



CA FINAL

FINANCIAL REPORTING



FR Question Bank SUPER 75

This Question Bank contains mostly numerical-based questions which are important and require prior written practice to solve confidently in exams.



F.A.S.T
first attempt success tutorials

A Question Bank by CA. Sarthak Jain for FR

Index
SUPER 75

Ind AS	Page Number
Ind AS 1 - Presentation of Financial Statements	1
Ind AS 2 - Inventories	2
Ind AS 7 - Statement of Cash Flows	4
Ind AS 8- Accounting Policies, Changes in Accounting Estimates & Errors	8
Ind AS 12 - Income Taxes	11
Ind AS 16 - Property, Plant And Equipment	14
Ind AS 19 - Employee Benefits	21
Ind AS 20 - Accounting for Government Grants & Disclosure of Government Assistance	24
Ind AS 21 - The Effects of Changes in Foreign Exchange Rates	26
Ind AS 23 - Borrowing Costs	28
Ind AS 33 - Earnings Per Share	30
Ind AS 34 - Interim Financial Reporting	34
Ind AS 36 - Impairment of Assets	37
Ind AS 38 - Intangible Assets	46
Ind AS 40 - Investment Property	48
Ind AS 41 - Agriculture	53
Ind AS 101- First Time Adoption of Ind AS	54
Ind AS 102 - Share Based Payment	59
Ind AS 103 - Business Combinations	65
Ind AS 105 - Non-Current Assets Held for Sale and Discontinued Operations	78
Ind AS 108- Operating Segments	81
Accounting and Reporting of Financial Instrument (Ind AS 32, 107, 109)	83
Consolidated and Separate Financial Statements of Group Entities (Ind AS 27, 28, 110, 111, 112)	103
Ind AS 113- Fair Value Measurement	125
Ind AS 115 - Revenue From Contracts with Customers	127
Ind AS 116 - Leases	140

F.A.S.T
first attempt success tutorials

Get More 

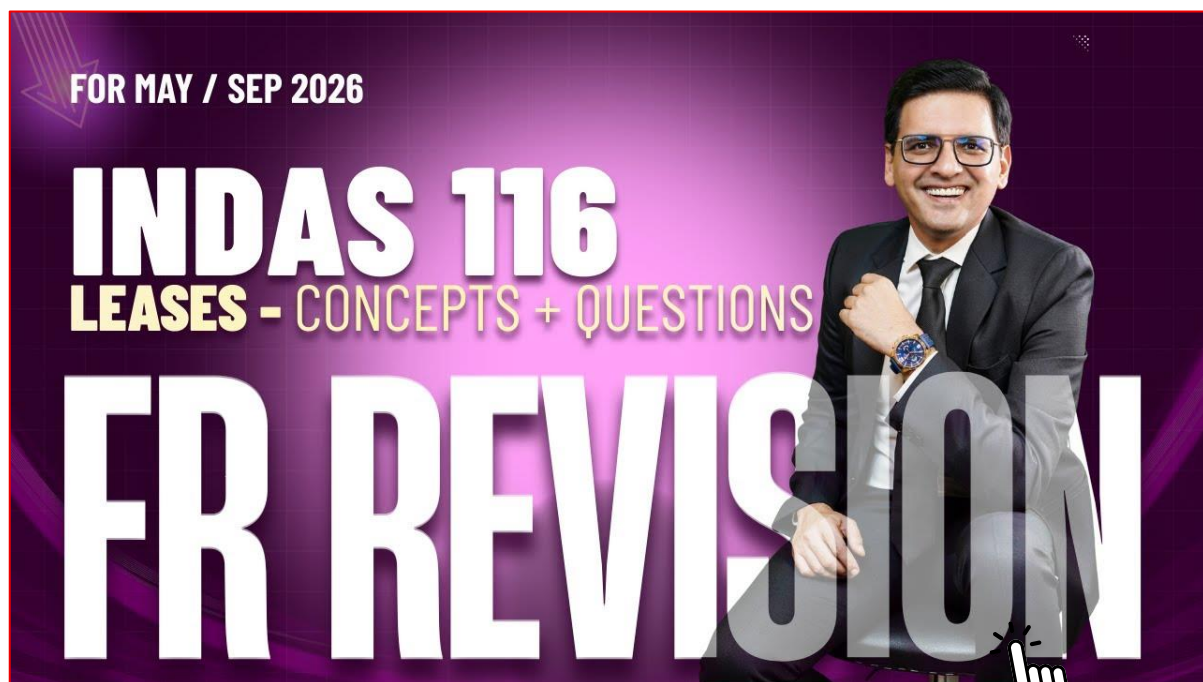
 Click to View

Watch my full video on  YouTube.



[Click Here](#)

 FR Revision Playlist:



[Click Here](#)

Get HardCopy of FR SureShot Notes:



To But FR SureShot Note Click on the Link Below

Fast Education - [CA Final FR Books - FAST Education](#)

AIR 1 - Mukund Agiwal

See **WHAT? Mukund Agiwal AIR 1** said about FR on **YouTube**



You May Also Watch:

- IndAS 116 Leases Revision
- ICAI UPDATES - FR Amendments May 26
- CA Final FR Revision Playlist for May 26
- CA Final Audit Revision Playlist for May 26
- CA Final AIR 1 | Mukund Agiwal | Proud Student of FAST interacting with CA SJ

Pro Notes For:

- CA Final FR - Revision Plan Hours per Chapter PDF
- CA Final FR QB PDF
- CA Final Audit MCQ PDF

Ind AS 1

PRESENTATION OF FINANCIAL STATEMENTS

Q. 1**CLASSIFICATION : BREACH & ANTICIPATORY BREACH**

In December 20X1 an entity entered into a loan agreement with a bank. The loan is repayable in three equal annual instalments starting from December 20X5. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by promoters by March 24 20X2, failing which the loan becomes payable on demand. As on March 24, 20X2, the entity has not been able to get the promoter's contribution. On March 25, 20X2, the entity approached the bank and obtained a grace period up to June 30, 20X2 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period. The annual reporting period of the entity ends on March 31, 20X2.

- (a) As on March 31, 20X2, how should the entity classify the loan?
- (b) Assume that in anticipation that it may not be able to get the promoter's contribution by due date, in February 20X2, the entity approached the bank and got the compliance date extended up to June 30, 20X2 for getting promoter's contribution. In this case will the loan classification as on March 31, 20X2 be different from (a) above?

[May-2022, MTP-May-2024, SM]
Ans.

- (a) Ind AS 1, inter alia, provides, "An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment." In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on March 31, 20X2, the loan will be classified as current.
- (b) Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case whether actual breach has taken place or not is to be assessed on June 30, 20X2, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on March 31, 20X2, the loan will retain its classification as non-current.

Note: However, post amendments made to Ind AS 1, by Companies Ind AS Second Amendment Rules, 2025: Provide disclosure of:

- (a) Conditions to be complied post the BS date,
- (b) Circumstances indicating difficulty in complying with it and
- (c) CA of such liabilities

Notes

Ind AS 2 INVENTORIES

Q. 2
COST: JOINT PRODUCT & BY PRODUCT

In a manufacturing process of Mars Ltd, one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process are here under:



Item	Unit	Amount ₹	Output	Closing Stock 31-3-20X1 units
Raw material	14,500	1,50,000	MP I-5,000 units	250
Wages	-	90,000	MP II -4,000 units	100
Fixed overhead	-	65,000	BP-2,000 units	-
Variable overhead	-	50,000	(SP 20 ₹ p.u.)	

Average market price of MP1 and MP2 is ₹ 60 per unit and ₹ 50 per unit respectively. There is a sale of by-product after incurring separate processing charges of ₹ 8,000 and packing charges of ₹ 2,000, ₹ 5,000 was realised from sale of scrap.

Required:

Calculate the value of closing stock of MP1 and MP2 as on 31-03-20X1.

[May-2025, SM]

Ans.

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

1) Calculation of NRV of By-product BP

Selling price of by-product	2,000 units x 20 per unit	40,000
Less: Separate processing charges of by-product BP		(8,000)
Packing charges		<u>(2,000)</u>
Net realizable value of by-product BP		<u>30,000</u>

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

Raw material		1,50,000
Wages		90,000
Fixed overhead		65,000
Variable overhead		50,000
Less: NRV of by-product BP (See calculation 1)	30,000	
Sale value of scrap	<u>5,000</u>	<u>(35,000)</u>
Joint cost to be allocated between MP1 and MP2		<u>3,20,000</u>

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

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

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

Particulars	MP 1	MP 2
Closing stock in units	250 units	100 units
Cost per unit	38.4	32
Value of closing stock	9,600	3,200

Q. 3

VALUATION OF FINISHED GOODS



Particulars		Kg.	₹
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was ₹ 20 per kg and the replacement cost for the raw material was ₹ 9.50 per kg on the closing day. You are required to calculate the closing inventory as on that date. [MTP-Jan-2026, SM]

Ans.

Calculation of cost for closing inventory

Particulars	₹
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $\frac{75,000 \times 10,200}{15,000}$	51,000
Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	₹ 22.50
Net Realisable Value per unit	₹ 20.00

Since net realisable value is less than cost, closing inventory will be valued at ₹ 20.

As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. ₹ 9.50.

Therefore, value of closing inventory: Finished Goods (1,200 x 20)	₹ 24,000
Raw Materials (900 x 9.50)	₹ 8,550
	<u>₹ 32,550</u>

Notes

Ind AS 7

STATEMENT OF CASH FLOWS

Q. 4
FOREIGN CURRENCY CASH FLOWS


A Ltd., whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of ₹ 2,00,000, but no trade receivables or trade payables on 1st April, 20X2. During 20X2-20X3, A Ltd. entered into the following foreign currency transactions:

1. A Ltd. purchased goods for resale from Europe for € 1,00,000 when the exchange rate was € 1 = ₹ 105. This balance is still unpaid at 31st March, 20X3 when the exchange rate is € 1 = ₹ 100.
2. A Ltd. sold the goods to an American client for \$ 1,50,000 when the exchange rate was \$1 = ₹ 85. This amount was settled when the exchange rate was \$1 = ₹ 87.
3. A Ltd. also borrowed € 1,00,000 under a long-term loan agreement when the exchange rate was € 1 = ₹ 105 and immediately converted it to ₹ 1,05,00,000.

Recommend how cash flows arising from above transactions would be reported in the statement of cash flows under indirect method. **[RTP-Sept-2025]**

Ans.

An exchange gain on retranslation of the trade payable of ₹ 5,00,000 is recorded in profit or loss [€ 1,00,000 x (105 – 100) = ₹ 5,00,000].

A further exchange gain of ₹ 3,00,000 regarding the trade receivable is recorded in the statement of profit or loss [\$ 1,50,000 x (87 – 85) = ₹ 3,00,000].

The loan was retranslated at 31st March, 20X3 @ ₹ 100 = ₹ 1,00,00,000, with a further exchange gain of ₹ 5,00,000 recorded in the statement of profit or loss.

A Ltd. therefore records a cumulative exchange gain of ₹ 13,00,000 (5,00,000 + 3,00,000 + 5,00,000) in arriving at its profit for the year. In addition, A Ltd. records a gross profit of ₹ 22,50,000 (₹ 1,05,00,000 – ₹ 1,27,50,000) on the sale of the goods.

Statement of Cash Flows

Cash flows from operating activities (Indirect method)

Particulars	Amount (₹)
Profit before taxation (22,50,000 + 13,00,000)	35,50,000
Adjustment for unrealised exchange gains/losses:	
Foreign exchange gain on long term loan	(5,00,000)
Decrease in trade payables	<u>(5,00,000)</u>
Operating cash flow before working capital changes	25,50,000
Changes in working capital (Due to increase in trade payables)	<u>1,05,00,000</u>
Net cash inflow from operating activities	1,30,50,000
Cash inflow from financing activity	<u>1,05,00,000</u>
Net increase in cash and cash equivalents	2,35,50,000
Cash and cash equivalents at the beginning of the period	<u>2,00,000</u>
Cash and cash equivalents at the end of the period (W.N.)	<u>2,37,50,000</u>

Note: Taxation is ignored.

Working Note:

Closing Cash and Cash Equivalents

Particulars	Amount (₹)
Opening balance of cash and cash equivalents	2,00,000
Add: Received from settlement of Trade Receivables	1,30,50,000
Add: Received from conversion of loan	<u>1,05,00,000</u>
	<u>2,37,50,000</u>

Q. 5

COMPREHENSIVE WITH BUSINESS COMBINATION

The relevant extracts of consolidated financial statements of A Ltd. are provided below:

Consolidated Balance Sheet

	For the year ended (₹ in Lac)	
	31st March 20X2	31st March 20X1
Assets		
Non-Current Assets		
Property, Plant and Equipment	4,750	4,650
Investment in Associate	800	-
Financial Assets	2,150	1,800
Current Assets		
Inventories	1,550	1,900
Trade Receivables	1,250	1,800
Cash and Cash Equivalents	4,650	3,550
Liabilities		
Current Liabilities		
Trade Payables	1,550	3,610

Extracts from Consolidated Statement of Profit and Loss
for the year ended 31st March 20X2

Particulars Amount	(₹ in Lac)
Revenue	12,380
Cost of Goods Sold	(9,860)
Gross Profit	2,520
Other Income	300
Operating Expenses	(450)
Other expenses	(540)
Interest expenses	(110)
Share of Profit of Associate	120
Profit before Tax	1,840

The below information is relevant for A Ltd Group.

- A Ltd had spent ₹ 30 Lac on renovation of a building. A Ltd charged the entire renovation cost to profit and loss account.
- On 1st April 20X1, A Ltd acquired 100% shares in S Ltd, for cash of ₹ 300 Lac. Fair value of the assets acquired and liabilities assumed under the acquisition are as under:

Property, Plant and Equipment	140 Lac
Inventories	60 Lac
Trade Receivables	30 Lac

- | | |
|---------------------------|----------|
| Cash and Cash Equivalents | 20 Lac |
| Total Assets | 250 Lac |
| Less: Trade Payables | (50 Lac) |
| Net Assets on acquisition | 200 Lac |
3. A Ltd.'s property, plant and equipment comprise the following:
- | | |
|---|-----------|
| Carrying amount on 1st April 20X1 | 4,650 Lac |
| Addition (at cost) including assets in S Ltd. | 800 Lac |
| Revaluation Surplus | 80 Lac |
| Disposal (Sale) of Assets | (490 Lac) |
| Depreciation for the year | (290 Lac) |
| Carrying Amount on 31st March 20X2 | 4,750 Lac |
- A Ltd constructed a machine that is a qualifying asset and incurred construction costs of ₹ 40 Lac that has been charged to other expenses. Of the interest cost of ₹ 110 Lac charged to profit or loss statement, ₹ 10 Lac includes interest cost on specific borrowings that need to be capitalized.
- Property, plant and equipment was sold at 630 Lac. Gain on disposal is adjusted against operating expenses.
4. A Ltd. purchased 30% interest in an Associate (G Ltd) for cash on 1st April 20X1. The associate reported profit after tax of ₹ 400 Lac and paid a dividend of ₹ 100 Lac for the year.
5. Impairment test was conducted on 31st March 20X2. The following were impaired as under:
- | | |
|-----------------------------------|-----------|
| Goodwill impairment loss: | ₹ 265 Lac |
| Intangible Assets impairment loss | ₹ 900 Lac |
- The goodwill impairment relates to 100% subsidiaries.
- Assume that interest cost is all paid in cash.
- You are required to determine cash generated from operations for group reporting purposes for the year ended 31st March 20X2. **[SM]**

Ans.

Extracts of Statement of Cash Flows for the year ended 31st March 20X2

Cash Flows from Operating Activities		Amount in ₹ Lacs
Profit before tax (W.N.1)		1,920
Less: Profit on Sale of PPE (630 - 490)		(140)
Add back: Depreciation		290
Impairment of Goodwill		265
Impairment of Intangible Assets		900
Less: Share of Profits of Associate (400 x 30%)		(120)
Add: Interest expense	[110 - 10]	100
Working Capital Changes (W.N.2):		
Add: Decrease in Trade Receivables		580
Add: Decrease in Inventories		410

Less: Decrease in Trade Payables		(2,110)
Cash generated from operations		<u>2,095</u>

Working Notes:

1. Profit before tax	Amount in ₹ Lacs
Reported profit as per Profit or Loss Statement	1,840
Add back: Renovation costs charged as expense	30
Construction costs charged as expense	40
Borrowing costs to be capitalized	<u>10</u>
Revised Profit before tax	<u>1,920</u>
2. Changes in Trade Receivables	Amount in ₹ Lacs
Opening Balance	1,800
Add: Receivables of S Ltd.	<u>30</u>
	1,830
Less: Closing Balance	<u>(1,250)</u>
	<u>580</u>
3. Changes in Inventories	Amount in ₹ Lacs
Opening Balance	1,900
Add: Receivables of S Ltd.	<u>60</u>
	1,960
Less: Closing Balance	<u>(1,550)</u>
	<u>410</u>
4. Changes in Trade Payables	Amount in ₹ Lacs
Opening Balance	3,610
Add: Receivables of S Ltd.	<u>50</u>
	3,660
Less: Closing Balance	<u>(1,550)</u>
	<u>2,110</u>

Notes

Ind AS 8

ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Q. 6

EXTRACT SHOWING CORRECTION OF PPI, CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATE

In its financial statements for the year ended 31st March, 20X2, Y Ltd. reported ₹ 73,500 revenue (sales), ₹ 53,500 cost of sales, ₹ 6,000 income tax expense, ₹ 20,000 retained earnings at 1st April, 20X1 and ₹ 34,000 retained earnings at 31st March, 20X2.

In 20X2-20X3, after the 20X1-20X2 financial statements were approved for issue, Y Ltd. discovered that some products sold in 20X1-20X2 were incorrectly included in inventories at 31st March, 20X2 at their cost of ₹ 6,500.

In 20X2-20X3, Y Ltd. changed its accounting policy for the measurement of investments in associates after initial recognition from cost model to the fair value model as per Ind AS 109. It acquired its only investment in an associate for ₹ 3,000 many years ago. The associate's equity is not traded on a securities exchange (that is, a published price quotation is not available). The fair value of the investment was determined reliably using an appropriate equity valuation model on 31st March, 20X3 at ₹ 25,000 (20X1-20X2: ₹ 20,000 and 20X0-20X1: ₹ 18,000).

At 31st March, 20X3, as a result of usage of improved lubricants, Y Ltd. reassessed the useful life of Machine A from four years to seven years. Machine A is depreciated on the straight-line method to a Nil residual value. It was acquired for ₹ 6,000 on 1st April, 20X0.

Inventories of the type manufactured by Machine A were immaterial at the end of each reporting period.

Y Ltd.'s accounting records for the year ended 31st March, 20X3, before accounting for change in accounting policy and change in accounting estimate, record ₹ 1,04,000 revenue (sales), ₹ 86,500 cost of sales (including ₹ 6,500 for the error in opening inventory and ₹ 1,500 depreciation for Machine A) and ₹ 5,250 income tax expense.

Y Ltd. presents financial statements with one year of comparative information.

For simplicity, the tax effect of all items of income and expenses should be assumed to be 30% of the gross amount.

first attempt success tutorials

Draft an extract showing how the correction of the prior period error, change in accounting policy and change in accounting estimate could be presented in the Statement of Profit and Loss and Statement of Changes in Equity (Retained Earnings) and disclosed in the Notes of Y Ltd. for the year ended 31st March, 20X3. **[RTP-Nov-2023, SM]**

Ans.

**Extract of Y Ltd.'s Statement of Profit and Loss
for the year ended 31st March, 20X3**

	20X2- 20X3	Reference to W.N.	20X1-20X2 Restated	Reference to W.N.
	₹		₹	
Revenue	1,04,000		73,500	
Cost of sales (20X1-20X2 previously ₹ 53,500)	<u>(79,100)</u>	1	<u>(60,000)</u>	4
Gross profit	24,900		13,500	
Other income — change in the measurement policy i.e. the value of investment in associate at FVTPL	<u>5,000</u>	2	<u>2,000</u>	5
Profit before tax	29,900		15,500	
Income tax expense	<u>(8,970)</u>	3	<u>(4,650)</u>	6
Profit for the year	<u>20,930</u>		<u>10,850</u>	

**Extract of Y Ltd.'s Statement of Changes in Equity (Retained Earnings)
for the year ended 31st March, 20X3**

	20X2-20X3	Reference to W.N.	20X1-20X2 Restated	Reference to W.N.
	₹		₹	
Retained earnings, as restated, at the beginning of the year				
- as previously stated	34,000		20,000	
- effect of the correction of a prior period error	(4,550)	7	-	
- effect of a change in accounting policy	<u>11,900</u>	13	<u>10,500</u>	12
	41,350		30,500	
Profit for the year	<u>20,930</u>		<u>10,850</u>	
Retained earnings at the end of the year	<u>62,280</u>		<u>41,350</u>	

Y Ltd.

Extract of Notes to the Financial Statements for the year ended 31st March, 20X3

Note X : Change in Accounting Estimates

Due to usage of improved lubricants the estimated useful life of the machine used for production was increased from four years to seven years. The effect of the change in the useful life of the machine is to reduce the depreciation allocation by ₹ 900 in 20X2-20X3 and 20X3-20X4. The after-tax effect is an increase in profit for the year of ₹ 630 for each of the two years.

Depreciation expense in 20X4-20X5 to 20X6-20X7 is increased by ₹ 600 because of revision in the useful life of machinery, as under the initial estimate, the asset would have been fully depreciated at the end of 20X3-20X4. The after-tax effect for these three years is a decrease in profit for the year by ₹ 420 per year.

Note Y : Correction of Prior Period Error

In 20X2-20X3 the entity identified that ₹ 6,500 products that had been sold in 20X1-20X2 were included erroneously in inventory at 31st March, 20X2. The financial statements of 20X1-20X2 have been restated to correct this error. The effect of the restatement is ₹ 6,500 increase in the cost of sales and ₹ 4,550 decrease in profit for the year ended 31st March, 20X2 after decreasing income tax expense by ₹ 1,950. This resulted in ₹ 4,550 (decrease) restatement of retained earnings at 31st March, 20X2.

Note Z : Change in Accounting Policy

In 20X2-20X3 the entity changed its accounting policy for the measurement of investments in associates from cost model to fair value model as per Ind AS 109. Management judged that this policy provides reliable and more relevant information because dividend income and changes in fair value are inextricably linked as integral components of the financial performance of an investment in an associate and measurement at fair value is necessary if that financial performance is to be reported in a more meaningful way. This change in accounting policy has been accounted for retrospectively. The comparative information has been restated. A new line item, 'Other income — change in the fair value of investment in associate', has been added in the Statement of Profit and Loss and Retained Earnings. The effect of the restatement has been to add income of ₹ 2,000 as a result of the increase in value of the associate during the year ended 31st March, 20X2 which resulted in ₹ 1,400 increase in profit for the year (after including a resulting increase in income tax expense of ₹ 600). This, together with ₹ 10,500 (increase) restatement of retained earnings at 31st March, 20X1, resulted in a ₹ 11,900 increase in retained earnings at 31st March, 20X2. Furthermore, profit for the year ended 31st March, 20X3 was ₹ 3,500

higher (after deducting ₹ 1,500 tax effect) as a result of recording a further ₹ 5,000 (W.N.2) increase in the fair value of the investment in an associate.

Working Notes:

1. ₹ 86,500 (given) minus ₹ 6,500 correction of error (now recognised as an expense in 20X1-20X2) minus ₹ 900 (W.N.9) effect of the change in accounting estimate.
2. ₹ 25,000 fair value (20X2-20X3) minus ₹ 20,000 fair value (20X1-20X2) = ₹ 5,000 (the effect of applying the new accounting policy (fair value model) in 20X2-20X3).
3. ₹ 5,250 + ₹ 1,950 (W.N.8) + 30% (₹ 900 (W.N.9) reduction in depreciation resulting from the change in accounting estimate) + 30% (₹ 5,000 increase in the fair value of investment property — change in accounting policy) = ₹ 8,970.
4. ₹ 53,500 as previously stated + ₹ 6,500 (products sold and incorrectly included in closing inventory in 20X1-20X2) = ₹ 60,000 (that is, the prior period error is corrected retrospectively by restating the comparative amounts).
5. ₹ 20,000 fair value (20X1-20X2) minus ₹ 18,000 fair value (20X0-20X1) = ₹ 2,000 (the effect in 20X1-20X2 of the change in accounting policy for investments in associates from the cost model to the fair value model).
6. ₹ 6,000 as previously stated minus ₹ 1,950 (W.N.8) correction of prior period error + 30% (₹ 2,000 change in accounting policy) = ₹ 4,650.
7. ₹ 6,500 (products sold and incorrectly included in inventory in 20X1-20X2) – ₹ 1,950 (W.N.8) (tax overstated in 20X1-20X2) = ₹ 4,550.
8. ₹ 6,500 (products sold and incorrectly included in inventory in 20X1-20X2) x 30% (income tax rate) = ₹ 1,950.
9. ₹ 1,500 depreciation (using old estimate, that is, ₹ 6,000 cost ÷ 4 years) minus ₹ 600 (W.N.10) (using new estimate of useful life) = ₹ 900.
10. ₹ 3,000 (W.N.11) carrying amount ÷ 5 years remaining useful life = ₹ 600 depreciation per year.
11. [₹ 6,000 cost minus (₹ 1,500 depreciation x 2 years)] = ₹ 3,000 carrying amount at 31st March, 20X2.
12. (₹ 18,000 fair value of investment in associates at 31st March, 20X1 minus ₹ 3,000 carrying amount based on the cost model at the same date) x 0.7 (to reflect 30% income tax rate) = ₹ 10,500 (effect of a change in accounting policy (from cost model to fair value model)).
13. ₹ 10,500 (W.N.12) + [₹ 2,000 (W.N.5) x 0.7 (to reflect 30% income tax rate)] = ₹ 11,900.

Notes



Ind AS 12

INCOME TAXES

Q. 7

DTA & DTL

B Limited is a newly incorporated entity. Its first financial period ends on March 31, 20X1. As on the said date, the following temporary differences exist:

- (a) Taxable temporary differences relating to accelerated depreciation of ₹ 9,000. These are expected to reverse equally over next 3 years.
- (b) Deductible temporary differences of ₹ 4,000 expected to reverse equally over next 4 years.

It is expected that B Limited will continue to make losses for next 5 years. Tax rate is 30%. Losses can be carried forward but not backwards.

Discuss the treatment of deferred tax as on March 31, 20X1.

[SM]

Ans.

The year-wise anticipated reversal of temporary differences is as under:

Particulars	Year ending on March 31, 20X2	Year ending on March 31, 20X3	Year ending on March 31, 20X4	Year ending on March 31, 20X5
Reversal of taxable temporary difference relating to accelerated depreciation over next 3 years (₹ 9,000/3)	3,000	3,000	3,000	Nil
Reversal of deductible temporary difference relating to preliminary expenses over next 4 years (₹ 4,000/4)	1,000	1,000	1,000	1,000

B Limited will recognise a deferred tax liability of ₹ 2,700 on taxable temporary difference relating to accelerated depreciation of ₹ 9,000 @ 30%.

However, it will limit and recognise a deferred tax asset on reversal of deductible temporary difference relating to preliminary expenses reversing up to year ending March 31, 20X4 amounting to ₹ 900 (₹ 3,000 @ 30%). No deferred tax asset shall be recognized for the reversal of deductible temporary difference for the year ending on March 31, 20X5 as there are no taxable temporary differences. Further, the outlook is also a loss. However, if there are tax planning opportunities that could be identified for the year ending on March 31, 20X5 deferred tax asset on the remainder of ₹ 1,000 (₹ 4,000 – ₹ 3,000) of deductible temporary difference could be recognised at the 30% tax rate.

Q. 8

RECONCILIATION OF INCOME TAX EXPENSE AND CURRENT TAX AS PER ACCOUNTING PROFIT

Following is the summarized statement of profit and loss of New Age Ltd. as per Ind AS for the year ended 31.03.2022 :

Particulars	₹ in lakhs
Revenue from operations	1,450.00
Other income	70.00
(A) Total Income	1,520.00
Purchase of stock in trade	50.00
Changes in inventories of stock in trade	20.00

Employee benefit expenses	145.00
Finance costs	180.00
Other expenses	375.00
(B) Total expenses	770.00
(C) Profit before Tax (A - B)	750.00
(D) Current tax expense	211.65
(E) Profit after tax (C - D)	538.35

Additional Information

- (1) Consider that Income tax rate applicable to New Age Ltd. in India is 30%
- (2) Other Expenses include the following expenses which are not deductible for income tax purposes:
 - (i) Penalties ₹ 1.50 lakh
 - (ii) Donations ₹ 55.00 lakhs
 - (iii) Impairment of goodwill ₹ 7.00 lakhs
- (3) Other expenses also include expenditure on Scientific Research amounting to ₹ 10 lakhs in respect of which a 150% weighted deduction is available under income tax laws.
- (4) Other income includes :
 - (i) Dividends of ₹ 5 lakhs, which is exempt from tax.
 - (ii) Long term capital gains of ₹ 12 lakhs which are taxable at the rate of 10%.
- (5) Profit before tax of ₹ 750 lakhs includes :
 - (i) Agriculture income of ₹ 65 lakhs which is exempt from tax; and
 - (ii) Profit of ₹ 75 lakhs earned in USA on which New Age Ltd. has paid tax at rate of 20%.

During review of financial statements of New Age Ltd., the CFO multiplied profit before tax by the income tax rate and arrived at ₹ 225 lakhs as the tax expenses. However, the actual income tax expenses appearing in the summarized statement of profit and loss is ₹ 211.65 lakhs.

You are required to help the CFO of the company in reconciling the difference between the two tax expense amount. [Nov-2022]

Ans.

**Reconciliation of income tax expense and current tax as per accounting profit
for the year ended 31st March 2022**

Particulars		₹ in lakhs
Accounting profit		<u>750.00</u>
Tax at the applicable tax rate of 30%		225.00
Tax effect of expenses that are not deductible in determining taxable profits:		
Penalties (1.5 x 30%)	0.45	
Impairment of goodwill (7 x 30%)	2.10	
Donations (55 x 30%)	<u>16.50</u>	19.05
Tax effect of expenses that are deductible in determining taxable profits:		
Expenditure on scientific research (10.00 x 50% x 30%)		(1.50)
Tax effect of income that are exempted in determining taxable profits:		
Dividend income (Exempt) (5.00 x 30%)	1.50	
Agriculture income (Exempt) (65.00 x 30%)	<u>19.50</u>	(21.00)

Tax effect of income on which different tax rates are used for determining taxable profits:		
Differential income tax on long term capital gain [12.00 x (30% - 10%)]	2.40	
Foreign income in USA [75.00 x (30% - 20%)]	<u>7.50</u>	<u>(9.90)</u>
Income tax expense (Current) reported in the Statement of Profit and Loss for the current year		<u>211.65</u>

Notes



Ind AS 16

PROPERTY, PLANT AND EQUIPMENT

Q. 9
DRS COSTS AND IFRS ACCOUNTING


On 1st April 20X3, Jackson Ltd. purchased some land for ₹ 10 million. Jackson Ltd. purchased the land in order to build a Plant for manufacturing generator parts. During the six months from 1st April 20X3 to 30th September 20X3, Jackson Ltd. incurred costs totaling ₹ 3.5 million in preparing the land and erecting the structure of the Plant. This process caused some damage to the land for making it suitable for setting up the Plant. Jackson Ltd. began operations on 1st October 20X3 and the directors estimate that the Plant site would have useful economic life of 10 years from that date.

Jackson Ltd. is legally obliged to rectify the damage caused to the land for setting up the Plant. The directors estimate that the costs of this rectification after 10 years on 30th September, will be as follows:

- (i) ₹ 3 million to rectify the damage caused by the preparation of the land for setting up the Plant.
- (ii) ₹ 0.2 million for each year to rectify the damage caused owing to effluent generated out of the production process of the Plant.

Following this rectification work the land could potentially be sold to a third party for no less than its original cost of ₹ 10 million.

An annual discount rate appropriate for this project is 12%. The present value of ₹ 1 payable in 10 years' time with an annual discount rate of 12% is 32.2 paise. The present value of ₹ 1 payable in 9½ years' time with an annual discount rate of 12% is 34.1 paise.

What is the implication of rectification of damage of land mentioned in the case study? What is the relevant provision related to this concept under IFRS? [MTP-Jan-2026]

Ans.

The treatment related to the transactions of Jackson Ltd, under relevant IFRS is explained as under:

In accordance with the principles of IAS 16 'Property, Plant and Equipment', costs of ₹ 13.5 million (₹ 10 million + ₹ 3.5 million) will be debited to property, plant and equipment as cost of Plant.

From 1 October 20X3, an obligation exists to rectify the damage caused by the Plant and this obligation should be provided for.

The amount provided is the present value of the expected future payment, which is ₹ 0.966 million (₹ 3 million x 0.322).

The amount provided is debited to property, plant and equipment and credited to provisions at 1 October 20X3.

The costs of Plant (excluding the land) will be ₹ 4.466 million (₹ 3.5 million + ₹ 0.966 million).

This cost will be depreciated over a 10-year period, giving a charge in the current period of ₹ 0.223 million in the current year (₹ 4.466 million x 1/10 x 6/12).

The closing balance in property, plant and equipment is ₹ 14.243 million (₹ 13.5 million + ₹ 0.966 million – ₹ 0.223 million).

As the date of settlement of the liability draws closer the discount unwinds.

The unwinding of the discount in the current year is ₹ 0.058 million (₹ 0.966 million x 12% x 6/12).

The land rectification process itself creates an additional liability based on the damage caused by the reporting date.

The additional amount provided is ₹ 0.034 million (₹ 0.20 million x 6/12 x 0.341).

This additional provision causes an extra charge to the statement of comprehensive income.

The carrying amount of the provision at the year-end is ₹ 1.058 million (₹ 0.966 million + ₹ 0.058 million + ₹ 0.034 million).

Q. 10**DRS COSTS: CHANGE IN ESTIMATES WITH REVALUATION OF PPE**

An entity has a nuclear power plant and a related decommissioning liability. The nuclear power plant started operating on 1st April, 20X1. The plant has a useful life of 40 years. Its initial cost was ₹ 1,20,000. This included an amount for decommissioning costs of ₹ 10,000, which represented ₹ 70,400 in estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5 per cent. The entity's financial year ends on 31st March. Assume that a market-based discounted cash flow valuation of ₹ 1,15,000 is obtained at 31st March, 20X4. This valuation is after deduction of an allowance of ₹ 11,600 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. On 31st March, 20X5, the entity estimates that, as a result of technological advances, the present value of the decommissioning liability has decreased by ₹ 5,000. The entity decides that a full valuation of the asset is needed at 31st March, 20X5, in order to ensure that the carrying amount does not differ materially from fair value. The asset is now valued at ₹ 1,07,000, which is net of an allowance for the reduced decommissioning obligation.

How the entity will account for the above changes in decommissioning liability if it adopts revaluation model? (DRS provision to be rounded off to nearest hundreds) **[SM]**

Ans.

At 31st March, 20X4:	₹
Asset at valuation (1)	1,26,600
Accumulated depreciation	Nil
Decommissioning liability	(11,600)
Net assets	1,15,000
Retained earnings (2)	(10,600)
Revaluation surplus (3)	15,600

Notes:

- (1) When accounting for revalued assets to which decommissioning liabilities attach, it is important to understand the basis of the valuation obtained. For example:
 - (a) if an asset is valued on a discounted cash flow basis, some valuers may value the asset without deducting any allowance for decommissioning costs (a 'gross' valuation), whereas others may value the asset after deducting an allowance for decommissioning costs (a 'net' valuation), because an entity acquiring the asset will generally also assume the decommissioning obligation. For financial reporting purposes, the decommissioning obligation is recognised as a separate liability, and is not deducted from the asset. Accordingly, if the asset is valued on a net basis, it is necessary to adjust the valuation obtained by adding back the allowance for the liability, so that the liability is not counted twice.
 - (b) if an asset is valued on a depreciated replacement cost basis, the valuation obtained may not include an amount for the decommissioning component of the asset. If it does not, an appropriate amount will need to be added to the valuation to reflect the depreciated replacement cost of that component.

Since, the asset is valued on a net basis, it is necessary to adjust the valuation obtained by adding back the allowance for the liability. Valuation obtained of ₹ 1,15,000 plus decommissioning costs of ₹ 11,600, allowed for in the valuation but recognised as a separate liability = ₹ 1,26,600.

- (2) Three years' depreciation on original cost ₹ 1,20,000 $\times$ 3/40 = ₹ 9,000 plus cumulative discount on ₹ 10,000 at 5 per cent compound = ₹ 1,600; total ₹ 10,600.
- (3) Revalued amount ₹ 1,26,600 less previous net book value of ₹ 1,11,000 (cost ₹ 120,000 less accumulated depreciation ₹ 9,000).

The depreciation expense for 20X4-20X5 is therefore ₹ 3,420 (₹ 1,26,600 x 1 / 37) and the discount expense for 20X5 is ₹ 600. On 31st March, 20X5, the decommissioning liability (before any adjustment) is ₹ 12,200. However, as per estimate of the entity, the present value of the decommissioning liability has decreased by ₹ 5,000. Accordingly, the entity adjusts the decommissioning liability from ₹ 12,200 to ₹ 7,200.

The whole of this adjustment is taken to revaluation surplus, because it does not exceed the carrying amount that would have been recognised had the asset been carried under the cost model. If it had done, the excess would have been taken to profit or loss. The entity makes the following journal entry to reflect the change:

		₹	₹
Provision for decommissioning liability	Dr.	5,000	
To Revaluation surplus			5,000

As at 31st March, 20X5, the entity revalued its asset at ₹ 1,07,000, which is net of an allowance of ₹ 7,200 for the reduced decommissioning obligation that should be recognised as a separate liability. The valuation of the asset for financial reporting purposes, before deducting this allowance, is therefore ₹ 1,14,200. The following additional journal entry is needed:

Notes:

		₹	₹
Accumulated depreciation (1)	Dr.	3,420	
To Asset at valuation			3,420
Revaluation surplus (2)	Dr.	8,980	
To Asset at valuation (3)			8,980

- (1) Eliminating accumulated depreciation of ₹ 3,420 in accordance with the entity's accounting policy.
- (2) The debit is to revaluation surplus because the deficit arising on the revaluation does not exceed the credit balance existing in the revaluation surplus in respect of the asset.
- (3) Previous valuation (before allowance for decommissioning costs) ₹ 1,26,600, less cumulative depreciation ₹ 3,420, less new valuation (before allowance for decommissioning costs) ₹ 1,14,200.

Following this valuation, the amounts included in the balance sheet are:

Asset at valuation	1,14,200
Accumulated depreciation	Nil
Decommissioning liability	(7,200)
Net assets	1,07,000
Retained earnings (1)	(14,620)
Revaluation surplus (2)	11,620

Notes:

- (1) ₹ 10,600 at 31st March, 20X4, plus depreciation expense of ₹ 3,420 and discount expense of ₹ 600 = ₹ 14,620.
- (2) ₹ 15,600 at 31st March, 20X4, plus ₹ 5,000 arising on the decrease in the liability, less ₹ 8,980 deficit on revaluation = ₹ 11,620.

Q. 11

COST & DEPRECIATION : SELF CONSTRUCTED ASSET



On 1st April, 20X1, Sun Ltd purchased some land for ₹ 10 million (including legal costs of ₹ 1 million) in order to construct a new factory. Construction work commenced on 1st May, 20X1. Sun Ltd incurred the following costs in relation with its construction:

- Preparation and levelling of the land – ₹ 3,00,000.
- Purchase of materials for the construction – ₹ 6.08 million in total.

- Employment costs of the construction workers – ₹ 2,00,000 per month.
- Overhead costs incurred directly on the construction of the factory – ₹ 1,00,000 per month.
- Ongoing overhead costs allocated to the construction project using the company's normal overhead allocation model – ₹ 50,000 per month.
- Income received during the temporary use of the factory premises as a car park during the construction period – ₹ 50,000.
- Costs of relocating employees to work at the new factory – ₹ 300,000.
- Costs of the opening ceremony on 31st January, 20X1 – ₹ 150,000.

The factory was completed on 30th November, 20X1 (which is considered as substantial period of time as per Ind AS 23) and production began on 1st February, 20X2. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 30% of the total cost of the building.

At the end of the 40-year period, Sun Ltd has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The directors estimate that the cost of demolition in 40 years' time (based on prices prevailing at that time) will be ₹ 20 million. An annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of ₹ 1 payable in 40 years' time at an annual discount rate of 8% is ₹ 0.046.

The construction of the factory was partly financed by a loan of ₹ 17.5 million taken out on 1st April, 20X1. The loan was at an annual rate of interest of 6%. Sun Ltd received investment income of ₹ 100,000 on the temporary investment of the proceeds.

Required:

Compute the carrying amount of the factory in the Balance Sheet of Sun Ltd at 31st March, 20X2. You should explain your treatment of all the amounts referred to in this part in your answer. **[MTP-Dec-2021, SM]**

Ans.

Computation of the cost of the factory

Description	Included in P.P.E. ₹ '000	Explanation
Purchase of land	10,000	Both the purchase of the land and the associated legal costs are direct costs of constructing the factory.
Preparation and levelling	300	A direct cost of constructing the factory
Materials	6,080	A direct cost of constructing the factory
Employment costs of construction workers	1,400	A direct cost of constructing the factory for a seven-month period
Direct overhead costs	700	A direct cost of constructing the factory for a seven-month period
Allocated overhead costs	Nil	Not a direct cost of construction
Income from use as a car park	Nil	Not essential to the construction so recognised directly in profit or loss
Relocation costs	Nil	Not a direct cost of construction
Opening ceremony	Nil	Not a direct cost of construction

Finance costs	612.50	Capitalise the interest cost incurred in a seven-month period (purchase of land would not trigger off capitalisation since land is not a qualifying asset. Infact, the construction started from 1st May, 20X1)
Investment income on temporary investment of the loan proceeds	(100)	offset against the amount capitalised
Demolition cost recognised as a provision	<u>920</u>	Where an obligation must recognise as part of the initial cost
Total	<u>19,912.50</u>	
Computation of accumulated depreciation		
Total depreciable amount	9,912.50	All of the net finance cost of 512.50 (612.50 – 100) has been allocated to the depreciable amount. Also acceptable to reduce by allocating a portion to the non-depreciable land element principle
Depreciation must be in two parts:		
Depreciation of roof component	49.56	$9,912.50 \times 30\% \times 1/20 \times 4/12$
Depreciation of remainder	<u>57.82</u>	$9,912.50 \times 70\% \times 1/40 \times 4/12$
Total depreciation	<u>107.38</u>	
Computation of carrying amount	<u>19,805.12</u>	$19,912.50 - 107.38$

Assumptions:

- (a) Invest Inc. is of May to Nov only
- (b) B. Costs to be capitalize
- (c) Roof cost is 30% of Building Cost excl. purchase price of land.

Q. 12
REVALUATION : TRANSFER OF SURPLUS


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

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

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

[RTP-Dec-2021, MTP-May-2025, SM, May-2025]

Ans.

In the books of Heaven Ltd.
Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.4.2X01	To Bank / Vendor	30,00,000	31.3.2X02	By Depreciation (W.N.1)	2,50,000

		<u> </u>	31.3.2X02	By Balance c/d	<u>27,50,000</u>
		<u>30,00,000</u>			<u>30,00,000</u>
1.4.2X02	To Balance b/d	27,50,000	31.3.2X03	By Depreciation	2,50,000
		<u> </u>	31.3.2X03	By Balance c/d	<u>25,00,000</u>
		<u>27,50,000</u>			<u>27,50,000</u>
1.4.2X03	To Balance b/d	25,00,000	31.3. 2X04	By Depreciation	2,50,000
		<u> </u>	31.3.2X04	By Balance c/d	<u>22,50,000</u>
		<u>25,00,000</u>			<u>25,00,000</u>
1.4.2X04	To Balance b/d	22,50,000	31.3.2X05	By Depreciation	2,50,000
		<u> </u>	31.3.2X05	By Balance c/d	<u>20,00,000</u>
		<u>22,50,000</u>			<u>22,50,000</u>
1.4.2X05	To Balance b/d	20,00,000	31.3.2X06	By Depreciation	2,50,000
		<u> </u>	31.3.2X06	By Balance c/d	<u>17,50,000</u>
		<u>20,00,000</u>			<u>20,00,000</u>
1.4.2X06	To Balance b/d	17,50,000	31.3.2X07	By Depreciation	2,75,000
1.4.2X06	To Revaluation Reserve @ 10%	<u>1,75,000</u>	31.3.2X07	(W.N.2)	
		<u>19,25,000</u>	31.3.2X07	By Balance c/d	<u>16,50,000</u>
					<u>19,25,000</u>
1.4.2X07	To Balance b/d	16,50,000	31.3.2X08	By Depreciation	2,75,000
		<u> </u>	31.3.2X08	By Balance c/d	<u>13,75,000</u>
		<u>16,50,000</u>			<u>16,50,000</u>
1.4.2X08	To Balance b/d	13,75,000	1.4.2X08	By Revaluation Reserve (W.N.4)	1,25,000
			31.3.2X09	By Profit and Loss A/c (W.N.5)	81,250
			31.3.2X09	By Depreciation (W.N.3)	1,46,094
		<u> </u>	31.3.2X09	By Balance c/d	<u>10,22,656</u>
		<u>13,75,000</u>			<u>13,75,000</u>
1.4.2X09	To Balance b/d	10,22,656	31.3.2X10	By Depreciation	1,46,094
31.3.2X10	To Profit and Loss A/c (balancing figure)	<u>58,438*</u>	31.3.2X10	By Bank A/c	9,35,000
		<u>10,81,094</u>			<u>10,81,094</u>

Working Notes:**1. Calculation of useful life of machinery on 1.4. 2X01**

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

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

= ₹ 2,50,000

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

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

2. Depreciation after upward revaluation as on 31.3.2 X06 ₹

Book value as on 1.4.2 X06 17,50,000

Add: 10% upward revaluation 1,75,000

Revalued amount 19,25,000

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

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

3. Depreciation after downward revaluation as on 31.3.2X08 ₹

Book value as on 1.4.2 X08 13,75,000

Less: 15% Downward revaluation (2,06,250)

Revalued amount 11,68,750

Revised useful life 8 years

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

4. Amount transferred from revaluation reserve

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

Remaining useful life 7 years

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

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

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

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

Downward revaluation as on 1.4.2X08 (W.N.3) ₹ 2,06,250

Less: Adjusted from Revaluation reserve (W.N.4) (₹ 1,25,000)

Amount transferred to Profit and Loss Account ₹ 81,250

Notes



Ind AS 19

EMPLOYEE BENEFITS

Q. 13

**STEB : LEAVE ENCASHMENT**

Acer Ltd. has 350 employees (same as a year ago). The average staff attrition rates observed during past 10 years represents 6% per annum. Acer Ltd. provides the following benefits to all its employees:

Paid vacation - 10 days per year regardless of date of hiring. Compensation for paid vacation is 100% of employee's salary and unused vacation can be carried forward for 1 year. As of 31st March, 20X1, unused vacation carried forward was 3 days per employee, average salary was ₹ 15,000 per day and accrued expense for unused vacation in 20X0-20X1 was ₹ 65,00,000. During 20X1-20X2, employees took 9 days of vacation in average. Salary increase in 20X1-20X2 was 10%.

How would Acer Ltd. recognize liabilities and expenses for these benefits as of 31st March, 20X2?. Pass the journal entry to show the accounting treatment. (Assume FIFO) [SM]

Ans.

Paid Vacation:**Step 1: Calculation of Unused Vacation in man-days as on 31st March, 20X2:****A. No. of Employees in service for the whole year (94%):**

Particulars	Man-days
Unused vacation as on 31st March, 20X1	3 days per employee
Entitlement to vacation for 20X1-20X2	10 days per employee
Average vacation availed in 20X1-20X2	(9) days per employee
Unused vacation as on 31st March, 20X2 (being unused leaves of 20X1-20X2 on FIFO basis)	4 days per employee
Total Unused vacation as on 31st March, 20X2 - (A) (350 employees x 94% x 4 days per employee)	1,316 man-days

B. Newcomers (6%):

Particulars	Man-days
Entitlement to vacation for 20X1-20X2	10 days per employee
Average vacation availed in 20X1-20X2	(9) days per employee
Unused vacation as on 31st March, 20X2 (being unused leaves of 20X1-20X2 on FIFO basis)	1 day per employee
Total Unused vacation as on 31st March, 20X2 - (B) (350 employees x 6% x 1 day per employee)	21 man-days
Total unused vacation as on 31st March, 20X2 (A + B)	1,337 man-days

Step 2: Calculation of average salary per day:

Particulars	Amount (₹)
Average salary per day as on 31st March, 20X1	15,000
Salary increase in 20X1-20X2	10%
Average salary per day as on 31st March, 20X2	16,500

Step 3: Calculation of provision for unused paid vacation:

Particulars	Amount (₹)
Calculation of provision for unused paid vacation 20X1-20X2: (1,337 man-days x ₹ 16,500)	2,20,60,500
Provision for unused paid vacation 20X0-20X1	65,00,000

Step 4: Accounting treatment
Provision for 20X1-20X2

Employee Benefits Expenses A/c	Dr.	2,20,60,500
To Provision for Leave Encashment		2,20,60,500

Settlement of Liability of 20X0-20X1

Provision for Leave Encashment A/c	Dr.	65,00,000
To Cash / Bank		65,00,000

Q. 14
DBS AND PLAN ASSET


Based on the advice from actuaries regarding contribution levels and overall liabilities of the defined benefit retirement plan to pay benefits to past and present employees, the Accountant Mr. Krishna of M/s. TUNA Limited provides the following information:

- On 1st April 2023, the actuaries of the company advised that the present value of the defined obligation was ₹ 2,88,420. On the same date, the fair value of the assets of the defined benefit plan was ₹ 2,49,670 and the annual market yield on government bonds was 8%
- During the year ended 31st March 2024, TUNA Limited made contributions of ₹ 33,650 into the plan and the plan paid out benefits of ₹ 20,160 to retired members. Both these payments were made on 31st March 2024.
- The actuaries advised that the current service cost for the year ended 31st March 2024 was ₹ 29,760. On 28th February 2024, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined obligation was increased by ₹ 7,280 from that date.
- During the year ended 31st March, 2024, TUNA Limited was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 38,390. Before 31st March 2024, TUNA Limited made payments of ₹ 36,270 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.
- On 31st March, 2024, the actuaries advised that the present value of the defined benefit obligation was ₹ 3,26,480. On the same date, the fair value of the assets of the defined benefits plan were ₹ 2,68,340.

Examine and present how the above events would be reported in the financial statements of TUNA Ltd. for the year ended 31st March 2024 as per Ind AS. Please note that the finance cost is to be computed on the opening balance. **[May-2024]**

Ans.

Remeasurement of gain or loss

	₹
Liability at the start of the year (₹ 2,88,420 - ₹ 2,49,670)	38,750
Current service cost	29,760
Past service cost	7,280

Net finance cost	3,100
Gain on settlement	(2,120)
Contributions to plan	(33,650)
Benefits paid	NIL
Remeasurement loss (balancing figure)	<u>15,020</u>
Liability at the end of the year (₹ 3,26,480 - ₹ 2,68,340)	<u>58,140</u>

On 31st March 2024, Tuna Ltd. will report a net pension liability in the balance sheet. The amount of the liability will be ₹ 58,140 (₹ 3,26,480 - ₹ 2,68,340).

For the year ended 31st March 2024, Tuna Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be ₹ 29,760. The same treatment applies to the past service cost of ₹ 7,280.

For the year ended 31st March 2024, Tuna Ltd. will report a finance cost in profit or loss at the start of the year of ₹ 38,750 (₹ 2,88,420 - ₹ 2,49,670).

The amount of the finance cost will be ₹ 3,100 (₹ 38,750 x 8%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation.

The gain on settlement of ₹ 2,120 (₹ 38,390 - ₹ 36,270) will be reported in the statement of profit and loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March, 2024, the remeasurement loss will be ₹ 15,020 (Refer above table).

In the Statement of Profit and loss, the following will be recognised:

	₹
Current service cost	29,760
Net interest on net defined liability (₹ 23,074 - ₹ 19,974)	3,100
Gain on settlement (₹ 38,390 - ₹ 36,270)	2,120

Defined benefit re-measurements recognised in Other Comprehensive Income:

	₹
Loss on defined benefit obligation	(36,496)
Gain on plan assets	<u>21,476</u>
Gain on remeasurement	<u>(15,020)</u>

In the Balance Sheet, the following will be recognised:

	₹
Net defined benefit liability (₹ 3,26,480 - ₹ 2,68,340)	58,140

Notes

Ind AS 20: ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE

Q. 15
REVENUE RELATED : ACCOUNTING


Entity A is awarded a government grant of ₹60,000 receivable over three years (₹40,000 in year 1 and ₹10,000 in each of years 2 and 3), contingent on creating 10 new jobs and maintaining them for three years. The employees are recruited at a total cost of ₹30,000, and the wage bill for the first year is ₹1,00,000, rising by ₹10,000 in each of the subsequent years.

Calculate the grant income and deferred income to be accounted for in the books for the years 1, 2 and 3 under the following two situations:

- (a) There is reasonable assurance that the entity will comply with the conditions attaching to them and the grant will be received
- (b) There is no reasonable assurance that the grant will be received. (assume compliance certainly exists) [SM]

Ans.
(a) When there is reasonable assurance

The grant of ₹ 60,000 should be recognised at the beginning of the first year as receivable and will be compensated for the related costs over three years.

The initial journal entry would be:

Grant Receivable A/c Dr. ₹ 60,000
 To Deferred Income A/c ₹ 60,000

Calculation of Grant Income and Deferred Income:

Year	Labour Cost	Grant Income	Computation of Grant Income	Deferred Income at the end of the year	Computation of deferred income at the end of the year
	₹	₹		₹	
1	1,30,000	21,667	$60,000 \times (130/360)$	38,333	$(60,000 - 21,667)$
2	1,10,000	18,333	$60,000 \times (110/360)$	20,000	$(38,333 - 18,333)$
3	<u>1,20,000</u>	<u>20,000</u>	$60,000 \times (120/360)$	-	$(20,000 - 20,000)$
	<u>3,60,000</u>	<u>60,000</u>			

Therefore, grant income to be recognised in the Statement of Profit and Loss for the years 1, 2 and 3 would be ₹ 21,667, ₹ 18,333 and ₹ 20,000 respectively.

The amount of grant that has not yet been credited to the statement of profit and loss i.e. deferred income is to be shown in the balance sheet. Hence deferred income balance as at end of year 1, 2 and 3 are ₹ 38,333, ₹ 20,000 and Nil respectively.

(b) When reasonable assurance is not there

The grant of ₹ 60,000 should be recognised over three years to compensate for the related costs.

The journal entry on receipt of grant at year 1 would be:

Grant Receivable Ac Dr. ₹ 40,000
 To Deferred Income A/c ₹40,000

Calculation of Grant Income and Deferred Income:

Year	Labour Cost	Grant Income wrt 1st receipt of 40,000	Grant Income wrt 2nd receipt of 10,000	Grant Income wrt 3rd receipt of 10,000	Deferred Income at the end of the year	Computation of deferred income at the end of the year
	₹	₹			₹	
1	1,30,000	14,445	NA	NA	25,555	(40,000 – 14,445)
2	1,10,000	12,222	4,783	NA	18,550	(50,000 – 14,445 – 12,222 – 4,783)
3	<u>1,20,000</u>	<u>13,333</u>	<u>5,217</u>	<u>10,000</u>	-	(60,000 – 14,445 – 12,222 – 4,783 – 13,333 – 5,217 – 10,000)
	<u>3,60,000</u>	<u>40,000*</u>	<u>10,000**</u>	<u>10,000***</u>		

*40,000 bifurcated into three years in the ratio of 130:110:120

**10,000 bifurcated into two years in the ratio of 110:120

***10,000 credited entirely in the third year

Therefore, Grant income to be recognised in the statement of Profit and Loss for the years 1, 2 and 3 would be ₹ 21,667, ₹ 18,333 and ₹ 20,000 respectively.

Amount of grant that has not yet been credited to the statement of profit and loss i.e.; deferred income is to be shown in the balance sheet. Hence, deferred income balance as at the end of year 1, 2 and 3 are ₹ 18,333, ₹ 10,000 and Nil respectively.

Notes

Ind AS 21

THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Q. 16

FC LOAN AND ACM

On 1st April, 20X1, Makers Ltd. raised a long-term loan from foreign investors. The investors subscribed for 6 million Foreign Currency (FCY) loan notes at par. It incurred incremental issue costs of FCY 2,00,000. Interest of FCY 6,00,000 is payable annually on 31st March, starting from 31st March, 20X2. The loan is repayable in FCY on 31st March, 20X7 at a premium and the effective annual interest rate implicit in the loan is 12%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:

- 1st April, 20X1 - FCY 1 = ₹ 2.50.
- 31st March, 20X2 - FCY 1 = ₹ 2.75.
- Average rate for the year ended 31st March, 20X2 - FCY 1 = ₹ 2.42. The functional currency of the group is Indian Rupee.

What would be the appropriate accounting treatment for the foreign currency loan in the books of Makers Ltd. for the FY 20X1 -20X2?

Calculate the initial measurement amount for the loan, finance cost for the year, closing balance and exchange gain / loss. **[May-2020, SM, Sept-2025]**

Ans.
Initial carrying amount of loan in books

Loan amount received	=	60,00,000
FCY Less: Incremental issue costs	=	<u>2,00,000</u> FCY
		<u>58,00,000</u> FCY

Ind AS 21, "The Effect of Changes in Foreign Exchange Rates" states that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

$$\begin{aligned} \text{Loan to be converted in INR} &= 58,00,000 \text{ FCY} \times ₹ 2.50 / \text{FCY} \\ &= ₹ 1,45,00,000 \end{aligned}$$

Therefore, the loan would initially be recorded at ₹ 1,45,00,000.

Calculation of amortized cost of loan (in FCY) at the yearend:

Period	Opening Financial Liability (FCY) A	Interest @ 12% (FCY) B	Cash Flow (FCY) C	Closing Financial Liability (FCY) A+B-C
20X1-20X2	58,00,000	6,96,000	6,00,000	58,96,000

The finance cost in FCY is 6,96,000. The finance cost would be recorded at an average rate for the period since it accrues over a period of time.

Hence, the finance cost for FY 20X1 -20X2 in INR is ₹ 16,84,320 (6,96,000 FCY x ₹ 2.42 / FCY)

The actual payment of interest would be recorded at 6,00,000 x 2.75 = INR 16,50,000

The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date.

So the closing loan balance in INR is 58,96,000 FCY x INR 2.75 / FCY = ₹ 1,62,14,000

The exchange differences that are created by this treatment are recognized in profit and loss.

In this case, the exchange difference is

$$₹ [1,62,14,000 - (1,45,00,000 + 16,84,320 - 16,50,000)] = ₹ 16,79,680.$$

This exchange difference is taken to profit and loss.

Q. 17



FC TRANSACTION: BUSINESS COMBINATION

Global Limited an Indian company, acquired on 30th September, 20X1 70% of the share capital of Mark Limited, an entity registered as company in Germany. The functional currency of Global Limited is Rupees and its financial year end is 31st March, 20X2.

- (i) The fair value of the net identifiable assets of Mark Limited was 23 million EURO and the purchase consideration paid is 17.5 million EURO on 30th September, 20X1.

The exchange rates as at 30th September, 20X1 was ₹ 82/EURO and at 31st March, 20X2 was ₹ 84/EURO.

What is the value at which the goodwill has to be recognised in the financial statements of Global Limited as on 31st March, 20X2? [Assume NCI @ PSNA]

- (ii) Mark Limited sold goods costing 2.4 million EURO to Global Limited for 4.2 million EURO during the year ended 31st March, 20X2. The exchange rate on the date of purchase by Global Limited was ₹ 83 / EURO and on 31st March, 20X2 was ₹ 84 / EURO. The entire goods purchased from Mark Limited are unsold as on 31st March, 20X2. Determine the unrealised profit to be eliminated in the preparation of consolidated financial statements. **[Important]** **[SM, Nov-2019, SM, MTP-Sept-2025]**

Ans.

- (i) Para 47 of Ind AS 21 requires that goodwill arose on business combination shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42. In this case the amount of goodwill will be as follows:

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

Thus, goodwill on reporting date would be 1.4 million EURO x ₹ 84

$$= ₹ 117.6 \text{ million}$$

- (ii)

Particulars	EURO in million
Sale price of Inventory	4.20
Unrealised Profit [a]	1.80

Exchange rate as on date of purchase of Inventory [b] ₹ 83 / Euro

Unrealized profit to be eliminated [a x b] ₹ 149.40 million

As per para 39 of Ind AS 21 "income and expenses for each statement of profit and loss presented (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions".

In the given case, purchase of inventory is an expense item shown in the statement profit and loss account. Hence, the exchange rate on the date of purchase of inventory is taken for calculation of unrealized profit which is to be eliminated on the event of consolidation.

Ind AS 23 BORROWING COSTS

Q. 18
GENERIC & SPECIFIC BORROWINGS


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

The company's other outstanding loans were:

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

The expenditure incurred on the construction was:

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

The construction of building was completed by 31st January, 20X2. Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31st January, 20X2.

(Assume asset in a QA and specific borrowings were paid off on 31 Jan 20X2 when QA was RTU)

[RTP-Nov-2018, MTP-Jan-2026, SM]

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

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

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

Date of incurrence of expenditure	Amount spent	Financed through	Calculation	₹
1st April, 20X1	1,50,000	Specific borrowing	1,50,000 x 9% x 10/12	11,250
1st August, 20X1	2,00,000	Specific borrowing	50,000 x 9% x 10/12	3,750
		General borrowing	1,50,000 x 11.4375% x 6/12	8,578.125
1st October, 20X1	3,50,000	General borrowing	3,50,000 x 11.4375% x 4/12	13,343.75
1st January, 20X2	1,00,000	General borrowing	1,00,000 x 11.4375% x 1/12	953.125
				37,875

Note: Since construction of building started on 1st April, 20X1, it is presumed that all the later expenditures on construction of building had been incurred at the beginning of the respective month

(iii) **Total expenses to be capitalized for building**

	₹
Cost of building ₹ (1,50,000 + 2,00,000 + 3,50,000 + 1,00,000)	8,00,000
Add: Amount of interest to be capitalized	37,875
	8,37,875

(iv) **Journal Entry**

Date	Particulars		₹	₹
31.1.20X2	Building account To Bank account To Interest payable (borrowing cost) (Being expenditure incurred on construction of building and borrowing cost thereon capitalized)	Dr.	8,37,875	8,00,000 37,875

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.20X2.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		₹	₹
31.1.20X2	Building account To Bank account (Being expenditure incurred on construction of building and borrowing cost thereon capitalized)	Dr.	8,37,875	8,37,875

Notes

Ind AS 33

EARNINGS PER SHARE

Q. 19
DEPS : OPTIONS


On 31st March, 2024, Vanshika Ltd. granted options to its employees that gave them right to subscribe for equity shares in next 3 years at ₹112 per share. It also issued 2 lakhs warrants convertible into shares at ₹84.

As on 31st March 2025:

Options outstanding	₹ 1,40,000
Profit after Tax, attributable to equity shareholders	₹ 91,20,000
Average market price of equity shares	₹ 140
Issued Equity share capital (Face value 10 each)	₹ 50,00,000

There were no grants, exercises or lapses of options during the year. Also, none of the warrants was converted into shares during the year.

You are required to calculate Basic and Diluted EPS as at 31st March 2025.

[Sept-2025]

Ans.
Calculation of Basic Earnings Per Share (EPS)

	2024-2025
Profit after tax	₹ 91,20,000
Number of shares (₹ 50,00,000 / ₹ 10 per share)	5,00,000
Basic EPS	₹ 18.24

Calculation of Diluted EPS

(i) Adjusted number of shares		
a. Number of shares under options:		
Issued at full market price		
$[(1,40,000 \times 112) / 140] = 1,12,000$		
Options issued at nil consideration (dilutive) (1,40,000 – 1,12,000)		28,000
b. Number of shares under warrants:		
Issued at full market price		
$[(2,00,000 \times 84) / 140] = 1,20,000$		
Warrants issued at nil consideration (dilutive) (2,00,000 – 1,20,000)		<u>80,000</u>
Number of dilutive shares under options and warrants		<u>1,08,000</u>
(ii) Calculation of Diluted EPS:		
Number of equity shares for basic EPS		5,00,000
Number of dilutive shares under options and warrants		<u>1,08,000</u>
Adjusted number of shares (A)		<u>6,08,000</u>
Profit after tax	(B)	₹ 91,20,000
Diluted EPS	(B/A)	₹ 15

Q. 20

DEPS : MULTIPLE POTENTIAL ORDINARY SHARES

The following information to Space India Limited for the financial year 2019-20

Net profit attributable to equity shareholders	₹ 90,000
No. of equity shares outstanding	₹ 16,000
Average fair value of one equity share during the year	₹ 90

Potential Ordinary Shares:

Options	900 options with exercise price of ₹ 75
Convertible Preference shares	7,500 shares entitled to a cumulative dividend on ₹ 9 per share. Each preference share is convertible into 2 equity shares.
Applicable corporate dividend tax	8% (now abolished) on dividend distributed
10% Convertible debentures of ₹ each	₹ 10,00,000 and each debenture is convertible into 4 equity shares
Tax rate	25%

You are required to compute Basic and Diluted EPS of the company for the Financial Year 2019-20.

[Nov-2020, MTP-May-2022]

Ans.

(i) Basic Earnings per share

	Year ended 31.3.2020
Net profit attributable to equity shareholders (A)	₹ 90,000
Number of equity shares outstanding (B)	16,000
Earnings per share (A/B)	₹ 5.625

(ii) Diluted earnings per share

Options are most dilutive as their earnings per incremental share is nil. Hence, for the purpose of computation of diluted earnings per share, options will be considered first. 10% convertible debentures being second most dilutive will be considered next and thereafter convertible preference shares will be considered (as per W.N.).

	Net profit attributable to equity shareholders ₹	No. of equity shares	Net Profit attributable per share ₹	
Net profit attributable to equity shareholders	90,000	16,000	5.625	
Options	—	<u>150</u>		
	90,000	16,150	5.572	Dilutive
10% Convertible debentures	<u>75,000</u>	<u>40,000</u>		
	1,65,000	56,150	2.939	Dilutive
Convertible Preference Shares	<u>72,900</u>	<u>15,000</u>		
	<u>2,37,900</u>	<u>71,150</u>	3.344	Anti-Dilutive

Since diluted earnings per share is increased when taking the convertible preference shares into account (₹ 2.939 to ₹ 3.344), the convertible preference shares are anti - dilutive and are ignored in the calculation of diluted earnings per share for the year ended 31 March 2020. Therefore, diluted earnings per share for the year ended 31 March 2020 is ₹ 2.939.

Working Note:

Calculation of incremental earnings per share and allocation of rank

	Increase in earnings (1)	Increase in number of equity shares (2)	Earnings per incremental share (3) = (1) ÷ (2)	Rank
	₹		₹	
Options				
Increase in earnings	Nil			
No. of incremental shares issued for no consideration [900 x (90-75)/90]		150	Nil	1
Convertible Preference Shares				
Increase in net profit attributable to equity shareholders as adjusted by attributable dividend tax [(₹ 9 x 7,500) + 8% (₹ 9 x 7,500)]	72,900			
No. of incremental shares (2 x 7,500)		15,000	4.86	3
10% Convertible Debentures				
Increase in net profit [(₹ 10,00,000 x 10% x (1 - 0.25))]	75,000			
No. of incremental shares (10,000 x 4)		40,000	1.875	2

Note: Grossing up of preference share dividend has been ignored here. At present dividend distribution tax has been abolished. However, the question has been solved on the basis of the information given in the question.

Q. 21

EPS : GROUP COMPANIES

Calculate Subsidiary's and Group's Basic EPS and Diluted EPS, when

Parent:	
Profit attributable to ordinary equity holders of the parent entity	₹ 12,000 (excluding any earnings of, or dividends paid by, the subsidiary)
Ordinary shares outstanding	10,000
Instruments of subsidiary owned by the parent	800 ordinary shares
	30 warrants exercisable to purchase ordinary shares of subsidiary
	300 convertible preference shares
Subsidiary:	
Profit	₹ 5,400

Ordinary shares outstanding	1,000
Warrants	150, exercisable to purchase ordinary shares of the subsidiary
Exercise price	₹ 10
Average market price of one ordinary share	₹ 20
Convertible preference shares	400, each convertible into one ordinary share
Dividends on preference shares	Re 1 per share
No inter-company eliminations or adjustments were necessary except for dividends.	
Ignore income taxes. Also, ignore classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by Ind AS 32.	

[SM, May-2019]

Ans.

Subsidiary's earnings per share

Basic EPS	₹ 5.00 calculated:	₹ 5,400 (a) – ₹ 400 (b) 1,000 (c)
Diluted EPS	₹ 3.66 calculated:	₹ 5,400 (d) (1,000 + 75 (e) + 400(f))

Notes:

- (a) Subsidiary's profit attributable to ordinary equity holders.
- (b) Dividends paid by subsidiary on convertible preference shares.
- (c) Subsidiary's ordinary shares outstanding.
- (d) Subsidiary's profit attributable to ordinary equity holders (₹ 5,000) increased by ₹ 400 preference dividends for the purpose of calculating diluted earnings per share.
- (e) Incremental shares from warrants, calculated: $[(₹ 20 - ₹ 10) \div ₹ 20] \times 150$.
- (f) Subsidiary's ordinary shares assumed outstanding from conversion of convertible preference shares, calculated: 400 convertible preference shares $\times$ conversion factor of 1.

Consolidated earnings per share

Basic EPS	₹ 1.63 calculated:	$\frac{₹ 12,000(a) + ₹ 4,300(b)}{10,000(c)}$
Diluted EPS	₹ 1.61 calculated:	$\frac{₹ 12,000 + ₹ 2,928(d) + ₹ 55(e) + ₹ 1,098(f)}{10,000}$

- (a) Parent's profit attributable to ordinary equity holders of the parent entity.
- (b) Portion of subsidiary's profit to be included in consolidated basic earnings per share, calculated: $(800 \times ₹ 5.00) + (300 \times ₹ 1.00)$.
- (c) Parent's ordinary shares outstanding.
- (d) Parent's proportionate interest in subsidiary's earnings attributable to ordinary shares, calculated: $(800 \div 1,000) \times (1,000 \text{ shares} \times ₹ 3.66 \text{ per share})$.
- (e) Parent's proportionate interest in subsidiary's earnings attributable to warrants, calculated: $(30 \div 150) \times (75 \text{ incremental shares} \times ₹ 3.66 \text{ per share})$.
- (f) Parent's proportionate interest in subsidiary's earnings attributable to convertible preference shares, calculated: $(300 \div 400) \times (400 \text{ shares from conversion} \times ₹ 3.66 \text{ per share})$.

Ind AS 34

INTERIM FINANCIAL REPORTING

Q. 22
CHANGE IN ESTIMATE : OVERHEAD ALLOCATION


Heavy Limited has a plant with normal capacity to produce 90,000 units of a product per annum and expected fixed production overhead for the year is ₹ 18,00,000. There are no quarterly/seasonal variations. Hence, normal expected production of each quarter is uniform. The actual production of the year is 87,000 Units. The production details of each quarter are as under:

Quarter I :	20,000 units
Quarter II :	24,000 units
Quarter III :	23,500 units
Quarter IV :	19,500 units

Calculate the allocation of fixed production overhead for all the four quarters. Will the quarterly results affect annual result?

Given your answer as per Ind AS 34 read with Ind AS 2.

[July-2021]

Ans.

Since it is considered that there is no quarterly / seasonal variation, then normal expected production for each quarter is 22,500 units (90,000 units / 4 quarters) and fixed production overheads for the quarter are ₹ 4,50,000 (₹ 18,00,000 / 4 quarters).

Fixed production overhead to be allocated per unit of production in every quarter will be ₹ 20 per unit.

(Fixed overheads / Normal production i.e. ₹ 4,50,000 / 22,500 units)

Particulars	Quarters			
	I	II	III	IV
Actual fixed production overheads on year to date basis (₹)	4,50,000	9,00,000	13,50,000	18,00,000
Actual production (Units)	20,000	24,000	23,500	19,500
Actual production year to date basis (Units)	20,000	44,000	67,500	87,000
Fixed overheads to be absorbed on year to date basis (₹)	4,00,000	8,80,000	13,50,000	17,40,000
Under recovery year to date (₹)	50,000	20,000	NIL	60,000

Quarter I:

Unallocated fixed production overheads ₹ 50,000 (i.e. ₹ 4,50,000 – ₹ 4,00,000) to be charged as expense as per Ind AS 2 and consequently as per Ind AS 34 .

Quarter II:

Since production increased in second quarter by 1,500 units (24,000 – 22,500) i.e. more than the normal expected production, hence ₹ 30,000 (1,500 units x ₹ 20 per unit) will be reversed by way of a credit to the statement of profit and loss of the 2 nd quarter and debit to cost of production / inventory cost.

Quarter III:

Earlier, ₹ 50,000 was not allocated to production / inventory cost in the 1 st quarter. Out of it, ₹ 30,000 was reversed in the 2nd quarter. To allocate entire ₹ 13,50,000 till third quarter to the production, as per Ind AS 34, remaining ₹ 20,000 (₹ 50,000 – ₹ 30,000) will be reversed by way of a credit to the statement of profit and loss of the 3 rd quarter and debit to the cost of production / inventory cost.

Quarter IV:

Unallocated fixed production overheads ₹ 60,000 {i.e. ₹ 4,50,000 – (₹ 20 x 19,500)} in the 4th quarter will be expensed off as per the principles of Ind AS 2 and Ind AS 34 by way of a charge to the statement of profit and loss.

For the year:

The cumulative result of all the quarters would also result in unallocated overheads of ₹ 60,000, thus, meeting the requirements of Ind AS 34 that the quarterly results should not affect the measurement of the annual result.

Q. 23**TAX LOSSES**

Spicer Ltd., a listed company, prepares interim financial reports at the end of each quarter.

Following information is provided:

- (i) On 1st April 2023, Spicer Ltd. has brought forward losses of ₹ 620 lakh under Income Tax Act. No Deferred Tax Asset has been recognized by the management of the company on such losses in view of the uncertainty over company's ability to earn profits in the foreseeable future and set off these losses.
- (ii) Due to sudden change in government policies, the company's business turned around and it has reported quarterly earnings of ₹ 650 lakh and ₹ 360 lakh respectively for the first two quarters of financial year 2023-24 and anticipates net earnings of ₹ 720 lakh in the coming half year ended March 2024 of which ₹ 160 lakh will be the loss in the quarter ended December 2023.
- (iii) The tax rate for the company is 25% with a 10% surcharge.

You are required to calculate the amount of Tax Expenses to be reported for each quarter of financial year 2023-24. **[Nov-2024]**

Ans.

It is assumed that net profit for all the quarters of the year 2023-2024 excludes the brought forward losses of ₹ 620 lakh.

Computation of estimated total earnings for the year 2023-2024

Quarter	Earnings before tax (in lakhs)
1	650 (actual)
2	360 (actual)
3	(160) (estimated)
4	720 + 160 = 880 (estimated)
	<u>1,730</u> (estimated)

Tax rate for the company = 25 x 110% = 27.5%

Computation of Average Annual Effective Tax Rate

The estimated payment of the annual tax on earnings for the current year:

$$= (1,730 - 620) \times 27.5\% = ₹ 305.25 \text{ lakhs.}$$

As per Ind AS 34, income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income-tax rate expected for the full financial year.

$$\begin{aligned} \text{Thus, average annual effective tax rate} &= (305.25 / 1,730) \times 100 \\ &= 17.645\% \text{ (approx.)} \end{aligned}$$

Tax expense to be shown in each quarter.

Quarter	Earnings before tax (in lakhs)	Tax expense @ 17.645%
1	650 (actual)	114.69
2	360 (actual)	63.52
3	(160) (estimated)	(28.23)
4	720 + 160 = <u>880</u> (estimated)	<u>155.27</u>
	<u>1,730</u> (estimated)	<u>305.25</u>

Notes



Ind AS 36

IMPAIRMENT OF ASSETS

Q. 24**GOODWILL : BUSINESS COMBINATION**

Sun Ltd. is an entity with various subsidiaries. The entity closes its books of account at every year ended on 31st March. On 1st July, 20X1 Sun Ltd. acquired an 80% interest in Pluto Ltd. Details of the acquisition were as follows: Sun Ltd. acquired 800,000 shares in Pluto Ltd. by issuing two equity shares for every five acquired. The fair value of Sun Ltd.'s share on 1st July, 20X1 was ₹ 4 per share and the fair value of a Pluto's share was ₹ 1.40 per share. The costs of issue were 5% per share.

Sun Ltd. incurred further legal and professional costs of ₹ 100,000 that directly related to the acquisition.

The fair values of the identifiable net assets of Pluto Ltd. at 1st July, 20X1 were measured at ₹ 1.3 million. Sun Ltd. initially measured the non-controlling interest in Pluto Ltd. at fair value. They used the market value of a Pluto Ltd. share for this purpose. No impairment of goodwill arising on the acquisition of Pluto Ltd. was required at 31st March, 20X2 or 20X3.

Pluto Ltd. comprises three cash generating units A, B and C. When Pluto Ltd. was acquired the directors of Sun Ltd. estimated that the goodwill arising on acquisition could reasonably be allocated to units A:B:C on a 2:2:1 basis. The carrying values of the assets in these cash generating units and their recoverable amounts are as follows:

Unit	Carrying value (before goodwill allocation)	Recoverable amount
	₹ '000	₹ '000
A	600	740
B	550	650
C	450	400

Required:

- (i) Compute the carrying value of the goodwill arising on acquisition of Pluto Ltd. in the consolidated Balance Sheet of Sun Ltd. at 31st March, 20X4 following the impairment review.
- (ii) Compute the total impairment loss arising as a result of the impairment review, identifying how much of this loss would be allocated to the non-controlling interests in Pluto Ltd. **[SM]**

Ans.

1. Computation of goodwill on acquisition

Particular	Amount (₹ '000)
Cost of investment (8,00,000 x 2/5 x ₹ 4)	1,280
Fair value of non-controlling interest (2,00,000 x ₹ 1.4)	280
Fair value of identifiable net assets at date of acquisition	(1,300)
So goodwill equals	260

Acquisition costs are not included as part of the fair value of the consideration given under Ind AS 103, Business Combination.

2. Calculation of impairment loss

Unit	Carrying value			Recoverable Amount	Impairment Loss
	Before Allocation	Allocation of goodwill (2:2:1)	After Allocation		
A	600	104	704	740	Nil
B	550	104	654	650	4
C	400*	52	452	400	52

* After writing down assets in the individual CGU to recoverable amount.

3. Calculation of closing goodwill

Goodwill arising on acquisition (W1)	260
Impairment loss (W2)	(56)
So closing goodwill equals	204

4. Calculation of overall impairment loss

on goodwill (W3)	56
on assets in unit C (450 – 400)	50
So total loss equals	106

₹ 21.2 (20%) of the above is allocated to the NCI with the balance allocated to the shareholders of Sun Ltd.

Q. 25



GOODWILL : NCI MEASUREMENT AND GOODWILL IMPAIRMENT

A Ltd acquires 80% shares of a subsidiary B Ltd. for ₹ 3,200 thousand. At the date of acquisition, B Ltd.'s identifiable net assets is ₹ 3,000 thousand. A elects to measure NCI at proportionate share of net identifiable assets. It recognizes

	₹ in thousand
Purchase Consideration	3,200
NCI (3,000 x 20%)	600
	3,800
Less: Net Assets	(3,000)
Goodwill	800

At the end of next financial year, B Ltd.'s carrying amount is reduced to ₹ 2,700 thousand (excluding goodwill).

Recoverable amount of B Ltd.'s assets is

Case (i) ₹ 2,000 thousand, Case (ii) ₹ 2,800 thousand

Calculate impairment loss allocable to Parent and NCI in both the cases.

[SM]

Ans.

Case (i)

₹ in thousand

Particulars	Goodwill	Other Asset	Total
Carrying amount	800	2,700	3,500
Unrecognised NCI (notional) [(800 / 80%) x 20%]	200	-	200

Notional Total	1,000	2,700	3,700
Recoverable amount	-	-	2,000
Total Impairment loss	-	-	(1,700)
Impairment loss recognised in CFS	(800)	(700)	(1,500)
Carrying amount after impairment	-	2,000	2,000

Impairment loss on:	Parent	NCI
Goodwill	(800)	-
Other assets	(560)	(140)
Total	(1,360)	(140)

Case (ii)

Particulars	Goodwill	Other Asset	Total
Carrying amount	800	2,700	3,500
Unrecognised NCI (notional) (800 / 80% x 20%)	200	— -	200
Notional Total	1,000	2,700	3,700
Recoverable amount	-	-	2,800
Total Impairment loss	-	-	(900)
Impairment loss recognised in CFS (900 x 80%)	(720)	-	(720)
Carrying amount after impairment (800 – 720)	80	2,700	2,780

Impairment loss on:	Parent	NCI
Goodwill	(720)	-
Other assets	-	-
Total	(720)	-

It is to be noted that since an entity measures NCI at its proportionate interest in the net identifiable assets of a subsidiary at the acquisition date, rather than at fair value, goodwill attributable to NCI is not recognised in the parent's consolidated financial statements and so the impairment loss on such goodwill not recognised

Q. 26**CGU : BUSINESS COMBINATION**

Parent acquires an 80% ownership interest in Subsidiary for ₹ 2,100 on April 1, 20X1. At that date, Subsidiary's net identifiable assets have a fair value of ₹ 1,500. Parent chooses to measure the non-controlling interests as the proportionate in Interest of Subsidiary's net identifiable assets. The assets of Subsidiary together are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Because other cash-generating units of Parent are expected to benefit from the synergies of the combination, the goodwill of ₹ 500 related to those synergies has been allocated to other cash-generating units within Parent. On March 31, 20X2, Parent determines that the recoverable amount of cash-generating unit Subsidiary is ₹ 1,000. The carrying amount of the net assets of Subsidiary, excluding goodwill, is ₹ 1,350. Allocate the impairment loss on March 31, 20X2. **[SM]**

Ans.

Non-controlling interests is measured as the proportionate interest of Subsidiary's net identifiable assets, i.e., ₹ 300 (20% of ₹ 1,500). Goodwill is the difference between the aggregate of the consideration transferred and the amount of the non-controlling interests (₹ 2,100 + ₹ 300) and the net identifiable assets (₹ 1,500), i.e., ₹ 900.

Since, the assets of Subsidiary together are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets, therefore, Subsidiary is a cash-generating unit. Because other cash-generating units of Parent are expected to benefit from the synergies of the combination, the goodwill of ₹ 500 related to those synergies has been allocated to other cash-generating units within Parent. Because the cash-generating unit comprising Subsidiary includes goodwill within its carrying amount, it should be tested for impairment annually, or more frequently if there is an indication that it may be impaired.

Testing Subsidiary (cash-generating unit) for impairment

Goodwill attributable to non-controlling interests is included in Subsidiary's recoverable amount of ₹ 1,000 but has not been recognised in Parent's consolidated financial statements. Therefore, the carrying amount of Subsidiary should be grossed up to include goodwill attributable to the non-controlling interests, before being compared with the recoverable amount of ₹ 1,000. Goodwill attributable to Parent's 80% interest in Subsidiary at the acquisition date is ₹ 400 after allocating ₹ 500 to other cash-generating units within Parent. Therefore, goodwill attributable to the 20% non-controlling interests in Subsidiary at the acquisition date is ₹ 100.

Testing subsidiary for impairment on March 31, 20X2

On March 31, 20X2	Goodwill of subsidiary (₹)	Net identifiable assets (₹)	Total (₹)
Carrying amount	400	1,350	1,750
Unrecognised non-controlling interests	100	-	100
Adjusted carrying amount	500	1,350	1,850
Recoverable amount			1,000
Impairment loss			850

Allocating the impairment loss

The impairment loss of ₹ 850 should be allocated to the assets in the unit by first reducing the carrying amount of goodwill.

Therefore, ₹ 500 of the ₹ 850 impairment loss for the unit is allocated to the goodwill. If the partially-owned subsidiary is itself a cash-generating unit, the goodwill impairment loss should be allocated to the controlling and non-controlling interests on the same basis as that on which profit or loss is allocated. In this case, profit or loss is allocated on the basis of relative ownership interests. Because the goodwill is recognised only to the extent of Parent's 80% ownership interest in Subsidiary, Parent recognises only 80% of that goodwill impairment loss (i.e., ₹ 400).

The remaining impairment loss of ₹ 350 is recognised by reducing the carrying amounts of Subsidiary's identifiable assets.

Allocation of the impairment loss for Subsidiary on March 31, 20X2

On March 31, 20X2	Goodwill of subsidiary (₹)	Net identifiable assets (₹)	Total (₹)
Carrying amount	400	1,350	1,750
Impairment loss	(400)	(350)	(750)
Carrying amount after impairment loss	-	1,000	1,000

Q. 27

CORPORATE ASSETS : ALLOCATION OF IL

Pacific Ocean Railway Ltd. has three Cash Generating units namely Train, Railway station and Railway tracks, the carrying amounts of which as on March 31st, 2020 are as follows

Cash Generating units	Carrying amount (₹ In crore)	Remaining useful life
Train	1,500	10
Railway station	2,250	20
Railway tracks	3,300	20

Pacific Ocean Railway Ltd. also has two Corporate Assets having a remaining useful life of 20 years.

(₹ in crore)

Corporate Assets	Carrying amount	Remarks
Land	1,800	The carrying amount of Land can be allocate a reasonable basis (i.e., pro rata basis) to the individual cash-generating units.
Buildings	600	The carrying amount of Buildings cannot be allocated on a reasonable basis to the individual cash-generating units.

Recoverable amount as on March 31st, 2020 is as follows :

Cash Generating units	Recoverable amount (₹ in crore)
Train	1,800
Railway station	2,700
Railway tracks	4,200
Company as a whole	9,600

Calculate the impairment loss, (assuming indication exists). Ignore decimals.

[Nov-2020, MTP-May-2022]

Ans.

Allocation of corporate assets

The carrying amount of land is allocated to the carrying amount of each individual cash generating unit. A weighted allocation basis is used because the estimated remaining useful life of Train's cash-generating unit is 10 years, whereas the estimated remaining useful lives of Railway station and Railway tracks's cash -generating units are 20 years.

(₹ in crore)				
Particulars	Train	Railway Station	Railway Tracks	Total
Carrying amount (a)	1,500	2,250	3,300	7,050
Useful life	10 years	20 years	20 years	-
Weight based on useful life	1	2	2	-
Carrying amount (after assigning weight)	1,500	4,500	6,600	12,600
	12%	36%	52%	100%
Pro-rata allocation of Land	(1,500/12,600)	(4,500/12,600)	(6,600/12,600)	
Allocation of carrying amount of Land (b)	216	648	936	1,800
Carrying amount (after allocation of Land) (a+b)	1,716	2,898	4,236	8,850

Calculation of impairment loss
Step I: Impairment losses for individual cash-generating units and its allocation:
(a) Impairment loss of each cash-generating units

(₹ in crore)			
Particulars	Train	Railway station	Railway tracks
Carrying amount (after allocation of land)	1,716	2,898	4,236
Recoverable amount	<u>1,800</u>	<u>2,700</u>	<u>4,200</u>
Impairment loss	-	<u>198</u>	<u>36</u>

(b) Allocation of the impairment loss

(₹ in crore)				
Allocation to	Railway station		Railway tracks	
Land	44	[198 x (648 / 2,898)]	8	[36 x (936 / 4,236)]
Other assets in cash-generating units	<u>154</u>	[198 x 2,250 / 2,898]	<u>28</u>	[36 x (3,300 / 4,236)]
Impairment loss	<u>198</u>		<u>36</u>	

Step II: Impairment losses for the larger cash-generating unit, i.e., Pacific Ocean Railway Ltd. as a whole

(₹ in crore)						
Particulars	Train	Railway station	Railway tracks	Land	Building	Pacific Ocean Railway Ltd.
Carrying amount	1,500	2,250	3,300	1,800	600	9,450
Impairment loss (Step I)		(154)	(28)	(52)	-	(234)
Carrying amount (after Step I)	1,500	2,096	3,272	1,748	600	9,216
Recoverable amount						9,600
Impairment loss for the 'larger' cash-generating unit						Nil

Q. 28
IL, ALLOCATION OF IL & REVERSAL OF IL IN A CG A HAVING GOODWILL


Elia limited is a manufacturing company which deals in to manufacturing of cold drinks and beverages. It is having various plants across India. There is a Machinery A in the Baroda plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with Machine A it cannot produce output as well. The Company considers this group of assets as a Cash Generating Unit and an Inventory amounting to ₹ 2 Lakh and Goodwill amounting to ₹ 1.50 Lakhs is included in such CGU.

Machinery A was purchased on 1st April 2013 for ₹ 10 Lakhs and residual value is ₹ 50 thousands. Machinery B was purchased on 1st April, 2015 for ₹ 5 Lakhs with no residual value. The useful life of both Machine A and B is 10 years. The Company expects following cash flows in the next 5 years pertaining to Machinery A. The incremental borrowing rate of the company is 10%.

Year	Cash Flows from Machinery A
1	1,50,000
2	1,00,000

3	1,00,000
4	1,50,000
5	<u>1,00,000</u> (excluding Residual Value)
Total	<u>6,00,000</u>

On 31st March, 2018, the professional valuers have estimated that the current market value of Machinery A is ₹ 7 lakhs. The valuation fee was ₹ 1 lakh. There is a need to dismantle the machinery before delivering it to the buyer. Dismantling cost is ₹ 1.50 lakhs. Specialised packaging cost would be ₹ 25 thousand and legal fees would be ₹ 75 thousand.

The Inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is ₹ 10 Lakh as on 31st March, 2018. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is ₹ 11 Lakhs i.e. on 31st March, 2019. The Recoverable value of Machine A is ₹ 4,50,000 and combined Machine A and B is ₹ 7,60,000 as on 31st March, 2019.

Required:

- Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2018 by providing all the relevant working notes to arrive at such calculation.
- Compute the prospective depreciation for the year 2018-2019 on the above assets.
- Compute the carrying value of CGU as at 31st March, 2019. **[May-2019, Nov-2022, SM]**

Ans.

- (a) Computation of impairment loss and carrying value of each of the asset in CGU after impairment loss**

- (i) Calculation of carrying value of Machinery A and B before impairment**

<u>Machinery A</u>			
Cost	(A)	₹ 10,00,000	
Residual Value		₹ 50,000	
Useful life		10 years	
Useful life already elapsed		5 years	
Yearly depreciation	(B)	₹ 95,000	
WDV as at 31st March, 2018 [A- (B x 5)]		₹ 5,25,000	
<u>Machinery B</u>			
Cost	(C)	₹ 5,00,000	
Residual Value		-	
Useful life		10 years	
Useful life already elapsed		3 years	
Yearly depreciation	(D)	₹ 50,000	
WDV as at 31st March, 2018 [C- (D x 3)]		₹ 3,50,000	

- (ii) Calculation of Value-in-use of Machinery A**

Period	Cash Flows (₹)	PVF	PV
1	1,50,000	0.909	1,36,350
2	1,00,000	0.826	82,600
3	1,00,000	0.751	75,100
4	1,50,000	0.683	1,02,450
5	1,00,000	0.621	62,100

5	50,000	0.621	<u>31,050</u>
Value in use			<u>4,89,650</u>

(iii) Calculation of Fair Value less cost of disposal of Machinery A

	₹
Fair Value	7,00,000
Less: Dismantling cost	(1,50,000)
Packaging cost	(25,000)
Legal Fees	<u>(75,000)</u>
Fair value less cost of disposal	<u>4,50,000</u>

(iv) Calculation of Impairment loss on Machinery A

	₹
Carrying Value	5,25,000
Less: Recoverable Value i.e. higher of Value-in-use and Fair value less cost of disposal	<u>4,89,650</u>
Impairment Loss	<u>35,350</u>

(v) Calculation of Impairment loss of CGU

1. First goodwill will be impaired fully and then the remaining impairment loss of ₹ 75,000 will be allocated to Machinery A and B.
2. If we allocate remaining impairment loss to Machinery A and B on pro- rata basis, it would come to ₹ 45,000 on Machinery A. However, the impairment loss of Machinery A cannot exceed ₹ 35,350. Hence, impairment to CGU will be as follows:

	Carrying value before impairment loss	Impairment loss	Carrying value after impairment loss
	₹	₹	₹
Machinery A	5,25,000	35,350	4,89,650
Machinery B	3,50,000	39,650*	3,10,350
Inventory	2,00,000	-	2,00,000
Goodwill	<u>1,50,000</u>	<u>1,50,000</u>	<u>-</u>
Total	<u>12,25,000</u>	<u>2,25,000</u>	<u>10,00,000</u>

* Balancing figure.

(b) Carrying value after adjustment of depreciation

	₹
Machinery A [4,89,650 – {(4,89,650-50,000)/5}]	4,01,720
Machinery B [3,10,350 – (3,10,350/7)]	2,66,014

Inventory	2,00,000
Goodwill	-
Total	<u>8,67,734</u>

(c) Calculation of carrying value of CGU as on 31st March, 2019

The revised value of CGU is ₹ 11 Lakh. However, impaired goodwill cannot be reversed. Further, the individual assets cannot be increased by lower of recoverable value or Carrying Value as if the assets were never impaired.

Accordingly, the carrying value as on 31st March, 2019 assuming that the impairment loss had never incurred, will be:

	Carrying Value	Recoverable Value	Final CV as at 31st Mar 2019
Machinery A	4,30,000	4,50,000	4,30,000
Machinery B	3,00,000	(7,60,000 – 4,50,000) 3,10,000	3,00,000
Inventory	2,00,000	2,00,000	2,00,000
Goodwill	-	-	-
Total	<u>9,30,000</u>	<u>9,60,000</u>	<u>9,30,000</u>

Hence the impairment loss to be reversed will be limited to ₹ 62,266 only (₹ 9,30,000 – ₹ 8,67,734).

Notes



Ind AS 38

INTANGIBLE ASSETS

Q. 29
AMORTISATION: ACCOUNTING & MEASUREMENT


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

- (i) On 1st April, 2019, Super Sounds Limited purchased the Net Assets of Music Limited for ₹ 13,20,000. The Fair value of Music Limited's identifiable Net Assets was ₹ 10,00,000. Super Sounds Limited is of the view that due to popularity of Music Limited's product, the life of Goodwill is 10 years.
- (ii) On 4th May, 2019, Super Sounds Limited purchased a Franchisee to organize Musical Shows from Arman TV for ₹ 80,00,000 and at an Annual Fee of 2% of Musical Shows Revenue. The Franchisee expires after 5 years. Musical Shows Revenue were ₹ 10,00,000 for Financial Year 2019-2020. The Projected future revenues for F.Y. 2020-2021 is ₹ 25,00,000 and ₹ 30,00,000 p.a. for remaining 3 years thereafter.
- (iii) On 4th July, 2019 Super Sounds Limited was granted a Copyright that had been applied for by Music Limited. During F.Y. 2019-2020 Super Sound Limited incurred ₹ 2,50,000 on Legal Cost to register the Patent and ₹ 7,00,00 additional cost to successfully prosecute a Copyright Infringement suit against a competitor. The life of the Copyright is for 10 years.

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

You are required to Prepare :

- (i) A Schedule showing the intangible section in Super Sound Limited Balance Sheet as on 31st March, 2020, and
- (ii) A Schedule showing the related expenses that would appear in the Statement of Profit and Loss of Super Sound Limited for the year ended 2019-2020.

[Jan-2021, RTP-Nov-2024, SM]

Ans.

(i) Super Sounds Limited
Balance Sheet (Extract relating to intangible asset) as at 31st March 2020

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

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

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

Notes to Accounts (Extract)

1. Intangible Assets

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

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

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

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

Working Notes:

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

Ind AS 40 INVESTMENT PROPERTY

Q. 30
CLASSIFICATION AND ACCOUNTING POLICY (SIMILAR QUESTION IN IND AS 16)


Venus Ltd. is a multinational entity that owns three properties. All three properties were purchased on 1st April, 20X1. The details of purchase price and market values of the properties are given as follows:

Particulars	Property 1	Property 2	Property 3
	Factory	Factory	Let-Out
Purchase price	15,000	10,000	12,000
Market value 31.03.20X2	16,000	11,000	13,500
Life	10 Years	10 Years	10 Years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

Property 1 and 2 are used by Venus Ltd. as factory building whilst property 3 is let-out to a nonrelated party at a market rent. The management presents all three properties in balance sheet as 'property, plant and equipment'. The Company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Required:

Analyse whether the accounting policies adopted by the Venus Ltd. in relation to these properties is in accordance with Ind AS. If not, advise the correct treatment along with working for the same.

[MTP-May-2023, MTP-Nov-2024, SM]

Ans.

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

Property '1' and '2'

Para 6 of Ind AS 16 'Property, Plant and Equipment' defines:

"Property, plant and equipment are tangible items that:

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

Paragraph 29 of Ind AS 16 states that:

"An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment".

Further, paragraph 36 of Ind AS 16 states that:

"If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued".

Further, paragraph 39 of Ind AS 16 states that:

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

Further, paragraph 52 of Ind AS 16 states that:

“Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset’s residual value does not exceed its carrying amount”.

Property ‘3’**Para 6 of Ind AS 40 ‘Investment property’ defines:**

“Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business”.

Further, paragraph 30 of Ind AS 40 states that:

“An entity shall adopt as its accounting policy the cost model to all of its investment property”.

Further, paragraph 79 (e) of Ind AS 40 requires that:

“An entity shall disclose the fair value of investment property”.

Further, paragraph 54 (2) of Ind AS 1 ‘Presentation of Financial Statements’ requires that:

“As a minimum, the balance sheet shall include line items that present the following amounts:

- (a) property, plant and equipment;
- (b) investment property;

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

- (a) presented all three properties in balance sheet as ‘property, plant and equipment’;
- (b) applied different accounting policies to Property ‘1’ and ‘2’;
- (c) revaluation is charged in statement of profit and loss as profit; and
- (d) applied revaluation model to Property ‘3’ being classified as Investment Property.

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

Accordingly, Venus Ltd. shall apply the same accounting policy (i.e. either revaluation or cost model) to entire class of property being property ‘1’ and ‘2’. It also required to depreciate these properties irrespective of that, their fair value exceeds the carrying amount. The revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

There is no alternative of revaluation model in respect to property ‘3’ being classified as Investment Property and only cost model is permitted for subsequent measurement. However, Venus ltd. is required to disclose the fair value of the property in the Notes to Accounts. Also the property ‘3’ shall be presented as separate line item as Investment Property.

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

Case 1: Venus Ltd. has applied the Cost Model to an entire class of property, plant and equipment.
Balance Sheet extracts as at 31st March, 20X2

Assets		₹
Non-Current Assets		
Property, Plant and Equipment		
Property '1'	13,500	
Property '2'	<u>9,000</u>	
Investment Properties		22,500
Property '3'		10,800

Case 2: Venus Ltd. has applied the Revaluation Model to an entire class of property, plant and equipment.
Balance Sheet extracts as at 31st March, 20X2

Assets		₹
Non-Current Assets		
Property, Plant and Equipment		
Property '1'	16,000	
Property '2'	<u>11,000</u>	27,000
Investment Properties		
Property '3'		10,800
Equity and Liabilities		
Other Equity		
Revaluation Reserve		
Property '1'	2,500	
Property '2'	<u>2,000</u>	4,500

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

Q. 31

FAIR VALUE & DISCLOSURES



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

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

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

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

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

Rental income from Building X	= ₹ 15 crores
Rental income from Building Y	= ₹ 5 crores

Sales promotion expenses	= ₹ 0.50 crores
Fees and Taxes	= ₹ 0.10 crores
Ground Rent	= ₹ 0.25 crores
Repairs and Maintenance	= ₹ 0.15 crores
Legal and Professional	= ₹ 0.20 crores
Commission and Brokerage	= ₹ 0.10 crores

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

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

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

You are required to:

- Show how the Building X and Building Y would be the treated in the Balance Sheet of Anand Limited?
- Provide detailed disclosures and computations in line with relevant Ind AS. (Treat it as if you are preparing a separate note or schedule, of the given assets in the Balance Sheet.)

[Nov-2024]

Ans.

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

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

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

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

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

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

Disclosure Note on Investment Properties acquired by the entity

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

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

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

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

Notes



Ind AS 41

AGRICULTURE

Q. 32

FAIR VALUE – PLANTATIONS

M. Chinnaswamy & Brothers Ltd. is a company that is engaged in growing and maintaining coconut palms and selling their output in various forms. The company has a farmland having 2,00,000 coconut palms in the coastal area of Karnataka near Mangalore.

The fair value of each coconut palm is derived based on the average realisable price of ₹ 30 per nut (fruit). Each coconut palm grows 80 nuts per annum on an average basis. Each coconut palm can generate revenue for as long as 80 years and the current palms are only 20-year-old. The management thinks that considering the risk factors in business, the valuation of each palm can be considered at 5 times its annual revenue.

During August, 20X5, the Ooty Hotels Association (OHA) chairman and his team visited the corporate office of the company at Mangalore. The deal was to supply tender coconuts to Ooty Hotels at an agreed price throughout the year. The agreement came into effect from 1st September, 20X5 whereby the company shall reserve 15,000 coconut palms (out of 2,00,000 coconut palms) for OHA and will charge a concessional rate of ₹ 15 only per nut supplied to OHA. OHA will in turn supply the tender coconuts to each Ooty Hotel at the same price. This contract price is applicable irrespective of the ownership of palm trees (it is not an entity-specific restriction). All tender coconuts of these 15,000 coconut palms were used by OHA irrespective of the agreement being effective from 1st September, 20X5.

What will be the valuation of 2,00,000 coconut palms in the company's farm for the quarter ended 30th September, 20X5?

[RTP-Nov-2023, SM]

Ans.

Para 16 of Ind AS 41 says that entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract.

Moreover, the OHA contract represents just 7.5% $[(15,000 / 2,00,000) \times 100]$ of the total number of palms in the farm. Hence, the contract price can't be considered for fair valuation of the entire inventory of bearer plants.

The valuation in this case would be as follows:

Adding the fair value for 15,000 coconut palm (15,000 palm x 80 nuts x ₹15 x 5 times) and 1,85,000 coconut palm (1,85,000 palm x 80 nuts x ₹ 30 x 5 times), we get total valuation of 2,00,000 coconut palm as ₹ 231 crore.

Notes

Ind AS 101

FIRST TIME ADOPTION OF IND AS

Q. 33
COMPREHENSIVE


Mathur India Private Limited has to present its first financials under Ind AS for the year ended 31st March, 20X3. The transition date is 1 st April, 20X1.

The following adjustments were made upon transition to Ind AS:

- (a) The Company opted to fair value its land as on the date on transition.
The fair value of the land as on 1st April, 20X1 was ₹ 10 crores. The carrying amount as on 1st April, 20X1 under the existing GAAP was ₹ 4.5 crores.
- (b) The Company has recognised a provision for proposed dividend of ₹ 60 lacs and related dividend distribution tax of ₹ 18 lacs during the year ended 31 st March, 20X1. It was written back as on opening balance sheet date.
- (c) The Company fair values its investments in equity shares on the date of transition.
The increase on account of fair valuation of shares is ₹ 75 lacs.
- (d) The Company has an Equity Share Capital of ₹ 80 crores and Redeemable Preference Share Capital of ₹ 25 crores.
- (e) The reserves and surplus as on 1 st April, 20X1 before transition to Ind AS was ₹ 95 crores representing ₹ 40 crores of general reserve and ₹ 5 crores of capital reserve acquired out of business combination and balance is surplus in the Retained Earnings.
- (f) The company identified that the preference shares were in nature of financial liabilities.

What is the balance of total equity (Equity and other equity) as on 1 st April, 20X1 after transition to Ind AS? Show reconciliation between total equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1 st April, 20X1.

Ignore deferred tax impact.

[MTP-Nov-2023, MTP-May-2025, RTP-Nov-2019, SM, Jan-2026]

Ans.

Computation of balance total equity as on 1st April, 20X1 after transition to Ind AS

			₹ in crore
Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95-5-40)	50		
Add: Increase in value of land (10-4.5)	5.5		
Add: De recognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	0.75	57.03	102.03
Balance total equity as on 1st April, 20X1 after transition to Ind AS			182.03

Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1 st April, 20X1

		₹ in crore
Equity share capital		80
Redeemable Preference share capital		25
		105
Reserves and Surplus		95
Total Equity as per AS		200
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1st April 20X1		0.78
Adjustment due to remeasurement		
Increase in the value of Land due to remeasurement at fair value	5.5	
Increase in the value of investment due to remeasurement at fair value	0.75	6.25
Equity as on 1st April, 20X1 after transition to Ind AS		182.03

Q. 34**COMPREHENSIVE**

H Ltd. has the following assets and liabilities as at March 31, 2016, prepared in accordance with AS.

Particulars	Notes	Amount (₹)
Fixed assets	1	1,34,50,000
Investments in S. Ltd.	2	48,00,000
Debtors		2,00,000
Advances for purchase of inventory		50,00,000
Inventory		8,00,000
Cash		49,000
Total assets		2,42,99,000
VAT deferral loan	3	60,00,000
Creditors		30,00,000
Short term borrowing		8,00,000
Provisions		12,00,000
Total liabilities		1,10,00,000
Share capital		1,30,00,000
Reserves:		2,99,000
Cumulative translation difference	4	1,00,000
ESOP reserve	5	20,000
Retained earnings		1,79,000
Total equity		1,32,99,000
Total equity and liabilities		2,42,99,000

The following GAAP differences were identified by the Company on first-time adoption of Ind AS with effect from April 1, 2016:

- In relation to tangible fixed assets (property, plant and equipment), the following adjustments were identified:

- ◆ Fixed assets comprise land held for capital appreciation purposes costing ₹ 4,50,000 and was classified as investment property as per Ind AS 40.
 - ◆ Exchange differences of ₹ 1,00,000 were capitalised to depreciable fixed assets on which accumulated depreciation of ₹ 40,000 was recognised.
 - ◆ There were no asset retirement obligations.
 - ◆ The management intends to adopt deemed cost exemption for using the previous GAAP carrying values as deemed cost as at the date of transition for PPE and investment property.
2. The Company had made an investment in S Ltd. (subsidiary of H Ltd.) for ₹ 48,00,000 that carried a fair value of ₹ 68,00,000 as at the transition date. The Company intends to recognise the investment at its fair value as at the date of transition.
3. Financial instruments:
- ◆ **VAT deferral loan ₹ 60,00,000 :**
 The VAT deferral loan of ₹ 60,00,000 was obtained on March 31, 2016, for setting up a business in a backward region with a condition to create certain defined targets for employment of local population of that region. The loan does not carry any interest and is repayable in full at the end of 5 years. In accordance with Ind AS 109, the discount factor on the loan is to be taken as 10%, being the incremental borrowing rate. Accordingly, the fair value of the loan as at March 31, 2016, is ₹ 37,25,528. The entity chooses to exercise the option given in paragraph B11 of Ind AS 101, i.e., the entity chooses to apply the requirements of Ind AS 109, Financial Instruments and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, retrospectively as required information had been obtained at the time of initially accounting for VAT deferral loan
4. The retained earnings of the Company contained the following:
- ◆ **ESOP reserve of ₹ 20,000:**
 The Company had granted 1,000 options to employees out of which 800 have already vested. The Company followed an intrinsic value method for recognition of ESOP charge and recognised ₹ 12,000 towards the vested options and ₹ 8,000 over a period of time as ESOP charge and a corresponding reserve. If fair value method had been followed in accordance with Ind AS 102, the corresponding charge would have been ₹ 15,000 and ₹ 9,000 for the vested and unvested shares respectively. The Company intends to avail the Ind AS 101 exemption for share-based payments for not restating the ESOP charge as per previous GAAP for vested options.
 - ◆ **Cumulative translation difference :**
 ₹ 1,00,000 The Company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of ₹ 1,00,000 as part of reserves. On first-time adoption of Ind AS, the Company intends to avail Ind AS 101 exemption of resetting the cumulative translation difference to zero.

[SM]

Ans.

Adjustments for opening balance sheet as per Ind AS 101

1. **Fixed assets:** As the land held for capital appreciation purposes qualifies as investment property, such investment property should be reclassified from property, plant and equipment (PPE) to investment property and presented separately; As the Company has adopted the previous GAAP carrying values as deemed cost, all items of PPE and investment property should be carried at its previous GAAP carrying values.

As such, the past capitalised exchange differences require no adjustment in this case.

2. **Investment in subsidiary:** On first time adoption of Ind AS, a parent company has an option to carry its investment in subsidiary at fair value as at the date of transition in its separate financial statements. As such, the Company can recognise such investment at a value of ₹ 68,00,000.
3. **Financial instruments:** As the VAT deferral loan is a financial liability under Ind AS 109, that liability should be recognised at its present value discounted at an appropriate discounting factor. Consequently, the VAT deferral loan should be recognised at ₹ 37,25,528 and the remaining ₹ 22,74,472 would be recognised as deferred government grant.
4. **ESOPs:** Ind AS 101 provides an exemption of not restating the accounting as per the previous GAAP in accordance with Ind AS 102 for all options that have vested by the transition date. Accordingly, out of 1000 ESOPs granted, the first-time adoption exemption is available on 800 options that have already vested. As such, its accounting need not be restated. However, the 200 options that are not vested as at the transition date, need to be restated in accordance with Ind AS 102. As such, the additional impact of ₹ 1,000 (i.e., 9,000 less 8,000) would be recognised in the opening Ind AS balance sheet.
5. **Cumulative translation difference :** As per paragraph D 12 of Ind AS 101, the first-time adopter can avail an exemption regarding requirements of Ind AS 21 in context of cumulative translation differences. If a first-time adopter uses this exemption the cumulative translation differences for all foreign operation are deemed to be zero as at the transition date. In that case, the balance is transferred to retained earnings. As such, the balance of ₹ 1,00,000 should be transferred to retained earnings
6. **Retained earnings should be increased by ₹ 20,99,000 on account of the following:**

	₹
Increase in fair value of investment in subsidiary (note 2)	20,00,000
Additional ESOP charge on unvested options (note 4)	(1,000)
Transfer of cumulative translation difference balance to retained earnings (note 5)	1,00,000

After the above adjustments, the carrying values of assets and liabilities for the purpose of opening Ind AS balance sheet of Company H should be as under:

Particular	Notes	Previous	Adjustments	Ind AS GAAP
Non-Current Assets				
Fixed assets	1	1,34,50,000	(4,50,000)	1,30,00,000
Investment property	1	0	4,50,000	4,50,000
Investment in S Ltd.	2	48,00,000	20,00,000	68,00,000
Advances for purchase of inventory		50,00,000		50,00,000
Current Assets				
Debtors				
Inventory		2,00,000		2,00,000
Cash		8,00,000		8,00,000
Total assets		<u>49,000</u>	<u> </u>	<u>49,000</u>
Non-current Liabilities		2,42,99,000	20,00,000	2,62,99,000
Sales tax deferral loan				
Deferred government grant	3	60,00,000	(22,74,472)	37,25,528
Current Liabilities	3	0	22,74,472	22,74,472
Creditors				
Short term borrowing		30,00,000		30,00,000
Provisions		8,00,000		8,00,000

Total liabilities		12,00,000		12,00,000
Share capital		1,10,00,000		1,10,00,000
Reserves:		1,30,00,000		1,30,00,000
Cumulative translation difference				
ESOP reserve	5	1,00,000	(1,00,000)	0
Other reserves	4	20,000	1,000	21,000
Total equity	6	<u>1,79,000</u>	<u>20,99,000</u>	<u>22,78,000</u>
		1,32,99,000	20,00,000	1,52,99,000
Total equity and liabilities		2,42,99,000	20,00,000	2,62,99,000

Notes



Ind AS 102

SHARE BASED PAYMENT

Q. 35

SAR EXPENSE CALCULATION BY FV METHOD & SAR LEDGER

A Ltd. announced a stock appreciation right (SAR) on 1st April, 2020 for each of its employees. The scheme gives the employees the right to claim cash payment equivalent to an excess of market price of Company shares on exercise date over the exercise price of ₹ 250 per share in respect of (100 shares, subject to a condition of continuous employment of 3 years. The SAR is exercisable after 31st March, 2023 but before 30th June, 2023. The fair value of SAR was:

- ₹ 42 in 2020-21;
- ₹ 46 in 2021-22; and
- ₹ 48 in 2022-23.

In 2020-21 the company estimates that 2% of its employees shall leave the Company annually. This was revised to 3% in 2021-22. Actually :

- 15 employees left the company in 2020-21;
- 10 employees left the company in 2021-22; and -37.
- 8 employees left the company in 2022-23.

The SAR therefore actually vested in 492 employees on 31st March 2023 and when SAR was exercised, the intrinsic value was 50 per share.

Compute, by fair value method, the SAR expense for financial

- 2020-21; - 2021-22;
- 2022-23; - 2023-24.

Also provide SAR ledger from inception till closure. Discuss whether this account is in the nature of liability or equity? Assume no employees left after vesting date. [Nov-2023]

Ans.

Number of employees at the grant date to whom the SARs were granted = 492 + 15 + 10 + 8 = 525 employees
 The amount recognized as an expense in each year and as a liability at each year-end is as follows:

Year	Expense ₹	Liability ₹	Calculation of Liability
31st March, 2021	6,86,000	6,86,000	$[(525-15) \times 0.98 \times 0.98] \times 100 \times 42 \times 1/3]$
31st March, 2022	8,01,333	14,87,333	$[\{(525-15-10) \times 0.97 \times 100 \times 46 \times 2/3\} - 6,86,000]$
31st March, 2023	8,74,267	23,61,600	$[525-15-10-8] \times 48 \times 100 - 14,87,333$
30th June, 2023	(98,400)*	0	$[(492 \times 100 \times 50) - 23,61,600]$

*Difference of opening liability ₹ 23,61,600 and actual liability paid ₹ 24,60,000 $[(492 \times 100 \times 50) - 23,61,600]$ is recognised to Profit and loss i.e. ₹ 98,400.

SAR Ledger

Date	Particular	Amount	Date	Particular	Amount
31.3.2021	To Balance c/d	<u>6,86,000</u>	31.3.2021	By Employee benefits expenses	<u>6,86,000</u>
		6,86,000			6,86,000
31.3.2022	To Balance c/d	14,87,333	1.4.2021	By Balance b/d	6,86,000
		_____	31.3.2022	By Employee benefits expenses	<u>8,01,333</u>
		14,87,333			14,87,333
31.3.2022	To Balance c/d	23,61,600	1.4.2022	By Balance b/d	14,87,333
		_____	31.3.2023	By Employee benefits expenses	<u>8,74,267</u>
		23,61,600			23,61,600

30.6.2023	To Bank	24,60,000	1.4.2022	By Balance b/d	23,61,600
			30.6.2023	By Employee benefits expenses	<u>98,400</u>
		<u>24,60,000</u>			<u>24,60,000</u>

SAR Account is in the nature of liability because it is a cash settled share-based transaction which is summed up on payment of cash to the employees at the end of the exercise period.

Q. 36
CANCELLATION


Anara Fertilisers limited has issued 2000 Share options to its 10 directors for an exercise price of INR 100. The directors are required to stay with the company for next 3 years.

Fair value of the option estimated 130

Expected Directors to vest the option 8

During the year 2, there was a crisis in the company and Management decided to cancel the such scheme immediately, it was estimated further as below-

Fair value of option at the time of cancellation was 90

Market price of the share at the cancellation date was 99

There was a compensation which was paid to directors and since only 9 directors were currently in employment. During the date of cancellation of such scheme hence amount of 95 per option has been given to each of 9 directors.

How the cancellation would be recorded?

[SM]

Ans.

	Year 1	Year 2	
(A) Expected directors to vest	8	9	
Fair value of option	130	130	
No. of options	<u>2,000</u>	<u>2,000</u>	
Total	<u>20,80,000</u>	<u>23,40,000</u>	Full, as it is cancelled
Expense weightage	1/3		Remaining amount since cancelled
Expense for the year	6,93,333	16,46,667	
(B) Cancellation compensation			
No. of directors		9	
Amount agreed to pay		95	
No. of options/ director		2,000	
Compensation amount Refer W-1 & W-2 (9 x 95 x 2,000)		17,10,000	

Working Notes:
1. Amount to be deducted from Equity

No. of directors	9
Fair value of option (at the date of cancellation)	90
No. of options/ director	2,000
Total	<u>16,20,000</u>

2. Amount transferred to Profit and Loss

Total cancellation compensation	17,10,000
Less: To deduct from Equity	<u>(16,20,000)</u>
Balance transferred to Profit and Loss	<u>90,000</u>

Q. 37

JE-CASH OPTION & EQUITY OPTION

On 1st April, 2019 Sun Ltd. issued share-based option to one of its key managerial personnel (employee) which can be exercised either in cash or equity and it has following features :

Option I

No. of cash settled shares	70,000
Service condition	3 years

Option II

No. of equity settled shares of face value of 100 each	80,000
--	--------

Conditions :

Service	3 years
Restriction to sell	2 years

Fair Values

Share alternative fair value (with restriction)	₹ 125
Fair value at grant date	₹ 136
Fair value on 31 st March, 2020	₹ 141
Fair value on 31 st March, 2021	₹ 143
Fair value on 31 st March, 2022	₹ 146

You are required to pass the journal entries if the key managerial employee exercises cash option at the end of 31st March, 2022 and also if he exercises equity option at the end of 31st March, 2022. **[Nov-2022]**

Ans.

		1st April 2019 (₹)	31st March 2020 (₹)	31st March 2021 (₹)	31st March 2022 (₹)
Equity alternative (80,000 x 125)		1,00,00,000			
Cash alternative (70,000 x 136)		95,20,000			
Equity option (1,00,00,000 – 95,20,000)		4,80,000			
Cash option (cumulative) (using period end fair value			(70,000 x 141 x 1/3) 32,90,000	(70,000 x 143 x 2/3) 66,73,333	(70,000 x 146 x 3/3) 1,02,20,000
Equity option (cumulative)			(4,80,000 x 1/3) 1,60,000	(4,80,000 x 2/3) 3,20,000	(4,80,000 x 3/3) 4,80,000
Expense for the period					
Equity option	1,60,000		(3,20,000 – 1,60,000) 1,60,000	(4,80,000 – 3,20,000) 1,60,000	
Cash Option	32,90,000		(66,73,333 – 32,90,000)	(1,02,20,000 – 66,73,333)	
			<u>33,83,333</u>		<u>35,46,667</u>
Total	<u>34,50,000</u>		<u>35,43,333</u>		<u>37,06,667</u>

Journal Entries

(i) If Cash alternative is chosen:		₹	₹
Share based payment liability	Dr.	1,02,20,000	
To Bank/ Cash			1,02,20,000
(Settlement in cash)			
Share based payment reserve (equity)*	Dr.	4,80,000	
To Retained earnings			4,80,000

(Being transfer of equity from one account to another one)		
(ii) If Equity alternative is chosen:		
Share based payment liability Dr.	1,02,20,000	
To Share based payment reserve (equity)		1,02,20,000
(Being transfer of liability account to equity)		
Share based payment reserve (equity) Dr.	1,07,00,000	
To Capital		80,00,000
To Securities Premium		27,00,000
(Being settlement made in equity)		
Alternative entries under equity settlement:		
(ii) If Equity alternative is chosen:		
Share based payment liability Dr.	1,02,20,000	
To Share Capital		80,00,000
To Securities Premium		22,20,000
(Being settlement made in equity)		
Share based payment reserve (equity)* Dr.	4,80,000	
To Retained earnings		4,80,000
(Being transfer of equity from one account to another one)		

*The equity component recognized (₹ 4,80,000) shall remain within equity.

Q. 38
ES OR CS WITHOUT ALTERNATIVE


At 1st April, 20X1 an entity enters into a share-based payment arrangement with its employees. The terms of the award are as follows:

- Employees are required to work for the entity for five years; after that they will receive a cash payment equal to the value of the entity's shares.
- If the entity achieves a successful IPO during the five -year period, the employees will receive free shares rather than a cash payment. So, employees might receive free shares at the time of IPO or a cash payment at the end of 5th year, but not both.
- No employees are expected to leave the entity over the next five years.
- At the date of the award and till the end of second year, it was not probable that a successful IPO would occur before year 5.
- At the end of year 3, a successful IPO becomes probable; and management expects it to occur in year 4.
- At the end of year 4, a successful IPO occurs; and employees receive free shares.
- The fair value of the equity-settled award alternative is ₹ 1,000 at the grant date. The fair value of the cash-settled alternative, ignoring the probability that an IPO will happen within the five years, is as follows:
 - ₹ 50 at the end of year 1;
 - ₹ 500 at the end of year 2;
 - ₹ 100 at the end of year 3; and
 - ₹ 50 at the end of year 4.

Required:

How the entity would account for this transaction?

[RTP-May-2025]

Ans.

At the end of first and second year, the entity would not record a charge for the equity-settled award; this is because the vesting conditions are not expected to be met (that is, a successful IPO is not probable).

Hence, a liability is recognised, because cash settlement is probable until year 3. (Refer para 42 of Ind AS 102)

	Dr. (₹)	Cr. (₹)
Year end 31st March, 20X2		
Employee benefits expense (₹ 50 / 5years) Dr.	10	
To Share-based payment liability		10
(Cash settled award recognised over the vesting period)		
Year end 31st March, 20X3		
Employee benefits expense{(₹ 500 x 2/5) - ₹10} Dr.	190	
To Share-based payment liability		190
(Cash settled award recognised over the vesting period)		

At the end of year 3, a successful IPO becomes probable; so the entity would record a charge for an equity-settled award.

There should also be a reversal of the SBP liability, because this award is now deemed not probable.

Year end 31st March, 20X4	Dr.	Cr.
Share-based payment Liability Dr.	200	
To Share-based Payment Reserve		200
(Reversal of cash -settled share-based payment, because IPO deemed probable)		
Employee benefits expense {(₹ 1,000 x ¾) - ₹ 200} Dr.	550	
To Share-based Payment Reserve		550
(Equity-Settled award measured at grant date fair value of ₹ 550, because IPO is now deemed probable)		
Year end 31st March, 20X5		
Employee Benefits Expenses Dr.	250	
To Share-based Payment Reserve		250
(Equity settled award recognised over the vesting period)		
Share-based Payment Reserve Dr.	1,000	
To Equity share capital		1,000
(Settlement of share-based payment award through issuance of free shares)		

Equity-settled award measured at fair value of ₹ 1,000. All of the vesting conditions for this award have been met in year 4; so the award has vested, and the remaining charge of ₹ 250 (₹ 1,000 – ₹ 750) is recognised in the Statement of profit and loss.

Q. 39

EQUITY SETTLED TO CASH SETTLED

Max Ltd. enters into a share-based payment arrangement with its employees on the following terms:

- Each employee will receive 500 shares if they remain employed for a period of five years.
- It is expected that no employees are expected to leave during the five year period.
- The grant date fair value of the award is ₹ 4,000.
- If an employee leaves Max Ltd. after the five -year period, but before its shares are listed, the entity has an option to purchase the shares for fair value from the employee.



- On grant date, Max Ltd. expects to list in the list in the next 3-5 years. This is the first share-based plan and Max Ltd. has no past practice or stated policy of buying back shares from employees when the employees leave. Neither does Max Ltd. expect that it will settle the awards in cash.
- At the end of year 2, Max Ltd. no longer expects to list; and the employees are informed of this fact. Max Ltd. announces to employees that if it is not listed after the five years and employees leave, Max Ltd. will repurchase the shares. The fair value of the shares is ₹ 6,000 on this date.
- At the end of year 3, the fair value of the liability has increased to ₹ 9,000

Required

- Determine the accounting for years 1-3.
- What would be the treatment of the awards, if at the end of year 2, Max Ltd. does not inform employees that it will repurchase the shares after a five-year period, and a listing of the entity's shares is still achievable. But at the end of year 6, Max Ltd. has not yet listed and two of the employees leave. Max Ltd. exercises its settlement choice and buys the leaving employee's shares at fair value. **[RTP-Sept-2025]**

Ans.

- On the grant date, the employer accounts for the arrangement as an equity settled share-based payment because there is no present obligation to settle in cash.

Journal Entries

		₹	₹
Employee benefit expenses (4,000 x 1/5)	Dr.	800	
To Share-based payment reserve			800

At the end of year 2, Max Ltd. has created an obligation to settle in cash through a change in stated policy:

Employee benefit expenses (4,000 x 1/5)	Dr.	800	
To Share-based payment reserve			800

The above entry is to record ₹ 4,000 vesting over a period of five years which was the expectation until year end.

Share-based payment reserve	Dr.	2,400	
To Share-based payment liability (6,000 x 2/5)			2,400

In substance the reclassification represents the repurchase by Max Ltd. of its own shares, so no further expense is recognized. The subsequent measurement of the liability would follow the requirements for a cash settled share – based payment.

At the end of year 3, the award is accounted for on a cash – settled basis as follows:

Employee benefit expenses	Dr.	3,000	
To Share-based payment liability (9,000x3/5–2,400)			3,000

- The settlement of the two employee's award may create a valid expectation in the minds of the remaining employees that they will also receive cash when they leave. However, judgement will be required to determine if an isolated transaction establishes past practice resulting in a cash settlement obligation for Max Ltd. Depending on any contrary facts, Max Ltd. should treat the remaining awards as cash settled, because it now revisit the classification of any similar grants that it has made and evaluate if it should reclassify them to cash -settled.

Ind AS 103

BUSINESS COMBINATIONS

Q. 40

**COMPREHENSIVE:**

The draft balance sheets of Swan Limited and Duck Limited as at 31st March 2023 is as under :

Particulars	Amount in ₹ Lakhs	
	Swan Limited	Duck Limited
Assets		
Non – Current Assets		
Property, Plant and Equipment	800	1,000
Investments	900	240
Current Assets		
Inventories	360	260
Financial Assets		
— Trade Receivables	1,040	540
— Cash & Cash Equivalents	520	290
Other Current Assets	700	350
Total	4,320	2,680
Equity and Liabilities		
Equity		
Share Capital		
– Swan Limited : Equity Shares of ₹ 10/- each	1,200	-
– Duck Limited : Equity Shares of ₹ 100/- each	-	900
Other Equity	1,450	420
Non – Current Liabilities		
Financial Liabilities		
– Long Term Borrowings	700	500
Long Term Provisions	140	200
Deferred Tax	80	
Current Liabilities		
Financial Liabilities		
– Short Term Borrowings	250	290
– Trade Payables	500	370
Total	4,320	2,680

On 1st April 2023, Swan Limited acquired 80% equity shares of Duck Limited. Swan Limited agreed to pay to each shareholder of Duck Limited, ₹ 20/- per equity share in cash and to issue five equity shares of ₹ 10/- each of Swan Limited in lieu of every six shares held by the shareholder Duck Limited. The fair value of the shares of Swan Limited was ₹ 100/- per share as on the date of acquisition.

Swan Limited also agreed to pay an additional consideration being higher of ₹ 90 lakhs and 30% of any excess profits in the first year, after acquisition, over Duck Limited's profits in the preceding 12 months (financial year 2022 – 23) made by Duck Limited. The additional amount will be due in 3 years post the date of acquisition. Duck Limited had earned ₹ 30 lakhs profit in the preceding year and expects to earn ₹ 40 lakhs in financial year 2023 – 24.

The fair value exercise resulted in the following :

- i. Fair value of Property, Plant and Equipment and Investments of Duck Limited on 1st April 2023 was ₹ 1200 lakhs and ₹ 300 lakhs respectively.
- ii. Duck Limited owns a popular brand name that meets the recognition criteria for Intangible Assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of ₹ 250 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.
- iii. Following is the statement of Contingent Liabilities of Duck Limited as on 1st April 2023 :

Particulars	Fair Value (₹/Lakhs)	Remarks
Law suit filed by a customer for a claim of ₹ 20 lakhs	5	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. Any amount which would be paid in respect of law suit will be tax deductible.
Income tax demand of ₹ 70 lakhs raised by tax authorities. Duck Limited has challenged the demand in the High Court	20	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

- iv. Duck Limited had certain equity settled share-based payment awards (original award) which were replaced by the new awards issued by Swan Limited. As per the terms of original awards, the vesting period was 5 years and as of the acquisition date the employees of Duck Limited had already served 2 years of service. As per the new awards, the vesting period has been reduced to 1 year (1 year from the acquisition date). The fair value of the award on acquisition date was as follows :
 Original Awards : ₹ 12 lakhs
 New Awards : ₹ 18 lakhs.
- v. Further, Swan Limited has also agreed to pay one of the founder shareholder of Duck Limited a sum of ₹ 15 lakhs provided he stays with the Company for two years after the acquisition.
- vi. The acquisition cost of Swan Limited for Duck Limited was 26 lakhs.
- vii. The applicable tax rate for both the companies is 30 %.
- viii. Assume 10 % per annum discount rate.
- ix. Also, assume, unless stated otherwise, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

You are required to prepare opening Consolidated Balance Sheet of Swan Limited as on 1st April 2023. Working Notes should form part of your answer. [May-2023]

Ans.

Consolidated Balance Sheet of Swan Ltd. as on 1st April, 2023

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	9	2,000.00
Intangible assets	10	250.00
Financial assets		
Investment	11	1,200.00
Current assets		
Inventories	12	620.00
Financial assets:		
Trade receivables	13	1,580.00
Cash and cash equivalents	14	640.00
Other current assets	15	<u>1,050.00</u>
Total		<u>7,340.00</u>
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 10 each	1	1,260.00
Other equity	2	2,475.18
Non-controlling interest (W.N.4)		330.70
Non-current liabilities		
Financial liabilities		
Long-term borrowings	3	1,200.00
Long-term provisions	4	407.62
Deferred tax liability	5	231.50
Current Liabilities		
Financial liabilities		
Short-term borrowings	6	540.00
Trade payables	7	870.00
Short-term provision	8	<u>25.00</u>
Total		<u>7,340.00</u>

Notes to Accounts (All figures are ₹ in lakhs)

1. Equity Share capital

Equity shares of ₹ 10 each as per the balance sheet before acquisition of Duck Ltd.	1,200	
Shares allotted to Duck Ltd. (7,50,000 x 80% x ₹ 10)	<u>60</u>	1,260

2. Other Equity

As per the balance sheet before acquisition of Duck Ltd.	1,450	
Less: Acquisition cost	<u>(26)</u>	1,424
Replacement award		4.80
Security Premium (7,50,000 shares x 80% x ₹ 90)		540

Capital Reserve (W.N.5)		<u>506.38</u>	2,475.18
3. Long-term borrowings			
As per the balance sheet before acquisition of Duck Ltd.		700	
Duck Ltd.		<u>500</u>	1,200
4. Long-term provisions			
As per the balance sheet before acquisition of Duck Ltd.		140	
Deferred consideration		67.62	
Duck Ltd.		<u>200</u>	407.62
5. Deferred tax liability			
As per the balance sheet before acquisition of Duck Ltd.		80	
Deferred tax impact due to acquisition of Duck Ltd. (W.N.2)		<u>151.50</u>	231.50
6. Short term borrowings			
As per the balance sheet before acquisition of Duck Ltd.		250	
Duck Ltd.		<u>290</u>	540
7. Trade payables			
As per the balance sheet before acquisition of Duck Ltd.		500	
Duck Ltd.		<u>370</u>	870
8. Short-term provisions			
Lawsuit damages		5	
Income-tax demand		<u>20</u>	25
9. Property, plant and equipment			
As per the balance sheet before acquisition of Duck Ltd.		800	
Duck Ltd.		<u>1,200</u>	2000
10. Intangible assets			
Brand of Duck Ltd. acquired			250
11. Investment			
As per the balance sheet before acquisition of Duck Ltd.		900	
Duck Ltd.		<u>300</u>	1,200
12. Inventories			
As per the balance sheet before acquisition of Duck Ltd.		360	
Duck Ltd.		<u>260</u>	620
13. Trade receivables			
As per the balance sheet before acquisition of Duck Ltd.		1,040	
Duck Ltd.		<u>540</u>	1,580

14. Cash and cash equivalents

As per the balance sheet before acquisition of Duck Ltd.	520		
Less: Acquisition cost paid	(26)		
Less: Paid to Duck Ltd.	<u>(144)</u>	350	
Duck Ltd.		<u>290</u>	640

15. Other current assets

As per the balance sheet before acquisition of Duck Ltd.	700	
Duck Ltd.	<u>350</u>	1,050

Working Notes:**1. Computation of Purchase Consideration**

Particulars	No. of shares	₹ in lakhs
Share capital of Duck Ltd.		<u>900</u>
Number of shares	9,00,000	
Shares to be issued (5 shares against 6 shares of Duck Ltd.)	7,50,000	
Fair value of Swan Ltd.'s share is ₹ 100 per share		
Purchase consideration		
Shares issued (7,50,000 × 80% × ₹ 100 per share) (A)		600
Cash payment (₹ 20 × 9,00,000 × 80%) (B)		144
Deferred consideration (discounting ₹ 90 lakhs for 3 years @10%) (C)		67.62
Replacement award [Market based measure of the acquiree award (12) × ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (5) of the acquiree award (i.e. 12 × 2/5)] (D)		<u>4.80</u>
Purchase consideration for 70% shares (A + B + C + D)		<u>816.42</u>

2. Computation of deferred tax impact due to change in fair value of asset and liabilities acquired

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	1,000	1,200	200
Intangible assets (Brand)	-	250	250
Investment	240	<u>300</u>	<u>60</u>
		1,750	510
Less: Contingent liability acquired Provision for lawsuit damages			<u>(5)</u>
Net difference in fair value			<u>505</u>
Deferred tax liability @ 30%			151.5

3. Computation of fair value of net identifiable assets acquired from Duck Ltd.

Particulars	Book value
Total assets as per the balance sheet	2,680
Add: Fair value adjustment in PPE and Investment (200+60)	260
Add: Intangible assets (Brand)	<u>250</u>
Fair value of total identifiable assets	3,190
Less: Total liabilities as per the balance sheet (500+200+290+370)	(1,360)
Less: Contingent liability acquired	
Lawsuit damages	5
Income tax demand	<u>20</u>
Less: Defer tax liability (W.N.2)	<u>(151.50)</u>
Fair value of net identifiable assets (100%)	<u>1,653.50</u>

4. Computation of non-controlling interest in Duck Ltd. (Proportionate share basis)

Non-controlling interest (1,653.50 x 20%) = 330.70

5. Computation of capital reserve on acquisition of Duck Ltd.

Particulars	Book value
Fair value of net identifiable assets	1,653.50
Less: Purchase consideration	(816.42)
Less: NCI (W.N.4)	<u>(330.70)</u>
Capital reserve	<u>506.38</u>

Notes:

- The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, ₹ 4.8 lakh (12 x 2/5) is considered as a part of purchase consideration and is credited to Swan Ltd.'s equity as this will be settled in its own equity. Since the fair value of the award on the acquisition date is ₹ 18 lakh the balance of (18 - 4.8) ₹ 13.2 lakh will be recorded as employee expense in the books of Duck Ltd. over the remaining life, which is 1 year in this scenario.
- With respect to deferred consideration, ₹ 90 lakh is the minimum payment to be paid after 3 years. The other element is if company meet certain target then they will get 30% of that or ₹ 90 lakh whichever is higher. In the given case, since the minimum what is expected to be paid the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.
- The additional consideration of ₹ 15 lakhs to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the statement of profit and loss of Duck Ltd.

Q. 41

REVERSE ACQUISITION

On 30th September, 20X1 Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. All of Entity B's shareholders exchange their shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

The fair value of each ordinary share of Entity B at 30th September, 20X1 is ₹ 40. The quoted market price of Entity A's ordinary shares at that date is ₹ 16.

The fair values of Entity A's identifiable assets and liabilities at 30th September, 20X1 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at 30th September, 20X1 is 1,500.

The statements of financial position of Entity A and Entity B immediately before the business combination are:

	Entity A (legal parent, accounting acquiree)	Entity B (legal subsidiary, accounting acquirer)
Current assets	500	700
Non-current assets	<u>1,300</u>	<u>3,000</u>
Total assets	<u>1,800</u>	<u>3,700</u>
Current liabilities	300	600
Non-current liabilities	<u>400</u>	<u>1,100</u>
Total liabilities	<u>700</u>	<u>1,700</u>
Shareholders' equity		
Retained earnings	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	<u>1,100</u>	<u>2,000</u>
Total liabilities and shareholders' equity	<u>1,800</u>	<u>3,700</u>

Assume that Entity B's earnings for the annual period ended 31st December, 20X0 were 600 and that the consolidated earnings for the annual period ended 31st December, 20X1 were 800. Assume also that there was no change in the number of ordinary shares issued by Entity B during the annual period ended 31st December, 20X0 and during the period from 1st January, 20X1 to the date of the reverse acquisition on 30th September, 20X1.

Calculate the fair value of the consideration transferred measure goodwill and prepare consolidated balance sheet as on September 30, 20x1. Also compute Earnings per share as on December 30, 20x1.

[MTP-Nov-2024, SM]

Ans.

Identifying the acquirer

As a result of Entity A issuing 150 ordinary shares, Entity B's shareholders own 60 per cent of the issued shares of the combined entity (i.e., 150 of the 250 total issued shares). The remaining 40 per cent are owned by Entity A's shareholders. Thus, the transaction is determined to be a reverse acquisition in which Entity B is identified as the accounting acquirer while Entity A is the legal acquirer.

Calculating the fair value of the consideration transferred

If the business combination had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for their ordinary shares in Entity A, Entity B would have had to issue 40 shares for

the ratio of ownership interest in the combined entity to be the same. Entity B's shareholders would then own 60 of the 100 issued shares of Entity B — 60 per cent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity B and the group's interest in Entity A is 1,600 (40 shares with a fair value per share of 40).

The fair value of the consideration effectively transferred should be based on the most reliable measure. Here, the quoted market price of Entity A's shares provides a more reliable basis for measuring the consideration effectively transferred than the estimated fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's 100 shares with a fair value per share of 16.

Measuring goodwill

Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity A) over the net amount of Entity A's recognized identifiable assets and liabilities, as follows:

	₹	₹
Consideration effectively transferred		1,600
Net recognised values of Entity A's identifiable assets and liabilities		
Current assets	500	
Non-current assets	1,500	
Current liabilities	(300)	
Non-current liabilities	(400)	(1,300)
Goodwill		300

Consolidated balance sheet at 31st December, 20X1

The consolidated balance sheet immediately after the business combination is:

	₹
Non-current assets [3,000 + 1,500]	4,500
Goodwill	300
Current assets [700 + 500]	<u>1,200</u>
Total assets	<u>6,000</u>
Shareholders' equity	
Issued equity 250 ordinary shares [600 + 1,600]	2,200
Retained earnings	<u>1,400</u>
Total shareholders' equity	<u>3,600</u>
Non-current liabilities [1,100 + 400]	1,500
Current liabilities [600 + 300]	<u>900</u>
Total liabilities	<u>2,400</u>
Total liabilities and shareholders' equity	<u>6,000</u>

The amount recognised as issued equity interests in the consolidated financial statements (2,200) is determined by adding the issued equity of the legal subsidiary immediately before the business combination (600) and the fair value of the consideration effectively transferred (1,600). However, the equity structure appearing in the consolidated financial statements (i.e., the number and type of equity interests issued) must reflect the equity structure of the legal parent, including the equity interests issued by the legal parent to affect the combination.

Q. 42

**AMALGAMATION - COMMON CONTROL & ACQUISITION**

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

Summarized Balance Sheet as on 31-12-20X1

₹ in '000

ASSETS	Note No.	AX Ltd	BX Ltd
Non-current assets			
Property, Plant and Equipment		8,500	7,500
Financial assets			
Investment		1,050	550
Current assets			
Inventory		1,250	2,750
Trade receivables		1,800	4,000
Cash and Cash equivalent		450	400
		13,050	15,200
EQUITY AND LIABILITIES Equity			
Equity share capital (of face value of ₹ 10 each)		6,000	7,000
Other equity		3,050	2,700
Liabilities	1		
Non-current liabilities			
Financial liabilities			
Borrowings (12% Debentures)		3,000	4,000
Current liabilities			
Trade payables		1,000	1,500
		13,050	15,200

Note:

1.	Other equity	AX Ltd	BX Ltd
	General Reserve	1,500	2,000
	Profit & Loss	1,000	500
	Investment Allowance Reserve	500	100
	Export Profit Reserve	50	100
		3,050	2,700

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 both the entities are under common control
- Assuming BX Ltd. is a larger entity and their management will take the control of the entity 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

[SM]

Ans.

(a) (Assumption: Common control transaction)

1. Calculation of Purchase Consideration

		AX Ltd. ₹ '000		BX Ltd. ₹ '000
Assets taken over:				
Property, Plant and Equipment		85,00		75,00
Investment		10,50		5,50
Inventory		12,50		27,50
Trade receivables		18,00		40,00
Cash & Cash equivalent		<u>4,50</u>		<u>4,00</u>
Gross Assets		130,50		152,00
Less : Liabilities				
12% Debentures	30,00		40,00	
Trade payables	<u>10,00</u>	<u>(40,00)</u>	<u>15,00</u>	<u>(55,00)</u>
Net Assets taken over		90,50		97,00
Less: Other Equity:				
General Reserve			20,00	
P & L A/c	15,00		5,00	
Investment Allowance Reserve	<u>10,00</u>		1,00	
Export Profit Reserve	5,00		<u>1,00</u>	
Purchase Consideration	<u>50</u>	<u>(30,50)</u>	<u>1,00</u>	<u>(27,00)</u>
		<u>60,00</u>		<u>70,00</u>

Total Purchase Consideration = 130,00 (60,00 of AX Ltd. & 70,00 of BX Ltd.)

2. Discharge of Purchase Consideration

No. of shares to be issued to AX Ltd. =

$$\frac{\text{Net Assets taken over of AX Ltd.}}{\text{Net Assets taken over of AX Ltd. and BX Ltd.}} \times \text{Purchase Consideration}$$

Net Assets taken over of AX Ltd. and BX Ltd.

No. of shares to be issued to BX Ltd. =

$$\frac{\text{Net Assets taken over of BX Ltd.}}{\text{Net Assets taken over of AX Ltd. and BX Ltd.}} \times \text{Purchase Consideration}$$

Net Assets taken over of AX Ltd. and BX Ltd

	AX Ltd. ₹ '000	BX Ltd. ₹ '000
$130,00 \times \frac{90,50}{187,50} = 6,27,500$ * Equity shares of ₹ 10 each 187,50	62,75	
$130,00 \times \frac{97,00}{187,50} = 6,72,500$ Equity shares of ₹ 10 each 187,50		67,25

Balance Sheet of ABX Ltd. as on 1.1. 20X2

₹ in '000

ASSETS	Note No.	Amount
Non-current assets		
Property, Plant and Equipment		16,000
Financial assets		
Investments		
Current assets		
Inventory		1,600
Trade receivable		4,000
Cash and Cash equivalent		5,800
		<u>850</u>
EQUITY AND LIABILITIES Equity		<u>28,250</u>
Equity share capital (of face value of ₹ 10 each)	1	13,000
Other equity	2	5,750
Liabilities		
Non-current liabilities		
Financial liabilities Borrowings	3	7,000
Current liabilities		
Trade payable		<u>2,500</u>
		28,250

Notes to Accounts

		(₹ 000)	(₹ 000)
1.	Share Capital		
	13,00,000 Equity Shares of ₹ 10 each		130,00
2.	Other Equity		
	General Reserve (15,00 + 20,00)	35,00	
	Profit & Loss (10,00 + 5,00)	15,00	
	Investment Allowance Reserve (5,00 + 1,00)	6,00	
	Export Profit Reserve (50 + 1,00)	<u>1,50</u>	
			57,50
3	Long Term Borrowings		
	12% Debentures		70,00

- (b) Assuming BX Ltd. is a larger entity and their management will take the control of the entity ABX Ltd.

In this case BX Ltd. and AX Ltd. are not under common control and hence accounting prescribed under Ind AS 103 for business combination will be applied. A question arises here is who is the accounting acquirer ABX Ltd. which is issuing the shares or AX Ltd. or BX Ltd. As per the accounting guidance provided in Ind AS 103, 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. This can be justified by the following table:

(In '000s)

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

Note: It is a case of Reverse Acquisition.

Accordingly, BX Ltd. assets will be recorded at historical cost in the merged financial statements.

(1) Calculation of Purchase Consideration (All figures are in thousands)

We need to calculate the number of shares to be issued by BX Ltd. to AX Ltd. to maintain the same percentage i.e. 56%:

Thus, 700 thousand shares of BX Ltd. (given in the balance sheet) represent 56%. This means that total no. of shares would be 1,250 thousand shares i.e. 700 thousand shares / 56% .

This implies BX Ltd. would need to issue 550 thousand shares (1,250 less 700) to AX Ltd. Purchase Consideration = 550 thousand shares x ₹ 20 per share (i.e. 14,000 thousand / 700 thousand shares) = ₹ 11,000 thousand.

Balance Sheet of ABX Ltd. as on 1.1. 20X2

ASSETS	Note No.	Amount
Non-current assets		
Goodwill (Refer Working Note)		900
Property, Plant and Equipment (9500+7500)		17,000
Financial assets		
Investment (1050+550)		1,600
Current assets		
Inventory (1300+2750)		4,050
Trade receivables (1800+4000)		5,800
Cash and Cash equivalent (450+400)		850
		<u>30,200</u>
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of ₹ 10 each)	1	12,500
Other equity	2	8,200
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings (12% Debentures)	3	7,000
Current liabilities		
Trade payables		<u>2,500</u>
		30,200

Notes to Accounts

		(₹ 000)	(₹ 000)
1.	Share Capital 1,250,000 Equity Shares of ₹ 10 each (700,000 to BX Ltd. and 550,000 as computed above to AX LTD)		1,25,00
2.	Other Equity General reserve of BX Ltd P&L of BX Ltd Export Profit Reserve of BX Ltd. Investment Allowance Reserve of BX Ltd. Security Premium (550 shares x 10)	20,00 5,00 1,00 1,00 <u>5,500</u>	8,200
3.	Long Term Borrowings 12% Debentures		70,00

Working Note:

Goodwill Computation:

Assets:	₹ in 000s
Property, Plant and Equipment	9,500
Investment	1,050
Inventory	1,300
Trade Receivable	1,800
Cash & Cash Equivalent	<u>450</u>
Total Assets	14,100
Less : Liabilities:	
Borrowings	3,000
Trade Payable	<u>1,000</u>
Net Assets	10,100
Purchase Consideration	<u>11,000</u>
Goodwill	<u>900</u>

Notes

Ind AS 105: NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Q. 43
DG: MEASUREMENT COMPREHENSIVE


Following is the extract of the consolidated financial statements of A Ltd. for the year ended on:

Asset/ (liability)	Carrying amount as on 31st March, 20X1 (In ₹ '000)
Attributed goodwill	200
Intangible assets	950
Financial asset measured at fair value through other comprehensive income	300
Property, plant & equipment	1100
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	600
Current liabilities	(850)
Non-current liabilities – provisions	(300)
Total	2,250

On 15th September 20X1, Entity A decided to sell the business. It noted that the business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with that standard.

The disposal group is stated at the following amounts immediately prior to reclassification as held for sale.

Asset/ (liability)	Carry amount as on 15 th September 20X1 (In ₹ '000)
Attributed goodwill	200
Intangible assets	930
Financial asset measured at fair value through other comprehensive income	360
Property, plant & equipment	1,020
Deferred tax asset	250
Current assets – inventory, receivables and cash balances	520
Current liabilities	(870)
Non-current liabilities – provisions	(250)
Total	2,160

Entity A proposed to sell the disposal group at ₹ 19,00,000. It estimates that the costs to sell will be ₹ 70,000. This cost consists of professional fee to be paid to external lawyers and accountants.

As at 31st March 20X2, there has been no change to the plan to sell the disposal group and entity A still expects to sell it within one year of initial classification. Mr. X, an accountant of Entity A remeasured the following assets/liabilities in accordance with respective standards as on 31st March 20X2:

Available for sale:	(In ₹ '000)
Financial assets	410
Deferred tax assets	230
Current assets- Inventory, receivables and cash balances	400

Current liabilities	900
Non- current liabilities- provisions	250

The disposal group has not been trading well and its fair value less costs to sell has fallen to ₹ 16,50,000.

Required:

What would be the value of all assets/ liabilities within the disposal group as on the following dates in accordance with Ind AS 105?

(a) 15th September, 20X1 and

(b) 31st March, 20X2

[RTP-May-2018, SM]

Ans.

(a) As at 15 September, 20X1

The disposal group should be measured at ₹ 18,30,000 (19,00,000-70,000). The impairment write down of ₹ 3,30,000 (₹ 21,60,000 – ₹ 18,30,000) should be recorded within profit from continuing operations.

The impairment of ₹ 3,30,000 should be allocated to the carrying values of the appropriate non-current assets.

Asset/ (liability)	Carrying value as at 15 September, 20X1	Impairment	Revised carrying value as per IND AS 105
Attributed goodwill	200	(200)	-
Intangible assets	930	(62)	868
Financial asset measured at fair value through other comprehensive income	360	-	360
Property, plant & equipment	1,020	(68)	952
Deferred tax asset	250	-	250
Current assets – inventory, receivables and cash balances	520	-	520
Current liabilities	(870)	-	(870)
Non-current liabilities – provisions	(250)	-	(250)
Total	2,160	(330)	1,830

The impairment loss is allocated first to goodwill and then pro rata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of the standard- financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

(b) As on 31 March, 20X2:

All of the assets and liabilities, outside the scope of measurement under Ind AS 105, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the Financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset/ (liability)	Carrying amount as on 15 September, 20X1	Change in value to 31st March 20X2	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	-	-	-	-

Intangible assets	868	-	(29)	839
Financial asset measured at fair value through other comprehensive income	360	50	-	410
Property, plant & equipment	952	-	(31)	921
Deferred tax asset	250	(20)	-	230
Current assets – inventory, receivables and cash balances	520	(120)	-	400
Current liabilities	(870)	(30)	-	(900)
Non-current liabilities – provisions	(250)	-	-	(250)
Total	1,830	(120)	(60)	1,650

Notes



Ind AS 108 OPERATING SEGMENTS

Q. 44

DISCLOSURE

U Limited is operating in paint industry. Its business segments comprise paints (wall paints, lead paints, zinc paints, aluminium paints etc.), and others (consisting of primers varnish, thinner and related products). Certain information for financial Year 2020-2021 is given below:

₹ In lakh

Segments	External Revenue (Inc. GST)	GST	Other operating income	Result	Assets	Liabilities
Paints	10,000	250	2,000	500	2,500	1,500
Other	3,500	150	750	200	1,500	500

Additional information:

- (i) Unallocated income (Net of expenses) is ₹ 1,50,00,000.
- (ii) Interest and bank charges is ₹ 1,00,00,000.
- (iii) Income tax expenses is ₹ 1,00,00,000 (Current tax ₹ 97,50,000 and deferred tax ₹ 2,50,000).
- (iv) Unallocated investments are ₹ 5,00,00,000 and other assets are ₹ 5,00,00,000.
- (v) Unallocated Liabilities Reserve and surplus and share capital are ₹10,00,00,000, ₹ 15,00,00,000 and ₹ 5,00,00,000 respectively.
- (vi) Depreciation amounts for paints and others are ₹ 50,00,000 and ₹ 15,00,000 respectively.
- (vii) Capital expenditure for paints and others are ₹ 2,50,00,000 and ₹ 1,00,00,000 respectively.
- (viii) Revenue from outside India is ₹ 31,00,00,000 and segment assets outside India is ₹ 5,00,00,000.

Based on the above information, how U Limited would disclose information about reportable segment revenue, profit or loss, assets and liabilities and others for financial year 2020-2021.

Ignore corresponding figures for the previous year.

[May-2023, July-2021]

Ans.**Segment information**

- (A) Information about operating segment

- (1) **The company's operating segments comprise:**

Paints: consisting of wall paints, lead paints, zinc paints, aluminum paints etc.

Others: consisting of primer, varnish, thinner and related products.

- (2) **Segment revenues, results and other information:**

(₹ in lakh)

	Revenue	Paints	Others	Total
1.	External Revenue (gross)	10,000	3,500	13,500
	GST	(250)	(150)	(400)
	Total Revenue (net)	9,750	3,350	13,100
	Other operating Income	2,000	750	2,750
	Total Revenue	11,750	4,100	15,850
2.	Results			

	Segment results	500	200	700
	Unallocated income (net of unallocated expenses)			<u>150</u>
	Profit from operation before interest, taxation and exceptional items			850
	Interest and bank charges			<u>(100)</u>
	Profit before exceptional items			750
	Exceptional items			<u>Nil</u>
	Profit before taxation Income Taxes			750
	-Current taxes			(97.5)
	-Deferred taxes			<u>(2.5)</u>
	Profit after taxation			<u>650</u>
3.	Other Information			
(a)	Assets			
	Segment Assets	2,500	1,500	4,000
	Investments			500
	Unallocated assets			<u>500</u>
	Total Assets			<u>5,000</u>
(b)	Liabilities/Shareholder's funds			
	Segment liabilities	1,500	500	2,000
	Unallocated liabilities			1,000
	Share capital			500
	Reserves and surplus			<u>1,500</u>
	Total liabilities / shareholder's funds			<u>5,000</u>
(c)	Others			
	Capital Expenditure	(250)	(100)	
	Depreciation	(50)	(15)	

Geographical Information				(₹ in lakh)
		India	Outside India	Total
	Revenue	12,750	3,100	15,850
	Segment assets	4,500	500	5,000
	Capital expenditure (250 + 100)	350		350

Notes



ACCOUNTING AND REPORTING OF FINANCIAL INSTRUMENTS

(Ind AS 32, 107, 109)

Q. 45

LOAN TO SUBSIDIARY : DEMAND LOAN & OTHERS

Ram Limited is a company incorporated in India. It provides ₹ 25,00,000 interest free loan to its wholly owned Indian subsidiary Balram Limited. There are no transaction costs.

How should the loan be accounted for, in the light of provisions of related Ind AS, in the books of Ram Limited, Balram Limited and Consolidated Financial Statements of the group, considering the following scenarios:

- The loan is repayable on demand.
- The loan is repayable after 3 years. The current market rate of interest for similar loan is 12% p.a. for both holding and subsidiary.
- The loan is repayable when Balram Limited has funds to repay the loan.

Briefly, analyse the above scenarios. Also pass Journal Entries in the books of Ram Limited and Balram Limited in case of Scenario (i) and (ii).

Present value of ₹ 1 payable in 3 years' time at an annual discount rate of 12% is 0.7118.

[MTP-Nov-2020, RTP-May-2019, Dec-2021, Jan-2026]

Ans.

Requirement of Ind AS: Ind AS 109 requires that financial assets and liabilities are recognized on initial recognition at its fair value, as adjusted for the transaction cost. In accordance with Ind AS 113 'Fair Value Measurement', the fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Using the guidance, the loan will be accounted for as below in various scenarios:

Scenario (i)

Since the loan is repayable on demand, it has fair value equal to cash consideration given. The parent and subsidiary recognize financial asset and liability, respectively, at the amount of loan given. Going forward, no interest is accrued on the loan.

Upon repayment, both the parent and the subsidiary reverse the entries made at origination.

Accounting in the books of Ram Ltd. (Parent)

S. No.	Particulars	Amount	Amount
1.	On the date of loan Loan to Balram Ltd. (Subsidiary) Dr. To Bank (Being the loan is given to Balram Ltd. and recognised at fair value)	25,00,000	25,00,000
2.	At the time the Loan is received back: Bank Dr. To Loan to Balram Ltd. (Subsidiary) (Being demand loan received)	25,00,000	25,00,000

Accounting in the books of Balram Ltd. (Subsidiary)

S. No.	Particulars	Amount	Amount
1.	On the date of loan Bank Dr. To Loan from Ram Ltd. (Being the loan is taken from Ram Ltd. and recognised at fair value)	25,00,000	25,00,000

2.	On repayment of loan		
	Loan from Ram Ltd. Dr.	25,00,000	
	To Bank		25,00,000
	(Being demand loan paid)		

Scenario (ii)

Both parent and subsidiary recognize financial asset and liability, respectively, at fair value on initial recognition. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Accounting in the books of Ram Ltd. (Parent)

S. No.	Particulars	Amount	Amount
1.	On the date of loan		
	Loan to Balram Ltd. (Subsidiary) Dr.	17,79,500	
	Deemed Investment (Capital Contribution) in Balram Ltd. Dr.	7,20,500	
	To Bank		25,00,000
	(Being the loan is given to Balram Ltd. and recognised at fair value)		
2.	Accrual of Interest income		
	Loan to Balram Ltd. Dr.	2,13,540	
	To Interest income		2,13,540
	(Being interest income accrued) – Year 1		
3.	Loan to Balram Ltd. Dr.	2,39,165	
	To Interest income		2,39,165
	(Being interest income accrued) – Year 2		
4.	Loan to Balram Ltd. Dr.	2,67,795	
	To Interest income		2,67,795
	(Being interest income accrued) – Year 3		
5.	On receipt of loan		
	Bank Dr.	25,00,000	
	To Loan to Balram Ltd. (Subsidiary)		25,00,000
	(Being term loan received)		

Accounting in the books of Balram Ltd. (Subsidiary)

S. No.	Particulars	Amount	Amount
1.	On the date of loan		
	Bank Dr.	25,00,000	
	To Loan from Ram Ltd.		17,79,500
	To Equity (Deemed Capital Contribution from Ram Ltd.)		7,20,500
	(Being the loan is taken from Ram Ltd. and recognised at fair value)		
2.	Accrual of Interest		
	Interest expense Dr.	2,13,540	
	To Loan from Ram Ltd.		2,13,540
	(Being interest expense recognised) – Year 1		
3.	Interest expense Dr.	2,39,165	
	To Loan from Ram Ltd.		2,39,165
	(Being interest expense recognised) – Year 2		

4.	Interest expense To Loan from Ram Ltd. (Being interest expense recognised) – Year 3	Dr.	2,67,795	2,67,795
5.	On repayment of loan Loan from Ram Ltd. (Payable) To Bank (Being term loan paid)	Dr.	25,00,000	25,00,000

Working Notes:

1.	Computation of present value of loan Rate Amount of Loan Year Present Value	12% 25,00,000 3 17,79,500
2.	Computation of interest for Year 1 Present Value Rate Period of interest - for 1 year Closing value at the end of year 1 Interest for 1st year	17,79,500 12% 1 19,93,040 2,13,540
3.	Computation of interest for Year 2 Value of loan as at the beginning of Year 2 Rate Period of interest - for 2nd year Closing value at the end of year 2 Interest for 2nd year	19,93,040 12% 1 22,32,205 2,39,165
4.	Computation of interest for Year 3 Value of loan as at the beginning of Year 3 Rate Period of interest - for 3rd year Closing value at the end of year 3 Interest for 3rd year (25,00,000 – 22,32,205)	22,32,205 12% 1 25,00,000 2,67,795*

* Difference of ₹ 70 [(22,32,205 x 12%) – 2,67,795] is due to approximation.

Scenario (iii)

Generally, a loan, which is repayable when funds are available, can't be stated to be repayable on demand. Rather, the entities need to estimate repayment date and determine its measurement accordingly. If the loan is expected to be repaid in three years, its measurement will be the same as in scenario (ii).

In the Consolidated Financial Statements (CFS) for all three scenarios (i), (ii) and (iii)

In the Consolidated Financial Statements (CFS), the loan and interest income / expense will get knocked-off as intra-group transaction in all the three scenarios. Hence the above accounting will not have any impact in the CFS.

Q. 46

ACM : COMPOUND FI [COMPULSORY CONVERTIBLE, CFI WITH TRANSACTION COSTS]

ABC Company issued 10,000 compulsory cumulative convertible preference shares (CCCPS) as on 1 April 20X1 @ ₹ 150 each. The rate of dividend is 10% mandatorily 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 of equity share after conversion	10
Number of equity shares to be issued	5,000
Effective interest rate	15.86%

You are required to compute the liability and equity component and pass journal entries for entire term of arrangement i.e. from the issue of preference shares till their conversion into equity shares keeping in view the provisions of relevant Ind AS. [May-2018, MTP-Dec-2021, MTP-May-2023, MTP-Sept-2025, SM]

Ans.

This is a compound financial instrument with two components – liability representing present value of future cash outflows and balance represents equity component.

a. Computation of Liability & Equity Component

Date	Particulars	Cash Flow	Discount Factor	Net present Value
01-Apr-20X1		0	1	0.00
31-Mar-20X2	Dividend	150,000	0.869565	130,434.75
31-Mar-20X3	Dividend	150,000	0.756144	113,421.6
31-Mar-20X4	Dividend	150,000	0.657516	98,627.4
31-Mar-20X5	Dividend	150,000	0.571753	85,762.95
31-Mar-20X6	Dividend	150,000	0.497177	<u>74,576.55</u>
Total Liability Component				502,823.25
Total Proceeds				1,500,000.00
Total Equity Component (Bal fig)				997,176.75

b. Allocation of transaction costs

Particulars	Amount	Allocation	Allocation
Liability Component	502,823	10,056	10,056
Equity Component	997,177	19,944	19,944
Total Proceeds	1,500,000	30,000	30,000

c. **Accounting for liability at amortised cost:**

- **Initial accounting = Present value of cash outflows less transaction costs**
- **Subsequent accounting = At amortised cost, i.e., initial fair value adjusted for interest and repayments of the liability.**

Assume the effective interest rate is 15.86%

	Opening Financial Liability A	Interest B	Cash Flow C	Closing Financial Liability A+B-C
01-Apr-20X1	492,767	-	-	4,92,767
31-Mar-20X2	492,767	78,153	150,000	4,20,920
31-Mar-20X3	420,920	66,758	150,000	3,37,678
31-Mar-20X4	337,678	53,556	150,000	2,41,234
31-Mar-20X5	241,234	38,260	150,000	1,29,494
31-Mar-20X6	129,494	20,506	150,000	-

d. **Journal Entries to be recorded for entire term of arrangement are as follows:**

Date	Particulars	Debit	Credit
01-Apr-20X1	Bank A/c Dr. To Preference Shares A/c (FL) To Equity Component of Preference shares A/c (Being compulsorily convertible preference shares issued. The same are divided into equity component and liability component as per the calculation)	1,470,000	492,767 977,233
31-Mar-20X2	Preference shares A/c Dr. To Bank A/c (Being Dividend at the coupon rate of 10% paid to the shareholders)	150,000	150,000
31-Mar-20X2	Finance cost A/c Dr. To Preference Shares A/c (Being interest as per EIR method recorded)	78,153	78,153
31-Mar-20X3	Preference shares A/c Dr. To Bank A/c (Being Dividend at the coupon rate of 10% paid to the shareholders)	150,000	150,000
31-Mar-20X3	Finance cost A/c Dr. To Preference Shares A/c (Being interest as per EIR method recorded)	66,758	66,758
31-Mar-20X4	Preference shares A/c Dr. To Bank A/c	150,000	150,000

31-Mar-20X5	(Being Dividend at the coupon rate of 10% paid to the shareholders)		53,556	
	Finance cost A/c	Dr.		53,556
	To Preference Shares A/c			
31-Mar-20X5	(Being interest as per EIR method recorded)		150,000	
	Preference shares A/c	Dr.		150,000
	To Bank A/c			
31-Mar-20X5	(Being Dividend at the coupon rate of 10% paid to the shareholders)		38,260	
	Finance cost A/c	Dr.		38,260
	To Preference Shares A/c			
31-Mar-20X6	(Being interest as per EIR method recorded)		150,000	
	Preference shares A/c	Dr.		150,000
	To Bank A/c			
31-Mar-20X6	(Being Dividend at the coupon rate of 10% paid to the shareholders)		20,506	
	Finance cost A/c	Dr.		20,506
	To Preference Shares A/c			
31-Mar-20X6	(Being interest as per EIR method recorded)		977,233	
	Equity Component of Preference shares A/c	Dr.		50,000
	To Equity Share Capital A/c			927,233
	To Securities Premium A/c			
	(Being Preference shares converted in equity shares and remaining equity component is recognised as securities premium)			

Q. 47

MODIFICATION FL: NO SUBSTANTIAL MODIFICATION


On 1st April, 20X1, a bank provides an entity with a four-year loan of ₹ 5,000 on normal market terms, including charging interest at a fixed rate of 8% per year. Interest is payable at the end of each year. The figure of 8% is the market rate for similar four-year fixed-interest loans with interest paid annually in arrears. Transaction cost of ₹ 100 is incurred on originating the loan. Effective interest rate in this case is 8.612%.

In 20X1-20X2, the entity experienced financial difficulties. On 31st March, 20X2, the bank agreed to modify the terms of the loan. Under the new terms, the interest payments in 20X2-20X3 to 20X4-20X5 will be reduced from 8% to 5%. The entity paid the bank a fee of ₹ 50 for paperwork relating to the modification.

Analyse whether the modification of the loan terms constitutes an extinguishment of the original financial liability or not.

[RTP-Nov-2023, SM, MTP-Jan-2025]

Ans.

Since the interest was initially set at the market rate, on 1st April, 20X1 the entity on initial recognition will measure the loan at the transaction price, less transaction costs i.e. at ₹ 4,900.

The following is the original amortised cost calculation at 1st April, 20X1:

Time	Carrying amount at 1st April	Effective Interest @ 8.612%	Cash outflow	Carrying amount at 31st March
	(a)	(b=ax8.612%)	(c=5000x8%)	(d = a + b - c)
20X1-20X2	4,900.00	421.99	(400.00)	4,921.99
20X2-20X3	4,921.99	423.88	(400.00)	4,945.87
20X3-20X4	4,945.87	425.94	(400.00)	4,971.81
20X4-20X5	4,971.81	428.19	(5,400.00)	–

At 31st March, 20X2:

- The present value of the remaining cash flows of the original financial liability is ₹ 4,921.99 discounted at the original effective interest rate of 8.612%.
- The present value of the cash flows under the new terms discounted using the original effective interest rate is ₹ 4,537.25 (Refer W.N.). Including the ₹ 50 fee, the present value of the total cash flows is ₹ 4,587.25.
- The difference between ₹ 4,921.99 and ₹ 4,587.25 is ₹ 334.74 which is only 6.8% ($\text{₹ } 334.74 \div \text{₹ } 4,921.99$) of the present value of the remaining cash flows of the original financial liability.

The entity applies its judgement to decide whether the terms of the instruments exchanged are substantially different. Since the difference of the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is less than 10% of the present value of the remaining cash flows of the original financial liability, this modification should not be considered a substantial modification of the terms of the existing loan. Therefore, the modification would not be accounted for as an extinguishment of the original financial liability.

Working Note:

The calculation of the present value of the cash flows under the new terms discounted using the original effective interest rate is as follows:

Time	Cash outflow	Discounting factor @ 8.612%	Present value at 31st March
31st March, 20X3	250.00	0.921	230.25
31st March, 20X4	250.00	0.848	212.00
31st March, 20X5	5,250.00	0.780	<u>4,095.00</u>
Total present value			<u>4,537.25</u>

Q. 48**MODIFICATION**

KUPA Ltd. Borrowed ₹ 95 lakh as loan from XYZ Bank on 1st April, 2018 at an interest rate of 10% p.a. KUPA Ltd. spent ₹ 1,80,912 as loan processing charges. Principal amount of loan is to be repaid in 5 equal instalments and the interest to be paid annually on accrual basis. Effective interest rate on loan is 10.8%.

On 31st March, 2020, KUPA Ltd. faced challenges in business because of sudden change in the technology.

It approached XYZ Bank and renegotiated the terms of the loan. Interest rate changed to 15% p.a. Principal amount of loan is to be repaid in 8 equal instalments payable annually starting 31st March, 2021 and the interest is to be paid annually on accrual basis. Before approaching bank, KUPA Ltd. made the interest payment on 31st March, 2020.

You are required to record Journal entries in the books of KUPA Ltd. till 31 st March, 2021, after giving effect of the changes in the terms of the loan on 31st March, 2020. Workings should form part of the answer.

PV of Re 1	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
10%	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467
10.8%	0.903	0.815	0.735	0.664	0.599	0.540	0.488	0.440
15%	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327

[Dec-2021, MTP-May-2023]

Ans.

The following table shows the amortisation of loan based on effective interest rate:

Date (1)	Opening Amortised cost (2)	Cash flows (Principal) (3)	Cash outflows (Interest @ 10% and fee) (4)	Total cash flows (3 + 4 = 5)	Interest @ EIR 10.80% (2 x 10.80% = 6)	Closing Amortised cost (2- 5 + 6 = 7)
1st April, 2018		(95,00,000)	1,80,912			93,19,088
31st March, 2019	93,19,088	19,00,000	9,50,000	28,50,000	10,06,462	74,75,550
31st March, 2020	74,75,550	19,00,000	7,60,000	26,60,000	8,07,359	56,22,909
31st March, 2021	56,22,909	19,00,000	5,70,000	24,70,000	6,07,274	37,60,183
31st March, 2022	37,60,183	19,00,000	3,80,000	22,80,000	4,06,100	18,86,283
31st March, 2023	18,86,283	19,00,000	1,90,000	20,90,000	2,03,717*	

* Difference of ₹ 2 (2,03,719 – 2,03,717) is due to approximation.

(i) On 1st April, 2018

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr. To Loan from bank A/c (Being loan recorded at its fair value less transaction costs on the initial recognition date)	93,19,088	93,19,088

(ii) On 31st March, 2019

Particulars	Dr. (₹)	Cr. (₹)
Loan from bank A/c Dr. Interest expense Dr. To Bank A/c (Being first instalment of loan and payment of interest accounted for as an adjustment to the amortised cost of loan)	18,43,538 10,06,462	28,50,000

(iii) On 31st March, 2020– Before KUPA Ltd. approached the bank

Particulars	Dr. (₹)	Cr. (₹)
Interest expense Dr. To Loan from bank A/c To Bank A/c (Being loan payment of interest recorded by the Company before it approached the Bank for deferment of principal)	8,07,359	47,359 7,60,000

Reason for treating the modification as a fresh loan:

Upon receiving the new terms of the loan, KUPA Ltd., re-computed the carrying value of the loan by discounting the new cash flows with the original effective interest rate and comparing the same with the current carrying value of the loan. As per requirements of Ind AS 109, any change of more than 10% shall be considered a substantial modification, resulting in fresh accounting for the new loan.

The following table shows the present value (PV) of new contractual cash flows and percentage of variation:

Date	Cash flows (principal)	Interest outflow @ 15%	Total cash outflow	Discounting factor @ 10.80%	PV of cash flows
31st March, 2020	(76,00,000)				
31st March, 2021	9,50,000	11,40,000	20,90,000	0.903	18,87,270
31st March, 2022	9,50,000	9,97,500	19,47,500	0.815	15,87,213
31st March, 2023	9,50,000	8,55,000	18,05,000	0.735	13,26,675
31st March, 2024	9,50,000	7,12,500	16,62,500	0.664	11,03,900
31st March, 2025	9,50,000	5,70,000	15,20,000	0.599	9,10,480
31st March, 2026	9,50,000	4,27,500	13,77,500	0.540	7,43,850
31st March, 2027	9,50,000	2,85,000	12,35,000	0.488	6,02,680
31st March, 2028	9,50,000	1,42,500	10,92,500	0.440	4,80,700
PV of new contractual cash flows discounted @ 10.80%					86,42,768
Carrying amount of loan (93,19,088 - 18,43,538 + 47,359)					<u>(75,22,909)</u>
Difference					<u>11,19,859</u>
Percentage of carrying amount					14.89%

Decision Making:

Considering a more than 10% change in PV of cash flows compared to the carrying value of the loan, the existing loan shall be considered to have been extinguished and the new loan shall be accounted for as a separate financial liability.

The accounting entries for the same are included below:

On 31st March, 2020 – Accounting for extinguishment

Particulars	Dr. (₹)	Cr. (₹)
Loan from bank (old) A/c Dr.	75,22,909	
Finance cost Dr.	77,091	
To Loan from bank (new) A/c		76,00,000
(Being new loan accounted for at its principal amount in absence of any transaction costs directly related to such loan and corresponding derecognition of existing loan)		

(iv) On 31st March, 2021

Particulars	Dr. (₹)	Cr. (₹)
Loan from bank A/c Dr.	9,50,000	
Interest expense Dr.	11,40,000	
To Bank A/c		20,90,000
(Being first instalment of the new loan and payment of interest accounted for as an adjustment to the amortised cost of loan)		

Q. 49

MODIFICATION : FA : CONCESSIONAL LOAN TO EMPLOYEES


Softech Limited has a policy of providing subsidized loans to its employees for the purpose of buying or construction of residential houses. Mrs. B is a Senior Manager in the Company. The Company granted a loan to her on the following terms:

- Principal amount : ₹ 25 lakhs
- Interest rate: 4% for the first ₹ 10 lakhs and 7% for the next ₹ 15lakhs.
- Loan disbursed on: 1stJanuary, 2019
- Tenure: 5 Years
- Pre-payment : Full or partial pre-payment at the option of the employee.
- The principal amount of loan shall be recovered in 5 equal installments and will be first applied to 7% interest bearing principal.
- The accrued interest shall be paid on an annual basis.
- Mrs. B must remain in service till the term of the loan ends.
- The market rate of a comparable loan available to Mrs. B, is 12% per annum.
- Give your calculations by adopting the present value factor as :

31.12.2019	31.12.2020	31.12.2021	31.12.2022	31.12.2023
0.8929	0.7972	0.7118	0.6355	0.5674

Following table shows the contractually expected cash flows from the loan given to Mrs. B.

Date	Outflows	Inflows			Principal outstanding
		Principal	Interest income (7%)	Interest income (4%)	
1 st January 2019	(25,00,000)				25,00,000
31 st December 2019		5,00,000	1,05,000	40,000	20,00,000
31 st December 2020		5,00,000	70,000	40,000	15,00,000
31 st December 2021		5,00,000	35,000	40,000	10,00,000
31 st December 2022		5,00,000	-	40,000	5,00,000
31 st December 2023		5,00,000	-	20,000	-

Mrs. B pre-pays ₹ 5,00,000 on 31st December 2020, reducing the outstanding principal as on date to ₹ 10,00,000.

Following table shows the actual cash flows from the loan given to Mrs. B, considering the pre-payment event on 31stDecember, 2020:

Date	Outflows	Inflows			Principal outstanding
		Principal	Interest income (7%)	Interest income (4%)	
1 st January 2019	(25,00,000)				25,00,000
31 st December 2019		5,00,000	1,05,000	40,000	20,00,000

31 st December 2020	10,00,000	70,000	40,000	10,00,000
31 st December 2021	5,00,000	-	40,000	5,00,000
31 st December 2022	5,00,000	-	20,000	-
31 st December 2023	-	-	-	-

Record the journal entries (up to 31st December, 2020) in the books of Softech Limited considering the requirements of Ind AS 109. **[July-2021]**

Ans.

As per Ind AS 109, a financial instrument is initially measured and recorded at its fair value. Therefore, considering the market rate of interest of similar loan available to Mrs. B is 12%, the fair value of the contractual cash flows shall be as follows:

Date	Inflows			Discount factor @12%	PV
	Principal	Interest income @ 7%	Interest income @ 4%		
31 st December 2019	5,00,000	1,05,000	40,000	0.8929	5,75,921
31 st December 2020	5,00,000	70,000	40,000	0.7972	4,86,292
31 st December 2021	5,00,000	35,000	40,000	0.7118	4,09,285
31 st December 2022	5,00,000	-	40,000	0.6355	3,43,170
31 st December 2023	5,00,000	-	20,000	0.5674	<u>2,95,048</u>
Total (fair value)					<u>21,09,716</u>

Benefit to Mrs. B, to be considered a part of employee cost for Softech Limited ₹ 3,90,284 (₹ 25,00,000 – ₹ 21,09,716).

The deemed employee cost is to be amortised over the period of loan i.e. the minimum period that Mrs. B must remain in service.

The amortization schedule of ₹ 21,09,716 loan is shown in the following table:

Date	Opening outstanding loan	Total cash inflows (principal repayment + interest)	Interest @ 12%	Closing outstanding loan
1 st January 2019	21,09,716	-	-	21,09,716
31 st December 2019	21,09,716	6,45,000	2,53,166	17,17,882
31 st December 2020	17,17,882	6,10,000	2,06,146	13,14,028
31 st December 2021	13,14,028	5,75,000	1,57,683	8,96,711
31 st December 2022	8,96,711	5,40,000	1,07,605	4,64,316
31 st December 2023	4,64,316	5,20,000	55,684*	-

* Difference of ₹ 34 (55,718 – 55,684) is due to approximation.

Journal Entries in the books of Softech Limited

a. 1st January 2019

Particulars		Dr. (₹)	Cr. (₹)
Loan to Mrs. B A/c	Dr.	21,09,716	
Pre-paid employee cost A/c	Dr.	3,90,284	
To Bank A/c			25,00,000
(Being loan asset recorded at initial fair value)			

b. 31st December 2019

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr. To Interest income (profit and loss) @ 12% A/c To Loan to Mrs. B A/c (Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)	6,45,000	2,53,166 3,91,834
Employee benefit (profit and loss) A/c Dr. To Pre-paid employee cost A/c (Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)	78,057	78,057

On 31st December 2020, due to pre-payment of a part of loan by Mrs. B, the carrying value of the loan shall be re-computed by discounting the future remaining cash flows by the original effective interest rate.

There shall be two sets of accounting entries on 31st December 2020, first the realisation of the contractual cash flow as shown in (c) below and then the accounting for the pre-payment of ₹ 5,00,000 included in (d) below:

c. 31st December 2020

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr. To Interest income (profit and loss) @ 12% A/c To Loan to Mrs. B A/c (Being second instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)	6,10,000	2,06,146 4,03,854
Employee benefit (profit and loss) A/c Dr. To Pre-paid employee cost A/c (Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)	78,057	78,057

Computation of new carrying value of loan to Mrs. B:

Date	Inflows			Discount factor @ 12%	PV
	Principal	Interest income 7%	Interest income 4%		
31 st December 2021	5,00,000	-	40,000	0.8929	4,82,166
31 st December 2022	5,00,000	-	20,000	0.7972	<u>4,14,544</u>
Total (revised carrying value)					8,96,710
Less: Current carrying value					<u>(13,14,028)</u>
Adjustment required					<u>4,17,318</u>

The difference between the amount of pre-payment and adjustment to loan shall be considered a gain, though will be recorded as an adjustment to pre-paid employee cost, which shall be amortised over the remaining tenure of the loan.

d. 31st December 2020 prepayment

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr.	5,00,000	
To Pre-paid employee cost A/c		82,682
To Loan to Mrs. B A/c		4,17,318
(Being gain to Softech Limited recorded as an adjustment to pre-paid employee cost)		

Amortisation of employee benefit cost shall be as follows:

Date	Opening Balance	Amortised to P&L	Adjustment	Closing Balance
1 st January 2019	3,90,284			3,90,284
31 st December 2019	3,90,284	78,057		3,12,227
31 st December 2020	3,12,227	78,057	82,682	1,51,488

Q. 50**FL : FAIR VALUE**

On 1st April, 20X1, ABC Ltd. issues a 10- year bond with a par value of ₹ 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 ₹ 15,38,110. This value is consistent with an interest rate of 7.6%.
- The remaining cash flows on bond are ₹ 1,20,000 per year for nine years and ₹ 15,00,000 at the end of ninth year. These cash flows discounted at 7.6% equals ₹ 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 ₹ 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 ?

[RTP-May-2025]

Ans.

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 ₹ 1,20,000 [₹ 15,00,000 x 8%] per year for the next 9 years.
- Principal repayment of ₹ 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 ₹ 15,23,670

$$= [(15,00,000 \times 0.511) + (1,20,000 \times 6.312)].$$

Step (d)

The fair value of the liability at the end of the period is ₹ 15,38,110. Hence, ABC Ltd. should present ₹ 14,440 [₹ 15,38,110 – ₹ 15,23,670] in the OCI.

Q. 51
FINANCIAL GUARANTEE


On 1 April 20X1, Sun Limited guarantees a ₹10,00,000 loan of Subsidiary – Moon Limited, which Bank STDK has provided to Moon Limited for three years at 8%.

Interest payments are made at the end of each year and the principal is repaid at the end of the loan term.

If Sun Limited had not issued a guarantee, Bank STDK would have charged Moon Limited an interest rate of 11%. Sun Limited does not charge Moon Limited for providing the guarantee.

On 31 March 20X2, there is 1% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited.

On 31 March 20X3, there is 3% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited.

Provide the accounting treatment of financial guarantee as per Ind AS 109 in the books of Sun Ltd., on initial recognition and in subsequent periods till 31 March 20X3. **[May-2021, MTP-Dec-2021, MTP-Nov-2023]**

Ans.

1 April 20X1

A financial guarantee contract is initially recognised at fair value. The fair value of the guarantee will be the present value of the difference between the net contractual cash flows required under the loan, and the net contractual cash flows that would have been required without the guarantee.

Particulars	Year 1 (₹)	Year 2 (₹)	Year 3 (₹)	Total (₹)
Cash flows based on interest rate of 11% (A) Cash flows based on interest rate of 8% (B) Interest rate differential (A-B)	1,10,000 80,000 30,000	1,10,000 80,000 30,000	1,10,000 80,000 30,000	3,30,000 2,40,000 90,000
Discount factor @ 11%	0.901	0.812	0.731	
Interest rate differential discounted at 11%	27,030	24,360	21,930	<u>73,320</u>
Fair value of financial guarantee contract (at inception)				<u>73,320</u>

Journal Entry

Particulars	Debit (₹)	Credit (₹)
Investment in subsidiary To Financial guarantee (liability) (Being financial guarantee initially recorded)	Dr. 73,320	 73,320

31 March 20X2

Subsequently at the end of the reporting period, financial guarantee is measured at the higher of:

- the amount of loss allowance; and
- the amount initially recognised less cumulative amortization, where appropriate.

At 31 March 20X2, there is 1% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited. The 12-month expected credit losses are therefore ₹10,000 (₹10,00,000 x 1%).

The initial amount recognised less amortisation is ₹51,385 (₹73,320 + ₹8,065 (interest accrued based on EIR)) – ₹30,000 (benefit of the guarantee in year 1) Refer table below. The unwound amount is recognised as income in the books of Sun Limited, being the benefit derived by Moon Limited not defaulting on the loan during the period.

Year	Opening balance ₹	EIR @ 11%	Benefits provided ₹	Closing balance ₹
1	73,320	8,065	(30,000)	51,385
2	51,385	5,652	(30,000)	27,037
3	27,037	2,963*	(30,000)	-

* Difference is due to approximation

The carrying amount of the financial guarantee liability after amortisation is therefore ₹ 51,385, which is higher than the 12-month expected credit losses of ₹ 10,000. The liability is therefore adjusted to ₹ 51,385 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	21,935	
To Profit or loss		21,935
(Being financial guarantee subsequently adjusted)		

31 March 20X3

At 31 March 20X3, there is 3% probability that Moon Limited will default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited. The 12-month expected credit losses are therefore ₹ 30,000 (₹ 10,00,000 x 3%).

The initial amount recognised less accumulated amortisation is ₹ 27,037, which is lower than the 12-month expected credit losses (₹ 30,000). The liability is therefore adjusted to ₹ 30,000 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	21,385*	
To Profit or loss (Note)		21,385
(Being financial guarantee subsequently adjusted)		

* The carrying amount at the end of 31 March 20X2 = ₹ 51,385 less 12-month expected credit losses of ₹ 30,000.

Q. 52**CFI : REDEMPTION/REDEMPTION ON DUE DATE**

A Ltd. has issued Optionally Convertible Debentures (OCD) amounting to ₹ 300 crores to B Ltd. on following terms:

- Tenor : 4 years
- Coupon : Nil



- IRR : 15% p.a.

During the tenor of OCDs, A Ltd. can call the OCD and redeem it with stated IRR.

The market rate for similar debt without conversion features is 17% p.a.

B Ltd. can also ask for conversion at any time before maturity based on following formula:

No of equity shares = (Investment amount + applicable IRR) / (Face value of equity share; i.e. ₹ 10)

If redemption or conversion doesn't happen before maturity, then OCDs will be redeemed mandatorily at maturity in same manner as for conversion.

Required:

How is this instrument accounted for in the books of A Ltd. in the following two scenarios:

Scenario A – When B Ltd. opts for conversion before maturity at the end of year 1

Scenario B – When B Ltd. doesn't opt for conversion and OCDs are redeemed at maturity. [RTP-Jan-2026]

Ans.

OCD issued by A Ltd. is a compound financial instrument. The host instrument will be classified as liability, since there is contractual obligation to pay cash towards interest (i.e. guaranteed IRR of 15% p.a.) and principal repayment that issuer A Ltd. cannot avoid. The equity conversion option is accounted as equity.

Date	Particulars	Amount (rounded off in crores)	
Day 1	Bank Dr. To Equity (balancing figure representing residual interest) To Debentures (future cash flows discounted @17%) (Initial recognition of the financial instrument in the nature of a compound instrument comprising of elements of debt and equity)	300	20 280
Subsequent Accounting			
End of Year 1	Interest on Debentures Dr. To Debentures (classified under "Liability component of compound financial instrument") (Interest recognised in P&L @17% i.e. 280 x 17%)	48	48

Scenario A – When B Ltd opts for conversion at end of year 1

Since conversion was allowed under the original terms of instrument, the entity should determine the amortised cost of liability component using the original IRR till the conversion date. It will derecognise the liability component and recognises it as equity.

There is no gain or loss on early conversion.

Date	Particulars	Amount (rounded off in crores)	
End of Year 1	Debentures [280 + 48] Dr. To Equity Share Capital (Conversion of OCD into equity shares of the Company)	328	328

Scenario B – When B doesn't opt for conversion and OCDs are redeemed at maturity

Date	Particulars	Amount (rounded off in Crores)	
End of Year 1-4	Interest on debentures Dr. (cumulative interest for 4 years)	245	

End of Year 4	To Debentures (Interest recognised in P&L @ 17%)		245
	Dr. Debentures [280 + 245]	525	
	To Bank (Being debentures redeemed)		525

Working Note:

Computation of maturity value of OCD as per the formula stated by B Ltd.:

Year	Opening balance (In crores)	Interest @15% IRR (In crores)	Closing balance (In crores)
1	300	45	345
2	345	51.75	396.75
3	396.75	59.5125	456.2625
4	456.2625	68.439	524.7015 or 525
		<u>224.7015 or 225</u>	

Q. 53**EMBEDDED DERIVATIVE : NFI**

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

Spot rate on 1 January 20X1: INR/USD 45

Spot rate on 31 March 20X1: INR/USD 57

Three month forward rate on 31 March 20X1: INR/USD 45

Six month forward rate on 1 January 20X1: INR/USD 55

Spot rate on 30 June 20X1: INR/USD 60

Let's 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. **[SM]**

Ans.

The contract should be separated using the 6 month USD/INR forward exchange rate, as at the date of the contract (INR/USD = 55). The two components of the contract are therefore:

- A sale contract for INR 55 Million
- A six-month currency forward to purchase USD 1 Million at 55
- This gives rise to a gain or loss on the derivative, and a corresponding derivative asset or liability.

On delivery

1. Entity A records the sales at the amount of the host contract = INR 55 Million
2. The embedded derivative is considered to expire.
3. The derivative asset or liability (i.e. the cumulative gain or loss) is settled by becoming part of the financial asset on delivery.
4. In this case the carrying value of the currency forward at 30 June 20X1 on maturity is = INR $(1,000,000 \times 60 - 55 \times 1,000,000) = ₹ 5,000,000$ (profit/asset)

The table summarising the computation of gain/ loss to be recorded at every period end –

Date	Transaction	Sales	Debtors	Derivative Asset (Liability)	(Profit) Loss
1-Jan - 20X1	Embedded Derivative	INR	INR	INR	INR

31- Mar-20X1	Change in Fair Value of Embedded Derivatives MTM (55-45)*1Million			(10,000,000)	10,000,000
30- Jun-20X1	Change in Fair Value of Embedded Derivatives (60-45)*1Million			15,000,000	(15,000,000)
30- Jun-20X1	Recording sales at forward rate	(55,000,000)	55,000,000		
30- Jun-20X1	Embedded derivative-settled against debtors		5,000,000	(5,000,000)	

Journal Entries to be recorded at every period end
a. 01 January 20X1 – No entry to be made
b. 31 March 20X1 –

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Profit and loss A/c Dr. To Derivative financial liability A/c (being loss on mark to market of embedded derivative booked)	10,000,000	10,000,000

c. 30 June 20X1 –

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Derivative financial asset A/c Dr. Derivative financial liability A/c Dr. To Profit and loss A/c (being gain on embedded derivative based on spot rate at the date of settlement booked)	5,000,000 10,000,000	15,000,000

d. 30 June 20X1 –

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Trade receivable A/c Dr. To Sales A/c (being sale booked at forward rate on the date of transaction)	55,000,000	55,000,000

e. 30 June 20X1 –

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Trade receivable A/c Dr. To Derivative financial asset A/c (being derivative asset re-classified as a part of trade receivables, bringing it to spot rate on the date of sale)	5,000,000	5,000,000

Q. 54

EMBEDDED DERIVATIVE : FL

Zx issues a fixed-rate loan for ₹ 500,000 and incurs issue costs of ₹ 20,000, resulting in an initial carrying value of ₹ 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 ₹ 30,000. The fair value of the option is ₹ 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 ₹ 6,000.
 - (b) At the end of year 3, interest rates have fallen, and the option's fair value increases to ₹ 9,000.
 - (c) At the end of year 4, interest rates have fallen further. The option's fair value increases to ₹ 20,000, and the entity decides to repay the loan at the end of year 4.

[RTP-Sept-2025]**Ans.**

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 ₹ 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 (₹)	Cr. (₹)
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 ₹	Interest expense @ 8.30213% ₹	Cash payments ₹	Closing amortised cost ₹
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 ₹ 6,000. The decrease in fair value of ₹ 4,000 since inception will be reported in profit or loss, and the option will be recorded at ₹ 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 ₹ 9,000. The increase in value of ₹ 3,000 will be recorded in profit or loss, and the option will be recorded at its fair value of ₹ 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 ₹ 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 (₹)	Cr. (₹)
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

Notes



**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
OF GROUP ENTITIES (Ind AS 27, 28, 110, 111, 112)****Q. 55****COMPREHENSIVE (FAIR VALUATION, IMPAIRMENT, INTER-COMPANY, PRE-ACQUISITION DIVIDENDS)**

The balance sheets of H Ltd. and S Ltd. as on 31.03.2024 were as follows:

Particulars	H Ltd.	S Ltd.
	₹ in Lakhs	
Assets:		
Non-Current Assets		
Property, Plant and Equipment	14,800	6,000
Financial Assets: Investment		
Investment in S Ltd.	5,800	
1000 Debenture in S Ltd.	1,500	
Current Assets		
Inventories	2,600	2,000
Financial Assets		
Trade Receivables (due from S Ltd. ₹ 160 lakh)	4,000	3,000
Dividend Receivable	320	-
Cash and Cash Equivalent	500	2,000
Total	29,520	13,000
Equity and Liabilities		
Equity		
Equity Share Capital (₹ 10 per share)	10,000	4,000
Other Equity (Retained Earnings)	16,320	5,000
Non-current Liabilities		
13% Debenture of ₹100 each		3,000
Current Liabilities		
Financial Liabilities:		
Trade Payables (due to H Ltd. ₹120 lakh)	1,700	600
Dividend Payable		400
Other Liabilities	1,500	
Total	29,520	13,000

Additional Information:

- (i) On 01 April 2023, S Ltd. had 400 lakh shares of ₹ 10 each and ₹ 3,000 lakh in its Retained Earnings in Other Equity. H Ltd. acquired 80% on share of S Ltd. 01st April 2023 at a consideration of ₹ 5,800 lakh in cash.
- (ii) The following changes in book value of identifiable net assets of S Ltd. as on 01st April 2023 are to be considered for arriving the fair value of identifiable net. assets and to record the changes in their fair value on the said date. These change in the fair values are to be considered while drawing consolidated Financial Statements of the Group.

Assets	Book value	Fair value
PPE	₹ 2,500 lakhs	₹ 2,800 lakhs
Inventory	₹ 500 lakhs	₹ 200 lakhs

The rate of depreciation on PPE is 10% p.a.

- (iii) NCI was to be measured at fair value based on the purchase consideration.
- (iv) Goodwill was impaired by ₹ 100 lakh.
- (v) H Ltd. sold goods worth ₹ 200 lakh to S Ltd. on credit at a profit of 20% on sales. 50% of the goods were still laying unsold.
- (vi) S Ltd. issued a cheque of ₹ 40 lakh in favour of H Ltd. as a part payment of the goods purchased from it in March, 2024. The cheque is yet to be received by H Ltd.
- (vii) Dividend payable represents the dividend declared out of pre-acquisition profit. H Ltd. credited its share of dividend from S Ltd. to its profits.

Prepare the Consolidated Balance Sheet of the Group as at 31st March, 2024.

[Nov-2024]

Ans.

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2024

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	21,070
Goodwill	2	150
Current assets		
Inventory	3	4,275
Financial assets		
Cash and cash equivalents	4	2,540
Trade receivables	5	6,840
Dividend receivable	6	Nil
Total		34,875
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 10 each		10,000
Other equity	7	16,292
Non-controlling interest (W.N.4)		1,824
Non-current liabilities		
Financial liabilities		
Borrowings- 13% Debentures	8	2,999
Current Liabilities		
Financial liabilities		
Trade payables	9	2,180
Dividend payable	10	80
Other liabilities		1,500
Total		34,875

Notes to Accounts

1. Property, Plant and Equipment

₹ in lakhs

Particulars	₹	₹
H Ltd.	14,800	
S Ltd. 6,000		
Add: Fair value gain 300		
Less: Additional depreciation due to fair value gain (30)	6,270	21,070

2. Goodwill

₹ in lakhs

Particulars	₹	₹
Goodwill on acquisition of S Ltd. (Refer W.N.3)	250	
Less: Impairment	(100)	150

3. Inventory

₹ in lakhs

Particulars	₹	₹
H Ltd.	2,600	
S Ltd. 2,000		
Less: Fair value loss (300)		
Less: Unrealised gain (200/80% x 20% x 50%) (25)	1,675	4,275

4. Cash and cash equivalent

₹ in lakhs

Particulars	₹	₹	₹
H Ltd.	500		
Add: Cheque in Transit 40		540	
S Ltd.		2,000	2,540

5. Trade Receivable

₹ in lakhs

Particulars	₹	₹
H Ltd. 4,000		
Less: Mutual transaction (160)	3,840	
S Ltd.	3,000	6,840

6. Dividend Receivable

₹ in lakhs

Particulars	₹	₹
H Ltd.	320	
Less: Mutual transaction (320)		Nil

7. Other Equity (Retained Earnings)

₹ in lakhs

Particulars	₹	₹
H Ltd.	16,320	
Less: Share of pre-acquisition dividend (400 x 80%) (320)		16,000
Post acquisition RE of S Ltd. (W.N.1)	2,370	

Less: Share of NCI in post-acquisition RE of S Ltd. (2,370 x 20%)	<u>(474)</u>	1,896
Less: Impairment of goodwill (100 x 80%)		(80)
Less: Loss on cancellation of debentures (mutual holding) (W.N.5)		(1,499)
Less: Unrealised gain (W.N.6)		<u>(25)</u>
		<u>16,292</u>

8. Borrowings (13% Debentures) ₹ in lakhs

Particulars	₹	₹
S Ltd.	3,000	
Less: Mutual holding by H Ltd. (1,000 Debentures x ₹ 100)	<u>(1)</u>	2,999

9. Trade Payables ₹ in lakhs

Particulars	₹	₹
H Ltd.	1,700	
S Ltd.	600	
Less: Mutual transaction	<u>(120)</u>	2,180

10. Dividend Payables ₹ in lakhs

Particulars	₹	₹
S Ltd.	400	
Less: Mutual transaction	<u>(320)</u>	80

Working Notes:
1. Analysis of Retained Earnings of S Ltd. ₹ in lakhs

Closing balance as on 31 st March, 2024	5,000
Less: Pre-acquisition Retained Earnings as on 1 st April, 2023 (3,000 – 400)	<u>(2,600)</u>
	2,400
Less: Additional depreciation	<u>(30)</u>
Post-acquisition Retained Earnings	<u>2,370</u>

2. Computation of net worth (net identifiable assets) as on 1st April, 2023 ₹ in lakhs

Share Capital of S Ltd.	4,000
Pre-acquisition Retained Earnings	3,000
Fair value gain on PPE (2,800 – 2,500)	300
Fair value loss on inventory (500 - 200)	<u>(300)</u>
Net Worth or Net Identifiable Assets	<u>7,000</u>

3. Computation of Goodwill on acquisition date of S Ltd. ₹ in lakhs

Purchase consideration	5,800
NCI (by fair value method) as on 1 st April, 2023 [(5,800/80%) x 20%]	<u>1,450</u>
	7,250
Less: Net worth or Net Identifiable Assets (W.N.2)	<u>(7,000)</u>
Goodwill as on 1 st April, 2023	<u>250</u>

4. Non-Controlling Interest as on 31st March, 2024 ₹ in lakhs

NCI (by fair value method) as on 1 st April, 2023	1,450
Less: Share of pre-acquisition dividend (400 x 20%)	<u>(80)</u>

Post-acquisition Retained Earnings (2,370 x 20%)	474
Less: Share of impairment of Goodwill (100 x 20%)	<u>(20)</u>
NCI as on 31 st March, 2024	<u>1,824</u>

5. Loss on settlement of Debentures held by H Ltd. ₹ in lakhs

Investment in Debentures by H Ltd.	1,500
Less: Nominal value of debentures held by H Ltd. (1,000 x ₹ 100)	<u>(1)</u>
Loss on settlement of investment in Debentures	<u>1,499</u>

6. Computation of unrealised gain by H Ltd. on sale of goods to S Ltd. ₹ in lakhs

Cost price of the goods sold	200
Sales price of the goods sold (200/80%)	250
Profit on sale of such goods	50
Unrealized gain on 50% unsold goods (50 x 50%)	25

Note: In the above solution, it is assumed that in additional information (v), ₹ 200 lakh is the cost price of the goods for H Ltd. which is sold to S Ltd. at ₹ 250 lakhs i.e. after 20% profit on sales. However, alternatively it may be assumed that ₹ 200 lakhs is the sales price of the goods for H Ltd. profit will be ₹ 200 lakhs x 20% i.e. ₹ 40 lakhs. In such a situation, the answer will be as follows:

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2024

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	21,070
Goodwill	2	150
Current assets		
Inventory	3	4,280
Financial assets		
Cash and cash equivalents	4	2,540
Trade receivables	5	6,840
Dividend receivable	6	<u>Nil</u>
Total		<u>34,880</u>
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 10 each		10,000
Other equity	7	16,297
Non-controlling interest (W.N.4)		1,824
Non-current liabilities		
Financial liabilities		
Borrowings - 13% Debentures	8	2,999
Current Liabilities		
Financial liabilities		
Trade payables	9	2,180
Dividend payable	10	80
Other liabilities		<u>1,500</u>
Total		<u>34,880</u>

Notes to Accounts
1. Property, Plant and Equipment

₹ in lakhs

Particulars		₹	₹
H Ltd.		14,800	
S Ltd.	6,000		
Add: Fair value gain	300		
Less: Additional depreciation due to fair value gain	<u>(30)</u>	<u>6,270</u>	21,070

2. Goodwill

₹ in lakhs

Particulars		₹	₹
Goodwill on acquisition of S Ltd. (Refer W.N.3)		250	
Less: Impairment		<u>(100)</u>	150

3. Inventory

₹ in lakhs

Particulars		₹	₹
H Ltd.		2,600	
S Ltd.	2,000		
Less: Fair value loss	(300)		
Less: Unrealised gain (W.N.6)	<u>(20)</u>	<u>1,680</u>	4,280

4. Cash and cash equivalent

₹ in lakhs

Particulars		₹	₹	₹
H Ltd.		500		
Add: Cheque in Transit	<u>40</u>		540	
S Ltd.			2,000	2,540

5. Trade Receivables

₹ in lakhs

Particulars		₹	₹
H Ltd.	4,000		
Less: Mutual transaction	<u>(160)</u>	3,840	
S Ltd.		<u>3,000</u>	6,840

6. Dividend Receivables

₹ in lakhs

Particulars		₹	₹
H Ltd.		320	
Less: Mutual transaction	<u>(320)</u>		Nil

7. Other Equity (Retained Earnings)

₹ in lakhs

Particulars		₹	₹
H Ltd.		16,320	
Less: Share of pre-acquisition dividend (400 x 80%)	<u>(320)</u>		16,000
Post acquisition RE of S Ltd. (W.N.1)		2,370	
Less: Share of NCI in post-acquisition RE of S Ltd. (2,370 x 20%)	<u>(474)</u>		1,896

Less: Impairment of goodwill (100 x 80%)		(80)
Less: Loss on cancellation of debentures (mutual holding) (W.N.5)		(1,499)
Less: Unrealised gain (W.N.6)		<u>(20)</u>
		<u>16,297</u>

8. Borrowings (13% Debentures) ₹ in lakhs

Particulars	₹	₹
S Ltd.	3,000	
Less: Mutual holding by H Ltd. (1,000 Debentures x ₹ 100)	<u>(1)</u>	2,999

9. Trade Payables ₹ in lakhs

Particulars	₹	₹
H Ltd.	1,700	
S Ltd.	600	
Less: Mutual transaction	<u>(120)</u>	2,180

10. Dividend Payables ₹ in lakhs

Particulars	₹	₹
S Ltd.	400	
Less: Mutual transaction	<u>(320)</u>	80

Working Notes:
1. Analysis of Retained Earnings of S Ltd. ₹ in lakhs

Closing balance as on 31 st March, 2024	5,000
Less: Pre-acquisition Retained Earnings as on 1 st April, 2023 (3,000 - 400)	<u>(2,600)</u>
	2,400
Less: Additional depreciation	<u>(30)</u>
Post-acquisition Retained Earnings	<u>2,370</u>

2. Computation of net worth (net identifiable assets) as on 1st April, 2023 ₹ in lakhs

Share capital of S Ltd.	4,000
Pre-acquisition Retained Earnings	3,000
Fair value gain on PPE (2,800 - 2,500)	300
Fair value loss on inventory (500 - 200)	<u>(300)</u>
Net Worth or Net Identifiable Assets	<u>7,000</u>

3. Computation of Goodwill on acquisition date of S Ltd. ₹ in lakhs

Purchase consideration	5,800
NCI (by fair value method) as on 1 st April, 2023 [(5,800 / 80%) x 20%]	<u>1,450</u>
	7,250
Less: Net worth or Net Identifiable Assets (W.N.2)	<u>(7,000)</u>
Goodwill as on 1 st April, 2023	<u>250</u>

4. Non-controlling Interest as on 31st March, 2024 ₹ in lakhs

NCI (by fair value method) as on 1 st April, 2023	1,450
Less: Share of pre-acquisition dividend (400 x 20%)	<u>(80)</u>

Post-acquisition Retained Earnings (2,370 x 20%)	474
Less: Share of impairment of Goodwill (100 x 20%)	<u>(20)</u>
NCI as on 31 st March, 2024	<u>1,824</u>

5. Loss on settlement of Debentures held by H Ltd.

₹ in lakhs

Investment in Debentures by H Ltd.	1,500
Less: Nominal value of debentures held by H Ltd. (1,000 x ₹ 100)	<u>(1)</u>
Loss on settlement of investment in Debentures	<u>1,499</u>

6. Computation of unrealised gain by H Ltd. on sale of goods to S Ltd.

₹ in lakhs

Sales price of the goods sold	200
Profit on sale of such goods (200 x 20%)	40
Unrealized gain on 50% unsold goods (40 x 50%)	<u>20</u>

Q. 56

COMPREHENSIVE: (STEP ACQUISITION, PSC, DIVIDEND, FAIR VALUATION, INTER COMPANY)

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


	Note No.	Z Ltd. (₹ in lakhs)	R Ltd. (₹ in lakhs)
I. Assets			
(I) Non-current assets			
(i) Property, plant and equipment	4	450	248
(ii) Intangible assets	5	75	45
(iii) Investments		375	68
(II) Current assets			
(i) Inventories		75	75
(ii) Trade receivables	6	110	120
(iii) Cash and cash equivalents		<u>85</u>	<u>135</u>
Total Assets		1,170	691
II. Equity and Liabilities			
(I) Equity			
(i) Share Capital	1	720	360
(ii) Other Equity	2	360	225
(II) Liabilities			
(i) Current Liabilities			
- Bank overdraft		45	30
- Trade payables	3	<u>90</u>	<u>76</u>
Total Equity and Liabilities		1,170	691

Notes to the Balance Sheet:

Note No.		Z Ltd. (₹ in lakhs)	R Ltd. (₹ in lakhs)
1. Share capital:			
(i) Equity shares of 10 each		600	300

	(ii) 10% Preference shares of 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 :

- Z Ltd. acquired 12,00,000 equity shares of R Ltd. on 1st April, 2024 and further acquired 13,50,000 equity shares of R Ltd. on 1st January, 2025 at a cost of ₹1,44,00,000 and ₹1,55,25,000 respectively.
- The Preference share capital of R Ltd. includes nominal value of ₹22,50,000 held by Z Ltd. acquired on 1st April, 2024 at a cost of ₹54,00,000.
- The retained earnings of R Ltd. had a credit balance of ₹45,00,000 as on 1st April, 2024 and that of General reserve on that date was ₹30,00,000.
- R Ltd. had paid dividend @ 12% on its paid-up equity share capital out of its retained earnings' balance on 1st April, 2024 for the year 2023-24. The entire dividend received by Z Ltd. in August 2024 has been credited to its retained earnings.
- On 1st October, 2024, machinery of R Ltd. was overvalued by ₹ 15,00,000 for which necessary adjustments are to be made. The Company charges depreciation @ 10% on W.D.V. basis.
- Bills receivables of Z Ltd. were drawn upon R Ltd. out of which bills amounting to ₹3,00,000 have been discounted with bank.

You are required to prepare consolidated balance sheet (In ₹ Without rounding off) of Z Ltd. and its subsidiary R Ltd. as on 31st March, 2025 with the assumption that the group has adopted fair value method to measures NCI and the fair value of each equity share of R Ltd. is ₹ 14 per share as on the date of acquisition of control by Z Ltd. and also on 31st March 2025. Ignore taxation and adjustment, if any, of preference dividend. (Treatment of PSC in solution in debatable)

[Sept-2025]

Ans.

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

	Notes No.	₹
Assets		
Non-current assets		
(i) Property, plant and equipment	1	6,83,75,000
(ii) Intangible assets	1	75,00,000
(iii) Financial assets		
a. Investments	1	89,75,000
Current assets		
(i) Inventories	1	1,50,00,000
(ii) Financial assets		
a. Trade receivables	1	2,26,00,000
b. Cash and cash equivalents	1	<u>2,20,00,000</u>
Total		<u>14,44,50,000</u>
Equity and Liabilities		
Equity		
(i) Share capital	2	7,20,00,000
(ii) Other equity	3	3,79,96,875
(iii) Non-controlling interest (W.N.3)		1,07,53,125
Current Liabilities		
(i) Financial liabilities		
a. Bank overdraft	1	75,00,000
b. Trade payables	1	<u>1,62,00,000</u>
Total		<u>14,44,50,000</u>

Notes to Accounts
Note 1: Assets and Liabilities

Particulars	Z Ltd.	R Ltd.	Adjustments	₹
Property, Plant and 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 and Cash Equivalents	85,00,000	1,35,00,000		2,20,00,000
Bank Overdraft	45,00,000	30,00,000		75,00,000
Trade Payables	90,00,000	76,00,000	-4,00,000	1,62,00,000

Note 2: Share Capital

	₹
60 lakhs Equity shares of ₹ 10 each, fully paid	6,00,00,000
10%, 12 lakhs Preference Share of ₹ 10 each fully paid	<u>1,20,00,000</u>
	<u>7,20,00,000</u>

Note 3: Consolidated Other Equity

		₹
General Reserve	W.N.1	1,29,56,250
Retained Earnings	W.N.1	2,17,78,125
Capital Reserve	W.N.2	<u>32,62,500</u>
		<u>3,79,96,875</u>

Working Notes:**1. Consolidated Other Equity**

Particulars	General Reserve	Retained Earnings
Standalone - Z Ltd.	1,20,00,000	1,95,00,000
Add: Fair Value gain of existing stake [(12 lakh x 14) – 144 lakhs]		24,00,000
Less: Fair Value loss of existing stake [(12 lakh x ₹ 11.50) – 144 lakhs]		
Less: Loss on cancellation of preference shares (54 lakhs - 22.5 lakhs)		(31,50,000)
Add: Share in post-acquisition Profits (W.N.4(i))	9,56,250	
(W.N.4(ii))		<u>30,28,125</u>
	<u>1,29,56,250</u>	<u>2,17,78,125</u>

2. Computation of bargain purchase i.e. capital reserve**(i) Computation of net worth (net identifiable assets) as on 1st January 2025**

	₹
Share Capital	3,00,00,000
Pre-acquisition Retained Earnings (after adjusting downward revaluation of machinery)	1,00,12,500
Pre-acquisition General Reserve	63,75,000
Adjustment for Goodwill since it has no fair value	<u>(45,00,000)</u>
Net worth or Net Identifiable assets	<u>4,18,87,500</u>

(ii) Computation of bargain purchase i.e. capital reserve

		₹
Net worth or Net identifiable assets		4,18,87,500
Purchase consideration (155.25 lakhs + 168 lakhs)	3,23,25,000	
NCI [30 lakhs shares x 15% x ₹ 14]	<u>63,00,000</u>	<u>(3,86,25,000)</u>
Bargain purchase (capital reserve)		<u>32,62,500</u>

3. Non-Controlling Interest A/c (at Fair Value)

	₹
NCI at fair value as on 1 st January 2025	63,00,000
Post-acquisition General Reserve (W.N.4(i))	1,68,750
Post-acquisition Retained Earnings (W.N.4(ii))	5,34,375
Preference share capital (60 lakh – 22.50 lakh)	<u>37,50,000</u>
NCI at fair value as on 31st March 2025	<u>1,07,53,125</u>

4. Analysis of Other Equity
(i) General Reserve

		₹
Closing balance as on 31 st March 2025		75,00,000
Less: Opening Balance (45.00 – 36.00)	pre	<u>(30,00,000)</u>
Net Profit transferred during the year		<u>45,00,000</u>
For 9 months till 31 st December 2024	pre	33,75,000
For 3 months from 1 st Jan. 2025 to 31 st Mar. 2025	post	11,25,000
Total pre-acquisition reserve (30.00 lakh+33.75 lakh)	pre	63,75,000
Share of Z Ltd. in post-acquisition reserve (85%)	post	9,56,250
Share of NCI in post-acquisition reserve (15%)	post	1,68,750

(ii) Retained Earnings (RE)

		₹
Closing balance as on 31 st March, 2025		1,50,00,000
Less: Opening balance		45,00,000
Less: Dividend @12% (300 lakhx12%)	Pre	<u>(9,00,000)</u>
During the year		<u>1,41,00,000</u>
For 9 months till 31 st December, 2024	Pre	<u>1,05,75,000</u>
For 3 months from 1 st Jan. 2025 to 31 st Mar. 2025	Post	35,25,000
Add: Saving in Depreciation for 3 months (from 1 st January 2025 to March 2025)		<u>37,500</u>

Net post-acquisition RE	Post	35,62,500
Total pre-acquisition RE (9.00 + 105.75)	Pre	1,14,75,000
Less: Downward revaluation of machinery		(15,00,000)
Add: Saving in depreciation for 3 months (from 1 st October 2024 to 31 st December 2024)		37,500
	Pre	1,00,12,500
Share of Z Ltd. in post-acquisition RE (85%)	Post	30,28,125
Share of NCI in post-acquisition RE (15%)	Post	5,34,375

Note:

1. At page 4 of the Question Paper under additional information (a) the second acquisition of 13,50,000 equity shares on 1st January 2025 has been done at ₹ 1,55,25,000. This implies that fair value per share is ₹ 11.50 (1,55,25,000/13,50,000). However, in the last para of the question at the same page, the fair value of R Ltd.'s share is mentioned as ₹ 14 per share on the date of acquisition.

The above solution has been drawn considering fair value of R Ltd.'s share as **₹ 14 per share** for the purpose of computation of gain or loss on existing stake and bargain purchase.

However, alternatively one can draw a solution considering fair value of R Ltd.'s share as **₹ 11.5 per share** for the purpose of computation of gain or loss on existing stake and bargain purchase only. In such a case, the amount of consolidated retained earnings and bargain purchase i.e. capital reserve will be ₹ 1,87,78,125 and ₹ 62,62,500 respectively.

Furthermore, the above solution has been drawn considering goodwill being residuary in nature, has no fair value. However, one may draw a solution considering goodwill as an identifiable asset.

Q. 57**CHAIN HOLDING**

Given below are the balance sheets of a group of companies comprising LX Limited, MX Limited and NX Limited as on 31st March 2021:

₹ in lakhs

Particulars	LX Limited	MX Limited	NX Limited
Assets			
Non-current Assets			
Property, Plant and Equipment	1,500	1,600	1,400
Investment			
17.0 lakh shares in MX Limited	2,620	-	-
9.6 lakh shares in NX Limited	-	1,350	-
Current Assets			
Inventories	1,230	730	1,180
Financial Assets			
Trade Receivables	1,415	270	620
Bills Receivables	650	60	-
Cash in hand and at Bank	1,085	90	150
	8,500	4,100	3,350
Equity and Liabilities			

Shareholders' Equity			
Share capital (₹ 100 per share)	3,400	2,000	1,600
Other Equity			
- Reserves	1,150	810	580
- Retained earnings	1,030	600	310
Current Liabilities			
Financial Liabilities			
Trade Payables	2,920	690	805
Bill Payable			
- MX Limited	-	-	55
	8,500	4,100	3,350

LX Limited holds 85% shares in MX Limited, which were acquired on 1st April 2020 and MX Limited holds 60% shares in NX Limited, which were acquired on 30th September 2020. The following balances stood in the books of MX Limited and NX Limited as on 1st April 2020:

	MX Limited ₹ in Lakhs	NX Limited ₹ in Lakhs
Reserves	760	520
Retained earnings	480	150

The business activities of NX Limited are not seasonal in nature.

The parent company has adopted an accounting policy to measure non-controlling interest at fair value applying Ind AS 103. The fair value is to be determined at quoted market price. The given market price of MX Limited is ₹120 per share and NX Limited is ₹125 per share. Prepare the Consolidated Balance Sheet as on 31st March 2021 of the group of companies LX Limited, MX Limited and NX Limited. **[July-2021]**

Ans.

Consolidated Balance Sheet of the Group as at 31st March, 2021

Particulars	Note No.	₹ in lakh
ASSETS		
Non-current assets		
Property, plant and equipment	1	4,500.00
Current assets		
(a) Inventories	2	3,140.00
(b) Financial assets		
Trade receivables	3	2,305.00
Bills receivables	4	655.00
Cash and cash equivalents	5	<u>1,325.00</u>
Total assets		<u>11,925.00</u>
EQUITY & LIABILITIES		
Equity attributable to owners of parent		
Share Capital		3,400.00

Other Equity	6	2,893.10
Non-controlling interests (W.N.4)		1,216.90
LIABILITIES		
Non-current liabilities		Nil
Current liabilities		
(a) Financial Liabilities		
Trade payables	7	<u>4,415.00</u>
Total equity and liabilities		<u>11,925.00</u>

Notes to Accounts

(₹ in lakh)

1. Property Plant & Equipment		
LX Ltd.	1,500	
MX Ltd.	1,600	
NX Ltd.	<u>1,400</u>	4,500
2. Inventories		
LX Ltd.	1,230	
MX Ltd.	730	
NX Ltd.	<u>1,180</u>	3,140
3. Trade Receivables		
LX Ltd.	1,415	
MX Ltd.	270	
NX Ltd.	<u>620</u>	2,305
4. Bills Receivables		
LX Ltd.	650	
MX Ltd. (60-55)	<u>5</u>	655
5. Cash & Cash equivalents		
LX Ltd.	1,085	
MX Ltd.	90	
NX Ltd.	<u>150</u>	1,325
6. Other Equity		
Reserve (W.N.5)	1,207.80	
Retained earnings (W.N.5)	1,172.80	
Capital Reserve (W.N.3)	<u>512.50</u>	2,893.10
7. Trade Payables		
LX Ltd.	2,920	
MX Ltd.	690	
NX Ltd.	<u>805</u>	4,415

Working Notes:
1. Analysis of Reserves and Surplus

(₹ in lakh)

	MX Ltd.		NX Ltd.
Reserves as on 1.4.2020	760		520
Increase during the year 2020-2021 (580 - 520)		60	
Increase for the half year till 30.9.2020	—		<u>30</u>
Balance on acquisition date (A)	760		550
Total balance as on 31.3.2021	<u>810</u>		<u>580</u>
Post-acquisition balance	<u>50</u>		<u>30</u>
Retained Earnings as on 1.4.2020	480		150
Increase during the year 2020-2021 (310 - 150)		160	
Increase for the half year till 30.9.2020	—		<u>80</u>
Balance on acquisition date (B)	480		230
Total balance as on 31.3.2021	<u>600</u>		<u>310</u>
Post-acquisition balance	<u>120</u>		<u>80</u>
Total balance on the acquisition date (A+B)	<u>1,240</u>		<u>780</u>

2. Calculation of Effective Interest of LX Ltd. in NX Ltd.

Acquisition by LX Ltd. in MX Ltd. = 85%

Acquisition by MX Ltd. in NX Ltd. = 60%

Acquisition by Group in NX Ltd. (85% x 60%) = 51%

Non-controlling Interest = 49%

3. Calculation of Goodwill / Capital Reserve on the acquisition

	MX Ltd.	NX Ltd.
Investment or consideration	2,620.00	(1,350 x 85%) 1,147.50
Add: NCI at Fair value		
[(2,000 / 100) x 120 x 15%]	360.00	
[(1,600 / 100) x 125 x 49%]	—	<u>980.00</u>
	2,980.00	2,127.50
Less: Identifiable net assets (Share Capital + Increase in the Reserves and Surplus till acquisition date)	(2,000+760+480)	(1,600+550+230)
	<u>(3,240.00)</u>	<u>(2,380.00)</u>
Capital Reserve	<u>260.00</u>	<u>252.50</u>
Total Capital Reserve (260 + 252.50)	512.50	

4. Calculation of Non-controlling Interest

	MX Ltd.	NX Ltd.
At Fair Value (See Note 3)	360.00	980.00
Add: Post Acquisition Reserves (W.N.1)	(50 x 15%) 7.50	(30 x 49%) 14.70
Add: Post Acquisition Retained Earnings (W.N.1)	(120 x 15%) 18.00	(80 x 49%) 39.20
Less: NCI share of investment in NX Ltd.	(1,350 x 15%) <u>(202.50)*</u>	—
	<u>183.00</u>	<u>1,033.90</u>
Total (183.00 + 1,033.90)		1,216.90

***Note:** The non-controlling interest in MX Ltd. will take its proportion in NX Ltd. Therefore, they have to bear their proportion in the investment by MX Ltd. (in NX Ltd.) also.

5. Calculation of Consolidated Other Equity

	Reserves	Retained Earnings
LX Ltd.	1,150.00	1,030.00
Add: Share in MX Ltd.	(50 x 85%) 42.50	(120 x 85%) 102.00
Add: Share in NX Ltd.	(30 x 51%) 15.30	(80 x 51%) 40.80
	<u>1,207.80</u>	<u>1,172.80</u>

Q. 58

ASSOCIATE TO SUBSIDIARY



Deepak Ltd., an automobile group acquires 25% of the voting ordinary shares of Shaun Ltd., another automobile business, by paying, ₹ 4,320 crore on 01.04.2019. Deepak Ltd. accounts its investment in Shaun Ltd. using equity method as prescribed under Ind AS 28. At 31.03.2020, Deepak Ltd. recognised its share of the net asset changes of Shaun Ltd. using equity accounting as follows:

(₹ in crore)

Share of Profit or Loss	378
Share of Exchange difference in OCI	54
Share of Revaluation Reserve of PPE in OCI	27

On 01.04.2020, Deepak Ltd. acquired remaining 75% of Shaun Ltd. for cash ₹ 13,500 crore. Fair value of the 25% interest already owned was ₹ 4,860 crore and fair value of Shaun Ltd.'s identifiable net assets was ₹ 16,200 crore as on 01.04.2020.

How should such business combination be accounted for in accordance with the applicable Ind AS?

[MTP-Nov-2020]

Ans.

Paragraph 42 of Ind AS 103 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed of directly the previously held equity interest

Applying the above, Deepak Ltd. records the following entry in its consolidated financial statements:

		(₹ in crore)	
		Debit	Credit
Identifiable net assets of Shaun Ltd.	Dr.	16,200	
Goodwill (W.N.1)	Dr.	2,160	
Foreign currency translation reserve	Dr.	54	
PPE revaluation reserve	Dr.	27	
To Cash			13,500
To Investment in associate (4,320 + 378 + 54 + 27)			4,779
To Retained earnings (W.N.2)			27
To Gain on previously held interest in Shaun Ltd. recognised in Profit or loss (W.N.3)			135
(Recognition of acquisition of Shaun Ltd.)			

Working Notes:
1. Calculation of Goodwill

	₹ in crore
Cash consideration	13,500
Add: Fair value of previously held equity interest in Shaun Ltd. Total consideration	<u>4,860</u>
	18,360
Less: Fair value of identifiable net assets acquired	<u>(16,200)</u>
Goodwill	<u>2,160</u>

2. The credit to retained earnings represents the reversal of the unrealized gain of ₹ 27 crore in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.

3. The gain on the previously held equity interest in Shaun Ltd. is calculated as follows:

	₹ in crore
Fair Value of 30% interest in Shaun Ltd. at 1 st April, 2020	4,860
Carrying amount of interest in Shaun Ltd. at 1 st April, 2020	<u>(4,779)</u>
	81
Unrealised gain previously recognised in OCI	<u>54</u>
Gain on previously held interest in Shaun Ltd. recognised in profit or loss	<u>135</u>

Q. 59
ASSOCIATE TO SUBSIDIARY


On 1st April 20X1, Pride Limited acquired 30% of the ordinary shares of Famous Limited for ₹ 4,000 crores. Pride Limited accounts for its investment in Famous Limited using the equity method as prescribed under Ind AS 28. On 31st March 20X2, Pride Limited recognized its share of the net asset changes of Famous Limited using equity method accounting as follows:

Share of profit	₹ 350 crore
Share of exchange difference in OCI	₹ 50 crore
Share of revaluation reserve of PPE in OCI	₹ 25 crore

The carrying amount of the investment in the associate on 31st March 20X2 is therefore ₹ 4,425 crore (4,000 + 350 + 50 + 25).

On 1st April 20X2, Pride Limited acquired the remaining 70% of Famous Limited for cash ₹ 12,500 crore.

The following additional information is relevant at that date:

Fair Value of 30% interest in Famous Limited as on 1 st April 20X2	₹ 4,500 crore
Fair Value of Net Identifiable Assets of Famous Limited as on 1 st April 20X2	₹ 15,000 crore

You are required to

- Determine the acquisition date for Pride Ltd.
- Determine the gain on previously held interest in Pride Ltd. and suggest the accounting treatment on acquisition date as per Ind AS 103.
- Compute the amount of goodwill arising on the acquisition of Famous Ltd.
- Pass necessary journal entry on the acquisition date.

[RTP-May-2024, SM]

Ans.

(i) Acquisition date for accounting of business combination is

The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. In the given case, the acquisition date is 1st April, 20X2 i.e. when Pride Ltd. acquired 100% holding of Famous Ltd.

(ii) Computation of gain on previously held interest

An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture. If the investment in an associate becomes a investment in a subsidiary, the entity shall account for its investment in accordance with Ind AS 103 and Ind AS 110.

Ind AS 103 provides that in a business combination achieved in stages, the acquirer is required to remeasure the previously held equity interest at its acquisition date fair value and recognise any gain or loss in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in the other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

The gain on previously held equity interest in Famous Ltd. is calculated as follows:

Fair value of 30% interest as on 1 st April, 20X2	₹ 4,500 crore
Carrying value of 30% investment as on 31 st March, 20X2	(₹ 4,425 crore)
Gain on previously held interest	₹ 75 crore
Unrealised gain previously recognised in OCI	₹ 50 crore
Total gain recognised in Profit and loss	₹ 125 crore

(iii) Computation of goodwill

For 70% share	₹ 12,500 crore
For 30% share	₹ 4,500 crore
Total amount of purchase consideration	₹ 17,000 crore
Less: Fair value of net identifiable assets	(₹ 15,000 crore)
Goodwill	₹ 2,000 crore

(iv) Journal Entry on 1st April, 20X2

		₹ in crore	
Net Identifiable Assets	Dr.	15,000	
Goodwill (W.N.1)	Dr.	2,000	
Foreign currency translation reserve	Dr.	50	
PPE revaluation reserve	Dr.	25	
To Cash			12,500
To Investment in Associate – Famous Ltd.			4,425
To Retained Earnings (W.N.)			25
To Gain on previously held interest recognised in profit and loss (Refer point (ii) above)			125

Working Note:

The credit to retained earnings represents the reversal of the unrealised gain of ₹ 25 crore in OCI related to the revaluation of PPE. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.

Q. 60

SUBSEQUENT MEASUREMENT – LOSSES

Loss making associate and long-term interests

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 – ₹ 10,00,000
- Preference shares – ₹ 5,00,000
- Long-term loan – ₹ 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 shares as 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.

[SM]

Ans.
Year 1

Below table summarises the closing balance of each of the interest at the end of year 1:

₹

Type of interest	Opening balance at the start of the year	Adjustment as per Ind AS 109	Balance after applying Ind AS 109	Share in profit / (loss) of associate	Closing balance at the end of the year
	(A)	(B)	I = (A+B)	(D)	I = (C+D)
Equity shares	10,00,000	NA	10,00,000	(10,00,000) (4,50,000)	-

Preference shares	5,00,000	(50,000)	4,50,000	<u>(1,50,000)</u>	-
Long-term loan	<u>3,00,000</u>	<u>(50,000)</u>	<u>2,50,000</u>	(16,00,000)	<u>1,00,000</u>
Total	18,00,000	(1,00,000)	17,00,000		1,00,000

The entire loss of ₹ 16,00,000 is recognised. Hence, there is no unrecognised loss at the end of year 1.

Year 2

Below table summarises the closing balance of each of the interest at the end of year 2:

Type of interest	Opening balance at the start of the year	Adjustment as per Ind AS 109	Balance after applying Ind AS 109	Share in profit / (loss) of associate	Closing balance at the end of the year
	(A)	(B)	I = (A+B)	(D)	I = (C+D)
Equity shares	-	NA	-	-	-
Preference shares	-	(50,000)	(50,000)	50,000 *	-
Long-term loan	<u>1,00,000</u>	<u>-</u>	<u>1,00,000</u>	<u>(1,00,000)</u>	<u>-</u>
Total	1,00,000	(1,00,000)	17,00,000	(50,000)	-

* Recognition of changes in fair value as per Ind AS 109 has resulted in the carrying amount of Preference shares being negative ₹ 50,000. Consequently, the entity shall reverse a portion of the associate's losses previously allocated to Preference shares.

Out of the total loss of ₹ 2,00,000 for the year, loss of only ₹ 50,000 is recognized. Hence, there is recognized loss to the extent of ₹ 1,50,000 at the end of year 2.

Year 3

Below table summarises the closing balance of each of the interest at the end of year 3:

Type of interest	Opening balance at the start of the year	Adjustment as per Ind AS 109	Balance after applying Ind AS 109	Share in profit / (loss) of associate	Closing balance at the end of the year
	(A)	(B)	I = (A+B)	(D)	I = (C+D)
Equity shares	-	NA	-	-	-
Preference shares	-	1,00,000	1,00,000	(1,00,000)	-
Long-term loan	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>
Total	-	1,50,000	1,50,000	(1,50,000)	-

The share in profit / loss for the year is nil. However, there was previously unrecognised loss of ₹ 1,50,000 which is allocated in current year. After recognising the above loss, there is no unrecognised loss at the end of year 3.

Year 4

Below table summarises the closing balance of each of the interest at the end of year 4:

Type of interest	Opening balance at the start of the year	Adjustment as per Ind AS 109	Balance after applying Ind AS 109	Share in profit / (loss) of associate	Closing balance at the end of the year
	(A)	(B)	I = (A+B)	(D)	I = (C+D)
Equity shares	-	NA	-	2,00,000	2,00,000
Preference shares	-	50,000	50,000	5,00,000	5,50,000
Long-term loan	-	-	-	3,00,000	3,00,000
Total	-	50,000	50,000	10,00,000	10,50,000

The entity's share in profit of associate for the year is ₹ 10,00,000. The entity shall allocate such profit to each of the instruments in order of their seniority in liquidation. The entity should limit the amount of profit to be allocated to preference shares and long-term loan to the extent of losses previously allocated to them. Hence, the entity has allocated ₹ 5,00,000 to preference shares and ₹ 3,00,000 to long-term debt.

There is no unrecognised loss at the end of year 4.

Year 5

Below table summarises the closing balance of each of the interest at the end of year 5:

Type of interest	Opening balance at the start of the year	Adjustment as per Ind AS 109	Balance after applying Ind AS 109	Share in profit / (loss) of associate	Closing balance at the end of the year
	(A)	(B)	I = (A+B)	(D)	I = (C+D)
Equity shares	2,00,000	NA	2,00,000	10,00,000	12,00,000
Preference shares	5,50,000	30,000	5,80,000	-	5,80,000
Long-term loan	3,00,000	-	3,00,000	-	3,00,000
Total	10,50,000	30,000	10,80,000	10,00,000	20,80,000

The entity's share in profit of associate for the year is ₹ 10,00,000. The entire profit is allocated to equity shares since there is no loss previously allocated to either preference shares or long-term loan.

There is no recognized loss at the end of year 5.

Year 1 to 5

The interest accrual on long-term loan would be done in each year at 10% p.a. This will be done without taking into account any adjustment done in the carrying value of long-term loan as per Ind AS 28. Hence, the entity will accrue interest of ₹ 30,000 (3,00,000 x 10%) in each year.

Notes



Ind AS 113

FAIR VALUE MEASUREMENT

Q. 61**DETERMINATION OF VALUE PER SHARE AS PER INCOME APPROACH**

Silver Ltd. is in the process of acquiring shares of Blue Ltd. as a part of business reorganization plan. The projected free cash flow of Blue Ltd. for the next 5 years is as follows :

(₹ in Crores)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	280.65	281.40	182.70	403.50	518.20
Terminal value					5,945

The weighted average cost of capital of Blue Ltd. is 10%. The total debt as on measurement date is ₹ 2,195 crore and the surplus cash and cash equivalent is ₹ 159.21 crore.

The total number of shares of Blue Ltd. as on the measurement date is 12.80 crore.

You are required to determine the value per share of Blue Ltd. as per Income Approach of Ind AS 113.

(Present value factor of ₹ 1 should be taken upto 4 decimals for the purpose of calculation)

[Nov-2022, May-2025]

Ans.**Determination of Equity Value of Blue Ltd.**

(₹ in crore)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	280.65	281.40	182.70	403.50	518.20
Terminal value					5,945
	280.65	281.40	182.70	403.50	6,463.20
Discount rate @ 10%	0.9091	0.8264	0.7513	0.6830	0.6209
Free cashflow available to the firm	255.14	232.55	137.26	275.59	4,013.00
Total of all years					4,913.54
Less: Debt					(2,195.00)
Add: Cash & cash equivalent					159.21
Equity value of PT Ltd.					2,877.75
No. of shares (in crore)					12.80 Cr.
Per share value (₹ 2,877.75 Cr. / 12.80 Cr)					₹ 224.82

Q. 62**EQUITY VALUATION**

Mr. Q has determined the valuation of Rhythm Ltd. by two approaches i.e., Market Approach and Income Approach and selected the highest as the final value but the management of Rhythm Ltd. is not satisfied and requests you to determine the fair value of shares of Rhythm Ltd. by assigning the weights to Market Approach and Income Approach in the ratio of 7:3.

Determine the Equity value on the basis of details given below:

Particulars	₹
Valuation as per Market Approach	35,82,380
Valuation as per Income Approach	21,99,930

Debt obligation as on measurement date	9,96,812
Surplus cash & cash equivalent	2,10,388
Fair value of surplus assets and liabilities	3,12,449
Number of shares of Rhythm Ltd.	1,06,680 shares

[Dec-2021]

Ans.

Equity Valuation of Rhythm Ltd.

Particulars	Weights out of 10	(₹)
As per Market Approach	7	35,82,380
As per Income Approach	3	21,99,930
Enterprise Valuation based on weights (35,82,380 x 70%)		31,67,645
+ (21,99,930 x 30%)		
Less: Debt obligation as on measurement date		(9,96,812)
Add: Surplus cash & cash equivalent		2,10,388
Add: Fair value of surplus assets and liabilities		<u>3,12,449</u>
Enterprise value of Rhythm Ltd.		<u>26,93,670</u>
No. of shares		1,06,680
Value per share		25.25

Notes



Ind AS 115

REVENUE FROM CONTRACTS WITH CUSTOMERS

Q. 63

INCENTIVE: CHANGE IN ESTIMATE

An entity has a fixed fee contract for ₹ 1 million to develop a product that meets specified performance criteria. Estimated cost to complete the contract is ₹ 950,000. The entity will transfer control of the product over five years, and the entity uses the cost -to-cost input method to measure progress on the contract. An incentive award is available if the product meets the following weight criteria:

Weight (kg)	Award % of fixed fee	Incentive fee
951 or greater	0%	—
701-950	10%	₹ 100,000
700 or less	25%	₹ 250,000

The entity has extensive experience creating products that meet the specific performance criteria. Based on its experience, the entity has identified five engineering alternatives that will achieve the 10 percent incentive and two that will achieve the 25 percent incentive. In this case, the entity determined that it has 95 percent confidence that it will achieve the 10 percent incentive and 20 percent confidence that it will achieve the 25 percent incentive.

Based on this analysis, the entity believes 10 percent to be the most likely amount when estimating the transaction price. Therefore, the entity includes only the 10 percent award in the transaction price when calculating revenue because the entity has concluded it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved due to its 95 percent confidence in achieving the 10 percent award. The entity reassesses its production status quarterly to determine whether it is on track to meet the criteria for the incentive award. At the end of the year four, it becomes apparent that this contract will fully achieve the weight-based criterion. Therefore, the entity revises its estimate of variable consideration to include the entire 25 percent incentive fee in the year four because, at this point, it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when including the entire variable consideration in the transaction price.

Evaluate the impact of changes in variable consideration when cost incurred is as follows:

Year	₹
1	50,000
2	1,75,000
3	4,00,000
4	2,75,000
5	50,000

[SM]

Ans.

[Note: For simplification purposes, the table calculates revenue for the year independently based on costs incurred during the year divided by total expected costs, with the assumption that total expected costs do not change.]

Fixed consideration	A	1,000,000				
Estimated costs to complete*	B	950,000				
		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Total estimated variable consideration	C	100,000	100,000	100,000	250,000	250,000
Fixed revenue	$D=A \times H/B$	52,632	184,211	421,053	289,474	52,632
Variable revenue	$E=C \times H/B$	5,263	18,421	42,105	72,368	13,158
Cumulative revenue adjustment	F(see below)	—	—	—	99,370	—
Total revenue	$G=D+E+F$	57,895	202,632	463,158	461,212	65,790
Costs	H	50,000	175,000	400,000	275,000	50,000
Operating profit	$I=G-H$	7,895	27,632	63,158	186,212	15,790
Margin (rounded off)	$J=I/G$	14%	14%	14%	40%	24%

- * For simplicity, it is assumed there is no change to the estimated costs to complete throughout the contract period.
- * In practice, under the cost-to-cost measure of progress, total revenue for each period is determined by multiplying the total transaction price (fixed and variable) by the ratio of cumulative cost incurred to total estimated costs to complete, less revenue recognized to date.

Calculation of cumulative catch-up adjustment:			
Updated variable consideration	L		250,000
Percent complete in Year 4: (rounded off)	$M=N/O$		95%
Cumulative costs through Year 4	N	900,000	
Estimated costs to complete	O	950,000	
Cumulative variable revenue through Year 4:	P		138,130
Cumulative catch-up adjustment	$F=L \times M-P$		99,370

Q. 64


ALLOCATION OF TP : MEASUREMENT - VOLUME DISCOUNT WITH JE

ABC Limited supplies plastic buckets to wholesaler customers. As per the contract entered into between ABC Limited and a customer for the financial year 2019-20, the price per plastic bucket will decrease retrospectively as sales volume increases within the stipulated time of one year.

The price applicable for the entire sale will be based on sales volume bracket during the year.

Price per unit (INR)	Sales Volume
90	0-10,000 units
80	10,001 – 35,000 units
70	35,001 units & above

All transactions are made in cash.

- Suggest how revenue is to be recognised in the books of accounts of ABC Limited as per expected value method, considering a probability of 15%, 75% and 10% for sales volumes of 9,000 units, 28,000 units and 36,000 units respectively. For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under expected value method for the financial year 2019-20.

- (ii) In case ABC Limited decides to measure revenue, based on most likely method instead of expected value method, how will be the revenue recognised in the books of accounts of ABC Limited based on above available information? For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under most likely value method for the financial year 2019-20.
- (iii) You are required to pass Journal entries in the books of ABC Limited if the revenue is accounted for as per expected value method for financial year 2019-20.

[Nov-2020, MTP-May-2023, MTP-May-2024, MTP-Nov-2023]

Ans.

- (i) **Determination of how revenue is to be recognised in the books of ABC Ltd. as per expected value method**

Calculation of probability weighted sales volume

Sales volume (units)	Probability	Probability-weighted sales volume (units)
9,000	15%	1,350
28,000	75%	21,000
36,000	10%	<u>3,600</u>
		<u>25,950</u>

Calculation of probability weighted sales value

Sales volume (units)	Sales price per unit (₹)	Probability	Probability-weighted sales value (₹)
9,000	90	15%	1,21,500
28,000	80	75%	16,80,000
36,000	70	10%	<u>2,52,000</u>
			<u>20,53,500</u>

Average unit price = Probability weighted sales value / Probability weighted sales volume
 = 20,53,500 / 25,950 = ₹ 79.13 per unit

Revenue is recognised at ₹ 79.13 for each unit sold. First 10,000 units sold will be booked at ₹ 90 per unit and liability is accrued for the difference price of ₹ 10.87 per unit (₹ 90 – ₹ 79.13), which will be reversed upon subsequent sales of 15,950 units (as the question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the expected value method for the financial year 2019-2020). For, subsequent sale of 15,950 units, contract liability is accrued at ₹ 0.87 (80 – 79.13) per unit and revenue will be deferred.

- (ii) **Determination of how revenue is to be recognised in the books of ABC Ltd. as per most likely method**

Note: It is assumed that the sales volume of 28,000 units given under the expected value method, with highest probability is the sales estimated under most likely method too.

Transaction price will be:

28,000 units x ₹ 80 per unit = ₹ 22,40,000

Average unit price applicable = ₹ 80

First 10,000 units sold will be booked at ₹ 90 per unit and liability of ₹ 1,00,000 is accrued for the difference price of ₹ 10 per unit (₹ 90 – ₹ 80), which will be reversed upon subsequent sales of 18,000

units (as question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the most likely method for the financial year 2019-2020).

Note: Alternatively, the question may be solved based on 25,950 units (as calculated under expected value method assuming that the targets were met) as follows:

Transaction price will be :

25,950 units x ₹ 80 per unit = ₹ 20,76,000

Average unit price applicable = ₹ 80.

First 10,000 units sold will be booked at ₹ 90 per unit and liability is accrued for the difference price of ₹ 10 per unit (₹ 90 – ₹ 80), which will be reversed upon subsequent sales of 15,950 units.

(iii)

Journal Entries in the books of ABC Ltd.

(when revenue is accounted for as per expected value method for financial year 2019-2020)

		₹	₹
1.	Bank A/c (10,000 x ₹ 90) Dr. To Revenue A/c (10,000 x ₹ 79.13) To Liability (10,000 x ₹ 10.87) (Revenue recognised on sale of first 10,000 units)	9,00,000	7,91,300 1,08,700
2.	Bank A/c [(25,950 x ₹ 80) - 9,00,000] Dr. Liability Dr. To Revenue A/c (15,950 x ₹ 79.13) (Revenue recognised on sale of remaining 15,950 units (25,950 - 10,000). Amount paid by the customer will be the balance amount after adjusting the excess paid earlier since, the customer falls now in second slab)	11,76,000 86,124	12,62,124
3.	Liability (1,08,700 – 86,124) Dr. To Revenue A/c [25,950 x (80-79.13)] (On reversal of liability at the end of the financial year 2019-2020 i.e. after completion of stipulated time)	22,576	22,576

Alternatively, in place of first two entries, one consolidated entry may be passed as follows:

Bank A/c (25,950 x ₹ 80) Dr.	20,76,000	
To Revenue A/c (25,950 x ₹ 79.13)		
To Liability (25,950 x ₹ 0.87)		20,53,424

Note: In 2nd journal entry, it is assumed that the customer had paid balance amount of ₹ 11,76,000 after adjusting excess ₹ 1,00,000 paid with first lot of sale of 10,000 unit. However, one can pass journal entry with total sales value of ₹ 12,76,000 (15,950 units x ₹ 80 per unit) and later on pass third entry for refund. In such a situation, alternatively, 2nd and 3rd entries would be as follows:

Bank A/c (15,950 x ₹ 80) Dr.	12,76,000	
To Revenue A/c (15,950 x ₹ 79.13)		12,62,124
To Liability		13,876

(Revenue recognised on sale of remaining 15,950 units (25,950 - 10,000))		
Liability (1,08,700 + 13,876)	Dr.	
To Revenue A/c [25,950 x (80-79.13)]		1,22,576
To Bank		22,576
(On reversal of liability at the end of the financial year 2019-2020 i.e. after completion of stipulated time and excess amount refunded)		1,00,000

Q. 65

REWARD POINTS

Big Deal Ltd. is a marketing company having its departmental stores in 'A' class city of India. The company sells the diversified products. For the purpose of increasing sales and attract customers, the company during the financial year 2023-24, has adopted the following policy:

- For every purchase of ₹ 400 the customer is awarded with 6 points.
- Each point is redeemable on any future purchases of company's same departmental store situated in any of 'A' class city within 3 years i.e. upto 31st March, 2026
- Value of each award point is ₹ 0.60

During the financial year 2023-24, the Big Deal Ltd:

- Assessed that the sales of the company during the year 2023-24 is ₹ 150 lakhs.
- Awarded 2,25,000 points to various customers during the year.
- Estimated that out of the awarded points, 54,000 points will remain unredeemed as at 31st March 2024 which shall be eligible for redemption till 31st March, 2026 and;
- Expects only 75% points will be redeemed in the future.

As an accountant of the company, you are required to suggest the accounting treatment (Consolidated Journal Entries) in the following case:

How should the sales and redemption transactions be recognized and recorded as independent transactions in the FY 2023-24 as per Ind AS 115? **[Nov-2024, MTP-Jan-2026]**

Ans.

Points earned on ₹ 1,50,00,000 @ 6 points on every ₹ 400

$$= [(1,50,00,000/400) \times 6] = 2,25,000 \text{ points.}$$

Out of 2,25,000 points, it is estimated that 54,000 points will remain unredeemed in the current year. Further, it is expected that 75% of the unredeemed points will be redeemed in the future.

Accordingly, value of points will be computed as follows:

Value of points redeemed in the current year

$$= (2,25,000 - 54,000) \text{ points} \times ₹ 0.6 \text{ each point} = ₹ 1,02,600$$

Value of points estimated to be redeemed in future

$$= 54,000 \text{ points} \times 75\% \times ₹ 0.6 \text{ each point} = ₹ 24,300$$

Total value of loyalty points = ₹ 1,02,600 + ₹ 24,300 = ₹ 1,26,900

Revenue recognized for sale of goods

$$= ₹ 1,48,74,165 [1,50,00,000 \times (1,50,00,000 / 1,51,26,900)]$$

Revenue for points = ₹ 1,25,835 [1,26,900 x (1,50,00,000 / 1,51,26,900)]

Journal Entry for the year 2023-2024

		₹	₹
Bank A/c	Dr.	1,50,00,000	
To Sales A/c			1,48,74,165
To Liability under Customer Loyalty programme			1,25,835
(On sale of Goods)			
Liability under Customer Loyalty programme	Dr.	1,01,739	
To Sales A/c			1,01,739
(On redemption of (2,25,000 – 54,000) points)			

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year

$$= 54,000 \times 75\% = 40,500 \text{ points}$$

Total points to be redeemed within 3 years

$$= [(2,25,000 - 54,000) + 40,500] = 2,11,500 \text{ points}$$

Revenue to be recognised with respect to discounted points

$$= ₹ 1,25,835 \times (1,71,000 / 2,11,500) = ₹ 1,01,739$$

Note:

The above answer is based on the consideration that 75% likelihood of redemption of award points in future. **Alternatively**, the 75% likelihood of redemption of award points in future might not be considered. In such a case, the answer would be as follows:

Points earned on ₹ 1,50,00,000 @ 6 points on every ₹ 400.

$$= [(1,50,00,000 / 400) \times 6] = 2,25,000 \text{ points.}$$

Out of 2,25,000 points, it is estimated that 54,000 points will remain unredeemed in the current year.

Accordingly, value of points redeemed in the current year

$$= 2,25,000 \text{ points} \times ₹ 0.6 \text{ each point} = ₹ 1,35,000 \text{ Revenue recognized for sale of goods}$$

$$= ₹ 1,48,66,204 [1,50,00,000 \times (1,50,00,000 / 1,51,35,000)]$$

$$\text{Revenue for points} = ₹ 1,33,796 [1,35,000 \times (1,50,00,000 / 1,51,35,000)]$$

Journal Entry for the year 2023-2024

		₹	₹
Bank A/c	Dr.	1,50,00,000	
To Sales A/c			1,48,66,204
To Liability under Customer Loyalty programme			1,33,796
(On sale of Goods)			
Liability under Customer Loyalty programme	Dr.	1,08,175	
To Sales A/c			1,08,175
(On redemption of (2,25,000 – 54,000) points)			

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year

$$= 54,000 \times 75\% = 40,500 \text{ points}$$

Total points to be redeemed within 3 years

$$= [(2,25,000 - 54,000) + 40,500] = 2,11,500 \text{ points}$$

Revenue to be recognised with respect to discounted points

$$= ₹ 1,33,796 \times (1,71,000 / 2,11,500) = ₹ 1,08,175$$

Q. 66

ALLOCATION OF TP/ DISCOUNTS



GTM Limited has provided the following 4 independent scenarios. You are advised to respond to the queries mentioned at the end of each scenario. Support your answer with the relevant extracts of the applicable Ind ASs.

Scenario 1

GTM Limited enters into a contract with a customer to sell product G, T and M in exchange for ₹1,90,000. GTM Limited will satisfy the performance obligations for each of the product at different points in time. GTM Limited regularly sells product G separately and therefore the stand-alone selling price is directly observable. The stand-alone selling prices of product T and M are not directly observable.

Because the stand-alone selling prices for Product T and M are not directly observable, the Company has to estimate them. To estimate the stand-alone selling prices, the Company uses the adjusted market assessment approach for product T and the expected cost plus a margin approach for product M. In making these estimates, the Company maximizes the use of observable inputs.

The entity estimated the stand -alone selling prices as follows:

Product	Stand-alone selling price (₹)
Product G	90,000
Product T	44,000
Product M	66,000
Total	2,00,000

Determine the transaction price allocated to each Product.

Scenario 2

GTM, Limited regularly sells Products G, T and M individually. The standalone selling prices are as under :

Product	Stand-alone selling price (₹)
Product G	90,000
Product T	44,000
Product M	66,000
Total	2,00,000

In addition the Company regularly sells Products T and M together for ₹1,00,000.

The Company enters into a contract with an another Customer to sell Products G, T and M in exchange for ₹1,90,000. GTM Limited will satisfy the performance obligations for each of the products at different points in time; or Product T and M at same point in time.

Determine the allocation of transaction price to Product T and M.

Scenario 3

GTM Limited enters into a contract with a customer to sell products G, T and M as described in scenario 2. The contract also includes a promise to transfer product 'Hope'. Total consideration in the contract is ₹2,40,000. The stand-alone selling price for product 'Hope' is highly variable because the company sells Product Hope' to different customers for a broad range of amounts (₹40,000 to ₹65,000).

Determine the selling price of Products G, T, M and Hope Using the residual approach.

Scenario 4

The same facts as in scenario 3 applies to scenario 4 except that the transaction price is ₹2,25,000 instead of ₹2,40,000.

Discuss how the transaction price should be allocated.

[July-2021]

Ans.

Scenario 1

The customer receives a discount for purchasing the bundle of goods because the sum of the stand-alone selling prices (₹ 2,00,000) exceeds the promised consideration (₹ 1,90,000). The entity considers that there is no observable evidence about the performance obligation to which the entire discount belongs. The discount is allocated proportionately across Products G, T and M. The discount, and therefore the transaction price, is allocated as follows:

Product	Allocated transaction price	
	₹	
Product G	85,500	(₹ 90,000 ÷ ₹ 2,00,000 × ₹ 1,90,000)
Product T	41,800	(₹ 44,000 ÷ ₹ 2,00,000 × ₹ 1,90,000)
Product M	<u>62,700</u>	(₹ 66,000 ÷ ₹ 2,00,000 × ₹ 1,90,000)
Total	<u>1,90,000</u>	

Scenario 2

The contract includes a discount of ₹ 10,000 on the overall transaction, which would be allocated proportionately to all three performance obligations when allocating the transaction price using the relative stand-alone selling price method.

However, because the entity regularly sells Products T and M together for ₹ 1,00,000 and Product G for ₹ 90,000, it has evidence that the entire discount of ₹ 10,000 should be allocated to the promises to transfer Products T and M in accordance with paragraph 82 of Ind AS 115.

If the entity transfers control of Products T and M at the same point in time, then the entity could, as a practical matter, account for the transfer of those products as a single performance obligation. That is, the entity could allocate ₹ 90,000 of the transaction prices to the single performance obligation of G and recognise revenue of ₹ 1,00,000 when Products T and M simultaneously transfer to the customer.

If the contract requires the entity to transfer control of Products T and M at different points in time, then the allocated amount of ₹ 1,00,000 is individually allocated to the promises to transfer Product T (stand-alone selling price of ₹ 44,000) and Product M (stand-alone selling price of ₹ 66,000) as follows:

Product	Allocated transaction price	
	₹	
Product T	40,000	(₹ 44,000 ÷ ₹ 1,10,000 total stand-alone selling price × ₹ 1,00,000)
Product M	<u>60,000</u>	(₹ 66,000 ÷ ₹ 1,10,000 total stand-alone selling price × ₹ 1,00,000)
Total	<u>1,00,000</u>	

Scenario 3

Before estimating the stand-alone selling price of Product Hope using the residual approach, the entity determines whether any discount should be allocated to the other performance obligations in the contract.

As in Scenario 2, because the entity regularly sells Products T and M together for ₹ 1,00,000 and Product G for ₹ 90,000, it has observable evidence that ₹ 1,90,000 should be allocated to those three products and ₹ 10,000 discount should be allocated to the promises to transfer Products T and M in accordance with paragraph 82 of Ind AS 115.

Using the residual approach, the entity estimates the stand-alone selling price of Product Hope to be ₹ 50,000 as follows:

Product	Stand-alone selling price	Method
	₹	
Product G	90,000	Directly observable
Products T and M	1,00,000	Directly observable with discount
Product Hope	<u>50,000</u>	Residual approach
Total	<u>2,40,000</u>	

The entity observes that the resulting ₹ 50,000 allocated to Product Hope is within the range of its observable selling prices (₹ 40,000 to ₹ 65,000).

Scenario 4

The same facts as in Scenario 3 apply to Scenario 4 except the transaction price is ₹ 2,25,000 instead of ₹ 2,40,000. Consequently, the application of the residual approach would result in a stand-alone selling price of ₹ 35,000 for Product Hope (₹ 2,25,000 transaction price less ₹ 1,90,000 allocated to Products G, T and M).

The entity concludes that ₹ 35,000 would not faithfully depict the amount of consideration to which the entity expects to be entitled in exchange for satisfying its performance obligation to transfer Product Hope, because ₹ 35,000 does not approximate the stand-alone selling price of Product Hope, which ranges from ₹ 40,000 to ₹ 65,000.

Consequently, the entity reviews its observable data, including sales and margin reports, to estimate the stand-alone selling price of Product Hope using another suitable method. The entity allocates the transaction price of ₹ 2,25,000 to Products G, T, M and Hope using the relative stand-alone selling prices of those products in accordance with paragraphs 73–80 of Ind AS 115.

Q. 67



ALLOCATION OF TP: VARIABLE CONSIDERATION

An entity enters into a contract with a customer for two intellectual property licences (Licences A and B), which the entity determines to represent two performance obligations each satisfied at a point in time. The stand-alone selling prices of Licences A and B are ₹ 1,600,000 and ₹ 2,000,000, respectively. The entity transfers Licence B at inception of the contract and transfers Licence A one month later.

Case A—Variable consideration allocated entirely to one performance obligation

The price stated in the contract for Licence A is a fixed amount of ₹ 1,600,000 and for Licence B the consideration is three per cent of the customer's future sales of products that use Licence B. For purposes of allocation, the entity estimates its sales-based royalties (i.e. the variable consideration) to be ₹ 2,000,000. Allocate the transaction price.

Case B—Variable consideration allocated on the basis of stand-alone selling prices

The price stated in the contract for Licence A is a fixed amount of ₹ 600,000 and for Licence B the consideration is five per cent of the customer's future sales of products that use Licence B. The entity's estimate of the sales-based royalties (i.e. the variable consideration) is ₹3,000,000. Here, Licence A is transferred 3 months later. The royalty due from the customer's first month of sale is 4,00,000. Allocate the transaction price and determine the revenue to be recognised for each licence and the contract liability, if any.

[MTP-Sept-2025, SM]

Ans.

Case A—Variable consideration allocated entirely to one performance obligation

To allocate the transaction price, the entity considers the criteria in paragraph 85 and concludes that the variable consideration (i.e. the sales-based royalties) should be allocated entirely to Licence B. The entity concludes that the criteria are met for the following reasons:

- (a) the variable payment relates specifically to an outcome from the performance obligation to transfer Licence B (i.e. the customer's subsequent sales of products that use Licence B).
- (b) allocating the expected royalty amounts of ₹ 2,000,000 entirely to Licence B is consistent with the allocation objective in paragraph 73 of Ind AS 115. This is because the entity's estimate of the amount of sales-based royalties (₹ 2,000,000) approximates the stand-alone selling price of Licence B and the fixed amount of ₹ 1,600,000 approximates the stand-alone selling price of Licence A. The entity allocates ₹ 1,600,000 to Licence A. This is because, based on an assessment of the facts and circumstances relating to both licences, allocating to Licence B some of the fixed consideration in addition to all of the variable consideration would not meet the allocation objective in paragraph 73 of Ind AS 115.

The entity transfers Licence B at inception of the contract and transfers Licence A one month later. Upon the transfer of Licence B, the entity does not recognise revenue because the consideration allocated to Licence B is in the form of a sales-based royalty. Therefore, the entity recognises revenue for the sales-based royalty when those subsequent sales occur.

When Licence A is transferred, the entity recognises as revenue the ₹ 1,600,000 allocated to Licence A.

Case B—Variable consideration allocated on the basis of stand-alone selling prices

To allocate the transaction price, the entity applies the criteria in paragraph 85 of Ind AS 115 to determine whether to allocate the variable consideration (i.e. the sales-based royalties) entirely to Licence B.

In applying the criteria, the entity concludes that even though the variable payments relate specifically to an outcome from the performance obligation to transfer Licence B (i.e. the customer's subsequent sales of products that use Licence B), allocating the variable consideration entirely to Licence B would be inconsistent with the principle for allocating the transaction price. Allocating ₹ 600,000 to Licence A and ₹ 3,000,000 to Licence B does not reflect a reasonable allocation of the transaction price on the basis of the stand-alone selling prices of Licences A and B of ₹ 1,600,000 and ₹ 2,000,000, respectively. Consequently, the entity applies the general allocation requirements of Ind AS 115. The entity allocates the transaction price of ₹ 600,000 to Licences A and B on the basis of relative stand-alone selling prices of ₹ 1,600,000 and ₹ 2,000,000, respectively. The entity also allocates the consideration related to the sales-based royalty on a relative stand-alone selling price basis. However, when an entity licenses intellectual property in which the consideration is in the form of a sales-based royalty, the entity cannot recognise revenue until the later of the following events: the subsequent sales occur or the performance obligation is satisfied (or partially satisfied).

Licence B is transferred to the customer at the inception of the contract and Licence A is transferred one month later. When Licence B is transferred, the entity recognises as revenue ₹ 333,333 $[(₹ 2,000,000 \div ₹ 3,600,000) \times ₹ 600,000]$ allocated to Licence B. When Licence A is transferred, the entity recognises as revenue ₹ 266,667 $[(₹ 1,600,000 \div ₹ 3,600,000) \times ₹ 600,000]$ allocated to Licence A.

In the first month, the royalty due from the customer's first month of sales is ₹ 400,000. Consequently, the entity recognises as revenue ₹ 222,222 $(₹ 2,000,000 \div ₹ 3,600,000 \times ₹ 400,000)$ allocated to Licence B (which has been transferred to the customer and is therefore a satisfied performance obligation). The entity recognises a contract liability for the ₹ 177,778 $(₹ 1,600,000 \div ₹ 3,600,000 \times ₹ 400,000)$ allocated to Licence A. This is because although the subsequent sale by the entity's customer has occurred, the performance obligation to which the royalty has been allocated has not been satisfied.

Q. 68

CONSTRUCTION CONTRACTS : COMPREHENSIVE (CONTRACT COSTS)



Nivaan Limited commenced work on two long-term contracts during the financial year ended on 31st March, 2019.

The first contract with A & Co. commences on 1st June, 2018 and had a total sales value of ₹ 40 lakh. It was envisaged that the contract would run for two years and that the total expected costs would be ₹ 32 lakh. On

31st March, 2019, Nivaan Limited revised its estimate of the total expected cost to ₹ 34 lakh on the basis of the additional rectification cost of ₹ 2 lakh incurred on the contract during the current financial year. An independent surveyor has estimated at 31st March, 2019 that the contract is 30% complete. Nivaan Limited has incurred costs up to 31st March, 2019 of ₹ 16 lakh and has received payments on account of ₹ 13 lakh.

The second contract with B & Co. commenced on 1st September, 2018 and was for 18 months. The total sales value of contract was ₹ 30 lakh and the total expected cost is ₹ 24 lakh. Payments on account already received were ₹ 9.50 lakh and total costs incurred to date were ₹ 8 lakh. Nivaan Limited has insisted on a large deposit from B & Co. because the companies had not traded together prior to the contract. The independent surveyor estimated that on 31st March, 2019 the contract was 20% complete.

The two contracts meet the requirement of Ind AS 115 'Revenue from Contracts with Customers' to recognize revenue over time as the performance obligations are satisfied over time.

The company also has several other contracts of between twelve and eighteen months in duration. Some of these contracts fall into two accounting periods and were not completed as at 31st March, 2019. In absence of any financial date relating to the other contracts, you are advised to ignore these other contracts while preparing the financial statements of the company for the year ended 31st March, 2019.

Prepare financial statement extracts for Nivaan Limited in respect of the two construction contracts for the year ending 31st March, 2019.

[Nov-2019, MTP-Dec-2021]

Ans.

Extracts of Balance Sheet of Nivaan Ltd. as on 31 st March, 2019

	₹ in lakh
Current Assets	
Contract Assets- Work-in-progress (Refer W.N. 3)	<u>9.0</u>
Current Liabilities	
Contract Liabilities (Advance from customers) (Refer W.N. 2)	<u>4.5</u>

Extracts of Statement of Profit and Loss of Nivaan Ltd. as on 31 st March, 2019

	₹ in lakh
Revenue from contracts (Refer W.N. 1)	18
Cost of Revenue (Refer W.N. 1)	<u>(16.4)</u>
Net Profit on Contracts (Refer W.N. 1)	<u>1.6</u>

Working Notes:

1. Table showing calculation of total revenue, expenses and profit or loss on contract for the year

₹ in lakh

	A & Co.	B & Co.	Total
Revenue from contracts	$(40 \times 30\%) = 12$	$(30 \times 20\%) = 6$	18
Expenses due for the year	$(34^* \times 30\%) = \underline{10.2}$	$(24 \times 20\%) = \underline{4.8}$	<u>15</u>
Profit or loss on contract	<u>1.8</u>	<u>1.2</u>	<u>3</u>

***Note:** Additional rectification cost of ₹ 2 lakh has been treated as normal cost. Hence total expected cost has been considered as ₹ 34 lakh. However, in case this ₹ 2 lakh is treated as abnormal cost then expense due for the year would be ₹ 11.6 lakh (i.e. 30% of ₹ 32 lakh plus ₹ 2 lakh). Accordingly, with respect to A & Co., the profit for the year would be ₹ 0.4 lakh and work-in-progress recognised at the end of the year would be ₹ 4.4 lakh.

2. Calculation of amount due from / (to) customers **₹ in lakh**

	A & Co.	B & Co.	Total
Billing on the basis of revenue recognised in the books	12	6	18
Payments received from the customers	(13)	(9.5)	(22.5)
Advance received from the customers	1	3.5	4.5

3. Work in Progress recognised as part of contract asset at the end of the year **₹ in lakh**

	A & Co.	B & Co.	Total
Total actual cost incurred during the year	16	8	24
Less: Cost recognised in the books for the year 31.3.2019	(10.2)	(4.8)	(15)
Work-in-progress recognised at the end of the year	5.8	3.2	9.0

Q. 69

SCA: TOLL MOTORWAY



A Ltd. is in the business of the infrastructure and has two divisions under the same; (I) Toll Roads and (II) Wind Power. The brief details of these business and underlying project details are as follows:

- Bhilwara-Jabalpur Toll Project** - The Company has commenced the construction of the project in the current year and has incurred total expenses aggregating to ₹ 50 crores as on 31st December, 20X1. Under IGAAP, the Company has 'recorded such expenses as Intangible Assets in the books of account. The brief details of the Concession Agreement are as follows:

 - Total Expenses estimated to be incurred on the project ₹ 100 crores;
 - Fair Value of the construction services is ₹ 110 crores;
 - Total Cash Flow guaranteed by the Government under the concession agreement is ₹ 200 crores;
 - Finance revenue over the period of operation phase is ₹ 15 crores;
 - Other income relates to the services provided during the operation phase.
- Kolhapur- Nagpur Expressway** - The Company has also entered into another concession agreement with Government of Maharashtra in the current year. The construction cost for the said project will be ₹ 110 crores. The fair value of such construction costs approximately ₹ 200 crores. The said concession agreement is Toll based project and the Company needs to collect the toll from the users of the expressway. Under IGAAP, UK Ltd. has recorded the expenses incurred on the said project as an Intangible Asset.

Required

- What would be the classification of Bhilwara-Jabalpur Toll Project as per applicable Ind AS? Give brief reasoning for your choice.
- What would be the classification of Kolhapur-Nagpur Expressway Toll Project as per applicable Ind AS? Give brief reasoning for your choice.
- Also, suggest suitable accounting treatment for preparation of financial statements as per Ind AS for the above 2 projects.

[Nov-2022, SM]

Ans.

- Here the operator has a contractual right to receive cash from the grantor. The grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator. Hence, operator recognizes a financial asset to the extent it has a contractual right to receive cash.

- (ii) Here the operator has a contractual right to charge users of the public services. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. Therefore, the operator shall recognise an intangible asset to the extent it receives a right (a licence) to charge users of the public service

(iii) **Accounting treatment for preparation of financial statements**

Bhilwara-Jabalpur Toll Project

Journal Entries

	Particulars	Dr. (₹ in crores)	Cr. (₹ in crores)
1	During construction: Financial asset A/c Dr. To Construction revenue [To recognise revenue relating to construction services, to be settled in case]	110	110
2	Cost of construction (profit or loss) Dr. To Bank A/c (As and when incurred) [To recognise costs relating to construction services] During the operation phase:	100	100
3	Financial asset Dr. To Finance revenue (As and when received or due to receive) [To recognise interest income under the financial asset model]	15	15
4	Financial asset Dr. To Revenue [(200-110) - 15] [To recognise revenue relating to the operation phase]	75	75
5	Bank A/c Dr. To Financial asset [To recognise cash received from the grantor]	200	200

Kolhapur-Nagpur Expressway -Intangible asset

Journal Entries

	Particulars	Dr. (₹ in crores)	Cr. (₹ in crores)
1	During construction: Cost of construction (profit or loss) Dr. To Bank A/c (As and when incurred) [To recognise costs relating to construction services]	110	110
2	Intangible asset Dr. To Revenue [To recognise revenue relating to construction services provided for non-cash consideration]	200	200
3	During the operation phase: Amortisation expense Dr. To Intangible asset (accumulated amortisation) [To recognise amortisation expense relating to the operation phase over the period of operation]	200	200
4	Bank A/c Dr. To Revenue [To recognise revenue relating to the operation phase]	?	?

Note: Amount in entry 4 is kept blank as no information in this regard is given in the question.

Ind AS 116

LEASES

Q. 70
REMEASUREMENT OF A LEASE WITH VARIABLE LEASE PAYMENTS


Entity W entered into a contract for lease of retail store with Entity J on January 01/01/20X1. The initial term of the lease is 5 years with a renewal option of further 3 years. The annual payments for initial term and renewal term is ₹ 100,000 and ₹ 110,000 respectively. The annual lease payment will increase based on the annual increase in the CPI at the end of the preceding year. For example, the payment due on 01/01/20X2 will be based on the CPI available at 31/12/20X1.

Entity W's incremental borrowing rate at the lease inception date and as at 01/01/20X4 is 5% and 6% respectively and the CPI at lease commencement date and as at 01/01/20X4 is 120 and 125 respectively.

At the lease commencement date, Entity W did not have a significant economic incentive to exercise the renewal option. In the first quarter of 20X4, Entity W installed unique lease improvements into the retail store with an estimated five-year economic life. Entity W determined that it would only recover the cost of the improvements if it exercises the renewal option, creating a significant economic incentive to extend.

Is Entity W required to remeasure the lease in the first quarter of 20X4?

[SM]

Ans.

Since Entity W is now reasonably certain that it will exercise its renewal option, it is required to remeasure the lease in the first quarter of 20X4.

The following table summarizes information pertinent to the lease remeasurement.

Remeasured lease term	5 years; 2 years remaining in the initial term plus 3 years in the renewal period
Entity W's incremental borrowing rate On the remeasurement date	6%
CPI available on the remeasurement date	125
Right-of-use asset immediately before the remeasurement	₹ 1,81,840 (Refer note 1)
Lease liability immediately before the remeasurement	₹ 1,95,244 (Refer note 1)

To remeasure the lease liability, Entity W would first calculate the present value of the future lease payments for the new lease term (using the updated discount rate of 6%). The following table shows the present value of the future lease payments based on an updated CPI of 125. Since the initial lease payments were based on a CPI of 120, the CPI has increased by 4.167% approx. As a result, Entity W would increase the future lease payments by 4%. As shown in the table, the revised lease liability is ₹ 4,91,376.

Year	4	5	6	7	8	Total
Lease payment	1,04,167	1,04,167	1,14,583	1,14,583	1,14,583	5,52,083
Discount	1	0.943	0.890	0.840	0.792	
Present value	1,04,000	98,230	1,01,979	96,250	90,750	4,91,376

To calculate the adjustment to the lease liability, Entity W would compare the recalculated and original lease liability balances on the remeasurement date.

Revised lease liability	4,91,376
Original lease liability	(1,95,244)
	2,96,132

Entity W would record the following journal entry to adjust the lease liability.

ROU Asset Dr.	2,96,132	
To Lease liability		2,96,132
Being lease liability and ROU asset adjusted on account of remeasurement.		

Working Notes:

1 Calculation of ROU asset before the date of remeasurement

Year beginning	Lease Payment (A)	Present value factor @ 5% (B)	Present value of lease payments (A x B=C)
1	1,00,000	1.000	1,00,000
2	1,00,000	0.952	95,200
3	1,00,000	0.907	90,700
4	1,00,000	0.864	86,400
5	1,00,000	0.823	82,300
Lease liability as at commencement date			4,54,600

2 Calculation of Lease Liability and ROU asset at each year end

Year	Lease Liability				ROU asset		
	Initial value	Lease payments	Interest expense @ 5%	Closing balance	Initial Value	Depreciation for 5 years	Closing balance
1	4,54,600	1,00,000	17,730	3,72,330	4,54,600	90,920	3,63,680
2	3,72,330	1,00,000	13,617	2,85,947	3,63,680	90,920	2,72,760
3	2,85,947	1,00,000	9,297	1,95,244	2,72,760	90,920	1,81,840
4	1,95,244				1,81,840		

Q. 71



MODIFICATION THAT BOTH INCREASES AND DECREASES THE SCOPE OF THE LEASE

Lessee enters into a 10-year lease for 2,000 square metres of office space. The annual lease payments are ₹ 1,00,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6% p.a.

At the beginning of Year 6, Lessee and Lessor agree to amend the original lease to:

- include an additional 1,500 square metres of space in the same building starting from the beginning of Year 6 and
- reduce the lease term from 10 years to eight years. The annual fixed payment for the 3,500 square metres is ₹ 1,50,000 payable at the end of each year (from Year 6 to Year 8). Lessee's incremental borrowing rate at the beginning of Year 6 is 7% p.a.

The consideration for the increase in scope of 1,500 square metres of space is not commensurate with the stand-alone price for that increase adjusted to reflect the circumstances of the contract. Consequently, Lessee does not account for the increase in scope that adds the right to use an additional 1,500 square metres of space as a separate lease.

How should the said modification be accounted for?

[SM]

Ans.

The pre-modification ROU Asset and the pre-modification lease liability in relation to the lease are as follows:

Year	Lease liability				ROU Asset		
	Opening balance	Interest expense @ 6%	Lease payment	Closing balance	Opening balance	Depreciation charge	Closing balance
1	7,35,900*	44,154	(1,00,000)	6,80,054	7,35,900	(73,590)	6,62,310
2	6,80,054	40,803	(1,00,000)	6,20,857	6,62,310	(73,590)	5,88,720
3	6,20,857	37,251	(1,00,000)	5,58,108	5,88,720	(73,590)	5,15,130
4	5,58,108	33,486	(1,00,000)	4,91,594	5,15,130	(73,590)	4,41,540
5	4,91,594	29,496		4,21,090	4,41,540		3,67,950
6	4,21,090				3,67,950		

*Refer Note 4.

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability on the basis of:

- (a) A three-year remaining lease term (i.e. till 8th year), (b) Annual payments of ₹ 1,50,000 and
(c) Lessee's incremental borrowing rate of 7% p.a.

Year	Lease Payments (A)	Present value @ 7% (B)	Present value of lease payments (A x B = C)
1	1,50,000	0.935	1,40,250
2	1,50,000	0.873	1,30,950
3	1,50,000	0.816	1,22,400
Modified lease liability			3,93,600

The modified liability equals ₹ 3,93,600, of which (a) ₹ 1,31,200 relates to the increase of ₹ 50,000 in the annual lease payments from Year 6 to Year 8 and (refer note 1) (b) ₹ 2,62,400 relates to the remaining three annual lease payments of ₹ 1,00,000 from Year 6 to Year 8 with reduction of lease term (Refer Note 3)

Decrease in the lease term:

At the effective date of the modification (at the beginning of Year 6), the pre-modification ROU Asset is ₹ 3,67,950. Lessee determines the proportionate decrease in the carrying amount of the ROU Asset based on the remaining ROU Asset for the original 2,000 square metres of office space (i.e., a remaining three-year lease term rather than the original five-year lease term). The remaining ROU Asset for the original 2,000 square metres of office space is ₹ 2,20,770 [i.e., ₹ (3,67,950 / 5) x 3 years].

At the effective date of the modification (at the beginning of Year 6), the pre-modification lease liability is ₹ 4,21,090. The remaining lease liability for the original 2,000 square metres of office space is ₹ 2,67,300 (i.e., present value of three annual lease payments of ₹ 1,00,000, discounted at the original discount rate of 6% p.a.) (refer note 2).

Consequently, Lessee reduces the carrying amount of the ROU Asset by ₹ 1,47,180 (₹ 3,67,950 – ₹ 2,20,770), and the carrying amount of the lease liability by ₹ 1,53,790 (₹ 4,21,090 – ₹ 2,67,300).

Lessee recognises the difference between the decrease in the lease liability and the decrease in the ROU Asset (₹ 1,53,790 – ₹ 1,47,180 = ₹ 6,610) as a gain in profit or loss at the effective date of the modification (at the beginning of Year 6).

Lease Liability	Dr.	1,53,790	
To ROU Asset			1,47,180
To Gain			6,610

At the effective date of the modification (at the beginning of Year 6), Lessee recognises the effect of the remeasurement of the remaining lease liability reflecting the revised discount rate of 7% p.a., which is ₹ 4,900 (₹ 2,67,300 – ₹ 2,62,400*), as an adjustment to the ROU Asset. *(Refer note 3)

Lease Liability	Dr.	4,900	
To ROU Asset			4,900

Increase in the leased space:

At the commencement date of the lease for the additional 1,500 square metres of space (at the beginning of Year 6), Lessee recognises the increase in the lease liability related to the increase in leased space of ₹ 1,31,200 (i.e., present value of three annual lease payments of ₹ 50,000, discounted at the revised interest rate of 7% p.a.) as an adjustment to the ROU Asset.

ROU Asset	Dr.	1,31,200	
To Lease Liability			1,31,200

The modified ROU Asset and the modified lease liability in relation to the modified lease are as follows:

Year	Lease liability				ROU Asset		
	Opening balance	Interest expense @ 7%	Lease payment	Closing balance	Opening balance	Depreciation charge	Closing balance
6	3,93,600	27,552	(1,50,000)	2,71,152	3,47,070**	(1,15,690)	2,31,380
7	2,71,152	18,981	(1,50,000)	1,40,133	2,31,380	(1,15,690)	1,15,690
8	1,40,133	9,867*	(1,50,000)	-	1,15,690	(1,15,690)	-

*Difference is due to approximation.

**Refer Note 5

Working Notes:

1. Calculation of lease liability on increased consideration:

Year	Lease Payments (A)	Present value @7% (B)	Present value of lease payments (A x B = C)
1	50,000	0.935	46,750
2	50,000	0.873	43,650
3	50,000	0.816	40,800
Modified lease liability			1,31,200

2. Calculation of remaining lease liability for the original contract of 2000 square meters at Original discount rate:

Year	Lease Payments (A)	Present value factor @6% (B)	Present value of lease payments (A x B = C)
1	1,00,000	0.943	94,300

2	1,00,000	0.890	89,000
3	1,00,000	0.840	<u>84,000</u>
Remaining lease liability			<u>2,67,300</u>

3. **Calculation of remaining lease liability for the original contract of 2000 square meters at revised discount rate:**

Year	Lease Payments (A)	Present value factor @7% (B)	Present value of lease payments (A x B = C)
1	1,00,000	0.935	93,500
2	1,00,000	0.873	87,300
3	1,00,000	0.816	<u>81,600</u>
Remaining lease liability			<u>2,62,400</u>

4. **Calculation of Initial value of ROU asset and lease liability:**

Year	Lease Payment (A)	Present value factor @6% (B)	Present value of lease payments (A x B = C)
1	100,000	0.943	94,300
2	100,000	0.890	89,000
3	100,000	0.840	84,000
4	100,000	0.792	79,200
5	100,000	0.747	74,700
6	100,000	0.705	70,500
7	100,000	0.665	66,500
8	100,000	0.627	62,700
9	100,000	0.592	59,200
10	100,000	0.558	<u>55,800</u>
Lease liability as at modification date			<u>7,35,900</u>

5. **Calculation of opening balance of Modified ROU Asset at the beginning of 6th year:**

The remaining ROU Asset for the original 2,000 square metres of office space after decrease in term	2,20,770
Less: Adjustment for increase in interest rate from 6% to 7%	(4,900)
Add: Adjustment for increase in leased space	1,31,200
	<u>3,47,070</u>

Q. 72
LEASE & NON-LEASE COMPONENTS

Identification of lease and non-lease components and allocation of consideration into these components, lease liability & accounting treatment

A consumer products entity, Entity A Limited (lessee) enters into a lease agreement with Entity B Limited (lessor) for a dedicated production line to manufacture one of its store-brand household products for a period

of three years. Entity A Limited has agreed to order a minimum 100,000 units per month and to make a payment to Entity B Limited as per the following agreed rates:

- (i) ₹ 240 per unit if the ordered quantity is between 100,000 to 1,20,000 units;
- (ii) ₹ 246 per unit if the ordered quantity is between 1,20,001 to 1,50,000 units.

As per the terms of the agreement, Entity A Limited has the exclusive right to use the production line. Entity B Limited cannot use the specified production line for any other customer. The type of household product is specified in the contract. Entity A Limited issues instructions to Entity B about the quantity and timing of products to be delivered. If the production line is not producing the household product for Entity A, it remains idle. Entity B Limited operates and maintains the production line on a daily basis. Entity A Limited has estimated that for manufacturing each unit, Entity B Limited incurs an average cost of ₹ 195. Further, the observable stand-alone price for the rent of the production line is ₹ 60,00,000 per month. Entity A Limited's incremental borrowing rate at the commencement date of the lease is 10% per annum.

Entity A Limited concludes that the arrangement contains a lease as per Ind AS 116. It also elects not to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate the non-lease component(s) from the lease component(s). Accordingly, it separates non-lease components from lease components.

You are required:

- (i) Analyse the above and identify lease component(s) and non-lease component(s);
And at the commencement of the lease;
- (ii) Compute and allocate the consideration into lease component(s) & non-lease component(s);
- (iii) Compute the lease liability (the present value factor @10% per annum of 2.49 for 3 years may be adopted);
- (iv) Determine the recognition / treatment of lease component(s) and non-lease component(s). **[Nov-2023]**

Ans.

(i) and (ii) Identification of lease and non-lease components and allocation of consideration into these components

In the given case, the agreement contains a lease component (production line) and a non-lease component (job work). As Entity A has not elected to apply the practical expedient as provided in paragraph 15 of Ind AS 116, it will separate the lease and non-lease components and allocate the total consideration to the lease and non-lease components in the ratio of their relative stand-alone selling prices.

As Entity A is required to purchase a minimum of 1,00,000 units per month at the rate of ₹ 240 per unit, there is in substance fixed payment of ₹ 2,40,00,000 per month – although the payments are structured as variable lease payments, there is no genuine variability in those payments as Entity A is required to purchase a minimum quantity 1,00,000 units per month, i.e., for ₹ 2,40,00,000 per month.

The observable stand-alone price for lease component (which is factory rent) is ₹ 60,00,000. The observable stand-alone price of non-lease component (which is job work charges) is ₹ 1,95,00,000 (₹ 195 x 1,00,000 units).

Entity A is required to allocate the total consideration per month as follows:

Observable standalone price: Lease component	₹ 60,00,000
Observable standalone price: Non-lease component	₹ 1,95,00,000
Total	₹ 2,55,00,000
Lease component as a percentage of observable prices (₹ 60 lakh / ₹ 255 lakh) x 100	23.53%
Allocation of consideration to lease component (₹ 2,40,00,000 x 23.53%)	₹ 56,47,200
Non-lease component (₹ 2,40,00,000 – ₹ 56,47,200)	₹ 1,83,52,800

(iii) Computation of lease liability

The total allocation for a year will be ₹ 6,77,66,400 (₹ 56,47,200 x 12)

As Entity A's incremental borrowing rate is 10%, it discounts lease payments using this rate and the lease liability at the commencement date is calculated as follows:

Lease Liability at commencement date = ₹ 6,77,66,400 x 2.49 = ₹ 16,87,38,336.

(iv) Accounting treatment of lease components and non-lease components

- Entity A recognises lease liability amounting to ₹ 16,87,38,336 as at commencement date based on lease payments amounting to ₹ 56,47,200 per month.
- The remaining amount of ₹ 1,83,52,800 (₹ 2,40,00,000 – ₹ 56,47,200) which is attributable to job work charges is recognised in the statement of profit and loss as and when incurred.

Q. 73
CLASSIFICATION OF LEASE For Lessor

Coups Limited availed a Machine on lease from Ferrari Limited. The terms and conditions of the Lease are as under :

Lease Period is 3 years, Machine costing ₹ 8,00,000.

- Machine has expected useful life of 5 years.
- Machine reverts back to Ferrari Limited on termination of Lease.
- The Unguaranteed Residual value is estimated at ₹ 50,000 at the end of 3rd year.
- 3 equal annual installments are made at the end of each year.
- Implicit Interest Rate (IRR) = 10%.
- Present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is 0.7513.
- Present value of Annuity of ₹ 1 due at the end of 3rd year at 10% IRR is 2.4868.

You are required to ascertain whether it is a Finance Lease or Operating Lease and also calculate Unearned Finance Income with the relevant context to relevant Ind AS. **[Jan-2021]**

Ans.

It is assumed that the fair value of the machine on lease is equivalent to the cost of the machine.

- A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.
- Computation of annual lease payment to the lessor**

	₹
Cost of equipment / fair value	8,00,000
Unguaranteed residual value	50,000
Present value of residual value after third year @ 10% (50,000 x 0.7513)	37,565
Fair value to be recovered from lease payments (8,00,000 – 37,565)	7,62,435
Present value of annuity for three years is 2.4868	
Annual lease payment = 7,62,435 / 2.4868	3,06,593

The present value of lease payment i.e., ₹ 7,62,435 is **more than 95% of the fair market value** i.e., ₹ 8,00,000. The present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) **covers the major part of the life of asset** (i.e. 5 years). Therefore, it constitutes a **finance lease**.

(ii) **Computation of Unearned Finance Income**

	₹
Total lease payments (₹ 3,06,593 x 3)	9,19,779
Add: Unguaranteed residual value	<u>50,000</u>
Gross investment in the lease	9,69,779
Less: Present value of investment (lease payments and residual value) (37,565 + 7,62,435)	<u>(8,00,000)</u>
Unearned finance income	<u>1,69,779</u>

Q. 74

LESSOR ACCOUNTING FOR A FINANCE LEASE → DEALER-LESSOR CASE

A Lessor enters into a 10-year lease of equipment with Lessee. The equipment is not specialised in nature and is expected to have alternative use to Lessor at the end of the 10-year lease term. Under the lease:

- Lessor receives annual lease payments of ₹ 15,000, payable at the end of the year
- Lessor expects the residual value of the equipment to be ₹ 50,000 at the end of the 10-year lease term
- Lessee provides a residual value guarantee that protects Lessor from the first ₹ 30,000 of loss for a sale at a price below the estimated residual value at the end of the lease term (i.e., ₹ 50,000)
- The equipment has an estimated remaining economic life of 15 years, a carrying amount of ₹ 1,00,000 and a fair value of ₹ 1,11,000
- The lease does not transfer ownership of the underlying asset to Lessee at the end of the lease term or contain an option to purchase the underlying asset
- The interest rate implicit in the lease is 10.078%.

How should the Lessor account for the same in its books of accounts?

[SM]

Ans.

Lessor shall classify the lease as a FINANCE LEASE because the sum of the present value of lease payments amounts to substantially all of the fair value of the underlying asset.

At lease commencement, Lessor accounts for the finance lease, as follows:

Net investment in the lease	₹ 1,11,000 ^(a)	
Cost of goods sold	₹ 92,340 ^(b)	
Revenue		₹ 1,03,340 ^(c)
Property held for lease		₹ 1,00,000 ^(d)

To record the net investment in the finance lease and derecognise the underlying asset.

(a) The net investment in the lease consists of:

- (1) the present value of 10 annual payments of ₹ 15,000 plus the guaranteed residual value of ₹ 30,000, both discounted at the interest rate implicit in the lease, which equals ₹ 1,03,340 (i.e., the lease payment) (Refer note 1) AND
- (2) the present value of unguaranteed residual asset of ₹ 20,000, which equals ₹ 7,660 (Refer note 2).

Note that the net investment in the lease is subject to the same considerations as other assets in classification as current or non-current assets in a classified balance sheet.

- (b) Cost of goods sold is the carrying amount of the equipment of ₹ 1,00,000 (less) the present value of the unguaranteed residual asset of ₹ 7,660.
- (c) Revenue equals the lease receivable.
- (d) The carrying amount of the underlying asset.

At lease commencement, Lessor recognises selling profit of ₹ 11,000 which is calculated as = lease payment of ₹ 1,03,340 – [carrying amount of the asset (₹ 1,00,000) – net of any unguaranteed residual asset (₹ 7,660) i.e. which equals ₹ 92,340]

Year 1 Journal entry for a finance lease

Cash	₹ 15,000(e)	
Net investment in the lease		₹ 3,813(f)
Interest income		₹ 11,187(g)

- (e) Receipt of annual lease payments at the end of the year.
- (f) Reduction of the net investment in the lease for lease payments received of ₹ 15,000, net of interest income of ₹ 11,187
- (g) Interest income is the amount that produces a constant periodic discount rate on the remaining balance of the net investment in the lease. Please refer the computation below:

The following table summarises the interest income from this lease and the related amortisation of the net investment over the lease term:

Year	Annual Rental Payment	Annual Interest Income (h)	Net investment at the end of the year
Initial net investment	-	-	1,11,000
1	15,000	11,187	1,07,187
2	15,000	10,802	1,02,989
3	15,000	10,379	98,368
4	15,000	9,914	93,282
5	15,000	9,401	87,683
6	15,000	8,837	81,520
7	15,000	8,216	74,736
8	15,000	7,532	67,268
9	15,000	6,779	59,047
10	15,000	5,953	50,000

- (h) Interest income equals 10.078% of the net investment in the lease at the beginning of each year. For e.g., Year 1 annual interest income is calculated as ₹ 1,11,000 (initial net investment) x 10.078%.
- (i) The estimated residual value of the equipment at the end of the lease term.

Working Notes:

1. Calculation of net investment in lease:

Year	Lease Payment (A)	Present value factor @ 10.078% (B)	Present value of lease payments (A x B = C)
------	-------------------	------------------------------------	---

1	15,000	0.908	13,620
2	15,000	0.825	12,375
3	15,000	0.750	11,250
4	15,000	0.681	10,215
5	15,000	0.619	9,285
6	15,000	0.562	8,430
7	15,000	0.511	7,665
8	15,000	0.464	6,960
9	15,000	0.421	6,315
10	15,000	0.383	5,745
10	30,000	0.383	<u>11,480*</u>
			<u>1,03,340</u>

* Figure has been rounded off for equalization of journal entry.

2. Calculation of present value of unguaranteed residual asset

Year	Lease Payment (A)	Present value factor @ 10.078% (B)	Present value of lease payments (A x B = C)
10	20,000	0.383	7,660

Q. 75

SALE AND LEASEBACK TRANSACTION



An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of ₹ 30,00,000. Immediately before the transaction, the building is carried at a cost of ₹ 15,00,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 20 years, with annual payments of ₹ 2,00,000 payable at the end of each year.

The terms and conditions of the transaction are such that the transfer of the building by Seller- lessee satisfies the requirements for determining when a performance obligation is satisfied in Ind AS 115 Revenue from Contracts with Customers.

The fair value of the building at the date of sale is ₹ 27,00,000. Initial direct costs, if any, are to be ignored. The interest rate implicit in the lease is 12% p.a., which is readily determinable by Seller-lessee.

Buyer-lessor classifies the lease of the building as an operating lease.

How should the said transaction be accounted by the Seller-lessee and the Buyer-lessor? [MTP-May-2024, SM]

Ans.

Considering facts of the case, Seller-lessee and buyer-lessor account for the transaction as a sale and leaseback.

Firstly, since the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer - lessor make adjustments to measure the sale proceeds at fair value. Thus, the amount of the excess sale price of ₹ 3,00,000 (as calculated below) is recognised as additional financing provided by Buyer-lessor to Seller-lessee.

Sale Price:	30,00,000
Less: Fair Value (at the date of sale):	<u>(27,00,000)</u>
Additional financing provided by Buyer-lessor to Seller-lessee	<u>3,00,000</u>

Next step would be to calculate the present value of the annual payments which amounts to ₹ 14,94,000 (calculated considering 20 payments of ₹ 2,00,000 each, discounted at 12% p.a.) of which ₹ 3,00,000 relates to

the additional financing (as calculated above) and balance ₹ 11,94,000 relates to the lease — corresponding to 20 annual payments of ₹ 40,164 and ₹ 1,59,836, respectively (refer calculations below).

Proportion of annual lease payments:

Present value of lease payments (as calculated above)	(A)	14,94,000
Additional financing provided (as calculated above)	(B)	3,00,000
Relating to the Additional financing provided	(C) = (E x B / A)	40,160
Relating to the Lease	(D) = (E - C)	1,59,840
Annual payments (at the end of each year)	(E)	2,00,000

Seller-Lessee:

At the commencement date, Seller-lessee measures the ROU asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right-of-use retained by Seller-lessee, calculated as follows:

Carrying Amount	(A)	15,00,000
Fair Value (at the date of sale)	(B)	27,00,000
Discounted lease payments for the 20-year ROU asset	(C)	11,94,000
ROU Asset	[(A / B) x C]	6,63,333

Seller-lessee recognises only the amount of the gain that relates to the rights transferred to Buyer- lessor, calculated as follows:

Fair Value (at the date of sale)	(A)	27,00,000
Carrying Amount	(B)	15,00,000
Discounted lease payments for the 20-year ROU asset	(C)	11,94,000
Gain on sale of building	(D) = (A - B)	12,00,000
Relating to the right to use the building retained by Seller-lessee	(E) = [(D / A) x C]	5,30,667
Relating to the rights transferred to Buyer-lessor	(D - E)	6,69,333

At the commencement date, Seller-lessee accounts for the transaction, as follows:

Cash	Dr.	30,00,000	
ROU Asset	Dr.	6,63,333	
To Building			15,00,000
To Financial Liability			14,94,000
To Gain on rights transferred			6,69,333

Buyer-Lessor:

At the commencement date, Buyer-lessor accounts for the transaction, as follows:

Building	Dr.	27,00,000	
Financial Asset (20 payments of ₹ 40,160 discounted @ 12% p.a.) (approx.)	Dr.	3,00,000	
To Cash			30,00,000

After the commencement date, Buyer-lessor accounts for the lease by treating ₹ 1,59,840 of the annual payments of ₹ 2,00,000 as lease payments. The remaining ₹ 40,160 of annual payments received from Seller-lessee are accounted for as:

- payments received to settle the financial asset of ₹ 3,00,000 AND
- interest revenue.