assets of BT Ltd. Was Rs. 40,00,000. Therefore, goodwill is Rs. 10,00,000. AT Ltd. Sold 60% of its investment in BT Ltd. On 31st March 20X3 for Rs. 67,50,000, leaving the AT Ltd. With 40% and significant influence. At the date of disposal, the carrying value of net assets of BT Ltd. Excluding goodwill is Rs. 80,00,000. Assume the fair value of the investment in associate BT Ltd. Retained is proportionate to the fair value of the 60% sold, that is Rs. 45,00,000.

Calculate gain or loss on sale of proportion of BT Ltd. In AT Ltd.'s separate and consolidated financial statements as on 31st March 20X3.

Scenario II

AT Ltd. Disposes of a 90% interest for Rs. 85,50,000 leaving the AT Ltd. With a 10% investment. The fair value of the remaining interest is Rs. 9,50,000 (assumed for simplicity to be pro rata to the fair value of the 90% sold)

Calculate gain or loss on sale of proportion of BT Ltd. In AT Ltd.'s separate and consolidated financial statements as on 31st March 20X3.

Solution

	Scenario I	**Scenario II**
Separate Financial Statements		
Total Consideration	67,50,000	85,50,000
Carrying amt of Stake		
[60% / 90% of 50,00,000]	30,00,000	45,00,000
Gain on disposal (Consideration – CA)	37,50,000	40,50,000
Consolidated Financial Statements		
Total Consideration	67,50,000	
Consolidated Financial Statements		
Total Consideration received	67,50,000	85,50,000
Remaining stake	45,00,000	9,50,000
Total	1,12,50,000	95,00,000
Net Assets derecognised	80,00,000	80,00,000
Goodwill derecognised	10,00,000	10,00,000
Total Assets derecognised	90,00,000	90,00,000
Gain (Total consideration + FV – Net Assets derecognised]	22,50,000	5,00,000

46. Illustration

MN Ltd. was holding 80% stake in UV Ltd. Now, MN Ltd. has disposed of the entire stake in UV Ltd. in two different transactions as follows:

Transaction 1: Sale of 25% stake for a cash consideration of Rs. 2,50,000

Transaction 2: Sale of 55% stake for a cash consideration of Rs. 5,50,000

Both the transactions have happened within a period of one month. In accordance with the guidance given in Ind AS 110, both the transactions have to be accounted as a single transaction.

The net assets of UV Ltd. and non-controlling interest on the date of both the transactions was Rs. 9,00,000 and Rs. 1,80,000 respectively (assuming there were no earnings between the period of two transactions).

How MN Ltd. should account the transaction?

Solution

MN Ltd. will account for the transaction as follows:

Recognise:		
Fair value of consideration (2,50,000 + 5,50,000)		8,00,000
Derecognise:		
Net assets of UV Ltd.	(9,00,000)	
Non-controlling interest	1,80,000	(7,20,000)
Gain to be recorded in profit or loss		80,000

If MN Ltd. loses control over UV Ltd. on the date of transaction 1, then the above gain is recorded on the date of transaction 1 and MN Ltd. will stop consolidating UV Ltd. from that date. The consideration of Rs. 5,50,000 receivable in transaction 2 will be shown as consideration receivable.

If MN Ltd. loses control over UV Ltd. on the date of transaction 2, then the above gain is recorded on the date of transaction 2 and MN Ltd. will stop consolidating UV Ltd. from that date. The consideration of Rs. 2,50,000 received in transaction 1 will be shown as advance consideration received.

47. Illustration

As 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 carry valued at Rs. 60 crore.

These net assets include the following:

(a) Debt investments classified as fair value through other comprehensive income (FVOCI) of Rs. 12 crore and related FVOCI reserve of Rs. 6 crore.

(b) Net defined benefit liability of Rs. 6 crore that has resulted in a reserve relating to net measurement losses of Rs. 3 crore.

(c) Equity investments (considered not held for trading) of Rs. 10 crore for which irrevocable option of recognising the changes in fair value in OCI has been availed and related FVOCI reserve of Rs. 4 crore.

(d) 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?

Solution

As per Ind AS 110 on **Loss of Control the following accounting treatment is carried out.**

- **Derecognise** assets and liabilities of former subsidiary.
- **Recognise** any investment retained at **fair value**.
- **Recognise gain/loss** attributable to disposal
- **Reclassify/transfer** amounts from **OCI** (FVOCI, defined benefit, equity instruments, FCTR) appropriately.
- **Derecognise NCI** balance.

If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognized 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.

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***

OCI Dr. 5.4

To P&L 5.4

(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.***

Retained Earnings Dr. 2.7

To OCI 2.7

(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 parent from OCI to retained earnings under equity as per Ind AS 109, Financial Instruments***

OCI Dr. 3.6

To Retained Earnings 3.6

(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 Ind AS 21which 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.

Dr. OCI 7.2

To P&L 7.2

The balance 10% attributable to NCI will be derecognised along with NCI balance.

Bank A/c Dr 56

Investment A/c Dr. 16

NCI Dr. 6

To Net Assets 60

To Cons. P&L 18

(Being disposal of subsidiary.)

48. Illustration

Summarise d Balance Sheets of PN Ltd. and SR Ltd. as on 31st March, 2018 were given as below:

(Amount in Rs.)

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 Rs. 100 each fully paid)	15,60,000	6,24,000
Other Reserves	9,36,000	3,12,000
Retained Earnings	1,78,400	2,55,800
Trade Payables	1,46,900	34,300

Short-term borrowings	2,49,600	20,000
Total Equity & Liabilities	30,70,900	12,46,100

(i) PN Ltd. acquired 70% equity shares of Rs. 100 each of SR Ltd. on 1st October, 2017.

(ii) The Retained Earnings of SR Ltd. showed a credit balance of Rs. 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 Rs. 6,24,000. 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 Rs. 3,12,000

(b) Inventories Rs. 46,800

(c) Trade Payables Rs. 31,200.

(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.

May 2019 - (15 Marks)

Solution

1. **Pre & Post Acquisition Profits of SR Ltd**

Particulars	Amount	Note
Retained Earnings as on 1st Apr	93,600	
Less: Dividends paid	74,880	12% on 6,24,000
Balance	18,720	
Retained Earnings as on 31st Mar	2,55,800	
Profit earned during the period	2,37,080	Balancing figure
Pre-Acquisition (upto 30 Sep)	1,18,540	
Post-Acquisition (from 1st Oct)	1,18,540	

Alternatively, the profit earned during the year can be computed using ledger.

Particulars	Dr	Particulars	Cr
To Bank	74,880	By Balance b/d	93,600
To Balance c/d	2,55,800	By P&L	2,37,080
Total	3,30,680	**Total**	3,30,680

2. Calculated of Net Assets on Date of acquisition

Particulars	Amount
Equity Share Capital	6,24,000
Other Reserves	3,12,000
Retained Earnings (1st April)	93,600
Add: Pre-acquisition profits during the year	1,18,540
Total Net Assets (Carrying Amount)	**11,48,140**
Adjustment to fair values	
Land & Buildings	3,12,000
Inventory	46,800
Trade Payables	(31,200)
Plant & Machinery	1,79,400
Increase in Net Assets	**5,07,000**
Net Assets (FV) on DOA	**16,55,140**
NCI Share on DOA (30%)	4,96,542

WN - Calculation of increase in value of Plant & Machinery

Particulars	Amount	Note
Carrying amount as on 31-Mar-18 (Given)	4,21,200	Opening balance – 10% dep i.e 90% of opening balance
Carrying amount as on 1-Apr-17	4,68,000	4,21,200 / 90%
Less: Depreciation (6 months)	23,400	4,68,000 × 5%
Carrying amount on 1-Oct	4,44,600	
FV on 1-Oct	6,24,000	
Increase in FV	**1,79,400**	

3. Calculation of Goodwill

Particulars	Amount
Fair Value of Consideration	12,48,000
Value of NCI	4,96,542
Total	**17,44,542**
FV of Net Assets	16,55,140
Goodwill	**89,402**

WN – Additional depreciation on plant and machinery

The subsidiary would have charged Rs. 23,400 of depreciation for 6 months from 1st October till 31st March.

Particulars	Amount
Carrying amount as on 1-Oct	4,44,600
Increase in Value	1,79,400
FV on 1-Oct	6,24,000
Less: Depreciation @10% for 6m on revised value	31,200
Carrying amount in CBS	5,92,800
Net Increase in FV	1,71,600 (5,92,800 – 4,21,200)
Incremental Depreciation	7,800 (31,200 – 23,400)

4. Post acquisition profits of subsidiary

Particulars	Amount
As per 1	1,18,540
Less: Additional Depreciation	(7,800)
Post-acquisition Profits (for Consolidation)	**1,10,740**
Parent's Share (70%)	77,518
NCI (30%)	33,222

5. NCI Balance

Particulars	Amount
NCI share of Net Assets on 1st Oct	4,96,542
Add: Share in Post-acq Profits	33,222
Carrying Amount	5,29,764
Less: Dividends Paid	(22,464)
Carrying Amount in CBS	**5,07,300**

<u>Consolidated Balance Sheet of PN Group</u>

Particulars	Note	Amount (₹)
Assets		
Non-Current Assets		
Property, Plant & Equipment	1	26,83,200
Goodwill (3)		89,402
Current Assets		
Inventories	2	5,34,800
Financial Assets		
– Trade receivables	3	3,11,300
– Cash & Cash equivalents	4	70,100
Total Assets		**36,88,802**
Equity & Liabilities		
Equity		
Equity Share Capital	5	15,60,000

Other Equity	6	11,39,502
NCI		5,07,300
Current Liabilities		
Financial Liabilities		
– Trade Payables	7	2,12,400
– Short-term Borrowings	8	2,69,600
Total Equity & Liabilities		**36,88,802**

Note	Particulars	PN (₹)	SR (₹)	FV Adj (₹)	Total (₹)
1	**Property, Plant & Equipment**				
	Land & Buildings	4,68,000	5,61,600	3,12,000	13,41,600
	Plant & Machinery	7,48,800	4,21,200	1,71,600	13,41,600
	Total PPE				**26,83,200**
2	**Inventory**	3,74,400	1,13,600	46,800	**5,34,800**
3	**Trade Receivables**	1,86,500	1,24,800	–	**3,11,300**
4	**Cash & Cash equivalents**	45,200	24,900	–	**70,100**
5	**Equity Share Capital**				
	15,600 shares of ₹100 each				**15,60,000**
6	**Other Equity**				
	Other Reserves	9,36,000	–		9,36,000
	Retained Earnings	1,78,400	–	–	
	Less: Dividends Declared by sub	(52,416)	–	–	
	Subtotal	1,25,984	77,518	–	2,03,502
	Total Other Equity				**11,39,502**
7	**Trade Payables**	1,46,900	34,300	31,200	**2,12,400**
8	**Short-term Borrowings**	2,49,600	20,000	–	**2,69,600**

49. Illustration

Statement of Profit and Loss For the year ended on 31st March, 20X2			
	Notes	**P Ltd.**	**Q Ltd.**
i. Statement of Profit and Loss for the year ended on 31st March 20X2			
Sales	**1**	**2,00,000**	**80,000**
Other Income	**2**	**3,000**	
Total Revenue		**2,03,000**	**80,000**
Expenses			
Raw Material Consumed	**3**	**1,10,000**	**48,000**
Change in inventories finished stock	**4**	**(5,000)**	**(3,000)**
Employee benefit expenses		**30,000**	**10,000**
Finance Costs	**5**	**2,700**	**1,000**
Depreciation		**7,000**	**4,000**
Other Expenses	**6**	**10,350**	**6,040**
Total Expenses		**1,55,050**	**66,040**
Profit Before Tax		**47,950**	**13,960**
Tax Expense:			

Current Tax	11	15,000	4,000
Deferred Tax		2,000	1,000
		17,000	5,000
Profit after Tax		30,950	8,960
ii. Statement of Other Comprehensive Income			
Fair Value gain on investment in subsidiary	8	1,000	0
Fair Value gain on other non-current investments*	8	500	250
		1,500	250

Notes	P Ltd.	Q Ltd.
Note 1 – Sales		
Sales to Q Ltd.	20,000	
Other Sales	1,80,000	80,000
	2,00,000	80,000
Note 2 – Other Income		
Interest from Q Ltd.	1,000	
Royalty from Q Ltd.	2,000	
	3,000	
Note 3 – Raw Material Consumed		
Opening Stock	10,000	5,000
Purchases from P Ltd.		20,000
Other Purchases	1,20,000	30,000
Closing Stock	20,000	7,000
	1,10,000	48,000
Note 4 – Change in inventories of finished stock		
Opening Stock	10,000	5,000
Closing Stock	15,000	8,000
	(5,000)	(3,000)
Note 5 – Finance Costs		
Interest	2,700	
Interest to P Ltd.		1,000
	2,700	1,000
Note 6 – Other Expenses		
Long term provisions	100	30
Short Term provisions	50	10
Royalty to P Ltd.		2,000
Others	10,000	4,000
Acquisition Expenses	200	
	10,350	6,040

You are required to prepare consolidated profit and loss statement.

Solution

Consoldiated Profit and Loss

Particulars	P (₹)	Q (₹)	Adjustments (₹)	Total (₹)
Revenue				
Sales	2,00,000	80,000	(20,000)	2,60,000
Other Income	3,000	–	(3,000)	–
Total Revenue	2,03,000	80,000	(23,000)	**2,60,000**
Expenses				
Raw Material Consumed	1,10,000	48,000	(20,000)	1,38,000
Changes in Inventory of FG	(5,000)	(3,000)	–	(8,000)
Employee Benefit Expenses	30,000	10,000	–	40,000
Finance Cost	2,700	1,000	(1,000)	2,700
Depreciation	7,000	4,000	–	11,000
Other Expenses	10,350	6,040	(2,000)	14,390
Total Expenses	1,55,050	66,040	(23,000)	**1,98,090**
Profit Before Tax	47,950	13,960	–	**61,910**
Tax Expense				
– Current Tax	15,000	4,000	–	19,000
– Deferred Tax	2,000	1,000	–	3,000
Total Tax	17,000	5,000	–	**22,000**
Profit After Tax	30,950	8,960	–	**39,910**
Attributable to Parent (70%)				37,222
Attributable to NCI (30%)				2,688

Consolidated statement of OCI

Particulars	P (₹)	Q (₹)	Adjustments (₹)	Total (₹)
FV Gain on Investment in Subsidiary	1,000	–	(1,000)	–
FV Gain on Other Investments	500	250	–	750
Attributable to Parent				675
Attributable to NCI				75

50. Illustration

AB Ltd. and BC Ltd. have established a joint arrangement through a separate vehicle PQR. 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 Ltd. has the rights to all of Building No. 1 owned by PQR and the obligation to pay all of the debt owned by PQR to a lender XYZ. AB Ltd. and BC Ltd. have rights to all other assets of PQR and obligations for all other liabilities of PQR in proportion of their equity interests (i.e. 50% each)

PQR's balance sheet is as follows:

Liabilities	Rs.	Assets	Rs.
Debt owed to XYZ	240	Cash	40
Employee benefit plan obligation	100	Building 1	240
Equity	140	Building 2	200
	480		480
How should AB Ltd. record in its financial statements its rights and obligations in PQR?			

Solution

AB Ltd. should record the following in its financial statements, to account for its rights in the assets of PQR and its obligations for the liabilities of PQR.

	Rs.
Assets	
Cash	20
Building 1	240
Building 2	100
Liabilities	
Debt (third party)	240
Employee benefit plan obligation	50

Since AB Ltd. has the rights to all of Building No. 1, it records the amount in its entirety. AB Ltd. has obligation for the debt owed by PQR to XYZ in its entirety

51. Illustration

An entity has following three type interests in an associate:

- Equity shares: 25% of the equity shares to which equity method of accounting is applied
- Preference shares: Non-cumulative preference shares that form part of net investment in the associate. Such preference shares are measured at fair value as per Ind AS 109.
- Long-term loan: The loan carrying interest of 10% p.a. The interest income is received at the end of each year. The long-term loan is accounted as per amortised cost as per Ind AS 109. This loan also forms part of net investment in the associate.

At the start of year 1, the carrying value of each of the above interests is as follows:

- Equity shares – Rs. 10,00,000
- Preference shares – Rs. 5,00,000
- Long-term loan – Rs. 3,00,000

Following table summarises the changes in the fair value of preference shares as per Ind AS 109, impairment loss on long-term loan as per Ind AS 109 and entity's share in profit / loss of associate for year 1-5

End of Year	Increase / (Decrease) in fair value of preference sharesas per Ind AS 109	Impairment loss / (reversal) on long-term loan as per Ind AS 109	Entity's share in profit / (loss) of associate
1	(50,000)	(50,000)	(16,00,000)
2	(50,000)	-	(2,00,000)
3	1,00,000	50,000	-
4	50,000	-	10,00,000
5	30,000	-	10,00,000

Throughout year 1 to 5, there has been no objective evidence of impairment in the net investment in the associate. The entity does not have any legal or constructive obligation to share the losses of the associate beyond its interest in the associate.

Based on above, determine the closing balance of each of the above interests at the end of each year.

Solution

	Investment in shares	**Preference Sh**	**Loan**	
	Equity Method	FV IndAS 109	ACM Ind AS 109	Total
Year 1				
Opening Balance	10,00,000	5,00,000	3,00,000	18,00,000
Adjustments as per Ind AS 109	0	-50,000	-50,000	-1,00,000
Carrying Amount post 109	10,00,000	4,50,000	2,50,000	
Share of Losses allocated	-10,00,000	-4,50,000	-1,50,000	-16,00,000
Entity's share of losses				-16,00,000
Closing Balance	0	0	1,00,000	0
Year 2				
Opening Balance	0	0	1,00,000	
Adjustment for Ind AS 109	NA	-50000	0	-50,000
Carrying Amount post 109	0	-50,000	1,00,000	
Share of Profit/(Losses)		50000	-100000	-50000
		0	0	
Entity's share of loss				-200000
Closing Balance	0	0	0	-1,50,000
Year 3				
Opening Balance	0	0	0	-1,50,000

Adjustments for Ind AS 109	0	100000	50000	1,50,000
Carrying Amount	0	1,00,000	50,000	
Less: Share of Loss (Unabsorbed)	0	-100000	-50000	-150000
Closing Balance	0	0	0	0
Year 4				
Opening Balance	0	0	0	0
Adjustment Ind AS 109		50,000.00	0	
Carrying Amount post 109	0.00	50,000.00	0.00	
Share of Profit	200000	500000	300000	1000000
Closing Balance	2,00,000	5,50,000	3,00,000	1050000
Year 5				
Opening Balance	2,00,000	5,50,000	3,00,000	
Adjustment Ind AS 109		30000	0	
Carrying Amount post 109	2,00,000	5,80,000	3,00,000	
Share of Profit	10,00,000			
Closing Balance	12,00,000	5,80,000	3,00,000	20,80,000

52. Illustration

AB Limited holds 30% interest in an associate which it has acquired for a cost of Rs. 300 lakhs. On the date of acquisition of that stake, the fair value of net assets of the associate was Rs. 900 lakh. The value of goodwill on acquisition was Rs. 30 lakhs.

After the acquisition, AB Limited accounted for the investment in the associate as per equity method of accounting and now the carrying value of such investment in the consolidated financial statements of AB Limited is Rs. 360 lakhs. The associate has now issued equity shares to some investors other than AB Limited for a consideration of Rs. 800 lakhs. This has effectively reduced the holding of AB Limited to 20%. Determine how AB Limited should account for such reduction in interest in the associate?

Solution

Because of the issue of shares by associate to other investors, AB Limited has effectively sold 10% (30 – 20) of its interest in the associate. The gain / loss on reduction in interest in associate in calculated as follows:

	Rs.' lakhs
AB Limited's share in the consideration received by the associate for issueof shares (800 x 20%) (1)	160

Less: Carrying value of interest sold (360 x 1/3)[2]	(120)
Gain on reduction in interest in associate[3]	40

Notes:

(1) The share in the consideration received by associate on issue of shares (i.e. Rs. 160 lakhs) would be recorded as part of investment in associate.

(2) The carrying amount of interest sold (i.e. Rs. 120 lakhs) will be derecognised, including proportionate goodwill of Rs. 10 lakhs (30 x 1/3).

(3) Gain of Rs. 40 lakhs will be recorded in the profit or loss

53. Illustration

On 1st April 20X1 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 30th September 20X1 and utilisation of the property started on 1st January 20X2 at which time the estimated useful life of the same was estimated to be 20 years.

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

Solution

Cost of PPE	**40,00,00,000**		
Add: Borrowing cost as per IndAS 23	50,00,000	for 6 months 1 Apr till 30 Sep	
Total Cost	40,50,00,000		
	Alpha	Gama	Total
PPE to be recognised	20,25,00,000	20,25,00,000	40,50,00,000
Useful life			20
Depreciation	50,62,500	50,62,500	1,01,25,000

Interest Expense	25,00,000	25,00,000	50,00,000
Maintenance Expense	2,00,000	2,00,000	400000
Liability			
Loan	5,00,00,000	5,00,00,000	10,00,00,000
Interest payable	12,50,000	12,50,000	25,00,000
Cost of PPE	40,00,00,000		
Add: Borrowing cost as per IndAS 23	50,00,000	for 6 months 1 Apr till 30 Sep	
Total Cost	40,50,00,000		
	Alpha	Gama	Total
PPE to be recognised	20,25,00,000	20,25,00,000	40,50,00,000
Useful life			20
Depreciation	50,62,500	50,62,500	1,01,25,000
Interest Expense	25,00,000	25,00,000	50,00,000
Maintenance Expense	2,00,000	2,00,000	400000
Liability			
Loan	5,00,00,000	5,00,00,000	10,00,00,000
Interest payable	12,50,000	12,50,000	25,00,000