



CA FINAL

FINANCIAL REPORTING



FR SUPER QB

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



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A Question Bank by CA. Sarthak Jain for FR

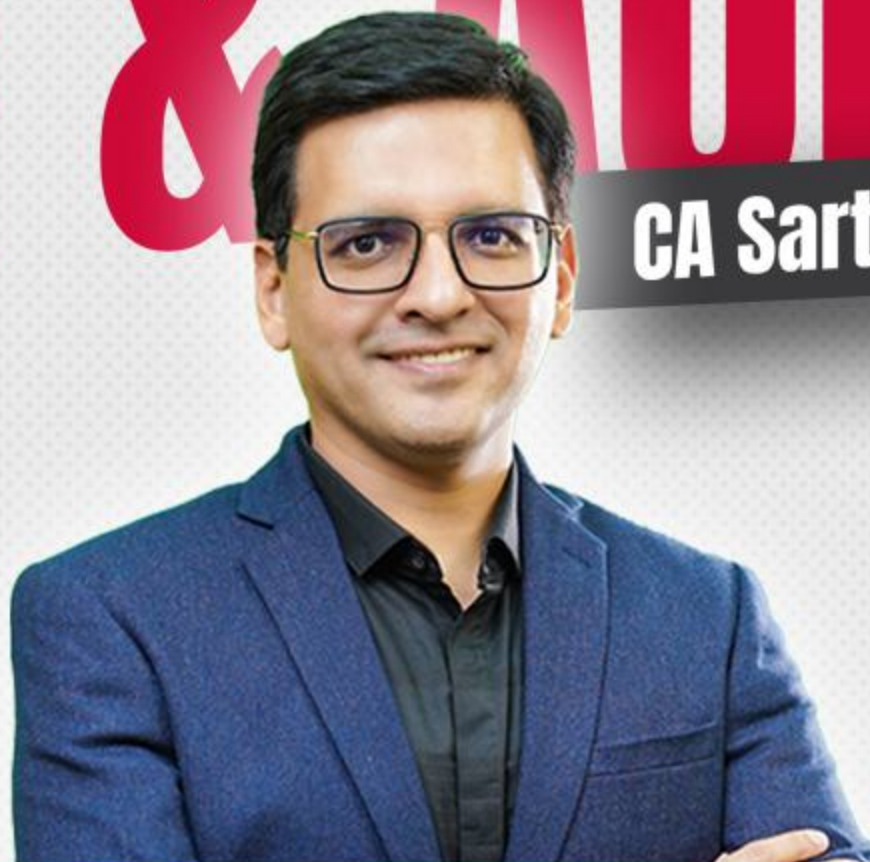
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FR SUPER QB

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INTRODUCTION TO INDIAN ACCOUNTING STANDARDS

Q. 1

APPLICABILITY : ACQUISITION OF ASSOCIATE DURING THE YEAR



Company X, on a standalone basis, has a net worth of above ₹ 500 crore and hence required to comply with Ind AS from financial year 2016-17. Company Y (listed entity), on a standalone basis, has net worth of above INR 250 crore but below ₹ 500 crore and therefore required to comply with Ind AS from financial year 2017-18.

Company X acquires shares of Company Y resulting in Company Y becoming an associate of Company X on October 31, 2016, but before approval of the results for the quarter ended September 2016.

- Whether Company Y will be required to comply with Ind AS from financial year 2016-17 or it will comply from financial year 2017-18?
- If the response is that compliance is from the financial year 2016-17, would the financial results of Company Y for the quarter ended September 30, 2016 be prepared in accordance with Ind AS?

Ans.

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

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

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

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

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

As far as the quarterly results are concerned, since, Company Y has become an associate as on October 31, 2016, Company Y will prepare Ind AS financial statements from the quarter ending December 2016 onwards.

Notes



Ind AS 1

PRESENTATION OF FINANCIAL STATEMENTS

Q. 2

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

Q. 3

CLASSIFICATION

Charm Limited (the 'Company') is a manufacturing company, which is into manufacturing of wires and cables and has assessed its operating cycle to be 15 months. The Company has some trade receivables which are receivable within a period of 12 months from the reporting date i.e. 31st March 2021.

With respect to the following transactions, which took place during the financial year 2020- 21, give your opinion based on relevant Ind AS:

- The Company has received a contract of ₹ 10 crores on 31st March 2021. The terms of the contract require the Company to make a security deposit of 20% of the contract value with the customer. The Company made a security deposit of ₹ 2 crores on 31st March 2021. This contract will be completed in about 14 months. 70%

of the deposit will be refunded immediately and the balance 30% of the deposit will be refunded after 3 months from the completion of the contract. The Company wants to present the security deposit of ₹ 2 crores as non-current. Is the management's decision correct?

- The Company has some trade receivables that are due after 14 months from the date of the balance sheet; the management of the Company expects to receive the amount within the period of the operating cycle. Despite the fact that these are receivables in 14 months, the management would like to present these as current. Is the management's decision correct?
- In the normal course of business, the Company has given 2 contracts and received a total security deposit of ₹ 4 crores. ₹ 3 crores is received from X Limited and ₹ 1 crore is received from Y Limited on 31st March 2021. These are repayable on completion of the contract. However, if the contract is cancelled with the contract term of 18 months, then the deposit becomes payable immediately. The Company is positive about the contract with X Limited but is in doubt about the contract received from Y Limited. The Company wants to present the amount of ₹ 3 crores as non-current and ₹ 1 crore as current in the balance sheet. Is the management's decision correct?
- The Company is planning to replace a machinery. It has given an advance of ₹ 1 crore for purchase of new machinery which will be delivered in 6 months from the date of the balance sheet. It has sold the old machinery for ₹ 0.5 crores, the payment of which is due in 10 months from the date of the balance sheet. The Company wants to present both these amounts as current since they will be settled within twelve months from the end of the reporting period. Is the management's decision correct? **[July-2021, MTP-Jan-2026]**

Ans.

Operating cycle of Charm Limited = 15 months

- (i) The security deposit made by the Company with the customers be classified as current assets to the extent of 70% ($₹ 2 \text{ crore} \times 70\% = ₹ 1.40 \text{ crore}$) as it will be refunded immediately on completion of 14 months of contract i.e. within the operating cycle of 15 months.

However, 30% of the security deposit will be refunded after 3 months of completion of the contract ($14+3 = 17 \text{ months}$) i.e. after 2 months of operating cycle (Operating cycle of the Company is 15 months). Hence, it will be classified as non-current. Therefore, management's decision is not correct. (Refer Para 66 of Ind AS 1)

- (ii) Yes, the Company's decision of presenting the trade receivables as Current Assets is correct despite the fact that these are receivables in 14 months' time since the operating cycle of the company is 15 months and any event arising due to trade will be considered as current if its settlement is within the tenure of operating cycle. Additionally, the Company also need to disclose amounts that are receivable within a period of 12 months and after 12 months from the reporting date. (Refer Para 60 and 61 of Ind AS 1)

- (iii) Paragraph 69(d) of Ind AS 1 states that an entity shall classify a liability as current when it does not have an **unconditional** right to defer settlement of the liability for at least twelve months after the reporting period.

Although it is expected that X Limited will fulfil the contract and the deposit will not be refunded, but in case of cancellation within the contract term, refund of security deposit is a condition that is not within the control of the entity. Hence, Charm Limited does not have an **unconditional** right to defer settlement of the liability for at least twelve months after the reporting period. Accordingly, the deposit will have to be classified as current liability in case of both X and Y Limited.

- (iv) Yes, the management decision to classify the payment of ₹ 0.5 crore as a current asset is correct since the payment will be realised in less than twelve months from the end of the reporting period.

Capital advances are advances given for procurement of Property, Plant and Equipment etc. Typically, companies do not expect to realize them in cash. Rather, over the period, these get converted into non-current assets. Hence, capital advances should be treated as other non-current assets irrespective of

when the Property, Plant and Equipment is expected to be received.

Under Ind AS Schedule III, Capital Advances are not to be classified under Capital Work in Progress since they are specifically to be disclosed under other non-current assets.

Accordingly, advance of ₹ 1 crore given for purchase of machinery is 'Capital advance' which will be classified as non-current as it relates to acquisition of non-current item i.e., machinery. Hence, management decision to classify it as current is incorrect.

Q. 4
COMPREHENSIVE

Following are the Financial Statements of Abraham Ltd.:



Particulars	Note No.	As at 31 March, 2020 (₹ in lakh)
EQUITY AND LIABILITIES:		
Shareholders' funds		
Share capital (shares of ₹ 10 each)		1,000
Reserves and surplus	1	2,400
Non-current liabilities		
Long term borrowings	2	5,700
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		300
Short-term provisions		300
Other current liabilities	4	<u>200</u>
Total		<u>10,300</u>
ASSETS		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	3	700
Current assets		
Inventories		1,500
Trade receivables	5	1,100
Cash and bank balances		<u>2,000</u>
Total		<u>10,300</u>

Statement of Profit & Loss

Particulars	Note No.	Year ended 31 March 2020 (₹ in lakh)
Revenue from operations		<u>6,000</u>
Expenses:		
Employee benefit expense		1,200
Operating costs		3,199
Depreciation		<u>450</u>
Total expenses		<u>4,849</u>
Profit before tax		1,151
Tax expense		<u>201</u>
Profit after tax		<u>950</u>

Notes to Accounts:**Note 1: Reserves and surplus****(₹ in lakh)**

Capital reserve		500
Surplus from P & L		
Opening balance	550	
Additions	<u>950</u>	1,500
Reserve for foreseeable loss		<u>400</u>
Total		<u>2,400</u>

Note 2: Long-term borrowings

Term loan from bank	<u>5,700</u>
Total	<u>5,700</u>

Note 3: Deferred tax

Deferred tax asset	700
Deferred tax liability	<u>400</u>
Total	<u>300</u>

Note 4: Other current liabilities

Unclaimed dividends	10
Billing in advance	150
Other current liabilities	<u>40</u>
Total	<u>200</u>

Note 5: Trade Receivables

Considered good (outstanding within 6 months)	1,065
Considered doubtful (due from past 1 year)	40
Provision for doubtful debts	<u>(5)</u>
Total	<u>1,100</u>

Additional information:

- Share capital comprises of 100 lakh shares of ₹ 10 each.
- Term Loan from bank for ₹ 5,700 lakh also includes interest accrued and due of ₹ 700 lakh as on the reporting date.
- Reserve for foreseeable loss is created (as an expense) against a service contract due within 6 months.
- Inventory is be valued at cost ₹ 1,500 lakh, NRV as on date is ₹ 1,200 lakh.
- A dividend of 10% was declared (proposed) by the Board of directors of the company (after year end)
- Accrued Interest income of ₹ 300 lakh is not booked in the books of the company.
- Deferred taxes related to taxes on income are levied by the same governing tax laws.

Identify and report the errors and misstatements in the above extracts and prepare corrected Balance Sheet and Statement of Profit & Loss and where required the relevant notes to the accounts with explanations thereof.

[MTP-Nov-2020]**Ans.****Following adjustments /rectifications are required to be done**

- Reserve for foreseeable loss for ₹ 400 lakh, due within 6 months, should be a part of provisions. Hence, it needs to be regrouped. If it was also part of previous year's comparatives, a note should be added in

the notes to account on the regrouping done this year.

2. Interest accrued and due of ₹ 700 lakh on term loan will be a part of current liabilities. Thus, it should be shown under the heading “Other Current Liabilities”.
3. As per Ind AS 2, inventories are measured at the lower of cost and net realisable value. The amount of any write down of inventories to net realisable value is recognised as an expense in the period the write-down occurs. Hence, the inventories should be valued at ₹ 1,200 lakh and write down of ₹ 300 lakh (₹ 1,500 lakh – ₹ 1,200 lakh) will be added to the operating cost of the entity.
4. In the absence of the declaration date of dividend in the question, it is presumed that the dividend is declared after the reporting date. Hence, no adjustment for the same is made in the financial year 2019-2020. However, a note will be given separately in this regard (not forming part of item of financial statements).
5. Accrued income will be shown in the Statement of Profit and Loss as ‘Other Income’ and as ‘Other Current Asset’ in the Balance Sheet.
6. Since the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws, these shall be set off, in accordance with Ind AS 12. The net DTA of ₹ 300 lakh will be shown in the balance sheet.
7. As per Division II of Schedule III to the Companies Act, 2013, the Statement of Profit and Loss should present the Earnings per Equity Share.
8. The presentation of the notes to ‘Trade Receivables’ will be modified as per the requirements of Division II of Schedule III.

Balance Sheet of Abraham Ltd. For the year ended 31 March 2020

	<i>Note No.</i>	<i>(₹ in lakh)</i>
ASSETS		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	1	300
Current assets		
Inventories		1,200
Financial assets		
Trade receivables	2	1,100
Cash and cash equivalents		2,000
Others financial asset (accrued interest)		<u>300</u>
TOTAL		<u>9,900</u>
EQUITY AND LIABILITIES		
Equity		
Equity share capital	3	1,000
Other equity	4	2,000
Non-current liabilities		
Financial liabilities		
Long-term borrowings	5	5,000
Current liabilities		
Financial liabilities		
Trade payables		300

Others	6	710
Short-term provisions (300 + 400)	7	700
Other current liabilities	8	<u>190</u>
TOTAL		<u>9,900</u>

Statement of Profit and Loss of Abraham Ltd.
For the year ended 31st March, 2020

	Note No.	(₹ in lakh)
Revenue from operations		6,000
Other income		<u>300</u>
Total income		<u>6,300</u>
Expenses		
Operating costs		3,199
Change in inventories cost	9	300
Employee benefits expense		1,200
Depreciation		<u>450</u>
Total expenses		<u>5,149</u>
Profit before tax		1,151
Tax expense		<u>(201)</u>
Profit for the period		<u>950</u>
Earnings per equity share		
Basic		9.5
Diluted		9.5
Number of equity shares (face value of ₹ 10 each)		100 lakh

Statement of Changes in Equity of Abraham Ltd.
For the year ended 31 March 2020
3. Equity Share Capital (₹ in lakh)

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
1,000	0	1,000

4. Other Equity (₹ in lakh)

Particulars	Reserves & Surplus		Total
	Capital reserve	Retained Earnings	
Balance at the beginning of the year	500*	550	1,050
Total comprehensive income for the year		950	950
Balance at the end of the year	500	1,500	2,000

***Note:** Capital reserve given in the Note 1 of the question is assumed to be brought forward from the previous year. However, alternatively, if it may be assumed as created during the year.

1. Deferred Tax (₹ in lakh)

Deferred Tax Asset	700
Deferred Tax Liability	<u>400</u>
	<u>300</u>

2. Trade Receivables
(₹ in lakh)

	0-6m	6m-12m	Total
Trade receivables considered good	1065	–	1,065
Trade receivables which have significant increase in credit risk	–	40	<u>40</u>
			1105
Less: Provision for doubtful debts			<u>(5)</u>
Total			<u>1,100</u>

5. Long Term Borrowings
(₹ in lakh)

Term Loan from Bank (5,700 - 700)	<u>5,000</u>
Total	<u>5,000</u>

6. Other Financial Liabilities
(₹ in lakh)

Unclaimed dividends	10
Interest on term loan	<u>700</u>
Total	<u>710</u>

7. Short-term provisions
(₹ in lakh)

Provisions	300
Foreseeable loss against a service contract	<u>400</u>
Total	<u>700</u>

8. Other Current Liabilities
(₹ in lakh)

Billing in Advance	150
Other	<u>40</u>
Total	<u>190</u>

9. Dividends not recognised at the end of the reporting period

At year end, the directors have recommended the payment of dividend of 10% i.e. ₹ 1 per equity share. This proposed dividend is subject to the approval of shareholders in the ensuing annual general meeting.

Notes



Ind AS 2 INVENTORIES

Q. 5

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		(2,000)
Net realizable value of by-product BP		30,000

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	5,000	(35,000)
Joint cost to be allocated between MP1 and MP2		3,20,000

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. 6
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>

Q. 7
COST : FINISHED GOODS


Summer Solutions Limited is engaged in the manufacturing of customized gifts for its corporate customers. On 1st December 2022, the company received an order from Rain Limited for the supply of 15,000 customized corporate gifts. On 4th December 2022, to meet the order, Summer Solutions Limited purchased 20,000 kg of certain material at ₹ 110 per kg. The purchase price includes GST of ₹ 10 per kg in respect of which full GST credit is admissible. Freight incurred amounted to ₹ 1,00,000.

During January 2023 the company incurred the following expenses to design the corporate gift for Rain Limited:

- Fee to external designer ₹ 20,000
- Labour ₹ 8,000

After checking the sample of gift, the management of Rain Limited did not approve the design of gift and suggested some modifications. Consequently, the production team of Summer Solutions Limited made modifications to bring the inventories as per the conditions specified in the order.

Following costs were incurred during testing phase :

- Materials ₹ 45,000
- Labour ₹ 20,000
- Depreciation of plant used during testing phase = ₹ 7,000

Some of the materials used during testing phase was scrapped and sold for ₹ 5,000.

During February 2023, Summer Solutions Limited incurred the following additional costs in the manufacturing of customized corporate gifts:

- Consumable stores ₹ 1,25,000
- Labour ₹ 1,42,000
- Depreciation of plant used in manufacturing of customized corporate gifts : ₹ 38,000

On 15th March, 2023 the customized gifts were ready for delivery. There was no abnormal loss during the manufacturing process.

You are required to compute the cost of customized gifts. Your answer should be supported by appropriate reasons and calculations wherever necessary. **[May-2023]**

Ans.

Statement showing computation of inventory cost

Particulars	₹	Reasons
Costs of purchase of raw material	21,00,000	Purchase price of raw material net of GST plus freight [{20,000 x (110-10)} + 1,00,000]
Costs of purchase of consumable stores	1,25,000	Purchase price of consumable stores
Costs of conversion	1,42,000	Direct costs — labour
Production overheads	38,000	Fixed costs — depreciation
Production overheads	28,000	Product design costs and labour cost for specific customer
Other costs	<u>67,000</u>	Refer working note
Total cost of inventories	<u>25,00,000</u>	

Working Note:

Costs of testing product designed for specific customer:

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

Q. 8

COST : FINISHED GOODS : JE



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

- Purchase price of the raw materials = ₹ 30,000;
- Import duty and other non-refundable purchase taxes = ₹ 8,000;

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

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

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

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

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

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

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

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

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

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

[RTP-Nov-2023, SM]

Ans.

Journal Entries for the year 20X1-20X2

		₹	₹
Inventory A/c (W.N.1) Dr.		42,490	
To Cash/Bank A/c			42,490
(To recognise the cost of raw materials purchased)			
Inventory A/c (W.N.2) Dr.		11,240	
To Cash/Bank A/c (cost of direct labour)			5,000
To Property, plant and equipment (accumulated depreciation-factory equipment)			600

To Property, plant and equipment (accumulated depreciation-raw-materials delivery vehicle)		400
To Cash/Bank A/c (cost of electricity used)		300
To Property, plant and equipment (accumulated depreciation-factory supervisor's vehicle)		200
To Cash/Bank A/c (factory management's salaries)		3,000
To Cash/Bank A/c (factory rental)		1,000
To Cash/Bank A/c (administrative salaries attributable to the factory)		610
To Property, plant and equipment (attributable portion of accumulated depreciation-administration building)		100
To Property, plant and equipment (attributable portion of accumulated depreciation- administration vehicles)		30
(To recognise the costs of conversion)		
Inventory A/c (W.N.2) Dr.	200	
To Inventory A/c (consumable stores)		200
(To recognise the costs of consumable stores inventory consumed)		

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

Working Notes:

1. Computation of costs of purchase

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

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

2. Computation of costs of conversion

Description	₹
Direct labour	5,000
Fixed production overheads	
Depreciation and maintenance of factory equipment	600
Depreciation of vehicle used for transporting the goods	400
Depreciation of vehicle used by factory supervisor	200
Factory electricity usage	300
Factory management	3,000

Factory rental	1,000
Other costs of administering the factory	
20% of depreciation of administration building	100
20% of depreciation of administration vehicles	30
20% of administrative staff costs	610
Variable production overheads	
Indirect material—consumables	<u>200</u>
Cost of conversion	<u>11,440</u>

Notes



Ind AS 7

STATEMENT OF CASH FLOWS

Q. 9**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. 10

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>

Q. 11
FOREIGN CURRENCY LOAN


The opening balance sheet at 1st April, 20X6 of an Indian company (which account for its transactions in INR (₹), which consists of cash of ₹ 1,00,000 and share capital of ₹ 100,000. The Company borrows a long term loan on 30th September, 20X6 for US \$ 2,200 when the rate of exchange is 1 US \$ = ₹ 87. There are no other transactions during the year. The exchange rate at the balance sheet date of 31st March, 20X7 is 1 US \$ = ₹ 85.

The summarized balance sheet at 31st March, 20X7 is as follows:

	₹	₹
Assets		
Cash (1,00,000+1,91,400)		2,91,400
		<u>2,91,400</u>
Equity and liabilities		
Capital and reserves		
Share capital	1,00,000	
Other Equity		
Foreign Currency Translation Reserves	4,400	1,04,400
Non- current liabilities		
Long -term loan		1,87,000
Total equity and liabilities		<u>2,91,400</u>

Required:

How the foreign exchange difference arising from unsettled transactions will reflect in the Statement of Cash Flows?
[RTP-May-2025]

Ans.

The foreign currency loan, having been translated at the rate ruling at the receipt date to ₹ 1,91,400 (US \$ 2,200 x ₹ 87), is translated at the balance sheet date to ₹ 1,87,000 (US \$ 2,200 x ₹ 85). The exchange gain of ₹ 4,400 is recognised in the Statement of profit and loss. The cash is made up of ₹ 1,00,000 (received from the share issue) and ₹ 1,91,400 (received on converting the currency loan immediately to ₹).

Statement of Cash Flows

	₹
Cash flows from operating activities	
Profit	4,400
Less: Foreign exchange gain	(4,400)
<i>Net cash flow from operating activities</i> A	<u>0</u>
Cash flows from financing activities	
Receipts of foreign currency loan	<u>1,91,400</u>
<i>Net cash flow from financing activities</i> B	<u>1,91,400</u>
Net increase in cash and cash equivalent A+B	1,91,400
Cash and cash equivalents at the beginning of the reporting period	1,00,000
Cash and cash equivalents at the end of the reporting period*	2,91,400

* Represents year end cash balances.

The exchange gain of ₹ 4,400 does not have any cash flow effect and is related to financing activities. Therefore, it needs to be eliminated from profit. A similar adjustment would be necessary if the loan remains outstanding at 31st March, 20X8.

Notes

Ind AS 8

ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Q. 12

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:

- ₹ 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.
- ₹ 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).
- ₹ 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.
- ₹ 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).
- ₹ 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).
- ₹ 6,000 as previously stated minus ₹ 1,950 (W.N.8) correction of prior period error + 30% (₹ 2,000 change in accounting policy) = ₹ 4,650.
- ₹ 6,500 (products sold and incorrectly included in inventory in 20X1-20X2) – ₹ 1,950 (W.N.8) (tax overstated in 20X1-20X2) = ₹ 4,550.
- ₹ 6,500 (products sold and incorrectly included in inventory in 20X1-20X2) x 30% (income tax rate) = ₹ 1,950.
- ₹ 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.
- ₹ 3,000 (W.N.11) carrying amount ÷ 5 years remaining useful life = ₹ 600 depreciation per year.
- [₹ 6,000 cost minus (₹ 1,500 depreciation x 2 years)] = ₹ 3,000 carrying amount at 31st March, 20X2.
- (₹ 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)).
- ₹ 10,500 (W.N.12) + [₹ 2,000 (W.N.5) x 0.7 (to reflect 30% income tax rate)] = ₹ 11,900.

Q. 13
PRIOR PERIOD ITEM

During 20X4-20X5, Cheery Limited discovered that some products that had been sold during 20X3-20X4 were incorrectly included in inventory at 31st March, 20X4 at 6,500.

Cheery Limited's accounting records for 20X4-20X5 show sales of 104,000, cost of goods sold of 86,500 (including 6,500 for the error in opening inventory), and income taxes of 5,250.

In 20X3-20X4, Cheery Limited reported:

	₹
Sales	73,500
Cost of goods sold	(53,500)
Profit before income taxes	20,000
Income taxes	(6,000)



Profit	<u>14,000</u>
Basic and diluted EPS	2.8

The 20X3-20X4 opening retained earnings was 20,000 and closing retained earnings was 34,000.

Cheery Limited's income tax rate was 30% for 20X4-20X5 and 20X3-20X4. It had no other income or expenses.

Cheery Limited had 50,000 (5,000 shares of 10 each) of share capital throughout, and no other components of equity except for retained earnings.

State how the above will be treated /accounted in Cheery Limited's Statement of profit and loss, statement of changes in equity and in notes wherever required for current period and earlier period(s) as per relevant Ind AS.

[MTP-May-2021, SM]

Ans.

Cheery Limited
Extract from the Statement of profit and loss

	20X4-20X5	(Restated) 20X3-20X4
Sales	1,04,000	73,500
Cost of goods sold	<u>(80,000)</u>	<u>(60,000)</u>
Profit before income taxes	24,000	13,500
Income taxes	<u>(7,200)</u>	<u>(4,050)</u>
Profit	<u>16,800</u>	<u>9,450</u>
Basic and diluted EPS	3.36	1.89

Cheery Limited
Statement of Changes in Equity

	Share capital	Retained earnings	Total
Balance at 31 st March, 20X3	50,000	20,000	70,000
Profit for the year ended 31 st March, 20X4 as restated	—	<u>9,450</u>	<u>9,450</u>
Balance at 31st March, 20X4	50,000	29,450	79,450
Profit for the year ended 31 st March, 20X5	—	<u>16,800</u>	<u>16,800</u>
Balance at 31st March, 20X5	<u>50,000</u>	<u>46,250</u>	<u>96,250</u>

Extract from the Notes

Some products that had been sold in 20X3-20X4 were incorrectly included in inventory at 31st March, 20X4 at ₹ 6,500. The financial statements of 20X3-20X4 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below:

	Effect on 20X3-20X4
(Increase) in cost of goods sold	(6,500)
Decrease in income tax expenses	1,950
(Decrease) in profit	(4,550)
(Decrease) in basic and diluted EPS	(0.91)
(Decrease) in inventory	(6,500)
Decrease in income tax payable	1,950
(Decrease) in equity	(4,550)

There is no effect on the balance sheet at the beginning of the preceding period i.e. 1st April, 20X3.

Q. 14

CLASSIFICATION



In 20X3-20X4, after the entity's 31 March 20X3 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that could not be discovered by reasonable or customary inspection). As a result of the latent defect the entity incurred ₹100,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31 March 20X3. An additional ₹20,000 was incurred to rectify the latent defect in products sold during 20X3-20X4 before the defect was detected and the production process rectified, ₹5,000 of which relates to items of inventory at 31 March 20X3. The defective inventory was reported at cost ₹ 15,000 in the 20X2-20X3 financial statements when its selling price less costs to complete and sell was estimated at ₹18,000. The accounting estimates made in preparing the 31 March 20X3 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Analyse the above situation in accordance with relevant Ind AS.

[RTP-May-2021, RTP-May-2023, SM]

Ans.

Ind AS 8 is applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset. This change in accounting estimate is an outcome of the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Further, the effect of change in an accounting estimate, shall be recognised prospectively by including it in profit or loss in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were approved for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

On the basis of above provisions, the given situation would be dealt as follows:

The defect was neither known nor reasonably possible to detect at 31 March 20X3 or before the financial statements were approved for issue, so understatement of the warranty provision ₹ 1,00,000 and overstatement of inventory ₹ 2,000 (Note 1) in the 31 March 20X3 financial statements are not a prior period errors.

The effects of the latent defect that relate to the entity's financial position at 31 March 20X3 are changes in accounting estimates.

In preparing its financial statements for 31 March 20X3, the entity made the warranty provision and inventory valuation appropriately using all reliable information that the entity could reasonably be expected to have obtained and had taken into account the same in the preparation and presentation of those financial statements. Consequently, the additional costs are expensed in calculating profit or loss for 20X3-20X4.

Working Note:

Inventory is measured at the lower of cost (i.e. ₹ 15,000) and fair value less costs to complete and sell (i.e. ₹ 18,000 originally estimated minus ₹ 5,000 costs to rectify latent defect) = ₹ 13,000.

Q. 15

CLASSIFICATION

You are required to analyse the following cases and advise whether they are related with prior period errors or change in accounting estimate:

- (a) As per the judgement of court an arrear of salaries and wages relating to previous year amounting to ₹ 15,00,000 will be paid in the current year. At the end of previous year, the management of the company was of the opinion that arrears of salaries and wages would not be required to be paid and accordingly no provision was made at the end of previous year.
- (b) Expenses of ₹ 1,50,000 of the previous year which were omitted from books of accounts of the previous year due to an oversight.
- (c) The amount of provision for doubtful debts as at the end of the previous year was ₹ 10,00,000 of which debts of ₹ 6,00,000 were realized during the current year.
- (d) Company had taken a Group Insurance policy. During the previous year due to mistake of Insurance Company the company paid less premium, which insurance company is demanding to pay now.

[Nov-2024, MTP-Jan-2026]

Ans.

- (a) In case, it is assumed that the judgement of court has been received after the approval of previous year's financial statements of the reporting entity and the probability for payment of arrears of salaries and wages was remote in the previous year because of which the entity had neither made any provision or disclosure, then the liability for arrears of salary and wages would be considered as a change in accounting estimate in the current year.

Alternatively, if it is assumed that in case the judgement of court has been received before the approval of financial statements of the previous year, then the entity should have adjusted the liability in that year itself. In the absence of said accounting treatment in the previous year, it will be considered a mistake and would be accounted for as a prior period error.

- (b) In the given case, since the information regarding expenses of ₹ 1,50,000 in the previous year was available with the entity, and was omitted due to an oversight, it will be considered as a prior period error.
- (c) As per para 32 of Ind AS 8, a loss allowance for expected credit losses (i.e. provision for doubtful debts) applying Ind AS 109, Financial Instruments, is an example of accounting estimate. Hence, any change in the previous year's estimate on account of recovery of such loss allowance in the current year would be a change in the accounting estimate in the current year because of the uncertainties inherent in business activities and it is not possible to measure the provision for doubtful debts with precise accuracy.
- (d) This is neither a case of prior period error nor a change in accounting estimates. In the given case, the company did not have any information as on the balance sheet date and it is the mistake committed by the Group Insurance company and not the reporting entity. Hence, the demand for an additional premium amount by the Group Insurance Company will not be considered as a prior period error for the reporting entity. Further, the entity had paid the premium amount in the previous year, so no accounting estimate was involved thereupon. Therefore, the additional demand cannot be considered as a change in accounting estimate for the reporting entity.

Notes

Ind AS 10

EVENTS AFTER THE REPORTING PERIOD

Q. 16
ACCOUNTING TREATMENT AND DISCLOSURE


H Ltd. constructed a warehouse at a cost of ₹ 10 lakhs in 20X1. It first became available for use by H Ltd. on **1st April, 20X2**. On **29th April, 20X6**, H Ltd. discovered that its warehouse was damaged. During early May **20X6**, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely

after heavy rainfall in the week ended 27th April 20X6. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at **31st March 20X6**. This estimate was ₹ 6,00,000. Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30-year useful life.

Seepage of rainwater through the crack in the warehouse caused damage to inventory worth about ₹ 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at **31st March, 20X6**. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st **March, 20X6** were approved for issue by the Board of Directors on 28th **May, 20X6**.

You are required to :

- (i) Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st **March, 20X6**. Kindly ignore tax impact.
- (ii) Discuss disclosure requirement in above case as per relevant Ind AS.
- (iii) Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31st **March, 20X6**? **[Jan-2021, RTP-Nov-2024, SM]**

Ans.

(i) Journal Entries on 31st March 20X6

	₹	₹
Depreciation expense A/c (W.N.1) Dr. To Warehouse or Accumulated depreciation A/c (Being additional depreciation expense recognised for the year ended 31st March 20X6 arising from the reassessment of the useful life of the warehouse)	19,608	19,608
Impairment loss A/c (W.N.2) Dr. To Warehouse or Accumulated depreciation A/c (Being impairment loss recognised due to discovery of structural fault in the construction of warehouse at 31st March 20X6)	2,47,059	2,47,059

- (ii) (a) The damage to warehouse is an adjusting event** (occurred after the end of the year **20X6-20X6**) for the reporting period **20X5-20X6**, since it provides evidence that the structural fault existed at the end of the reporting period. It is an adjusting event, in spite of the fact that fault has been discovered after the reporting date.

The effects of the damage to the warehouse are recognised in the year 20X5-20X6 reporting period. Prior periods will not be adjusted because those financial statements were prepared in good faith (e.g. regarding estimate of useful life, assessment of impairment indicators etc.) and had not affected the financials of prior years

- (b) Damage of inventory due to seepage of rainwater ₹ 1,00,000 occurred during the year **20X5-20X6**. **It is a non-adjusting event** after the end of the **20X5-20X6** reporting period since the inventory was in good condition at 31st **March 20X6**. Hence, no accounting has been done for it in the year **20X5-20X6**.

H Ltd. must disclose the nature of the event (i.e. rain-damage to inventories) and an estimate of the financial effect (i.e. ₹ 1,00,000 loss) in the notes to its 31st **March 20X6** annual financial statements.

- (iii) If the damage to the warehouse had been caused by an event that occurred after 31st **March 20X6** and was not due to structural fault, **then it would be considered as a non-adjusting event** after the end of the reporting period **20X5-20X6** as the warehouse would have been in a good condition at 31st **March 20X6**.

Working Notes:

1. Calculation of additional depreciation to be charged in the year 20X5-20X6

Original depreciation as per SLM already charged during the year **20X5-20X6**

$$= ₹ 10,00,000 / 30 \text{ years} = ₹ 33,333.$$

Carrying value at the end of **20X4-20X5** = 10,00,000 - (₹ 33,333 x 3 years) = ₹ 9,00,000
 Revised depreciation = 9,00,000 / 17 years = ₹ 52,941

Additional depreciation to be recognised in the books in the year **20X5-20X6**

$$= ₹ 52,941 - ₹ 33,333 = ₹ 19,608$$

2. Calculation of impairment loss in the year 20X5-20X6

Carrying value after charging depreciation for the year **20X5-20X6**

$$= ₹ 9,00,000 - ₹ 52,941 = ₹ 8,47,059$$

Recoverable value of the warehouse = ₹ 6,00,000

Impairment loss = Carrying value - Recoverable value

$$= ₹ 8,47,059 - ₹ 6,00,000 = ₹ 2,47,059$$

Q. 17

ADJUSTING OR NON-ADJUSTING



Discuss with reasons whether these events are in nature of adjusting or non -adjusting and the treatment needed in light of accounting standard Ind AS 10.

- (i) Moon Ltd. won an arbitration award on 25 th April, 2019 for ₹ 1 crore. From the arbitration proceeding, it was evident that the Company is most likely to win the arbitration award. The directors approved the financial statements for the year ending 31.03.2019 on 1st May, 2019. The management did not consider the effect of the above transaction in Financial Year 2018-2019, as it was favourable to the Company and the award came after the end of the financial year.
- (ii) Zoom Ltd. has a trading business of Mobile telephones. The Company has purchased 1000 mobiles phones at ₹ 5,000 each on 15th March, 2019. The manufacturers of phone had announced the release of the new version on 1st March, 2019 but had not announced the price. Zoom Ltd. has valued inventory at cost of ₹ 5,000 each at the year ending 31st March, 2019.

Due to arrival of new advance version of Mobile Phone on 8 th April, 2019, the selling prices of the mobile stocks remaining with Company was dropped at ₹ 4,000 each.

The financial statements of the company valued mobile phones @ ₹ 5,000 each and not at the value @ ₹ 4,000 less expenses on sales, as the price reduction in selling price was effected after 31.03.2019.

- (iii) There as an old due from a debtor amounting to ₹ 15 lakh against whom insolvency proceedings was instituted prior to the financial year ending 31 st March, 2019. The debtor was declared insolvent on 15th April, 2019.
- (iv) Assume that subsequent to the year end and before the financial statements are approved, Company's management announces that it will restructure the operation of the company. Management plans to make significant redundancies and to close a few divisions of company's business; however, there is no formal plan yet. Should management recognise a provision in the books, if the company decides subsequent to end of the accounting year to restructure its operations? **[Nov-2019, MTP-Dec-2021]**

Ans.

As per Ind AS 10, the treatment of stated issues would be as under:

- (i) **Adjusting event:** It is an adjusting event as it is the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. Even though winning of award is favorable to the company, it should be accounted in its books as receivable since it is an adjusting event.
- (ii) **Adjusting event:** The sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period, hence it is an adjusting event as per Ind AS 10. Zoom Limited should value its inventory at ₹ 40,00,000.
- (iii) **Adjusting event:** As per Ind AS 10, the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.

The bankruptcy of a customer that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period. Hence, appropriate provision must be made for ₹ 15 lakh.

- (iv) **Non – adjusting event:**

Announcing or commencing the implementation of a major restructuring after reporting period is a non-adjusting event as per Ind AS 10. Though this is a non- adjusting event occurred after the reporting period, yet it would result in disclosure of the event in the financial statements , if restructuring is material.

This would not require provision since as per Ind AS 37, decision to restructure was not taken before or on the reporting date. Hence, it does not give rise to a constructive obligation at the end of the reporting period to create a provision.

Notes



Ind AS 12

INCOME TAXES

Q. 18

**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. 19

**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%)]	7.50	(9.90)
Income tax expense (Current) reported in the Statement of Profit and Loss for the current year		211.65

Q. 20

TAX RECONCILIATION

A's Ltd. profit before tax according to Ind AS for Year 20X1-20X2 is ₹ 100 thousand and taxable profit for year 20X1-20X2 is ₹ 104 thousand. The difference between these amounts arose as follows:

- On 1st February, 20X2, it acquired a machine for ₹ 120 thousand. Depreciation is charged on the machine on a monthly basis for accounting purpose. Under the tax law, the machine will be depreciated for 6 months. The machine's useful life is 10 years according to Ind AS well as for tax purposes.
- In the year 20X1-20X2, expenses of ₹ 8 thousand were incurred for charitable donations. These are not deductible for tax purposes.

Prepare necessary entries as at 31st March 20X2, taking current and deferred tax into account. The tax rate is 25%.

Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation.

[RTP-May-2018, MTP-Dec-2021, SM]

Ans.

Current tax = Taxable profit x Tax rate = ₹ 104 thousand x 25% = ₹ 26 thousand.

Computation of Taxable Profit:

	₹ in thousand
Accounting profit	100
Add: Donation not deductible	8
Less: Excess Depreciation (6-2) Total Taxable profit	(4)
	104

	₹ in thousand	₹ in thousand
Profit & loss A/c Dr.	26	
To Current Tax		26

Deferred tax:

Machine's carrying amount according to Ind AS is ₹ 118 thousand (₹ 120 thousand - ₹ 2 thousand) Machine's carrying amount for taxation purpose = ₹ 114 thousand (₹ 120 thousand - ₹ 6 thousand)

Deferred Tax Liability = ₹ 4 thousand x 25%

	₹ in thousand
Profit & loss A/c Dr.	1
To Deferred Tax Liability	1

Tax reconciliation in absolute numbers:

	₹ in thousand
Profit before tax according to Ind AS	100
Applicable tax rate @ 25%	
Tax	25
Expenses not deductible for tax purposes (₹ 8 thousand x 25%)	2
Tax expense (Current and deferred)	27

Tax rate reconciliation

Applicable tax rate	25%
Expenses not deductible for tax purposes	2%
Average effective tax rate	27%

Q. 21
VARIOUS


K Ltd prepares consolidated financial statements to 31st March each year. During the year ended 31st March 20X2, K Ltd entered into the following transactions:

- On 1st April 20X1, K Ltd purchased an equity investment for ₹ 2,00,000. The investment was designated as fair value through other comprehensive income. On 31st March 20X2, the fair value of the investment was ₹ 2,40,000. In the tax jurisdiction in which K Ltd operates, unrealised gains and losses arising on the revaluation of investments of this nature are not taxable unless the investment is sold. K Ltd has no intention of selling the investment in the foreseeable future.
- On 1st August 20X1, K Ltd sold products to A Ltd, a wholly owned subsidiary operating in the same tax jurisdiction as K Ltd, for ₹ 80,000. The goods had cost to K Ltd for ₹ 64,000. By 31st March 20X2, A Ltd had sold 40% of these goods, selling the remaining during next year.
- On 31st October 20X1, K Ltd received ₹ 2,00,000 from a customer. This payment was in respect of services to be provided by K Ltd from 1st November 20X1 to 31st July 20X2. K Ltd recognised revenue of ₹ 1,20,000 in respect of this transaction in the year ended 31st March 20X2 and will recognise the remainder in the year ended 31st March 20X3. Under the tax jurisdiction in which K Ltd operates, ₹ 2,00,000 received on 31st October 20X1 was included in the taxable profits of K Ltd for the year ended 31st March 20X2.

Explain and show how the tax consequences (current and deferred) of the three transactions would be reported in its statement of profit or loss and other comprehensive income for the year ended 31st March 20X2. Assume tax rate to be 25%. **[SM]**

Ans.

- Because the unrealised gain on revaluation of the equity investment is not taxable until sold, there are no current tax consequences. The tax base of the investment is ₹ 2,00,000. The revaluation creates a taxable temporary difference of ₹ 40,000 (₹ 2,40,000 – ₹ 2,00,000).
This creates a deferred tax liability of ₹ 10,000 (₹ 40,000 x 25%). The liability would be non-current. The fact that there is no intention to dispose of the investment does not affect the accounting treatment. Because the unrealised gain is reported in other comprehensive income, the related deferred tax expense is also reported in other comprehensive income.
- When K Ltd sold the products to A Ltd, K Ltd would have generated a taxable profit of ₹ 16,000 (₹ 80,000 – ₹ 64,000). This would have created a current tax liability for K Ltd and the group of ₹ 4,000 (₹ 16,000 x 25%). This liability would be shown as a current liability and charged as an expense in arriving at profit or loss for the period.

In the consolidated financial statements the carrying value of the unsold inventory would be ₹ 38,400 (₹ 64,000 x 60%). The tax base of the unsold inventory would be ₹ 48,000 (₹ 80,000 x 60%). In the consolidated financial statements, there would be a deductible temporary difference of ₹ 9,600 (₹ 38,400 – ₹ 48,000) and a potential deferred tax asset of ₹ 2,400 (₹ 9,600 x 25%). This would be recognised as a deferred tax asset since A Ltd is expected to generate sufficient taxable profits against which to utilise the deductible temporary difference. The resulting credit would reduce consolidated deferred tax expense in arriving at profit or loss.

- (c) The receipt of revenue in advance on 1st October 20X1 would create a current tax liability of ₹ 50,000 (₹ 200,000 x 25%) as at 31st March 20X2. The carrying value of the revenue received in advance at 31st March 20X2 is ₹ 80,000 (₹ 200,000 – ₹ 120,000). Its tax base is nil. The deductible temporary difference of ₹ 80,000 would create a deferred tax asset of ₹ 20,000 (₹ 80,000 x 25%). The asset can be recognised because K Ltd has sufficient taxable profits against which to utilise the deductible temporary difference.

Q. 22
BUSINESS COMBINATION


On 1 April 20X1, A Ltd. acquired 12 Cr. shares (representing 80% stake) in B Ltd. by means of a cash payment of ₹ 25 Cr. It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at fair value. The market value of an equity share in B Ltd. at 1 April 20X1 can be used for this purpose. On 1 April 20X1, the market value of a B Ltd. share was ₹ 2.00

On 1 April 20X1, the individual financial statements of B Ltd. showed the net assets at ₹ 23 Cr.

The directors of A Ltd. carried out a fair value exercise to measure the identifiable assets and liabilities of B Ltd. at 1 April 20X1. The following matters emerged:

- Property having a carrying value of ₹ 15 Cr. at 1 April 20X1 had an estimated market value of ₹ 18 Cr. at that date.
- Plant and equipment having a carrying value of ₹ 11 crore at 1 April 20X1 had an estimated market value of ₹ 13 Cr. at that date.
- Inventory in the books of B Ltd. is shown at a cost of ₹ 2.50 Cr. The fair value of the inventory on the acquisition date is ₹ 3 Cr.

The fair value adjustments have not been reflected in the individual financial statements of B Ltd. In the consolidated financial statements, the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary differences is 20%.

Calculate the deferred tax impact on above and calculate the goodwill arising on acquisition of B Ltd.

[MTP-Dec-2021, MTP-Jan-2026, SM]

Ans.

Purchase Consideration:	₹ 25 Cr.
Non-Controlling Interest [(12 Cr. x (20% / 80%)) x ₹ 2 per share]	₹ 6 Cr.

Computation of Net Assets of B Ltd.

As per books	₹ 23.00 Cr.
Add: Fair value differences not recognized in books of B Ltd.:	
Property (18 Cr. – 15 Cr.)	₹ 3.00 Cr.
Plant and Equipment (13 Cr. – 11 Cr.)	₹ 2.00 Cr.
Inventory (3 Cr. – 2.5 Cr.)	<u>₹ 0.50 Cr.</u>
	₹ 28.5 Cr.

Less: Deferred tax liability on fair value difference @ 20%

[(3 Cr. + 2 Cr. + 0.50 Cr.) x 20%]	<u>(₹ 1.10 Cr.)</u>
Total Net Assets at Fair Value	<u>₹ 27.40 Cr.</u>

Computation of Goodwill:

Purchase Consideration	₹ 25.00 Cr.
Add: Non-Controlling Interest	<u>₹ 6.00 Cr.</u>
	₹ 31.00 Cr.
Less: Net Assets at Fair Value	<u>(₹ 27.40 Cr.)</u>
Goodwill on acquisition date	<u>₹ 3.60 Cr.</u>

Q. 23

RoU ASSET

On 1st April 20X1, S Ltd. leased a machine over a 5 year period. The present value of lease liability is ₹ 120 Cr (discount rate of 8%) and is recognized as lease liability and corresponding Right of Use (RoU) Asset on the same date. The RoU Asset is depreciated under straight line method over the 5 years. The annual lease rentals are ₹ 30 Cr payable starting 31st March 20X2. The tax law permits tax deduction on the basis of payment of rent.

Assuming tax rate of 30%, you are required to explain the deferred tax consequences for the above transaction for the year ended 31st March 20X2. **[MTP-May-2025, SM]**

Ans.

A temporary difference effectively arises between the value of the machine for accounting purposes and the amount of lease liability, since the rent payment is eligible for tax deduction.

Tax base of the machine is nil as the amount is not eligible for deduction for tax purposes.

Tax base of the lease liability is nil as it is measured at carrying amount less any future tax deductible amount

Recognition of deferred tax on 31st March 20X2:

Carrying amount in balance sheet	
RoU Asset (120 Cr – 24 Cr (Depreciation))	₹ 96.00 Dr
Lease Liability (120 Cr + 9.60 Cr (120 Cr x 8%) - 30 Cr)	₹ 99.60 Cr
Net Amount	₹ 3.60 Cr
Tax Base	₹ 0.00 Cr
Temporary Difference (deductible)	₹ 3.60 Cr
Deferred Tax asset to be recognized (₹ 3.60 Cr x 30%)	₹ 1.08 Cr

Q. 24

SHARE BASED PAYMENT

On 1st April 20X1, P Ltd. had granted 1 Cr share options worth ₹ 4 Cr subject to a two-year vesting period. The income tax law permits a tax deduction at the exercise date of the intrinsic value of the options. The intrinsic value of the options at 31st March 20X2 was ₹ 1.60 Cr and at 31st March 20X3 was ₹ 4.60 Cr. The increase in the fair value of the options on 31st March 20X3 was not foreseeable at 31st March 20X2. The options were exercised at 31st March 20X3.

Give the accounting for the above transaction for deferred tax for period ending 31st March, 20X2 and 31st March, 20X3. Assume that there are sufficient taxable profits available in future against any deferred tax assets. Tax rate of 30% is applicable to P Ltd. **[SM]**

Ans.

On 31st March 20X2:

The tax benefit is calculated as under:

Carrying amount of Share based payment	₹ 0.00 Cr
Tax Base of Share based payment (₹ 1.60 Cr x ½)	₹ 0.80 Cr
Temporary Difference (Carrying amount – tax base)	₹ 0.80 Cr

Deferred Tax Asset recognized (Temporary Difference x Tax rate)

(0.80 Cr x 30%)

₹ 0.24 Cr

Journal Entry for above:

Deferred Tax Asset	Dr.	₹ 0.24 Cr
To Tax Expense		₹ 0.24 Cr

(Being DTA recognized on equity option)

On 31st March 20X3:

The options have been exercised and a current tax benefit will be available to the entity on the basis of intrinsic value of ₹ 4.60 Cr. Initially recognized deferred tax asset will no longer be required.

The accounting entry will be done as under:

Tax Expense	Dr.	₹ 0.24 Cr
To Deferred Tax Asset		₹ 0.24 Cr

(Being DTA reversed on the exercise of the option)

Notes



Ind AS 16

PROPERTY, PLANT AND EQUIPMENT

Q. 25
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. 26**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	<u>(7,200)</u>
Net assets	<u>1,07,000</u>
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. 27
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. 28
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
		_____	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
			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
			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
			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
			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%			(W.N.2)	
		<u>1,75,000</u>	31.3.2X07	By Balance c/d	<u>16,50,000</u>
		<u>19,25,000</u>			<u>19,25,000</u>
1.4.2X07	To Balance b/d	16,50,000	31.3.2X08	By Depreciation	2,75,000
			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
			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

Q. 29

DEPRECIATION : SELF CONSTRUCTED ASSET



Flying Airways Ltd is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries.

On 1 April 20X1, the company began the construction of a new production line in its aircraft parts manufacturing shed.

Costs relating to the production line are as follows:

Details	Amount ₹ '000
Costs of the basic materials (list price ₹12.5 million less a 20% trade discount)	10,000
Recoverable goods and services taxes incurred not included in the purchase cost	1,000
Employment costs of the construction staff for the three months to 30 June 20X1	1,200
Other overheads directly related to the construction	900
Payments to external advisors relating to the construction	500
Expected dismantling and restoration costs	2,000

Additional Information

The construction staff was engaged in the production line, which took two months to make ready for use and was brought into use on 31 May 20X1.

The other overheads were incurred in the two months period ended on 31 May 20X1. They included an abnormal cost of ₹3,00,000 caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. At the end of that time Flying Airways Ltd is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of ₹2 million mentioned above is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate rate to use in any discounting calculations is 5%. The present value of Re.1 payable in eight years at a discount rate of 5% is approximately Re.0.68.

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

The Company computes its depreciation charge on a monthly basis. No impairment of the plant had occurred by 31 March 20X2.

Analyze the accounting implications of costs related to production line to be recognized in the balance sheet and profit and loss for the year ended 31 March, 20X2. [May-2020]

Ans.

Statement showing Cost of production line:

Particulars	Amount ₹'000
Purchase cost	10,000
Goods and services tax – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use (1,200 x 2 months / 3 months)	800
Other overheads – abnormal costs	600
Payment to external advisors – directly attributable cost	500
Dismantling costs – recognized at present value where an obligation exists (2,000 x 0.68)	1,360
Total	13,260

Carrying value of production line as on 31st March, 20X2:

Particulars	Amount ₹'000
Cost of Production line	13,260
Less: Depreciation (W.N.1)	(1,694)
Net carrying value carried to Balance Sheet	11,566

Provision for dismantling cost:

Particulars	Amount ₹'000
Non-current liabilities	1,360
Add: Finance cost (WN3)	57
Net book value carried to Balance Sheet	1,417

Extract of Statement of Profit & Loss

Particulars	Amount ₹ '000
Depreciation (W.N.1)	1,694
Finance cost (W.N.2)	57
Amounts carried to Statement of Profit & Loss	1,751

Extract of Balance Sheet

Particulars	Amount ₹ '000
Assets	
Non-current assets	
Property, plant and equipment	11,566
Equity and liabilities	
Non-current liabilities	
Other liabilities	
Provision for dismantling cost	1417

Working Notes:
1. Calculation of depreciation charge

Particulars	Amount ₹ '000
In accordance with Ind AS 16 the asset is split into two depreciable components: Out of the total capitalization amount of 13,260, Depreciation for 3,000 with a useful economic life (UEL) of four years ($3,000 \times \frac{1}{4} \times 10/12$). This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life	625
For balance amount, depreciation for 10,260 with an useful economic life (UEL) of eight years will be : $10,260 \times \frac{1}{8} \times 10/12$	1,069
Total (To Statement of Profit & Loss for the year ended 31st March 20X2)	1,694

2. Finance costs

Particulars	Amount ₹ '000
Unwinding of discount (Statement of Profit and Loss – finance cost) $1,360 \times 5\% \times 10/12$	57
To Statement of Profit & Loss for the year ended 31 st March 20X2	57

Q. 30

**COSTS : COMPREHENSIVE**

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

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

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

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

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

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

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

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

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

What is the cost of the equipment at initial recognition?

[RTP-May-2022, MTP-May-2023, SM]

Ans.

Description	Calculation or reason	₹
Purchase price	₹ 600,000 purchase price minus ₹ 50,000 refundable purchase taxes	550,000
Loan raising fee	Offset against the measurement of the liability	-
Transport cost	Directly attributable expenditure	20,000
Installation costs	Directly attributable expenditure	100,000
Environmental restoration costs	The obligation to dismantle and restore the environment arose from the installation of the equipment	100,000
Preparation costs	₹ 55,000 materials + ₹ 65,000 labour + ₹ 15,000 depreciation	135,000
Training costs	Recognised as expenses in profit and loss account. The equipment was capable of operating in the manner intended by management without incurring the training costs.	-
Cost of testing	₹ 21,000 materials (i.e. net of the ₹ 3,000 recovered from the sale of the scrapped output) + ₹ 16,000 labour	37,000
Operating loss	Recognised as expenses in profit and loss account	-
Borrowing costs	Recognised as expenses in profit and loss account	-
Cost of equipment		9,42,000

Q. 31

CLASSIFICATION : CLASSES OF PROPERTY, PLANT AND EQUIPMENT



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

- Property A — a vacant plot of land on which it intends to construct its new administration headquarters;
- Property B — a plot of land that it operates as a landfill site;
- Property C — a plot of land on which its existing administration headquarters are built;
- Property D — a plot of land on which its direct sales office is built;
- Properties E1-E10 — ten separate retail outlets and the land on which they are built;
- Equipment A — computer systems at its headquarters and direct sales office that are integrated with the point of sale computer systems in the retail outlets;
- Equipment B — point of sale computer systems in each of its retail outlets;
- Furniture and fittings in its administrative headquarters and its sales office;
- Shop fixtures and fittings in its retail outlets.

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

[May-2021, SM]

Ans.

To answer this question one must make a materiality judgement.

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

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

Consequently, land without a building is a separate class of asset from land and buildings. Furthermore, the nature and use of land operated as a landfill site is different from vacant land. Hence, the entity should disclose Property A separately. The entity must apply judgement to determine whether the entity's retail outlets are sufficiently different in nature and use from its office buildings, and thus constitute a separate class of land and buildings.

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

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

Notes



Ind AS 19

EMPLOYEE BENEFITS

Q. 32

**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. 33
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 × 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

Q. 34

DCS : WITH STEB

Leave encashment, Bonus and Defined Contribution Scheme

Diamond Pvt. Ltd. has a headcount of around 1,000 employees in the organisation in financial year 2019-20. As per the company's policy, the employees are given 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave. Out of the total PL and sick leave, 10 PL leave and 5 sick leave can be carried forward to next year. On the basis of past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 days of PL and 5 days of SL.

Also the company has been earning profits since 2010. It has decided in financial year 2019-20 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diamond Pvt. Ltd. is expected to be around 3.5%. The profits earned during the financial year 2019-20 are ₹ 4,000 crores.

Diamond Pvt. Ltd. has a post-employment benefit plan which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 200 crores which will fall due within 12 months from the end of accounting period.

The company has paid ₹ 40 crores to this plan in financial year 2019-20.



What would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of Diamond Pvt. Ltd. ?
[Nov-2020, MTP-May-2022]

Ans.

- (i) **Treatment of short-term compensating absences:** Diamond Pvt. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2019-2020 as short-term compensated absences
- (ii) **Treatment of profit sharing plan:** Diamond Pvt. Ltd. will recognise ₹ 140 crores (4,000 x 3.5%) as a liability and expense in its books of account.
- (iii) **Treatment of defined contribution plan:** When an employee has rendered service to an entity during a period, the entity shall recognise the contribute on payable to a defined contribution plan in exchange for that service.

Under Ind AS 19, the amount of ₹ 160 crores (200-40) will be recognised as a liability (accrued expense), after deducting any contribution already paid i.e. ₹ 40 crores (with contribution of ₹ 200 crores to the plan) and an expense in the statement of profit and loss.

It can also be seen that the contributions are payable within 12 months from the end of the year in which the employees render the related service; hence, they will not be discounted.

Q. 35



DBS : CSC & INTEREST

AJ Ltd is engaged in the business of trading of chemicals having a net worth of ₹ 150 crores. The company's profitability is good and hence the company has introduced various benefits for its employees to keep them motivated and to ensure that they stay with the organization. The company is an associate of RJ Ltd which is listed on Bombay Stock Exchange in India.

The company initially did not have any HR function but over the last 2 years, the management set up that function and now HR department takes care of all the benefits related to the employees and how they can be structured in a manner beneficial to both the employees and the objectives of the company.

One of the employee benefits involves a lump sum payment to employee on termination of service and that is equal to 1 per cent of final salary for each year of service. Consider the salary in year 1 is ₹ 10,000 and is assumed to increase at 7 per cent (compound) each year. Taking a discount rate at 10 per cent per year, you are required to show

- (a) benefits attributed (year on year) and
 (b) the obligation in respect of this benefit (year on year)

For an employee who is expected to leave at the end of year 5

Following assumptions may be taken to solve this:

- There are no changes in actuarial assumptions.
- No additional adjustments are needed to reflect the probability that the employee may leave the entity at an earlier or later date.

[MTP-May-2024, SM, MTP-May-2026]

Ans.

- a. Computation of benefit attributed to prior years and current year:

Amount in ₹

Year	1	2	3	4	5
Benefit attributed to:					
- Prior years	-	131	262	393	524
- Current year (Refer W.N.1)	131	131	131	131	131
Total (i.e. current and prior years)	131	262	393	524	655

- b. Computation of the obligation for an employee who is expected to leave at the end of year 5 (taking discount rate of 10% p.a.)

Amount in ₹

Year	1	2	3	4	5
Opening obligation (A)	-	89	196	324	475
Interest at 10% B = (A X 10%)	-	9	20	32	47
Current service cost (C) (Refer WN 2)	89	98	108	119	131
Closing obligation D = (A+B+C)	89	196	324	475	653

Figures have been rounded off in the above table.

Working Notes

- A lump sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in year 1 is ₹ 10,000 and is assumed to increase at 7 per cent (compound) each year. The year on year salary would be as follows: ₹

Year	1	2	3	4	5
Salary	10,000	10,700 (10,000 x 107%)	11,449 (10,700 x 107%)	12,250 (11,449 x 107%)	13,108 (12,250 x 107%)

Accordingly, for the purpose of above mentioned employee benefit, 1% of final salary to be considered for each year of service would be ₹ 131.

- Computation of current service cost:

CA Inter SM HW = 15

Year	1	2	3	4	5
1% salary at the end of year 5	-	-	-	-	131
PV factor at the end of each year to be considered at 10% p.a. (E)	0.683	0.751	0.826	0.909	1.000
PV at the end of each year	89 (131 x E)	98 (131 x E)	108 (131 x E)	119 (131 x E)	131 (131 x E)

Accordingly, for the purpose of above-mentioned employee benefit, 1% of final salary to be considered for each year of service would be ₹ 131.

Notes



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

Q. 36

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)
(ICAI Solution is debatable) [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 x (130/360)	38,333	(60,000 – 21,667)
2	1,10,000	18,333	60,000 x (110/360)	20,000	(38,333 – 18,333)
3	<u>1,20,000</u> <u>3,60,000</u>	<u>20,000</u> <u>60,000</u>	60,000 x (120/360)	-	(20,000 – 20,000)

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.

Q. 37**CONCESSIONAL INTEREST RATE LOAN & REFUND :**

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

- If a manufacturer installs certain pre-approved wastewater treatment plant, the government will provide an interest free loan equal to 50% of the cost of the plant;
- Such loan will be repayable to the government in 5 years from the date of disbursal;
- The manufacturer availing the benefit of this scheme must treat the wastewater of its factory using the specified plant before releasing it to the river. If this condition is violated, the entire loan shall become immediately repayable to the government along with a penalty of ₹ 10 lakh.

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

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

Measure the amount of government grant as on 1st April, 20X1. Determine the nature of the government grant and its accounting treatment (principally) for the year ended 31st March, 20X2. Also determine the impact on profit or loss if any, on account of revocation of government grant as on 31st March, 20X3. **[RTP-May-2022, SM]**

Ans.

As per the principles of Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance', the benefits of a government loan at a below market rate of interest is treated as a government grant. The loan shall be recognized and measured in accordance with Ind AS 109, Financial Instruments'. The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109 and the proceeds received. The benefit is accounted for in accordance with Ind AS 20. As per Ind AS 109, the loan should be initially measured at its fair value.

Initial recognition of grant as on 1st April, 20X1

Fair value of loan = ₹ 25,00,000 x 0.567 (PVF @ 12%, 5th year) = ₹ 14,17,500

A Limited will recognize ₹ 10,82,500 (25,00,000 – 14,17,500) as the government grant and will make the following entry on receipt of loan:

Date	Particulars	Dr. (₹)	Cr. (₹)
1.4.20X1	Bank account Dr.	25,00,000	
	To Deferred Grant Income		10,82,500
	To Loan account		14,17,500
	(Being grant initially recorded at fair value)		

Accounting treatment for year ending 31st March, 20X2

As per para 3 of Ind AS 20, grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets.

As per para 24-27 of Ind AS 20, Government grants related to assets, including non- monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

One method recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

A Ltd. has adopted first method of recognising the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. Here, deferred income is recognised in profit or loss in the proportion in which depreciation expense on the asset is recognised.

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

As the loan is to finance a depreciable asset, ₹ 10,82,500 will be recognized in Profit or Loss on the same basis as depreciation.

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

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.20X2	Depreciation (Profit or Loss A/c) Dr.	10,00,000	
	To Property, Plant & Equipment		10,00,000
	(Being depreciation provided for the year)		
	Deferred grant income Dr.		
	To Profit or Loss	2,16,500	
	(Being deferred income adjusted)		2,16,500
	(Interest J.E. missing)		

Impact on profit or loss due to revocation of government grant as on 31st March 20X3

As per para 32 of Ind AS 20, a government grant that becomes repayable shall be accounted for as a change in accounting estimate. Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss.

Amount payable to Government on account of principal loan = ₹ 25,00,000

Amount payable to Government on account of penalty = ₹ 10,00,000 Journal Entries

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.20X3	Deferred grant income Dr. To Profit or Loss (Being deferred income adjusted)	2,16,500	2,16,500
	Loan account (W.N.1) Dr.	17,78,112	
	Deferred grant income (W.N.2) Dr.	6,49,500	
	Profit or Loss Dr. To Government grant payable (Being refund of government grant)	72,388	25,00,000
	Profit or Loss Dr. To Government grant payable (Being penalty payable to government)	10,00,000	10,00,000
	(Depreciation and Interest entry missing)		

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

Circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Working Notes:
1. Amortisation Schedule of Loan

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

2. Deferred Grant Income

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

Q. 38
ASSET RELATED GRANT : ACCOUNTING


An entity opens a new factory and receives at the beginning of the year a government grant of ₹ 15,000 in respect of capital equipment costing ₹ 1,00,000. It depreciates all plant and machinery at 20% p.a. using straight-line method. Assume that there is reasonable assurance that the conditions attached to the grant will be fulfilled.

For year 1, pass the necessary Journal Entries and show the presentation of the effect of this grant in both Balance Sheet and Statement of Profit and Loss under both methods permitted under paragraph 24 of Ind AS 20?

[RTP-Nov-2023]

Ans.

Paragraph 24 of Ind AS 20 provides that government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

In accordance with the above, journal entries and presentation of grants related to assets under both the methods are as follows:

Method 1: When the deferred income account is set-up with the amount of government grant

(I) Journal Entries

S. No.	Particulars	Nature of Account	Dr./ Cr.	Amount (in ₹)	Amount (in ₹)
(i)	Bank A/c To Government Grant Deferred Income A/c (Being grant received and deferred income set up)	Balance Sheet (Asset) Balance Sheet (Liability)	Dr. Cr.	15,000	15,000
(ii)	Government Grant Deferred Income A/c To Government Grant Income A/c (Being amortisation of the grant in Profit and loss A/c for the current year)	Balance Sheet (Liability) Income (P/L)	Dr. Cr.	3,000	3,000
(iii)	Depreciation A/c To Accumulated Depreciation A/c (Being depreciation charge of the asset for the current year)	Expense (P/L) Balance Sheet (Asset)	Dr. Cr.	20,000	20,000
(iv)	Government Grant Income A/c To Profit and Loss A/c (Being transfer of government grant income to profit and loss A/c)	Income (P/L) P/L	Dr. Cr.	3,000	3,000
(v)	Profit and Loss A/c To Depreciation A/c (Being the charge of depreciation transferred to profit and loss A/c)	P/L Expense (P/L)	Dr. Cr.	20,000	20,000

(II) Presentation in Balance Sheet and Statement of Profit and Loss

Extract of Statement of Profit and Loss

Particulars	Amount (in ₹)
Income	
Government grant (Refer W.N.1)	3,000
Expenses	
Depreciation (1,00,000 × 20%)	<u>(20,000)</u>
Net effect on profit and loss	<u>(17,000)</u>

Presentation in Balance Sheet (Year 1)

Particulars	Amount (in ₹)
Non-current Assets	
Property, Plant and Equipment	
Plant & machinery	1,00,000
Accumulated depreciation (1,00,000 × 20%)	<u>(20,000)</u>
	<u>80,000</u>

Non-current liabilities	
Government grant (Refer W.N.1)	9,000
Current liabilities	
Government grant (Refer W.N.1)	3,000

Working Note 1: Presentation in Balance Sheet as current and non-current liability

Particulars	Amount (in ₹)
Portion to be amortised in next 12 months (15,000 x 20%)	3,000
Portion to be amortised after 12 months	<u>9,000</u>
Total Balance	<u>12,000</u>

Method 2: When the government grant is deducted from the cost of the asset**(I) Journal Entries**

S. No.	Particulars	Nature of Account	Dr./Cr.	Amount (in ₹)	Amount (in ₹)
(i)	Bank A/c To Government Grant A/c (Being grant received)	Balance Sheet (Asset) Balance Sheet (Liability)	Dr. Cr.	15,000	15,000
(ii)	Government Grant A/c To Plant & Machinery A/c (Being cost of asset reduced with grant received)	Balance Sheet (Liability) Balance Sheet (Asset)	Dr. Cr.	15,000	15,000
(iii)	Depreciation A/c (85,000 x 20%) To Accumulated Depreciation A/c (Being depreciation charge of the asset for the current year)	Expense (P/L) Balance Sheet (Asset)	Dr. Cr.	17,000	17,000
(iv)	Profit and Loss A/c To Depreciation (Being the charge of depreciation transferred to the profit and loss A/c)	P/L Expense (P/L)	Dr. Cr.	17,000	17,000

(II) Presentation in Balance Sheet and Statement of Profit and Loss**Extract of Statement of Profit and Loss (Year 1)**

Particulars	Amount (in ₹)
Depreciation (₹ 85,000 x 20%)	(17,000)

Extract of Balance Sheet (Year 1)

Particulars	Amount (in ₹)
Non-current Assets	
Property, Plant and Equipment	
Plant & machinery	
Original cost	1,00,000
Less: Government Grant	<u>(15,000)</u>
Adjusted cost	85,000
Accumulated depreciation	<u>(17,000)</u>
Carrying amount	68,000

Q. 39
ASSET & REVENUE RELATED : ACCOUNTING


Rainbow Limited is carrying out various projects for which the company has either received government financial assistance or is in the process of receiving the same. The company has received two grants of ₹ 1,00,000 each, relating to the following ongoing research and development projects:

- (i) The first grant relates to the “Clean river project” which involves research into the effect of various chemicals waste from the industrial area in Madhya Pradesh. However, no major steps have been completed by Rainbow limited to commence this research as at 31st march, 20X2.
- (ii) The second grant relates to the commercial development of a new equipment that can be used to manufacture eco-friendly substitutes for existing plastic products. Rainbow Limited is confident about the technical feasibility and financial viability of this new technology which will be available for sale in the market by April 20X3.

In September 20X1, due to the floods near one of its factories, the entire production was lost and Rainbow Limited had to shut down the factory for a period of 3 months. The State Government announced a compensation package for all the manufacturing entities affected due to the floods. As per the scheme, Rainbow Limited is entitled to a compensation based on the average of previous three months’ sales figure prior to the floods, for which the company is required to submit an application form on or before 30th June, 20X2 with necessary figures. The financial statements of Rainbow Limited are to be adopted on 31st May, 20X2, by which date the claim form would not have been filed with the State Government.

Suggest the accounting treatment of, if any, for the two grants received and the flood - related compensation in the books of accounts of Rainbow Limited as on 31 st March, 20X2. **[SM, May-2020]**

Ans.
Accounting treatment for:
1. First Grant

The first grant for ‘Clear River Project’ involving research into effects of various chemicals waste from the industrial area in Madhya Pradesh, seems to be unconditional as no details regarding its refund has been mentioned. Even though the research has not been started nor any major steps have been completed by Rainbow Limited to commence the research, yet the grant will be recognised immediately in profit or loss for the year ended 31 st March, 20X2.

Alternatively, in case, the grant is conditional as to expenditure on research, the grant will be recognised in the books of Rainbow Limited over the year the expenditure is being incurred.

2. Second Grant

The second grant related to commercial development of a new equipment is a grant related to depreciable asset. As per the information given in the question, the equipment will be available for sale in the market from April, 20X3. Hence, by that time, grant relates to the construction of an asset and should be initially recognised as deferred income.

The deferred income should be recognised as income on a systematic and rational basis over the asset's useful life.

The entity should recognise a liability on the balance sheet for the years ending 31st March, 20X2 and 31st March, 20X3. Once the equipment starts being used in the manufacturing process, the deferred grant income of ₹ 100,000 should be recognised over the asset's useful life to compensate for depreciation costs.

Alternatively, as per Ind AS 20, Rainbow Limited would also be permitted to offset the deferred income of ₹ 100,000 against the cost of the equipment as on 1st April, 20X3.

3. For flood related compensation

Rainbow Limited will be able to submit an application form only after 31st May, 20X2 i.e. in the year 20X2-20X3. Although flood happened in September, 20X1 and loss was incurred due to flood related to the year 20X1-20X2, the entity should recognise the income from the government grant in the year when the application form related to it is submitted and approved by the government for compensation.

Since, in the year 20X1-20X2, the application form could not be submitted due to adoption of financials with respect to sales figure before flood occurred, Rainbow Limited should not recognise the grant income as it has not become receivable as on 31st March, 20X2.

Q. 40


REVENUE RELATED : REFUND OF GRANTS

A Ltd. has received a grant of ₹ 10,00,00,000 in the year 20X1-20X2 from local government in the form of subsidy for selling goods at lower price to lower income group population in a particular area for two years. A Ltd. had accounted for the grant as income in the year 20X1-20X2. While accounting for the grant in the year 20X1-20X2, A Ltd. was reasonably assured that all the conditions attached to the grant will be complied with. However, in the year 20X5-20X6, it was found that A Ltd. has not complied with the above condition and therefore notice of refund of grant has been served to it. A Ltd. has contested but lost in court in 20X5-20X6 and now grant is fully repayable. How should A Ltd. reflect repayable grant in its financial statements ending 20X5-20X6? **[SM]**

Ans.

Note: It is being assumed that the accounting done in previous years was not incorrect and was not in error as per Ind AS 8.

Paragraph 32 of Ind AS 20, states that a Government grant that becomes repayable shall be accounted for as a change in accounting estimate (see Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors).

Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss.

Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.

The following journal entries should be passed:

S. No.	Particulars	Nature of Account	Dr./Cr.	Amount (₹ in crores)
(i)	Repayment of Government Grant To Grant repayable (Being recognition of repayment of grant in statement of profit or loss)	Expense (P/L) Balance sheet (Liability)	Dr.	10 10
(ii)	Grant repayable To Bank (Being grant refunded)	Balance sheet (Liability) Balance sheet (Asset)	Dr.	10 10

Assuming that no deferred credit balance exists in the year 20X5-20X6, therefore repayment recognised in P&L. It may also be noted that the standard also provides that circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Q. 41
CHANGING ESTIMATE


A Ltd. has acquired equipment for ₹100 lakhs. The estimated useful life of the equipment is 10 years. Residual value at the end of useful life is Nil. Depreciation is recognised on a straight-line basis.

To encourage the acquisition of the assets, the Government will give a grant to A Ltd. towards the purchase of the equipment as follow:

- o If specified employment targets are achieved by the end of the 3rd year, A Ltd. will receive a grant of ₹10 lakhs.
- o In all other cases, A Ltd. will receive a grant of ₹5 lakhs.

On the date of acquisition as well as at the end of year 1, A Ltd. expects to receive a grant of ₹10 lakhs.

At the beginning of year 2, A Ltd. has revised the assessment in light of development and now expects that it will only receive a grant of ₹5 lakhs.

There were no errors in the estimation of grants in the prior period.

A Ltd. has assessed and concluded that the grant is in nature of grants related to assets.

A Ltd. presents government grants related to assets in the balance sheet by deducting the grant in calculating the carrying amount of the asset.

Required

How is the change in the amount of grant-related assets is accounted for in the books of A Ltd.? [RTP-May-2026]

Ans.

Para 32 of Ind AS 20 under the heading "Repayment of Government Grants" inter alia states that a Government grant that becomes repayable shall be accounted for as a change in accounting estimate as per Ind AS 8. Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.

Further para 33 of the standard states that the circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset. Following the above guidance, below is depreciation computation for the first 2 years where the grant is deducted from the carrying amount of the assets:

₹ in lakhs

Particular	Government grant received /receivable in case of	
	₹10 lakhs	₹5 lakhs
Cost of equipment	100.00	100.00
Grant received	(10.00)	(5.00)
Cost of equipment (Net of Grant received)	90.00	95.00
Useful life (years)	10.00	10.00
Depreciation (per annum) for year 1	9.00	9.50
Written down value (WDV) of the equipment at the end of year 1	81.00	85.50
Depreciation for year 2	9.00	9.50
WDV of the equipment at the end of year 2	72.00	76.00
Total cumulative depreciation for years 1 and 2	18.00	19.00

Drawing an analogy from the accounting of the repayment of government grants, similar accounting may be applied for a change in the amount of government grant receivable.

The cumulative additional depreciation of ₹1 lakhs [i.e., ₹19 lakhs minus ₹18 lakhs], would have been recognized to date as an expense, had government grant receivable by entity from inception was INR 5.

Therefore, A Ltd. may pass the following journal entry to recognise change in the amount of grant received/receivable:

₹ in lakhs

Particular	Dr.	Cr.	Remark
Equipment A/c Dr.	4		₹76 lakhs – ₹72 lakhs
Depreciation Dr.	1		Additional depreciation recognised in Profit and Loss A/c
To Bank/Grant receivable		5	Payment of grant /adjustment to grant receivable

A Ltd. to carry out impairment assessment of assets, as per Ind AS requirement, which may trigger in view of an increase in carrying amount of the assets due to repayment of government grant received/ receivable.

Notes



Ind AS 21

THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Q. 42

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.

Loan to be converted in INR	=	58,00,000 FCY x ₹ 2.50/FCY
	=	₹ 1,45,00,000

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

Calculation of amortized cost of loan (in FCY) at the 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. 43



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 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.


TRANSLATION OF FS FROM FUNCTIONAL CURRENCY TO PRESENTATION CURRENCY

Infotech Global Ltd. (a stand-alone entity) has a functional currency of USD and needs to translate its financial statements into the presentation currency (INR). The following is the draft financial statements of Infotech Global Ltd. prepared in accordance with its functional currency.

Balance Sheet

Particulars	31st March, 20X3 USD	31st March, 20X2 USD
Property, plant and equipment	50,000	55,000
Trade Receivables	68,500	56,000
Inventory	8,000	5,000
Cash	<u>40,000</u>	<u>35,000</u>
Total assets	<u>1,66,500</u>	<u>1,51,000</u>
Share Capital	50,000	50,000
Retained earnings	<u>29,500</u>	<u>18,000</u>
Total Equity	<u>79,500</u>	<u>68,000</u>
Trade payables	40,000	38,000
Loan	<u>47,000</u>	<u>45,000</u>
Total liabilities	<u>87,000</u>	<u>83,000</u>
Total equity and liabilities	<u>1,66,500</u>	<u>1,51,000</u>

Statement of Profit and Loss

Particulars	USD
Revenue	1,77,214
Cost of sales	<u>1,13,100</u>
Gross Profit	64,114
Distribution costs	2,400
Administrative expenses	18,000
Other expenses	11,000
Finance costs	<u>12,000</u>
Profit before tax	20,714
Income tax expense	<u>6,214</u>
Profit for the year	<u>14,500</u>

Extracts from Statement of Changes in Equity

Particulars	31st March, 20X3 (USD)
Retained earnings at the beginning of the year	18,000
Profit for the year	14,500
Dividends	<u>(3,000)</u>
Retained earnings at the end of the year	<u>29,500</u>

- Share capital was issued when the exchange rate was USD 1 = INR 70.
- Retained earnings on 1st April, 20X1 was INR 4,00,000.
- At 31st March, 20X2, a cumulative gain of INR 4,92,000 has been recognised in the foreign exchange reserve, which is due to translation of entity's financial statements into INR in the previous years.
- Entity paid a dividend of USD 3,000 when the rate of exchange was USD 1 = INR 73.5
- Profit for the year 20X1-20X2 of USD 8,000, translated in INR at INR 5,72,000.
- Profit for the year 20X2-20X3 of USD 14,500, translated in INR at INR 10,72,985.

For the sake of simplicity, items of income and expense are translated at weighted average monthly rate as there has been no significant exchange rate fluctuation during the entire year and the business of the entity is not cyclical in nature.

Relevant exchange rates are as follows:

- Rate at 31st March, 20X2 USD 1= INR 73
- Rate at 31st March, 20X3 USD 1= INR 75

Prepare financial statements of Infotech Global Ltd. translated from functional currency (USD) to presentation currency (INR). **[RTP-Nov-2023, SM]**

Ans.

As per paragraph 39 of Ind AS 21, all assets and liabilities are translated at the closing exchange rate, which is USD 1 = INR 73 on 31st March, 20X2 and USD 1 = INR 75 on 31st March, 20X3.

In the given case, share capital is translated at the historical rate USD 1 = INR 70. The share capital will not be restated at each year end. It will remain unchanged.

Accordingly, the translated financial statements will be as follows:

Note 1: Retained earnings at 31st March, 20X3 and 31st March, 20X2:

Particulars	31st March, 20X3	31st March, 20X2
	INR	INR
Opening retained earnings	9,72,000	4,00,000
Profit for the year	10,72,985	5,72,000
Dividends paid (USD 3,000 x INR 73.5)	<u>(2,20,500)</u>	<u>-</u>
Closing retained earnings	<u>18,24,485</u>	<u>9,72,000</u>

Balance Sheet

Particulars	31st March, 20X3			31st March, 20X2		
	USD	Rate	INR	USD	Rate	INR
Property, plant and equipment	50,000	75	37,50,000	55,000	73	40,15,000
Trade Receivables	68,500	75	51,37,500	56,000	73	40,88,000
Inventory	8,000	75	6,00,000	5,000	73	3,65,000
Cash	<u>40,000</u>	75	<u>30,00,000</u>	<u>35,000</u>	73	<u>25,55,000</u>
Total assets	1,66,500		1,24,87,500	1,51,000		1,10,23,000
Share Capital	50,000	70	35,00,000	50,000	70	35,00,000
Retained earnings (Refer note 1)	29,500		18,24,485	18,000		9,72,000
Foreign Exchange reserve (Balancing figure)	<u>-</u>		<u>6,38,015</u>	<u>-</u>		<u>4,92,000</u>
Total Equity	<u>79,500</u>		<u>59,62,500</u>	<u>68,000</u>		<u>49,64,000</u>
Trade payables	40,000	75	30,00,000	38,000	73	27,74,000
Loan	<u>47,000</u>	75	<u>35,25,000</u>	<u>45,000</u>	73	<u>32,85,000</u>
Total liabilities	<u>87,000</u>		<u>65,25,000</u>	<u>83,000</u>		<u>60,59,000</u>
Total equity and liabilities	<u>1,66,500</u>		<u>1,24,87,500</u>	<u>1,51,000</u>		<u>1,10,23,000</u>

The foreign exchange reserve is the exchange difference resulting from translating income and expense at the average exchange rate and assets and liabilities at the closing rate.

Other Comprehensive Income

Exchange differences on translating from USD to INR (6,38,015 - 4,92,000)	INR 1,46,015
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Statement of Changes in Equity (INR)

Particulars	Share capital	Retained Earnings	Foreign exchange reserve	Total
Balance at 1st April, 20X2	35,00,000	9,72,000	4,92,000	49,64,000
Dividends	-	(2,20,500)	-	(2,20,500)
Profit for the year	-	10,72,985	-	10,72,985
Exchange difference (transferred to OCI)	-	-	1,46,015	1,46,015
Balance at 31st March, 20X3	35,00,000	18,24,485	6,38,015	59,62,500

Q. 45
FC ASSET PURCHASE AND REVALUATION


On 30th January, 20X1, A Ltd. purchased a machinery for \$ 5,000 from USA supplier on credit basis. A Ltd.'s functional currency is Rupees. The exchange rate on the date of transaction is 1 \$ = 60. The fair value of the machinery determined on 31st March, 20X1 is \$ 5,500.

The exchange rate on 31st March, 20X1 is 1\$ = 65. The payment to overseas supplier done on 31st March 20X2 and the exchange rate on 31st March 20X2 is 1\$ = 67. The fair value of the machinery remains unchanged for the year ended on 31st March 20X2. Tax rate is 30%. A Ltd. follows revaluation method in respect of Plant & Machinery.

Pass the Journal entries for the year ended on 31st March 20X1 and year 20X2 according to Ind AS 21. (Ignore this Question) **[SM, MTP-Nov-2023, MTP-Nov-2024]**

Ans.

		₹	₹
Machinery A/c (\$ 5,000 x ₹ 60) Dr.		3,00,000	
To Creditors-Machinery A/c			3,00,000
(Initial transaction will be recorded at exchange rate on the date of transaction)			

Exchange difference arising on translating monetary item on 31st March 20X1:

		₹	₹
Profit & Loss A/c [(\$ 5,000 x ₹ 65) - (\$ 5,000 x ₹ 60)] Dr.		25,000	
To Creditors-Machinery A/c			25,000
Machinery A/c Dr.		30,000	
To Revaluation Surplus (OCI)			30,000
[Being Machinery revalued to USD 5,500; (₹ 60 x (\$ 5,500 - \$ 5,000))]			
Machinery A/c Dr.		27,500	
To Revaluation Surplus (OCI)			27,500
(Being Machinery measured at the exchange rate on 31.3.20X1 [\$ 5,500 x (₹ 65 - ₹ 60)])			
Revaluation Surplus (OCI) Dr.		17,250	
To Deferred Tax Liability			17,250
(DTL created @ of 30% of the total OCI amount)			

Exchange difference arising on translating monetary item and settlement of creditors on 31st March 20X2:

		₹	₹
Creditors-Machinery A/c (\$ 5,000 x ₹ 65) Dr.		3,25,000	
Profit & loss A/c [(5,000 x (₹ 67 - ₹ 65)) Dr.		10,000	

To Bank A/c			3,35,000
Machinery A/c [{" \$ 5,500 x (₹ 67 – ₹ 65) }]	Dr.	11,000	
To Revaluation Surplus (OCI)			11,000
Revaluation Surplus (OCI)	Dr.	3,300	
To Deferred Tax Liability			3,300
(DTL created @ of 30% of the total OCI amount)			

Q. 46

**FOREIGN OPERATION - COMPREHENSIVE**

Infotech Global Ltd. (a stand-alone entity in London and has Pound sterling ("GBP") as its functional and presentation currency. On 1st April, 20X1, PQR Holdings Limited incorporated PQR India Limited as its wholly owned subsidiary in India. PQR India will be engaged in trading of items purchased from PQR Holdings. The shares of PQR India, having a face value of ₹ 10 each amounting to total of ₹ 500 crore, were issued to PQR Holdings in GBP on 1st April, 20X1.

PQR India has adopted Ind AS with effect from its incorporation. In accordance with Ind AS, management of PQR India has concluded that its functional currency is Indian Rupee ("INR"). Following is the summarized trial balance of PQR India as on 31st March, 20X2, being the reporting date of PQR India and PQR Holdings:

(Note: All amounts in the below mentioned trial balance are ₹ in crore)

S. No.	Particulars	Debit Balances	Credit Balances
1.	Share capital	-	500.0
2.	Securities premium reserve on issue of equity shares	-	150.0
3.	Retained earnings	-	110.0
4.	Long-term borrowings	-	30.0
5.	Deferred tax liability	-	10.0
6.	Income tax payable	-	25.0
7.	Import duty payable	-	5.0
8.	Employee benefits payable	-	7.5
9.	Sundry trade payables	-	2.5
10.	Property, plant and equipment (net of depreciation)	550.0	-
11.	Computer software (net of amortisation)	70.0	-
12.	Inventories purchased on 15th March, 20X2 (there is no indicator of impairment)	200.0	-
13.	Cash and bank balance	5.0	-
14.	Sundry trade receivables	17.0	-
15.	Allowance for doubtful trade receivables	-	2.0
	Total	842.0	842.0

Additional information relating to property, plant and equipment, and computer software:

Line item	Date of acquisition
Property, plant and equipment	30th April, 20X1
Computer software	5th May, 20X1

PQR India has adopted the following accounting policy in relation to shareholders' funds to translate equity:

Share capital	To be translated using historical exchange rate
Securities premium	To be translated using historical exchange rate
Retained earnings	To be translated using average exchange rate

Since the presentation currency of PQR Holdings is GBP, PQR India is required to translate its trial balance from INR to GBP. Following table provides relevant foreign exchange rates:

Closing spot rate as on 1st April, 20X1	1 INR = 0.0123 GBP
Closing spot rate as on 30th April, 20X1	1 INR = 0.0120 GBP
Closing spot rate as on 5th May, 20X1	1 INR = 0.0119 GBP
Closing spot rate on 15th March, 20X2	1 INR = 0.0108 GBP
Closing spot rate as on 31st March, 20X2	1 INR = 0.0109 GBP
Average exchange rate for the year ended 31st March, 20X2	1 INR = 0.0116 GBP

As the accountant of PQR India, you are required to do the following for its separate financial statements:

- Explain the principle of monetary and non-monetary items. Based on this principle, bifurcate the line items of the trial balance into monetary and non-monetary items.
- Translate the trial balance of PQR India from INR to GBP. [MTP-Dec-2021]

Ans.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Para 15 of Ind AS 21 states that the essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item.

Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency.

On the basis of above principles, the line items of trial balance should be bifurcated as follows

Particulars	Monetary item / Non-monetary item
Share Capital	Non-monetary item
Securities Premium reserve on issue of equity shares	Non-monetary item
Retained earnings	Non-monetary item
Long-term borrowings	Monetary item
Deferred tax liability	Non-monetary item
Income tax payable	Monetary item
Import duty payable	Monetary item
Employee benefits payable	Monetary item
Sundry trade payables	Monetary item
Property, plant and equipment (net of depreciation)	Non-monetary item
Computer software (net of amortization)	Non-monetary item

Inventories purchased (there is no indicator of impairment)	Non-monetary item
Cash and bank balance	Monetary item
Sundry trade receivables	Monetary item
Allowance for doubtful trade receivables	Monetary item

As per para 38 of Ind AS 21, an entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

Translation of the balances for the purpose of consolidation

Particulars	INR in crore	Rate (GBP)	Amount in GBP
Property, plant and equipment (net of depreciation)	550.0	0.0109	5.995
Computer software (net of amortization)	70.0	0.0109	0.763
Inventories	200.0	0.0109	2.18
Cash and bank balance	5.0	0.0109	0.0545
Sundry trade receivables net of allowance for doubtful trade receivables (17.0-2.0)	<u>15.0</u>	0.0109	<u>0.1635</u>
Total Assets	<u>840.0</u>		<u>9.156</u>
Share Capital	500.0	0.0123	6.15
Securities Premium reserve	150.0	0.0123	1.845
Retained earnings	110.0	0.0116	1.276
Long-term borrowings	30.0	0.0109	0.327
Deferred tax liability	10.0	0.0109	0.109
Income tax payable	25.0	0.0109	0.2725
Import duty payable	5.0	0.0109	0.0545
Employee benefits payable	7.5	0.0109	0.08175
Sundry trade payables	2.5	0.0109	0.02725
Foreign Currency Translation reserve recognised in OCI (balancing figure)	—		<u>(0.987)</u>
Total Equity and liabilities	<u>840.0</u>		<u>9.156</u>

Q. 47**LONG TERM LOAN TO SUBSIDIARY**

Parent A Ltd. is the reporting entity that has net investment in foreign operations in its two foreign Subsidiaries, B Ltd. and C Ltd.

In all the following scenarios, loans made between group entities are permanent in nature (that is, settlement is neither planned nor likely to occur):

Scenario 1

Parent A Ltd., with sterling as its functional currency, is preparing its financial statements to 31st March, 20X5. It has a loan receivable of US\$ 1 million from its Subsidiary C Ltd. that has been outstanding for some time. The parent notified the subsidiary at the beginning of the financial year that no repayment of the amount will be requested for the foreseeable future.

The relevant exchange rate are as follows:

	31 st March, 20X5	31 st March, 20X4
£1=	US\$1.82	US\$1.45

Scenario 2

The facts are the same as in the above Scenario 1, except that Parent A Ltd. has a loan receivable from Subsidiary C Ltd. of £ 2,00,000 that has been outstanding for some time. The loan is treated by Parent A Ltd. as forming part of its net investment in Subsidiary C Ltd.

Required:

Determine the treatment of exchange differences in Standalone Financial Statements of both subsidiary and parent company and in Consolidated Financial Statements of parent company under both the scenarios.

[RTP-Jan-2026]

Ans.

Scenario 1

The following exchange differences will arise in the financial statements of the individual entities if the loan is re-translated at the closing rate:

	31 st March, 20X5
Standalone Financial Statements of Subsidiary C Ltd.	
No exchange difference arises in the foreign subsidiary because the loan payable is denominated in its functional currency	
Standalone Financial Statements of Parent A Ltd.	
Exchange difference on long-term loan receivable: On closing rate - US\$ 1 million / \$ 1.82/£	£ 5,49,450
On opening rate - US\$ 1 million / \$ 1.45/£	<u>6,89,655</u>
Exchange loss	<u>1,40,205</u>

In Parent A Ltd.'s separate financial statements, the loan is regarded as a monetary item and any exchange difference is taken to profit or loss.

On consolidation, the re-translated long-term loan is regarded as part of the net investment in Subsidiary C Ltd., so the related exchange loss is recognised in other comprehensive income and accumulated as a separate component of equity as per para 32 of Ind AS 21. There would also be a corresponding exchange gain included in other comprehensive income, arising as part of the re-translation of the net assets (which include the US dollar loan creditor) of Subsidiary C Ltd. under the closing rate/net investment method.

Scenario 2

In the financial statements of the individual entities, the following exchange differences will arise if the loan is re-translated at the closing rate.

Parent A Ltd.

There is no exchange difference in the parent's financial statements in respect of the loan because it is denominated in sterling.

Subsidiary C Ltd.

Exchange difference on long-term loan payable:

	US \$
On closing rate - £ 2,00,000 @ \$ 1.82/£	3,64,000
On opening rate - £ 2,00,000 @ \$ 1.45/£	<u>2,90,000</u>
Exchange loss	<u>74,000</u>
Exchange loss translated in £ at the closing rate @ \$ 1.82/£	£ 40,659

The exchange loss of US \$ 74,000 on the sterling loan is recognised in Subsidiary C Ltd.'s income statement, because the subsidiary is exposed to the foreign currency risk.

On consolidation, the inter-company loan will be cancelled. However, because the long-term loan is regarded as part of the net investment in the subsidiary, the exchange loss of £ 40,659 is recognised in other comprehensive income and accumulated as a separate component of equity in the consolidated financial statements. There is a corresponding exchange gain included in other comprehensive income, arising as part of the re-translation of the net assets of Subsidiary C Ltd. The effect is that the consolidated income statement will not reflect any exchange difference on the loan, which is consistent with the fact that the loan has no impact on group cash flows, unless the investment is sold.

Notes



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Ind AS 23 BORROWING COSTS

Q. 48
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

Q. 49

SPECIFIC BORROWINGS



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

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

Required:

Determine the amount of borrowing cost to be capitalized to the qualifying asset for the year ended 31st March, 20X9. **[RTP-Jan-2026]**

Ans.

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

	₹
Interest payable for December 20X8 at 12% (10,00,000 x 12% x 1/12)	10,000
Interest payable for January 20X9 at 12% (10,00,000 x 12% x 1/12)	10,000
Interest for February 20X9 at 13% (10,00,000 x 13% x 1/12)	10,833
Interest payable for March 20X9 at 13% (10,00,000 x 13% x 1/12)	<u>10,834</u>

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

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

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

Q. 50
CAPITALISATION-IF WORK DONE IN DIFFERENT PHASES


Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be operational as soon as they are completed.

Following is the detail of the work done on different phases of the building during the current year:

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(₹ in lakh)

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

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

[RTP-Nov-2022, SM]

Ans.

	Particulars	₹
1.	Interest expense on loan ₹ 2,00,00,000 at 15%	<u>30,00,000</u>
2	Total cost of Phases I and II (₹ 34,00,000 +64,00,000)	98,00,000

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

Accounting treatment:**1. For Phase I and Phase II**

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

2. For Phase III and Phase IV

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

Q. 51**GROUP COMPANIES**

In a group with Parent Company "P" there are 3 subsidiaries with following business:

"A" – Real Estate Company

"B" – Construction Company

"C" – Finance Company

- Parent Company has no operating activities of its own but performs management functions for its subsidiaries.
- Financing activities and cash management in the group are coordinated centrally.
- Finance Company is a vehicle used by the group solely for raising finance.
- All entities in the group prepare Ind AS financial statements.

The following information is relevant for the current reporting period 20X1-20X2:

Real Estate Company

- Borrowings of ₹ 10,00,000 with an interest rate of 7% p.a.
- Expenditures on qualifying assets during the period amounted to ₹ 15,40,000.
- All construction works were performed by Construction Company. Amounts invoiced to Real Estate Company included 10% profit margin.

Construction Company

- No borrowings during the period.
- Financed ₹ 10,00,000 of expenditures on qualifying assets using its own cash resources.

Finance Company

- Raised ₹ 20,00,000 at 7% p.a. externally and issued a loan to Parent Company for general corporate purposes at the rate of 8%.

Parent Company

- Used loan from Finance Company to acquire a new subsidiary.
- No qualifying assets apart from those in Real Estate Company and Construction Company.
- Parent Company did not issue any loans to other entities during the period.

What is the amount of borrowing costs eligible for capitalisation in the financial statements of each of the four entities for the current reporting period 20X1-20X2? [SM]

Ans.

Following is the treatment as per Ind AS 23:

Finance Company

No expenditure on qualifying assets have been incurred, so Finance Company cannot capitalise anything.

Real Estate Company

Total interest costs in the financial statements of Real Estate Company is ₹ 70,000. Expenditures on qualifying assets exceed total borrowings, so the total amount of interest can be capitalised.

Construction Company

No interest expense has been incurred, so Construction Company cannot capitalise anything.

Consolidated financial statements of Parent Company:

Total general borrowings of the group: ₹ 10,00,000 + ₹ 20,00,000 = ₹ 30,00,000

Although Parent Company used proceeds from loan to acquire a subsidiary, this loan cannot be excluded from the pool of general borrowings.

Total interest expenditures for the group = ₹ 30,00,000 × 7% = ₹ 2,10,000

Total expenditures on qualifying assets for the group are added up. Profit margin charged by Construction Company to Real Estate Company is eliminated:

Real Estate Company – ₹ 15,40,000/1.1 = ₹ 14,00,000

Construction Co – ₹ 10,00,000

Total consolidated expenditures on qualifying assets:

₹ (14,00,000 + 10,00,000) = ₹ 24,00,000

Capitalisation rate = 7%

Borrowing costs eligible for capitalisation = ₹ 24,00,000 × 7% = ₹ 1,68,000

Total interest expenditures of the group are higher than borrowing costs eligible for capitalisation calculated based on the actual expenditures incurred on the qualifying assets. Therefore, only ₹ 1,68,000 can be capitalised.

Notes



Ind AS 24

RELATED PARTY DISCLOSURES

Q. 52

KEY MANAGEMENT PERSONNEL

Mr. X has a 100% investment in A Limited. He is also a member of the key management personnel (KMP) of C Limited. B Limited has a 100% investment in C Limited.

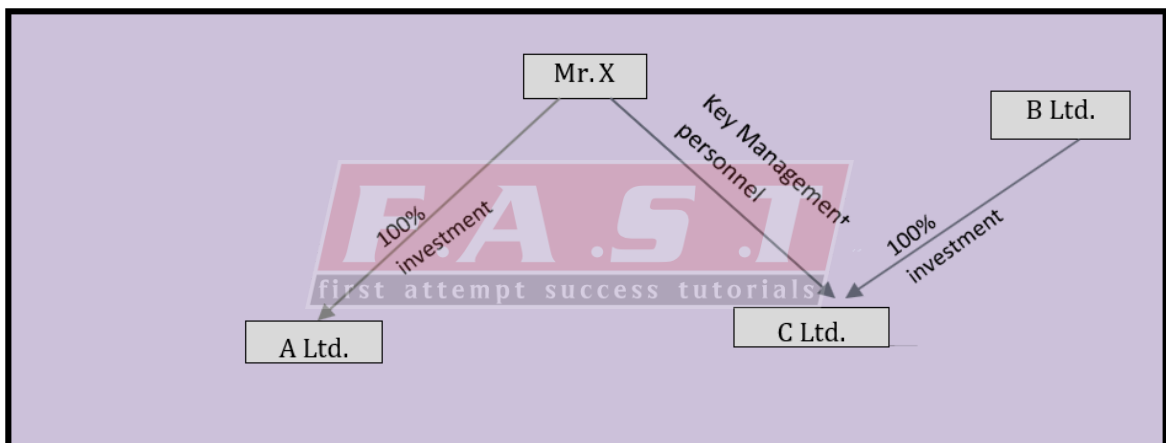
Required

- (a) Examine related party relationships from the perspective of C Limited for A Limited.
- (b) Examine related party relationships from the perspective of C Limited for A Limited if Mr. X is a KMP of B Limited and not C Limited.
- (c) Will the outcome in (a) & (b) would be different if Mr. X has joint control over A Limited.
- (d) Will the outcome in (a) & (b) would be different if Mr. X has significant influence over A Limited.

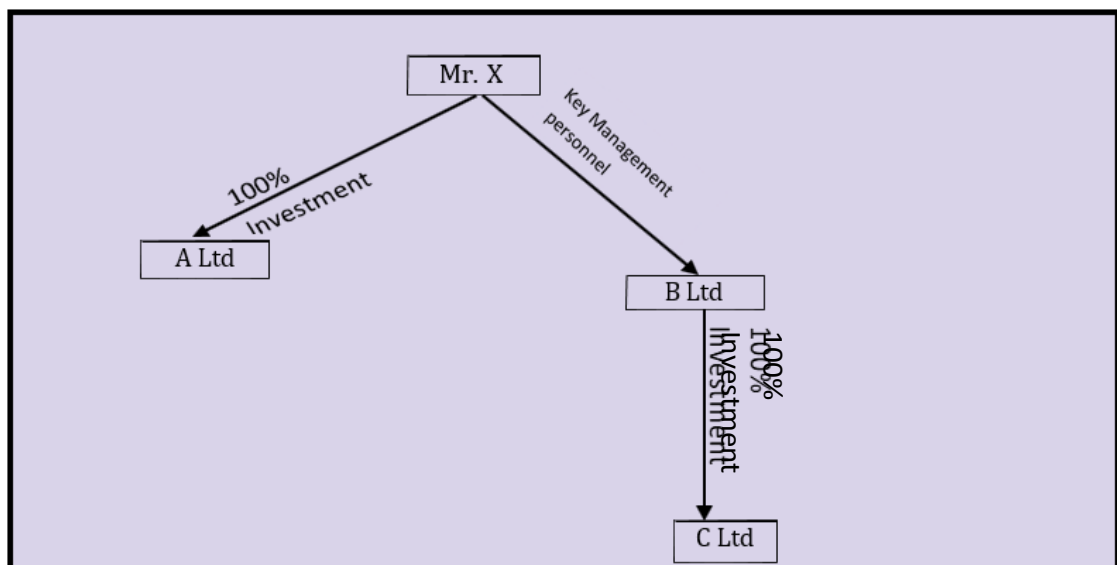
[MTP-Dec-2021, SM]

Ans.

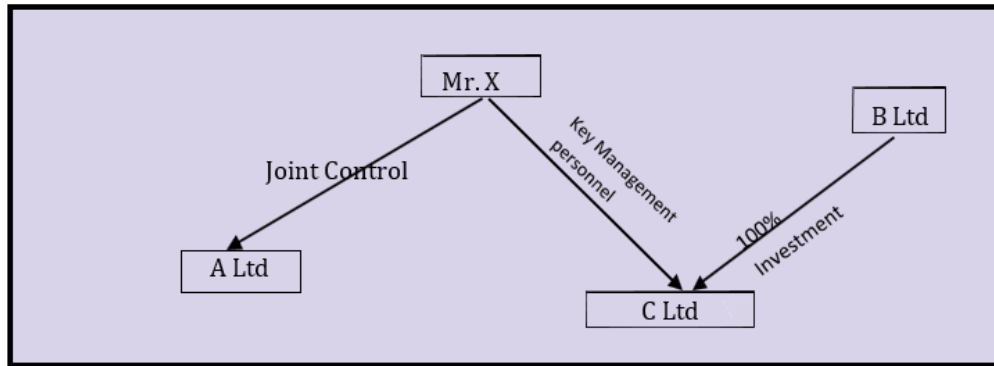
- (a) A Limited is related to C Limited because Mr. X controls A Limited and is a member of KMP of C Limited.



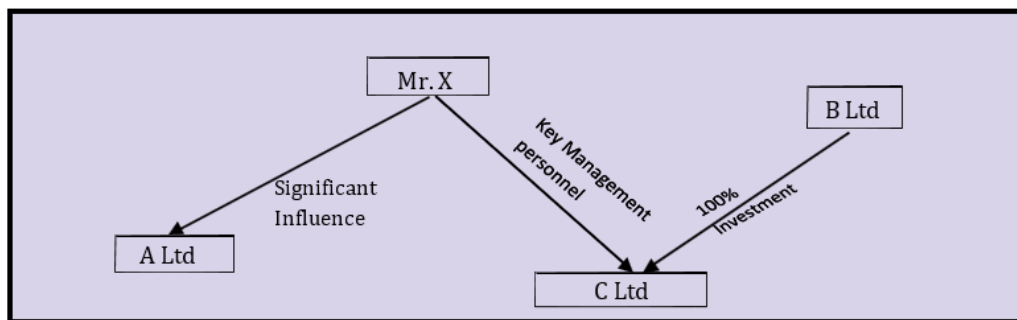
- (b) Still A Limited will be related to C Limited



- (c) No, Still A Limited will be related to C Limited.



- (d) Yes, A Ltd. is not controlled by Mr. X. Therefore, despite Mr. X being KMP of C Ltd., A Ltd., having significant influence of Mr. X, will not be considered as related party of C Limited.



Q. 53

CONTRACT TO GAIN CONTROL

Mr. A, Mr. B and Mr. C have direct interests of 40%, 10% and 10% respectively, of Trust T. The remaining 40% interest in Trust T is held by 20 unrelated investors.

Mr. A, Mr. B and Mr. C wish to control the trust, and so they enter into a contractual arrangement to act together. In this situation, assume that 1% interest constitutes one voting right.

S Ltd. is a wholly owned subsidiary of P Ltd. and P Ltd. is wholly owned by Trust T.

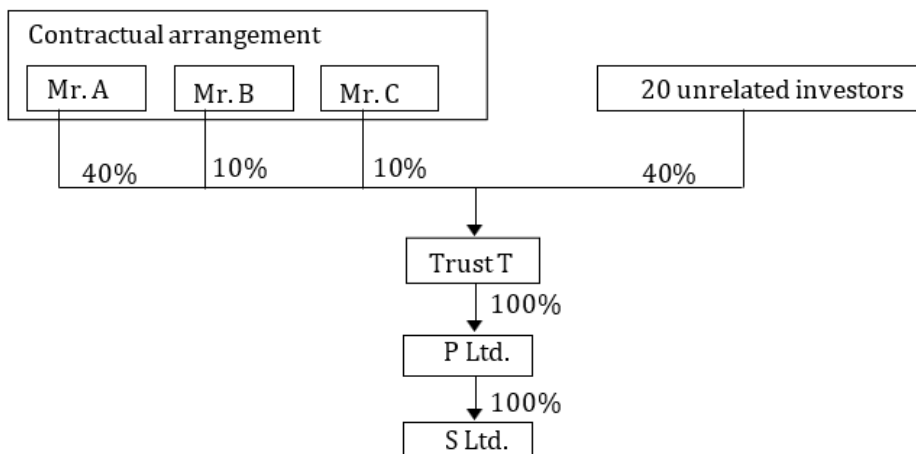
Required:

Should a group of persons be disclosed as the ultimate controlling party where they have a contractual arrangement to act together?

[RTP-Jan-2026, MTP-May-2026]

Ans.

The following diagram shows the structure of the Group:



S Ltd.'s management should disclose Mr. A, Mr. B and Mr. C as the ultimate controlling party (as a group) of S Ltd. where they have a contractual arrangement to act together, irrespective of whether there were transactions between them and S Ltd. during the year.

The agreement between Mr. A, Mr. B and Mr. C provided them with a collective control over 60% (40%+10%+10%) of Trust T's voting rights. Mr. A, Mr. B and Mr. C form a group that controls Trust T, which controls P Ltd. and S Ltd.

Trust T should also be disclosed as the ultimate parent entity of S Ltd. in the notes to the financial statements, if this information is not disclosed elsewhere in information published with the financial statements.

Trust T would be the ultimate controlling party of S Ltd. and only Mr. A would be a related party of S Ltd. if the contractual arrangement to act together did not exist. Mr. A is related to S Ltd. because his 40% interest in Trust T gives him significant influence over S Ltd.

Q. 54**RP DISCLOSURE**

ABC Ltd. is a long-standing customer of XYZ Ltd. Mrs. P whose husband is a director in XYZ Ltd. purchased a controlling interest in entity ABC Ltd. on 1st June, 2017. Sales of products from XYZ Ltd. to ABC Ltd. in the two-month period from 1st April 2017 to 31st May 2017 totalled ₹ 8,00,000. Following the shares purchased by Mrs. P, XYZ Ltd. began to supply the products at a discount of 20% to their normal selling price and allowed ABC Ltd. three months' credit (previously ABC Ltd. was only allowed one month's credit, XYZ Ltd.'s normal credit policy). Sales of products from XYZ Ltd. to ABC Ltd. in the ten-month period from 1st June 2017 to 31st March 2018 totalled ₹ 60,00,000. On 31st March 2018, the trade receivables of XYZ Ltd. included ₹ 18,00,000 in respect of amounts owing by ABC Ltd.

Analyse and show how the above event would be reported in the financial statements of XYZ Ltd. for the year ended 31 March 2018 and mention the disclosure requirements also as per Ind AS.

F.A.S.T

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

Ans.

XYZ Ltd. would include the total revenue of ₹ 68,00,000 (₹ 60,00,000 + ₹ 8,00,000) from ABC Ltd. received / receivable in the year ended 31st March 2018 within its revenue and show ₹ 18,00,000 within trade receivables at 31st March 2018.

Mrs. P would be regarded as a related party of XYZ Ltd. because she is a close family member of one of the key management personnel of XYZ Ltd.

From 1st June 2017, ABC Ltd. would also be regarded as a related party of XYZ Ltd. because from that date ABC Ltd. is an entity controlled by another related party.

Because ABC Ltd. is a related party with whom XYZ Ltd. has transactions, then XYZ Ltd. should disclose:

- The revenue of ₹ 60,00,000 from ABC Ltd. since 1st June 2017.
- The outstanding balance of ₹ 18,00,000 at 31st March 2018.

In the current circumstances it may well be necessary for XYZ Ltd. to also disclose the favourable terms under which the transactions are carried out.

Q. 55**STATE CONTROLLED ENTERPRISES**

Uttar Pradesh State Government holds 60% shares in PQR Limited and 55% shares in ABC Limited. PQR Limited has two subsidiaries namely P Limited and Q Limited. ABC Limited has two subsidiaries namely A Limited and B Limited. Mr. KM is one of the Key management personnel in PQR Limited

- (a) Determine the entity to whom exemption from disclosure of related party transactions is to be given. Also examine the transactions and with whom such exemption applies.

- (b) What are the disclosure requirements for the entity which has availed the exemption?

[RTP-Nov-2019, SM]

Ans.

- (a) As per para 18 of Ind AS 24, 'Related Party Disclosures', if an entity had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

However, as per para 25 of the standard a reporting entity is exempt from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

- (i) a government that has control or joint control of, or significant influence over, the reporting entity; and
- (ii) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity

According to the above paras, for Entity P's financial statements, the exemption in paragraph 25 applies to:

- (i) transactions with Government Uttar Pradesh State Government; and
- (ii) transactions with Entities PQR and ABC and Entities Q, A and B.

Similar exemptions are available to Entities PQR, ABC, Q, A and B, with the transactions with UP State Government and other entities controlled directly or indirectly by UP State Government. However, that exemption does not apply to transactions with Mr. KM. Hence, the transactions with Mr. KM needs to be disclosed under related party transactions.

- (b) It shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25:
- (a) the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence);
 - (b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
 - (i) the nature and amount of each individually significant transaction; and
 - (ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

Notes



Ind AS 33

EARNINGS PER SHARE

Q. 56

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. 57

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. 58

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:

- Subsidiary's profit attributable to ordinary equity holders.
- Dividends paid by subsidiary on convertible preference shares.
- Subsidiary's ordinary shares outstanding.
- Subsidiary's profit attributable to ordinary equity holders (₹ 5,000) increased by ₹ 400 preference dividends for the purpose of calculating diluted earnings per share.
- Incremental shares from warrants, calculated: $[(₹ 20 - ₹ 10) \div ₹ 20] \times 150$.
- 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:	$\frac{₹ 12,000 + ₹ 2,928(d) + ₹ 55(e) + ₹ 1,098(f)}{10,000}$

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

Q. 59

DEPS : PREFERENCE SHARES (Question has conceptual issues)

An entity has following preference shares in issue at the end of 20X4:

- **5% redeemable, non-cumulative preference shares:** These shares are classified as liabilities. During the year, an amount of ₹ 1,00,000 (computed using the coupon rate of 5% - ₹ 20,00,000 x 5%) was paid to the preference shareholders
- **Increasing-rate, cumulative, non-redeemable preference shares issued at a discount in 20X0, with a cumulative dividend rate from 20X5 of 10%:** The shares were issued at a discount to compensate the holders, because dividend payments will not commence until 20X5. The accrual for the discount in the current year, calculated using the effective interest method amounted to, say, ₹ 18,000. These shares are classified as equity – ₹ 200,000.
- **8% non-redeemable, non-cumulative preference shares:** At the beginning of the year, the entity had ₹ 100,000 8% preference shares outstanding but, at 30 June 20X4, it repurchased ₹ 50,000 of these at a discount of ₹ 1,000 – ₹ 50,000.
- **7% cumulative, convertible preference shares (converted in the year):** These shares were classified as equity, until their conversion into ordinary shares at the beginning of the year. No dividend was accrued in respect of the year, although the previous year's dividend was paid immediately prior to conversion. To induce conversion, the terms of conversion of the 7% convertible preference shares were also amended, and the revised terms entitled the preference shareholders to an additional 100 ordinary shares on conversion with a fair value of ₹ 300 – Nil.

The profit after tax for the year 20X4 is ₹ 150,000.

Determine the adjustments for the purpose of calculating EPS.

[SM]

Ans.

Adjustments for the purpose of calculating EPS are made as follows:

Particulars	Amount (₹)	Amount (₹)
Profit after tax		150,000
Amortisation of discount on issue of increasing-rate preference shares (Refer Note 1)	(18,000)	
Discount on repurchase of 8% preference shares (Refer Note 2)	1,000	
Premium to induce Conversion	(30,000)	(47,000)
Profit attributable to ordinary equity holders for basic EPS (Refer Note 3-5)		1,03,000

Notes:

1. The original discount on issue of the increasing-rate preference shares is treated as amortised to retained earnings and treated as preference dividends for EPS purposes and adjusted against profit attributable to the ordinary equity holders. There is no adjustment in respect of dividend, because these do not commence until 20X5. Instead, the finance cost is represented by the amortisation of the discount in the dividend-free period. In future years, the accrual for the dividend of ₹ 20,000 will be deducted from profits.
2. The discount on repurchase of the 8% preference shares has been credited to equity so should be added to profit.
3. The dividend on the 5% preference shares has been charged to the income statement, because the preference shares are treated as liabilities, so no adjustment is required for it from the profit.
4. No accrual for the dividend on the 8% preference shares is required, because they are non-cumulative. If a dividend had been declared for the year, it would have been deducted from profit for the purpose of calculating basic EPS, because the shares are treated as equity and the dividend would have been charged to equity in the financial statements.

5. The 7% preference shares are convertible and hence correctly classified as equity. Accordingly, the additional amount paid (100 additional shares x fair value ₹ 300 per share = ₹ 30,000) to induce conversion would be taken to Equity Share Capital and Retained Earnings or Securities Premium, as the case may be (transaction with 'owners'). Therefore, this excess amount paid would require to be deducted from the Net Profit to arrive at Net Profit attributable to Equity Shareholders.
6. It may be noted that as per Sections 53 and 55 of the Companies Act, 2013, a company cannot issue shares at discount or any irredeemable preference shares. However, the above illustration has been given only to explain the concept given in Ind AS.

Q. 60

DEPS : OPTIONS WITH VARIOUS CONVERSION RATIO

At 31st March, 2019 the issued share capital of SB Limited consisted of 20,00,000 ordinary shares of ₹ 1 each. On 1st July 2019 the Company issued ₹ 25,00,000 of 8% convertible loan stock for cash at par. Each ₹ 100 nominal of the loan stock may be converted, at any time during the years ended 2024 to 2027, into the number of ordinary shares set out below:

- 31st March, 2024:135 Ordinary Shares
- 31st March, 2025:130 Ordinary Shares
- 31st March, 2026:125 Ordinary Shares
- 31st March, 2027:120 Ordinary Shares

If the loan stock is not converted by 2027, they would be redeemed at par.

It is assumed that the written equity conversion option is accounted for as a derivative liability and marked to market through profit or loss. The change in the options' fair value reported on 31st March 2020 and 31st March 2021 amounted to losses of ₹ 5,000 and ₹ 5,300 respectively. Further, it is assumed that there are no tax consequences arising from these losses.

The profit before interest fair value movements and taxation for the year ended 31st March, 2020 and 2021 amounted to ₹ 16,50,000 and ₹ 17,90,000 respectively and relate wholly to continuing operations. The rate of tax for both the Periods is 33% (including cess and surcharge if any).

Calculate Basic and Diluted EPS for 31st March 2020 & 31st March 2021.

[July-2021, MTP-May-2023, MTP-May-2026]

Ans.

	2021	2020
	₹	₹
Trading results		
A. Profit before interest, fair value movements and tax	17,90,000	16,50,000
B. Interest on 8% convertible loan stock (2020: 9/12 × ₹ 2,00,000)	(2,00,000)	(1,50,000)
C. Change in fair value of embedded option	<u>(5,300)</u>	<u>(5,000)</u>
Profit before tax	15,84,700	14,95,000
Taxation @ 33% on (A-B)	<u>(5,24,700)</u>	<u>(4,95,000)</u>
Profit after tax	<u>10,60,000</u>	<u>10,00,000</u>
Calculation of basic EPS		
Number of equity shares outstanding	20,00,000	20,00,000
Earnings	10,60,000	10,00,000
Basic EPS	53 paise	50 paise

Calculation of diluted EPS

Test whether convertibles are dilutive:

The saving in after-tax earnings, resulting from the conversion of ₹ 100 nominal of loan stock, amounts to (₹ 100 × 8% × 67%) + (₹ 5,300 / 25,000) = ₹ 5.36 + ₹ 0.21 = ₹ 5.57.

There will then be 135 extra shares in issue.

Therefore, the incremental EPS is 4 paise (i.e. ₹ 5.57 / 135). As this incremental EPS is less than the basic EPS at the continuing level, it will have the effect of reducing the basic EPS of 53 paise. Hence the convertibles are dilutive.

	2021	2020
Adjusted earnings	₹	₹
Profit for basic EPS	10,60,000	10,00,000
Add: Interest and other charges on earnings saved as a result of the conversion	(2,00,000 + 5,300) 2,05,300	(1,50,000 + 5,000) 1,55,000
Less: Tax relief on interest portion	<u>(66,000)</u>	<u>(49,500)</u>
Adjusted earnings for equity	<u>11,99,300</u>	<u>11,05,500</u>

Adjusted number of shares

From the conversion terms, it is clear that the maximum number of shares issuable on conversion of ₹ 25,00,000 loan stock after the end of the financial year would be at the rate of 135 shares per ₹ 100 nominal (that is, 33,75,000 shares).

	2021	2020
Number of equity shares for basic EPS	20,00,000	20,00,000
Maximum conversion at date of issue (33,75,000 × 9/12)	-	25,31,250
Maximum conversion after balance sheet date	<u>33,75,000</u>	<u>-</u>
Adjusted shares	<u>53,75,000</u>	<u>45,31,250</u>
Adjusted earnings for equity	11,99,300	11,05,500
Diluted EPS (approx.)	22 paise	24 paise

Q. 61

DEPS : CONTINGENTLY ISSUABLE SHARES (Calendar year is accounting year)



Ordinary shares outstanding during 20X1	1,000,000 (there were no options, warrants or convertible instruments outstanding during the period)
An agreement related to a recent business combination provides for the issue of additional ordinary shares based on the following conditions:	
	5,000 additional ordinary shares for each new retail site opened during 20X1 1,000 additional ordinary shares for each ₹ 1,000 of consolidated profit in excess of ₹ 2,000,000 for the year ended 31 December 20X1
Retail sites opened during the year:	one on 1 May 20X1 one on 1 September 20X1

Consolidated year-to-date profit attributable to ordinary equity holders of the parent entity:	₹ 1,100,000 as of 31 March 20X1 ₹ 2,300,000 as of 30 June 20X1 ₹ 1,900,000 as of 30 September 20X1 (including a ₹ 450,000 loss from a discontinued operation) ₹ 2,900,000 as of 31 December 20X1
--	--

Calculate basic and diluted EPS, for quarterly FS and annual FS

[SM]

Ans.

Basic earnings per share

	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Numerator (₹)	1,100,000	1,200,000	(400,000)	1,000,000	2,900,000
Denominator:					
Ordinary shares outstanding	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Retail site contingency	–	3,333 ⁶	6,667 ⁷	10,000	5,000 ⁸
Earnings contingency ⁹	–	–	–	–	–
Total shares	1,000,000	1,003,333	1,006,667	1,010,000	1,005,000
Basic earnings per share (₹)	1.10	1.20	(0.40)	0.99	2.89

6 5,000 shares × 2/3

7 5,000 shares + (5,000 shares × 1/3)

8 (5,000 shares × 8/12) + (5,000 shares × 4/12)

9 The earnings contingency has no effect on basic earnings per share because it is not certain that the condition is satisfied until the end of the contingency period. The effect is negligible for the fourth-quarter and full-year calculations because it is not certain that the condition is met until the last day of the period.

Diluted earnings per share

	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
Numerator (₹)	1,100,000	1,200,000	(400,000)	1,000,000	2,900,000
Denominator:					
Ordinary shares outstanding	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Retail site contingency	–	5,000	10,000	10,000	10,000
Earnings contingency	– ¹⁰	300,000 ¹¹	– ¹²	900,000 ¹³	900,000
Total shares	1,000,000	1,305,000	1,010,000	1,910,000	1,910,000
Diluted earnings per share (₹)	1.10	0.92	(0.40) ¹⁴	0.52	1.52

10 Company A does not have year-to-date profit exceeding ₹ 2,000,000 at 31 March 20X1. The Standard does not permit projecting future earnings levels and including the related contingent shares.

11 [(₹ 2,300,000 – ₹ 2,000,000) ÷ 1,000] × 1,000 shares = 300,000 shares.

12 Year-to-date profit is less than ₹ 2,000,000.

13 $[(₹ 2,900,000 - ₹ 2,000,000) \div 1,000] \times 1,000 \text{ shares} = 900,000 \text{ shares.}$

14 Because the loss during the third quarter is attributable to a loss from a discontinued operation, the antidilution rules do not apply. The control number (i.e. profit or loss from, continuing operations attributable to the equity holders of the parent entity) is positive. Accordingly, the effect of potential ordinary shares is included in the calculation of diluted earnings per share.

[Solution has not disclosed BEPS & DEPS from (continuing Ops. and Discontinued Ops. additionally)]

Q. 62

CFI



Jackson Limited is engaged in manufacturing and trading activities. It is in the process of preparation of consolidated financial statements of the group for the year ended on 31st March 2022. During the year 2021-22, the company made a profit (after tax) of ₹ 2,10,00,000 of which ₹ 10,00,000 is attributable to Non-Controlling Interest (NCI). The long term finance of the company comprises the following :

- (A) 10 crore equity shares of ₹ 1 each at the beginning of the year and the company has further issued ₹ 2,50,00,000 shares on 1st October 2021 at full market value.
 - (B) 40 lakh irredeemable preference shares of ₹ 10 each. These shares were in issue for the whole of the year ended 31st March 2022. The payment of dividend on these preference shares is discretionary.
 - (C) ₹ 9 crore of 6% convertible debentures issued on 1st April, 2020 and repayable on 31st March, 2025 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 5 crore ordinary shares in the company. On 1st April, 2021 the prevailing market interest rate for 5 yearly convertible debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of ₹1 payable in five years is 0.68 and the cumulative present value of ₹ 1 payable at the end of years one to five is 3.99.
- In the year ended 31st March, 2022 Jackson Limited declared a dividend of ₹ 0.10 per share on the irredeemable preference shares.

You are required to :

- (i) Compute the finance cost of convertible debentures and its closing balance as on 31st March, 2022 to be presented in the consolidated financial statements.
- (ii) Compute the basic and diluted earnings per share for the year ended 31st March 2022. Assume that applicable income tax rate is 30% for Jackson Limited and its subsidiaries. **[Nov-2022]**

Ans.

(i) Calculation of the liability and equity components on 6% Convertible debentures:

Present value of principal payable at the end of 5th year (₹ 90,000 thousand x 0.68)

= ₹ 61,200 thousand

Present value of interest payable annually for 5 years (₹ 90,000 thousand x 6% x 3.99)

= ₹ 21,546 thousand

Total liability component = ₹ 82,746 thousand

Therefore, equity component = ₹ 90,000 thousand – ₹ 82,746 thousand

= ₹ 7,254 thousand

Calculation of finance cost and closing balance of 6% convertible debentures

Year	Opening balance ₹ in '000	Finance cost @ 8% ₹ in '000	Interest paid @ 6% ₹ in '000	Closing balance ₹ in '000
	a	b = a x 8%	c	d = a + b - c
31.3.2021	82,746	6,620	5,400	83,966
31.3.2022	83,966	6,717	5,400	85,283

Finance cost of convertible debentures for the year ended 31.3.2022 is ₹ 6,717 thousand and closing balance as on 31.3.2022 is ₹ 85,283 thousand.

(ii) (a) Calculation of Basic EPS

₹ in '000

Profit for the year attributable to parent company	20,000
Less: Dividend on preference shares (4,000 thousand x ₹ 0.10)	<u>(400)</u>
Profit attributable to equity shareholders	<u>19,600</u>

Weighted average number of shares = 10,00,00,000 + {2,50,00,000 x (6/12*)}

= 11,25,00,000 shares or 1,12,500 thousand shares Basic EPS = ₹

19,600 thousand / 1,12,500 thousand shares

= ₹ 0.174

(b) Calculation of Diluted EPS

₹ in '000

Profit for the year	20,000
Less: Dividend on preference shares (4,000 x 0.10)	<u>(400)</u>
	19,600
Add: Finance cost (as given in the above table)	6,717.00
Less: Tax @ 30%	<u>(2,015.10)</u>
	<u>4,701.90</u>
	<u>24,301.90</u>

Weighted average number of shares = 10,00,00,000 + {2,50,00,000 x (6/12)*} + 5,00,00,000

= 16,25,00,000 shares or 1,62,500 thousand shares

Diluted EPS = ₹ 24,301.90 thousand / 1,62,500 thousand shares = ₹ 0.150

Q. 63

DISCONTINUED OPERATIONS

From the following information you are asked to calculate (a) Basic and Diluted EPS of Duck Ltd. and (b) Diluted EPS of Swan Ltd.:

	Duck Ltd.	Swan Ltd.
	Amount (₹)	Amount (₹)
Income/(Loss) from Continuing Operations	2,52,000	(1,80,000)
Income/(Loss) from Discontinued Operations	(4,20,000)	3,25,920
Net Income/(Loss)	(1,68,000)	1,45,920
Weighted Average Number of Shares outstanding	80,000	96,000
Incremental common shares outstanding relating to stock options	16,000	25,600

[Dec-2021, May-2025]

Ans.

(a) For Duck Ltd.
I Calculation of Basic EPS

Basic EPS = Profit for the year / Weighted average number of shares outstanding

Basic EPS (Continued Operations) = Profit from continued operations / Weighted average number of shares outstanding

= ₹ 2,52,000 / 80,000 = ₹ 3.15

Basic Loss per share (Discontinued operations) = Loss from discontinued operations / Weighted average number of shares outstanding

$$= (\text{₹ } 4,20,000) / 80,000 = (\text{₹ } 5.25)$$

$$\text{Overall Basic Loss per share} = (\text{₹ } 1,68,000) / 80,000 = (\text{₹ } 2.10) \text{ (i)}$$

II Calculation of Diluted EPS

Diluted EPS = Profit for the year / Adjusted weighted average number of shares outstanding

EPS (Continued Operations) = Profit from continued operations / Adjusted weighted average number of shares outstanding

$$= \text{₹ } 2,52,000 / 96,000 = \text{₹ } 2.625$$

Loss per share (Discontinued operations) = Loss from discontinued operations / Adjusted weighted average number of shares outstanding

$$= (\text{₹ } 4,20,000) / 96,000 = (\text{₹ } 4.375)$$

$$\text{Overall Diluted Loss per share} = (\text{₹ } 1,68,000) / 96,000 = (\text{₹ } 1.75) \text{ (ii)}$$

Reporting Status:

The income from continuing operations is the control number, there is a dilution in basic EPS for income from continuing operations (reduction of EPS from ₹ 3.15 to ₹ 2.625). Therefore, even though there is an anti-dilution [Loss per share reduced from ₹ 2.10 (i) to ₹ 1.75 (ii) above], diluted loss per share of ₹ 1.75 is reported.

(b) For Swan Ltd.

Treatment of potential shares:

In case of loss from continuing operations, the potential shares are excluded since including those shares would result into anti-dilution effect on the control number (loss from continuing operations). Therefore, the diluted EPS will be calculated as under:

Diluted EPS = Profit for the year / Adjusted weighted average number of shares outstanding

Overall Profit = Loss from continuing operations + Gain from discontinued operations

$$= (\text{₹ } 1,80,000) + \text{₹ } 3,25,920 = \text{₹ } 1,45,920$$

Weighted average number of shares outstanding = 96,000 Diluted EPS

$$= \text{₹ } 1,45,920 / 96,000 = \text{₹ } 1.52$$

Reporting Status:

The dilutive effect of the potential common shares on EPS for income from discontinued operations and net income would not be reported because of the loss from continuing operations.

Ind AS 34

INTERIM FINANCIAL REPORTING

Q. 64
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. 65**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 = $25 \times 110\% = 27.5\%$

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>

Q. 66


Hero Ltd. reported a profit before tax of ₹ 8 lakhs for the third quarter ending 31st December 2024. On enquiry, you observe the following :

- Dividend income of ₹ 8 lakhs received during the quarter has been recognized to the extent of ₹ 2 lakhs only.
- 60% of sales promotion expenses of ₹ 30 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in fourth quarter are expected to be high.
- 4 lakhs extraordinary gain received in third quarter was allocated equally to the third and fourth quarter.
- Cumulative loss of ₹ 30 lakhs resulting from change in method of inventory valuation was recognized in the third quarter. Out of this loss, ₹ 10 lakhs relate to previous quarters.
- Sale of investment in the first quarter resulted in a gain of ₹ 40 lakhs. The company had apportioned this equally to the four quarters.

You are required to discuss the treatment of the above observations and ascertain the adjusted profit /loss before tax for the third quarter. **[May-2025]**

Ans.

As per para 37 and para 39 of Ind AS 34 “Interim Financial Reporting”, seasonal or occasional revenue and cost within a financial year should not be anticipated or deferred as of interim date if it would not be appropriate to anticipate or defer the same at the end of the entity’s financial year. Therefore, dividend income, extraordinary gain, and gain on sale of investment received during 3rd quarter should be recognised in the 3rd quarter only.

Similarly, sales promotion expenses incurred in the 3rd quarter should also be charged in the 3rd quarter only.

Further, as per the standard, if there is change in the accounting policy within the current financial year, then such a change should be applied retrospectively by restating the financial statements of prior interim periods of the current financial year.

The change in the method of inventory valuation is a change in the accounting policy. Therefore, the prior interim periods’ financial statements should be restated by applying the change in the method of valuation retrospectively.

Accordingly, the adjusted profit before tax for the 3rd quarter will be as follows:

**Statement showing Adjusted Profit Before Tax for the
Third Quarter ending 31st December, 2024**

	(₹ in lakhs)
Profit before tax (as reported)	8
Add: Dividend income ₹ (8-2) lakhs	6
Extraordinary gain ₹ (4-2) lakhs	2
Cumulative loss due to change in the method of inventory valuation should be applied retrospectively	<u>10</u>
	26
Less: Sales promotion expenses (60% of ₹ 30 lakhs)	(18)
Gain on sale of investment (occasional gain should not be deferred)	<u>(10)</u>
Adjusted Profit before tax for the third quarter	<u>(2)</u>

Ind AS 36

IMPAIRMENT OF ASSETS

Q. 67

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. 68



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. 69**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. 70

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. 71
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).

Q. 72

GOODWILL : NCI MEASUREMENT & GOODWILL IMPAIRMENT



RST Ltd prepares consolidated financial statements as at 31st March each year. On 1st July, 2021, RST Ltd acquired 75% of the equity shares of the DHF Ltd and gained control of DHF Ltd. The issued shares of DHF Ltd is 1,20,00,000 equity shares. Details of the purchase consideration are as follows:

- On 1st July 2021, RST Ltd. issued two shares for every three shares acquired in DHF Ltd. on 1st July 2021, the market value of an equity share in RST Ltd. was ₹ 6.50 and the market value of an equity share in DHF Ltd. was ₹ 5.50.
- On 30th June 2022, RST Ltd will make cash payment of ₹ 71,50,000 to the former shareholders of DHF Ltd. who sold their shares to RST Ltd. on 1st July 2021. On 1st July, 2021 RST Ltd would have to pay interest at an annual rate of 10% on borrowings.
- On 30th June 2023, RST Ltd may make a cash payment of ₹ 3,00,00,000 to the former shareholders of DHF Ltd who sold their shares to RST Ltd on 1st July 2021. This payment is contingent upon the revenues of RST Ltd growing by 15% over the two-year period from 1st July 2021 to 30 June, 2023. On 1st July 2021, the fair value of this contingent consideration was ₹ 2,50,00,000. On 31st March 2022, the fair value of the contingent consideration was ₹ 2,20,00,000.

On 1st July 2021, the carrying values of the identifiable net assets of DHF Ltd in the books of that company was ₹ 6,00,00,000. On 1st July 2021, the fair values of these net assets was ₹ 7,00,00,000. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31 March 2022, DHF Ltd. had a poorer than expected operating performance. Therefore, on 31st March 2022 it was necessary for RST Ltd. to recognize an impairment of the goodwill arising on acquisition of DHF Ltd amounting to 12.50% of its total computed value.

Compute the impairment of goodwill in the consolidated financial statements of RST Ltd. under the methods permitted by Ind AS 103 for the initial computation of the non-controlling interest in DHF Ltd at the acquisition date.

[May-2022]

Ans.

Computation of goodwill impairment

	NCI at fair value	NCI at proportionate share of net assets
	₹ in 000	₹ in 000
Cost of investment		
Share exchange (12,000 x 75% x 2/3 x ₹ 6.50)	39,000	39,000
Deferred consideration (7,150 / 1.10)	6,500	6,500
Contingent consideration	<u>25,000</u>	<u>25,000</u>
Total Purchase Consideration (a)	70,500	70,500
Non-controlling interest on the date of acquisition: (b)		
Fair value – 3,000 x ₹ 5.50	16,500	
% of net assets – 68,000 (Refer W.N.) x 25%		17,000
Net assets on the acquisition date (Refer W.N.) (c)	<u>(68,000)</u>	<u>(68,000)</u>
Goodwill on acquisition (a+b-c)	<u>19,000</u>	<u>19,500</u>
Impairment @ 12.50%	2,375.00	2,437.50

Working Note:

Net assets on the acquisition date	₹ in 000
Fair value at the acquisition date	70,000
Deferred tax on fair value adjustments [20% x (70,000 – 60,000)]	<u>(2,000)</u>
	<u>68,000</u>

Q. 73

RESTRUCTURING


At 31st March, 20X1, the assets of a CGU are being reviewed for impairment. The carrying value of the CGU's net assets is ₹65 lakhs (excluding any restructuring provision), and remaining useful economic life of recognised asset is eight years.

Management's approved budgets at 31st March, 20X1 include restructuring costs of ₹ 3,50,000 to be incurred in 20X2; the restructuring is expected to generate cost savings of ₹ 1,00,000 per annum from 20X3 onwards. Formal budgets have been prepared for the three years to 31st March, 20X4. A zero-growth rate is assumed, because market conditions are extremely competitive, and this is expected to continue for the foreseeable future.

The future cash flow estimates are as follows:

Year	With restructuring consideration	Without restructuring consideration
	₹	₹
20X1-20X2	5,20,000	8,70,000
20X2-20X3	10,00,000	9,00,000
20X3-20X4	10,50,000	9,50,000
20X4-20X5	10,50,000	9,50,000
20X5-20X6	10,50,000	9,50,000
20X6-20X7	10,50,000	9,50,000

20X7-20X8	10,50,000	9,50,000
20X8-20X9	10,50,000	9,50,000

In 20X2, the net cash flows without restructuring (₹ 8,70,000) exceed the net cash flows with restructuring (₹ 5,20,000) by the amount of the restructuring costs (₹ 3,50,000).

The future cash flows (which exclude inflation) have been discounted at a rate of 4%. For simplicity, it has been assumed that the cash flows arise at the end of each year.

Compute Impairment Loss at 31st March, 20X1 when-

- Restructuring costs is recognised in the financial statements at 31st March, 20X1
- Restructuring costs is not recognised in the financial statements at 31st March, 20X1

[RTP-Nov-2024, SM]

Ans.

Computation of present value of cash flows under both the following conditions:

(Amount in ₹)

Year	Discount factor	With restructuring consideration		Without restructuring coordination	
		Future net cash flows	Present value	Future net cash flows	Present value
	(a)	(b)	(c)=(a)x(b)	(d)	(e)=(a)x(d)
20X1-20X2	0.962	5,20,000	5,00,000	8,70,000	8,36,000
20X2-20X3	0.925	10,00,000	9,25,000	9,00,000	8,32,000
20X3-20X4	0.889	10,50,000	9,33,000	9,50,000	8,45,000
20X4-20X5	0.855	10,50,000	8,98,000	9,50,000	8,12,000
20X5-20X6	0.822	10,50,000	8,63,000	9,50,000	7,81,000
20X6-20X7	0.790	10,50,000	8,30,000	9,50,000	7,51,000
20X7-20X8	0.760	10,50,000	7,98,000	9,50,000	7,22,000
20X8-20X9	0.730	10,50,000	7,67,000	9,50,000	6,94,000
Value in use			65,14,000		62,73,000

The impairment calculations at 31st March, 20X1 differ according to whether or not provision for the restructuring costs is recognised in the financial statements. This will depend on whether the requirements of Ind AS 37 have been met for recognition.

(i) Provision for restructuring costs recognised at 31st March, 20X1

If provision has been made for restructuring costs, the costs and benefits of the restructuring are taken into account in determining the CGU's value in use. Here, the post – restructuring value in use (₹ 6,514,000) exceeds the CGU's carrying value (₹ 6,500,000 less restructuring provision of ₹ 350,000). Hence, there is no impairment of the CGU's assets.

In the year to 31st March, 20X1, the financial statements reflect the following charges.

Restructuring provision	₹ 350,000
Impairment loss	Nil

(ii) No provision for restructuring costs recognised at 31st March, 20X1

If no provision for restructuring costs is permitted by Ind AS 37, the costs and benefits of the restructuring have to be stripped out of the projections in determining the CGU's value in use. Here, the CGU's carrying value (₹ 65,00,000) exceeds its pre-restructuring value in use (₹ 62,73,000). Therefore, there is an impairment loss of ₹ 2,27,000.

In the year to 31st March, 20X1, the financial statements reflect the following charges:

Restructuring provisions	Nil
Impairment loss	₹ 2,27,000

Notes



Ind AS 37

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Q. 74



MEASUREMENT : DECOMMISSIONING COSTS

On 1st October, **2021**, A Ltd. completed the construction of a power generating facility. The total construction cost was ₹ 2,00,00,000. The facility was capable of being used from 1st October, **2021** but A Ltd. did not bring the facility into use until 1st January, 2018. The estimated useful life of the facility at 1st October, **2021** was 40 years.

Under legal regulations in the jurisdiction in which A Ltd. operates, there are no requirements to restore the land on which power generating facilities stand to its original state at the end of the useful life of the facility.

However, A Ltd. has a reputation for conducting its business in an environmentally friendly way and has previously chosen to restore similar land even in the absence of such legal requirements. The directors of A Ltd. estimated that the cost of restoring the land in 40 years' time (based on prices prevailing at that time) would be ₹ 1,00,00,000. A relevant annual discount rate to use in any discounting calculations is 5%. When the annual discount rate is 5%, the present value of ₹ 1 receivable in 40 years' time is approximately 0.142.

Explain and show how the above event would be reported in the financial statements of A Ltd. for the year ended 31st March, 2021. *Ignore comments on potential future reclassification issues.*

[Nov-2018, RTP-Nov-2024, SM]

Ans.

The facility is depreciated from the date it is ready for use, rather than when it actually starts being used. In this case, then, the facility is depreciated from 1st October, 2021.

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

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

This will be recognised as a provision under non-current liabilities in the balance sheet of A Ltd. at 31st March, 2022.

As time passes the discounted amount unwinds. The unwinding of the discount for the year ended 31st March, 2022 will be **₹35,500** (**14,20,000** x 5% x 6/12).

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

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

The depreciation charge in profit or loss for the year ended 31st March, 2022 is **₹ 2,67,750** (**2,14,20,000** x 1/40 x 6/12).

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

Q. 75



ONEROUS CONTRACTS

- (i) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of ₹2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of ₹1,60,000. The gas will be used to generate electricity, which will be sold at a profit.

State whether the contract is onerous.

- (ii) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of ₹2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of ₹1,60,000. The gas will be used to generate electricity. However, the electricity is sold at a loss, and the

entity makes an overall operating loss. All of the gas purchased by the entity is used to generate electricity using dedicated assets. The electricity is sold to a wide range of customers.

State whether the contract is onerous.

- (iii) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of ₹2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of ₹1,60,000. The gas will be used to generate electricity. However, the entity sells the gas under contract, which it no longer needs, to a third party for 18 paise per unit (5 paise below cost). The entity determines that it would have to pay ₹55,000 to exit the purchase contract.

State whether the contract is onerous. If the contract is onerous then also state the amount of provision to be made on account of the onerous contract.

- (iv) In the year ended 31st March 20X1, an entity has a contract with a third party supplier. The entity wishes to terminate this contract in 20X1-20X2, even though it will still have two years to run, because it can enter into a cheaper contract with a new supplier. It will incur a charge for terminating the contract.

Does the entity have to provide in 20X0-20X1 for the contract that it will be exiting in 20X1-20X2?

[RTP-May-2026]

Ans.

- (i) The economic benefits from the contract include the benefits to the entity of using the gas in its business and because the electricity will be sold at a profit, the contract is not onerous.
- (ii) The entity first considers whether the assets used to generate electricity are impaired. To the extent that there is still a loss after the assets have been written down, a provision for an onerous contract should be recorded.
- (iii) The only economic benefit from the purchase contract costing ₹2,30,000 are the proceeds from the sales contract, which are ₹1,80,000. Therefore, a provision should be made for the onerous element of ₹50,000, being the lower of the cost of fulfilling the contract and the penalty cost of cancellation (₹55,000).
- (iv) A provision should be recognised only if the contract is onerous. If the goods received under the supply contract are sold at a profit, the contract is not onerous and provision should not be made in the year 20X0-20X1. The termination cost should be recognised as incurred in 20X1-20X2.

Q. 76

RESTRUCTURING: AMOUNTS TO BE INCLUDED IN SPL IN CASE OF CLOSURE OF A DIVISION



On 1st January, 20X2, the directors of Johansen Ltd. decided to terminate production at one of the company's divisions. This decision was publicly announced on 31st January, 20X2. The activities of the division were gradually reduced from 1st April, 20X2 and closure is expected to be complete by 30th September, 20X2.

At 31st January, 20X2, the directors prepared the following estimates of the financial implications of the closure:

- (i) Redundancy costs were initially estimated at ₹ 2 million. Further expenditure of ₹ 8,00,000 will be necessary to retrain employees who will be affected by the closure but remained with Johansen Ltd. in different divisions. This retraining will begin in early July 20X2. Latest estimates are that redundancy costs will be ₹ 1.9 million, with retraining costs of ₹ 8,50,000.
- (ii) Plant and equipment having an expected carrying value at 31st March, 20X2 of ₹ 8 million will have a recoverable amount ₹ 1.5 million. These estimates remain valid.
- (iii) The division is under contract to supply goods to a customer for the next three years at a pre-determined price. It will be necessary to pay compensation of ₹ 6,00,000 to this customer. The compensation actually paid, on 31st May, 20X2, was ₹ 5,50,000.

- (iv) The division will make operating losses of ₹ 3,00,000 per month in the first three months of 20X2-20X3 and ₹ 2,00,000 per month in the next three months of 20X2-20X3. This estimate proved accurate for April, 20X2 and May, 20X2.
- (v) The division operates from a leasehold premise. The lease is a non-cancellable operating lease with an unexpired term of five years from 31st March, 20X2. The annual lease rentals (payable on 31st March in arrears) are ₹ 1.5 million. The landlord is not prepared to discuss an early termination payment.

Following the closure of the division it is estimated that Johansen Ltd. would be able to sub-let the property from 1st October, 20X2.

Johansen Ltd. could expect to receive a rental of ₹ 3,00,000 for the six-month period from 1st October, 20X2 to 31st March, 20X3 and then annual rentals of ₹ 5,00,000 for each period ending 31st March, 20X4 to 31st March, 20X7. All rentals will be received in arrears.

Any discounting calculations should be performed using a discount rate of 5% per annum. You are given the following data for discounting at 5% per annum:

Present value of ₹ 1 received at the end of year 1 = ₹ 0.95

Present value of ₹ 1 received at the end of year 1–2 inclusive = ₹ 1.86

Present value of ₹ 1 received at the end of year 1–3 inclusive = ₹ 2.72

Present value of ₹ 1 received at the end of year 1–4 inclusive = ₹ 3.54

Present value of ₹ 1 received at the end of year 1–5 inclusive = ₹ 4.32

Compute the amounts that will be included in the Statement of Profit and Loss for the year ended 31st March, 20X2 in respect of the decision to close the division of Johansen Ltd. **[RTP-Nov-2023, SM, MTP-Sept-2025]**

Ans.

As per Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', closure of a division is a restructuring exercise. Ind AS 37 states that a constructive obligation to proceed with the restructuring arises when at the reporting date the entity has:

- Commenced activities connected with the restructuring; or
- Made a public announcement of the main features of the restructuring to those affected by it. In this case a public announcement has been made and so a provision will be necessary at 31st March, 20X2.

This will result in the following charges to the Statement of Profit and Loss:

- (i) Estimate of redundancy costs of ₹ 1.9 million is the best estimate of the expenditure at the date the financial statements are authorized for issue. Changes in estimates after the reporting date are taken into account for this purpose as an adjusting event after the reporting date. No charge is necessary for the retraining costs as these are not incurred in 20X1-20X2 and cannot form part of a restructuring provision as they are related to the ongoing activities of the entity.
- (ii) Impairment of plant and equipment of ₹ 6.5 million is although not strictly part of the restructuring provision the decision to restructure before the year-end means that related assets need to be reviewed for impairment. In this case the recoverable amount of the plant and equipment is only ₹ 1.5 million. As per Ind AS 36 'Impairment of Assets', property, plant and equipment should be written down to this amount, resulting in a charge of ₹ 6.5 million to the income statement.
- (iii) For compensation for breach of contract of ₹ 0.55 million, same principle applies here as applied to the redundancy costs.
- (iv) No charge is recognized in 20X1-20X2 with respect to future operating losses of 20X2-20X3. Future operating losses relate to future events and provisions are made only for the consequences of past events.
- (v) Ind AS 37 states that an onerous contract is one for which the expected cost of fulfilling the contract exceeds the benefits expected from the contract. Provision is made for the lower of the expected net cost of fulfilling the contract and the cost of early termination (not available in this case). The net cost of fulfilling the contract is ₹ 4.51 million [₹ 1.5 million x 4.32 – ₹ 0.3 million x 0.95 – ₹ 0.5 million x (4.32 – 0.95)].

Ind AS 38

INTANGIBLE ASSETS

Q. 77
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>

Q. 78
COSTS : SELF GENERATED ASSET

X Ltd. is engaged in developing computer software. The expenditures incurred by X Ltd. in pursuance of its development of software is given below:

- Paid ₹ 2,00,000 towards salaries of the program designers.
- Incurred ₹ 5,00,000 towards other cost of completion of program design.
- Incurred ₹ 2,00,000 towards cost of coding and establishing technical feasibility.
- Paid ₹ 7,00,000 for other direct cost after establishment of technical feasibility.
- Incurred ₹ 2,00,000 towards other testing costs.
- Cost of producing product masters for training material is ₹ 3,00,000.
- A focus group of other software developers was invited to a conference for the introduction of this new software. Cost of the conference aggregated to ₹ 70,000.
- On March 15, 20X0, the development phase was completed and a cash flow budget was prepared.

Net profit for the year was estimated to be equal ₹ 40,00,000. How X Ltd. should account for the above mentioned cost? (Assume Cost incurred given in chronological order) **[SM]**

Ans.

Costs incurred in creating computer software, should be charged to research & development expenses when incurred until technical feasibility/asset recognition criteria have been established for the product. Here, technical feasibility is established after completion of detailed program design.

In this case, ₹ 9,00,000 (salary cost of ₹ 2,00,000, program design cost of ₹ 5,00,000 and coding and technical feasibility cost of ₹ 2,00,000) would be recorded as expense.

Cost incurred from the point of technical feasibility are capitalised as software costs. But the conference cost of ₹ 70,000 would be expensed off.

In this situation, direct cost after establishment of technical feasibility of ₹ 7,00,000, testing cost of ₹ 2,00,000 and cost of producing product masters for training material of ₹ 3,00,000 will be capitalised.

The cost of software capitalised is = ₹ (7,00,000 + 2,00,000 + 3,00,000) = ₹ 12,00,000.

Q. 79
CAPITALISATION OF SOFTWARE DEVELOPMENT COSTS

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

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

Costs of advertising in market	1,560
Administrative and general overheads	825

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

Note 2: Other costs directly related to development include an abnormal cost of ₹ 50,000 in respect of repairing the damage which resulted from a security breach.

What will be the amount of the software development costs that can be capitalized by explaining the reason for each element of cost? **[RTP-Nov-2023, SM]**

Ans.

In the given fact pattern, the entity should apply the recognition and measurement principles relevant for an internally generated intangible asset. The entity has to ensure compliance with additional requirements relating to internally generated intangible assets in addition to general recognition criteria and initial measurement of intangible asset. In the instant case, for the measurement of software development cost, entity must evaluate the costs incurred for recognition of an intangible asset arising from development phase with reference to paragraphs 65 to 67 of Ind AS 38.

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

Particulars	Amount (₹ in thousands)	Amount to be capitalised as Intangible Assets (₹ in thousands)	Remarks
Purchase price of imported software	600	600	The cost of materials or / and services used or consumed in generating the intangible asset and any directly attributable cost of preparing the asset for its intended use.
Employment costs (Note 1)	1,200	900	Employment costs for the period of nine months are directly attributable costs. Therefore, the cost to be capitalized is ₹ 900 thousand (i.e., $9/12 \times ₹ 1,200$ thousand) for nine months as the asset was ready for its intended use by that time. It is assumed that ₹ 100 thousand is equally incurred each month. Capitalisation of eligible costs should cease when the asset is capable of operating in the manner intended by management.
Testing costs	1,800	1,800	The cost of testing whether the asset is functioning properly is a directly attributable cost. (Refer paragraph 59 of Ind AS 38)
Other costs directly related to development (Note 2)	450	400	Cost of identified inefficiencies deducted, i.e., ₹ 450 thousand – ₹ 50 thousand.
Professional fees paid for bringing the	220	220	The cost of materials or/and services used or consumed in generating the intangible asset

software to its working condition			
Costs of training provided to staff	195	Nil	Expenditure on training staff to operate the asset cannot be capitalised. (Refer paragraph 67 of Ind AS 38)
Costs of advertising in market	1,560	Nil	Selling, administrative and other general overhead expenditure cannot be capitalised. (Refer paragraph 67 of Ind AS 38)
Administrative and general overheads	<u>825</u>	<u>Nil</u>	
Total	<u>6,850</u>	<u>3,920</u>	

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

Q. 80

IMPAIRMENT: ACCOUNTING

One of the senior engineers at XYZ has been working on a process to improve manufacturing efficiency and, consequently, reduce manufacturing costs. This is a major project and has the full support of XYZ's board of directors. The senior engineer believes that the cost reductions will exceed the project costs within twenty four months of their implementation. Regulatory testing and health and safety approval was obtained on 1 June 20X5. This removed uncertainties concerning the project, which was finally completed on 20 April 20X6. Costs of ₹ 18,00,000, incurred during the year till 31 st March 20X6, have been recognized as an intangible asset. An offer of ₹ 7,80,000 for the new developed technology has been received by potential buyer but it has been rejected by XYZ. Utkarsh believes that the project will be a major success and has the potential to save the company ₹ 12,00,000 p.a. in perpetuity. Director of research at XYZ, Neha, who is a qualified electronic engineer, is seriously concerned about the long term prospects of the new process and she is of the opinion that competitors would have developed new technology at some time which would require to replace the new process within four years. She estimates that the present value of future cost savings will be ₹ 9,60,000 over this period. After that, she thinks that there is no certainty about its future. What would be the appropriate accounting treatment of aforesaid issue? (Assumed costs incurred even by through the year) **[May-2020, MTP-May-2025, SM]**

Ans.

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

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

Amount of ₹ 15,00,000 (₹ 18,00,000 x 10/12) should be capitalised in the Balance sheet of year ending 20X5-20X6 representing expenditure since 1 June 20X5.

The expenditure incurred prior to 1 June 20X5 which is ₹ 3,00,000 (2/12 x ₹ 18,00,000) should be recognised as an expense, retrospective recognition of expense as an asset is not allowed.

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

Cash flow of ₹ 12,00,000 p.a. in perpetuity would clearly have a present value in excess of ₹ 12,00,000 and hence there would be no impairment. However, the research director is technically qualified, so impairment tests

should be based on her estimate of a four-year remaining life and so present value of the future cost savings of ₹ 9,60,000 should be considered in that case. ₹ 9,60,000 is greater than the offer received (fair value less costs to sell) of ₹ 7,80,000 and so ₹ 9,60,000 should be used as the recoverable amount.

So, the carrying amount should be consequently reduced to ₹ 9,60,000.

Calculation of Impairment loss:

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

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

Necessary adjusting entry to correct books of account will be:

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

Notes



Ind AS 40

INVESTMENT PROPERTY

Q. 81
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. 82

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%

Q. 83
LEASE : RECLASSIFICATION : IP TO INVENTORY


X Ltd. is engaged in the construction industry and prepares its financial statements up to 31st March each year. On 1st April, 20X1, X Ltd. purchased a large property (consisting of land) for ₹ 2,00,00,000 and immediately began to lease the property to Y Ltd. on an operating lease. Annual rentals were ₹ 20,00,000. On 31st March, 20X5, the fair value of the property was ₹ 2,60,00,000. Under the terms of the lease, Y Ltd. was able to cancel the lease by giving six months' notice in writing to X Ltd. Y Ltd. gave this notice on 31st March, 20X5 and vacated the property on 30th September, 20X5. On 30th September, 20X5, the fair value of the property was ₹ 2,90,00,000. On 1st October, 20X5, X Ltd. immediately began to convert the property into ten separate flats of equal size which X Ltd. intended to sell in the ordinary course of its business. X Ltd. spent a total of ₹ 60,00,000 on this conversion project between 30th September, 20X5 to 31st March, 20X6. The project was incomplete at 31st March, 20X6 and the directors of X Ltd. estimate that they need to spend a further ₹ 40,00,000 to complete the project, after which each flat could be sold for ₹ 50,00,000.

Examine and show how the three events would be reported in the financial statements of X Ltd. for the year ended 31st March, 20X6 as per Ind AS. **[RTP-Nov-2018, MTP-Jan-2026, SM]**

Ans.

From 1st April, 20X1, the property would be regarded as an investment property since it is being held for its investment potential rather than being owner occupied or developed for sale.

The property would be measured under the cost model. This means it will be measured at ₹ 2,00,00,000 at each year end.

On 30th September, 20X5, the property ceases to be an investment property. X Ltd. begins to develop it for sale as flats.

As per para 59 of Ind AS 40, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Hence, the carrying value of the reclassified property will be ₹ 2,00,00,000.

Since the lease of the property is an operating lease, rental income of ₹ 10,00,000 ($₹ 20,00,000 \times 6/12$) would be recognised in P/L for the year ended 31st March, 20X6.

The additional costs of ₹ 60,00,000 for developing the flats which were incurred up to and including 31st March, 20X6 would be added to the 'cost' of inventory to give a closing cost of ₹ 2,60,00,000.

The total selling price of the flats is expected to be ₹ 5,00,00,000 ($10 \times ₹ 50,00,000$). Since the further costs to develop the flats total ₹ 40,00,000, their net realisable value is ₹ 4,60,00,000 ($₹ 5,00,00,000 - ₹ 40,00,000$), so the flats will be measured at a cost of ₹ 2,60,00,000.

The flats will be shown in inventory as a current asset.

Q. 84

GROUP ACCOUNTS

On 1st April, 20X1, an entity purchased an office block (building) for ₹ 50,00,000 and paid a non-refundable property transfer tax and direct legal cost of ₹ 2,50,000 and ₹ 50,000 respectively while acquiring the building.

During 20X1, the entity redeveloped the building into two-story building. Expenditures on re-development were:

- ₹ 1,00,000 on Building plan approval;
- ₹ 10,00,000 on construction costs (including ₹ 60,000 refundable purchase taxes); and
- ₹ 40,000 was due to abnormal wastage of material and labour.

When the re-development of the building was completed on 1st October, 20X1, the entity rents out Ground Floor of the building to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products. The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.

How will the entity account for all the above mentioned expenses in the books of account as on 1st October, 20X1? Also, discuss how the above building will be shown in the consolidated financial statements of the entity as a group and in its separate financial statements as per relevant Ind AS. **[Jan-2021, MTP-May-2022]**

Ans.

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

Particulars	(₹)
Purchase amount	50,00,000
Non-refundable property tax	2,50,000
Direct legal cost	<u>50,000</u>
	53,00,000
Expenditures on redevelopment:	
Building plan approval	1,00,000
Construction costs (10,00,000 – 60,000)	<u>9,40,000</u>
Total amount to be capitalised at 1st October, 20X1	<u>63,40,000</u>

Treatment of abnormal wastage of material and labour:

As per Ind AS 16, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. It will be charged to Profit and Loss in the year it is

incurred. Hence, abnormal wastage of ₹ 40,000 will be expensed off in Profit & Loss in the financial year 20X1-20X2.

Accounting of property- Building

When the property is used as an administrative centre, it is not an investment property, rather it is an 'owner occupied property'. Hence, Ind AS 16 will be applicable.

When the property (land and/or buildings) is held to earn rentals or for capital appreciation (or both), it is an Investment Property. Ind AS 40 prescribes the cost model for accounting of such investment property.

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

As on 1st October, 20X1, the carrying value of building vis-à-vis its classification would be as follows:

- (i) **In the Separate Financial Statements:** The Ground Floor of the building will be classified as investment property for ₹ 31,70,000, as it is property held to earn rentals. While First Floor of the building will be classified as item of property, plant and equipment for ₹ 31,70,000.
- (ii) **In the Consolidated Financial Statements:** The consolidated financial statements present the parent and its subsidiary as a single entity. The consolidated entity uses the building for the supply of goods. Therefore, the leased-out property to a subsidiary does not qualify as investment property in the consolidated financial statements. Hence, the whole building will be classified as an item of Property, Plant and Equipment for ₹ 63,40,000.

Notes



Ind AS 41

AGRICULTURE

Q. 85

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 $\times$ 80 nuts $\times$ ₹15 $\times$ 5 times) and 1,85,000 coconut palm (1,85,000 palm $\times$ 80 nuts $\times$ ₹ 30 $\times$ 5 times), we get total valuation of 2,00,000 coconut palm as ₹ 231 crore.

Q. 86

SCOPE:

ABC Ltd. is in the business of manufacturing an apple beverage and requires large quantity of apples to manufacture such beverage. In order to satisfy its requirement of apples, it enters into 3 years lease contracts with owners of apple orchards. The lease contracts are mainly of two types:

- (1) **Contract 1:** The owner of the apple orchard (i.e. the lessor) raises the apple trees to produce apples. ABC Ltd. (i.e. lessee) makes a fixed annual payment to the owner of the apple orchard who is required to cultivate the produce as per the specifications of ABC Ltd. ABC Ltd. harvests the apples itself for fulfilling its requirement of apples.
- (2) **Contract 2:** ABC Ltd. obtains the apple orchard from owner (i.e. the lessor) to raise the apple trees for subsequent harvest of the apples to ensure that the apples are as per the requirements of ABC Ltd. ABC Ltd. makes a fixed annual payment to the owner of the apple orchards (i.e. the lessor).

Explain whether ABC Ltd. is engaged in agricultural activity as per Ind AS 41 in both of the cases?

[RTP-Nov-2022, RTP-Nov-2024, SM]

Ans.

Paragraph 5 of Ind AS 41, Agriculture defines agricultural activity and biological transformation as follows:

“Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.”

“Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.”

Contract 1:

As per contract 1, during the 3 years of the contract, ABC Ltd. only harvests apples from the apple orchards whereas biological transformation is managed by the owners of the apple orchards (i.e. the lessor). Since ABC Ltd. is not involved in the biological transformation of the apple orchards and is only harvesting biological assets, it cannot be said to be an agricultural activity as per Ind AS 41. Hence, ABC Ltd. is not engaged in agricultural activity as per Ind AS 41.

Contract 2:

As per contract 2, ABC Ltd. obtains the apple orchards and is actively involved in the raising of apple trees in order to ensure that the apples are as per its requirements. Since, it is actively managing the biological transformation and harvest of biological asset, Hence, ABC Ltd. is engaged in agricultural activity as per Ind AS 41.

Notes



Ind AS 101

FIRST TIME ADOPTION OF IND AS

Q. 87

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:

- 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.
- 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.
- 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.
- The Company has an Equity Share Capital of ₹ 80 crores and Redeemable Preference Share Capital of ₹ 25 crores.
- 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.
- 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. 88
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

Q. 89

CONCESSIONAL INTEREST RATE LOAN FROM GOVERNMENT

Government of India provides loans to MSMEs at a below – market rate of interest to fund the set - up of a new manufacturing facility. Sukshma Limited's date of transition to Ind AS is 1st April 2020.

In financial year 2014-15, the Company had received a loan of ₹ 2.0 crores at a below -market rate of interest from the government. Under Indian GAAP, the Company had accounted for the loan as equity and the carrying amount was ₹ 2.0 crores at the date of transition. The amount repayable on 31st March 2024 will be ₹ 2.50 crores.

The Company has been advised to recognize the difference of ₹ 0.50 crores in equity by correspondingly increasing the value of various assets under property plant & equipment by an equivalent amount on proportionate basis. Further, on 31st March 2024 when the loan has to be repaid, ₹ 2.50 crores should be presented as a deduction from property, plant & equipment.

Discuss the above treatment and share your views as per applicable Ind ASs.

[July-2021, MTP-May-2023]

Ans.

Requirement as per Ind AS:

A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32. A first-time adopter shall apply the requirements in Ind AS 109 and Ind AS 20, prospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

Treatment to be done:

Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

In the instant case, the loan meets the definition of a financial liability in accordance with Ind AS 32. Company therefore reclassifies it from equity to liability. It also uses the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening Ind AS balance sheet.

It calculates the annual effective interest rate (EIR) starting 1st April 2020 as below: $EIR = \text{Amount} / \text{Principal}(1/t)$ i.e. $2.50/2(1/4)$ i.e. 5.74%. approx.

At this rate, ₹ 2 crore will accrete to ₹ 2.50 crore as at 31st March 2024.

During the next 4 years, the interest expense charged to statement of profit and loss shall be:

Year ended	Opening amortised cost (₹)	Interest expense for the year (₹) @ 5.74% p.a. approx.	Closing amortised cost (₹)
31 st March 2021	2,00,00,000	11,48,000	2,11,48,000
31 st March 2022	2,11,48,000	12,13,895	2,23,61,895

31 st March 2023	2,23,61,895	12,83,573	2,36,45,468
31 st March 2024	2,36,45,468	13,54,532	2,50,00,000

An entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind AS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.

The accounting treatment is to be done as per above guidance and the advice which the company has been provided is not in line with the requirements of Ind AS 101 .

Q. 90
ESOP


On 1st April 20X1, Nuogen Ltd. had granted 1,20,000 share options to its employees with the vesting condition being a service condition as follows:

- Vesting date : 31st March 20X2 - 80,000 share options (1-year vesting period since grant date)
- Vesting date : 31st March 20X5 - 40,000 share options (4-year vesting period since grant date)

Each option can be converted into one equity share of Nuogen Ltd. The fair value of the options on grant date, i.e., on 1st April 20X1 was ₹ 20.

Nuogen Ltd. is required to prepare financial statements in Ind AS for the financial year ending 31st March 20X4. The transition date for Ind AS being 1st April 20X2.

The entity has disclosed publicly the fair value of both these equity instruments as determined at the measurement date, as defined in Ind AS 102.

The previous applicable GAAP for the entity was IGAAP (AS) and therein, the entity had not adopted intrinsic method of valuation

The share options have not been yet exercised by the employees of Nuogen Ltd.

How the share based payment should be reflected in, the books of Nuogen Ltd. as on 31st March 20X4, assuming that the entity has erred by not passing any entry for the aforementioned transactions in the books of Nuogen Ltd. on grant date, i.e. 1st April 20X1? **[RTP-Nov-2022, SM]**

Ans.

For 80,000 share-based options vested before transition date:

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments that vested before the date of transition to Ind AS. Hence, Nuogen Ltd. may opt for the exemption given in Ind AS 101 for 80,000 share options vested before the transition date. However, since no earlier accounting was done for these share-based options under previous GAAP too, therefore this led to an error on the transition date, as detected on the reporting date i.e. 31st March, 20X4. Hence, being an error, no exemption could be availed by Nuogen Ltd. on transition date with respect to Ind AS 102.

While preparing the financial statements for the financial year 20X3 -20X4, an error has been discovered which occurred in the year 20X1-20X2, i.e., for the period which was earlier than earliest prior period presented. The error should be corrected by restating the opening balances of relevant assets and/or liabilities and relevant component of equity for the year 20X2-20X3. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e., opening balance sheet as at 1st April, 20X2).

Accordingly, on retrospective calculation of Share based options with respect to 80,000 options, Nuogen Ltd. will create 'Share based payment reserve (equity)' by ₹ 16,00,000 and correspondingly adjust the same though Retained earnings.

For 40,000 share based options to be vested on 31st March, 20X5:

Since share-based options have not been vested before transition date, no option as per Ind AS 101 is available to Nuogen Ltd. The entity will apply Ind AS 102 retrospectively. However, Nuogen Ltd. did not account for the

same at the grant date. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e., opening balance sheet as at 1st April, 20X2). Adjustment is to be made by recognising the 'Share based payment reserve (equity)' and adjusting the retained earnings by ₹ 2,00,000.

Further, expenses for the year ended 31st March, 20X3 and share based payment reserve (equity) as at 31st March, 20X3 were understated because of non-recognition of 'employee benefits expense' and related reserve. To correct the above errors in the annual financial statements for the year ended 31st March, 20X4, the entity should restate the comparative amounts (i.e., those for the year ended 31 st March, 20X3) in the statement of profit and loss. In the given case, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000

For the year ending 31st March, 20X4, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000.

Working Note:

Period	Lot	Proportion	Fair Value	Cumulative expenses	Expenses
		a	b	d = b × a	e = d - previous period d
20×1-20×2	1 (1-year vesting period)	1/1	16,00,000	16,00,000	16,00,000
20×1-20×2	2 (4-year vesting period)	1/4	8,00,000	2,00,000	2,00,000
20×3-20×4	2 (4-year vesting period)	3/4	8,00,000	6,00,000	2,00,000

Q. 91
GOODWILL ON FTA:


ABC Ltd., a public limited company, is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India. It operates overseas projects directly and/or through subsidiaries, by participation in various joint arrangements and investment in associates. The company was following Accounting Standards as notified under the Companies (Accounting Standards) Rules until 31st March, 20X1. However, it has adopted Indian Accounting Standards (Ind AS) with effect from 1st April, 20X1.

The goodwill recognised in accordance with AS 21 and AS 27 was due to corporate structure and the line-by-line consolidation of subsidiaries'/proportionate consolidation of jointly controlled entities' financial statements which was prepared on historical costs convention. ABC Ltd. has not taken into consideration the valuation of underlying oil and gas reserves for which excess amount (i.e. goodwill calculated as per the relevant AS requirements) has been paid by the company at the time of acquisition. The company further considered that in oil and gas companies, the goodwill generated on acquisition of mineral rights either through jointly controlled entities or subsidiaries, inherently derives its value from the underlying mineral rights and, accordingly, value of such goodwill depletes as the underlying mineral resources are extracted.

Therefore, taking a prudent approach and considering the above substance, the company amortised the goodwill in respect of its subsidiaries / jointly controlled assets over the life of the underlying mineral rights using Unit of Production method. This allowed the company to utilise the value of goodwill over the life of mineral rights and completely charging off the goodwill over the life of the reserves.

For financial year 20X0-20X1, the company has availed transition exemption under Ind AS 101 and has not applied the principles of Ind AS 103 .

ABC Ltd. considering the substance over form of the goodwill to be in the nature of 'acquisition costs' intends to continue amortisation of the goodwill recognised under AS in respect of its subsidiaries / joint ventures (jointly controlled entities under AS) over the life of the underlying mineral rights using Unit of Production method, under Ind AS also post transition date.

Comment on appropriateness of the accounting treatment, under Ind AS, for amortisation of the goodwill by the company and state whether the accounting treatment in respect of amortisation of goodwill is correct or not.

[RTP-May-2023, SM, MTP-Sept-2025]

Ans.

Point (g) of para C4 of Ind AS 101 states that the carrying amount of goodwill or capital reserve in the opening Ind AS Balance Sheet shall be its carrying amount in accordance with previous GAAP at the date of transition to Ind AS after the two adjustments. One of the adjustment states that the standard requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill or capital reserve in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill or increase the carrying amount of capital reserve accordingly (and, if applicable, adjust deferred tax and non-controlling interests)

As per the facts given, the entity paid excess amount to avail the rights to use the underlying oil and gas reserves. However, since the rights was not recorded in the books at that time, the value of goodwill subsumed the value of that intangible asset which should be separately identified in the books. Hence, value of goodwill will be reduced accordingly and intangible asset for rights for using mine should be recognised.

Further, regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to Ind AS and in recognising any resulting impairment loss in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to Ind AS. No other adjustments (e.g.- previous amortisation of goodwill) shall be made to the carrying amount of goodwill / capital reserve at the date of transition to Ind AS.

However, once goodwill is recognised in the opening transition date balance sheet, the entity has to follow the provisions of Ind AS, which states that goodwill is not amortised but rather tested for impairment annually. Accordingly, the amortization of goodwill based on 'Unit of Production' method is not correct after implementation of Ind AS.

Q. 92

CONSOLIDATION



XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The Company has decided to voluntarily adopt Ind AS w.e.f 1st April, 20X2 with a transition date of 1st April, 20X1.

The Company has one Wholly Owned Subsidiary and one Joint Venture which are into manufacturing of automobile spare parts.

The consolidated financial statements of the Company under Indian GAAP are as under:

Consolidated Financial Statements

(₹ in Lakhs)

Particulars	31.03.20X2	31.03.20X1
Shareholder's Funds		
Share Capital	7,953	7,953
Reserves & Surplus	16,547	16,597
Non-Current Liabilities		
Long Term Borrowings	1,000	1,000
Long Term Provisions	1,101	691
Other Long-Term Liabilities	5,202	5,904
Current Liabilities		
Trade Payables	9,905	8,455
Short Term Provisions	500	475
Total	42,208	41,075

Non-Current Assets		
Property Plant & Equipment	21,488	22,288
Goodwill on Consolidation of subsidiary and JV	1,507	1,507
Investment Property	5,245	5,245
Long Term Loans & Advances	6,350	6,350
Current Assets		
Trade Receivables	4,801	1,818
Investments	1,263	3,763
Other Current Assets	1,554	104
Total	42,208	41,075

Additional Information:

The Company has entered into a joint arrangement by acquiring 50% of the equity shares of ABC Pvt. Ltd. Presently, the same has been accounted as per the proportionate consolidated method. The proportionate share of assets and liabilities of ABC Pvt. Ltd. included in the consolidated financial statement of XYZ Pvt. Ltd. is as under:

Particulars	₹ in Lakhs
Property, Plant & Equipment	1,200
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Trade Payables	75
Short Term Provisions	35

The Investment is in the nature of Joint Venture as per Ind AS 111.

The Company has approached you to advice and suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1st April, 20 X1. **[RTP-May-2019, SM]**

Ans.

As per paras D31AA and D31AB of Ind AS 101, when changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS.

That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged. The balance of the investment in joint venture at the date of transition to Ind AS, determined in accordance with paragraph D31AA above is regarded as the deemed cost of the investment at initial recognition.

Accordingly, the deemed cost of the investment will be

Property, Plant & Equipment	1,200
Goodwill (Refer Note below)	119
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Total Assets	2,054

Less: Trade Payables	75
Short Term Provisions	35
Deemed cost of the investment in JV	1,944

Calculation of proportionate goodwill share of Joint Venture i.e. ABC Pvt. Ltd.

Property, Plant & Equipment	22,288
Goodwill	1,507
Long Term Loans & Advances	6,350
Trade Receivables	1,818
Other Current Assets	104
Total Assets	32,067
Less: Trade Payables	8,455
Short Term Provisions	475
	23,137

Note: Only those assets and liabilities have been taken into account for calculation of proportionate goodwill share of Joint Venture, which were given in the question as proportionate share of assts and liabilities of ABC Ltd. added to XYZ Ltd.

Proportionate Goodwill of Joint Venture

= [(Goodwill on consolidation of subsidiary and JV / Total relative net asset) x Net asset of JV]

= (1507 / 23,137) x 1825 = 119 (approx.)

Accordingly, the proportional share of assets and liabilities of Joint Venture will be removed from the respective values assets and liabilities appearing in the balance sheet on 31.3.20X1 and Investment in JV will appear under non-current asset in the transition date balance sheet as on 1.4.20 X1.

Adjustments made in previous GAAP balance sheet to arrive at Transition date Ind AS Balance Sheet

Transition Date Ind AS Balance Sheet of XYZ Pvt. Ltd. as at 1st April, 20X1

Particulars	Previous GAAP	Ind AS Adjustment	Ind AS GAAP
Non-Current Assets			
Property, Plant & Equipment	22,288	(1,200)	21,088
Investment Property	5,245	-	5,245
Intangible assets - Goodwill on Consolidation	1,507	(119)	1,388
Financial Assets			
Long Term Loans & Advances	6,350	(405)	5,945
Non-current investment in JV	-	1,944	1,944
Current Assets			
Financial Assets			
Investments	3,763	-	3,763
Trade Receivables	1,818	(280)	1,538
Other Current Assets	104	(50)	54
Total	41,075	(110)	40,965

Equity and liabilities			
Equity			
Share Capital	7,953	-	7,953
Other equity	16,597	-	16,597
Non-Current Liabilities			
Financial Liabilities			
Borrowings	1,000		1,000
Long Term Provisions	691		691
Other Long-Term Liabilities	5,904		5,904
Current Liabilities			
Financial Liabilities			
Trade Payables	8,455	(75)	8,380
Short Term Provisions	<u>475</u>	<u>(35)</u>	<u>440</u>
Total	41,075	(110)	40,965

Q. 93**DEEMED COST EXEMPTION & LTMI IN FOREIGN CURRENCY**

1. Company A intends to restate its past business combinations with effect from 30 June 2010 (being a date prior to the transition date). If business combinations are restated, whether certain other exemptions, such as the deemed cost exemption for property, plant and equipment (PPE), can be adopted?
2. Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 2015. On April 1, 2010, it obtained a 7 year US \$ 1,00,000 loan. It has been exercising the option provided in Paragraph 46/46A of AS 11 and has been amortising the exchange differences in respect of this loan over the balance period of such loan. On the date of transition to Ind AS, Y Ltd. wants to discontinue the accounting policy as per the previous GAAP and follow the requirements of Ind AS 21, The Effects of Changes in Foreign Exchange Rates with respect to recognition of foreign exchange differences. Whether the Company is permitted to do so?
3. A company has chosen to elect the deemed cost exemption in accordance with Ind AS 101. However, it does not wish to continue with its existing policy of capitalising exchange fluctuation on long term foreign currency monetary items to fixed assets i.e. it does not want to elect the exemption available as per Ind AS 101. In such a case, how would the company be required to adjust the foreign exchange fluctuation already capitalised to the cost of property, plant and equipment under previous GAAP? [SM]

Ans.

1. Ind-AS 101 prescribes that an entity may elect to use one or more of the exemptions of the Standard. As such, an entity may choose to adopt a combination of optional exemptions in relation to the underlying account balances.

When the past business combinations after a particular date (30 June 2010 in the given case) are restated, it requires retrospective adjustments to the carrying amounts of acquiree's assets and liabilities on account of initial acquisition accounting of the acquiree's net assets, the effects of subsequent measurement of those net assets (including amortisation of non-current assets that were recognised at its fair value), goodwill on consolidation and the consolidation adjustments. Therefore, the goodwill and equity (including non-controlling interest (NCI)) cannot be computed by considering the deemed cost exemption for PPE. However, the entity may adopt **the deemed cost exemption for its property, plant and equipment other than those acquired through business combinations.**

2. Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Ind AS 101 gives an option to continue the existing accounting policy. Hence, Y Ltd. may opt for discontinuation of accounting policy as per previous GAAP and follow the requirements of Ind AS 21. The cumulative amount lying in the FCMITDA should be derecognised by an adjustment against retained earnings on the date of transition.
3. Ind AS 101 permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first time adoption of Ind AS. Accordingly, the carrying value of property, plant and equipment as per previous GAAP as at the date of transition need not be adjusted for the exchange fluctuations capitalized to property, plant and equipment. Separately, it allows a company to continue with its existing policy for accounting for exchange differences arising from translation of long term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Accordingly, given that Ind AS 101 provides these two choices independent of each other, it may **be possible for an entity to choose the deemed cost exemption for all of its property, plant and equipment and not elect the exemption of continuing the previous GAAP policy of capitalising exchange fluctuation to property, plant and equipment.** In such a case, in the given case, a harmonious interpretation of the two exemptions would require the company to recognise the property, plant and equipment at the transition date at the previous GAAP carrying value (without any adjustment for the exchanges differences capitalized under previous GAAP) but for the purposes of the first (and all subsequent) Ind AS financial statements, foreign exchange fluctuation on all long term foreign currency borrowings would be recognised in the statement of profit and loss.

Q. 94
COMPREHENSIVE


H Limited having net worth of ₹ 250 crores is required to adopt Ind AS from 1st April, 20X2 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

Mr. R, the senior manager, of H Ltd. has identified following issues which need specific attention of CFO so that opening Ind AS balance sheet as on the date of transition can be prepared:

Issue 1: As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The carrying value of land as on the date of transition was ₹ 5,00,000. The land was acquired for a consideration of ₹ 5,00,000. However, the fair value of land as on the date of transition was ₹ 8,00,000.

Issue 2: Under Ind AS, the Company has designated mutual funds as investments at fair value through profit or loss. The value of mutual funds as per previous GAAP was ₹ 4,00,000 (at cost). However, the fair value of mutual funds as on the date of transition was ₹ 5,00,000.

Issue 3: Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 1,80,000 as against the carrying amount of loan which at present equals ₹ 2,00,000.

Issue 4: The company has declared dividend of ₹ 30,000 for last financial year. On the date of transition, the declared dividend has already been deducted by the accountant from the company's 'Reserves & Surplus' and the dividend payable has been grouped under 'Provisions'. The dividend was only declared by board of directors at that time, and it was not approved in the annual general meeting of shareholders. However, subsequently when the meeting was held it was ratified by the shareholders.

Issue 5: The company had acquired intangible assets as trademarks amounting to ₹ 2,50,000. The company assumes to have indefinite life of these assets. The fair value of the intangible assets as on the date of transition was ₹ 3,00,000. However, the company wants to carry the intangible assets at ₹ 2,50,000 only.

Issue 6: After consideration of possible effects as per Ind AS, the deferred tax impact is computed as ₹ 25,000. This amount will further increase the portion of deferred tax liability. There is no requirement to carry out the separate calculation of deferred tax on account of Ind AS adjustments.

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding.

Prepare Ind AS Impact Analysis Report (Extract) for H Limited for presentation to the management wherein you are required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue and its impact there upon for preparation of transition date balance sheet. Also pass journal entry for each of the issues mentioned above. **[MTP-May-2022]**

Ans.

Assessment of Preliminary Impact Assessment of Transition to Ind AS on H Limited's Financial Statements

Issue 1: Fair value as deemed cost for property plant and equipment:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS 10, Property, Plant and Equipment is recognised at cost less depreciation.	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, so the book value should be brought up to fair value. The resulting impact of fair valuation of land ₹ 3,00,000 should be adjusted in other equity (revaluation reserve).

Journal Entry on the date of transition

Particulars	Debit (₹)	Credit (₹)
Property Plant and Equipment (Land) Dr.	3,00,000	
To Revaluation Surplus (OCI- Other Equity)		3,00,000

Issue 2: Fair valuation of Financial Assets:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per Accounting Standard, investments are measured at lower of cost and fair value.	On transition, financial assets including investments are measured at fair values except for investments in subsidiaries, associates and JVs' which are recorded at cost.	All financial assets (other than Investment in subsidiaries, associates and JVs' which are recorded at cost) are initially recognized at fair value. The subsequent measurement of such assets are based on its categorization either Fair Value through Profit & Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVTOCI) or at Amortised Cost based on business model assessment and contractual cash flow characteristics. Since investment in mutual fund are designated at FVTPL, increase of ₹ 1,00,000 in mutual funds fair value would increase the value of investments with corresponding increase to Retained Earnings.

Journal Entry on the date of transition

Particulars	Debit (₹)	Credit (₹)
Investment in mutual funds Dr.	1,00,000	
To Retained earnings		1,00,000

Issue 3: Borrowings - Processing fees/transaction cost:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, such expenditure is charged to Profit and loss account or capitalised as the case may be	As per Ind AS, such expenditure is amortised over the period of the loan. Ind AS 101 states that if it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability.	Fair value as on the date of transition is ₹ 1,80,000 as against its book value of ₹ 2,00,000. Accordingly, the difference of ₹ 20,000 is adjusted through Retained Earnings.

Journal Entry on the date of transition

Particulars	Debit (₹)	Credit (₹)
Borrowings / Loan payable Dr.	20,000	
To Retained earnings		20,000

Issue 4: Proposed dividend:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, provision for proposed dividend is made in the year when it has been declared and approved.	As per Ind AS, liability for proposed dividend is recognised in the year in which it has been declared and approved.	Since dividend should be deducted from retained earnings during the year when it has been declared and approved. Therefore, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment

Journal Entry on the date of transition

Particulars	Debit (₹)	Credit (₹)
Provisions Dr.	30,000	
To Retained earnings		30,000

Issue 5 : Intangible assets:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
The useful life of an intangible	The useful life of an intangible asset like	Consequently, there would

asset cannot be indefinite under IGAAP principles. The Company amortised brand/trademark on a straight line basis over maximum of 10 years as per AS 26.	brand/trademark can be indefinite. Not required to be amortised and only tested for impairment. Company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.	be no impact as on the date of transition since company intends to use the carrying amount instead of book value at the date of transition.
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Issue 6: Deferred tax

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, deferred taxes are accounted as per income statement approach.	As per Ind AS, deferred taxes are accounted as per balance sheet approach.	On date of transition to Ind AS, deferred tax liability would be increased by ₹ 25,000.

Journal Entry on the date of transition

Particulars	Debit (₹)	Credit (₹)
Retained earnings Dr.	25,000	
To Deferred tax liability		25,000

Notes

Ind AS 102

SHARE BASED PAYMENT

Q. 95
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. 96

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. 97

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
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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. 98
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. 99



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 revisits the classification of any similar grants that it has made and evaluate if it should reclassify them to cash -settled.

Q. 100**GROUP PLANS**

H Ltd. is a parent company and has a subsidiary S Ltd. H Ltd. and S Ltd. are unlisted entities. Following arrangements with respect to ESOP scheme took place between them:

1. Original ESOP scheme by H Ltd. (Parent ESOP scheme)

At the beginning of year 1, H Ltd. granted 1,500 options in its own shares to its own employees as well as S Ltd.'s employees (i.e. 1,000 to H Ltd.'s employees and 500 to S Ltd.'s employees) with a fair value of ₹ 15 per options, conditional upon the completion of 3 years' service. H Ltd. will settle in its own equity shares. All the options are expected to vest. H Ltd. doesn't recharge to S Ltd. for ESOP expenses.



2. New ESOP scheme by S Ltd. (Subsidiary ESOP scheme)

H Ltd. and S Ltd. are unlisted entities. However, at the end of Year 1, S Ltd. gets listed.

At the beginning of year 2, S Ltd. offers 1,500 options in its own shares to H Ltd.'s employees and its own employees (i.e. 1,000 to H Ltd.'s employees and 500 to S Ltd.'s employees), conditional upon H Ltd. and S Ltd.'s employees surrendering the right over parent ESOP scheme.

Remaining vesting period is same as H Ltd.'s ESOP scheme i.e. conditional upon the completion of remaining 2 years' service.

Incremental fair value of new ESOP scheme is ₹ 6. All the options are expected to vest. All H Ltd. and S Ltd.'s employees have opted for new ESOP scheme.

S Ltd. doesn't recharge to H Ltd. for ESOP expenses.

Required:

Analyze the above arrangements from the perspective of Consolidated Financial Statements and Individual Financial Statements of both parent and subsidiary. Also show the accounting treatment of the above arrangements in the Consolidated Financial Statements and Individual Financial Statements of both parent and subsidiary. **(RTP-Jan-2026)**

Ans.

Analysis of new ESOP scheme given on surrendering options under original ESOP scheme as replacement scheme

The original ESOP scheme was issued by H Ltd. to its own employees as well as S Ltd.'s employees.

S Ltd. has issued new ESOP scheme to its own and H Ltd.'s employees, conditional upon employees of S Ltd. and H Ltd. surrendering the right over original ESOP scheme.

Since obtaining the options under new ESOP scheme is conditional on surrendering the employee's entitlement under original ESOP scheme, the new scheme S Ltd. would be designated as replacement scheme for original scheme by S Ltd.

Accordingly, in the current fact pattern, the original ESOP scheme of H Ltd. has been replaced with the new ESOP scheme of S Ltd. Hence, according to para 28(c) of Ind AS 102, modification accounting would apply.

Classification of new ESOP scheme**(i) Consolidated Financial Statements (CFS):**

The award is settled in equity shares of the group and therefore treated as an equity-settled share-based payment.

(ii) Individual (Stand-alone) Financial Statements (SFS) of H Ltd.:

From H Ltd.'s perspective, the award is treated as an equity-settled share-based payment. This is because H Ltd. Does not have an obligation to settle the award.

(iii) Individual (Stand-alone) Financial Statements (SFS) of S Ltd.

ESOP will be settled against issue of S Ltd.'s own shares. Therefore, ESOP are classified as 'Equity settled'. To the extent S Ltd. provides ESOP to H Ltd.'s employees, the same will be treated as dividend distribution to H Ltd.

Accounting for change in settlor from H Ltd. (parent) to S Ltd. (subsidiary)**(i) Consolidated Financial Statements (CFS) of H Ltd.:**

- (a) As on the date of new ESOP scheme by S Ltd., there is ESOP reserve standing in CFS. This ESOP reserves is classified as 'Equity' in CFS considering that under original scheme, equity shares of H Ltd. are given.

- (b) ESOP reserve as per (a) above in CFS will continue even after new scheme. Since new scheme is accounted as modification of original scheme, grant date fair value as per original scheme plus incremental fair value as per new scheme is recognised as ESOP cost in CFS. Incremental fair value is accounted prospectively.
- (c) ESOP reserve as per (a) above in CFS is reclassified from 'Equity' to 'Non-controlling interest' (NCI) due to change in settlor from H Ltd. (Parent) to S Ltd. (Subsidiary). This is because the definition of NCI refers to the equity in a subsidiary not attributable, directly or indirectly to a Parent.

(ii) Stand-alone financial statements (SFS) of parent H Ltd. and subsidiary S Ltd.:

- (a) Ind AS 102 doesn't contain any specific guidance on accounting for change in settlor.
- (b) Under original ESOP scheme, Parent H Ltd. was settlor. Therefore, on the date of new ESOP scheme, in the SFS of Parent H Ltd., there is 'ESOP reserves which would have been utilised in case Parent continued as settlor.
- (c) However, under the new ESOP scheme, Subsidiary S Ltd. is settlor. 'ESOP reserves' standing in SFS of Parent H Ltd. is no longer required as H Ltd. has passed on its responsibility of settling ESOP scheme to S Ltd. Therefore, 'ESOP reserves' in SFS of Parent H Ltd. is reversed.
- (d) Subsidiary S Ltd. under new ESOP scheme become settlor for an existing ESOP plan. However, in SFS of S Ltd. there is no 'ESOP reserves' standing. Therefore 'ESOP reserves' relating to period already elapsed under original ESOP scheme is to be recognised in SFS of Subsidiary S Ltd.

Journal Entries

Years	ESOP scheme references	Parent (H Ltd.) Standalone Financial Statement (P SFS)			Subsidiary (S Ltd.) Standalone Financial Statements (S SFS)		
Year 1	Original ESOP scheme by Parent H Ltd.	Particular	Debit	Credit	Particular	Debit	Credit
		Employees expenses* Dr.	5,000		Employees expenses# Dr.	2,500	
		Investment in Subsidiary** Dr.	2,500		To Equity (Capital Contribution from Parent)		2,500
		To Equity (ESOP reserves)		7,500	(Recognition of employees expenses under ESOP scheme by Parent for Year 1)		
		(Recognition of employees expenses/ investment in subsidiary under ESOP scheme by Parent for Year 1)			[#Subsidiary employees = 500 options x ₹ 2,500]		
		[*Parent employees = 1,000 options x ₹ 15 x 1/3 = ₹ 5,000]					
		[**Subsidiary employees = 500 options x ₹ 15 x 1/3 = ₹ 2,500]					
Year 2 – Beginning	Accounting for change in settlor from Parent to Subsidiary – at the beginning of Year 2	Particular	Debit	Credit	Particular	Debit	Credit
		Equity (ESOP reserves) Dr.	7,500		Equity (Distribution to Parent) Dr.	5,000	
		To Investment in Subsidiary		2,500	Equity (capital contribution from Parent) Dr.	2,500	
		To Dividend		5,000			

		Income (Deemed Distribution from Subsidiary)			To Equity (ESOP reserves)		7,500																								
		(Parent is no longer required to settle ESOP for its own employees as well as subsidiary employees under New ESOP scheme by Subsidiary)			(Accounting of obligations taken by Subsidiary under New ESOP scheme by Subsidiary for parent employees as well as its own employees. This entry is passed since subsidiary has taken obligation of existing scheme)																										
Year 2-End	Modifications accounting – New ESOP scheme by Subsidiary	<table><tr><th>Particular</th><th>Debit</th><th>Credit</th></tr><tr><td>Employees expenses* Dr.</td><td>8,000</td><td></td></tr><tr><td>To Dividend Income (Deemed Distribution from Subsidiary)</td><td></td><td>8,000</td></tr><tr><td colspan="3">(Recognition of employee expenses for parent employees under Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)</td></tr></table> [*Parent employees = A. Original ESOP scheme = (1000 options x ₹ 15 x 2/3 – 5,000) = ₹ 5,000 B. Incremental fair value – New ESOP scheme = (1000 options x ₹ 6 x ½) = ₹ 3,000 Total = ₹ 8,000]	Particular	Debit	Credit	Employees expenses* Dr.	8,000		To Dividend Income (Deemed Distribution from Subsidiary)		8,000	(Recognition of employee expenses for parent employees under Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)				<table><tr><th>Particular</th><th>Debit</th><th>Credit</th></tr><tr><td>Equity (Distribution to Parent)# Dr.</td><td>8,000</td><td></td></tr><tr><td>Employees expenses## Dr.</td><td>4,000</td><td></td></tr><tr><td>To Equity (ESOP reserves)</td><td></td><td>12,000</td></tr><tr><td colspan="3">(Recognition of employees' expenses for parent employees as well as subsidiary employees under Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)</td></tr></table> [#Parent employees = ₹ 8,000 (i.e. computation same as parent) ##Subsidiary employees = A. Original ESOP scheme = (500 options x ₹ 15 x 2/3 – 2,500) = ₹ 2,500 B. Incremental fair value – New ESOP Scheme = (500 options x ₹ 6 x ½) = ₹ 4,000]	Particular	Debit	Credit	Equity (Distribution to Parent)# Dr.	8,000		Employees expenses## Dr.	4,000		To Equity (ESOP reserves)		12,000	(Recognition of employees' expenses for parent employees as well as subsidiary employees under Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)		
Particular	Debit	Credit																													
Employees expenses* Dr.	8,000																														
To Dividend Income (Deemed Distribution from Subsidiary)		8,000																													
(Recognition of employee expenses for parent employees under Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)																															
Particular	Debit	Credit																													
Equity (Distribution to Parent)# Dr.	8,000																														
Employees expenses## Dr.	4,000																														
To Equity (ESOP reserves)		12,000																													
(Recognition of employees' expenses for parent employees as well as subsidiary employees under Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)																															
Year 3-End	Modifications accounting – New ESOP scheme by Subsidiary	<table><tr><th>Particular</th><th>Debit</th><th>Credit</th></tr><tr><td>Employees expenses Dr.</td><td>8,000</td><td></td></tr><tr><td>To Dividend Income (Deemed Distribution from Subsidiary)</td><td></td><td>8,000</td></tr><tr><td colspan="3">(Recognition of employee expenses for parent employees under New ESOP scheme for Year 3)</td></tr></table>	Particular	Debit	Credit	Employees expenses Dr.	8,000		To Dividend Income (Deemed Distribution from Subsidiary)		8,000	(Recognition of employee expenses for parent employees under New ESOP scheme for Year 3)				<table><tr><th>Particular</th><th>Debit</th><th>Credit</th></tr><tr><td>Equity (Distribution to Parent) Dr.</td><td>8,000</td><td></td></tr><tr><td>Employees expenses Dr.</td><td>4,000</td><td></td></tr><tr><td>To Equity (ESOP reserves)</td><td></td><td>12,000</td></tr><tr><td colspan="3">(Recognition of employees' expenses for parent employees as well as subsidiary employees under under New ESOP scheme for Year 3)</td></tr></table>	Particular	Debit	Credit	Equity (Distribution to Parent) Dr.	8,000		Employees expenses Dr.	4,000		To Equity (ESOP reserves)		12,000	(Recognition of employees' expenses for parent employees as well as subsidiary employees under under New ESOP scheme for Year 3)		
Particular	Debit	Credit																													
Employees expenses Dr.	8,000																														
To Dividend Income (Deemed Distribution from Subsidiary)		8,000																													
(Recognition of employee expenses for parent employees under New ESOP scheme for Year 3)																															
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Equity (Distribution to Parent) Dr.	8,000																														
Employees expenses Dr.	4,000																														
To Equity (ESOP reserves)		12,000																													
(Recognition of employees' expenses for parent employees as well as subsidiary employees under under New ESOP scheme for Year 3)																															

Q. 101 NON-MARKET VESTING CONDITION - CHANGING VESTING PERIOD



Ankita Holding Inc. grants 100 share options to each of its 500 employees on 1st January, 20X1. The employees should remain in service during the vesting period. The shares will vest at the end of the

- First year if the company's earnings increase by 12%;
 Second year if the company's earnings increase by more than 20% over the two-year period;
 Third year if the entity's earnings increase by more than 22% over the three-year period.

The fair value per share option at the grant date is ₹ 122. In 20X1, earnings increased by 10%, and 29 employees left the organisation. The company expects that the shares will vest at the end of the year 20X2. The company also expects that additional 31 employees will leave the organisation in the year 20X2 and that 440 employees will receive their shares at the end of the year 20X2. At the end of 20X2, company's earnings increased by 18%. Therefore, the shares did not vest. Only 29 employees left the organization during 20X2. Company believes that additional 23 employees will leave in 20X3 and earnings will further increase so that the performance target will be achieved in 20X3. At the end of the year 20X3, only 21 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

Determine the expense for each year and pass appropriate journal entries?

[MTP-Sept-2025, SM]

Ans.

Since the earnings of the entity is non-market related, hence it will not be considered in fair value calculation of the shares given. However, the same will be considered while calculating number of shares to be vested.

Workings:

	20X1	20X2	20X3
Total employees	500	500	500
Employees left (Actual)	(29)	(58)	(79)
Employees expected to leave in the next year	(31)	(23)	—
Year end – No of employees	440	419	421
Shares per employee	100	100	100
Fair value of share at grant date	122	122	122
Vesting period	1/2	2/3	3/3
Expenses-20X1 (Note 1)	26,84,000		
Expenses-20X2 (Note 2)		7,23,867	
Expenses-20X3 (Note 3)			17,28,333

Note 1:

$$\begin{aligned} \text{Expense for 20X1} &= \text{Number of employees} \times \text{Shares per employee} \times \text{Fair value of share} \times \\ &\quad \text{Proportionate vesting period} \\ &= 440 \times 100 \times 122 \times \frac{1}{2} = 26,84,000 \end{aligned}$$

Note 2:

$$\begin{aligned} \text{Expense for 20X2} &= (\text{Number of employees} \times \text{Shares per employee} \times \text{Fair value of share} \times \\ &\quad \text{Proportionate vesting period}) - \text{Expense recognized in year 20X1} \\ &= (419 \times 100 \times 122 \times \frac{2}{3}) - 26,84,000 \\ &= 7,23,867 \end{aligned}$$

Note 3:

$$\begin{aligned} \text{Expense for 20X3} &= (\text{No of employees} \times \text{Shares per employee} \times \text{Fair value of share} \times \\ &\quad \text{Proportionate vesting period}) - \text{Expense recognized in year 20X1} \\ &\quad \text{and 20X2} \\ &= (421 \times 100 \times 122 \times \frac{3}{3}) - (26,84,000 + 7,23,867) \\ &= 17,28,333. \end{aligned}$$

Journal Entries

31st December, 20X1		
Employee benefits expenses	Dr.	26,84,000

To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)		26,84,000
31st December, 20X2		
Employee benefits expenses Dr.	7,23,867	
To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)	7,23,867	
31st December, 20X3		
Employee benefits expenses Dr.	17,28,333	
To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)		17,28,333
Share based payment reserve (equity) Dr.	51,36,200	
To Share Capital (Share capital Issued)		51,36,200

Notes



Ind AS 103

BUSINESS COMBINATIONS

Q. 102

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 x 80% x ₹ 100 per share) (A)		600
Cash payment (₹ 20 x 9,00,000 x 80%) (B)		144
Deferred consideration (discounting ₹ 90 lakhs for 3 years @10%) (C)		67.62
Replacement award [Market based measure of the acquiree award (12) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (5) of the acquiree award (i.e. 12 x 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. 103**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. 104

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>

Q. 105

BS CONSOLIDATION OF DOA



The balance sheet of Professional Ltd. and Dynamic Ltd. as of 31 March 20X2 is given below:

(₹ in Lakhs)

	Professional Ltd.	Dynamic Ltd.
ASSETS		
Non-Current Assets:		
Property plant and equipment	300	500
Investments	400	100
Current assets:		

Inventories	250	150
Financial assets		
Trade receivable	450	300
Cash and cash equivalents	200	100
Others	<u>400</u>	<u>230</u>
Total	<u>2,000</u>	<u>1,380</u>
EQUITY AND LIABILITIES		
Equity		
Share capital-Equity shares (₹ 100 each of Dynamic Ltd. and 10 each of Professional Ltd.)	500	400
Reserve and surplus	810	225
Non-Current liabilities:		
Long term borrowings	250	200
Long term provisions	50	70
Deferred tax	40	35
Current Liabilities:		
Short term borrowings	100	150
Trade payable	<u>250</u>	<u>300</u>
Total	<u>2,000</u>	<u>1,380</u>

Other information

- a. Professional Ltd. acquired 70% of Dynamic Ltd. on 1st April 20X2 by issuing its own shares in the ratio of 1 share of Professional Ltd. for every 2 shares of Dynamic Ltd. The fair value of the share of Professional Ltd. was ₹ 40 per share.
- b. Fair value exercise resulted in the following: (all nos in Lakh)
 - a. Fair value of PPE on 1st April, 20X2 was ₹ 350 lakhs.
 - b. Professional Ltd. also agreed to pay an additional payment as consideration that is higher of 35 lakh and 25% of any excess profits in the first year, after acquisition, over its profits in the preceding 12 months made by Dynamic Ltd. This additional amount will be due after 2 years. Dynamic Ltd. has earned ₹ 10 lakh profit in the preceding year and expects to earn another ₹ 20 Lakh.
 - c. In addition to above, Professional Ltd. also had agreed to pay one of the founder shareholder a payment of ₹ 20 lakh provided he stays with the Company for two year after the acquisition.
 - d. Dynamic Ltd. had certain equity settled share-based payment award (original award) which got replaced by the new awards issued by Professional Ltd. As per the original term the vesting period was 4 years and as of the acquisition date the employees of Dynamic Ltd. have already served 2 years of service. As per the replaced awards the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:
 - i. Original award- ₹ 5 lakh
 - ii. Replacement award- ₹ 8 lakh.
 - e. Dynamic Ltd. had a lawsuit pending with a customer who had made a claim of ₹ 50 lakh. Management reliably estimated the fair value of the liability to be ₹ 5 lakh.
 - f. The applicable tax rate for both entities is 30%.

You are required to prepare opening consolidated balance sheet of Professional Ltd. as on 1st April 20X2. Assume 10% discount rate. **[Similar Q. in May-2022, MTP-May-2021, MTP-May-2025, SM]**

Ans.

Consolidated Balance sheet of Professional Ltd. as on 1st April 20X2

(₹ in Lakhs)

	Amount
Assets	
Non-Current Assets:	
Property plant and equipment	650
Investments	500
Current assets:	
Inventories	400
Financial assets:	
Trade receivable	750
Cash and cash equivalents	300
Others	630
Total	3,230
Equity and Liabilities	
Equity	
Share capital- Equity shares of ₹ 100 each	514
Other Equity	1128.62
NCI	154.95
Non-Current liabilities:	
Long term borrowings	450
Long term provisions (50+70+28.93)	148.93
Deferred tax	28.5
Current Liabilities:	
Short term borrowings	250
Trade payable	550
Provision for Lawsuit Damages	5
Total	3230

Notes:

- Fair value adjustment- As per Ind AS 103, the acquirer is required to record the assets and liabilities at their respective fair value. Accordingly, the PPE will be recorded at ₹ 350 lakhs.
- The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, 2.5 (5 x 2/4) is considered as a part of purchase consideration and is credited to Professional Ltd. equity as this will be

- settled in its own equity. The balance of 5.50 will be recorded as employee expense in the books of Dynamic Ltd. over the remaining life, which is 1 year in this scenario.
- c. There is a difference between contingent consideration and deferred consideration. In the given case 35 is the minimum payment to be paid after 2 years and accordingly will be considered as deferred consideration. The other element is if company meet certain target then they will get 25% of that or 35 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%.
- d. The additional consideration of ₹ 20 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 income statement of Dynamic Ltd.

Working for Purchase consideration

(₹ in Lakhs)

Particulars		Amount
Share capital of Dynamic Ltd.		400
Number of shares	4,00,000	
Shares to be issued 2:1	2,00,000	
Fair value per share		40
PC (2,00,000 x 70% x ₹ 40 per share) (A)		56.00
Deferred consideration after discounting ₹ 35 lakhs for 2 years @ 10% (B)		28.93
Replacement award Market based measure of the acquiree award (5) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (4) of the acquiree award i.e. (5 x 2 / 4) (C)		2.5
PC in lakhs (A+B+C)		87.43

Purchase price allocation workings

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property plant and equipment	500	350	(150)
Investments	100	100	-
Inventories	150	150	-
Financial assets:			-
Trade receivable	300	300	-
Cash and cash equivalents	100	100	-
Others	230	230	-
Long term borrowings	(200)	(200)	-
Long term provisions	(70)	(70)	-
Deferred tax	(35)	(35)	-
Short term borrowings	(150)	(150)	-
Trade payable	(300)	(300)	-
Contingent liability	-	(5)	(5)
Net assets (X)	625	470	(155)

Deferred tax Asset on FV adjustment (155*30%) (Y)		46.50	155
Net assets (X+Y)		516.5	
Non-controlling interest (516.50 x 30%) rounded off		154.95	
Capital Reserve (Net assets – NCI – PC)		274.12	
Purchase consideration (PC)		87.43	

Consolidation workings

Assets	Professional Ltd	Dynamic Ltd (pre-acquisition)	PPA Allocation	Total
Assets				
Non-Current Assets:				
Property plant and equipment	300	500	(150)	650
Investments	400	100		500
Current assets:				
Inventories	250	150		400
Financial assets:				
Trade receivable	450	300		750
Cash and cash equivalents	200	100		300
Others	400	230		630
Total	2,000	1,380	(150)	3230
Equity and Liabilities				
Equity				
Share capital- Equity shares of ₹ 100 each	500			
Shares allotted to Dynamic Ltd. (2,00,000 x 70% x ₹ 10 per share)	810		14	514
Other Equity	0		318.62	1128.62
			154.95	154.95
Non-controlling interest				
Non-Current liabilities:				
Long term borrowings	250	200		450
Long term provisions	50	70	28.93	148.93
Deferred tax	40	35	(46.5)	28.5
Current Liabilities:				
Short term borrowings	100	150		250
Trade payable	250	300	0	550
Liability for lawsuit damages			5	5
Total	2,000	755	475	3230
Other Equity				
Other Equity	810			810
Replacement award			2.5	2.5
Security Premium Reserve (2,00,000 shares x 70% x ₹ 30)			42	42
Capital Reserve			274.12	274.12
	810		318.62	1128.62

Q. 106


COMPREHENSIVE: Business Combination, G/W, JE, B/S & adjustment related to valuation received subsequent to acquisition

Mini Limited is a manufacturing entity in textile industry. Mini Limited decided to reduce the cost of manufacturing by setting up its own power plant for their captive consumption. As per market research report, there was non-operational power plant in nearby area. Hence, it decided to acquire that power plant which was having capacity of 80MW along with all entire labour force. This Power entity was owned by another entity Max Limited. Mini Limited approached Max Limited for acquisition of 80MW power plant at following terms:

- (i) Mini Limited will seek an independent valuation for determining fair value of 80MW power plant.
- (ii) Value of other Non-current assets acquired, and Non-current financial liabilities assumed is ₹ 11.10 million and ₹ 32 million respectively.
- (iii) Consideration agreed between both the parties is at ₹ 51 million.

Both the parties agreed to the terms and entered into agreement on 1st April, 20X1 with immediate effect.

Due to unavoidable circumstances, valuation could not be completed by the time Max Limited finalizes its financial statements for the year ending 31st March, 20X1. Max Limited's annual financial statements records the fair value of 80 MW Power Plant at ₹ 46.90 million with remaining useful life at 40 years.

Max Limited also has license to operate that power plant unrecorded in books. As on 31st March, 20X1, it has fair value of ₹ 5 million.

Six months after acquisition date, Mini Limited received the independent valuation, which estimated the fair value of 80MW Power Plant as ₹ 54.90 million.

CFO of Mini Limited, wants you to work upon following aspects of the transaction:

- (a) Determine whether transaction should be accounted as asset acquisition or business combination.
- (b) Calculate Goodwill / Bargain Purchase due to the above acquisition.
- (c) Pass necessary journal entries in the books of Mini Limited as per Ind AS 103 and prepare balance sheet as on date of acquisition.
- (d) Determine whether any adjustment is required in case of valuation received subsequent to acquisition. If yes, pass the necessary entries in the books of Mini Limited.

Balance Sheet of Mini Limited as at 31st March, 20X1

Particulars	(₹ in Million)
ASSETS	
Non-current assets	
Property, plant and equipment	2,158
Capital work-in-progress	12
Deferred Tax Assets (Net)	324
Other non-current assets	<u>25</u>
Total non-current assets	<u>2,519</u>
Current assets	
Inventories	368
Financial assets	
(i) Investments	45
(ii) Trade Receivables	762
(iii) Cash and Cash Equivalents	110

(iv) Bank balances other than (iii) above	28
(v) Other financial assets	<u>267</u>
Total current assets	<u>1,580</u>
Total assets	<u>4,099</u>
EQUITY AND LIABILITIES	
Equity	
Equity Share Capital	295
Other equity	
Equity component of compound financial instruments	717
Reserves and surplus	<u>2,481</u>
Total equity	<u>3,493</u>
Liabilities	
Non-current liabilities	
Financial Liabilities	
Borrowings	<u>268</u>
Total non-current liabilities	<u>268</u>
Current liabilities	
Financial Liabilities	
(i) Trade payables	302
Other current liabilities	<u>36</u>
Total current liabilities	<u>338</u>
Total liabilities	<u>606</u>
Total equity and liabilities	<u>4,099</u>

[RTP-Nov-2023, SM]

Ans.

- (a) Ind AS 103 defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods and services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

In the given scenario, acquisition of power plant along with its labour force will be considered as integrated set of activity as it is capable of being generating power. Hence, transaction will be considered as business combination and not asset acquisition and acquisition method of accounting will be applied.

Thus, following will be the case:

- (i) Acquirer – Mini Ltd;
- (ii) Acquiree – Max Ltd;
- (iii) Acquisition date – 1st April, 20X1

- (b) **Calculation of Goodwill:**

Particulars	₹ in Million
Purchase consideration (A)	<u>51</u>
Fair Value of Power Plant – PPE	46.90
Fair Value of other non-current assets	11.10

Fair Value of Intangible Asset (License) – Refer Note 1 below		5
Non-Current Liabilities assumed		<u>(32)</u>
Value of net assets acquired	(B)	<u>31</u>
Goodwill		20

Note 1: The licence to operate power plant is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill though acquirer cannot sell or transfer it separately from the acquired power plant. Intangible Assets needs to be recorded by the acquirer at the time of accounting for acquisition though not recorded by the acquiree in its book.

(c) **Journal Entries for acquiring power plant**

Particulars		₹ in Million	₹ in Million
Fair Value of Power Plant	Dr.	46.90	
Fair Value of other assets	Dr.	11.10	
Fair Value of License acquired	Dr.	5	
Goodwill	Dr.	20	
	To Liabilities assumed		32
	To Bank (PC paid)		51

Balance Sheet of Mini Limited as at 1st April, 20X1

Particulars	Notes to Accounts	₹ in Million
ASSETS		
Non-current assets		
Property, plant and equipment	1	2,204.90
Intangible Asset (License acquired in business combination)		5.00
Capital work-in-progress		12.00
Goodwill on acquisition		20.00
Deferred Tax Assets (Net)		324.00
Other non-current assets	2	<u>36.10</u>
Total non-current assets		<u>2,602.00</u>
Current assets		
Inventories		368.00
Financial assets		
(i) Investments		45.00
(ii) Trade Receivables		762.00
(iii) Cash and Cash Equivalents	3	59.00
(iv) Bank balances other than (iii) above		28.00
(v) Other financial assets		<u>267.00</u>
Total current assets		<u>1,529.00</u>
Total assets		<u>4,131.00</u>

EQUITY AND LIABILITIES		
Equity		
Equity Share Capital		295.00
Other equity		
Equity component of compound financial instruments		717.00
Reserves and surplus		<u>2,481.00</u>
Total equity		<u>3,493.00</u>
Liabilities		
Non-current liabilities		
Financial Liabilities		
Borrowings	4	<u>300.00</u>
Total non-current liabilities		<u>300.00</u>
Current liabilities		
Financial Liabilities		
(i) Trade payables		302.00
Other current liabilities		<u>36.00</u>
Total current liabilities		<u>338.00</u>
Total liabilities		<u>638.00</u>
Total equity and liabilities		<u>4,131.00</u>

Notes to Accounts**1. Property, Plant and Equipment**

Particulars	₹ in Million
PPE value as on 1st April, 20X1	2,158.00
Add: Fair Value of Power Plant acquired	<u>46.90</u>
Total	<u>2,204.90</u>

2. Other Non-current Assets

Particulars	₹ in Million
Other non-current assets value as on 1st April, 20X1	25.00
Add: Fair Value of Non-current assets acquired	<u>11.10</u>
Total	<u>36.10</u>

3. Cash and Cash equivalents

Particulars	₹ in Million
Cash and Cash equivalents as on 1st April, 20X1	110
Less: Payment of Purchase consideration transferred	<u>(51)</u>
Total	<u>59</u>

4. Non-current Liabilities

Particulars	₹ in Million
Non-current Liabilities value as on 1st April, 20X1	268
Add: Non-current liabilities assumed in acquisition	<u>32</u>
Total	<u>300</u>

- (d) **Subsequent Accounting:** Ind AS 103 provides a measurement period window, wherein if all the required information is not available on the acquisition date, then entity can do price allocation on provisional basis. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as on the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. Any change i.e. increase or decrease in the net assets acquired due to new information available during the measurement period which existed on the acquisition date will be adjusted against goodwill.

Accordingly, in the financial statements for half year ending 30th September, 20X1, Mini Limited will retrospectively adjusts the prior year information as follows:

- (i) the carrying amount of PPE (including power plant) as of 1st April, 20X1 is increased by ₹ 8 million (i.e. ₹ 54.90 million minus ₹ 46.90 million). The adjustment is measured as the fair value adjustment at the acquisition date less the additional depreciation that would have been recognised if the asset's fair value at the acquisition date had been recognised from that date $[(80,00,000/40) \times (6/12) = 0.1 \text{ million}]$
- (ii) the carrying amount of goodwill as of 1st April, 20X1 is decreased by ₹ 8 million; and
- (iii) depreciation expense for the period ending 30th September, 20X1 will increase by ₹ 0.1 million
- (iv) disclose in its financial statements of 1st April, 20X1, that the initial accounting for the business combination has not been completed because the valuation of property, plant and equipment has not yet been received;
- (v) disclose in its financial statements of 30th September, 20X1, the amounts and explanation of the adjustments to the provisional values recognised during the current reporting period. Therefore, Mini Limited discloses that comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by ₹ 8 million, offset by decrease in goodwill of ₹ 8 million.

first attempt Journal Entries

(1) PPE (Power Plant)	Dr.	₹ 8 Million	
	To Goodwill		₹ 8 Million
(2) Depreciation	Dr.	₹ 0.1 Million	
	To Provision for Depreciation		₹ 0.1 Million

Q. 107

SALE OF STAKE & ACQUISITION OF BUSINESS



A Ltd. has a wholly owned subsidiary B Ltd. A Ltd. sells subsidiary B Ltd. to C Ltd. a listed entity, for shares in C Ltd. and ends up owning 75% of C Ltd.'s shares.

The net assets of B Ltd. prior to the disposal are ₹ 10,00,000 (fair value ₹ 13,00,000) and goodwill previously capitalised and not impaired is ₹ 6,00,000; the carrying value of B Ltd. in A Ltd.'s books is ₹ 15,00,000. At the date A Ltd. acquired B Ltd., B Ltd.'s profit and loss reserve was ₹ 400,000 and B has since made ₹ 100,000 post acquisition profits.

The position prior to the transaction was as follows:

(Amount in ₹)

Consolidation of A Ltd. and B Ltd. before transaction	A Ltd.	B Ltd.	Elim	Consol
Goodwill	-	-	600,000	600,000
Investment in subsidiary	1,500,000	-	(1,500,000)	-
Net assets	<u>10,00,000</u>	<u>1,00,000</u>	<u>-</u>	<u>11,00,000</u>

Total assets	<u>11,500,000</u>	<u>1,000,000</u>	<u>(900,000)</u>	<u>11,600,000</u>
Share capital	2,000,000	500,000	(500,000)	2,000,000
Retained earnings	9,500,000	100,000	-	9,600,000
Pre-acquisition reserves	<u>-</u>	<u>400,000</u>	<u>(400,000)</u>	<u>-</u>
Total equity	<u>11,500,000</u>	<u>1,000,000</u>	<u>(900,000)</u>	<u>11,600,000</u>

The net assets of C Ltd. prior to its acquisition of B Ltd. were ₹ 380,000 (fair value ₹ 500,000). C Ltd. then issued shares worth ₹ 17,50,000 (which is the fair value of the consideration given for the acquisition of 100% of B), being ₹ 600,000 nominal value and ₹ 11,50,000 premium. The balance sheets of the three companies directly after the issue of shares by C Ltd. were as follows: **(Amount in ₹)**

Summarized balance sheets	A Ltd.	B Ltd.	C Ltd.
Investment in subsidiary	1,750,000	-	1,750,000
Net assets	<u>10,000,000</u>	<u>1,000,000</u>	<u>380,000</u>
	<u>11,750,000</u>	<u>1,000,000</u>	<u>2,130,000</u>
Share capital	2,000,000	500,000	800,000
Additional paid in capital	-	-	1,150,000
Retained earnings	<u>9,750,000</u>	<u>500,000</u>	<u>180,000</u>
Total equity	<u>11,750,000</u>	<u>1,000,000</u>	<u>2,130,000</u>

The parent A Ltd., had an interest in B Ltd. that cost ₹ 15,00,000 and has in effect swapped this for an interest in C Ltd.'s group. In its separate financial statements, A Ltd. states its investment in C Ltd. group at the fair value of the consideration given ₹ 17,50,000.

The non-controlling interest is determined with reference to the proportionate share of the acquired C Ltd.'s net identifiable assets.

Required:

- Compute gain or loss on effective disposal of B Ltd.
- Compute goodwill on acquisition of C Ltd.

Note:

- C Ltd. is not required to prepare consolidated financial statements.
- Ignore the possibility that the transaction could be classified as a reverse acquisition of C Ltd. by B Ltd.

[RTP-Sept-2025]

Ans.

Effective disposal of stake in B Ltd. $[100\% - (75\% \text{ of } 100\%)] = 25\%$ which will be considered as non-controlling interest in B Ltd.

With regard to A Ltd.'s consolidated financial statements, it is necessary to calculate the 'gain or loss' (on the disposal of 25% of B Ltd.) that is recognised in equity and the goodwill arising (on the acquisition of C Ltd.).

When control is retained, it should be noted that goodwill attributed to the portion sold remains unchanged and is allocated to the non-controlling interest. In addition, if control is retained, the gain or loss should be recognised in equity.

Gain or loss on disposal of 25% of B Ltd.	₹
Calculation of non-controlling interest B Ltd. in A's consolidated financial statement: Book value of assets and liabilities given up plus attributable goodwill [(₹ 10,00,000 + ₹ 6,00,000) x 25%]	4,00,000
Less: Fair value of business received in consideration (W.N.1)	<u>(4,37,500)</u>
Gain on disposal recognized in equity	<u>37,500</u>

The net assets compared should include an appropriate portion of any cumulative exchange differences and any reserve on FVOCI debt investments previously recognised in other comprehensive income and accumulated in equity.

Goodwill on acquisition of 75% of C Ltd.	₹
Fair value of business given in consideration (₹ 17,50,000 x 25%)	4,37,500
Non-controlling interest C Ltd. measured at the proportionate share of the acquired net-asset (₹ 5,00,000 x 25%)	<u>1,25,000</u>
	5,62,500
Less: Fair value of assets and liabilities acquired	<u>(5,00,000)</u>
Goodwill	<u>62,500</u>

The consolidated entry recognised is:

	₹	₹
Fair value of net identifiable assets - C Ltd. Dr.	5,00,000	
Goodwill – C Ltd. Dr.	62,500	
To Non-controlling interest B Ltd. (16,00,000 x 25%)		4,00,000
To Non-controlling interest – C Ltd. (500,000 x 25%)		1,25,000
To Equity		37,500

Consolidation of A Ltd., B Ltd. and C Ltd. after the transaction

(Amount in ₹)

Consolidation of A Ltd., B Ltd. and C Ltd. after the transaction	A Ltd.	B Ltd.	C Ltd.	Elim	Consolidated
Goodwill (W.N.2)	-	-	-	662,500	662,500
Investment in subsidiary (W.N.3)	1,750,000	-	1,750,000	(3,500,000)	-
Net assets	<u>10,000,000</u>	<u>1,000,000</u>	<u>380,000</u>	<u>120,000</u>	<u>11,500,000</u>
	<u>11,750,000</u>	<u>1,000,000</u>	<u>2,130,000</u>	<u>(2,717,500)</u>	<u>12,162,500</u>
Equity share capital	2,000,000	500,000	800,000	(1,300,000)	2,000,000
Additional paid in capital	-	-	1,150,000	(1,150,000)	-
Retained earnings (W.N.4)	9,750,000	500,000	180,000	(792,500)	9,637,500
Non-controlling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>525,000</u>	<u>525,000</u>
Total equity	<u>11,750,000</u>	<u>1,000,000</u>	<u>2,130,000</u>	<u>(2,717,500)</u>	<u>12,162,500</u>

Note:

C Ltd.'s net assets are adjusted to fair value for the purpose of the consolidation as A Ltd. has acquired 75% of C Ltd. and gained control of C Ltd.

Working Notes:

1. A Ltd. receives consideration (that is, shares in C Ltd.) with a fair value of ₹ 17,50,000. However, the amount included in the calculation is the amount attributable to the interest in B Ltd. that has been disposed of, that is 25% of ₹ 17,50,000 = ₹ 4,37,500.

The fair value of the part of the subsidiary B that is effectively disposed of is derived from the price paid by C Ltd. for the whole of B Ltd. which is ₹ 17,50,000.

2. The goodwill balance of ₹ 6,62,500 represents the previous balance of the goodwill of ₹ 6,00,000 arising on the acquisition of B Ltd., plus the goodwill of ₹ 62,500 arising on the acquisition of C Ltd. The original goodwill arising on the acquisition of B Ltd. is retained and a portion (25%) is allocated to the non-controlling interest.
3. On consolidation the net assets of C Ltd. are increased from ₹ 3,80,000 to their fair value of ₹ 5,00,000.
4. **Computation of consolidated retained earnings**

	₹
Retained earnings of A Ltd. (excluding the investment revaluation gain of ₹ 2,50,000, which is reversed)	95,00,000
Add: Post-acquisition profits of B Ltd.	1,00,000
Add: Gain on disposal (recognised directly in equity)	<u>37,500</u>
	<u>96,37,500</u>

5. **Computation of non-controlling interest**

	₹
25% of C Ltd.'s fair value of net assets (₹ 5,00,000 x 25%)	1,25,000
Add: 25% of B Ltd.'s net assets (including goodwill) (₹ 16,00,000 x 25%)	<u>4,00,000</u>
	<u>5,25,000</u>

Notes

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

Q. 108
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

Q. 109
RECLASSIFICATION


S Ltd purchased a property for ₹ 6,00,000 on 1 April 20X1. The useful life of the property is 15 years. On 31 March 20X3 S Ltd classify the property as held for sale. The impairment testing provides the estimated recoverable amount of ₹ 4,70,000.

The fair value less cost to sell on 31 March 20X3 was ₹ 4,60,000. On 31 March 20X4 management change the plan as property no longer met the criteria of held for sale. The recoverable amount as at 31 March 20X4 is ₹ 5,00,000. Value the property at the end of 20X3 and 20X4. **[MTP-Nov-2023, SM]**

Ans.

- (a) Value of property immediately before the classification as held for sale as per Ind AS 16 as on 31 March 20X3

Purchase Price	6,00,000	
Less: Accumulated Depreciation	80,000	(for two years)
<u>Less: Impairment loss</u>	<u>50,000</u>	(5,20,000-4,70,000)
Carrying Amount	4,70,000	

On initial classification as held for sale on 31 March 20X3, the value will be lower of:

Carrying amount	₹ 4,70,000
Fair Value less Cost to sell	₹ 4,60,000

On 31 March 20X3 Non-current classified as held for sale will be recorded at ₹ 4,60,000. Depreciation of ₹ 40,000 and Impairment Loss of ₹ 60,000 (50,000 +10,000) is charged in profit or loss for the year ended 31 March 20X3.

- (b) On 31 March 20X4 held for sale property is reclassified as criteria doesn't met. The value will be lower of:

Carrying amount had the asset is not classified as held for sale	₹ 4,33,846
Carrying amount immediately before classification on 31 March 20X3	₹ 4,70,000
Less Depreciation based on 13 years balance life	₹ 36,154
Recoverable Amount	₹ 5,00,000

Property will be valued at ₹ 4,33,846 on 31 March 20X4

Adjustment to the carrying amount of ₹ 26,154 (₹ 4,60,000 - 4,33,846) is charged to the profit or loss.

Ind AS 108 OPERATING SEGMENTS

Q. 110

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

Q. 111
IDENTIFICATION OF REPORTABLE SEGMENTS


XYZ Ltd. has eight segments namely A, B, C, D, E, F, G and H. The information regarding respective segments for the year ended 31st March, 20X1 is as follows:

Segments	A	B	C	D	E	F	G	H
External sales	0	255	15	10	15	50	25	35
Inter-segment sales	<u>100</u>	<u>60</u>	<u>30</u>	<u>5</u>	—	—	—	—
Total	<u>100</u>	<u>315</u>	<u>45</u>	<u>15</u>	<u>15</u>	<u>50</u>	<u>25</u>	<u>35</u>

Segment result Profit/(Loss)	5	(90)	15	(5)	8	(5)	5	7
Segment assets	15	47	5	11	3	5	5	9

Identify which of the above segments out of A to H would be considered as reportable segments of XYZ Ltd. for the year ending 31st March, 20X1? (Similar CB 45) [MTP-May-2023, SM, MTP-Jan-2026]

Ans.

An entity has eight segments and the relevant information is as follows:

Criteria 1: Segment revenue is 10% or more of total external + intersegment sales

Segments	A	B	C	D	E	F	G	H	Total
Total sales	100	315	45	15	15	50	25	35	600
% to total sales	16.7	52.5	7.5	2.5	2.5	8.3	4.2	5.8	
Reportable segments	A	B	-	-	-	-	-	-	

Criteria 2: 10% or more of segment result

Consider segment profit and loss separately in absolute terms

Segments	A	B	C	D	E	F	G	H	Total
Profit	5	-	15	-	8	-	5	7	40
Segments loss	-	90	-	5	-	5	-	-	100

Since segment loss is greater, we select 100 as evaluating the segment percentage

Segments	A	B	C	D	E	F	G	H	Total
% to segment loss	5	90	15	5	8	5	5	7	
Reportable segments	-	B	C	-	-	-	-	-	

Criteria 3: 10% or more of segment assets

Segments	A	B	C	D	E	F	G	H	Total
Assets	15	47	5	11	3	5	5	9	100
%	15	47	5	11	3	5	5	9	100
Reportable segments	A	B	-	D	-	-	-	-	

Based on the above 3 criteria, the Reportable Segments are A, B, C & D

However, 75% test for external sales should also be checked.

Reportable Segments	A	B	C	D	TOTAL
External sales	0	255	15	10	280
Total entity's sales (external)					405
% of reportable segments external sales to entity's sales					69.14%
Required percentage					75%

Hence, in the above scenario, additional operating segments need to be identified as reportable segments, till the 75% test is satisfied, even if those segments do not satisfy the quantitative threshold limits.

Q. 112

SEGMENT INFORMATION/REPORT

Haymond Limited has three segments H, M & D. The following information is provided for the year ending 31st March, 2023:

All amounts are in ₹ Lakhs.

Particulars	Segments			Head Office
	H	M	D	
Sales to M	500	-	-	
Sales to D	-	5	-	
Other Sales (Domestic)	10	-	-	
Sales (Export)	680	170	40	
Operating Profit/(Loss) before tax	30	5	(8)	
Reallocated cost from Head Office	4	2	2	
Interest cost	2	3	1	
Fixed Assets	20	4	12	5
Net Current Assets	12	4	9	3
Long Term Liabilities	2	1	12	2

Other Information :

- (i) Share Capital amounts to ₹ 40,00,000
- (ii) Reserve & Surplus amounts to ₹ 12,00,000

Prepare segment information as per Ind AS 108.

[Nov-2023]

Ans.

(A) Information about operating segment

- (1) The company's operating segment comprise: H, M & D
- (2) Segment revenue, results and other information

Haymond Ltd.

Segment Information / Report

(All amounts are ₹ in lakhs)

Particulars	Reportable Segments			Head Office/ Unallocated items	Total
	H	M	D		
1. Segment Revenue					
Sales:					
Domestic	10	-	-	-	10
Export	680	170	40	-	890
External Sales	690	170	40		900
Inter-segment sales	500	5	-	-	505
Total Sales	1,190	175	40		1,405
Less: Inter-segment sales	(500)	(5)	-	-	(505)
Total Sales / Revenue	690	170	40		900
2. Results					
Segment result	30	5	(8)		27
Reallocated cost	(4)	(2)	(2)		(8)
Profit from operation before interest, taxation and Exceptional items	26	3	(10)		19

Finance cost (Interest expense)	(2)	(3)	(1)		(6)
Profit before tax and exceptional items	24	0	(11)		13
3. Information in relation to assets and liabilities					
Reportable segment non-current assets	20	4	12	5	41
Reportable segment net current assets	12	4	9	3	28
Total Assets	32	8	21	8	69
Non-current liabilities	2	1	12	2	17

B. Geographical Information

	Domestic Sales	Export Sales	₹ in lakhs Total
External sales	10	890	900

Notes

ACCOUNTING AND REPORTING OF FINANCIAL INSTRUMENTS

(Ind AS 32, 107, 109)

Q. 113
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:

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

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

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

[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.	25,00,000	
	To Bank		25,00,000
	(Being the loan is given to Balram Ltd. and recognised at fair value)		
2.	At the time the Loan is received back:		
	Bank Dr.	25,00,000	
	To Loan to Balram Ltd. (Subsidiary)		25,00,000
	(Being demand 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.		25,00,000
	(Being the loan is taken from Ram Ltd. and recognised at fair value)		

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. 114

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

ABC Company issued 10,000 compulsory cumulative convertible preference shares (CCCCPS) 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 CCCCPS 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 (Being Dividend at the coupon rate of 10% paid to the shareholders)	150,000	150,000

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

Q. 115

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= a x 8.612%)	(c=5000 x 8%)	(d = a + b - c)

20X1-20X2	4,900.00	421.99	(400.00)	4,921.99
20X2-20X3	4,921.99	423.88	(400.00)	4,945.87
20X3-20X4	4,945.87	425.94	(400.00)	4,971.81
20X4-20X5	4,971.81	428.19	(5,400.00)	–

At 31st March, 20X2:

1. The present value of the remaining cash flows of the original financial liability is ₹ 4,921.99 discounted at the original effective interest rate of 8.612%.
2. The present value of the cash flows under the new terms discounted using 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.
3. 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. 116
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

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. 117

MODIFICATION : FA : CONCESSIONAL LOAN TO EMPLOYEES



Softtech 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.

(Amount in ₹)

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:

(Amount in ₹)

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:

	Inflows				
Date	Principal	Interest income @ 7%	Interest income @ 4%	Discount factor @12%	PV
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)					21,09,716

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

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

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

Date	Opening outstanding loan	Total cash inflows (principal repayment + interest)	Interest @ 12%	Closing outstanding loan
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.	6,45,000	
To Interest income (profit and loss) @ 12% A/c			2,53,166
To Loan to Mrs. B A/c			3,91,834

(Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)		
Employee benefit (profit and loss) A/c Dr. To Pre-paid employee cost A/c (Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)	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. To Pre-paid employee cost A/c	5,00,000	82,682

To Loan to Mrs. B A/c (Being gain to Softech Limited recorded as an adjustment to pre-paid employee cost)		4,17,318
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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. 118

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. 119

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

Journal Entry

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

31 March 20X2

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

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

At 31 March 20X2, there is 1% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited. The 12-month expected credit losses are therefore ₹10,000 (₹10,00,000 × 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 × 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. 120

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) To Debentures (Interest recognised in P&L @ 17%)	245	245
End of Year 4	Debentures [280 + 245] Dr. To Bank (Being debentures redeemed)	525	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. 121
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*60-55*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. 122**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:

- How is the embedded issuer-only call feature accounted for by Zx, the issuer initially?
- 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

Q. 123

FV & DERIVATIVES

Blueberry Ltd. entered into the following transactions during the year ended 31st March, 20X2:

- Entered into a speculative interest rate option costing ₹ 10,000 on 1st April, 20X0 to borrow ₹ 6,000,000 from Exon Bank commencing 30th June, 20X2 for 6 months at 4%. The value of the option at 31st March, 20X2 was ₹15,250.
- Purchased 6% debentures in Fox Ltd. on 1st April, 20X1 (their issue date) for ₹ 150,000 as an investment. Blueberry Ltd. intends to hold the debentures, until their redemption at a premium, in 5 years' time. The effective rate of interest of the bond is 8%.
- Purchased 50,000 shares in Cox Ltd. on 1st October, 20X2 for ₹3.50 each as an investment. The share price on 31st March, 20X2 was ₹ 3.75.

Show the accounting treatment and relevant extracts from the financial statements for the year ended 31st March, 20X2 of transactions related to financial instruments. Blueberry Ltd. designates financial assets at fair value through Profit or loss only when this is unavoidable.

[MTP-May-2020]

Ans.

Balance Sheet as at 31st March, 20X2 (Extracts)

Financial Assets:	₹
Interest rate option (W.N.1)	15,250
6% Debentures in Fox Ltd. (W.N.2)	1,53,000
Shares in Cox Ltd. (W.N.3)	1,87,500
Statement of Profit and Loss (Extracts)	
Finance Income:	
Gain on interest rate option (W.N.1)	5,250
Effective interest on 6% Debentures (W.N.2)	12,000

Working Notes:

1. Interest rate option

This is a derivative and so it must be treated as at fair value through profit or loss

Particulars	₹	₹
Initial measurement (at cost)		

Financial Asset	Dr.	10,000	
To Cash A/c			10,000

At 31st March, 20X2

Particulars		₹	₹
(Re-measured to fair value)			
Financial Asset (₹ 15,250 - ₹10,000)	Dr.	5,250	
To Profit and loss A/c			5,250

Financial Assets (₹10,000 + ₹5,250)

= ₹15,250 (Balance Sheet)

Gain on interest option

= ₹5,250 (Statement of Profit and Loss)

2. Debentures

On the basis of information provided, this can be treated as a held -to-maturity investment

Particulars		₹	₹
Initial measurement (at cost)			
Financial Asset	Dr.	1,50,000	
To Cash A/c			1,50,000

At 31st March, 20X2 (Amortized cost)

Particulars		₹	₹
Financial Asset (₹1,50,000 x 8%)	Dr.	12,000	
To Finance Income			12,000
Cash (₹ 1,50,000 x 6%)	Dr.	9,000	
To Financial asset			9,000

Amortized cost at 31st March, 20X2

(₹ 150,000 + ₹ 12,000 – ₹ 9,000) = ₹ 153,000 (Balance Sheet)

Effective interest on 6% debenture

= ₹ 12,000 (Statement of Profit and Loss)

3. Shares in Cox Ltd.

These are treated as an available for sale financial asset (shares cannot normally be held to maturity and they are clearly not loans or receivables)

Particulars		₹	₹
Initial measurement (at cost)			
Financial Asset (₹50,000 x ₹3.50)	Dr.	1,75,000	
To Cash A/c			1,75,000

At 31st March, 20X2 (Re-measured at fair value)

Particulars		₹	₹
Financial Asset [(₹50,000 x 3.75) – 1,75,000]	Dr.	12,500	
To Other Equity A/c			12,500

Shares in Cox Ltd. (₹1,75,000 + ₹12,500) = ₹1,87,500 (Balance Sheet)

FV Gain

= ₹ 12,500 [SPL – OCI (NR)]

**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
OF GROUP ENTITIES (Ind AS 27, 28, 110, 111, 112)****Q. 124****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	<u>500</u>	<u>2,000</u>
Total	<u>29,520</u>	<u>13,000</u>
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	<u>1,500</u>	<u> </u>
Total	<u>29,520</u>	<u>13,000</u>

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>	<u>480</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. 125

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
		<u>720</u>	<u>360</u>

2. Other equity:		
(i) General reserve	120	75
(ii) Retained earnings	195	150
	315	225
3. Trade payables:		
(i) Sundry creditors	90	69
(ii) Bills payable	Nil	7
	90	76
4. Property, plant and equipment:		
(i) Machinery	210	135
(ii) Furniture and fixture	240	113
	450	248
5. Intangible asset:		
Goodwill	75	45
6. Trade receivables:		
(i) Sundry debtors	106	120
(ii) Bills receivable	4	Nil
	110	120

Additional Information :

- (a) Z Ltd. acquired 12,00,000 equity shares of R Ltd. on 1st April, 2024 and further acquired 13,50,000 equity shares of R Ltd. on 1st January, 2025 at a cost of ₹1,44,00,000 and ₹1,55,25,000 respectively.
- (b) 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.
- (c) 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.
- (d) R Ltd. had paid dividend @ 12% on its paid-up equity share capital out of its retained earnings' balance on 1st April, 2024 for the year 2023-24. The entire dividend received by Z Ltd. in August 2024 has been credited to its retained earnings.
- (e) On 1st October, 2024, machinery of R Ltd. was overvalued by ₹ 15,00,000 for which necessary adjustments are to be made. The Company charges depreciation @ 10% on W.D.V. basis.
- (f) Bills receivables of Z Ltd. were drawn upon R Ltd. out of which bills amounting to ₹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>

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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	<u>35,62,500</u>
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)		<u>37,500</u>
	Pre	<u>1,00,12,500</u>
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. 126**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> </u>		<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> </u>		<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> </u>	<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) <u>(3,240.00)</u>	(1,600+550+230) <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> </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%) <u>15.30</u>	(80 x 51%) <u>40.80</u>
	<u>1,207.80</u>	<u>1,172.80</u>

Q. 127

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. 128

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

- (i) Determine the acquisition date for Pride Ltd.
- (ii) Determine the gain on previously held interest in Pride Ltd. and suggest the accounting treatment on acquisition date as per Ind AS 103.
- (iii) Compute the amount of goodwill arising on the acquisition of Famous Ltd.
- (iv) Pass necessary journal entry on the acquisition date.

[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. 129

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:

first attempt success tutorials

₹

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)	-
Preference shares	5,00,000	(50,000)	4,50,000	(4,50,000)	-
Long-term loan	<u>3,00,000</u>	<u>(50,000)</u>	<u>2,50,000</u>	<u>(1,50,000)</u>	<u>1,00,000</u>
Total	18,00,000	(1,00,000)	17,00,000	(16,00,000)	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	-	-	-
				50,000 *	

Preference shares	-	(50,000)	(50,000)	(1,00,000)	-
Long-term loan	<u>1,00,000</u>	<u>-</u>	<u>1,00,000</u>	<u>(50,000)</u>	<u>-</u>
Total	1,00,000	(1,00,000)	17,00,000		-

* 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	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,00,000</u>	<u>3,00,000</u>
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	<u>3,00,000</u>	<u>-</u>	<u>3,00,000</u>	<u>-</u>	<u>3,00,000</u>
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.

Q. 130
COMPREHENSIVE

Following is the Balance Sheets of M Ltd. and N Ltd. of two different dates:

	M Ltd. (As on 31.3.20X2) ₹	N Ltd. (As on 31.12.20X1) ₹
ASSETS		
Non-current Assets		
Property, Plant and Equipment	6,50,000	4,05,000
Financial Assets		
Investments:		
40,000 shares in N Ltd.	8,00,000	-
1,000 Debentures in N Ltd.	1,50,000	-
Current assets:		
Inventory	2,00,000	3,50,000
Financial Assets		
Trade Receivables	1,50,000	2,65,000
Cash and cash equivalents	<u>80,000</u>	<u>1,05,000</u>
Total	<u>20,30,000</u>	<u>11,25,000</u>
EQUITY AND LIABILITIES		
Equity Shares of ₹10 each	10,00,000	5,00,000
Retained Earnings	4,50,000	2,05,000
Non-current Liabilities		
Financial Liabilities		

13% Debentures (₹100 each)	–	3,00,000
Current liabilities		
Financial Liabilities		
Trade Payables	3,80,000	80,000
Other liabilities	<u>2,00,000</u>	<u>40,000</u>
Total	<u>20,30,000</u>	<u>11,25,000</u>

On 5th January 20X2, certain inventory of N Ltd. costing ₹20,000 were completely destroyed by fire. The insurance company paid 75% of the claim. On 20th January 20X2, M Ltd. sold goods to N Ltd. costing ₹1,50,000 at an invoice price of cost plus 20%. 50% of those goods were resold by N Ltd. to M Ltd. within 31st March 20X2 (these were then sold by M Ltd. to a third party before 31st March, 20X2). As on 31st March, 20X2, N Ltd. owes ₹60,000 to M Ltd. in respect of those goods. Pre-acquisition profits of N Ltd. on the date of acquisition was ₹75,000.

NCI is measured as per fair value method on the date of acquisition. Fair value of the share of N Ltd. as on the date of acquisition is ₹18 per share.

Prepare Consolidated Balance Sheet as on 31st March, 20X2 after making necessary adjustments in the Balance sheet of N Ltd. Ignore Notes to Accounts [RTP-May-2026]

Ans. Consolidated Balance Sheet of M Ltd and its subsidiary N Ltd. as at 31st March 20X2

I. ASSETS		
A. Non-Current Assets		
1. Property, Plant and Equipment (6,50,000 + 4,05,000)		10,55,000
2. Goodwill (W.N.7)		4,05,000
B. Current Assets		
1. Inventories (W.N.8)		6,05,000
2. Financial Assets		
a. Trade Receivables (W.N.9)		3,55,000
b. Cash and cash equivalents (80,000+1,05,000+15,000 Insur. claim)		<u>2,00,000</u>
Total		<u>26,20,000</u>
II. EQUITY AND LIABILITIES		
A. Equity		
1. Equity Share Capital		
Issued, subscribed and fully paid up 1,00,000 equity shares of ₹10 each		10,00,000
2. Other Equity		
Retained Earnings (W.N.10)		5,09,000
3. Non-Controlling Interest (W.N.6)		2,11,000
B. Liabilities		
1. Non-Current Liabilities		

a. Financial Liabilities	
Borrowings [13% Debentures (2,000 × 100)]	2,00,000
2. Current liabilities	
a. Financial Liabilities	
Trade Payables (W.N.9)	4,60,000
b. Other Current liabilities (2,00,000 + 40,000)	2,40,000
Total	<u>26,20,000</u>

Working Notes:
1. Shareholding pattern

Particulars	Number of Shares	% of holding
M Ltd.	40,000	80%
Non-Controlling interest	10,000	20%

2. Analysis of Retained Earnings of N Ltd.

	₹
Closing balance as on 31.3.20X1	2,05,000
Pre-acquisition Profits	<u>(75,000)</u>
Post-acquisition Profits	1,30,000
Less: Loss of inventory by fire (W.N.3)	(5,000)
Add: Profit from sale of goods purchased from M Ltd. (W.N.4)	<u>30,000</u>
	<u>1,55,000</u>

3. Loss of inventory by fire

	₹
Cost of goods destroyed by fire	20,000
Less: Insurance Claim received (20,000 × 75/100)	(15,000)
Loss of inventory by fire	5,000

4. Profit from Sale of goods

	₹
Cost of goods sold by M Ltd.	1,50,000
Add: Profit by M Ltd. (1,50,000 × 20%)	<u>30,000</u>
Invoice price of M Ltd. (i.e., Cost to N Ltd.)	<u>1,80,000</u>
Cost of goods sold back by N Ltd. to M Ltd. (1,80,000 × 50%)	90,000
Net payable (given in the question)	60,000
Sale value of goods sold by N Ltd. to M Ltd. (1,80,000 – 60,000)	1,20,000
Profit on sale by N Ltd. to M Ltd. (1,20,000 – 90,000)	30,000

5. Apportionment of profits of N Ltd.

Particulars	Pre-acquisition	Post-acquisition
Retained Earnings (W.N.3)	75,000	1,55,000
M Ltd – 80%		1,24,000
NCI – 20%		31,000

6. Non-Controlling Interest as per fair value method

Particulars	₹
Share capital / Fair Value of shares held by NCI (10,000 Shares × ₹18)	1,80,000
Share of post-acquisition retained earnings (W.N.5)	<u>31,000</u>
Total	2,11,000

7. Computation of Goodwill

Particulars	₹
Cost of investment	8,00,000
Add: Fair Value of Shares held by Non-Controlling Interest (10,000 Shares × ₹18)	<u>1,80,000</u>
	9,80,000
Less: Fair value of net identifiable assets or net worth	
Share capital of N Ltd.	5,00,000
Pre-acquisition retained earnings	<u>75,000</u>
	<u>(5,75,000)</u>
Goodwill	4,05,000

8. Computation of Inventory to be shown in CBS

Particulars	₹
Aggregate value of inventory (2,00,000 + 3,50,000)	5,50,000
Add: Invoice price of goods purchased from M Ltd	1,80,000
Less: Cost of goods resold to M Ltd	(90,000)
Less: Loss of inventory by fire	<u>(20,000)</u>
	6,20,000
Less: Unrealised profit (90,000 × 20/120)	<u>(15,000)</u>
Net Inventory for CBS	6,05,000

9. Computation of Consolidated Trade Receivables and Trade Payables

Particulars	Trade Receivables ₹	Trade Payables ₹
Aggregate balance	4,15,000	4,60,000
Less: Inter-company owings	<u>(60,000)</u>	<u>(60,000)</u>
Net for CBS	3,55,000	4,60,000

10. Retained Earnings for CBS

Particulars	₹
M Ltd. Balances	4,50,000
Add: M Ltd.'s share of post-acquisition profits (W.N.5)	1,24,000
Less: Unrealised profit on inventory (W.N.8)	(15,000)
Less: Loss on cancellation of debentures [1,50,000 - (1,000 x 100)]	<u>(50,000)</u>
Net for CBS	<u>5,09,000</u>

Q. 131
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
		<u>720</u>	<u>360</u>
2.	Other equity:		
	(i) General reserve	120	75
	(ii) Retained earnings	195	150
		<u>315</u>	<u>225</u>

3.	Trade payables:		
	(i) Sundry creditors	90	69
	(ii) Bills payable	Nil	7
		90	76
4.	Property, plant and equipment:		
	(i) Machinery	210	135
	(ii) Furniture and fixture	240	113
		450	248
5.	Intangible asset:		
	Goodwill	75	45
6.	Trade receivables:		
	(i) Sundry debtors	106	120
	(ii) Bills receivable	4	Nil
		110	120

Additional Information :

- (a) Z Ltd. acquired 12,00,000 equity shares of R Ltd. on 1st April, 2024 and further acquired 13,50,000 equity shares of R Ltd. on 1st January, 2025 at a cost of ₹1,44,00,000 and ₹1,55,25,000 respectively.
- (b) 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.
- (c) 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.
- (d) R Ltd. had paid dividend @ 12% on its paid-up equity share capital out of its retained earnings' balance on 1st April, 2024 for the year 2023-24. The entire dividend received by Z Ltd. in August 2024 has been credited to its retained earnings.
- (e) On 1st October, 2024, machinery of R Ltd. was overvalued by ₹ 15,00,000 for which necessary adjustments are to be made. The Company charges depreciation @ 10% on W.D.V. basis.
- (f) Bills receivables of Z Ltd. were drawn upon R Ltd. out of which bills amounting to ₹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:**5. 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))		30,28,125
	1,29,56,250	2,17,78,125

6. Computation of bargain purchase i.e. capital reserve**(iii) 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	(45,00,000)
Net worth or Net Identifiable assets	4,18,87,500

(iv) 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)		32,62,500

7. 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	1,07,53,125

8. Analysis of Other Equity
(iii) 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

(iv) 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%)		<u>(36,00,000)</u>
During the year	Pre	<u>(9,00,000)</u>
		1,41,00,000
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	<u>35,62,500</u>
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)		<u>37,500</u>
	Pre	<u>1,00,12,500</u>
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:

2. 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. 132**COMPREHENSIVE: DIVIDEND, BONUS INTERCOMPANY, OTHER INVESTMENTS**

The extracts of the Balance Sheets of Hammer Ltd. and its subsidiary Sleek Ltd. as on 31st March, 2023 are given below :

Particulars	Note No.	Hammer Ltd. (₹)	Sleek Ltd. (₹)
I ASSETS			
A. Non-Current Assets			
Property, Plant and Equipment	1	6,00,000	3,25,000
Intangible Assets	2	1,25,000	75,000
Investments		6,25,000	1,25,000
B. Current Assets			
Inventories		1,25,000	1,60,000
Financial Assets			
Trade receivables		3,25,000	2,90,000
Cash and Cash equivalents		1,50,000	3,50,000
Total Assets		19,50,000	13,25,000
II EQUITY AND LIABILITIES			
A. Equity			
Equity Share Capital (10 each)		10,00,000	5,00,000
Other Equity	3	5,50,000	3,75,000
B. Non-Current Liabilities			
Financial Liabilities			
Borrowings	4	-	1,00,000
C. Current Liabilities			
Financial Liabilities			
Short term borrowings:			
Bank Overdraft		1,00,000	50,000
Trade Payables		3,00,000	3,00,000
Total Equity and Liabilities		19,50,000	13,25,000

Notes to Accounts :

Note No.	Particulars	Hammer Ltd. (₹)	Sleek Ltd. (₹)
1.	Property, Plant and Equipment		
	(a) Plant and Machinery	2,00,000	1,25,000
	(b) Furniture and Fittings	4,00,000	2,00,000
		6,00,000	3,25,000

2.	Intangible Assets		
	Goodwill (Should be Brand)	1,25,000	75,000
3.	Other Equity		
	(a) General Reserve	2,00,000	1,25,000
	(b) Retained Earnings	3,50,000	2,50,000
		5,50,000	3,75,000
4.	Borrowings		
	8% Debentures of 100 each	-	1,00,000

Additional information :

- Hammer Ltd. acquired 20,000 equity shares of Sleek Ltd. on 1st April, 2022 at a cost of ₹ 2,40,000 and further acquired 17,500 equity shares on 1st October, 2022 at a cost of ₹ 1,92,500;
- The 8% debentures of Sleek Ltd. includes debentures held by Hammer Ltd. of nominal value of ₹ 35,000. These were acquired by Hammer Ltd. on 1st January, 2022 at a cost of ₹ 84,000;
- The retained earnings of Sleek Ltd. had a credit balance of ₹ 75,000 as on 1st April, 2022. On that date the balance of General Reserve was ₹ 50,000;
- Sleek Ltd. had paid dividend @ 10% on its paid-up equity share capital out of the balance of retained earnings as on 1st April, 2022 for the financial year 2021-22. The entire dividend received by Hammer Ltd. was credited in its statement of profit and loss; (assume paid before acquisition of control)
- As per the resolution dated 28th February 2023, Sleek Ltd. had allotted bonus shares @ 1 equity share for every 10 shares held out of its general reserve. The accounting effect has not been given; (assume out of opening reserves)
- Trade receivables of Hammer Ltd. includes bills receivables of ₹ 2,00,000 drawn upon Sleek Ltd. Out of this, bills of ₹ 50,000 have been discounted with bank;
- During the financial year 2022-23 Hammer Ltd. purchased goods from Sleek Ltd., of ₹ 25,000 at a sales price of ₹ 30,000. 40% of these goods remained unsold on 31st March, 2023; (assume unrealised relates to Post-acquisition period)
- On 1 October, 2022 machinery of Sleek Ltd. was overvalued by ₹ 20,000 for which necessary adjustments are to be made. Depreciation is charged @ 10% per annum;
- The parent company i.e., Hammer Ltd. has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume the fair value per equity share of Sleek Ltd. at ₹ 11 on the date when control of Sleek Ltd. was acquired by Hammer Ltd.

You are required to prepare consolidated balance sheet as per Ind AS of Hammer Ltd. and its subsidiary Sleek Ltd, as at 31st March, 2023. [Nov-2023]

Ans.

Consolidated Balance Sheet of Hammer Ltd. as at 31st March, 2023

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	9,06,000
Intangible assets	1	2,00,000
Financial assets		
Investment	1	2,33,500
Current assets		
Inventories	1	2,83,000

Financial assets		
Trade receivables	1	4,65,000
Cash and cash equivalents	1	<u>5,00,000</u>
Total		<u>25,87,500</u>
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 10 each	2	10,00,000
Other equity	3	7,47,750
Non-controlling interest (W.N.)		1,74,750
Non-current liabilities:		
Financial liabilities		
Borrowings	1	65,000
Current Liabilities:		
Financial liabilities		
Bank Overdraft	1	1,50,000
Trade payables	1	<u>4,50,000</u>
Total		<u>25,87,500</u>

Notes to Accounts**Note 1: Assets and Liabilities**

₹

Particulars	Hammer Ltd.	Sleek Ltd.	Adjustments	Total
Property, Plant and Equipment	6,00,000	3,25,000	-20,000 +1,000	9,06,000
Intangible Assets	1,25,000	75,000		2,00,000
Investments	1,92,500*	1,25,000	-84,000	2,33,500
Inventories	1,25,000	1,60,000	-2,000	2,83,000
Trade Receivables	3,25,000	2,90,000	-1,50,000	4,65,000
Cash and Cash Equivalents	1,50,000	3,50,000		5,00,000
Borrowings	0	1,00,000	-35,000	65,000
Bank Overdraft	1,00,000	50,000		1,50,000
Trade Payables	3,00,000	3,00,000	-1,50,000	4,50,000

*6,25,000 – 2,40,000-1,92,500

Note 2: Equity Share Capital

1,00,000 equity shares of ₹ 10 each, fully paid	<u>10,00,000</u>
	<u>10,00,000</u>

Note 3: Consolidated Other Equity

General Reserve	W.N.1	2,28,125
Retained Earnings	W.N.1	3,64,625
Capital Reserve	W.N.2	<u>1,55,000</u>
		<u>7,47,750</u>

Working Notes:**1. Consolidated Other Equity**

Particulars	General Reserve	Retained Earnings
Standalone - Hammer Ltd.	2,00,000	3,50,000
Less: Fair Value Loss of existing stake [2,40,000 - (20,000 x 11)]		(20,000)
Less: Loss on cancellation of debentures		(49,000)
Add: Share in Post-acquisition Profits	<u>28,125</u>	<u>83,625</u>
	<u>2,28,125</u>	<u>3,64,625</u>

2. Computation of Goodwill or Bargain Purchase for (75% stake)

(i) Computation of net worth (net identifiable assets) as on 1 st October, 2022

Share Capital	5,00,000
Pre-acquisition Retained Earnings (after adjusting downward revaluation of machinery)	1,17,500
Pre-acquisition General Reserve	37,500
Bonus issue*	<u>50,000</u>
Net Identifiable assets	<u>7,05,000</u>

***Note:** Bonus shares issued in 1:10 ratio i.e. ₹ 50,000 and bonus issue has not been accounted for yet. The opening balance of the general reserve is ₹ 50,000 while the closing balance is ₹ 1,25,000 which implies that ₹ 75,000 have been transferred during the year and this amount should be allocated between pre and post-acquisition based on time proportion. Therefore, the general reserve on the date of acquisition will be ₹ 50,000 + 50% of ₹ 75,000 i.e. ₹ 37,500 = ₹ 87,500. Here, it should be noted that the date of bonus issue is 28th February, 2023 and bonus amount is ₹ 50,000. Since the balance of post-acquisition general reserve (50% of ₹ 75,000 i.e. ₹ 37,500) is insufficient, it is assumed that bonus shares are issued from pre-acquisition general reserve i.e. balance on the date of acquisition assuming that transfer to general reserve, in general, is an appropriation of profit which is done at the end of the year. This implies that outstanding balance in general reserve at the time of bonus issue is the opening balance.

However, one may assume otherwise like insufficient post-acquisition balance of ₹ 12,500 (50,000 – 37,500) has only been adjusted through pre-acquisition share of ₹ 87,500 or first adjustment of bonus issue has been done and later bifurcation of remaining balance has been done into pre and post-acquisition. In such a case balance of consolidated general reserve (post-acquisition), net worth, bargain purchase and NCI will undergo a change.

(ii) Computation of bargain purchase i.e. capital reserve

Net worth or Net identifiable assets		7,05,000
Purchase consideration (1,92,500 + 2,20,000)	4,12,500	
NCI [12,500 shares x ₹ 11 (i.e. ₹ 1,92,500 / 17,500 shares)]	<u>1,37,500</u>	<u>5,50,000</u>
Bargain purchase (capital reserve)		<u>1,55,000</u>

3. Non-Controlling Interest A/c (at Fair Value)

NCI at fair value as on 1st October, 2023	1,37,500
Post-acquisition General Reserve	9,375
Post-acquisition Retained Earnings	<u>27,875</u>
NCI at fair value as on 31st March, 2023	<u>1,74,750</u>

4. Analysis of Other Equity**(i) General Reserve**

Closing balance as on 31st March, 2023		1,25,000
Less: Opening Balance	pre	<u>(50,000)</u>
Net Profit transferred during the year		<u>75,000</u>
For 6 months till 30th September, 2022	pre	37,500
For 6 months from 1st October, 2022 to 31st March, 2023	post	<u>37,500</u>
Total pre-acquisition reserve (50,000 + 37,500)	pre	87,500
Less: Bonus issue	pre	<u>(50,000)</u>
Balance General Reserve	pre	<u>37,500</u>
Share of Hammer Ltd. in pre-acquisition reserve (75%)	pre	28,125
Share of NCI in pre-acquisition reserve (25%)	pre	9,375
Share of Hammer Ltd. in post-acquisition reserve (75%)	post	28,125
Share of NCI in post-acquisition reserve (25%)	post	9,375

(ii) Retained Earnings (RE)

Closing balance as on 31st March, 2023		2,50,000
Less: Opening balance		75,000
Less: Dividend @10%		<u>(50,000)</u>
	pre	<u>(25,000)</u>
During the year		<u>2,25,000</u>
For 6 months till 30th September, 2022	pre	<u>1,12,500</u>
For 6 months from 1st October 2022 to 31st March, 2023	post	1,12,500
Add: Saving in Depreciation (W.N.5)		1,000
Less: Unrealised Gain [(30,000-25,000) x 40%]		<u>(2,000)</u>
Net post-acquisition RE	post	<u>1,11,500</u>
Total pre-acquisition RE (25,000 + 1,12,500)	pre	1,37,500
Less: Downward revaluation of machinery		<u>(20,000)</u>
	pre	<u>1,17,500</u>
Share of Hammer Ltd. in pre-acquisition RE (75%)	pre	88,125
Share of NCI in pre-acquisition RE (25%)	pre	29,375
Share of Hammer Ltd. in post-acquisition RE (75%)	post	83,625
Share of NCI in post-acquisition RE (25%)	post	27,875

5. Plant and Machinery balance as on 31st March 2023

	₹
Balance as on 31.3.2023 as given in question (after depreciation)	1,25,000
Less: Downward revaluation less depreciation saving	<u>(19,000)*</u>
	<u>1,06,000</u>

*Saving in depreciation = ₹ 20,000 - ₹ 19,000 = ₹ 1,000.

Q. 133

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:
6. 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>

7. 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%

8. 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		
$[(2,000 / 100) \times 120 \times 15\%]$	360.00	
$[(1,600 / 100) \times 125 \times 49\%]$	<u>-</u>	<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	

9. 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>-</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.

10. 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%) <u>15.30</u>	(80 x 51%) <u>40.80</u>
	<u>1,207.80</u>	<u>1,172.80</u>

Q. 134**PARTIAL SALE OF STAKE : LOSS OF CONTROL**

As at the beginning of its current financial year, AB Limited holds 90% equity interest in BC Limited. During the financial year, AB Limited sells 70% of its equity interest in BC Limited to PQR Limited for a total consideration of ₹ 56 crore and consequently loses control of BC Limited. At the date of disposal, fair value of the 20% interest retained by AB Limited is ₹ 16 crore and the net assets of BC Limited are fair valued at ₹ 60 crore.

These net assets include the following:

- Debt investments classified as fair value through other comprehensive income (FVOCI) of ₹ 12 crore and related FVOCI reserve of ₹ 6 crore.
- Net defined benefit liability of ₹ 6 crore that has resulted in a reserve relating to net measurement losses of ₹ 3 crore.
- Equity investments (considered not held for trading) of ₹ 10 crore for which irrevocable option of recognising the changes in fair value in FVOCI has been availed and related FVOCI reserve of ₹ 4 crore.
- Net assets of a foreign operation of ₹ 20 crore and related foreign currency translation reserve of ₹ 8 crore.

In consolidated financial statements of AB Limited, 90% of the above reserves were included in equivalent equity reserve balances, with the 10% attributable to the non-controlling interest included as part of the carrying amount of the non-controlling interest.

What would be the accounting treatment on loss of control in the consolidated financial statements of AB Limited? [RTP-May-2024, SM]

Ans.

Paragraph 25 of Ind AS 110 states that if a parent loses control of a subsidiary, the parent:

- (a) derecognises the assets and liabilities of the former subsidiary from the consolidated balance sheet.
- (b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant Ind ASs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with Ind AS 109 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.
- (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest."

Paragraph B98(c) of Ind AS 110 states that on loss of control over a subsidiary, a parent shall reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind AS, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis specified in paragraph B99.

As per paragraph B99, if a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

In view of the basis in its consolidated financial statements, AB Limited shall:

- (a) re-classify the FVOCI reserve in respect of the debt investments of ₹ 5.4 crore (90% of ₹ 6 crore) attributable to the owners of the parent to the statement of profit or loss in accordance with paragraph B5.7.1A of Ind AS 109, Financial Instruments which requires that the cumulative gains or losses previously recognised in OCI shall be recycled to profit and loss upon derecognition of the related financial asset. This is reflected in the gain on disposal. Remaining 10% (i.e., ₹ 0.6 crore) relating to non-controlling interest (NCI) is included as part of the carrying amount of the non-controlling interest that is derecognized in calculating the gain or loss on loss of control of the subsidiary;
- (b) transfer the reserve relating to the net measurement losses on the defined benefit liability of ₹ 2.7 crore (90% of ₹ 3 crore) attributable to the owners of the parent within equity to retained earnings. It is not reclassified to profit or loss. The remaining 10% (i.e., ₹ 0.3 crore) attributable to the NCI is included as part of the carrying amount of NCI that is derecognised in calculating the gain or loss on loss of control over the subsidiary. No amount is reclassified to profit or loss, nor is it transferred within equity, in respect of the 10% attributable to the non-controlling interest.
- (c) reclassify the cumulative gain on fair valuation of equity investment of ₹ 3.6 crore (90% of ₹ 4 crore) attributable to the owners of the same parent from OCI to retained earnings under equity as per paragraph B5.7.1 of Ind AS 109, Financial Instruments, which provides that in case an entity has made an irrevocable election to recognise the changes in the fair value of an investment in an equity instrument not held for trading in OCI, it may subsequently transfer the cumulative amount of gains or loss within equity. Remaining 10% (i.e., ₹ 0.4 crore) related to the NCI are derecognised along with the balance of NCI and not reclassified to profit and loss.
- (d) reclassify the foreign currency translation reserve of ₹ 7.2 crore (90% × ₹ 8 crore) attributable to the owners of the parent to statement of profit or loss as per paragraph 48 of Ind AS 21, The Effects of

Changes in Foreign Exchange Rates, which specifies that the cumulative amount of exchange differences relating to the foreign operation, recognized in OCI, shall be reclassified from equity to profit or loss on the disposal of foreign operation. This is reflected in the gain on disposal. Remaining 10% (i.e., ₹ 0.8 crore) relating to the NCI is included as part of the carrying amount of the NCI that is derecognised in calculating the gain or loss on the loss of control of subsidiary, but is not reclassified to profit or loss in pursuance of paragraph 48B of Ind AS 21, which provides that the cumulative exchange differences relating to that foreign operation attributed to NCI shall be derecognised on disposal of the foreign operation, but shall not be reclassified to profit or loss.

The impact of loss of control over BC Limited on the consolidated financial statements of AB Limited is summarised below:

(Rupees in crore)

Particular	Amount (Dr.)	Amount (Cr)	PL Impact	RE Impact
Gain / Loss on Disposal on Investments				
Bank	56			
Non-controlling interest (Derecognised)	6			
Investment at FV (20% Retained)	16			
Gain on Disposal (PL) balancing figure		18	18	
De-recognition of total net assets of subsidiary		60		
Reclassification of FVTOCI reserve on debt instruments to profit or loss				
FVTOCI reserve on debt instruments (6 cr. x 90%)	5.4			
To Profit and loss		5.4		
Reclassification of net measurement loss reserve to profit or loss				
Reserve and Surplus	2.7			-2.7
To Net measurement loss reserve (FVTOCI) [(3 cr. x 90%)]		2.7		
Reclassification of FVTOCI reserve on equity instruments to retained earnings				
FVTOCI reserve on equity instruments (4 cr. x 90%)	3.6			
To Reserve and Surplus		3.6		3.6
Foreign currency translation reserve reclassified to profit or loss				
Foreign currency translation reserve (FVOCI) [8 cr. x 90%]	7.2			
To Profit and loss		7.2	7.2	
Total			30.6	0.9

Q. 135

DERECOGNITION FOREIGN SUBSIDIARY (IND AS 21 RELATED)



Lotus Limited was incorporated in India and its functional currency is INR (₹). It owns 80% interest in foreign entity, namely, Jasmine Limited, which is functioning in Washington DC with its functional currency as USD (\$). Lotus Limited sells its entire investments in Jasmine Limited for ₹ 52,00,000. The following information is provided to you by the Accountant of Lotus Limited for your perusal and advice:

(₹ In 000)

Particulars	Net Assets	Foreign currency translation reserve gain
Lotus Limited share (80%)	4,800	1,080
NCI Portion (20%)	1,200	270
Total of Jasmine Limited	6,000	1,350

The Accountant of Lotus Limited seeks your help in accounting the cumulative translation adjustment (CTA) on disposal of its foreign subsidiary, namely Jasmine Limited with detailed explanation for such accounting treatment.

[Sept-2025(J&K), MTP-Jan-2026]

Ans.

As per paragraph 48 and 48B of Ind AS 21 on the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit and loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (see Ind AS 1, Presentation of Financial Statements).

Further, the standard states that on disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that for an operation that have been attributed to the non-controlling interest shall be derecognised but shall not be reclassified to profit and loss.

Where the subsidiary is partially owned (that is, where a non-controlling interest exists) and the parent has sold its entire interest, the amount of the cumulative translation adjustment (CTA) that has been allocated to the non-controlling interest derecognised, but it is not transferred to profit and loss. De-recognition of the non-controlling interest (that includes the non-controlling interest share of the CTA will form part of the journal entry to recognise the gain or loss on disposal of the subsidiary.

In Lotus Limited consolidated financial statements, the following amounts (₹ in thousands) have been recognised in relation to its investments in Jasmine Limited:

- net assets of ₹ 6,000 and associated non-controlling interest of ₹ 1,200;
- foreign exchange gains of ₹ 1,350 were recognised in other comprehensive income of which ₹ 270 were attributable to non-controlling interests;
- ₹ 1,080 of foreign exchange gains have been accumulated in a separate component of equity relating to Lotus Limited's 80% share in Jasmine Limited.

Lotus limited sells its 80% interest in Jasmine Limited for ₹ 5,200 thousand and records the following amounts:

₹ in 000

Cash /bank account	Dr.	5,200	
Non-controlling interest	Dr.	1,200	
Foreign Currency Translation Reserves (OCI)	Dr.	1,080	
To Net Assets			6,000
To Profit on disposal (1,080 + (5,200-4,800))			1,480

It can be seen that ₹ 1,080 of the foreign currency gains previously recognised in OCI i.e. the amount attributed to Lotus Limited is reclassified to profit and loss (profit on disposal) and adjusted from OCI. However, ₹ 270 of such gains attributed to the non-controlling interest is not reclassified to profit and loss and is recognised as a part of the NCI balance.

Q. 136

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)	-
Preference shares	5,00,000	(50,000)	4,50,000	(4,50,000)	-
Long-term loan	3,00,000	(50,000)	2,50,000	(1,50,000)	1,00,000
Total	18,00,000	(1,00,000)	17,00,000	(16,00,000)	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	1,00,000	-	1,00,000	(1,00,000)	-
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	-	50,000	50,000	(50,000)	-
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	<u>3,00,000</u>	<u>-</u>	<u>3,00,000</u>	<u>-</u>	<u>3,00,000</u>
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.

Q. 137

UPSTREAM AND DOWNSTREAM TRANSACTION BETWEEN AN ENTITY AND ITS ASSOCIATE

Scenario A

M Ltd. has invested in 40% share capital of N Ltd. and hence N Ltd. is an associate of M Ltd. During the year, N Ltd. sold inventory to M Ltd. for a value of ₹ 10,00,000. This included profit of 10% on the transaction price i.e. profit of ₹ 1,00,000. Out of the above inventory, M Ltd. sold inventory of ₹ 6,00,000 to outside customers. Hence, the inventory of ₹ 4,00,000 purchased from N Ltd. is still lying with M Ltd. Determine the unrealised profit to be eliminated on above transaction.

Scenario B

Assume the same facts as per Scenario A except that the inventory is sold by M Ltd. to N Ltd. instead of N Ltd. selling to M Ltd. Determine the unrealised profit to be eliminated on above transaction. [SM]

Ans.

Scenario A

Firstly, as part of its equity method accounting for investment in N Ltd., M Ltd. will pass this journal entry:

Investment in N Ltd.	Dr.	40,000	
To Share in profit of N Ltd.			40,000

Out of the inventory of ₹ 10,00,000, M Ltd. has sold inventory worth ₹ 6,00,000 to outside customers. Hence, the profit of ₹ 60,000 (6,00,000 * 10% profit margin) on such inventory is realised. However, the inventory worth ₹ 4,00,000 is still held by M Ltd. which consists profit of ₹ 40,000 (4,00,000 * 10%). Hence, M Ltd.'s share in such profit i.e. ₹ 16,000 (40,000 * 40%) is considered as unrealised.

Accordingly, after recording of share in total profit of N Ltd., M Ltd. should pass following adjustment entry to reverse the unrealised profit margin:

Share in profit of N Ltd.	Dr.	16,000	
To Inventory			16,000

In subsequent period, when this inventory of ₹ 4,00,000 is sold by N Ltd. to an outside customer then the above profit margin of ₹ 16,000 will be treated as realised and hence the above entry will be reversed in that period.

[**Note:** in the separate financial statements of M Ltd., inventory is carried at ₹ 4,00,000 whereas in its consolidated financial statements, inventory is carried at ₹ 3,84,000 (due to elimination entry above in respect of unrealized profit). In the subsequent period, when the inventory is sold, Inventory Account is credited by ₹ 4,00,000 whereas for the purpose of consolidated financial statements, it should have been credited by only ₹ 3,84,000. The difference is adjusted by debiting back ₹ 16,000 to the Inventory Account and a corresponding recognition of share in profit of associate.]

Scenario B

Out of the inventory of ₹ 10,00,000, N Ltd. has sold inventory worth ₹ 6,00,000 to outside customers. Hence, the profit of ₹ 60,000 (6,00,000 x 10% profit margin) on such inventory is realised. However, the inventory worth ₹ 4,00,000 is still held by N Ltd. which consists profit of ₹ 40,000 (4,00,000*10%). Out of this profit of ₹ 40,000, profit to the extent of other investor's interest in the investee is treated as realised profit i.e. ₹ 24,000 (40,000*60%) is treated as realised profit. Balance profit of ₹ 16,000 (40,000*40%) is considered as unrealised. Hence, M Ltd. should pass following adjustment entry to reverse the unrealised profit:

Sales	Dr. 160,000	
	To Cost of material consumed	144,000
	To Investment in N Ltd.	16,000

In subsequent period, when this inventory of ₹ 4,00,000 is sold by N Ltd. to an outside customer then the above profit margin of ₹ 16,000 will be treated as realised and hence the above entry will be reversed in that period.

Q. 138

CHAIN HOLDINGS



M Limited holds 90% interest in subsidiary N Limited. N Limited holds 25% interest in an associate O Limited. As at 31 March 20X1, the net assets of O Limited were ₹ 300 lakhs including profit of ₹ 40 lakhs for the year ended 31 March 20X1. Calculate how the investment in O Limited will be accounted in the consolidated financial statements of M Limited? [SM]

Ans.

Since N Limited is a subsidiary of M Limited, the consolidated financial statements of M Limited will include 100% amounts of the consolidated financial statements of N Limited (including investment in O Limited accounted for using equity method). Accordingly, the investment in O Limited will be accounted as follows in the consolidated financial statements of M Limited:

	₹ lakh	
Investment in O Limited (300 x 25%)		75
Share in profit of O Limited		
Attributable to M Limited (40 x 25% x 90%)	9	
Attributable to Non-controlling interest of N Limited (50 x 25% x 10%)	1	10

Q. 139

JOINT ARRANGEMENTS – ACCOUNTING



AB Limited and BC Limited establish a joint arrangement through a separate vehicle PQR, but the legal form of the separate vehicle does not confer separation between the parties and the separate vehicle itself. Thus, both the parties have rights to the assets and obligations for the liabilities of PQR. As neither the contractual terms nor the other facts and circumstances indicate otherwise, it is concluded that the arrangement is a joint operation and not a joint venture.

Both the parties own 50% each of the equity interest in PQR. However, the contractual terms of the joint arrangement state that AB Limited has the rights to all of Building No. 1 owned by PQR and the obligation to pay all of the debt owed by PQR to a lender XYZ. AB Limited and BC Limited have rights to all other assets in PQR, and obligations for all other liabilities of PQR in proportion of their equity interests (i.e. 50% each).

PQR's balance sheet is as follows (all amounts in INR):

Liabilities and equity	Amount	Assets	Amount
Debt owed to XYZ	240	Cash	40
Employee benefit plan obligation	100	Building 1	240
Equity	140	Building 2	200
Total	480	Total	480

How would AB Limited present its interest in PQR in its financial statements?

[SM]

Ans.

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

	Amount
Assets	
Cash	20
Building 1*	240
Building 2	100
Liabilities	
Debt (third party)^	240
Employees benefit plan obligation	50
Equity	70

AB Limited has obligation for the debt owed by PQR to XYZ in its entirety.

*Since AB Limited has the rights to all of Building No. 1, it records the amount in its entirety.

Q. 140



JOINT ARRANGEMENT

A Ltd. and B Ltd. are companies registered under the Companies Act, 2013. A Ltd. is an Ind AS compliant entity and follows year ended March as its financial reporting period.

On 1st April 20X1, they entered into an agreement to jointly engage in the hospitality business. For this purpose, they formed a partnership firm with the name of M/s. Star Hotel ("the Firm"). Under the relevant laws, the partners and the Firm are not considered as separate legal entities.

To regulate the operations of the Firm, A Ltd. and B Ltd. entered into a partnership deed whose relevant terms and conditions are as follows:

- A Ltd. and B Ltd. shall be the partners of the Firm.
- Consent of both partners shall be required for taking decisions on any matter which may affect the returns of the business.
- The Firm shall operate a three-storied hotel as follows:

Floor	Rights and obligations relating to the floor
Ground floor (Ground floor will comprise of reception, lobby, restaurant, laundry division, and general administration office)	Both partners shall jointly and equally own the legal and beneficial ownership of the ground floor including all of its assets and related liabilities. All the costs relating to the operation of the ground floor shall be jointly and equally shared by both the partners.
First floor (First floor will comprise of Indian themed rooms for customers)	A Ltd. shall have legal and beneficial ownership of the first floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of rooms of first floor shall accrue solely to the account of A Ltd..

Second floor (Second floor will comprise of Italian themed rooms for customers)	B Ltd. shall have legal and beneficial ownership of the second floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of rooms of second floor shall accrue solely to the account of B Ltd..
Third floor (Third floor will comprise of a banquet hall)	Both the partners shall jointly and equally own legal and beneficial ownership of the third floor including all of its assets and related liabilities. The net profit for the period attributable to the renting of the banquet hall shall accrue equally to the account of both the partners.

During the first year of operation of the hotel, A Ltd. many time doubted and objected to the manner in which the guests were preferentially convinced by the reception desk to occupy the Italian-themed rooms of the second floor.

To avoid the repetitive disputes, on 1st April 20X2, A Ltd. and B Ltd. converted the partnership firm into a company named Star Hotel Pvt. Ltd. ("the Company"). Under the relevant laws, the shareholders and the Company are considered as separate legal entities.

To regulate the operations of the Company, A Ltd. and B Ltd. entered into a shareholders' agreement with the following relevant terms and conditions:

- i. A Ltd. and B Ltd. shall transfer their individual rights regarding the respective floors of the hotel in favour of the Company such that the Company becomes the legal and beneficial owner thereof.
- ii. The Company shall assume all the liabilities of A Ltd. and B Ltd. in relation to the hotel business.
- iii. In consideration of transfer of rights and obligations by A Ltd. and B Ltd. in favour of the Company, A Ltd. and B Ltd. shall receive equity shares of the Company in equal proportion.
- iv. Each equity share shall entitle the holder thereof one vote in the general meetings of the Company.
- v. The Company's Board shall consist of 6 directors. All the matters in relation to the operations of the Company, except certain reserved matters, shall be decided by the Board by a vote of simple majority. In case of equality of votes in respect of any matter other than the reserved matters, the chairman shall have a casting vote.
- vi. Following are the Reserved Matters in respect of which decisions shall be taken only by unanimous consent of all the directors:
 - a. Approval of the operating plan for each financial year;
 - b. Capital expenditure exceeding ₹ 20 crore in a year;
 - c. Entering into borrowing arrangements for an amount which is equal to or more than 30% of the Company's net worth; and
 - d. Any matter which may affect the returns of the business.
- vii. A Ltd. and B Ltd. shall have the right to nominate 3 directors each in the Board.
A Ltd. and B Ltd. shall have the right to replace the directors being nominated by them respectively with any other directors of their choice. The chairman of the Board shall be nominated by A Ltd.
- viii. The profits of the business may be distributed by the Company to the shareholders in the form of dividends which shall be approved by a simple majority of votes in a general meeting of the Company.
- ix. Shareholders shall be entitled to dividends in the proportion of the share capital held by them.
- x. Upon liquidation of the Company, its net assets, after repayment of all of its liabilities, shall be distributed to the shareholders in the proportion of share capital held by them.
- xi. During the period 1st April, 20X2 to 31st March, 20X7, A Ltd. shall have the right to sell all the equity shares held in the Company to B Ltd. at a price which is 10% more than the fair value determined by an independent valuer. If such right is exercised by A Ltd., B Ltd. shall be under obligation to purchase the shares in accordance with this clause.

Required

How should the arrangement with B Ltd. be classified and recognised in the financial statements of A Ltd. for the year ended 31st March, 20X2? Explain the basis of your conclusion.

Additionally, describe the changes, if any, to the classification and recognition in the consolidated financial statements of A Ltd. for the year ended 31st March, 20X3. **[MTP-May-2025]**

Ans.

As per the terms and conditions of the partnership deed, the consent of both the partners shall be required for taking decisions on any matter which may affect the returns of the business. Here, both the partners have joint control over the business of the partnership firm as defined under Ind AS 111. Therefore, we can conclude that the arrangement between A Ltd. and B Ltd. is a joint arrangement under Ind AS 111.

Classification of the joint arrangement for the year ended 31st March, 20X2

Para B15 of Ind AS 111 states that the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:

- (a) the structure of the joint arrangement.
- (b) when the joint arrangement is structured through a separate vehicle:
 - (i) the legal form of the separate vehicle;
 - (ii) the terms of the contractual arrangement; and
 - (iii) when relevant, other facts and circumstances.

Para B24 states that the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e. the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

As per para 15 of Ind AS 111, a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

Accordingly, the joint arrangement is carried out through a separate vehicle M/s. Star Hotel whose legal form does not confer separation between the parties and the separate vehicle (i.e. the assets and liabilities held in vehicle M/s. Star Hotel are the parties' assets and liabilities i.e. of A Ltd. and B Ltd.). This is reinforced by the terms agreed by the parties in their contractual arrangement, which state that A Ltd. and B Ltd. have rights to the assets, and obligations for the liabilities relating to the arrangement that is conducted through vehicle M/s. Star Hotel. [As per para B25 and B28 of Ind AS 111].

Hence, here the joint arrangement is a joint operation.

Recognition in the financial statements of A Ltd. for the year ended 31st March, 20X2

A Ltd. in its financial statements for the year ended 31st March, 20X2 will recognise its share of the assets and its share of any liabilities resulting from the arrangement (e.g. - accounts payable to third parties) on the basis of its agreed participation share. It will also recognise its share of the revenue and expenses resulting from the hospitality services provided through M/s Star Hotel.

First floor that is controlled by A Ltd. shall be accounted for by A Ltd. in its financial statements.

For the two floors (Ground Floor and Third Floor) that are jointly controlled by A Ltd. and B Ltd., as per the contractual arrangement, both A Ltd. and B Ltd. will jointly and equally own the legal and beneficial ownership of assets and related liabilities. Thus, A Ltd. will recognise its 50% share of the revenue and expenses resulting from these floors.

With respect to second floor, A Ltd. should not account for any items of assets and liabilities, revenue and expenses in its financial statements.

The assets, liabilities, revenue and expenses should be recognised on a line -by-line basis based on nature and classification of the respective items and according to the principles of recognition and measurement prescribed under the respective Ind AS applicable to such items.

Reclassification of the joint arrangement for the year ended 31 st March, 20X3

As per para B23 of Ind AS 111, the joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

Since the terms of the contractual arrangement in the formation of company Star Hotel Pvt. Ltd. does not specify the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the contractual arrangement establish that the parties have rights to the net assets of Star Hotel Pvt. Ltd.

The legal form of the company confers separation between the shareholders and the company. Further, as per the shareholders' agreement, the individual assets and liabilities of the business are legally beneficial to the company rather than the shareholders. Upon liquidation of the company, its net assets, after repayment of all its liabilities, shall be distributed to the shareholders in the proportion of share capital held by them. It implies that the shareholders have rights to the assets of the company. This is a key characteristic of a joint venture.

The terms and conditions of the shareholders' agreement do not modify or reverse the rights and obligations conferred by the legal form of the company.

Therefore, on the basis of the description of terms and conditions of the shareholders' agreement, there are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement.

Hence, the joint arrangement shall be reclassified from a joint operation to a joint venture in the financial statements of A Ltd. for the financial year ended 31st March, 20X3.

Recognition in the consolidated financial statements of A Ltd. for the year ended 31st March, 20X3

As per Para 24 of Ind AS 111, a joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28 'Investments in Associates and Joint Ventures' unless the entity is exempted from applying the equity method as specified in that standard.

Accordingly, A Ltd. shall recognise its right to the net assets of Star Hotel Pvt. Ltd. as investment and account for it using the equity method assuming that the right to sell the shares to B Ltd. is not substantive and will not have any implication on the assessment as it will not alter the joint arrangement.

Note: Right to sell 50% shares by A Ltd. has been ignored, since the right to exercise the option rest with A Ltd. and not B Ltd. Hence, B Ltd. is under obligation to buy but do not have potential voting rights.

Q. 141

CLASSIFICATION



P Limited and Q Limited enter into a contractual arrangement to buy a building that has 12 floors, which they will lease to other parties. P Limited and Q Limited are authorised to lease five floors each. P Limited and Q Limited can unilaterally make all decisions related to their respective floors and are entitled to all of the income from those floors. The remaining two floors will be jointly managed – all decisions concerning these two floors must be unanimously agreed to between P Limited and Q Limited who will share net profits or net losses in respect of these two floors equally, i.e. they both have the rights to the net assets of the arrangement. The leasing of property is determined to be the relevant activity.

Whether this arrangement is a joint operation or a joint venture?

[RTP-Nov-2024, SM]

Ans.

Paragraphs 15-17 of Ind AS 111 state that a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

Further, a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Furthermore, an entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

In the given case, accounting by P Limited and Q Limited would be as follows:

(i) Five floors that P Limited controls

Five floors that are controlled by P Limited shall be accounted for by P Limited as investment property under Ind AS 40, Investment Property, which defines the term 'investment property' as 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.

(ii) Five floors that Q Limited controls

Five floors that are controlled by Q Limited shall be accounted for by Q Limited as investment property under Ind AS 40.

(iii) Two floors that P Limited and Q Limited jointly control

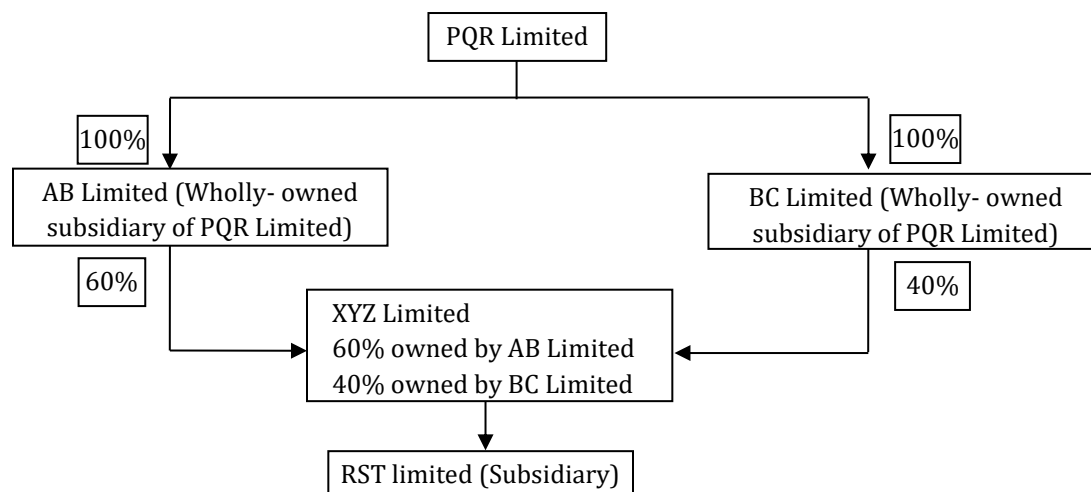
For the two floors that are jointly controlled by P Limited and Q Limited, as per the contractual arrangement, both P Limited and Q Limited will share net profits or net losses equally i.e. they both have the rights to the net assets of the arrangement. Thus, the arrangement in respect of these two floors is a joint venture and shall be accounted for accordingly by P Limited and Q Limited.

(Answer is assuming that P&Q have incorporated a separate entity to acquire this asset and manage the 2 floors, else it cannot be classified as JV)

Q. 142

INTERMEDIATE HOLDING COMPANY

Following is the structure of a group headed by PQR Limited



Whether XYZ Limited can avail the exemption from the preparation and presentation of consolidated financial statements? What if the facts are the same as above except that, AB Limited and BC Limited are both owned by an Individual (Mr. X) instead of PQR Limited?

Under both the scenarios, XYZ Limited wishes to avail the exemption provided in Ind AS 110 from the presentation of consolidated financial statements. Assuming other conditions for such exemption are fulfilled, whether XYZ Limited is required to inform its other owner BC Limited (owning 40%) of its intention to not prepare consolidated financial statements? [SM]

Ans.

As per paragraph 4(a)(i) of Ind AS 110, a parent need not present consolidated financial statements if it is a:

- wholly-owned subsidiary; or
- is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements.

In Scenario I, although XYZ Limited is a partly-owned subsidiary of AB Limited, it is the wholly-owned subsidiary of PQR Limited and therefore satisfies the condition 4(a)(i) of Ind AS 110 without regard to the relationship with its immediate owners, i.e. AB Limited and BC Limited. Thus, XYZ Limited being the wholly owned subsidiary is not required to inform its other owner BC Limited of its intention not to prepare the consolidated financial statements.

Therefore, XYZ Limited may take the exemption given under Ind AS 110 from presentation of consolidated financial statements.

In Scenario II, XYZ Limited is ultimately wholly in control of Mr. X (i.e., an individual) and hence it cannot be considered as a wholly owned subsidiary of an entity.

This is because Ind AS 110 makes use of the term 'entity' and the word 'entity' includes a company as well as any other form of entity. Since, Mr. X is an 'individual' and not an 'entity', therefore, XYZ Limited cannot be considered as wholly owned subsidiary of an entity.

Therefore, in the given case, XYZ Limited is a partially-owned subsidiary of another entity. Accordingly, in order to avail the exemption, its other owner, BC Limited should be informed about and do not object to XYZ Limited not presenting consolidated financial statements. Further, for the purpose of consolidation of AB Limited and BC Limited, XYZ Limited will be required to provide relevant financial information as per Ind AS.

Notes



Ind AS 113

FAIR VALUE MEASUREMENT

Q. 143**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. 144**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. 145

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. 146

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. 147

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:

- (i) For every purchase of ₹ 400 the customer is awarded with 6 points.
- (ii) Each point is redeemable on any future purchases of company's same departmental store situated in any of 'A' class city within 3 years i.e. upto 31st March, 2026
- (iii) Value of each award point is ₹ 0.60

During the financial year 2023-24, the Big Deal Ltd:

- (i) Assessed that the sales of the company during the year 2023-24 is ₹ 150 lakhs.
- (ii) Awarded 2,25,000 points to various customers during the year.
- (iii) Estimated that out of the awarded points, 54,000 points will remain unredeemed as at 31st March 2024 which shall be eligible for redemption till 31st March, 2026 and;
- (iv) Expects only 75% points will be redeemed in the future.

As an accountant of the company, you are required to suggest 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

$$= 54,000 \text{ points} \times 75\% \times ₹ 0.6 \text{ each point} = ₹ 24,300$$

$$\text{Total value of loyalty points} = ₹ 1,02,600 + ₹ 24,300 = ₹ 1,26,900$$

Revenue recognized for sale of goods

$$= ₹ 1,48,74,165 [1,50,00,000 \times (1,50,00,000 / 1,51,26,900)]$$

$$\text{Revenue for points} = ₹ 1,25,835 [1,26,900 \times (1,50,00,000 / 1,51,26,900)]$$

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. 148

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. 149



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. 150

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 x 30%) = 12	(30 x 20%) = 6	18
Expenses due for the year	(34* x 30%) = <u>10.2</u>	(24 x 20%) = <u>4.8</u>	<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. 151
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.

Q. 152

MEASUREMENT OF PERFORMANCE


On 01 January 20X1, an entity contracts to renovate a building including the installation of new elevators. The entity estimates the following with respect to the contract:

Particulars	Amount (₹)
Transaction price	5,000,000
Expected costs:	
(a) Elevators	1,500,000
(b) Other costs	2,500,000
Total	4,000,000

The entity purchases the elevators and they are delivered to the site six months before they will be installed. The entity uses an input method based on cost to measure progress towards completion. The entity has incurred actual other costs of 500,000 by March 31, 20X1.

How will the Company recognize revenue, if performance obligation is met over a period of time?

[SM]

Ans.

Costs to be incurred comprise two major components – elevators and cost of construction service.

- (a) The elevators are part of the overall construction project and are not a distinct performance obligation
- (b) The cost of elevators is substantial to the overall project and are incurred well in advance.
- (c) Upon delivery at site, customer acquires control of such elevators.
- (d) And there is no modification done to the elevators, which the company only procures and delivers at site. Never the less, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such elevators also.

Therefore, applying the guidance on Input method –

- The measure of progress should be made based on percentage of costs incurred relative to the total budgeted costs.
- The cost of elevators should be excluded when measuring such progress and revenue for such elevators should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follows:

Particulars	Amount (₹)
Transaction price	5,000,000
Costs incurred:	
(a) Cost of elevators	1,500,000
(b) Other costs	500,000
Measure of progress:	$500,000 / 2,500,000 = 20\%$
Revenue to be recognised:	
(a) For costs incurred (other than elevators)	Total attributable revenue = 3,500,000 % of work completed = 20% Revenue to be recognised = 700,000
(b) Revenue for elevators	1,500,000 (equal to costs incurred)
Total revenue to be recognised	$1,500,000 + 700,000 = 2,200,000$

Therefore, for the year ended 31 March 20X1, the Company shall recognize revenue of ₹ 2,200,000 on the project.

Q. 153

SALE OR RETURN

An entity enters into 1,000 contracts with customers. Each contract includes the sale of one product for ₹ 50 (1,000 total products × ₹ 50 = ₹ 50,000 total consideration). Cash is received when control of a product transfers. The entity's customary business practice is to allow a customer to return any unused product within 30 days and receive a full refund. The entity's cost of each product is ₹ 30.

The entity applies the requirements in Ind AS 115 to the portfolio of 1,000 contracts because it reasonably expects that, in accordance with paragraph 4, the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio. Since the contract allows a customer to return the products, the consideration received from the customer is variable. To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value method (see paragraph 53(a) of Ind AS 115) because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled. Using the expected value method, the entity estimates that 970 products will not be returned.

The entity estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

Determine the amount of revenue, refund liability and the asset to be recognised by the entity for the said contracts. [SM]

Ans.

The entity also considers the requirements in paragraphs 56–58 of Ind AS 115 on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of ₹ 48,500 (₹ 50 × 970 products not expected to be returned) can be included in the transaction price. The entity considers the factors in paragraph 57 of Ind AS 115 and determines that although the returns are outside the entity's influence, it has significant experience in estimating returns for this product and customer class. In addition, the uncertainty will be resolved within a short time frame (i.e. the 30-day return period). Thus, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 48,500) will not occur as the uncertainty is resolved (i.e. over the return period).

The entity estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

Upon transfer of control of the 1,000 products, the entity does not recognise revenue for the 30 products that it expects to be returned. Consequently, in accordance with paragraphs 55 and B21 of Ind AS 115, the entity recognises the following:

- (a) revenue of ₹ 48,500 (₹ 50 × 970 products not expected to be returned);
- (b) a refund liability of ₹ 1,500 (₹ 50 refund × 30 products expected to be returned); and
- (c) an asset of ₹ 900 (₹ 30 × 30 products for its right to recover products from customers on settling the refund liability).

Q. 154

MODIFICATION : RETROACTIVE

Growth Ltd. enters into an arrangement with a customer for infrastructure outsourcing deal.

Based on its experience, Growth Ltd. determines that customising the infrastructure will take approximately 200 hours in total to complete the project and charges ₹ 150 per hour.

After incurring 100 hours of time, Growth Ltd and the customer agree to change an aspect of the project and increases the estimate of labour hours by 50 hours at the rate of ₹ 100 per hour.

Determine how contract modification will be accounted as per Ind AS 115?

[MTP-Dec-2021, SM]

Ans.

Considering that the remaining goods or services are not distinct, the modification will be accounted for on a cumulative catch up basis, as given below:

Particulars	Hours	Rate (₹)	Amount (₹)
Initial contract amount	200	150	30,000
Modification in contract	50	100	<u>5,000</u>
Contract amount after modification	250	140*	<u>35,000</u>
Revenue to be recognised	100	140	14,000
Revenue already booked	100	150	15,000
Adjustment in revenue			(1,000)

$$*35,000 / 250 = 140$$

Q. 155

PO DETERMINATION



A property sale contract includes the following:

- Common areas
- Construction services and building material
- Property management services
- Golf membership
- Car park
- Land entitlement

Analyse whether the above items can be considered as separate performance obligations as per the requirements of Ind AS 115?



[May-2021, RTP-May-2024, SM]

Ans.

Paragraph 22 of Ind AS 115 provides that at contract inception, an entity evaluates the promised goods or services to determine which goods or services (or bundle of goods or services) are distinct and therefore constitute a performance obligation.

A performance obligation is a promise in a contract to transfer to the customer either:

- a good or service (or a bundle of goods or services) that is distinct; and
- series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

As per paragraph 27 of Ind AS 115, a good or service that is promised to a customer is distinct if both of the following criteria are met:

- the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Each performance obligation is required to be accounted for separately.

Based on the above guidance, the following table discusses whether the common goods and services in property sale contract should be considered as separate performance obligation or not:

Goods/ Service	Whether a separate Performance obligation (PO) or not	Reason
Common areas	Unlikely to be separate PO	Common areas are unlikely to be a separate performance obligation because the interests received in common areas are typically undivided interests that are not separable from the property itself. However, if the common areas were sold separately by the developer, then they could be considered as a separate performance obligation provided that it is distinct in the context of the contract.
Construction services and building material	Unlikely to be separate PO	Construction services and building materials can meet the first criterion as they are items that can be used in conjunction with other readily available goods or services. However, the developer would be considered to be providing a significant integration service as it is bringing together all the separate elements to deliver a complete building.
Property management services and Golf membership	Likely to be separate PO	Property management services and golf membership are likely to be separate performance obligations as they may be used in isolation or with the property already acquired, i.e., management services can be used with the property. These types of services are not significantly customised, integrated with, or dependent on the property. This is because there is no change in their function with or without the property. Also, a property management service could be undertaken by a third party.
Car park and Land entitlement	Analysis required	Items such as car parks and land entitlements generally meet the first criterion – i.e., capable of being distinct – as the buyer benefits from them on their own. Whether the second criterion is met depends on the facts and circumstances. For example, if the land entitlement can be sold separately or pledged as security as a separate item, it may indicate that it is not highly dependent on, or integrated with, other rights received in the contract. In an apartment scenario, the customer can receive an undivided interest in the land on which the apartment block sits. This type of right is generally considered as highly inter-related with the apartment itself.*

* However, if title to the land is transferred to the buyer separately – for example in a single party development – then the separately identifiable criterion may be met.

PS: Other facts and circumstances of each contract should also be carefully examined to determine performance obligations.

Q. 156
VARIABLE CONSIDERATION WITH CONTRACT MODIFICATION


On 1st April, 20X1, S Limited enters into a contract with Corp Limited to construct heavy duty equipment for a promised consideration of ₹ 20,00,000 with a bonus of ₹ 2,50,000 if the equipment is completed within 24 months. At the inception of the contract, S Limited correctly accounts for the promised bundle of goods and services as a single performance obligation in accordance with Ind AS 115. At the inception of the contract, the Company expects

the costs to be ₹ 11,00,000 and concludes that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will occur. Completion of the heavy-duty equipment is highly susceptible to factors outside of the Company's influence, mainly due to difficulties with the supply of components.

At 31st March, 20X2, S Limited has satisfied ability to secure new infrastructure contracts and maintain its credit rating 65% of its performance obligation on the basis of costs incurred to date and concludes that the variable consideration is still constrained in accordance with Ind AS 115. However, on 4 June 20X2, the contract is modified with the result that the fixed consideration and expected costs increase by ₹ 1,50,000 and ₹ 80,000 respectively. The time allowable for achieving the bonus is extended by six months with the result that S Limited concludes that it is highly probable that the bonus will be achieved and that the contract remains a single performance obligation.

S Limited wants your opinion on the accounting treatment of contract with Corp Limited in light of Ind AS 115, for the year 20X1-20X2 and 20X2-20X3.

[May-2023, RTP-May-2022, MTP-May-2023, Sept-2025, MTP-May-2026, SM]

Ans.

For the year 20X1-20X2

S Limited accounts for the promised bundle of goods and services as a single performance obligation satisfied over time in accordance with Ind AS 115. At the inception of the contract, S Limited expects the following:

Transaction price	– ₹ 20,00,000
Expected costs	– ₹ 11,00,000
Expected profit (45%)	– ₹ 9,00,000

At contract inception, S Limited excludes the ₹ 2,50,000 bonus from the transaction price because it cannot conclude that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Completion of the heavy-duty equipment is highly susceptible to factors outside the entity's influence. By the end of the first year, the entity has satisfied 65% of its performance obligation on the basis of costs incurred to date. Costs incurred to date are therefore ₹ 7,15,000 and S Limited reassesses the variable consideration and concludes that the amount is still constrained. Therefore at 31st March, 20X2, the following would be recognised:

Revenue	(A)	– ₹ 13,00,000 (₹ 20,00,000 x 65%)
Costs	(B)	– ₹ 7,15,000 (₹ 11,00,000 x 65%)
Gross profit	(C) i.e.(A-B)	– ₹ 5,85,000

For the year 20X2-20X3

On 4th June, 20X2, the contract is modified. As a result, the fixed consideration and expected costs increase by ₹ 1,50,000 and ₹ 80,000, respectively.

The total potential consideration after the modification is ₹ 24,00,000 which is ₹ 21,50,000 fixed consideration + ₹ 2,50,000 completion bonus. In addition, the allowable time for achieving the bonus is extended by six months with the result that S Limited concludes that it is highly probable that including the bonus in the transaction price will not result in a significant reversal in the amount of cumulative revenue recognised in accordance with Ind AS 115. Therefore, the bonus of ₹ 2,50,000 can be included in the transaction price.

S Limited also concludes that the contract remains a single performance obligation. Thus, S Limited accounts for the contract modification as if it were part of the original contract. Therefore, S Limited updates its estimates of costs and revenue as follows:

S Limited has satisfied 60.60% of its performance obligation (₹ 7,15,000 actual costs incurred compared to ₹ 11,80,000 total expected costs). The entity recognises additional revenue of ₹ 1,54,400 [(60.60% of ₹ 24,00,000) – ₹ 13,00,000 revenue recognised to date] at the date of modification i.e. on 4th June, 20X2 as a cumulative catch-up adjustment.

Q. 157

FINANCING COMPONENT : CASH DISCOUNT

On 1st April, 2021 Mohan Ltd. has sold goods to Hari Ltd. at a consideration of ₹ 7,50,000. The receipt of this is receivable in three equal instalments of ₹ 2,50,000 each over a two year period (receipts on 1st April, 2021; 31st March 2022 and 31st March 2023).

The company is offering a discount of 5% (i.e. ₹ 37,500), if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.358% p.a.

The total consideration to be received from such sale is at ₹ 7,50,000 and hence, the management has recognized the revenue from sale of goods for ₹ 7,50,000.

You are required to analyse whether the above accounting treatment made by the accountant is in compliance of Ind AS. If not, advise the correct treatment alongwith journal entries and extracts of statement of Profit & Loss and Balance Sheet. (Like previous Question)

[Nov-2022]**Ans.**

The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue. Hence, the accounting treatment of recognizing revenue of ₹ 7,50,000 by the accountant is not correct.

The fair value of consideration (cash price equivalent) of the sale of goods to be recognised on the date of sale should be calculated as follows:

Period	Consideration (Installment)	Present value factor	Present value of consideration
	₹		₹
Time of sale	2,50,000	-	2,50,000
End of 1st year	2,50,000	0.949	2,37,250
End of 2nd year	2,50,000	0.901	2,25,250
	<u>7,50,000</u>		<u>7,12,500</u>

Mohan Ltd. will recognise the revenue from sale of goods and finance income as follows:

Particulars		₹	₹
Initial recognition of sale of goods			
Cash / Bank A/c	Dr.	2,50,000	
Trade Receivable A/c	Dr.	4,62,500	
To Sale A/c			7,12,500
Recognition of interest expense and receipt of second installment			
Cash / Bank A/c	Dr.	2,50,000	
To Interest Income A/c (4,62,500 x 5.358%)			24,781
To Trade Receivable A/c			2,25,219
Recognition of interest expense and payment of final installment			
Cash / Bank A/c	Dr.	2,50,000	
To Interest Income A/c (Balancing figure)			12,719
To Trade Receivable A/c (4,62,500 – 2,25,319)			2,37,281

**Statement of Profit and Loss (Extracts)
for the year ended 31st March, 2022 and 31st March, 2023**

	As at 31st March, 2022	As at 31st March, 2023
	₹	₹
Income		
Sale of Goods	7,12,500	-
Other Income (Finance income)	24,781	12,719

Balance Sheet (extracts) as at 31st March, 2022 and 31st March, 2023

	As at 31st March, 2022	As at 31st March, 2023
	₹	₹
Assets		
Current Assets		
Financial Assets		
Trade Receivables	2,37,281	XXX

Q. 158
FINANCING COMPONENT : ADVANCE : INTEREST RATE


Advance payment and assessment of discount rate ST Limited enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (i.e. the performance obligation will be satisfied at a point in time). The contract includes two alternative payment options:

- Payment of ₹ 5,000 in two years when the customer obtains control of the asset or
- Payment of ₹ 4,000 when the contract is signed. The customer elects to pay ₹ 4,000 when the contract is signed.

ST Limited concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer, as well as the prevailing interest rates in the market.

The interest rate implicit in the transaction is 11.8 per cent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the entity determines that, the rate that should be used in adjusting the promised consideration is 6%, which is the entity's incremental borrowing rate. Pass journal entries showing how the entity would account for the significant financing component

[MTP-Sept-2025, SM]

Ans.
Journal Entries showing accounting for the significant financing component:

- Recognise a contract liability for the ₹ 4,000 payment received at contract inception:

Cash	Dr.	₹ 4,000
	To Contract liability	₹ 4,000
- During the two years from contract inception until the transfer of the asset, the entity adjusts the promised amount of consideration and accretes the contract liability by recognising interest on ₹ 4,000 at 6% for two years:

Interest expense Dr.	₹ 494*	
	To Contract liability	₹ 494

* ₹ 494 = ₹ 4,000 contract liability × (6% interest per year for two years).
- Recognise revenue for the transfer of the asset:

Contract liability Dr.

₹ 4,494

To Revenue

₹ 4,494

Q. 159**PAYMENT TO CUSTOMER**

A Ltd. enters into a contract with a customer for the exclusive supply of paint for a three-year period. A Ltd. makes a ₹ 50,000 upfront payment, which the customer will use to customize its paint sprayers for A Ltd.'s product. A Ltd. determines the upfront payment is not in respect of or for a distinct good or service.

A Ltd. estimates ₹ 10,00,000 in sales with the customer over the three- year period. Sales for Quarter 1 is ₹ 1,00,000 and for Quarter 2 is ₹ 1,25,000. However, A Ltd. updated its estimate of total sales over the contract to ₹ 15,00,000 during Quarter 2.

Required:

Determine the net revenue to be recognized in Quarter 1 and Quarter 2 by A Ltd.

[RTP-Jan-2026, MTP-May-2026]

Ans.**Treatment of upfront payment of ₹ 50,000**

Upfront payment of ₹ 50,000 would be accounted for as a reduction of the transaction price. It would be deferred and recognised as a reduction of revenue (in proportion to estimated sales) over the contract term.

Accounting for Quarter 1 and Quarter 2 is as follows:For the first quarter

- Quarter 1 sales = ₹ 1,00,000
- Entity estimates ₹ 10,00,000 sales over the three-year period
- Percentage of Quarter 1 sale to total estimated sale = $(₹ 1,00,000 / ₹ 10,00,000) \times 100 = 10\%$
- Share of upfront payment to be recognised in Quarter 1
 $= 10\% \times ₹ 50,000 = ₹ 5,000$

Hence, in Quarter 1, A Ltd. recognizes revenue of ₹ 95,000 (₹ 1,00,000 actual sales – ₹ 5,000 consideration paid to the customer)

For the second quarter

- Quarter 2 sales = ₹ 1,25,000
- A Ltd. updates its estimate of total sales over the contract to ₹ 15,00,000
- Total sales to date till Quarter 2
 $= ₹ 1,00,000 + ₹ 1,25,000 = ₹ 2,25,000$
- Percentage of sale till Quarter 2 to total estimated sale
 $= (₹ 2,25,000 / ₹ 15,00,000) \times 100 = 15\%$
- Share of upfront payment to be recognised in Quarter 2
 $= (15\% \times ₹ 50,000 \text{ upfront payment}) - \text{Upfront payment recognized in Quarter 1}$
 $= ₹ 7,500 - ₹ 5,000 = ₹ 2,500$

Hence, A Ltd. would recognize revenue of ₹ 1,22,500 for Quarter 2 (₹ 1,25,000 actual sales – ₹ 2,500 upfront payment made to the customer).

Q. 160
COMPREHENSIVE (MULTIPLE POs, SINGLE TP WITH FINANCIAL ELEMENT)


A Ltd. is a company which is in the business of manufacturing engineering machines and providing after sales services. The company entered into a contract with Mr. Anik to supply and install a machine, namely 'model pi' on 1st April 20X1 and to service this machine on 30th September 20X1 and 1st April 20X2. The cost of manufacturing the machine to A Ltd. was ₹ 1,60,000.

It is possible for a customer to purchase both the machine 'model pi' and the maintenance services separately. Mr. Anik is contractually obliged to pay A Ltd ₹ 4,00,000 on 1st April, 20X2.

The prevailing rate for one-year credit granted to trade customers in the industry is 5 percent per six-month period.

As per the experience, the servicing of the machine 'model pi' sold to Mr. Anik is expected to cost A Ltd. ₹ 30,000 to perform the first service and ₹ 50,000 to perform the second service. Assume actual costs equal expected costs. When A Ltd. provides machine services to customers in a separate transaction it earns a margin of 50% on cost. On 1st April, 20X1, the cash selling price of the machine 'model pi' sold to Mr. Anik is ₹ 2,51,927.

The promised supply of machine 'model pi' and maintenance service obligations are satisfactorily carried out in time by the company.

You are required to:

- (i) Segregate the components of the transaction that A Ltd. shall apply to the revenue recognition criteria separately as per Ind AS 115;
- (ii) Calculate the amount of revenue which A Ltd. must allocate to each component of the transaction; and
- (iii) Prepare journal entries to record the information set out above in the books of accounts of A Ltd. for the years ended 31st March 20X2 and 31st March 20X3. **[Jan-2021, MTP-May-2024, MTP-May-2025]**

Ans.

- (i) On 1st April, 20X1, entity A entered into a single transaction with three identifiable separate components:
 1. Sale of a good (i.e. engineering machine);
 2. Rendering of services (i.e. engineering machine maintenance services on 30th September, 20X1 and 1st April, 20X2); and
 3. Providing finance (i.e. sale of engineering machine and rendering of services on extended period credit).
- (ii) Calculation and allocation of revenue to each component of the transaction

Date	Opening balance	Finance income	Goods	Services	Payment received	Closing balance
1st April, 20X1	–	–	2,51,927	–	–	2,51,927
30th September, 20X1	2,51,927	12,596 (Note 1)	–	45,000	–	3,09,523
31st March 20X2	3,09,523	15,477 (Note 2)	–	–	–	3,25,000
1st April, 20X2	3,25,000	–	–	75,000	(4,00,000)	

Notes:

1. Calculation of finance income as on 30th September, 20X1

$$= 5\% \times 2,51,927$$

$$= ₹ 12,596$$
2. Calculation of finance income as on 31st March, 20X2

$$= 5\% \times 3,09,523$$

$$= ₹ 15,477$$

(iii) Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
1 st April, 20X1	Mr. Anik Dr. To Revenue - sale of goods (Profit or loss A/c) (Being revenue recognised from the sale of the machine on credit)	2,51,927	2,51,927
	Cost of goods sold (Profit or loss) Dr. To Inventories (Being cost of goods sold recognised)	1,60,000	1,60,000
30 th September 20X1	Mr. Anik Dr. To Finance Income (Profit or loss) (Being finance income recognised)	12,596	12,596
	Mr. Anik Dr. To Revenue- rendering of services (Profit or loss) (Being revenue from the rendering of maintenance services recognised)	45,000	45,000
	Cost of services (Profit or loss) Dr. To Cash/Bank or payables (Being the cost of performing maintenance services recognised)	30,000	30,000
31 st March 20X2	Mr. Anik Dr. To Finance Income (Profit or loss) (Being finance income recognised)	15,477	15,477
1 st April, 20X2	Mr. Anik Dr. To Revenue - rendering of services (Profit or loss) (Being revenue from the rendering of maintenance services recognised)	75,000	75,000
	Cost of services (Profit or loss) Dr. To Cash/Bank or payables (Being the cost of performing maintenance services recognised)	50,000	50,000
	Cash/Bank Dr. To Mr. Anik (Being the receipt of cash from the customer recognised)	4,00,000	4,00,000

Q. 161**LICENSING : ASSESSING THE NATURE OF A TEAM NAME AND LOGO**

Sports Team D enters into a three -year agreement to license its team name and logo to Apparel Maker M. The licence permits M to use the team name and logo on its products, including display products, and in its advertising or marketing materials.

- Determine the nature of license in the above case.
- Modifying above facts that, Sports Team D has not played games in many years and the licensor is Brand Collector B, an entity that acquires IP such as old team or brand names and logos from defunct entities or those in financial distress. B's business model is to license the IP, or obtain settlements from entities that use the IP without permission, without undertaking any ongoing activities to promote or support the IP

Would the answer be different in this situation?

[MTP-May-2025, SM]

Ans.

- (i) The nature of D's promise in this contract is to provide M with the right to access the sports team's IP and, accordingly, revenue from the licence will be recognised over time. In reaching this conclusion, D considers all of the following facts :
- M reasonably expects D to continue to undertake activities that support and maintain the value of the team name and logo by continuing to play games and field a competitive team throughout the licence period. These activities significantly affect the IP's ability to provide benefit to M because the value of the team name and logo is substantially derived from, or dependent on, those ongoing activities.
 - The activities directly expose M to positive or negative effects (i.e. whether D plays games and fields a competitive team will have a direct effect on how successful M is in selling its products featuring the team's name and logo).
 - D's ongoing activities do not result in the transfer of a good or a service to M as they occur (i.e. the team playing games does not transfer a good or service to M).
- (ii) Based on B's customary business practices, Apparel Maker M probably does not reasonably expect B to undertake any activities to change the form of the IP or to support or maintain the IP. Therefore, B would probably conclude that the nature of its promise is to provide M with a right to use its IP as it exists at the point in time at which the licence is granted.

Notes



Ind AS 116

LEASES

Q. 162

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. 163

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 ₹ 150,000 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. 164

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

- (a) 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.
- (b) 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. 165**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.

- (i) A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.
- (ii) **Computation of annual lease payment to the lessor**

	₹
Cost of equipment / fair value	8,00,000
Unguaranteed residual value	50,000
Present value of residual value after third year @ 10% (50,000 x 0.7513)	37,565
Fair value to be recovered from lease payments (8,00,000 – 37,565)	7,62,435
Present value of annuity for three years is 2.4868	
Annual lease payment = 7,62,435 / 2.4868	3,06,593

The present value of lease payment i.e., ₹ 7,62,435 is **more than 95% of the fair market value** i.e., ₹ 8,00,000. The present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) **covers the major part of the life of asset** (i.e. 5 years). Therefore, it constitutes a **finance lease**.

(ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 3,06,593 x 3)	9,19,779
Add: Unguaranteed residual value	<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. 166
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. 167

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.

Q. 168
LEASE & NON-LEASE COMPONENTS


Lessee enters into an agreement with Lessor for a period of five years to lease a floor of a building. Lessee is required to make a fixed annual lease payment of ₹4,20,000 (i.e., total payment of ₹21,00,000 over the five-year term). As per the terms of the contract, the ₹4,20,000 annual payment comprises:

	₹
Building rent	2,40,000
Common area maintenance services	84,000
Property taxes (pro-rata)	60,000
Building insurance (pro-rata)	36,000

From Lessee's perspective, the estimated standalone price of the building rent is ₹2,64,000 and the estimated standalone price of the common area maintenance service is ₹96,000. Lessee has not elected to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate non-lease component(s) from lease component(s). Hence, it has to separate non-lease components from lease components.

Required

How are the above payments allocated and accounted for by Lessee?

[RTP-May-2026]

Ans.

Paragraph B33 of Ind AS 116 states that a contract may include an amount payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable, do not give rise to a separate component of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The payments to be made by Lessee for common area maintenance represents payment for non-lease components as it is a payment for a service provided to it by Lessor.

The property taxes are required to be paid by Lessor irrespective of whether it leased the building and to which party. Likewise, the building insurance paid by Lessee also protects the Lessor's property and only Lessor will be entitled to receive the claim if received. Accordingly, these are not separate components of the contract because they do not represent payments for goods or services and are considered to be part of the total consideration that is allocated to the separately identified components of the contract (i.e., the lease and non-lease components).

As Lessee has not elected the practical expedient as provided in paragraph 15 of the standard, it will separate the lease and the non-lease components, even though the agreement specified payments for four separately identified matters, the arrangement will comprise only two components for accounting purposes.

The total annual payment would be allocated between the two identified goods and services representing the lease component and non-lease component as follows:

Particulars	Standalone prices	% of Total Standalone Price	Allocation of annual payment* (calculation on full scale)
Building rent	2,64,000	73.333%	3,07,860
Maintenance services	<u>96,000</u>	<u>26.666%</u>	<u>1,12,140</u>
Total	<u>3,60,000</u>	<u>100.00%</u>	<u>4,20,000</u>

*The portion of consideration that is allocated to the lease components includes, apart from rent, those amounts that are not considered a separate component (e.g., ₹60,000 on account of property taxes and ₹36,000 on account of building insurance).

Q. 169

LEASE RENTALS WITH FOREIGN CURRENCY FLUCTUATION

Entity X is an Indian entity whose functional currency is Indian Rupee. It has taken a plant on lease from Entity Y for 5 years to use in its manufacturing process for which it has to pay annual rentals in arrears of USD 10,000 every year. On the commencement date, exchange rate was USD = ₹ 68. The average rate for Year 1 was ₹ 69 and at the end of year 1, the exchange rate was ₹ 70. The incremental borrowing rate of Entity X on commencement of the lease for a USD borrowing was 5% p.a.

How will entity X measure the right of use (ROU) asset and lease liability initially and at the end of Year 1?

[May-2021, MTP-May-2023, MTP-May-2025, SM]

Ans.

On initial measurement, Entity X will measure the lease liability and ROU asset as under:

Year	Lease payments (USD)	Present Value factor @ 5%	Present Value of Lease Payment	Conversion rate (spot rate)	INR value
1	10,000	0.952	9,520	68	6,47,360
2	10,000	0.907	9,070	68	6,16,760
3	10,000	0.864	8,640	68	5,87,520
4	10,000	0.823	8,230	68	5,59,640
5	10,000	0.784	<u>7,840</u>	68	<u>5,33,120</u>
Total			<u>43,300</u>		<u>29,44,400</u>

As per Ind AS 21, The Effects of Changes in Foreign Exchange Rates, monetary assets and liabilities are restated at each reporting date at the closing rate and the difference due to foreign exchange movement is recognised in profit and loss whereas non-monetary assets and liabilities carried measured in terms of historical cost in foreign currency are not restated.

Accordingly, the ROU asset in the given case being a non-monetary asset measured in terms of historical cost in foreign currency will not be restated but the lease liability being a monetary liability will be restated at each reporting date with the resultant difference being taken to profit and loss.

At the end of Year 1, the lease liability will be measured in terms of USD as under:

Lease Liability:

Year	Initial Value (USD) (a)	Lease Payment (b)	Interest @ 5% (c) = (a x 5%)	Closing Value (USD) (d = a + c - b)
1	43,300	10,000	2,165	35,465

Interest at the rate of 5% will be accounted for in profit and loss at average rate of ₹ 69 (i.e., USD 2,165 x 69) = ₹ 1,49,385.

Particulars	Dr. (₹)	Cr. (₹)
Interest Expense	Dr.	
To Lease liability		1,49,385

Lease payment would be accounted for at the reporting date exchange rate, i.e. ₹ 70 at the end of year 1

Particulars	Dr. (₹)	Cr. (₹)
Lease liability To Cash	7,00,000	7,00,000

As per the guidance above under Ind AS 21, the lease liability will be restated using the reporting date exchange rate i.e., ₹ 70 at the end of Year 1. Accordingly, the lease liability will be measured at ₹ 24,82,550 ($35,465 \times ₹ 70$) with the corresponding impact due to exchange rate movement of ₹ 88,765 ($24,82,550 - (29,44,400 + 1,49,385 - 700,000)$) taken to profit and loss.

At the end of year 1, the ROU asset will be measured as under:

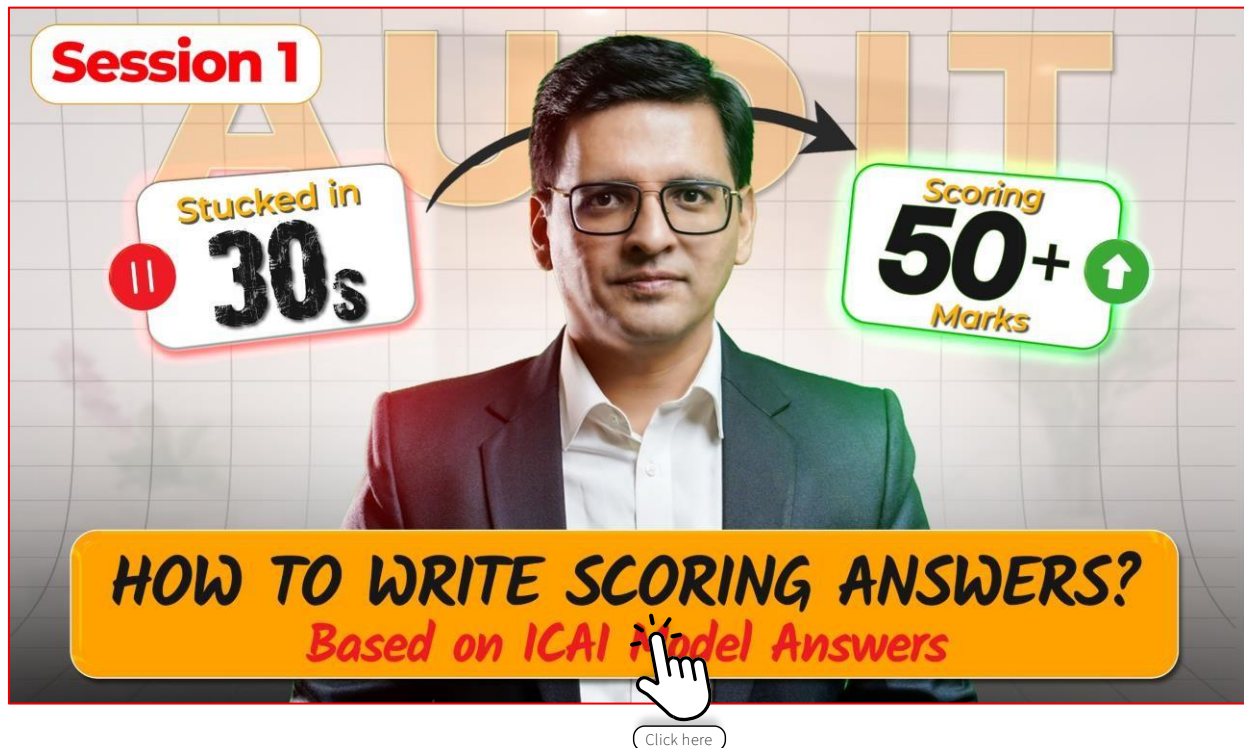
Year	Opening Balance (₹)	Depreciation (₹)	Closing Balance (₹)
1	29,44,400	5,88,880	23,55,520

Notes



Also see: [FAST Official YouTube Channel](#)

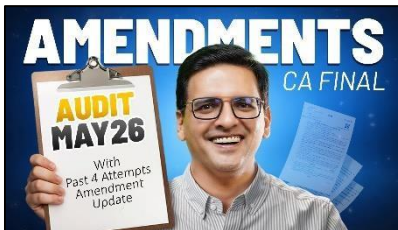
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