



FR Concept  
**BUILDER**  
with Optional Question Bank

CA FINAL

# **FINANCIAL REPORTING**

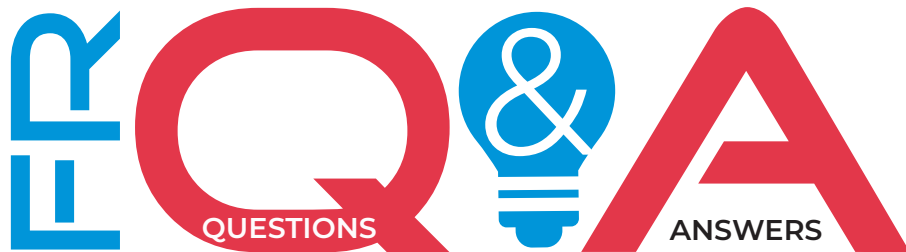
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**A Question Bank by CA. Sarthak Jain for FR**

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# CHAPTER 1

## INTRODUCTION TO INDIAN ACCOUNTING STANDARDS (& SCHEDULE III)

### Q. 1 IND AS APPLICABILITY-NETWORTH FALLS DOWN SUBSEQUENTLY

The net worth of Company C (an unlisted company) was ₹ 400 crores as on 31st March 2014. However, the net worth of the company was ₹ 600 Crores as on 31st March 2015. From when company B shall apply Ind AS? **[SM]**

Ans.



Similar issue has been encountered in ITFG Bulletin 1, Issue 1 which gives reference to clause 2b of the notification wherein it is stated that:

“For companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1)”

Hence, any company that meets the thresholds as specified in the Companies (Indian Accounting Standards) Rules, 2015 in a particular financial year, Ind AS will become applicable to such company in immediately next financial year. Hence, in the present case, Company C is covered by Phase I of the roadmap and accordingly, Ind AS will be applicable to Company C for accounting periods beginning on or after 1st April 2016

### Q. 2 APPLICABILITY : ACQUISITION OF HOLDING DURING THE YEAR



Company X (Listed entity) has a net worth of above INR 500 crore and hence required to comply with Ind AS from financial year 2016-17. Company Y (Unlisted entity), on a standalone basis, has net worth below INR 250 crore and hence it is not required to comply with Ind AS. Company Y acquires shares of Company X during financial year 2016-17, whereby Company Y becomes the holding company of Company X.

Whether Company Y will be required to comply with Ind AS from financial year 2016-17, given that it has now become a holding company of Company X during FY 2016-17?

Ans.

Rule 4(1)(ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

- companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;
- companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;
- holding, subsidiary, joint venture or associate companies of companies covered by sub clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) as the case may be; and”.

In accordance with the above, it may be noted that holding, subsidiary, joint venture, associate companies of companies falling under any of threshold specified Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17 or 2017-18, as the case may be.

In the given case, Company X is required to adopt Ind AS from financial year 2016-17, since net worth of Company X is more than INR 500 crore. Company Y has acquired shares of Company X resulting in Company Y becoming holding company of Company X during the financial year 2016-17. Accordingly, Company Y will prepare Ind AS financial statements for the year ending March 31, 2017.

**Q. 3****APPLICABILITY – UNLISTING OF COMPANY**

As on March 31, 2014, Company A is a listed company and has a net worth of 50 crore. As on March 31, 2016, the company is no more a listed company. Whether Company A is required to comply with Ind AS from financial year 2016-17.

**Ans.**

Rule 4(1)(iii) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

“(iii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-

- (a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;
- (b) companies other than those covered in clause (ii) of sub-rule (1) and subclause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.
- (c) holding, subsidiary, joint venture or associate companies of companies covered under sub-clause (a) of clause (iii) of sub-rule (1) and sub-clause (b) of clause (iii) of sub-rule (1), as the case may be”.

Further, Rule 4(2) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

“(2) For the purposes of calculation of net worth of companies under sub-rule (1), the following principles shall apply, namely:-

- (a) the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date;
- (b) for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).

**Explanation** - For the purposes of sub-clause (b), the companies meeting the specified thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1).”

**FAST Ans:** *In view of the above requirements, it may be noted that immediately before the mandatory applicability date, if the listing criteria for a company are not met, then it shall not be required to comply with Ind AS.*

*In the given case, before the mandatory applicable date (i.e 2017-18), Company A ceases to be a listed company. Accordingly, it will not be required to apply Ind AS from FY 2017-18.*

**Q. 4****APPLICABILITY : PARTNERSHIP FIRMS**

A Ltd. is a first-time adopter of Ind AS. It had incorporated a partnership firm with B Ltd. namely, M/s A&B Associates. Whether Ind AS will be applicable to M/s A & B Associates by virtue of the fact that Ind AS is applicable to A Ltd?

Also clarify, whether Ind AS will be applicable to non-corporate entities?

**Ans.**

The applicability of Ind AS has been specified for classes of companies specified in Rule 4 of Companies (Indian Accounting Standards) Rules, 2015. Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, are applicable for the corporates only. Non- corporates are required to follow

the accounting standards issued by the Institute of Chartered Accountants of India. They cannot be applied by non-corporate entities even voluntarily.

However, in case, a relevant regulator specifically provides for implementation of Ind AS, the non-corporate entities shall apply Ind AS, for example, SEBI has mandated implementation of Ind AS for Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs). Similarly, if Central Government notifies certain body corporate under clause (1)(4)(f) of Companies Act, 2013, such entities will be required to apply Ind AS. For other non-company entities, Accounting Standards issued by the ICAI shall be applicable and there will be no option to follow Ind AS to such entities.

Accordingly, in the given case, Ind AS is not applicable to partnership firms. However, for the purpose of consolidation, the partnership firm will be required to provide financial statements data prepared as per Ind AS to A Ltd. provided the partnership qualifies as a subsidiary/joint venture/associate of A Ltd.

**Q. 5****APPLICABILITY : FOREIGN BRANCH**

ABC & Company incorporated in US with limited liability, has established a branch office in India, with the permission of the Reserve Bank of India (RBI), to provide consultancy services in India. The branch office remits the amounts earned by it to ABC & Company (i.e. Head office) net of applicable Indian taxes and subject to RBI guidelines.

As on April 1, 2016, it has more than 500 crore balance as "Head office account".

Whether the India branch office of ABC Company will be required to comply with Ind AS?

**Ans.**

As per the roadmap issued by the MCA, "company" as defined in clause (20) of section 2 of the Companies Act, 2013 is required to comply with Ind AS. Section 2(20) of the Act defines company as follows:

"company" means a company incorporated under this Act or under any previous company law;

The branch office of a foreign company established in India is not incorporated under the Act. It is only an establishment of a foreign company in India. The Branch office is just an extension of the foreign company in India.

Further, as per Rule 6 of the Companies (Indian Accounting Standards) Rules, 2015, "Indian company which is a subsidiary, associate, joint venture and other similar entities of a foreign company shall prepare its financial statements in accordance with the Indian Accounting Standards (Ind AS) if it meets the criteria as specified in sub-rule (1)."

In accordance with the above, it may be noted that Branch office of a foreign company is not covered under rule 6 as mentioned above. Accordingly, in the given case, the branch office of ABC & Company is not required to comply with Ind AS.

**Q. 6****ASSOCIATE – S.8 COMPANY**

Company X Ltd. is being covered under Phase I of Ind AS and needs to apply Ind AS from financial year 2016-17. Company Y which is an associate company of Company X Ltd. is a charitable organisation and registered under section 8 of the Companies Act, 2013.

Whether Company Y is required to comply with Ind AS from financial year 2016-17?

**(Question on this concept was asked in CA Final New Course Exam Paper3 – Audit, Nov. 2019)**

**Ans.**

Rule 4(1)(ii) of Companies (Indian Accounting Standards) Rules, 2015, states as under:

the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

- (a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;
- (b) companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;
- (c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub-rule (1) as the case may be; and”.

In accordance with the above, it may be noted that holding, subsidiary, joint venture, associate companies of companies falling under any of the thresholds specified in Rule 4(1)(ii) are required to comply with Ind AS from financial year 2016-17.

Further, it may be noted that the companies covered under Section 8 are required to comply the provisions of the Companies Act, 2013, unless and until any exemption is provided. Section 8 companies are not exempted from the requirements of section 133 and section 129 of the Companies Act, 2013.

In view of the above, in the given case, Company Y will be required to apply Ind AS from financial year 2016-17.

## Notes



# CHAPTER 2

## IND AS 1 PRESENTATION OF FINANCIAL STATEMENTS

### CURRENT – NON CURRENT CLASSIFICATION

Q. 1

#### CLASSIFICATION



OMN Ltd. has a subsidiary MN Ltd. OMN Ltd. provides a loan to MN Ltd. at 8% interest to be paid annually. The loan is required to be paid whenever demanded back by OMN Ltd.

How should the loan be classified in the financial statements of OMN Ltd? Will it be any different for MN Ltd? **[SM]**

Ans.

The demand feature might be primarily a form of protection or a tax-driven feature of the loan. Both parties might expect and intend that the loan will remain outstanding for the foreseeable future. If so, the instrument is, in substance, long-term in nature, and accordingly, OMN Ltd. would classify the loan as a non-current asset.

However, OMN Ltd. would classify the loan as a current asset if both the parties intend that it will be repaid within 12 months of the reporting period.

MN Ltd. would classify the loan as current because it does not have the right to defer repayment for more than 12 months, regardless of the intentions of both the parties.

The classification of the instrument could affect initial recognition and subsequent measurement.

This might require the entity's management to exercise judgement, which could require disclosure under judgements and estimates.

Q. 2

#### CLASSIFICATION



On 1st April, 20X3, Charming Ltd. issued 100,000 ₹ 10 bonds for ₹ 1,000,000. On 1st April, each year interest at the fixed rate of 8 per cent per year is payable on outstanding capital amount of the bonds (i.e. the first payment will be made on 1st April, 20X4). On 1st April each year (i.e. from 1st April, 20X4), Charming Ltd. has a contractual obligation to redeem 10,000 of the bonds at ₹ 10 per bond. In its statement of financial position at 31st March, 20X4. How should this be presented in the financial statements? **[MTP-May-2022, SM]**

Ans.

Charming Ltd. must present ₹ 80,000 accrued interest and ₹ 1,00,000 current portion of the non-current bond (i.e. the portion repayable on 1st April, 20X4) as current liabilities. The ₹ 9,00,000 due later than 12 months after the end of the reporting period is presented as a non-current liability.

Q. 3

#### CLASSIFICATION : BOND INVESTMENT

On 1 April 20X2 XYZ Ltd. invested ₹ 15,00,000 surplus funds in corporate bonds that bear interest at 8 per cent per year. Interest is payable on the corporate bonds on 1 April of each year. The capital is repayable in three annual instalments of ₹ 500,000 starting on 31 March 20X4. How will such stock be classified?

Ans.



**In its statement of financial position at 31 March 20X3 the entity must present the ₹ 1,20,000 accrued interest and ₹ 500,000 current portion of the non-current loan (i.e. the portion repayable on 31 March 20X4) as current assets** – they are expected to be realised within twelve months of the end of the reporting period. The instalments of ₹ 10,00,000 due later than twelve months after the end of the reporting period is presented as a non-current asset – it is not cash or a cash equivalent; it is not expected to be realised or consumed in the entity's normal operating cycle; it is not held for the purpose of trading; and it is not expected to be realised within twelve months of the end of the reporting period.

**Q. 4****CLASSIFICATION**

An entity owns a machine with which it manufactures goods for sale. It also owns the building in which it carries out its commercial activities classify.

**Ans.**

The machine and the building are non-current assets—they are not cash or cash equivalents; they are not expected to be realised or consumed in the entity's normal operating cycle; they are not held for the purpose of trading; and they are not expected to be realised within twelve months of the end of the reporting period classify.

**Q. 5****CLASSIFICATION**

On 31 December 20x2 an entity replaced a machine in its production line. The replaced machine was sold to a competitor for ₹ 300,000. Payment is due 15 months after the end of the reporting period classify.

**Ans.**

The receivable is a non-current asset—it is not cash or a cash equivalent; it is not expected to be realised or consumed in the entity's normal operating cycle; it is not held for the purpose of trading; and it is not expected to be realised within twelve months of the end of the reporting period.

**Note:** If payment was due in less than twelve months of the end of the reporting period it would be a current asset.

**Q. 6****CLASSIFICATION : INVENTORY**

An entity produces whisky from barley, water and yeast in a 24-month distillation process. At the end of the reporting period the entity has one month's supply of barley and yeast raw materials, 800 barrels of partly distilled whisky and 200 barrels of distilled whisky. How will such stock be classified?

**Ans.**

All raw materials (barley and yeast) work in process (partly distilled whisky) and finished goods (distilled whisky) are inventories. The raw materials are expected to be realised (i.e. turned into cash after being processed into whisky) in the entity's normal operating cycle. Therefore, even though the realisation is expected to take place more than twelve months after the end of the reporting period, the raw materials, work in progress and finished goods are current assets.

**Q. 7****CLASSIFICATION**

An entity has placed certain deposits with various parties. How the following deposits should be classified, i.e., current or non-current?



- (a) Electricity Deposit
- (b) Tender Deposit/Earnest Money Deposit [EMD]
- (c) Sales Tax/Excise Deposit paid under dispute.

**Ans.**

- (a) An entity pays electricity deposit for the purposes of receiving an electricity connection. At all points of time, such deposit is recoverable on demand, when the connection is not required. However, practically, such electric connection is required as long as the entity exists. Hence from a commercial reality perspective, an entity does not expect to realise the asset within twelve months from the end of the reporting period. Further, this has no relation to the operating cycle and is not held for the purpose of trading. Hence, electricity deposit should be classified as a non-current asset.
- (b) Generally, tender deposit/EMD are paid for participation in various bids. They normally become recoverable if the entity does not win the bid. Bid dates are known at the time of tendering the deposit. But until the date of the actual bid, one is not in a position to know if the entity is winning the bid or otherwise. Accordingly, depending on the terms of the deposit if entity expects to realise the deposit within a period of twelve months, it should be classified as current otherwise non-current.

- (c) Classification of sales tax/excise deposits paid to the Government authorities in the event of any legal dispute, which is under protest would depend on the facts of the case and the expectation of the entity to realise the same within a period of twelve months.

**Q. 8****CLASSIFICATION**

Assume operating cycle to be of twelve months. Classify the following deposits given by an entity in automobile industry during the year ended 31<sup>st</sup> March, 2025 either as current asset or non-current asset. Give reasons.

- (i) Electricity deposit paid to permanently enhance the power load of the factory.
- (ii) Tender deposit. Tender is likely to be opened & awarded to the lowest bidder within next six months.
- (iii) GST demand deposited with the department against which the entity has filed an appeal before the appellate authorities. Appeal is likely to be heard after 30<sup>th</sup> June, 2026.
- (iv) Earnest money deposit on award of a long term job contract to be completed by 31<sup>st</sup> May, 2026. Earnest money is returnable only on completion of the job work. **[May-2025]**

**Ans.**

- (i) **Electricity Deposit** - At all points of time, the deposit is recoverable on demand, when the connection is not required. However, practically, such electric connection is required as long as the entity exists. Hence, from a commercial reality perspective, an entity does not expect to realise the asset within twelve months from the end of the reporting period. Hence, electricity deposit should be classified as a non-current asset.
- (ii) **Tender Deposit** - In the given case, tender is likely to be opened and awarded to the lowest bidder within six months. Therefore, it is expected that the refund of tender deposit will also be received within a few days or a month from the date of tender being opened and awarded. Hence, tender deposit will be classified as current asset in the books of the entity as on 31<sup>st</sup> March, 2025.
- (iii) **GST Demand Deposit paid under dispute** - Since appeal is likely to be heard after 30<sup>th</sup> June, 2026 i.e., 15 months from 31<sup>st</sup> March, 2025 (reporting date), it should classify such GST demand deposit as non-current asset.
- (iv) **Earnest Money Deposit** - Since the job contract is of long term in nature and is expected to be completed by 31<sup>st</sup> May, 2026, i.e., 14 months from 31<sup>st</sup> March, 2025 (reporting date), the earnest money deposit should be classified as non-current asset.

**Q. 9****CLASSIFICATION**

An entity has the following trial balance line items. How should these items be classified, i.e., current or non-current?

- (a) Receivables (viz., receivable under a contract of sale goods in which an entity deals)
- (b) Advance to suppliers
- (c) Income tax receivables [other than deferred tax]
- (d) Insurance spares **[SM]**

**Ans.**

- (a) As per Ind AS 1, an entity shall classify an asset as current when it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle.  
Paragraph provides the guidance that current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period.  
In accordance with above, **the receivables that are considered a part of the normal operating cycle will be classified as current asset.**

**If the operating cycle exceeds twelve months, then additional disclosure as required by Ind AS 1 is required to be given in the notes.**

- (b) As discussed in point (a) above, **advances to suppliers for goods and services would be classified in accordance with normal operating cycle if it is given in relation to the goods or services in which the entity normally deals.** If the advances are considered a part the normal operating cycle, it would be classified as a current asset. If the operating cycle exceeds twelve months, then additional disclosure as required by Ind AS 1 is required to be given in the notes.
- (c) Classification of income tax receivables [other than deferred tax] will be driven by Ind AS 1, i.e., based on the expectation of the entity to realise the asset. **If the receivable is expected to be realised within twelve months after the reporting period, then it will be classified as current else non-current.**
- (d) Insurance spares: Ind AS 16 provides “Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory”

In accordance with the above, if insurance spares meet the definition of property, plant and equipment, these should be treated as an item of property, plant and equipment, otherwise inventory. **Accordingly, the insurance spares that are treated as an item of property, plant and equipment would normally be classified as non-current asset whereas insurance spares that are treated as inventory will be classifieds current asset if the entity expects to consume it in its normal operating cycle.**

**Q. 10****CLASSIFICATION : LIABILITY CUSTOMER ADVANCE**

Ind AS 1 states “An entity shall classify a liability as current when it expects to settle the liability in its normal operating cycle”. An entity develops tools for customers and this normally takes a period of around 2 years for completion. The material is supplied by the customer and hence the entity only renders a service. For this, the entity receives payments upfront and credits the amount so received to “Income Received in Advance”. How should this “Income Received in Advance” be classified, i.e. current or non-current?

**Ans.**

Ind AS 1 provides “Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity’s normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period.”

In accordance with the above, income received in advance would be classified as current liability since it is a part of the working capital, which the entity expects to earn in its normal operating cycle.

**Q. 11****CLASSIFICATION : INVENTORY**

H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset. Comment on the accuracy of the decision and the treatment of asset by H Ltd. as per revised Schedule III.

**Ans.**

As per Schedule III, one of the criteria for classification of an asset as a current asset is that the asset is expected to be realised in the company’s operating cycle or is intended for sale or consumption in the company’s normal operating cycle.

Further, Schedule III defines that an operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents.

However, when the normal operating cycle cannot be identified, it is assumed to have duration of 12 months.

As per the facts given in the question, the process of manufacturing of lotus wine takes around 18 months; therefore, its realisation into cash and cash equivalents will be done only when it is ready for sale i.e. after 18 months. This means that normal operating cycle of the product is 18 months. Therefore, the contention of the company's management that the operating cycle of the product lotus wine is 18 months and not 12 months is correct. **H. Ltd. will classify the raw material purchased and held in stock as current asset in its Balance Sheet.**

**FAST Ans: Current**

**Q. 12**



**CLASSIFICATION**

Inventory or trade receivables of X Ltd. are normally realised in 15 months. How should X Ltd. classify such inventory / trade receivables: current or non-current if these are expected to be realised within 15 months?

**Ans.**

These should be classified as current.

**CLASSIFICATION : BREACH OF LOAN CONVENANT**

**Q. 13**



**CLASSIFICATION : BREACH**

Company A has taken a long-term loan arrangement from Company B. In the month of December 20X1, there has been a breach of material provision of the arrangement. As a consequence of which the loan becomes payable on demand on March 31, 20X2. In the month of May 20X2, the Company started negotiation with the Company B for not to demand payment as a consequence of the breach. The financial statements were approved for the issue in the month of June 20X2. In the month of July 20X2, both company agreed that the payment will not be demanded immediately as a consequence of breach of material provision.

Advise on the classification of the liability as current / non-current.

**[RTP-May-2018]**

**Ans.**

As per Ind AS 1 "Presentation of Financial Statements" where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. In the given case, Company B (the lender) agreed for not to demand payment but only after the financial statements were approved for issuance. The financial statements were approved for issuance in the month of June 20X2 and both companies agreed for not to demand payment in the month of July 20X2 although negotiation started in the month of May 20x2 but could not agree before June 20X2 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement for the year ended March 31, 20X2.

**Q. 14**



**LOAN : BREACH OF COVENANT**

An entity enters into a loan arrangement with a banker and is subject to compliance with various covenants - some are financial and some are non- financial covenants. The entity commits a breach of covenant prior to the end of the reporting period. As a result of such breach, as per terms of the arrangement, the loan becomes payable on demand. Assuming that as per the original terms, the loan is payable after a period of 24 months from the reporting date –

- How should the liability be classified in the balance sheet — current/non-current, if subsequent to the end of the reporting period but before the approval of financial statements, the banker has agreed not to demand payment?
- Will the answer be different, if the banker has condoned the breach prior to the reporting period and provided a time period of more than twelve months after the reporting period to rectify the breach?
- What will be the classification, if the banker has condoned the breach prior to the reporting period but provided a time period of only less than twelve months after the reporting period to rectify the breach?

**Ans.**

- (a) The loan should be classified as non-current by virtue of Ind AS 1, which states “where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. The guidance in a mandatory carve out from International Accounting Standard (IAS) 1.”
- (b) No, the loan can retain its classification as non-current by virtue of Ind AS 1, which, inter alia, states, “An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.”
- (c) The loan will require a reclassification to current by virtue of Ind AS 1 as stated above, since the period of grace is less than twelve months after the reporting period.

**OPERATING CYCLE****Q. 15 OPERATING CYCLE & CLASSIFICATION**

B Ltd. produces aircrafts. The length of time between first purchasing raw materials to make the aircrafts and the date the company completes the production and delivery is 9 months. The company receives payment for the aircrafts 7 months after the delivery.

- (a) What is the length of operating cycle?  
(b) How should it treat its inventory and debtors?

**[MTP-May-2022, SM]****Ans.**

- (a) The length of the operating cycle will be 16 months.  
(b) Assuming the inventory and debtors will be realised within normal operating cycle, i.e., 16 months, both the inventory as well as debtors should be classified as current.

**Q. 16 OPERATING CYCLE**

X Ltd. provides you the following information:

|                                   |   |          |
|-----------------------------------|---|----------|
| Raw material stock holding period | : | 3 months |
| Work-in-progress holding period   | : | 1 month  |
| Finished goods holding period     | : | 5 months |
| Debtors collection period         | : | 5 months |

The trade payables of the Company are paid in 12.5 months. Should these be classified as current or non-current?

**[SM]****Ans.**

In this case, the operating cycle of X Ltd. is 14 months. Since the trade payables are expected to be settled within the operating cycle i.e. 12.5 months, they should be classified as a current.

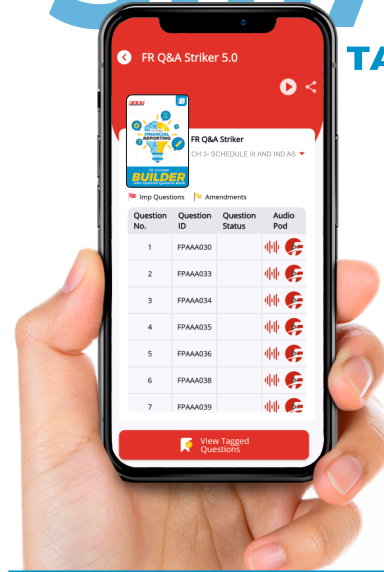
**EUS****Q. 17 INTRODUCTION: AUDITOR QUALIFICATION AND EUS**

An entity prepares its financial statements that contain an explicit and unreserved statement of compliance with Ind AS. However, the auditor's report on those financial statements contains a qualification because of disagreement on application of one Accounting Standard. In such case, is it acceptable for the entity to make an explicit and unreserved statement of compliance with Ind AS?

**[SM]**

## CA Final FR & AUDIT

by CA. Sarthak Jain  
(CA Final - AIR 46)



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