



CA FINAL

FINANCIAL REPORTING



SUPPLEMENTARY QUESTION BANK

ICAI New Questions from
May-2024 to May-2026
(Covers RTP, MTP, PE and PB)



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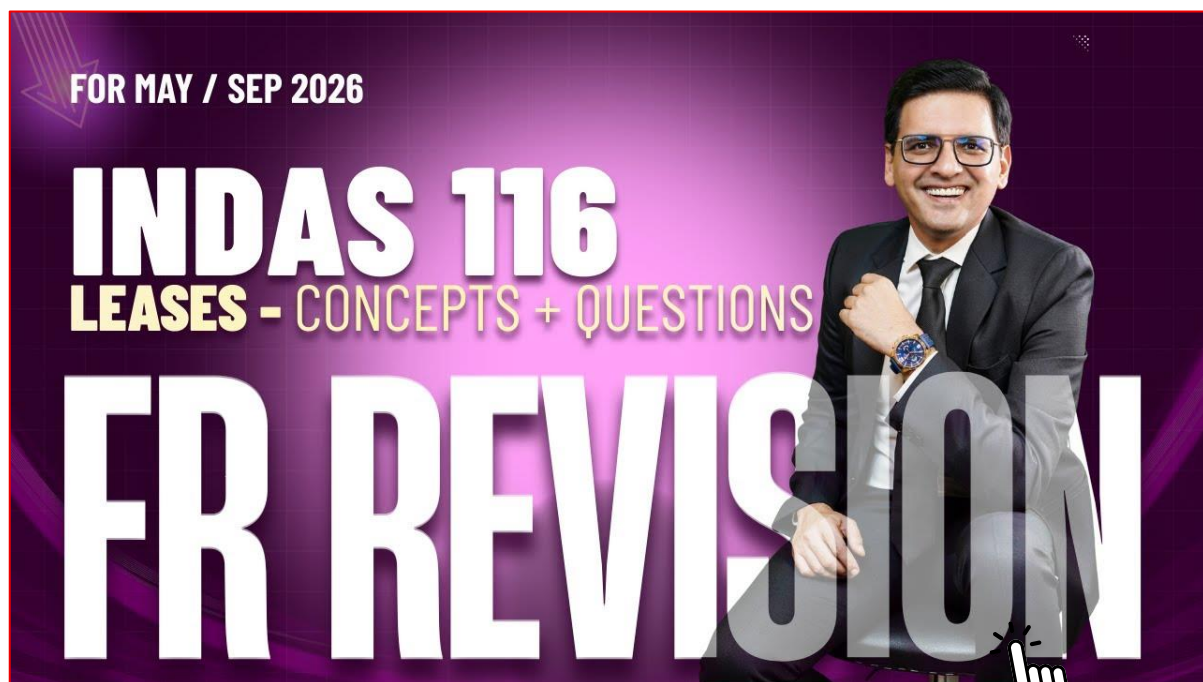
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CA Final FR

RTP-May-2024

Consolidated Separate Financial Statement

RT 75A. ASSOCIATE TO SUBSIDIARY



On 1st April 20X1, Pride Limited acquired 30% of the ordinary shares of Famous Limited for ₹ 4,000 crores. Pride Limited accounts for its investment in Famous Limited using the equity method as prescribed under Ind AS 28. On 31st March 20X2, Pride Limited recognized its share of the net asset changes of Famous Limited using equity method accounting as follows:

Share of profit	₹ 350 crore
Share of exchange difference in OCI	₹ 50 crore
Share of revaluation reserve of PPE in OCI	₹ 25 crore

The carrying amount of the investment in the associate on 31st March 20X2 is therefore ₹ 4,425 crore (4,000 + 350 + 50 + 25).

On 1st April 20X2, Pride Limited acquired the remaining 70% of Famous Limited for cash ₹ 12,500 crore.

The following additional information is relevant at that date:

Fair Value of 30% interest in Famous Limited as on 1 st April 20X2	₹ 4,500 crore
Fair Value of Net Identifiable Assets of Famous Limited as on 1 st April 20X2	₹ 15,000 crore

You are required to

- Determine the acquisition date for Pride Ltd.
- Determine the gain on previously held interest in Pride Ltd. and suggest the accounting treatment on acquisition date as per Ind AS 103.
- Compute the amount of goodwill arising on the acquisition of Famous Ltd.
- Pass necessary journal entry on the acquisition date.

[RTP-May-2024]

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	<u>(₹ 4,425 crore)</u>
Gain on previously held interest	₹ 75 crore
Unrealised gain previously recognised in OCI	<u>₹ 50 crore</u>
Total gain recognised in Profit and loss	<u>₹ 125 crore</u>

(iii) Computation of goodwill

For 70% share	₹ 12,500 crore
For 30% share	<u>₹ 4,500 crore</u>
Total amount of purchase consideration	₹ 17,000 crore
Less: Fair value of net identifiable assets	<u>(₹ 15,000 crore)</u>
Goodwill	<u>₹ 2,000 crore</u>

(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.

Professional and Ethical Duty of a Chartered Accountant

RT 11.



Astra Ltd. is a listed entity which operates in the defence and fibre optics sector. It supplies fibre optic cables and racks in the domestic country. This activity is only a trading activity for Astra Ltd. as it procures goods from pre-approved suppliers, and after inspection, sells the goods to IT companies. The sale contract requires Astra Ltd. to deliver these goods to the IT companies' locations (i.e., delivery on site). Payment terms are 30 days after the invoice date to Astra Ltd.

Ms. Suparna Dasgupta, a chartered accountant, has recently joined Astra Ltd. as the Head of the Finance Department.

The Chief Operating Officer (also the executive director) of Astra Ltd. is Ms. Padmaja Srinivasan, a mechanical engineer with an MBA from Harvard University, who rose through the ranks through her excellent skills in project management, marketing, and customer management. Her remuneration includes a bonus computed as a percentage of turnover achieved during the year, and an additional incentive for achieving an EBITDA in excess of 15% of turnover.

Astra Ltd. has sold fibre optic cables amounting to ₹ 2 crores (invoice dated 31st March 20X2) to Ethernet Bullet Ltd., a company providing high-speed internet connectivity services through fibre optic cables as well as dedicated leased lines. The service unit of Ethernet Bullet Ltd. is located next to the factory of Astra Ltd. Though the goods were not moved to Ethernet Bullet Ltd.'s service unit, Astra Ltd. recognized the sale for the year, based on the contention that the service unit is adjacent, and hence the transfer can happen within few minutes.

The annual results are due for board approval, for the year ending 31st March, and require the sign-off of Ms. Suparna Dasgupta.

Ms. Suparna Dasgupta has been given a 40% increment on joining Astra Ltd., which enables her to comfortably pay off her housing loan mortgage every month. Additionally, she is also given perquisites in the form of business class travel, an exclusive chauffeur-driven car and stock options of the company. Accordingly, she has stated that she cannot afford to lose this job as the salary and perquisites are among the best in the country.

Ms. Padmaja Srinivasan has communicated to Ms. Suparna Dasgupta that many more benefits will accrue if she agrees to present the numbers without any modifications. She has also said that the company would not hesitate to replace Ms. Suparna Dasgupta should she disagree with the contentions above.

Required:

Discuss the potential conflicts which are arising in the above scenario and the ethical principles that would guide Ms. Suparna Dasgupta in responding to the situation. **[RTP-May-2024]**

Ans.

Presentation of Revenue numbers:

Ind AS 115 'Revenue from Contracts with Customers' requires revenue to be recognized only on satisfaction of the performance obligations under the contract. It is crucial that the performance obligations be identified at the commencement of the contract, so that the trigger points for revenue recognition become identifiable.

Management would always have an incentive to present higher revenue numbers. In the given case, the fact that the COO is given an incentive for revenues and EBITDA indicates that revenue is a potential area for material misstatement, given the personal interest of the COO in the same.

The sale of fibre optic cable cannot be recognized on 31 st March 20X2 as the goods are not yet transferred to the customer Ethernet Bullet Ltd.'s factory premises, which is one of the critical obligations of Astra Ltd. The contention of the COO that it takes merely a few minutes to shift the goods, and hence the sale can be recognized does not hold true. One can always cross-question as to why the movement of goods did not happen, if it was merely a few minutes job. It could be a possibility that the goods may not be packed, or there may still be some pending inspection of the goods before transferring the same etc. In view of this, the performance obligation under this contract has not been completed, and hence booking the revenue has resulted in an overstatement of revenue by ₹ 2 crores, and a consequent inflation of profits, assuming that Astra Ltd. is making profit on this sale transaction. Additionally, booking this sale has resulted in an understatement of inventory as at the reporting date of 31st March 20X2.

In view of the above, multiple conflicts of interest arise for Ms. Suparna Dasgupta:

(a) Pressure to present favourable revenue figures and chartered accountant's personal circumstances

The chartered accountant is under pressure to present favourable numbers, notably in favour of the COO, thereby increasing the incentives to the COO, and in turn benefiting with the continued job prospects. Thus, the ethical and professional standards required of the accountant are at odds with the pressures of her personal circumstances.

(b) Duty to stakeholders

The directors have a duty to act in the best interests of the company's stakeholders. While higher revenue numbers do indicate a good growth trajectory of the company, recognizing the revenue

before fulfilling the performance obligations, or incorrectly booking grant income as revenue, results in misleading the stakeholders about the actual performance of the entity, thereby actually becoming detrimental to the stakeholders.

Ethical principles guiding the chartered accountant's response

By exhibiting bias in reporting higher revenue figures due to the risk of losing the job, objectivity stands compromised. Knowingly disclosing incorrect information compromises integrity, and erring in complying with Ind AS requirements, though continuing to report so in the financial statements, results in displaying absence of professional competence.

Appropriate action

In the given case, the chartered accountant faces an ethical dilemma, and must apply her moral and ethical judgment. As a professional, she is responsible for presenting the truth, and to avoid indulging in 'creative accounting practices' due to pressure.

The chartered accountant accordingly must put the interests of the company and professional ethics first and insist that the financial statements represent correct revenue numbers, in compliance with the relevant Ind AS. Being an advisor to the directors, she must prevent deliberate misrepresentation / fraudulent financial reporting, regardless of the personal consequences. The accountant should not allow any undue influence from the directors to override her professional judgment or integrity. This is in the long-term interests of the company,

Further, knowingly providing incorrect information is regarded as professional misconduct. To prevent such misconduct, the chartered accountant should not sign off on the financial statements containing incorrect financial information. By adhering to the ethical principles, the chartered accountant will maintain her professional integrity and contribute to the trust and reliability placed in the work expected from her.

However, if she signs the financial statements containing the inflated revenue numbers, Ms. Suparna Dasgupta would be guilty of professional misconduct under Clause I of Part II of Second Schedule to the Chartered Accountants Act, 1949. The Clause states that a member of the Institute, whether in practice or not, shall be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder, or any guidelines issued by the Council. As per the Council guidelines, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

Ind AS 12

RT 21A. Comprehensive



Joy Ltd. wishes to calculate tax base of its assets and liabilities as on 31st March 20X5. The Balance Sheet has been adjusted by current tax expense.

Summarised Balance Sheet as on 31st March 20X5:

ASSETS	₹
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets-Product Development Costs	60,000
Investment in Subsidiary - Pall Ltd.	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	<u>1,80,000</u>
TOTAL ASSETS	<u>30,18,000</u>

EQUITY & LIABILITIES	₹
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438
Revaluation Surplus	88,000
Non-current Liabilities	
Deferred Income - Government Grants	40,000
Liability for Product Warranty Costs	16,000
Deferred Tax Liability (From 20X3-20X4)	22,162
Current Liabilities	
Trade Payables	7,64,000
Health Care Benefits for Employees	70,000
Current Tax Liability	80,400
TOTAL EQUITY & LIABILITIES	<u>30,18,000</u>

Notes:

- (a) Depreciation expense for the year 20X4-20X5 allowable in accordance with tax laws is ₹ 2,06,000. Accounting depreciation included in operating costs is ₹ 1,70,000. Cost of PPE is ₹ 16,00,000 and Joy Ltd has deducted expenses of ₹ 4,16,000 in its tax returns prior to the financial year 20X4-20X5. Moreover, as on 31st March 20X5, Joy Ltd for the first time revalued its property, plant and equipment to fair value of ₹ 12,00,000 (revaluation surplus = ₹ 88,000).
- (b) In 20X1-20X2, Joy Ltd incurred product development costs of ₹ 1,00,000. These costs were recognized as an asset and being amortized over useful period of 10 years. For tax purposes, Joy Ltd deducted full product development costs in 20X1-20X2.
- (c) Trading investments were acquired in 20X3-20X4 with cost of ₹ 2,30,000. These investments are classified at fair value through profit and loss and thus recognized at their fair value. Fair value adjustments are not tax deductible.
- (d) Bad debt provision amounts to ₹ 1,30,000 and relates to 2 debtors:
- Debtor A - ₹ 80,000 (receivable originated in 20X2-20X3 and 100% provision was recognized in 20X3-20X4) and
 - Debtor B - ₹ 50,000 (receivable originated in 20X3-20X4 and 100% provision was recognized in 20X4-20X5).
- Tax law allows deduction of 20% of provision for debtors overdue for more than 1 year, another 30% for debtors overdue for more than 2 years and remaining 50% for debtors overdue for more than 3 years.
- (e) Joy Ltd accounts for inventory obsolescence provision. New provision created in 20X4-20X5 was ₹ 10,800 (total provision: ₹ 18,000). This provision is not tax deductible, as it is a general provision.
- (f) Government grants are not taxable. Government grant received in 20X4-20X5 is appearing in the balance sheet.
- (g) In 20X4-20X5, Joy Ltd made a further provision for product warranty of ₹ 5,000. Such provisions for product warranty costs are not tax deductible until the claims are paid or settled. During the year 20X4-20X5, warranty claims were paid/settled for ₹ 6,200.
- (h) During the year 20X4-20X5, Joy Ltd has introduced health care benefits for employees. The expenses are allowable as deduction in tax only when benefits are paid but in line with Ind AS 19, such liability is recognized in profit or loss when employees provide service.

Calculate temporary differences and deferred tax for Joy Ltd as on 31st March 20X5 assuming the tax rate is 32%. **[RTP-May-2024]**

Ans.

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Amount in ₹

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Property Plant & Equipment	12,00,000	9,78,000 (W.N.1)	2,22,000	Taxable	(71,040)
Product Development Costs	60,000	0	60,000	Taxable	(19,200)
Trading investments	2,08,000	2,30,000	(22,000)	Deductible	7,040
Trade receivables	6,26,000	7,06,000 (W.N.2)	(80,000)	Deductible	25,600
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760
Deferred income–Government grants	(40,000)	0	(40,000)	Excluded	0
Liability for product warranty costs	(16,000)	0	(16,000)	Deductible	5,120
Health care benefits for Employees	(70,000)	0	(70,000)	Deductible	<u>22,400</u>
Total Deferred Tax Asset					65,920
Total Deferred Tax Liability					<u>(90,240)</u>
Net Deferred Tax Liability					<u>(24,320)</u>

Working Notes:
1. Property Plant & Equipment as per tax records

	₹
Cost of PPE	16,00,000
Less: Current tax depreciation	(2,06,000)
Less: Previous year tax depreciation	<u>(4,16,000)</u>
Tax base	<u>9,78,000</u>

2. Trade receivables – Provision for doubtful debts:

		₹
Calculation of cost for tax records		
Carrying amount		6,26,000
Add back: Bad debt provision		<u>1,30,000</u>
Cost	A	7,56,000
Debtor A – ₹ 80,000 from 20X2-20X3		
> 1 year – 20% deducted in 20X3-20X4	16,000	
> 2 years – 30% deducted in 20X4-20X5	<u>24,000</u>	
Already deducted for tax	40,000	
Debtor B- ₹ 50,000 from 20X3-20X4		
> 1 year – 20% deducted in 20X4-20X5	<u>10,000</u>	
Total deduction for tax purpose	B	<u>(50,000)</u>
Tax base of trade receivables	A-B	<u>7,06,000</u>

RT 5A. Suspension

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

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

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

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

[RTP-May-2024]

Ans.

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

- (a) it incurs expenditures for the asset;
- (b) it incurs borrowing costs; and
- (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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

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

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

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

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

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

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

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

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

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

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

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

Ind AS 109

RT 117A. IMPAIRMENT



The company has made sales of ₹ 60,00,000 to a customer SS LLP on 31st December 20X2. The normal credit is for one month. However, sometimes, it goes upto 2 months. The company expects to receive the payment by 28th February 20X3. However, no payment has been received till 31st March 20X3. On 15th April 20X3, the sales department of the company became aware that the customer is passing through financial crisis and has major cash flow problems.

The company has agreed to allow the customer to settle the debt by 31st March 20X4, by which time the customer is confident that the cashflow problem will be resolved.

The company expects that an annual interest of 9% (i.e. effective interest rate) can be received against any money lent out, yet it allowed the customer an interest-free payment period.

Determine the amount to be shown as 'trade receivable' from SS LLP in the books of the company as on 31st March 20X3. **[RTP-May-2024]**

Ans.

Ind AS 10 'Events after the Reporting Date', classify an event as adjusting if it provides additional evidence of conditions existing at the reporting date. In this case the additional information relates to evidence of impairment of a financial asset, since the customer had financial difficulties prior to 31st March 20X3.

Ind AS 109 'Financial Instruments' requires financial assets to be reviewed at each reporting date for evidence of impairment. Such evidence exists here because although the customer is expected to pay the amount due the payment date has been deferred. As per para B5.5.33 of Ind AS 109, for a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, an entity shall measure the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate. Any adjustment is recognized in the profit or loss as an impairment gain or loss. Further, para B5.5.44 of Ind AS 109 provides that expected credit losses shall be discounted to the reporting date, not to the expected default or some other date, using the effective interest rate determined at initial recognition or an approximation thereof.

In such circumstances, Ind AS 109 requires that the financial asset be re-measured at the present value of the expected future receipt, discounted (in the case of a trade receivable) using effective interest rate. Therefore, in the financial statements for the year ended 31st March 20X3, asset should be measured at ₹ 55,04,587 ($₹ 60,00,000 / 1.09$) and an impairment loss of ₹ 4,95,413 ($₹ 60,00,000 - ₹ 4,95,413$) recognised in profit and loss.

In the year ended 31st March 20X4, interest income of ₹ 4,95,413 ($₹ 55,04,587 \times 9\%$) should be recognised in the profit and loss.

Ind AS 2

RT 17A. NRV & Rewards



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

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

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

Determine whether the entity has to book loss of inventory or provide for replacement cost of the goods that need to be given as free items to customers as per the principles of Ind AS. **[RTP-MAY-2024]**

Ans.

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

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

Ind AS 7

RT 25A. Comprehensive - Indirect Method



Following is the Balance Sheet of Mars Ltd:

Particulars	₹ in Lakhs	
	31.3.20X3	31.3.20X2
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	450	410
Intangible asset	90	90
Deferred Tax Asset (net)	45	45
Other Non-current Asset	<u>95</u>	<u>85</u>
Total Non-current Assets	<u>680</u>	<u>630</u>
Current Assets		
Financial Asset		
Investments	100	60
Trade Receivables	580	600
Cash and Cash Equivalents	300	300
Inventories	800	700
Other Current Assets	<u>160</u>	<u>120</u>
Total Current Assets	<u>1,940</u>	<u>1,780</u>
Total Assets	<u>2,620</u>	<u>2,410</u>
Equity and Liabilities		
Equity		

Equity Share Capital	280	250
Other Equity	<u>980</u>	<u>820</u>
Total Equity	<u>1,260</u>	<u>1,070</u>
Non-current Liabilities		
Financial Liabilities		
Borrowings	360	300
Other Non-current Liabilities	<u>90</u>	<u>80</u>
Total Non-current Liabilities	<u>450</u>	<u>380</u>
Current Liabilities		
Financial Liabilities		
Trade Payable	455	450
Bank Overdraft	410	420
Other current liabilities	<u>45</u>	<u>90</u>
Total Current Liabilities	<u>910</u>	<u>960</u>
Total Liabilities	<u>1,360</u>	<u>1,340</u>
Total Equity and Liabilities	<u>2,620</u>	<u>2,410</u>

Additional Information:

- Profit before tax for the year is ₹ 200 lakhs and provision for tax is ₹ 40 lakhs.
- Property, Plant and Equipment purchased during the year ₹ 100 lakhs.
- Current liabilities include Capital creditors of ₹ 25 lakhs as at 31st March 20X3 (Nil – 31st March 20X2)
- Long Term Borrowings raised during the year ₹ 120 lakhs.

From the information given, prepare a Statement of Cash Flows following Indirect Method. Assume that Bank overdraft is an integral part of the entity's cash management. **[RTP-May-2024]**

Ans.
Statement of Cash Flows for the year ended 31 st March, 20X3

	(₹ in lakhs)	(₹ in lakhs)
Cash flows from operating activities		
Profit before taxation	200	
Adjustments for non-cash items:		
Depreciation [410 - (450 - 100)]	<u>60</u>	
	260	
Increase in inventories (800 - 700)	(100)	
Decrease in trade receivables (600 - 580)	20	
Increase in other non-current assets (95 - 85)	(10)	
Increase in other current assets (160 - 120)	(40)	
Increase in non-current liabilities (90 - 80)	10	
Increase in trade payables (455 - 25 - 450)	(20)	
Other current liabilities (Refer Note 1) [(90 + 40) - 45]	<u>(85)</u>	
<i>Net cash generated from operating activities</i>		35
Cash flows from investing activities		
Cash paid to purchase PPE (100-25)	(75)	
Cash paid to acquire investment (100-60)	<u>(40)</u>	

<i>Net cash outflow from investing activities</i>		(115)
Cash flows from financing activities		
Raising of equity share capital (280 - 250)	30	
Long-term borrowings raised during the year	120	
Long-term borrowings repaid during the year [(300 + 120) - 360]	<u>(60)</u>	
<i>Net cash outflow from financing activities</i>		90
Increase in cash and cash equivalents during the year		10
Cash and cash equivalents at the beginning of the year (420-300) (Refer Note 2)		<u>(120)</u>
Cash and cash equivalents at the end of the year (410-300) (Refer Note 2)		<u>(110)</u>

Note: Other current liabilities are assumed to consist of provision for taxation.

Ind AS 102

RT 19A.
SBP - Goods


Fashion India Ltd. (FIL) entered into an agreement with RFD Ltd. on 10th August, 20X2 for purchasing a machinery. The agreement has a clause that FIL will have to settle the consideration of machinery purchased by issuing its equity shares. FIL agreed to the clause and the order was confirmed. Machinery was supplied vide invoice dated 25th October, 20X2 and delivered on 1st November, 20X2. Agreed purchase consideration was ₹ 150 Lakhs and the fair value of the machinery supplied was estimated to be ₹ 160 Lakhs. As agreed, FIL issued 1,00,000 equity shares of face value ₹ 100 each to RFD Ltd.

As per Ind AS 102 'Share Based Payment', what should be the price and the date for recording the machinery purchased from RFD Ltd.? **[Try after Q.19] [RTP-May-2024]**

Ans.

first attempt success tutorials

As per para 10 of Ind AS 102, for equity settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. Here, since the fair value of the asset received can be estimated reliably, the price for recording the machinery would be ₹ 160 lakhs.

Further the control is assumed to be transferred on the date the delivery is received which is 1st November, 20X2. Therefore, this will be the date for recognizing the machinery in the books.

CA Final FR

MTP-May-2024

Ind AS 103

MT 35A.


On 1st April 20X1, J Ltd. acquired a new subsidiary, B Ltd., purchasing all 150 million shares of B Ltd. The terms of the sale agreement included the exchange of four shares in J Ltd. for every three shares acquired in B Ltd. On 1st April 20X1, the market value of a share in J Ltd. was ₹ 10 and the market value of a share in B Ltd. ₹ 12.00.

The terms of the share purchase included the issue of one additional share in J Ltd. for every five acquired in B Ltd. if the profits of B Ltd. for the two years ending 31st March 20X2 exceeded the target figure. Current estimates are that it is 80% probable that the management of B Ltd. will achieve this target.

Legal and professional fees associated with the acquisition of B Ltd. shares were ₹ 12,00,000, including ₹ 2,00,000 relating to the cost of issuing shares. The senior management of J Ltd. estimate that the cost of their time that can be fairly allocated to the acquisition is ₹ 2,00,000. This figure of ₹ 2,00,000 is not included in the legal and professional fees of ₹ 12,00,000 mentioned above.

The individual Balance Sheet of B Ltd. at 1st April 20X1 comprised net assets that had a fair value at that date of ₹ 1,200 million. Additionally, J Ltd. considered B Ltd. possessed certain intangible assets that were not recognized in its individual Balance Sheet:

- Customer relationships – reliable estimate of value ₹ 100 million. This value has been derived from the sale of customer databases in the past.
- An in process research and development project that had not been recognised by B Ltd. since the necessary conditions laid down in Ind AS for capitalisation were only just satisfied at 31st March 20X2. However, the fair value of the whole project (including the research phase) is estimated at ₹ 50 million.
- Employee expertise – estimated value of Director employees of B Ltd. is ₹ 80 million.
- The market value of a share in J Ltd. on 31st March 20X2 was ₹ 11.

Compute the goodwill on consolidation of B Ltd. that will appear in the consolidated balance sheet of J Ltd. at 31st March 20X2 with necessary explanation of adjustments therein. **[MTP-May-2024]**

Ans.

Calculation of purchase consideration:

Particulars	₹ in million
Market value of shares issued (150 million x 4/3 x ₹ 10)	2,000
Initial estimate of market value of shares to be issued (150 million x 1/5 x ₹ 10)	<u>300</u>
Total consideration	<u>2,300</u>

Contingent consideration is recognized in full if payment is probable.

As per Ind AS 103, acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109.

Statement of fair value of identifiable net assets at the date of acquisition

Particulars	₹ in million
As per B Ltd.'s Balance Sheet	1,200
Fair value of customer relationships	100
Fair value of research and development project	50
Total net assets acquired	<u>1,350</u>

As per Ind AS 38 'Intangible assets', intangible assets can be recognized separately from goodwill provided they are identifiable, are under the control of the acquiring entity, and their fair value can be measured reliably.

Customer relationships that are similar in nature to those previously traded, pass these tests but employee expertise fail the 'control' test. Both the research and development phases of in process project can be capitalised provided their fair value can be measured reliably.

Statement of computation of goodwill

Particulars	₹ in million
Fair value of consideration given	2,300
Fair value of net assets acquired	<u>(1,350)</u>
Goodwill on acquisition	<u>950</u>

Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration. In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:

- There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavourable conditions (for the issuer of the instrument).
- If the instrument will or may be settled in the issuer's own equity instruments, then it is:
 - a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or
 - a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfillment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.

As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.

Ind AS 102

MT 30A. SAR with Modification



P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1st April 20X1 with a fair value ₹ 200. The terms of the award require the employee to provide service for four years in order to earn the award. The fair value of each SAR at each reporting date is as follows:

31st March 20X2	₹ 210
31st March 20X3	₹ 220
31st March 20X4	₹ 215
31st March 20X5	₹ 218

What would be the difference if at the end of the second year of service (i.e. at 31st March 20X3), P Ltd. modifies the terms of the award to require only three years of service? **[MTP-May-2024]**

Ans.

Journal entries in the books of P Ltd (without modification of service period of stock appreciation rights)
 (₹ in lakhs)

Date	Particulars	Debit	Credit
31.03.20X2	Profit and Loss account Dr. To Liability against SARs (Being expenses liability for stock appreciation rights recognised)	15.75	15.75
31.03.20X3	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	17.25	17.25
31.03.20X4	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	15.38	15.38
31.03.20X5	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	17.02	17.02

Journal entries in the books of P Ltd (with modification of service period of stock appreciation rights)

Date	Particulars	Debit	Credit
31.03.20X2	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	15.75	15.75
31.03.20X3	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	28.25	28.25
31.03.20X4	Profit and Loss account Dr. To Liability for SARs (Being expenses liability for stock appreciation rights recognised)	20.50	20.50

Working Notes:

Calculation of expenses for issue of stock appreciation rights without modification of service period

For the year ended 31st March 20X2

$$= ₹ 210 \times 400 \text{ awards} \times 75 \text{ employees} \times 1 \text{ year} / 4 \text{ years of service}$$

$$= ₹ 15,75,000$$

For the year ended 31st March 20X3

$$= ₹ 220 \times 400 \text{ awards} \times 75 \text{ employees} \times 2 \text{ years} / 4 \text{ years of service} - ₹ 15,75,000 \text{ previous recognised}$$

$$= ₹ 33,00,000 - ₹ 15,75,000 = ₹ 17,25,000$$

For the year ended 31st March 20X4

$$= ₹ 215 \times 400 \text{ awards} \times 75 \text{ employees} \times 3 \text{ years} / 4 \text{ years of service} - ₹ 33,00,000 \text{ previously recognized}$$

$$= ₹ 48,37,500 - ₹ 33,00,000 = ₹ 15,37,500$$

For the year ended 31st March, 20X5

$$= ₹ 218 \times 400 \text{ awards} \times 75 \text{ employees} \times 4 \text{ years} / 4 \text{ years of service} - ₹ 48,37,500 \text{ previously recognised}$$

$$= ₹ 65,40,000 - ₹ 48,37,500 = ₹ 17,02,500$$

Calculation of expenses for issue of stock appreciation rights with modification of service period

For the year ended 31st March 20X2

$$= ₹ 210 \times 400 \text{ awards} \times 75 \text{ employees} \times 1 \text{ year} / 4 \text{ years of service} = ₹ 15,75,000$$

For the year ended 31st March 20X3

$$= ₹ 220 \times 400 \text{ awards} \times 75 \text{ employees} \times 2 \text{ years} / 3 \text{ years of service} - ₹ 15,75,000 \text{ previous recognised}$$

$$= ₹ 44,00,000 - ₹ 15,75,000 = ₹ 28,25,000$$

For the year ended 31st March 20X4

$$= ₹ 215 \times 400 \text{ awards} \times 75 \text{ employees} \times 3 \text{ years} / 3 \text{ years of service} - ₹ 44,00,000 \text{ previous recognized}$$

$$= ₹ 64,50,000 - ₹ 44,00,000 = ₹ 20,50,000.$$

Analysis of FS

MT 4. How can one enhance the usefulness of financial information by applying four enhancing qualitative characteristics? **[MTP-May-2024]**

Ans.



The usefulness of financial information can be enhanced by applying four enhancing qualitative characteristics as follows:

- **Comparability:** Users' decisions involve choosing between alternatives. Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability refers to the use of the same methods for the same items, and uniformity implies that like things must look alike and different things must look different.
- **Verifiability:** Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Verification can be direct or indirect.
- **Timeliness:** Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.
- **Understandability:** Classifying, characterising and presenting information clearly and concisely makes it understandable. Some phenomena are inherently complex and cannot be made easy to understand. Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Professional and Ethical Duty of a Chartered Accountant

MT 11A. Explain the five fundamental principles of ethics for Chartered Accountants. **[MTP-Nov-2024]**

Ans. Five fundamental principles of ethics for Chartered Accountants:



- (1) Integrity – to be straightforward and honest in all professional and business relationships.
- (2) Objectivity – not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others.
- (3) Professional Competence and Due Care – to:
 - (i) attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical

- and professional standards and relevant legislation; and
- (ii) act diligently and in accordance with applicable technical and professional standards.
- (4) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (5) Professional Behaviour – to comply with relevant laws and regulations and avoid any conduct that the Chartered Accountant knows or should know might discredit the profession.

“

NOTES

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Exam-May-2024

Consolidated and Separate Financial Statement

PE 116A. Subsidiary & Associate



The Account of Mr Ramesh Kanna of 'H' Limited submitted to you the following standard balance sheet extract as at 31st march 2024:

Assets	H Ltd.		S Ltd.		A Ltd.	
Non-current assets						
Property, Plant and Equipment	5,50,000		4,80,000		2,50,000	
Financial Assets:						
Investments:						
14,000 shares in S Ltd.	5,60,000		-		-	
4,000 shares in A Ltd.	<u>1,00,000</u>	12,10,000	<u>-</u>	4,80,000	<u>-</u>	2,50,000
(a) Current assets						
Inventory	4,85,000		3,82,500		2,45,500	
(b) Financial Assets						
Cash and cash equivalents	89,000		98,000		1,77,000	
Trade receivables	<u>3,95,000</u>	9,69,000	<u>3,05,000</u>	7,85,500	<u>1,78,500</u>	6,01,000
Total Assets:		<u>21,79,000</u>		<u>12,65,500</u>		<u>8,51,100</u>
Equity & Liabilities						
Shareholder's Equity						
Equity Share Capital (₹ 10 per share)	5,00,000		2,00,000		1,00,000	
Other Equity						
Retained earnings	<u>9,00,000</u>	14,00,000	<u>7,50,000</u>	9,50,000	<u>4,24,000</u>	5,24,000
Non-current liabilities						
Financial Liabilities						
Borrowings-Term Loans		4,00,000		1,50,000		1,00,000
Current liabilities						
Financial Liabilities						
Trade payables		3,79,000		1,65,500		2,27,000
Total Liabilities:		<u>21,79,000</u>		<u>12,65,500</u>		<u>8,51,000</u>

The following additional information is made available in respect of these companies:

- H Limited purchased the shares in S Limited on 31st October 2023 when retained earnings of S Limited was ₹ 500,000 and the shares in A Limited were acquired on 30th June 2023 when its retained earnings stood at ₹ 1,75,000.
- Inventory of A Limited as on 31st March, 2024 include inventory valued at ₹60,000 which had been purchased from H Limited, on 01-01-2024 at cost plus 20%.
- Trade Payable of H Limited includes ₹ 25,000 payable to A Limited, the amount receivable being recorded in the receivables of A Limited.
- Goodwill in respect of the acquisition of S Limited has been fully impaired. The recoverable amount of the investment in A Limited exceeds its' carrying value at 31st March 2024. Non-controlling interest is valued at the proportionate share of the identifiable net assets.
- 10% dividends were declared by both H Limited and S Limited whereas A Limited declared 15% dividend for the year 2023-24.

- (vi) On 31st March, 2024, S Limited made a bonus issue of one equity share for every two shares held by the shareholders of S Limited.
- (vii) Dividends were declared but were not accounted for by all these companies in the books before the year end. Similarly, the bonus issued by S Limited was not reflected in the statement of financial position as on 31st March, 2024.

You are required to take note of the above available information and draw the consolidated Balance-Sheet of H Limited as at 31st March 2024. Notes to accounts are not required. **[May-2024]**

Ans.

Note: Since adjustments (v) and (vii) of the question state that dividend has been declared by all the entities but no information is provided whether it has been paid or due. In this regard, it may be noted that since dividend is paid for the entire year 2023-2024, it is assumed as final dividend which is approved in the Annual General Meeting conducted at later point time from the reporting date.

Accordingly, following assumptions are possible based on which alternative solutions have been provided:

- Ignored the adjustment for dividend completely as dividend has to be approved in the Annual General Meeting.
- Considered dividend as declared but not paid.
- Considered dividend as declared and paid.

Alternative A: Ignored the adjustment for dividend completely as it has to be approved in the AGM.

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

	₹
Assets	
Non-current assets	
Property, plant and equipment (₹ 5,50,000 + ₹ 4,80,000)	10,30,000
Goodwill (₹ 70,000- Impaired ₹ 70,000)	Nil
Financial assets	
Investment in A Ltd. (W.N.1 (iii))	2,05,600
Current assets	
Inventory (₹ 4,85,000+ ₹ 3,82,500)	8,67,500
Financial assets	
Cash and cash equivalents (₹ 89,000 + ₹ 98,000)	1,87,000
Trade receivables (₹ 3,95,000+₹ 3,05,000)	<u>7,00,000</u>
Total	<u>29,90,100</u>
Equity and Liabilities	
Equity	
Share capital - Equity shares of ₹ 10 each	5,00,000
Other equity (W.N.4+ W.N.1(i))	11,10,600
Non-controlling interest (W.N.3)	2,85,000
Non-current liabilities	
Financial liabilities	
Borrowings-term loans (₹ 4,00,000 + ₹ 1,50,000)	5,50,000
Current Liabilities	
Financial liabilities	
Trade payables (₹3,79,000+₹ 1,65,500)	<u>5,44,500</u>
Total	<u>29,90,100</u>

Working Notes:

1. Computation of Investment in Associate A Ltd. as per Equity method

(i) Capital reserve on the date of acquisition

The cost of the investment is lower than the net fair value of the investee's identifiable assets and liabilities. Hence there is capital reserve calculated as follows:

	₹
Cost of acquisition of investment	1,00,000
H Ltd.'s share in fair value of net assets of A Ltd. on the date of acquisition $[(1,00,000 + 1,75,000) \times 40\%]$	<u>(1,10,000)</u>
Capital Reserve	<u>10,000</u>

Capital reserve is recorded directly in equity.

(ii) Share in profit of A Ltd.

	₹
Share in post-acquisition profit of A Ltd. $[(4,24,000 - 1,75,000) \times 40\%]$	99,600

(iii) Closing balance of investment of Associate A Ltd. at the end of the year

	₹
Cost of acquisition of investment	1,00,000
Add: Capital reserve	10,000
Share in post-acquisition profit	99,600
Less: Unrealised gain on inventory $[(60,000 \times 20/120) \times 40\%]$	<u>(4,000)</u>
Closing balance of investment	<u>2,05,600</u>

2. Analysis of Retained Earnings of S Ltd.

(i) Retained Earnings (RE) of S Ltd.

	₹
Closing balance as on 31 st March, 2024	7,50,000
Less: Pre-acquisition as on 31 st October, 2023	<u>(5,00,000)</u>
Post-acquisition Profit	<u>2,50,000</u>

(ii) Computation of net worth (net identifiable assets) as on 31st October, 2023

	₹
Share Capital of S Ltd.	2,00,000
Pre-acquisition Retained Earnings	<u>5,00,000</u>
Net Identifiable assets	<u>7,00,000</u>

(iii) Computation of Goodwill on acquisition date of S Ltd.

		₹
Purchase consideration	5,60,000	
NCI as per proportionate share method $(7,00,000 \times 30\%)$	<u>2,10,000</u>	7,70,000
Less: Net worth or Net Identifiable Assets		<u>(7,00,000)</u>
Goodwill		<u>70,000</u>

3. Non-Controlling Interest as on 31st March, 2024

	₹
NCI (by proportionate share method) as on 31 st October, 2023	2,10,000
Post-acquisition Retained Earnings (W.N.4)	<u>75,000</u>
NCI as on 31st March, 2024	<u>2,85,000</u>

4. Consolidated Retained Earnings

Particulars	H Ltd ₹	S Ltd. ₹
Opening Balance of Retained Earnings	9,00,000	
Post-acquisition Retained Earnings (W.N.2(i))		2,50,000
Less: Unrealised gain on downstream transaction with Associate A	(4,000)	

Ltd.		
Less: Impairment of Goodwill on acquisition of S Ltd.	(70,000)	
Add: Share of profit and loss in Associate A Ltd.	99,600	
Less: Share of NCI in post-acquisition Retained Earnings [2,50,000 x 30%]		(75,000)
	<u>9,25,600</u>	<u>1,75,000</u>
Total Consolidated Retained Earnings		11,00,600

Note: Bonus issue by a subsidiary is a transaction with owner in their capacity as owner. Therefore, bonus issue is only a transfer from one component of equity to the other thereby not changing the equity. Accordingly, though bonus issue shall be accounted in the individual financial statements of subsidiary, the same shall not have any effect in consolidated financial statements of the Group.

Alternative B: Considered dividend as declared but not paid

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

	₹
Assets	
Non-current assets	
Property, plant and equipment (₹5,50,000 + ₹ 4,80,000)	10,30,000
Goodwill (₹ 70,000- Impaired ₹ 70,000)	Nil
Financial assets	
Investment in A Ltd. (Refer W.N.1 (iii))	1,99,600
Current assets	
Inventory (₹ 4,85,000 + ₹ 3,82,500)	8,67,500
Financial assets	
Cash and cash equivalents (₹ 89,000+ ₹ 98,000)	1,87,000
Trade receivables (₹ 3,95,000+ ₹ 3,05,000)	7,00,000
Other Receivables	
(Dividend receivable from A Ltd. (₹ 15,000 x 40%))	6,000
Total	<u>29,90,100</u>
Equity and Liabilities	
Equity	
Share capital - Equity shares of ₹ 10 each	5,00,000
Other equity (W.N.4+W.N.1(i))	10,60,600
Non-controlling interest (W.N.3)	2,79,000
Non-current liabilities	
Financial liabilities	
Borrowings- term loans (₹ 4,00,000 + ₹ 1,50,000)	5,50,000
Current Liabilities	
Financial liabilities	
Trade payables (₹ 3,79,000+ ₹ 1,65,500)	5,44,500
Other payables	56,000
[Dividend payable to NCI by S Ltd. (₹ 20,000 x 30%) ₹ 6,000+ Dividend payable by H Ltd. to its shareholders ₹ 50,000]	
Total	<u>29,90,100</u>

Working Notes:

1. Computation of Investment in Associate A Ltd. as per Equity method

(i) Capital reserve on the date of acquisition

The cost of the investment is lower than the net fair value of the investee's identifiable assets and liabilities. Hence there is capital reserve calculated as follows:

	₹
Cost of acquisition of investment	1,00,000
Less: H Ltd.'s share in fair value of net assets of A Ltd. on the date of acquisition $[(1,00,000 + 1,75,000) \times 40\%]$	<u>(1,10,000)</u>
Capital Reserve	<u>10,000</u>

Capital reserve is recorded directly in equity.

(ii) Share in profit of A Ltd.

	₹
Share in post-acquisition profit of A Ltd. $[(4,24,000 - 1,75,000) \times 40\%]$	99,600
Less: Dividend $(1,00,000 \times 15\% \times 40\%)$	<u>(6,000)</u>
Share in profit of A Ltd.	<u>93,600</u>

(iii) Closing balance of investment of Associate A Ltd. at the end of the year

	₹
Cost of acquisition of investment	1,00,000
Add: Capital reserve	10,000
Share in post-acquisition profit	93,600
Less: Unrealised gain on inventory $[(60,000 \times 20/120) \times 40\%]$	<u>(4,000)</u>
Closing balance of investment	<u>1,99,600</u>

2. Analysis of Retained Earnings of S Ltd.

(i) Retained Earnings (RE) of S Ltd.

Closing balance as on 31 st March, 2024	7,50,000
Less: Pre-acquisition as on 31 st October, 2023	<u>(5,00,000)</u>
Post-acquisition Profit	<u>2,50,000</u>

(ii) Computation of net worth (net identifiable assets) as on 31st October, 2023

Share Capital of S Ltd.	2,00,000
Add: Pre-acquisition Retained Earnings	<u>5,00,000</u>
Net Identifiable assets	<u>7,00,000</u>

(iii) Computation of Goodwill on acquisition date of S Ltd.

Purchase consideration	5,60,000	
NCI as per proportionate share method $(7,00,000 \times 30\%)$	<u>2,10,000</u>	7,70,000
Less: Net worth or Net Identifiable Assets		<u>(7,00,000)</u>
Goodwill		<u>70,000</u>

3. Non-Controlling Interest as on 31st March, 2024 ₹

NCI (by proportionate share method) as on 31 st October, 2023	2,10,000
Post-acquisition Retained Earnings (W.N.4)	<u>69,000</u>
NCI as on 31st March, 2024	<u>2,79,000</u>

4. Consolidated Retained Earnings

Particulars	H Ltd. ₹	S Ltd. ₹
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Opening Balance of Retained Earnings	9,00,000	
Post-acquisition Retained Earnings (W.N.2(i))		2,50,000
Less: Unrealised gain on downstream transaction with Associate A Ltd.	(4,000)	
Less: Impairment of Goodwill on acquisition of S Ltd.	(70,000)	
Add: Share of profit and loss in Associate A Ltd.	93,600	
Less: Dividend payable by H Ltd.	(50,000)	(20,000)
Add: Dividend Income receivable from S Ltd.	14,000	
Add: Dividend income receivable from A Ltd.	6,000	
Less: Share of NCI in post-acquisition Retained Earnings [(2,50,000 - 20,000) x 30%]		<u>(69,000)</u>
	<u>8,89,600</u>	<u>1,61,000</u>
Total Consolidated Retained Earnings		<u>10,50,600</u>

Note: Bonus issue by a subsidiary is a transaction with owner in their capacity as owner. Therefore, bonus issue is only a transfer from one component of equity to the other thereby not changing the equity. Accordingly, though bonus issue shall be accounted in the individual financial statements of subsidiary, the same shall not have any effect in consolidated financial statements of the Group.

Alternative C: Considered dividend as declared and paid

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

	₹
Assets	
Non-current assets	
Property, plant and equipment (₹ 5,50,000+ ₹ 4,80,000)	10,30,000
Goodwill (₹ 70,000- Impaired ₹ 70,000)	Nil
Financial assets	
Investment in A Ltd. (Refer W.N.1 (iii))	1,99,600
Current assets	
Inventory (₹ 4,85,000+ ₹ 3,82,500)	8,67,500
Financial assets	
Cash and cash equivalents [(₹ 89,000 - ₹ 50,000 + ₹ 14,000 + ₹ 6,000) + (₹ 98,000 - ₹ 20,000)]	1,37,000
Trade receivables (₹ 3,95,000+ ₹ 3,05,000)	<u>7,00,000</u>
Total	<u>29,34,100</u>
Equity and Liabilities	
Equity	
Share capital - Equity shares of ₹ 10 each	5,00,000
Other equity (W.N.4+W.N.1(i))	10,60,600
Non-controlling interest (W.N.3)	2,79,000
Non-current liabilities	
Financial liabilities	
Borrowings- term loans (₹ 4,00,000 + ₹ 1,50,000)	5,50,000
Current Liabilities	
Financial liabilities	
Trade payables (₹ 3,79,000+ ₹ 1,65,500)	<u>5,44,500</u>

Total	29,34,100
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Working Notes:**1. Computation of Investment in Associate A Ltd. as per Equity method****(i) Capital reserve on the date of acquisition**

The cost of the investment is lower than the net fair value of the investee's identifiable assets and liabilities. Hence there is capital reserve calculated as follows:

	₹
Cost of acquisition of investment	1,00,000
Less: H Ltd.'s share in fair value of net assets of A Ltd. on the date of acquisition $[(1,00,000 + 1,75,000) \times 40\%]$	<u>(1,10,000)</u>
Capital Reserve	<u>10,000</u>

Capital reserve is recorded directly in equity.

(ii) Share in profit of A Ltd.

	₹
Share in post-acquisition profit of A Ltd. $[(4,24,000 - 1,75,000) \times 40\%]$	99,600
Less: Dividend $(1,00,000 \times 15\% \times 40\%)$	<u>(6,000)</u>
Share in profit of A Ltd.	<u>93,600</u>

(iii) Closing balance of investment of Associate A Ltd. at the end of the year

	₹
Cost of acquisition of investment	1,00,000
Add: Capital reserve	10,000
Share in post-acquisition profit	93,600
Less: Unrealised gain on inventory $[(60,000 - 20/120) \times 40\%]$	<u>(4,000)</u>
Closing balance of investment	<u>1,99,600</u>

2. Analysis of Retained Earnings of S Ltd.**(i) Retained Earnings (RE) of S Ltd.**

Closing balance as on 31 st March, 2024	7,50,000
Less: Pre-acquisition as on 31 st October, 2023	<u>(5,00,000)</u>
Post-acquisition Profit	<u>2,50,000</u>

(ii) Computation of net worth (net identifiable assets) as on 31st October, 2023

Share Capital of S Ltd.	2,00,000
Pre-acquisition Retained Earnings	<u>5,00,000</u>
Net Identifiable assets	<u>7,00,000</u>

(iii) Computation of Goodwill on acquisition date of S Ltd. ₹

Purchase consideration	5,60,000	
NCI as per proportionate share method $(7,00,000 \times 30\%)$	<u>2,10,000</u>	7,70,000
Less: Net worth or Net Identifiable Assets		<u>(7,00,000)</u>
Goodwill		<u>70,000</u>

3. Non-Controlling Interest as on 31st March, 2024 ₹

NCI (by proportionate share method) as on 31 st October, 2023	2,10,000
Post-acquisition Retained Earnings (W.N.4)	<u>69,000</u>
NCI as on 31st March, 2024	<u>2,79,000</u>

4. Consolidated Retained Earnings

Particulars	H Ltd.	S Ltd.
Opening Balance of Retained Earnings	9,00,000	
Post-acquisition Retained Earnings(W.N.2(i))		2,50,000
Less: Unrealised gain on downstream transaction with Associate A Ltd.	(4,000)	
Less: Impairment of Goodwill on acquisition of S Ltd.	(70,000)	
Add: Share of profit and loss in AssociateA Ltd.	93,600	
Less: Dividend paid	(50,000)	(20,000)
Add: Dividend Income received from S Ltd.	14,000	
Add: Dividend income received from A Ltd.	6,000	
Less: Share of NCI in post-acquisition Retained Earnings [(2,50,000 - 20,000) x 30%]		(69,000)
	<u>8,89,600</u>	<u>1,61,000</u>
Total Consolidated Retained Earnings		<u>10,50,600</u>

Note: Bonus issue by a subsidiary is a transaction with owner in their capacity as owner. Therefore, bonus issue is only a transfer from one component of equity to the other thereby not changing the equity. Accordingly, though bonus issue shall be accounted in the individual financial statements of subsidiary, the same shall not have any effect in consolidated financial statements of the Group.


PE 101A. Embedded Derivative


Dark Limited is engaged in the construction and operation of thermal in power plants in the country. It has entered into a purchase contract for USD 2,00,000 with Bright Limited, on 1st October, 2023 for purchase of power plant equipment on 31st March 2024. It is pertinent to note that the functional currency of both companies is INR. Dark Limited and Bright Limited are listed companies in India and prepare their financial statements on a quarterly basis as per Ind AS.

Spot Rate as on 1 st October 2023 ₹/USD	75
Spot Rate as on 31 st December 2023 ₹/USD	82
Three month forward rate on 31 st December 2023 ₹/USD	70
Six month forward rate on 1 st October 2023 ₹/USD	80
Spot Rate on 31 st March, 2024 ₹/USD	85

Assume that this contract has an embedded derivative that is not closely related and requires separation. You are required to pass the necessary Journal Entries in the books of Bright Limited from the inception of the contract till the actual sale of equipment. **[May-2024]**

Ans.

The contract should be separated using the 6-month USD / ₹ forward exchange rate, as at the date of the contract (1 USD = ₹ 80). The two components of the contract are therefore:

- A sale contract for USD 2,00,000
- A six-month currency forward to purchase USD 2,00,000 at ₹ 80
- This gives rise to a gain or loss on the derivative, and a corresponding derivative asset or liability.

On delivery

1. Bright Ltd. records the sales at the amount of the host contract = ₹ 1,60,00,000

- The embedded derivative is considered to expire.
- The derivative asset or liability (i.e. the cumulative gain or loss) is settled by becoming part of the financial asset on delivery.
- In this case, the carrying value of the currency forward at 31st March 2024 on maturity is = ₹ 2,00,000 (85 – 80) = ₹ 10,00,000 (profit/asset)

Below is the table summarising the computation of gain/ loss to be recorded at every period end

Date	Transaction	Sales	Debtors	Derivative Asset (Liability)	(Profit) Loss
		₹	₹	₹	₹
1st Oct. 2023	Embedded Derivative	Nil Value			
31st Dec. 2023	Change in Fair Value of Embedded Derivatives MTM (80 - 70) x 2,00,000			(20,00,000)	20,00,000
31st Mar. 2024	Change in Fair Value of Embedded Derivatives (85 - 70) x 2,00,000			30,00,000	(30,00,000)
31st Mar. 2024	Recording sales at forward rate	(1,60,00,000)	1,60,00,000		
31st Mar. 2024	Embedded derivative - Settled against debtors		10,00,000	(10,00,000)	

Journal Entries to be recorded at every period end

1st October, 2023 – No entry to be made

31st December, 2023

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Profit and loss A/c Dr. To Derivative financial liability A/c (Being loss on mark to market of embedded derivative booked)	20,00,000	20,00,000

31st March, 2024

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)	10,00,000 20,00,000	30,00,000

31st March, 2024

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)	1,60,00,000	1,60,00,000

31st March, 2024

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Trade Receivable A/c To Derivative financial asset A/c (Being derivative asset re-classified as a part of trade receivables, bringing it to spot rate on the date of sale)	10,00,000	10,00,000

Ind AS 1 and Schedule III
PE 13A.
Breach of Loan Covenant


In December 2022, X Limited entered into a loan agreement with a Bank. The loan is repayable in five annual installments commencing from 1st October 2024. One of the material provisions of the loan agreement is that X limited should create an equitable mortgage on its assets in favour of the Bank by 31st March, 2023 failing which the loan would become payable on demand. X Limited is not able to create the equitable mortgage by 31st March 2023. In April, 2023 X Limited started negotiation with the Bank and requested it not to demand payment due to non-creation of the equitable mortgage. Meanwhile the financial statements of X Limited for the year ended 31st March, 2023 were approved for issue on 30th May, 2023. In the month of June 2023, the Bank agreed that the payment would not be demanded immediately as a consequence of breach of the material provision. How would the loan liability be classified by X Limited as at 31st March 2023? **[May-2024]**

Ans.

As per Ind AS 1 "Presentation of Financial Statements", where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

An entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

In the given case, bank (the lender) agreed for not to demand payment but only after the reporting date and the financial statements were approved for issuance. The financial statements were approved for issuance on 30th May 2023 and the Bank agreed for not to demand payment in the month of June 2023 although negotiation started in the month of April 2023 but could not agree before May 2023 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement as at 31st March, 2023.

Ind AS 116
PE 40A.
Modification - Increase in LT


Sun Limited has entered into a Lease Agreement with Moon Limited for taking on lease an office building of 1000 square feet at the rate of ₹ 500 per square feet per annum for a period of 10 years. The annual lease payments are payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Sun Limited's incremental rate of borrowing at the commencement date is 6% per annum. At the beginning of the year 7, the lessor and the lessee agree to amend the original lease by extending the contractual lease term by another four years. The annual lease payments are unchanged for the extended period also. Sun Limited's incremental rate of borrowing at the commencement of Year 7 is 7% per annum.

How should the said modification be accounted for in the books of Sun Limited? Give your calculation by adopting the Present Value factor as under:

Year	1	2	3	4	5	6	7	8	9	10	Cumul.
7%	0.935	0.873	0.816	0.763	0.713	0.666	0.623	0.582	0.544	0.508	7.023
6%	0.943	0.890	0.840	0.792	0.747	0.705	0.665	0.627	0.592	0.558	7.359

[May-2024]

Ans.

At the effective date of the modification (at the beginning of Year 7), Sun Ltd. (Lessee) remeasures the lease liability based on:

- An eight-year remaining lease term
- Annual payments of ₹ 5,00,000 and
- Lessee's incremental borrowing rate of 7% p.a.

1. Calculation of Lease liability as at commencement date

Year	Lease Payment (A) ₹	Present value factor @ 6% (B) ₹	Present value of lease payments (A x B = C) ₹
1	5,00,000	0.943	4,71,500
2	5,00,000	0.890	4,45,000
3	5,00,000	0.840	4,20,000
4	5,00,000	0.792	3,96,000
5	5,00,000	0.747	3,73,500
6	5,00,000	0.705	3,52,500
7	5,00,000	0.665	3,32,500
8	5,00,000	0.627	3,13,500
9	5,00,000	0.592	2,96,000
10	5,00,000	0.558	2,79,000
Lease liability as at commencement date			<u>36,79,500</u>

Alternatively, Present Value of lease liability may be calculated as follows:

$$= ₹ 5,00,000 \times 7.359 = ₹ 36,79,500.$$

2. Calculation of Lease liability immediately before modification date

Year	Opening lease liability (A) ₹	Interest @ 6% (B) = [A x 6%] ₹	Lease payments (C) ₹	Closing liability (D) = [A+B-C] ₹
1	36,79,500 (W.N.1)	2,20,770	5,00,000	34,00,270
2	34,00,270	2,04,016	5,00,000	31,04,286
3	31,04,286	1,86,257	5,00,000	27,90,543
4	27,90,543	1,67,433	5,00,000	24,57,976
5	24,57,976	1,47,479	5,00,000	21,05,455
6	21,05,455	1,26,327	5,00,000	<u>17,31,782</u>
Lease liability as at modification date				<u>17,31,782</u>

3. Calculation of modified lease liability

Year	Lease Payment (A) ₹	Present value factor @ 7% (B)	Present value of lease payments (A x B=C) ₹
7	5,00,000	0.935	4,67,500
8	5,00,000	0.873	4,36,500
9	5,00,000	0.816	4,08,000
10	5,00,000	0.763	3,81,500
11	5,00,000	0.713	3,56,500

12	5,00,000	0.666	3,33,000
13	5,00,000	0.623	3,11,500
14	5,00,000	0.582	<u>2,91,000</u>
Modified lease liability			<u>29,85,500</u>

Alternatively, Present Value of lease payment of modified lease term may be calculated as follows:

$$= ₹ 5,00,000 \times 5.971 = ₹ 29,85,500.$$

4. Adjustment to ROU asset

Modified Lease liability (W.N.3)	29,85,500
Original Lease liability as at modification date (W.N.2)	<u>(17,31,782)</u>
Adjustment to ROU asset	<u>12,53,718</u>

The modified lease liability equals ₹ 29,85,500 (W.N. 3). The lease liability immediately before the modification (including the recognition of the interest expense until the end of Year 6) is ₹ 17,31,782 (W.N.2). Sun Ltd. (Lessee) recognises the difference between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification (i.e., ₹ 12,53,718) (W.N.4) as an adjustment to the ROU Asset.

The ROU asset will be increased by ₹ 12,53,718 on the date of modification.

Financial Instruments

PE 38A. CFI



The CFO of GOLD Limited, a manufacturing company, provided you the following information for your valuable opinion.

The Company had issued 8% convertible debentures amounting to ₹ 320 Lakhs on 1st April 2022 and repayable on 31st March 2026 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 250 Lakhs ordinary shares in the company. On 1st April 2022 the prevailing market interest rate for four-year convertible debentures which had no right of conversion was 10%. Using an annual discount rate of 10%, the present value of ₹ 1 payable in 4th year is 0.683 and the cumulative present value of ₹ 1 payable at the end of years one to four is 3.169. From the above information you are required to calculate the finance cost of convertible debentures and its closing balance as on 31st March 2024 to be presented in the financial statements.

[May-2024]

Ans.

This instrument has two components –

- (1) Mandatory annual interest to be paid by the issuer on convertible debentures of ₹ 3,20,00,000 @ 8% till 4 years, and
 - (2) Payment of the principal amount at the end of 4th year.
- However, since the holder has the option to convert the debentures into shares on maturity, as per Ind AS 32, the instrument is a compound financial instrument which carries elements of both liability and equity.

Statement showing computation of liability and equity component in the compound financial instrument.

	₹
Present value of interest payable during 4 years discounted at 10% (i.e. ₹ 3,20,00,000 x 8% x 3.169)	81,12,640
Present value of principal payable at the end of 4 th year discounted at 10% (₹ 3,20,00,000 x 0.683)	<u>2,18,56,000</u>
Liability component of the compound financial instrument	2,99,68,640
Equity component of the financial instrument (Balancing Figure)	<u>20,31,360</u>
Total proceed	<u>3,20,00,000</u>

Computation of finance cost to be charged to the financial instrument

Date	Opening balance a	Finance cost b = a x 10%	Interest out flow 3,20,00,000 x 8%	Outstanding balance at the end of the year d = (a+b-c)
	₹	₹	₹	₹
31.3.2023	2,99,68,640	29,96,864	25,60,000	3,04,05,504
31.3.2024	3,04,05,504	30,40,550	25,60,000	3,08,86,054
31.3.2025	3,08,86,054	30,88,605	25,60,000	3,14,14,654
31.3.2026	3,14,14,654	31,45,346	25,60,000	3,20,00,000

₹ 31,45,346 - ₹ 31,41,466 = ₹ 3,880 is due to approximation and rounding off.

According to the above table, finance cost to be charged in the Statement of Profit and Loss = ₹ 30,40,550.

The closing balance of liability component of convertible debentures to be presented in the balance sheet would be ₹ 3,08,86,054 and equity component would be ₹ 20,31,360.

Ind AS 19
PE 26A. DBS and Plan Asset


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

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

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

[May-2024]

Ans.

Remeasurement of gain or loss

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

Past service cost	7,280
Net finance cost	3,100
Gain on settlement	(2,120)
Contributions to plan	(33,650)
Benefits paid	NIL
Remeasurement loss (balancing figure)	<u>15,020</u>
Liability at the end of the year (₹ 3,26,480 - ₹ 2,68,340)	<u>58,140</u>

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

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

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

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

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of ₹ 2,120 (₹ 38,390 - ₹ 36,270) will be reported in the statement of profit and loss.

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

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

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

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

first attempt success tutorials

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

Ind AS 20

PE 7A. Various



ABC Limited has received the following grants for its newly started venture of manufacturing defense equipment in the defense corridor:

- ₹ 25 lakhs received as an incentive for setting up industry in the defense corridor without any further condition.
- ₹ 50 lakhs received for carrying out research and development in the field of innovation of defense equipment.
- Besides ABC Limited is awarded a government grant of ₹ 6 lakhs payable over three years (₹ 4 lakhs in the first year, ₹ 1 lakh each in year 2 and 3), on the condition of creating 10 new jobs and maintaining them for 3 years. The employees are recruited at a cost of ₹ 3,60,000 and the wage bill for the first year is ₹ 8,00,000, rising by ₹ 80,000 in each of the next 2 years. ABC Limited has a

reasonable assurance that it will comply with the conditions attached to them and the grants will be received.

How should ABC Limited account for the above grants including the deferred income if any in its books of account? **[May-2024]**

Ans.

ABC Ltd. should recognise the grants in the following manner:

- (i) ₹ 25 lakhs have been received as an incentive for setting up industry in the defence corridor. This should be recognised in Statement of Profit and Loss immediately as there are no further conditions attached to the grant.
- (ii) ₹ 50 lakhs should be recognised in profit or loss immediately assuming that no further conditions are attached to the grant.

Alternatively, in case it is assumed that grant for carrying out research and development in the field of innovation of defense equipment has conditions attached to it, then ₹ 50 lakhs should be recognised in profit or loss on a systematic basis over the periods in which ABC Ltd. recognises as expense the Research and Development costs for which the grant is intended to compensate.

- (iii) Since there is reasonable assurance that the entity will comply with the conditions attaching to them and the grant will be received, the grant of ₹ 6,00,000 should be recognised at the beginning of the first year as receivable and will be compensated for the related costs over three years.

Therefore, grant income to be recognised in the Statement of Profit and Loss for the years 1,2 and 3 would be ₹ 2,32,000, ₹ 1,76,000 and ₹ 1,92,000 respectively. (Refer W.N 1 below)

The amount of grant that has not yet been credited to the statement of profit and loss i.e. deferred income is to be shown on the balance sheet. Hence, deferred income balance as at end of year 1, 2 and 3 are ₹ 3,68,000, ₹ 1,92,000 and Nil respectively. (Refer W.N.1 below)

Working Note:

Calculation of grant income and deferred income:

Year	Labour Cost	Grant Income	Computation of Grant Income	Deferred Income at the end of the year	Computation of deferred income at the end of the year
	₹	₹	₹	₹	₹
1	11,60,000	2,32,000	$6,00,000 \times (1,160/3,000)$	3,68,000	$(6,00,000 - 2,32,000)$
2	8,80,000	1,76,000	$6,00,000 \times (880/3,000)$	1,92,000	$(3,68,000 - 1,76,000)$
3	<u>9,60,000</u>	<u>1,92,000</u>	$6,00,000 \times (960/3,000)$	Nil	$(1,92,000 - 1,92,000)$
	<u>30,00,000</u>	<u>6,00,000</u>			

Ind AS 115

PE 61A.

Measurement Price - Discount Coupons



Q Limited offers a new product X for sale to its customers at a price of ₹ 1,500. As a part of the Scheme, Q Limited gives the customers a discount voucher which entitles them a 30% discount on any future purchases up to ₹ 1,500 in the next 30 days. Q Limited intends to offer a 5% discount on all sales during the next 30 days as a part of the seasonal promotion. The 5% discount cannot be used in addition to the 30% discount voucher.

Q Limited believes that there is 80% likelihood that a customer will redeem the voucher and on an average, a customer will purchase ₹ 1,000 of additional products.

Find out is there any performance obligation on the part of Q Limited and if so calculate the stand alone and allocated transaction price. **[May-2024]**

Ans.

Since all customers will receive a 5% discount on purchases during the next 30 days, the only additional discount that provides the customer with a material right is the incremental discount of 25% on the products purchased. The entity accounts for the promise to provide the incremental discount as a separate performance obligation in the contract for the sale of Product X.

The entity believes there is 80% likelihood that a customer will redeem the voucher and, on an average, a customer will purchase ₹ 1,000 worth of additional products. Consequently, the entity's estimated stand-alone selling price of the discount voucher is ₹ 200 (₹ 1,000 average purchase price of additional products x 25% incremental discount x 80% likelihood of exercising the option). The stand-alone selling prices of Product X and the discount voucher and the resulting allocation of the ₹ 1,500 transaction price are as follows:

Performance obligations	Stand-alone selling price ₹
Product X	1,500
Discount voucher	200
Total	1,700

Performance obligations	₹	Allocated transaction price ₹
Product X	$(1,500 \div 1,700 \times 1,500)$	1,324
Discount voucher	$(200 \div 1,700 \times 1,500)$	176
Total		1,500

The entity allocates ₹ 1,324 to Product X and recognizes revenue for Product X when control transfers.

The entity allocates ₹ 176 to the discount voucher and recognizes revenue for the voucher when the customer redeems it for goods or services or when it expires.

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Ind AS 21

PE 26A. FTA - LTMI - Foreign Currency Fluctuations



A Limited has chosen to elect the deemed cost exemption for carrying value of its property, plant and equipment as per previous GAAP in accordance with Ind AS 101. However, it does not wish to select the exemption available as per Ind AS 101 of capitalising exchange fluctuation on long-term foreign currency monetary items to property, plant and equipment and accordingly, it did not opt to avail the exemption available as per Ind AS 101 for previous GAAP policy of capitalizing exchange fluctuation to PPE.

In such a case, how would the company be required to treat the foreign exchange fluctuation already capitalised to the cost of property, plant and equipment under previous GAAP and also what will be the treatment of fluctuation on long-term foreign currency monetary items on transition date and after the transition date to Ind AS by the company in light of the above options exercised by the company?

[May-2024]

Ans.

Ind AS 101 permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS. Accordingly, the carrying value of property, plant and equipment as per previous GAAP as at the date of transition need not be adjusted for the exchange fluctuations capitalized to property, plant and equipment.

Separately, it allows a company to continue with its existing policy for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

Accordingly, given that Ind AS 101 provides these two choices independent of each other, it may be possible for an entity to choose the deemed cost exemption for all of its property, plant and equipment and not elect the exemption of continuing the previous GAAP policy of capitalising exchange fluctuation to property, plant and equipment.

In such a case, a harmonious interpretation of the two exemptions would require the company to recognise the property, plant and equipment at the transition date at the previous GAAP carrying value (without any adjustment for the exchanges differences capitalized under previous GAAP)

But, for the purposes of the first (and all subsequent) Ind AS financial statements, foreign exchange fluctuation on all long-term foreign currency borrowings that arose after the transition date would be recognised in the statement of profit and loss.

Framework for Preparation and Presentation of FS

PE 9A. Recognition and DR of Asset

Explain the criteria in the Conceptual Framework for Financial Reporting for the recognition and derecognition of an asset. **[May-2024]**

Ans.



Recognition of assets

The Conceptual Framework for Financial Reporting defines an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Assets should be recognized if they meet the Conceptual Framework definition of an asset and such recognition provides users of financial statements with information that is useful i.e. with (a) relevant information; and (b) a faithful representation of the asset.

(i) Relevance

Information about assets is relevant to users of financial statements. However, recognition of a particular asset may not always provide relevant information like when:

- (i) it is uncertain whether an asset exists; or
- (ii) an asset exists, but the probability of an inflow or outflow of economic benefits is low

It may be a combination of factors and not any single factor that determines whether recognition provides relevant information.

Whether or not the asset is recognised, explanatory information about the uncertainties associated with it, may need to be provided in the financial statements.

(ii) Faithful representation

Recognition of a particular asset is appropriate if it provides not only relevant information, but also a faithful representation of that asset and of any resulting income, expenses or changes in equity. Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset or by other factors.

Faithful representation of a recognised asset involves not only recognition of that item, but also its measurement as well as presentation and disclosure of information about it.

Derecognition of assets

Derecognition is the removal of all or part of a recognised asset from an entity's balance sheet.

Derecognition normally occurs when that item no longer meets the definition of an asset i.e. when the entity loses control of all or part of the recognised asset.

In some cases, an entity might appear to transfer an asset but derecognition of that asset is not appropriate. For example, if an entity has apparently transferred an asset but retains exposure to significant positive or negative variations in the amount of economic benefits that may be produced by the asset, this sometimes indicates that the entity might continue to control that asset. If an entity has transferred an asset to another party that holds the asset as an agent for the entity¹ the transferor still controls the asset.

Introduction to Indian Accounting Standards
PE 18A.

Applicability Phases

List out the entities which were covered under Phase I & II under the Companies (Indian Accounting Standards) Rules 2015 as notified by the MCA along with the specific date of coverage with its exclusions, if any. **[May-2024]**

Ans.

MCA has notified the Companies (Indian Accounting Standards) Rules, 2015. Accordingly, it has notified 39 Ind AS and has laid down mandatory Ind AS transition roadmap for companies and non-banking finance companies excluding banking companies and insurance companies under following two phases:

Phase I

Following companies were covered under Phase I for accounting periods beginning on or after 1st April 2016, with the comparatives for the periods ending on 31st March 2016:

- 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) above and having net worth of rupees five hundred crore or more;
- holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) and sub-clause (b) as mentioned above.

Phase II

Following companies were covered under Phase II for accounting periods beginning on or after 1st April 2017, with the comparatives for the periods ending on 31st March 2017:

- companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;
- companies other than those covered in sub-clause (a) above i.e. unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.
- holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) and sub-clause (b) as mentioned above.

Exclusions:

The roadmap shall not be applicable to companies whose securities are listed or are in the process of being listed on SME without initial public offering in accordance with the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

Ind AS would not be applicable to companies other than listed companies whose net worth is less than ₹ 250 Crores and they will continue to follow AS. However, they can voluntarily adopt Ind AS any time.

Accounting and Technology
PE 7.

Cloud Computing

Discuss how "Cloud Computing" has positively impacted the accounting function and list out the challenges faced by the users of it in cloud computing environment. **[May-2024]**

Ans.

Cloud computing refers to the delivery of computing services over the internet. It allows accountants to access their data and software from any device with an internet connection.

Following are some of the ways in which Cloud Computing has positively impacted accounting:

1. **Improved accessibility:** Cloud-based accounting software allows users to access their financial data from any location with an internet connection. This has increased accessibility and flexibility for accountants and business owners, allowing them to work remotely and collaborate in real-time.
2. **Enhanced security:** Cloud-based accounting software providers typically offer advanced security features such as encryption, firewalls, and multi-factor authentication helping in the protection of sensitive financial data from cyber threats and data breaches.
3. **Increased scalability:** Cloud-based accounting software allows businesses to easily scale up or down based on their changing needs. As a business grows, it can easily add new users and features without having to invest in additional hardware or software.
4. **Reduced costs:** Cloud-based accounting software typically requires less upfront investment in hardware and software, as well as ongoing maintenance costs. This can help businesses save money on IT expenses and redirect those funds to other areas of the business. For example, the costs of installing Microsoft Office Suite on a laptop or desktop is far more expensive than subscribing to the Office 365 Suite, which is a web-based download. Further, the web-based download also provides the options of continuous free updates unlike its Office Suite offline counterpart.
5. **Streamlined collaboration:** Cloud-based accounting software allows multiple users to collaborate in real-time, reducing the need for manual data entry and communication. This can help to streamline workflows and reduce errors caused by miscommunication.
6. **Improved reporting and analytics:** Cloud-based accounting software often includes powerful reporting and analytics tools that allow businesses to gain deeper insights into their financial performance. This can help businesses make more informed decisions and identify areas for improvement.

Challenges in Cloud Computing

Following are the potential challenges which may emerge in cloud computing:

1. Since cloud-based software are completely online, they could be prone to hackers who could 'steal' data or passwords or compromise the integrity of the processed data, thereby causing disruptions to the businesses.
2. Strong net connectivity is a must for cloud-computing to be a success. Though there has been a huge surge in network and mobile connectivity in the past decade, connectivity in non-metros, tier-2 or tier-3 cities is not well-developed, which could create accessibility issues to the users of the cloud-based accounting software.

Ind AS 105

PE 14A. Reclassification



Y Limited purchased a building for ₹ 30,00,000 on 1st April 2021. The useful life of the building is estimated at 15 years. On 31st March 2023, Y Limited classified the said building as held for sale. The impairment testing provides the estimated recoverable amount as ₹ 23,50,000.

The fair value less cost to sell on 31st March, 2023 was ₹ 23,00,000. On 31st March, 2024 the management of Y Limited changed the plan, as the building no longer met the criteria of held for sale. The recoverable amount as at 31st March 2024 is ₹ 25,00,000.

You are required to recommend the accounting treatment of events for the year ending 31st March 2023 and 31st March 2024 and value the property at the end of 31st March 2023 and 31st March 2024.

[May-2024]

Ans.

1. **Value of property immediately before the classification as held for sale, as per Ind AS 16, as on 31st March, 2023**

	₹
Purchase Price	30,00,000

Less: Accumulated Depreciation (for two years i.e. ₹2,00,000 per year)	(4,00,000)
	26,00,000
Less: Impairment loss (₹26,00,000 – ₹23,50,000)	(2,50,000)
Carrying Amount	<u>23,50,000</u>

On initial classification as held for sale on 31st March, 2023, the value will be lower of:

Carrying amount after impairment	₹ 23,50,000
Fair Value less Cost to sell	₹ 23,00,000

On 31st March, 2023, non-current asset classified as held for sale will be recorded at ₹23,00,000. Depreciation of ₹2,00,000 (For the year) and Impairment Loss of ₹3,00,000 (₹2,50,000 + ₹50,000) is charged in profit or loss for the year ended 31st March, 2023.

- 2. On 31st March, 2024, held for sale property is reclassified as criteria is not met. The value will be lower of:**

Carrying amount immediately before classification on 31 st March, 2023	₹23,50,000
Less: Depreciation based on 13 years balance life	(₹1,80,769)
Carrying amount had the asset is not classified as held for sale	<u>₹21,69,231</u>

Recoverable Amount ₹25,00,000

Property will be valued at ₹21,69,231 on 31st March, 2024.

Adjustment to the carrying amount of ₹1,30,769 (₹23,00,000 – ₹21,69,231) is charged to the profit or loss.

Ind AS 34

PE 1A.

Measurement



Dhruv Limited, a production company, sells television to various companies all over India. Company's financial year ends on 31st March. For the financial year 2022-23, the company had a net profit after taxes of ₹2.4 crores. It prepares and publishes an interim financial report for each quarter of the year. The net profit of the company for the second quarter of 2023-24 is ₹56 Lakhs.

Following adjustments are to be made while computing the net profit of second quarter:

- The company has a practice of declaring bonus of 5% of its profit after taxes of previous financial year. It has a history of doing so and the amount is recognised equally in each quarter. It declared bonus on 1st June 2023 but recognised the full amount in second quarter.
- The company intends to incur major repair and renovation expense for the office building. For this purpose, it has started seeking quotations from vendors. It also has tentatively identified a vendor and expected costs are ₹34 lakhs. It provided for the same in this quarter.
- Exceptional loss of ₹4.2 Lakhs incurred during the second quarter due to workers strike. 50% of exceptional loss has been deferred to next quarter.

Ascertain the correct net profit with reasons to be shown in the Interim Financial Report of second quarter to be presented to the Board of Directors.

[May-2024]

Ans.

In the instant case, the quarterly net profit has not been correctly stated. As per Ind AS 34, Interim Financial Reporting, the quarterly net profit should be adjusted and restated as follows:

- A liability for bonus may arise out of legal agreement or constructive obligation because of which it has no alternative but to pay the bonus and accordingly, needs to be accrued in the annual financial statements. Bonus liability is accrued in interim financial statements on the same basis as they are accrued for annual financial statements.

In the given case, since the company has past record of declaring annual bonus every year, the same may be accrued using a reasonable estimate (applying the principles of Ind AS 19, Employee Benefits) while preparing its interim results.

Accordingly, Bonus amount to be charged in the second quarter would be ₹ 2,40,00,000 × 5% × $\frac{1}{4}$ = ₹ 3,00,000.

Bonus of ₹ 9,00,000 (₹ 12,00,000 – ₹ 3,00,000) must be reversed.

(ii) The cost of a planned major repair and renovation that is expected to occur in later part of the year is not considered for interim reporting purposes unless an event has caused the entity to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

Hence, ₹ 34,00,000 provided in the second quarter must be reversed.

(iii) Treatment of exceptional loss is not as per the principles of Ind AS 34, as the entire amount of ₹ 4,20,000 incurred during the second quarter should be recognized in the same quarter.

Hence, ₹ 2,10,000 which was deferred should be deducted from the profits of second quarter only.

Thus, considering the above, the correct net profits to be shown in Interim Financial Report of the second quarter shall be:

₹ 96,90,000 (₹ 56,00,000 + ₹ 9,00,000 + ₹ 34,00,000 - ₹ 2,10,000).

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RTP-Nov-2024**Ind AS 12****RT 7A.****Tax Base**

X Ltd., an Indian company owns a freehold land with carrying value of ₹10,00,000 which is not depreciated for tax purposes but is indexed for inflation. Indexed value and fair value of such land is ₹ 15,00,000 and ₹ 22,00,000 respectively as of the reporting date. What will be the tax base for such freehold land for measurement of deferred tax if:

- (i) X Ltd. intends to sell it as a part of slump sale of business eventually after using it for business purpose
- (ii) X Ltd. intends to sell the land individually and not on a slump sale basis
- (iii) X Ltd. has classified such land as investment property and intends to sell it individually and not on a slump sale basis
- (iv) X Ltd. follows a revaluation model for freehold land and intends to sell it individually and not on a slump sale

As per the applicable tax laws in the jurisdiction, indexation benefit is not available if the freehold land is sold as a part of slump sale of business, but indexation benefit is available if freehold land is sold individually.

[RTP-Nov-2024]**Ans.**

Paragraphs 51 and 51A of Ind AS 12, state that the measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

- (a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and
- (b) the tax base of the asset (liability).

In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement."

The expectation of the entity at the end of the reporting period with regard to the manner of recovery or settlement of its assets and liabilities will require exercise of judgement based on evaluation of facts and circumstances in each case. It may be relevant to consider that there is substance to management's expectation of the entity being able to recover the asset through slump sale or otherwise.

Depending on the facts and circumstances, it is generally assumed that the Company will act in the most economically advantageous way.

If a non-depreciable asset is measured using the revaluation model, then an entity is required to measure the DTA/DTL considering the tax consequences of recovering the carrying amount through sale.

Accordingly, based on assumption around supporting facts and circumstances to support management expectation around recovery or settlement, following will be the tax base for computing the deferred tax assets/ liability, in the given case:

- (i) X Ltd. intends to sell it as slump sale eventually after using it for business purpose

If it is concluded based on evaluation of facts that the freehold land will be sold through slump sale, then the tax base of the land will be the same as the carrying amount of the land, as indexation benefit is not available in case of slump sale and hence there will not be any temporary difference.

- (ii) X Ltd. intends to sell the land individually and not on a slump sale basis

In the given scenario, the company intends to sell the land individually and not on a slump sale such that the company would get indexation benefit.

Thus, book base of land, i.e. carrying amount of freehold land in the balance sheet is ₹ 10,00,000. As per paragraph 51A of Ind AS 12, the tax base (amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset) is the indexed valued of ₹ 15,00,000 since the company intends to sell the land individually and not on slump sale and thus get indexation benefit. Deferred tax assets will be set up, subject to recoverability, on a deductible tax difference of ₹ 5,00,000.

- (iii) X Ltd. has classified such land as investment property and intends to sell it individually and not on a slump sale

Paragraph 56 of Ind AS 40, Investment property, requires that after initial recognition, an entity shall measure all of its investment properties in accordance with the requirement for cost model as per Ind AS 16, other than those that meet the criteria to be classified as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations. Ind AS 40 does not allow fair value model. Accordingly, freehold land classified as investment property will be measured at cost.

Thus, book base of land, i.e. carrying amount of freehold land in the balance sheet is ₹ 10,00,000. The Company intends to sell the land individually and not on a slump sale and thus get indexation benefit. Hence, as per paragraph 51A of Ind AS 12, the tax base (amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset) is the indexed valued of ₹ 15,00,000. Accordingly, deferred tax assets will be set up, subject to recoverability, on deductible tax difference of ₹ 5,00,000.

- (iv) X Ltd. follows a revaluation model for freehold land and intends to sell it individually and not on a slump sale. If X Ltd. follows a revaluation model, carrying amount of freehold land in the balance sheet would be ₹ 22,00,000. Thus, book base of land is ₹ 22,00,000.

The Company intends to sell the land individually and not on a slump sale and thus get indexation benefit. Hence, as per paragraph 51A of Ind AS 12, the tax base (amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset) is the indexed valued of ₹ 15,00,000. Accordingly, deferred tax liability will be set up on taxable temporary difference of ₹ 7,00,000.

As per paragraph 39 of Ind AS 16, if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Accordingly, the effect of deferred tax liability should also be recognised in other comprehensive income as per paragraph 57 and 61A of Ind AS 12.

RT 29A.
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]

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	<u>7,67,000</u>	9,50,000	<u>6,94,000</u>
Value in use			<u>65,14,000</u>		<u>62,73,000</u>

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

Consolidated and Separate Financial Statements

RT 157A. 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]

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.

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CA Final FR

MTP-Nov-2024

Consolidated and Separate Financial Statements

MT 103B.
LOAN TO SUBSIDIARY


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

State how the loan be accounted for, in the separate financial statements of XYZ Ltd., individual financial statements of ABC Ltd. and consolidated financial statements of the group when the loan is repayable after 3 years. The current market rate of interest for similar loan is 10% p.a. for both holding and subsidiary. **[MTP-Nov-2024]**

Ans.

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.

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 XYZ Ltd (Parent)

Particulars	Amount	Amount
On the date of loan		
Loan to ABC Ltd (Subsidiary) Dr.	7,51,315	
Deemed Investment (Capital Contribution) in ABC Ltd. Dr.	2,48,685	
To Bank		10,00,000
(Being the loan is given to ABC Ltd and recognised at fair value)		
Accrual of Interest income		
Loan to ABC Ltd Dr.	75,131	
To Interest income		75,131
(Being interest income accrued) – Year 1		
Loan to ABC Ltd Dr.	82,645	
To Interest income		82,645
(Being interest income accrued) – Year 2		
Loan to ABC Ltd Dr.	90,909	
To Interest income		90,909
(Being interest income accrued) – Year 3		
On repayment of loan		
Bank Dr.	10,00,000	
To Loan to ABC Ltd (Subsidiary)		10,00,000

Accounting in the books of ABC Ltd (Subsidiary)

Particulars	Amount	Amount
On the date of loan		
Bank Dr.	10,00,000	
To Loan from XYZ Ltd (Payable)		751,315
To Equity (Deemed Capital Contribution from XYZ Ltd)		2,48,685
Accrual of Interest		
Interest expense Dr.	75,131	
To Loan from XYZ Ltd (Payable) (Being interest expense recognised)–Year 1		75,131
Interest expense Dr.	82,645	
To Loan from XYZ Ltd (Payable) (Being interest expense recognised)–Year 2		82,645
Interest expense Dr.	90,909	
To Loan from XYZ Ltd (Payable) (Being interest expense recognised)–Year 3		90,909
On repayment of loan		
Loan from XYZ Ltd (Payable) Dr.	10,00,000	
To Bank		10,00,000

Working Notes:

1	Computation of Present value of loan	
	Rate	10%
	Amount of Loan	10,00,000
	Year	3
	Present Value	7,51,315
2	Computation of interest for Year 1	
	Present Value	7,51,315
	Rate	10%
	Period of interest - for 1 year	1
	Closing value at the end of year 1	8,26,446
	Interest for 1st year	75,131
3	Computation of interest for Year 2	
	Value of loan as at the beginning of Year 2	8,26,446
	Rate	10%
	Period of interest - for 2nd year	1
	Closing value at the end of year 2	9,09,091
	Interest for 2nd year	82,645
4	Computation of interest for Year 3	
	Value of loan as at the beginning of Year 3	9,09,091
	Rate	10%

Period of interest - for 3rd year	1
Closing value at the end of year 3	10,00,000
Interest for 3rd year	90,909

Ind AS 24

MT 11A. RP Arm's Length Transaction



One of the directors of Buildwell Ltd., Mr. Ben Jones has informed Central Finance team that on 1st January 20X3, his spouse acquired a controlling interest in one of Buildwell Ltd.'s major suppliers, Candour Ltd. Mr. Jones seemed to think that this would have implications on the financial statements of Buildwell Ltd. Buildwell Ltd. has been purchasing goods from Candour Ltd. ₹ 1.5 million per month of the year ended 31st March 20X3. As per the financial statements of Buildwell Ltd., this is a significant amount. While checking all the purchase transactions it was found that all the purchases from Candour Ltd. were made at normal market rates.

How the effect of acquisition of controlling interest in Candour Ltd. by Mr. Ben Jones is to be reflected in the financial statements for the year ending 31st March 20X3? **[MTP-Nov-2024]**

Ans.

In accordance with Ind AS 24 'Related Party Disclosures', effective 1st January 20X3, Candour Ltd. would be regarded as a related party of Buildwell Ltd. This is because Candour Ltd. is controlled by the close family member of one of Buildwell Ltd.'s key management personnel. This means that from 1st January 20X3, the purchases from Candour Ltd. would be regarded as related party transactions.

As per the provisions of para 18 of Ind AS 24, transactions with related parties need to be disclosed in the notes to the financial statements, together with the nature of the relationship. It is irrelevant whether or not these transactions are at normal market rates. As per para 23 of the standard, disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

The disclosure is required to state that Candour Ltd., controlled by the spouse of a director, supplied goods to the value of ₹ 4.5 million (3 x ₹ 1.5 million) in the current accounting period.

Professional and Ethical Duty of a Chartered Accountant

MT 11A. Explain the five fundamental principles of ethics for Chartered Accountants.

[MTP-Nov-2024]

Ans. Five fundamental principles of ethics for Chartered Accountants:



- (1) Integrity – to be straightforward and honest in all professional and business relationships.
- (2) Objectivity – not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others.
- (3) Professional Competence and Due Care – to:
 - (i) attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (ii) act diligently and in accordance with applicable technical and professional standards.
- (4) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (5) Professional Behaviour – to comply with relevant laws and regulations and avoid any conduct that the Chartered Accountant knows or should know might discredit the profession.

MT 6A.

Obligating Event - Smoke Filters



Under new legislation, an entity is required to fit smoke filters to its factories by 30th September, 20X1. The entity has not fitted the smoke filters. It is assumed that a reliable estimate can be made of any outflows expected.

Determine whether any provision is required to be made by the entity on

- (a) At 31st March, 20X1, the end of the reporting period
- (b) At 31st March, 20X2, the end of the reporting period

[MTP-Nov-2024]

Ans.

(a) At 31st March, 20X1, the end of the reporting period

Present obligation as a result of a past obligating event – There is no obligation because there is no obligating event either for the costs of fitting smoke filters or for fines under the legislation.

Conclusion – No provision is recognised for the cost of fitting the smoke filters.

(b) At 31st March, 20X2, the end of the reporting period

Present obligation as a result of a past obligating event – There is still no obligation for the costs of fitting smoke filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliant operation of the factory).

An outflow of resources embodying economic benefits in settlement – Assessment of probability of incurring fines and penalties by non-compliant operation depends on the details of the legislation and the stringency of the enforcement regime.

Conclusion – No provision is recognised for the costs of fitting smoke filters. However, a provision is recognised for the best estimate of any fines and penalties that are more likely than not to be imposed.

“

NOTES

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CA Final FR

Exam-Nov-2024

Consolidated and Separate Financial Statements

PE 110A.

COMPREHENSIVE



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

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

Additional Information:

- 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.
- 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		<u>34,875</u>
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		<u>1,500</u>
Total		<u>34,875</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 (30)	<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 (200/80% x 20% x 50%) (25)	<u>1,675</u>	4,275

4. Cash and cash equivalent

₹ in lakhs

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

5. Trade Receivable

₹ in lakhs

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

6. Dividend Receivable

₹ 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>(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>	<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

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%)	(80)
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)	(1)
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%)	20

Financial Instrument

PE 88A.

DERIVATIVES


On 1st January 2023, Joe & Co. Limited, an Indian listed company which prepares its financial statements on a quarterly basis has entered into a written put option for USD (\$) 40,000 with Box Limited to be settled in future on 31st December 2023 for a rate equal to ₹78 per USD at the option of Box Limited. Joe & Co. Limited did not receive any amount upon entering into the contract.

For the purpose of accounting, use the following information representing marked to market fair value of put option contract at each reporting date.

As at 31 st March 2023	- ₹ (50,000)
As at 30 th June 2023	- ₹ (30,000)
As at 30 th September 2023.	- ₹ NIL
Spot rate of USD on 31 st December 2023	- ₹ 76 per USD.

Evaluate and explain whether the above option meets the definition of derivatives as laid down in Ind AS 109 and record the entries for each quarter ended till the date of actual purchase of USD. **[Nov-2024]**

Ans.

first attempt success tutorials

Assessment of the arrangement using the definition of derivative included under Ind AS 109

Derivative is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- it is settled at a future date.

The contract meets the definition of a derivative as follows:

- the value of the contract to purchase USD at a fixed price changes in response to changes in foreign exchange rate.
- the initial amount received to enter into the contract is zero. A contract which would give the holder a similar response to foreign exchange rate changes would have required an investment of USD 40,000 on inception.
- the contract is settled in future

The derivative liability is a written put option contract.

As per Ind AS 109, derivatives are measured at fair value upon initial recognition and are subsequently measured at fair value through profit and loss.

- **Accounting on 1st January, 2023**

As there was no consideration paid and without evidence to the contrary the fair value of the contract on the date of inception is considered to be zero. Accordingly, no accounting entries shall be recorded on the date of entering into the contract.

- **Accounting on 31st March, 2023**

The value of the derivative put option contract shall be recorded as a derivative financial liability in the books of Joe & Co. Ltd. by recording the following journal entry:

Particulars	Dr. (₹)	Cr. (₹)
Profit and loss A/c To Derivative financial liability (Being mark to market loss on the put option contract recorded)	Dr. 50,000	50,000

- **Accounting on 30th June, 2023**

The change in value of the derivative put option contract shall be recorded as a derivative financial liability in the books of Joe & Co. Ltd. by recording the following journal entry:

Particulars	Dr. (₹)	Cr. (₹)
Derivative financial liability A/c To Profit and loss A/c (Being partial reversal of mark to market loss on the put option contract recorded)	Dr. 20,000	20,000

- **Accounting on 30th September, 2023**

The change in value of the derivative option contract shall be recorded at zero in the books of Joe & Co. Ltd. by recording the following journal entry:

Particulars	Dr. (₹)	Cr. (₹)
Derivative financial liability A/c To Profit and loss A/c (Being gain on mark to market of put option contract booked to make the value of the derivative liability as zero)	Dr. 30,000	30,000

- **Accounting on 31st December, 2023**

The settlement of the derivative put option contract by actual purchase of USD 40,000 shall be recorded in the books of Joe & Co. Ltd. upon exercise by Box Ltd. by recording the following journal entry:

Particulars	Dr. (₹)	Cr. (₹)
Bank (USD Account) (@40,000 x ₹ 76) Profit and loss A/c To Bank (@ 40,000 x ₹ 78) (Being loss on settlement of put option contract booked on actual purchase of USD)	Dr. Dr. 30,40,000 80,000	31,20,000

PE 10A. 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 = <u>880</u> (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>

PE 11A. 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 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:

Particulars	INVESTMENT PROPERTIES:			(₹ in crores)
	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)	(1.30)
Profit from investment properties before depreciation and indirect expenses	18.70
Less: Depreciation	(13.00)
Profit from earnings from investment properties before indirect expenses	<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%

Ind AS 12

PE 5A. PPE



Mahadev Ltd. has a block of assets with a written down value of ₹ 5,00,000 on 1st April, 2022 for tax purposes. The book value of the assets for accounting purposes is also ₹ 5,00,000. Depreciation is charged on written down value @ 20% p.a. for both accounting and tax purposes. Of the entire block, assets costing ₹ 50,000 on 1st April, 2022 were sold for ₹ 1,00,000 on 31st March, 2024. You are required to compute the deferred tax asset/liability assuming tax rate of 35%. **[Nov-2024]**

Ans.

Computation of tax base

Particulars	Carrying amount (₹)	Taxbase (₹)
Carrying balance on 1 st April, 2022	5,00,000	5,00,000
Less: Depreciation	(1,00,000)	(1,00,000)
Balance as on 31 st March, 2023	4,00,000	4,00,000
No Temporary difference as on 31 st March, 2023	--	--
Less: Carrying amount on the date of disposal to be reversed (accounting record) (Refer W.N.)	(32,000)	
Less: Sale proceeds of the asset to be deducted as per tax records		(1,00,000)
Less: Depreciation		
Accounting depreciation (4,00,000 x 20%)	(80,000)	
Tax depreciation {(4,00,000 - 1,00,000) x 20%}		(60,000)
Balance of the asset as on 31 st March, 2024	<u>2,88,000</u>	<u>2,40,000</u>

Working Note:

Accounting book value on 31st March, 2024 = ₹ 50,000 - ₹ 10,000 - ₹ 8,000
= ₹ 32,000

Carrying amount is greater than Tax base which leads to Deferred Tax Liability i.e. Temporary difference
= ₹ 2,88,000 - ₹ 2,40,000 = ₹ 48,000

Deferred Tax Liability = ₹ 48,000 x 35% = ₹ 16,800

Ind AS 16
 first attempt success tutorials
PE 9A.**DRS COSTS**

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

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

You are required to:

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

[Nov-2024]

Ans.

(i) Accounting Treatment

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

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

(ii)

Journal Entries

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

Working Note:

The following table shows the unwinding of discount

(₹)

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

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

PE 19A. REVALUATION

Creative Limited performed a revaluation of all of its plant and machinery at the beginning of 1.4.2024. The following information relates to one of its Machinery:

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

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

You are required to advise how the company should account for revaluation of plant and machinery and depreciation subsequent to revaluation. Also pass journal entries in relation to the above. **[Nov-2024]**

Ans.

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

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

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

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

Gross carrying amount ₹ 5,00,000 $[(4,00,000/2,40,000) \times 3,00,000]$

Less: Net carrying amount (₹ 3,00,000)

Accumulated depreciation ₹ 2,00,000 $(1,60,000 + 40,000)$

Journal Entry

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

Depreciation subsequent to revaluation

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

Journal Entry

Depreciation Dr.	₹ 50,000	
To Accumulated Depreciation		₹ 50,000
(Being the revised depreciation after revalued charged)		

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

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

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

Journal Entry

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

Depreciation subsequent to revaluation

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

Journal entry

Depreciation	Dr.	₹ 50,000	
To Accumulated Depreciation			₹ 50,000
(Being the revised depreciation charged to the Gross Block)			

Ind AS 102

PE 3A. ES PLAN



Greater Ltd., in order to reward its employees launched a scheme effective from 1st April, 2021, in which employees will be granted equity shares of the company at a price less than the market price subject to satisfaction of certain conditions. Following details are provided to you:

- According to scheme, each employee has an option to purchase 250 equity shares of the company at ₹ 45 per share provided that the employee does not leave the company for 3 years from the date of launch of the scheme i.e. upto 31st March, 2024.
- Once 3 years are completed by an employee, the employee can exercise the option within 1 year i.e. by 31st March, 2025.
- The closing share price on stock exchange as at 1st April, 2021 is ₹ 91 per share with face value of ₹ 10 per share. A registered valuer has been appointed by the company who derived the price of option at ₹ 75 using Black Scholes model of option pricing.
- There are 750 employees eligible for the scheme. As at 31st March, 2022, 25 employees left the company and further 35 employees are expected to leave over the next 2 years. During the year 2022-23, a foreign based company entered into the market and started hiring experienced employees and therefore retention of existing employees has been problematic and a high attrition rate is observed in the market. 275 employees left the company during the year ended 31st March, 2023 and further 135 employees are expected to leave in the next one year. As at 31st March, 2024, only 400 employees remained with the company out of 750 employees.
- Out of it only 375 employees exercised the option to purchase the equity shares during the year ended 31st March, 2024.

You are required to provide necessary accounting entries during the life of share-based payment scheme to account the scheme implemented by the company.

[Nov-2024]

Ans.

Journal Entries

31 st March, 2022		₹	₹
Employee benefits expenses (W.N.1)	Dr.	43,12,500	
To Share-based payment reserve (equity)			43,12,500
(Being 1/3 rd expenses on share-based payment recognised)			
Profit and Loss A/c	Dr.	43,12,500	
To Employee benefits expenses			43,12,500
(Being employee benefits expenses transferred to P/L)			
31 st March, 2023			
Share-based payment reserve (equity) (W.N.1)	Dr.	3,75,000	
To Employee benefits expenses (transferred to P/L)			3,75,000
(Being reversal of excess expenses booked on computation of 2/3 rd expenses on share-based payment)			
Employee benefits expenses			
To Profit and Loss A/c	Dr.	3,75,000	
(Being employee benefits expenses transferred to P/L)			3,75,000
31 st March, 2024			
Employee benefits expenses (W.N.3)	Dr.	35,62,500	
To Share-based payment reserve (equity)			35,62,500
(Being final recognition of expenses on vesting of share-based options)			
Profit and Loss A/c	Dr.	35,62,500	
To Employee benefits expenses			35,62,500
(Being employee benefits expenses transferred to P/L)			
31 st March, 2025			
Share-based payment reserve (equity) (W.N.4)	Dr.	75,00,000	
Bank A/c (W.N.4)	Dr.	42,18,750	
To Share Capital (W.N.4)			9,37,500
To Securities Premium (W.N.4)			1,03,12,500
To Retained Earnings (W.N.4)			4,68,750
(Being accounting on exercise of 375 options and lapse of 25 options)			

Working Notes:

1. Calculation of Employee Benefit Expenses

	31.3.2022	31.3.2023	31.3.2024
No of Employees	750	750	750
Less: Employees left	(25)	(300)	(350)
Less: Employees expected	(35)	(135)	—
No of employees eligible	690	315	400
No of options per employee	250	250	250
Total options expected to vest	172,500	78,750	100,000
Fair value per option	75	75	75
Total FV	12,937,500	5,906,250	7,500,000

	1/3	2/3	3/3
Cumulative expenses	4,312,500	3,937,500	7,500,000
Expense already recognised	-	4,312,500	3,937,500
Expense to be recognised	4,312,500	-375,000	3,562,500

2. For the year ended 31st March, 2025

Bank = 375 employees x 250 options x ₹ 45 = ₹ 42,18,750

Share capital = 375 employees x 250 options x ₹ 10 = ₹ 9,37,500

Securities Premium = 375 employees x 250 options x ₹ (75 + 35)
= ₹ 1,03,12,500

Retained Earnings = (400-375) employees x 250 options x ₹ 75
= ₹ 4,68,750

Ind AS 115

PE 60A.

REWARD POINT



Big Deal Ltd. is a marketing company having its departmental stores in 'A' class city of India. The company sells the diversified products. For the purpose of increasing sales and attract customers, the company during the financial year 2023-24, has adopted the following policy:

- For every purchase of ₹ 400 the customer is awarded with 6 points.
- Each point is redeemable on any future purchases of company's same departmental store situated in any of 'A' class city within 3 years i.e. upto 31st March, 2026
- Value of each award point is ₹ 0.60

During the financial year 2023-24, the Big Deal Ltd:

- Assessed that the sales of the company during the year 2023-24 is ₹ 150 lakhs.
- Awarded 2,25,000 points to various customers during the year.
- Estimated that out of the awarded points, 54,000 points will remain unredeemed as at 31st March 2024 which shall be eligible for redemption till 31st March, 2026 and;
- Expects only 75% points will be redeemed in the future.

As an accountant of the company, you are required to suggest the accounting treatment (Consolidated Journal Entries) in the following case:

How should the sales and redemption transactions be recognized and recorded as independent transactions in the FY 2023-24 as per Ind AS 115? **[Nov-2024]**

Ans.

Points earned on ₹ 1,50,00,000 @ 6 points on every ₹ 400
= $[(1,50,00,000/400) \times 6] = 2,25,000$ points.

Out of 2,25,000 points, it is estimated that 54,000 points will remain unredeemed in the current year. Further, it is expected that 75% of the unredeemed points will be redeemed in the future.

Accordingly, value of points will be computed as follows:

Value of points redeemed in the current year

= $(2,25,000 - 54,000)$ points x ₹ 0.6 each point = ₹ 1,02,600

Value of points estimated to be redeemed in future

= 54,000 points x 75% x ₹ 0.6 each point = ₹ 24,300

Total value of loyalty points = ₹ 1,02,600 + ₹ 24,300 = ₹ 1,26,900

Revenue recognized for sale of goods

= ₹ 1,48,74,165 $[1,50,00,000 \times (1,50,00,000 / 1,51,26,900)]$

Revenue for points = ₹ 1,25,835 $[1,26,900 \times (1,50,00,000 / 1,51,26,900)]$

Journal Entry for the year 2023-2024

		₹	₹
Bank A/c To Sales A/c To Liability under Customer Loyalty programme (On sale of Goods)	Dr.	1,50,00,000	1,48,74,165 1,25,835
Liability under Customer Loyalty programme To Sales A/c (On redemption of (2,25,000 – 54,000) points)	Dr.	1,01,739	1,01,739

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 To Sales A/c To Liability under Customer Loyalty programme (On sale of Goods)	Dr.	1,50,00,000	1,48,66,204 1,33,796
Liability under Customer Loyalty programme To Sales A/c (On redemption of (2,25,000 – 54,000) points)	Dr.	1,08,175	1,08,175

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

$$= ₹ 1,33,796 \times (1,71,000 / 2,11,500) = ₹ 1,08,175$$

PE 6B. VARIOUS WITH PRESENTATION


Z Limited having net worth of ₹ 25 crores has opted voluntarily to adopt Ind AS from 1st April, 2022 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

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

- (i) As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The land was acquired for a consideration of ₹ 5,00,000. However, the fair value of land as on the date of transition was ₹ 6,00,000.
- (ii) Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 2,80,000 as against the carrying amount of loan which at present equals ₹ 3,00,000.

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding. Prepare Ind AS Impact Analysis Report (Extract) for Z 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. **[Nov-2024]**

Ans.

Assessment of Preliminary Impact Assessment on transition to Ind AS of Z Ltd.'s Financial Statements
(i) Fair value as deemed cost for property plant and equipment:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS 10, Property, Plant and Equipment is recognised at cost less depreciation.	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, the book value should be brought up to fair value. The resulting impact of fair valuation of land ₹ 1,00,000 should be adjusted in other equity.

Journal Entry on the date of transition

Particulars	Debit (₹)	Credit (₹)
Property, Plant and Equipment Dr. To Revaluation Surplus (OCI- Other Equity) (Being PPE recorded at fair value on the date of transition to Ind AS)	1,00,000	1,00,000

(ii) Borrowings - Processing fees/transaction cost:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, such expenditure is charged to Profit and loss account or capitalized 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 ₹ 2,80,000 as against its book value of ₹ 3,00,000. 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. To Retained earnings (Being Borrowings recorded at fair value on date of transition to Ind AS)	20,000	20,000

Ind AS 1

CE 18.

OFF-SETTING



Define the concept of 'Offsetting'. Is offsetting permitted under the following circumstances?

- Whether profit on sale of an asset against loss on sale of another asset can be offset?
- Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary-whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?
- When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset? **[Nov-2024]**

Ans.

Concept of Offsetting: Offsetting refers to presenting an asset and a liability net or income and expenses net as a single amount, in the financial statements. As per Ind AS, an entity is required to report separately both assets and liabilities, and income and expenses. Offsetting in the statement of profit and loss or balance sheet is not permitted unless when offsetting reflects the substance of the transaction or other event.

Scenarios for determining applicability of the concept of offsetting:

- Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising from disposal of various items of property, plant and equipment shall be presented on a net basis. However, gains or losses should be presented separately if they are material.
- As per paragraph 33 of Ind AS 1, offsetting is permitted only when offsetting reflects the substance of the transaction. In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. If the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

- (c) Ind AS 1 prescribes that assets and liabilities, and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per paragraph 42 of Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously. Accordingly, the receivable and payable should be offset against each other and net amount is presented in the balance sheet if the entity has a legal right to set off and the entity intends to do so. Otherwise, the receivable and payable should be reported separately.

Analysis of Financial Statement

PE 4A.

Explain how enhancing qualitative characteristics can improve the usefulness of the financial information. **[Nov-2024]**

Ans.



The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

1. **Comparability:** Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability refers to the use of the same methods for the same items, and uniformity implies that like things must look alike and different things must look different.
2. **Verifiability:** Verifiability means that different knowledgeable and independent observers could reach a consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.
3. **Timeliness:** Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because some users may need to identify and assess trends.
4. **Understandability:** Classifying, characterising and presenting information clearly and concisely makes it understandable.

Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or does not provide a faithful representation of what it purports to represent.

Sometimes, one enhancing qualitative characteristic may have to be diminished to maximise another qualitative characteristic. For example, a temporary reduction in comparability as a result of prospectively applying a new Ind AS may be worthwhile to improve relevance or faithful representation in the longer term. Appropriate disclosures may partially compensate for non-comparability.

Accounting and Technology

SM 4

Steps to identify performance obligations under the contract by using automated process



An entity provides broadband services to its customers along with voice call service. Customer buys modem from the entity. However, customer can also get the connection from the entity and modem from any other vendor. The installation activity requires limited effort and the cost involved is almost insignificant. It has various plans where it provides either broadband services or voice call services or both. Comment on how to identify whether the performance obligations under the contract is distinct by using an automated process? **[Nov-2024]**

Ans.

To identify the performance obligations under the contract and determine if they are distinct, an automated process can be implemented using technology. The following steps can be taken:

- Analyze the clauses in the contract related to the services provided (broadband services, voice call services, modem sales).
- Each clause should be codified using appropriate parameters or tags to capture the relevant information.
- Assign Boolean values (0 or 1) to each parameter or tag in the codified clauses.
- Use "0" to represent "No" and "1" to represent "Yes" for each parameter.
- Define the criteria for evaluating the performance obligations based on the parameters and their Boolean values.
- Consider factors such as the type of service involved, benefits derived by the customer, and promises made in the contract regarding the transfer of goods or services.
- Develop an automated algorithm or script that evaluates the Boolean values of the parameters according to the defined criteria.
- Calculate scores or weights for each parameter based on their significance in determining performance obligations.
- Utilize the scores or weights assigned to the parameters to determine if the performance obligations are distinct.
- If the total score exceeds a certain threshold, consider it a separate performance obligation. The automated process should flag and identify these distinct performance obligations based on the evaluation results.

Ind AS 8

PE 14C. CLASSIFICATION



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

- 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.
- Expenses of ₹ 1,50,000 of the previous year which were omitted from books of accounts of the previous year due to an oversight.
- 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.
- 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]

Ans.

- 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

F.A.S.T.
first attempt success tutorials

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CA Final FR

SM 2025 New Questions

Ind AS 34

SM 15A.


While preparing interim financial statements for the half-year ended 30th September 20X2, an entity discovers a material error (an improper expense accrual) in the interim financial statements for the period ended 30th September 20X1 and the annual financial statements for the year ended 31st March 20X2. The entity does not intend to restate the comparative amounts for the prior period presented in the interim financial statements as it believes it would be sufficient to correct the error by restating the comparatives in the annual financial statements for the year ended 31st March 20X3.

Is this acceptable? Discuss in accordance with relevant Ind AS.

[PM]
Ans.

Paragraph 42 of Ind AS 8, inter alia, states that an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred.

Paragraph 28 of Ind AS 34 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements (except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements).

Paragraph 15B of Ind AS 34 cites 'corrections of prior period errors' as an example of events or transactions which need to be explained in an entity's interim financial report if they are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

Paragraph 25 of Ind AS 34, Interim Financial Statements, states as follows:

"While judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period."

In view of the above, the entity is required to correct the error and restate the comparative amounts in interim financial statements for the half-year ended 30th September 20X2.

Financial Instrument

SM 147A.


Early Derecognition

On 1st April, 20X1, PS Limited issued 6,000, 9% convertible debentures with a face value of ₹ 100 each maturing on 31st March, 20X6. The debentures are convertible into equity shares of PS Limited at a conversion price of ₹ 105 per share. Interest is payable annually in cash. At the date of issue, non-convertible debt could have been issued by the company at coupon rate of 13%. On 1st April, 20X4, the convertible debentures have a fair value of ₹ 6,30,000. PS Limited makes a tender offer to debenture-holders to repurchase the debentures for ₹ 6,30,000 which the debenture holders accepted. At the date of repurchase, PS Limited could have issued non-convertible debt with a 2 year term bearing coupon interest @ 10%.

Show accounting entries in the books of PS Limited for recording of equity and liability component:

- (i) At the time of initial recognition
- (ii) At the time of repurchase of the convertible debentures

(SM)
Ans.

(i) At the time of initial recognition

	₹
Liability component	
Present value of 5 yearly interest payments of ₹ 54,000, discounted at 13% annuity (54,000 x 3.517)	1,89,918
Present value of ₹ 6,00,000 due at the end of 5 years, discounted at 13%, compounded yearly (6,00,000 x 0.543)	3,25,800
	5,15,718
Equity component	
(₹ 6,00,000 – ₹ 5,15,718)	84,282
Total proceeds	6,00,000

Note: Since ₹ 105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ ₹ 100 each only.

Journal Entry

	₹	₹
Bank	Dr.	6,00,000
To 9% Debentures (Liability component)		5,15,718
To 9% Debentures (Equity component)		84,282
<i>(Being debentures initially recorded at fair value)</i>		

(ii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 13%	Fair Value @ 10%	Difference
	₹	₹	₹
Liability component			
Present value of 2 remaining yearly interest payments of ₹ 54,000, discounted at 13% and 10%, respectively	90,072	93,690	
Present value of ₹ 6,00,000 due in 2 years, discounted at 13% and 10%, compounded yearly, respectively	<u>4,69,800</u>	<u>4,95,600</u>	
Liability component	5,59,872	5,89,290	(29,418)
Equity component	<u>84,282*</u>	<u>40,710**</u>	<u>43,572</u>
Total	<u>6,44,154</u>	<u>6,30,000</u>	<u>14,154</u>

*See Note (i)

**6,30,000 – 5,89,290 = 40,710

Journal Entries

	₹	₹
9% Debentures (Liability component)	Dr.	5,59,872
Profit and loss A/c (Debt settlement expense)	Dr.	29,418
To Bank A/c		5,89,290
<i>(Being the repurchase of the liability component recognised)</i>		
9% Debentures (Equity component)	Dr.	84,282
To Bank A/c		40,710
To Retained Earnings A/c		43,572
<i>(Being the cash paid for the equity component recognised)</i>		

SM 191A.

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

- Principal amount: 1,000,000
- Interest rate: 4% for the first 400,000 and 7% for the next 600,000
- Start date: 1 January 20X1
- Tenure: 5 years
- Pre-payment: Full or partial pre-payment at the option of the employee
- The principal amount of loan shall be recovered in 5 equal annual instalments and will be first applied to 7% interest bearing principal
- The accrued interest shall be paid on an annual basis
- Mr. X must remain in service till the term of the loan ends

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

Following table shows the contractually expected cash flows from the loan given to Mr. X:

(amount in ₹)

Date	Outflows	Inflows			Principal outstanding
		Principal	Interest income 7%	Interest income 4%	
1-Jan-20X1	(1,000,000)				1,000,000
31-Dec-20X1		200,000	42,000	16,000	800,000
31-Dec-20X2		200,000	28,000	16,000	600,000
31-Dec-20X3		200,000	14,000	16,000	400,000
31-Dec-20X4		200,000	-	16,000	200,000
31-Dec-20X5		200,000	-	8,000	-

Mr. S, pre-pays ₹ 200,000 on 31 December 20X2, reducing the outstanding principal as at that date to ₹ 400,000.

Following table shows the actual cash flows from the loan given to Mr. X, considering the pre-payment event on 31 December 20X2:

(amount in ₹)

Date	Outflows	Inflows			Principal outstanding
		Principal	Interest income 7%	Interest income 4%	
1-Jan-20X1	(1,000,000)				1,000,000
31-Dec-20X1		200,000	42,000	16,000	800,000
31-Dec-20X2		400,000	28,000	16,000	400,000
31-Dec-20X3		200,000	-	16,000	200,000
31-Dec-20X4		200,000	-	8,000	-
31-Dec-20X5		-	-	-	-

Record journal entries in the books of Wheel Co. Limited considering the requirements of Ind AS 109

(New-SM)

Ans.

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

Date	Inflows			Discount factor @12%	PV
	Principal	Interest income 7%	Interest income 4%		
31-Dec-20X1	200,000	42,000	16,000	0.8929	2,30,357
31-Dec-20X2	200,000	28,000	16,000	0.7972	1,94,515

31-Dec-20X3	200,000	14,000	16,000	0.7118	1,63,709
31-Dec-20X4	200,000	-	16,000	0.6355	1,37,272
31-Dec-20X5	200,000	-	8,000	0.5674	<u>1,18,025</u>
Total (fair value)					<u>8,43,878</u>

Benefit to Mr. X, to be considered a part of employee cost for Wheel Co. ₹ 1,56,121.

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

The amortization schedule of the ₹ 843,878 loan is shown in the following table:

Date	Loan outstanding	Total cash inflows (principal repayment + interest)	Interest @ 12%
1-Jan-20X1	843,878		
31-Dec-20X1	687,143	258,000	101,265
31-Dec-20X2	525,600	244,000	82,457
31-Dec-20X3	358,672	230,000	63,072
31-Dec-20X4	185,713	216,000	43,041
31-Dec-20X5	(0)	208,000	22,287*

* Difference is due to approximation.

Journal Entries to be recorded at every period end:

a. **1 January 20X1 –**

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Loan to employee A/c Dr.	843,879	
Pre-paid employee cost A/c Dr.	156,121	
To Bank A/c		1,000,000
(Being loan asset recorded at initial fair value)		

b. **31 December 20X1 –**

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c Dr.	258,000	
To Interest income (profit and loss) @12% A/c		101,265
To Loan to employee A/c		156,735
(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.	31,224	
To Prepaid employee cost A/c		31,224
(Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)		

On 31 December 20X2, due to pre-payment of a part of loan by Mr. X, the carrying value of the loan shall be re-computed by discounting the future remaining cash flows by the original effective interest rate.

There shall be two sets of accounting entries on 31 December 20X2, first the realisation of the contractual cash flow as shown in (c) below and then the accounting for the pre-payment of ₹ 200,000 included in (d) below:

c. 31 December 20X2 –

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c Dr. To Interest income (profit and loss) @12% A/c	244,000	82,457
To Loan to employee A/c (Being second instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)		161,543
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)	31,224	31,224

Computation of new carrying value of loan to employee:

Date	Inflows			Discount factor @12%	PV
	Principal	Interest income 7%	Interest income 4%		
31-Dec-20X3	200,000	-	16,000	0.8929	192,857
31-Dec-20X4	200,000	-	8,000	0.7972	165,816
Total (revised carrying value)					358,673
Less: Current carrying value					525,601
Adjustment required					166,928

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

d. 31 December 20X2 prepayment–

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c Dr. To Pre-paid employee cost A/c To Loan to employee A/c (Being gain to Wheel Co. Limited recorded as an adjustment to pre-paid employee cost)	200,000	33,072 166,928

The amortisation schedule of the new carrying amount of loan shall be as follows:

Date	Loan outstanding	Total cash inflows (principal repayment + interest)	Interest @ 12%
31-Dec-20X2	358,673		
31-Dec-20X3	185,714	216,000	43,041
31-Dec-20X4	-	208,000	22,286

Amortisation of employee benefit cost shall be as follows:

Date	Balance	Amortised to P&L	Adjustment
1-Jan-20X1	156,121		
31-Dec-20X1	124,897	31,224	
31-Dec-20X2	60,601	31,224	33,072
31-Dec-20X3	30,300	30,300	
31-Dec-20X4	-	30,300	

e. **31 December 20X3 –**

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c Dr. To Interest income (profit and loss) @12% A/c To Loan to employee A/c (Being third instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)	216,000	43,041 172,959
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)	30,300	30,300

f. **31 December 20X4 –**

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c Dr. To Interest income (profit and loss) @12% A/c To Loan to employee A/c (Being last instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)	208,000	22,286 185,714
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)	30,300	30,300

CA Final FR

RTP- May-2025

Ind AS 28

RT 138A. Equity Method Step Acquisition



X Ltd. acquired a 10% interest in V Ltd. for ₹ 50,000 on 1st June, 20X6. The investment in V Ltd. was accounted for as equity investment (not held for trading) for which irrevocable option has been availed for subsequent measurement of financial assets at FVTOCI. X Ltd. recognized an increase in fair value of ₹ 30,000 in other comprehensive income for the year ended 31st March, 20X7.

X Ltd. acquired an additional 25% interest in V Ltd. for ₹ 2,00,000 on 1st April, 20X7 and achieved significant influence. The fair value of V Ltd.'s net assets was ₹ 2,50,000 at June, 20X6 and had increased to ₹ 4,00,000 on 1st April, 20X7. V Ltd. recorded profits after dividends of ₹ 1,00,000 between 1st June, 20X6 and 1st April, 20X7.

How should X Ltd. account for an investment in V Ltd. on account of piecemeal acquisition when such investment provides X Ltd. significant influence over V Ltd.? Pass necessary journal entries for the same.

[RTP-May-2025]

Ans.

While applying equity method, paragraph 10 of Ind AS 28 requires, the investment in an associate to be initially recognized at cost. However, it doesn't include any specific guidance on how to account for existing investment, which is accounted for under Ind AS 109, that subsequently becomes an associate or a joint venture. One may apply the fair value approach, by drawing an analogy from paragraph 42 of Ind AS 103.

Paragraph 42 of Ind AS 103, 'Business Combinations', deals with the situation where control over an acquiree is achieved in stages. In such a case, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisitions- date fair value and recognize the resulting gain or loss, if any, in profit or loss or OCI, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree on OCI. If so, the amount that was recognized in OCI shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

On application of the above guidance, following accounting will be done:

Computation of goodwill on gaining significant influence on V Ltd.

Particulars	₹
Fair value of previously held 10% interest $[2,00,000/25\% \times 10\%]$	80,000
Fair value of additional 25% (amount paid)	<u>2,00,000</u>
Cost of investment in associate V Ltd.	2,80,000
Less: Fair value of identifiable net assets acquired $(4,00,000 \times 35\%)$	<u>(1,40,000)</u>
Goodwill	<u>1,40,000</u>

Journal Entries

Particulars		Amount (₹)	Amount (₹)
Investment A/c (10%) To OCI (Equity)	Dr.	30,000	30,000
Investment A/c (35%) To Bank A/c To Investment (FVTOCI) (10%)	Dr.	2,80,000	2,00,000 80,000
OCI (Equity) To Retained Earning	Dr.	30,000	30,000

RT 79A. Financial Liability @FVTPL


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.

RT 65A. Compound FI Early Redumption

On 1st April, 2X01, A Ltd. issued a 10% convertible debenture with a face value of ₹ 1,000 maturing on 31st March, 2X11. The debenture is convertible into equity share of A Ltd. at a conversion price of ₹ 25 per share. Interest is payable half-yearly in cash. At the date of issue, A Ltd. could have issued non-convertible debt with a ten-year term bearing a coupon interest rate of 11%.

On 1st January, 2X06, the convertible debenture has a fair value of ₹ 1,700.

A Ltd. makes a tender offer to the holder of the debenture to repurchase the debenture for ₹ 1,700, which the holder accepts. On the date of repurchase, A Ltd. could have issued non-convertible debt with a five-year term bearing a coupon interest rate of 8%.

Required

How does A Ltd. account for the repurchase?

[RTP-May-2025]

Ans.

In the financial statements of A Ltd., the carrying amount of the debenture is allocated on issue as follows:

	₹
Liability component	
Present value of 20 half-yearly interest payments of ₹ 50, discounted at 11% (₹ 50 x 11.95)	598
Present value of ₹ 1,000 due in 10 years, discounted at 11%, compounded half-yearly (₹ 1,000 x 0.342)	<u>342</u>
	940
Equity component	
Difference between ₹ 1,000 total proceeds and ₹ 940 allocated above	<u>60</u>
Total proceeds	<u>1,000</u>

The repurchase price is allocated as follows:

	Carrying Value (₹)	Fair Value (₹)	Difference (₹)
Liability component:			
Present value of 10 remaining half- yearly interest Payments of ₹ 50, discounted at 11% and 8% respectively	377	406	
Present value of ₹ 1,000 due in 5 years, discounted at 11% and 8%, compounded half yearly, respectively	<u>585</u>	<u>676</u>	
	962	1,082	(120)
Equity component	<u>60</u>	<u>618</u>	<u>(558)</u>
Total	<u>1,022</u>	<u>1,700</u>	<u>(678)</u>

A Ltd. recognises the repurchase of the debenture as follows:

Liability component	Dr.	962	
Debt settlement expense (P&L)	Dr.	120	
To Cash			1,082
(To recognize the repurchase of the liability component)			

Equity component	Dr.	60	
Reserves and Surplus	Dr.	558	
To Cash			618
(To recognize the cash paid for the equity component)			

The debt settlement expense represents the difference between the carrying value of the debt component and its fair value.

Ind AS 103
RT 29A.
Deferred Tax


On 1st January, 20X1, H Ltd. acquired all of the share capital of S Ltd. for ₹ 15,00,000. The book values and the fair values of the identifiable assets and liabilities of S Ltd. at the date of acquisition are set out below, together with their tax bases in S Ltd.'s tax jurisdictions. Any goodwill arising on the acquisitions is not deductible for tax purposes. The tax rates in H Ltd.'s and S Ltd.'s tax jurisdictions are 30% and 40% respectively.

Net assets acquired	Book values ₹ '000	Tax base ₹ '000	Fair values ₹ '000
Land and buildings	600	500	700
Property, plant and equipment	250	200	270
Inventory	100	100	80
Accounts receivable	150	150	150
Cash and cash equivalents	130	130	130
Total assets	1,230	1,080	1,330
Accounts payable	(160)	(160)	(160)
Retirement benefit obligations	(100)	-	(100)
Net assets before deferred tax liability	970	920	(1070)
Deferred tax liability on differences between book values and tax bases (₹ 50 @40%)	(20)		
Net assets at acquisition	950	920	1,070

Calculate deferred tax arising on acquisition of S Ltd. and goodwill based on the above information.

[RTP-May-2025]
Ans.
Calculation of deferred tax arising on acquisition of S Ltd. and goodwill

	₹'000	₹'000
Fair values of S Ltd.'s identifiable assets and liabilities (excluding deferred tax)		1,070
Less: Tax base		<u>(920)</u>
Temporary difference arising on acquisition		150
Net deferred tax liability arising on acquisition of S Ltd. (₹ 1,50,000 @ 40%) – replaces book deferred tax		60
Purchases consideration		1,500
Fair values of S Ltd.'s identifiable assets and liabilities (excluding deferred tax)	1,070	
Deferred tax	<u>(60)</u>	<u>1,010</u>
Goodwill arising on acquisition		<u>490</u>

The tax base of the goodwill is nil, so a taxable temporary difference of ₹ 4,90,000 arises on the goodwill. No deferred tax is recognised on the goodwill. The deferred tax on other temporary differences arising on acquisitions is provided at 40% (not 30%), because taxes will be payable or recoverable in S Ltd.'s tax jurisdictions when the temporary differences are reversed.

Ind AS 21

RT 98A.

Derecognition Foreign Subsidiary

P Ltd., incorporated in India owns 70% interest in foreign entity, S Ltd. P Ltd. has INR (₹) as its functional currency while S Ltd. has US dollars as its functional currency. P Ltd. sells its entire investment in S Ltd. for ₹ 3,200 thousand. The following information is provided:

(₹ in thousand)

Particulars	S's Total	P's share (70%)	NCI (30%)
Net assets	4,000	2,800	1,200
Foreign currency translation reserve gain	900	630	270

Required:

How does an entity account for cumulative translation adjustment (CTA) on disposal of a foreign subsidiary? **[RTP-May-2025]**

Ans.

As per paragraphs 48 and 48B of Ind AS 21, on the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (see Ind AS 1, Presentation of Financial Statements).

Further, the standard states that on disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be derecognised, but shall not be reclassified to profit or loss.

Where the subsidiary is partially owned (that is, where a non-controlling interest exists) and the parent has sold its entire interest, the amount of the CTA that has been allocated to the non-controlling interest is derecognised, but it is not transferred to profit or loss. Derecognition of the non-controlling interest (that includes the non-controlling interest's share of CTA) will form part of the journal entry to recognise the gain or loss on disposal of the subsidiary.

In P Ltd.'s consolidated financial statements, the following amounts (₹ in thousand) have been recognised in relation to its investment in S Ltd.:

- net assets of ₹ 4,000 and associated non-controlling interests of ₹ 1,200;
- foreign exchange gains of ₹ 900 were recognised in other comprehensive income, of which ₹ 270 was attributable to non-controlling interests and is therefore included in the ₹ 1,200 non-controlling interests;
- ₹ 630 of foreign exchange gains have been accumulated in a separate component of equity relating to P Ltd.'s 70% share in S Ltd.

P Ltd. sells its 70% interest in S Ltd. for ₹ 3,200 and records the following amounts:

Cash/Bank A/c	Dr.	3,200	
NCI	Dr.	1,200	
OCI	Dr.	630	
To Net assets			4,000
To Profit on disposal			1,030
{630+(3,200-2,800)}			

It can be seen that ₹ 630 of the foreign currency gains previously recognised in OCI, i.e. the amount attributed to P Ltd. is reclassified to profit or loss (profit on disposal) and adjusted from OCI. However, ₹ 270 of such gains attributed to the non-controlling interests is not reclassified to profit or loss and is derecognised as a part of the NCI balance.

Ind AS 7
RT 5A.
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	<u>(4,400)</u>
Net cash flow from operating activities A	<u>0</u>
Cash flows from financing activities	
Receipts of foreign currency loan	<u>1,91,400</u>
Net cash flow from financing activities 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*	<u>2,91,400</u>

* 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.

RT 5A.

RP Disclosure : Close Family Member

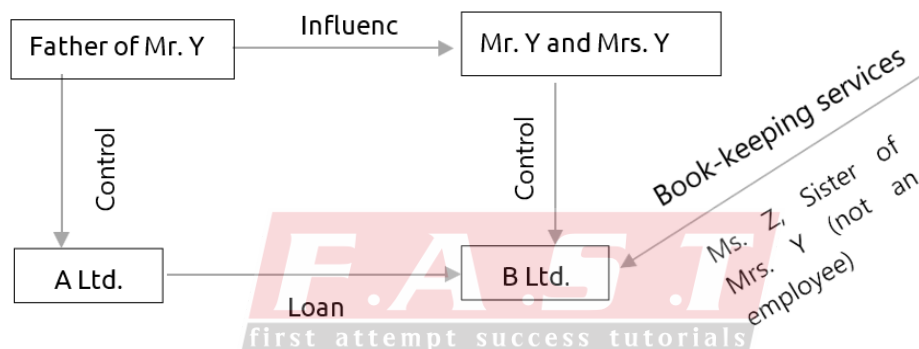


Mr. Y's father owns 100% of the shares in A Ltd. Mr. Y and Mrs. Y own 100% of the shares in B Ltd. Ms. Z who is Mrs. Y's sister, provides book-keeping services from time to time to B Ltd. However, Ms. Z is not an employee of B Ltd. A Ltd. has increased its loan of ₹ 1,50,000 to B Ltd. to ₹ 2,00,000 during the year, for which A Ltd. charges a below market rate of interest.

Required:

- State whether Mr. Y's father & Mrs. Y's sister are related party of B Ltd.
- What disclosure is to be made in the financial statements of both A Ltd. & B Ltd. with respect to the loan given by A Ltd. to B Ltd.?
- Whether B Ltd. is required to disclose the dealings with the sister of Mrs. Y in its financial statements?

[RTP-May-2025]

Ans.

- Mr. Y's father and Mrs. Y's sister are related parties of B Ltd., if they are 'close family' of either Mr. Y or Mrs. Y. They are close family if they might be expected to influence, or be influenced by, Mr. Y or Mrs. Y in their dealing with B Ltd. Mr. Y's father and Mr. Y and Mrs. Y are 'close family', so Mr. Y's father is a related party of B Ltd., which is controlled by Mr. Y and Mrs. Y.
Mr. Y's father has a controlling interest in A Ltd. A Ltd. is a related party of B Ltd.
- Both entities should disclose the necessary details regarding the increase in the loan to ₹ 2,00,000 in their financial statements. A Ltd. should also disclose the amounts due to it from B Ltd. on the balance sheet date, together with any provisions and amounts written off. B Ltd. should disclose the amount that it owes to A Ltd. at the balance sheet date.
- B Ltd. would have to disclose the transactions with Mrs. Y's sister if the sister might be expected to influence, or be influenced by, either Mr. Y or Mrs. Y in their dealings with B Ltd. based on further facts of the case. In case the influence exists, following disclosures to be made as per para 18A of Ind AS 24 which states that amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

RT 17A.
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 31 st 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 31 st 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.

“

NOTES

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MTP – May –2025

Consolidated and Separate Financial Statements

MT 156A.
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 (ie 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 (ie the assets and liabilities held in vehicle M/s. Star Hotel are the parties' assets and liabilities ie 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 (eg - 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 P vt. 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.

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Ind AS 102

MT 29A. Equity Settled Plan



To reward its employees, the Company had launched a scheme effective 1st April, 20X1, in which the employees will be granted equity shares of the Company at below market price subject to certain conditions. Following details are provided:

- (i) As per the scheme, each employee has an option to purchase 100 equity shares of the Company at ₹ 30 per share if the employee does not leave the Company for 3 years from the date of launch of the scheme i.e. 31st March 20X4.
- (ii) Once 3 years completed by an employee, he/she can exercise the option within 1 year i.e. by 31st March 20X5.
- (iii) The closing share price on stock exchange as at 1st April, 20X1 is ₹ 62 per share with face value of ₹ 10 per share. The Company had appointed a registered valuer who derived the price of option at ₹ 50 using the Black Scholes model of option pricing.
- (iv) There are a total of 300 employees eligible for the scheme. As at 31st March, 20X2, 10 employees left the Company and further 14 employees are expected to leave over the next 2 years. During the year 20X2-20X3, a multi-national company entered into the retail industry which is hiring experienced workforce and therefore a high attrition is observed in the retail industry. 110 employees left the Company during the year ended 31st March, 20X3 and further 54 employees are expected to leave in the next one year. As at 31st March, 20X4; only 160 employees are remaining with the Company out of 300.

- (v) Only 150 employees exercise the option to purchase the equity share during the year ended 31st March 20X5.

Provide necessary accounting entries during the life of share based payment scheme to account the scheme implemented by the Company. Provide working notes. **[MTP-May-2025]**

Ans.

Journal Entries

31st March, 20X2			₹
Employee benefits expenses	Dr.	4,60,000	
To Share based payment reserve (equity)			4,60,000
(Being expenses to the extent of 1/3 of expected vested equity instruments value recognized)			
Profit and Loss Account	Dr.	4,60,000	
To Employee benefits expenses			4,60,000
(Being expenses transferred to Profit and Loss Account)			
31st March, 20X3			
Share based payment reserve (equity)	Dr.	40,000	
To Employee benefits expenses			40,000
(2/3 of expected vested equity instruments value)			
Employee benefits expenses	Dr.	40,000	
To Profit and Loss Account			40,000
(Being expenses transferred to Profit and Loss Account)			
31st March, 20X4			
Employee benefits expenses	Dr.	3,80,000	
To Share based payment reserve (equity) (Final vested equity instruments value)			3,80,000
Profit and Loss Account	Dr.	3,80,000	
To Employee benefits expenses			3,80,000
(Being expenses transferred to Profit and Loss Account)			
31st March, 20X5			
Share based payment reserve (equity)	Dr.		
Bank Account (150 x 100 x 30)	Dr.	8,00,000	
To Share Capital [150 x 100 x 10]		4,50,000	
To Securities Premium [150 x 100 x (50+20)]			1,50,000
To Retained Earnings (10 x 100 x 50)			10,50,000
(Being 150 options exercised and 10 options lapsed)			
			50,000

Calculation of employee benefits expenses

Year ended 31st March	Calculation	Expense for Period	Cumulative expense
		₹	₹
20X2	(300 – 10 - 14) employees x 100 shares x ₹ 50 x 1/3 years	4,60,000	4,60,000
20X3	[(300 – 10 - 110 - 54) employees x 100 shares x ₹ 50 x 2/3 years] - 4,60,000	(40,000)	4,20,000
20X4	[(160 employees x 100 shares x ₹ 50) - 4,20,000]	3,80,000	8,00,000

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Exam – May - 2025

Business Combination

PE 41A.

ACQUISITION OF SHARES - CONSOLIDATION



A Limited and B Limited are engaged in the manufacture of pharmaceuticals. On 1st June, 2024, A Limited acquired 15% of equity shares of B Limited. On 1st October, 2024, A Limited obtains control of B Limited when it acquires a further 55% of B Limited's shares, thereby resulting into a total holding of 70%.

The fair value of the shares of B Limited was ₹ 40 per share as on that date. Prior to the acquisition of additional 55% stake by A Limited on 1st October, 2024, the Balance Sheets of the two companies stood as under :

(₹ lakhs)

Particulars	A Ltd.	B Ltd.
Assets		
Non-Current Assets		
Property, Plant and Equipment	600	400
Investments (6,00,000 Shares of B Ltd. acquired on 1st June, 2024)	200	-
Current Assets		
Inventories	500	150
Financial Assets		
Trade Receivables	450	300
Cash and cash equivalents	400	100
Other Current Assets	200	230
Non-current assets held for sale	-	250
	2,360	1,430
Equity and Liabilities		
Equity		
Share Capital — Equity Shares of ₹ 100/- each	500	-
Share Capital — Equity Shares of ₹ 10/- each	-	400
Other Equity	810	225
Non- Current Liabilities		
Financial Liabilities		
Long Term Borrowings	250	200
Long Term Provisions	50	70
Deferred Tax Liability	40	-
Current Liabilities		
Financial Liabilities		
Short Term Borrowings	400	285
Trade Payables	310	250
	2,360	1,430

In consideration of the additional stake acquired by A Limited on 1st October, 2024, it agreed to pay to each selling shareholder of B Limited a sum of ₹15 per share in cash and issue 1 Equity Share of ₹ 100 each of A Limited in lieu of 8 Equity Shares of ₹ 10 each held by the selling shareholder in B Limited.

The fair value of the shares of A Limited as on 1st October, 2024 is ₹ 160 per Share.

In addition to the above :

- (a) A Limited agreed to pay an additional payment as consideration that is higher of ₹ 35 lakhs and 25% of any excess profit in the first year, after acquisition over its profits in the preceding one year made by B Limited. This additional amount would be due after 2 years. B Limited has earned ₹ 10 lakhs profit in the preceding year and expects to earn another ₹ 20 lakhs.
- (b) A Limited also agreed to pay one of the promoter shareholders of B Limited a payment of ₹ 15 lakhs provided he stays with the company for two years after acquisition.
- (c) A Limited had a certain equity settled share-based payment award (Original award) which was replaced by the new award issued by B Limited. As per the original terms, the vesting period was 4 years and as of the acquisition date, the employees of B Limited have already served 2 years of service. As per the replaced award, the vesting period is reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as under :
 - (i) Original Award : ₹ 5 lakhs
 - (ii) Replacement Award : ₹ 8 lakhs
- (d) The fair value exercise resulted in the following :
 - (i) The fair value of Property, Plant and Equipment and Inventory of B Limited as on 1st October, 2024 was ₹ 480 lakhs and ₹ 170 lakhs respectively.
 - (ii) The carrying value of Non-Current Asset held for sale of ₹ 250 lakhs of B Limited represents its fair value less cost to sell in accordance with the relevant Ind AS.
 - (iii) B Limited has developed and patented a new drug for Parkinson disease which has been approved for clinical use. The cost of developing the drug was 140 lakhs. Based on early assessment of its sales success, the valuer has estimated its market value at ₹ 200 lakhs.
 - (iv) B Limited had a law suit for infringement of Trade mark pending with a competitor who had made a claim of ₹ 50 lakhs. B Limited has disclosed the same as a Contingent Liability as it is not probable that the amount would be payable. Management reliably estimated the fair value of the liability to be ₹ 10 lakhs. Any sum which would be paid in respect of the law suit would be tax deductible.
- (e) The cost of capital of A Limited is 10%. The appropriate discount factor for ₹ 1 @ 10% payable at the end of 1st year is 0.91 and 2nd year is 0.83.
- (f) The applicable tax rate for both the entities is 30%.

Unless stated otherwise, all items have a fair value and tax base equal to their carrying amounts at the acquisition date. A Limited chooses to measure the Non-Controlling Interest in B Limited as per Proportionate Share of identifiable net assets method.

You are required to prepare the opening Consolidated Balance Sheet of A Limited as on 1st October, 2024 as per the applicable Ind AS. Working Notes should form part of your answer. **[May-2025]**

Ans.
Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd. as at 1st October, 2024

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	1,080.00
Goodwill	2	461.95
Intangible assets (patents)		200.00
Current assets		
Inventories	3	670.00
Financial assets		
Cash and cash equivalents	4	170.00

Trade receivables	5	750.00
Other current assets	6	430.00
Assets held for sale		<u>250.00</u>
Total		<u>4,011.95</u>
Equity and Liabilities		
Equity		
Other equity	7	775.00
Non-controlling interest (W.N.4)	8	1007.50
		248.40
Non-current liabilities		
Financial liabilities		
Long-term borrowings	9	450.00
Long-term provisions	10	149.05
Deferred tax liabilities	11	127.00
Current Liabilities		
Financial liabilities		
Short-term borrowings	12	685.00
Trade payables	13	560.00
Provision for lawsuit damages		<u>10.00</u>
Total		<u>4,011.95</u>

Notes to Accounts**1. Property, Plant and Equipment**

₹ in lakhs

Particulars			
A Ltd.		600.00	
B Ltd.	400.00		
Add: Fair value gain	<u>80.00</u>	<u>480.00</u>	1,080.00

2. Goodwill

₹ in lakhs

Particulars	
Goodwill on acquisition of B Ltd. (Refer W.N.5)	461.95

3. Inventories

₹ in lakhs

Particulars			
A Ltd.		500.00	
B Ltd.	150.00		
Add: Fair value given	<u>20.00</u>	<u>170.00</u>	670.00

4. Cash and cash equivalents

₹ in lakhs

Particulars			
A Ltd.	400.00		
Less: Paid to B Ltd.'s Shareholders	<u>(330.00)</u>	70.00	
B Ltd.		<u>100.00</u>	170.00

Note: The additional consideration paid to promoter shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expense in the income statement by A Ltd.

5. Trade receivables

₹ in lakhs

Particulars		
A Ltd.	450.00	
B Ltd.	<u>300.00</u>	750.00

6. Other current assets

₹ in lakhs

Particulars		
A Ltd.	200.00	
B Ltd.	<u>230.00</u>	430.00

7. Equity

₹ in lakhs

Particulars	
Equity Share Capital 7,75,000 Equity shares of ₹ 100 each (Out of the above, 2,75,000 Equity shares of ₹ 100 each allotted to shareholders of B Ltd for consideration other than cash)	775.00

8. Other equity

₹ in lakhs

Particulars			
A. Retained earnings of A Ltd.	810.00		
Add: Gain on previously acquired shares of A Ltd.	<u>30.00</u>	840.00	
B. Replacement award		2.50	
C. Security premium (2,75,000 shares x ₹ 60)		<u>165.00</u>	1007.50

9. Long-term borrowings

₹ in lakhs

Particulars		
A Ltd.	250.00	
B Ltd.	<u>200.00</u>	450.00

10. Long term provisions

₹ in lakhs

Particulars			
A Ltd.	50.00		
Add: Deferred consideration	<u>29.05</u>	79.05	
B Ltd.		<u>70.00</u>	149.05

11. Deferred tax liabilities

₹ in lakhs

Particulars		
Deferred tax liability of A Ltd	40.00	
Deferred tax liability (W.N. 2)	<u>87.00</u>	127.00

12. Short term borrowings

₹ in lakhs

Particulars		
A Ltd.	400.00	
B Ltd.	<u>285.00</u>	685.00

13. Trade payables

₹ in lakhs

Particulars		
A Ltd.	310.00	
B Ltd.	<u>250.00</u>	560.00

Working Notes:

1. Calculation of purchase consideration

₹ in lakhs

Investment in B Ltd.			
Shares acquired			
On 1 st June, 2024	15%	$[(400/10) \times 15\% \times ₹ 40]$	240.00
On 1 st October, 2024	55%		
Own equity given		$(40 \times 55\%) \times 1/8 \times ₹ 160$	440.00
Cash		$(40 \times 55\%) \times ₹ 15$	330.00
Contingent consideration		(35×0.83)	29.05
Replacement award		$(5 \times 2/4)$	<u>2.50</u>
			<u>1041.55</u>

2. Calculation of deferred tax on assets and liabilities acquired as part of the business combination

Item	₹ in lakhs				
	Book value	Fair value	Tax base	Taxable (deductible) temporary difference	Deferred tax assets (liability) @ 30%
Property, plant and equipment	400.00	480.00	400.00	80.00	(24.00)
Intangible assets		200.00	0.00	200.00	(60.00)
Inventories	150.00	170.00	150.00	20.00	(6.00)
Trade receivables	300.00	300.00	300.00	-	-
Cash and cash equivalents	100.00	100.00	100.00	-	-
Other current assets	230.00	230.00	230.00	-	-
Non-current asset held for sale	<u>250.00</u>	<u>250.00</u>	<u>250.00</u>	-	-
(A)	<u>1,430.00</u>	<u>1,730.00</u>	<u>1,430.00</u>	<u>300.00</u>	<u>(90.00)</u>
Trade payables	250.00	250.00	250.00	-	-
Long-term provisions	70.00	70.00	70.00	-	-
Short-term borrowings	285.00	285.00	285.00	-	-
Contingent liability	-	<u>10.00</u>	-	<u>(10.00)</u>	<u>3.00</u>
(B)	<u>605.00</u>	<u>615.00</u>	<u>605.00</u>	<u>(10.00)</u>	<u>3.00</u>
Deferred tax liabilities (A-B)					(87.00)

3. Calculation of fair value of identifiable net assets acquired

	₹ in lakhs	₹ in lakhs
Property, plant and equipment	480.00	
Intangible assets	200.00	
Inventories	170.00	
Trade receivables	300.00	
Cash and cash equivalents	100.00	
Non-current asset held for sale	250.00	
Other current assets	<u>230.00</u>	
Total assets		1,730.00
Less: Long-term borrowings	200.00	
Trade payables	250.00	
Long-term provisions	70.00	
Short-term borrowings	285.00	
Contingent liabilities	10.00	
Deferred tax liabilities	<u>87.00</u>	
Total liabilities		<u>(902.00)</u>
Net identifiable assets		<u>828.00</u>

4. Calculation of NCI by proportionate share of identifiable net assets

Identifiable net assets of S Ltd. on 1st October, 2024 (Refer W.N.3) = ₹ 828.00 lakhs

NCI on 1st October, 2024 = 828.00 lakhs x 30% = 248.40 lakhs

5. Calculation of Goodwill

Particulars	₹ in Lakhs
Fair Value of Net Identifiable Assets	828.00
Less: NCI	<u>(248.40)</u>
	579.60
Less: Purchase Consideration	<u>(1041.55)</u>
Goodwill on 1 st October, 2024	<u>461.95</u>

Financial Instrument
PE 76A.
MODIFICATION : FL

 On 1st April, 2023, Mera Limited raised a term loan of ₹ 5,00,00,000 10 from Tera Finance Limited, a Non-Banking Finance Company on the following terms and conditions :

- **Rate of Interest** : 11% per annum payable annually on accrual basis.
- **Repayment** : The term loan would be repaid in five annual instalments of ₹ 1,00,00,000 each commencing from 31st March, 2024.

Mera Limited also incurred, upfront, a sum of ₹ 5,90,000 being loan processing charges.

The effective rate of interest on loan was 11.50% per annum.



Due to liquidity constraints, Mera Limited was unable to honour its obligation of repayment of the loan instalment which fell due on 31st March, 2025. Accordingly, it approached the lender on 31st March, 2025. Both the parties agreed to restructure the outstanding term loan on the following terms .

- **Rate of Interest :** The revised rate of interest on the outstanding loan would be 15% per annum payable annually on accrual basis.
- **Repayment :** The loan would be repaid in eight annual instalments of ₹ 50,00,000 each commencing from 31st March, 2026.

No further cost is incurred by Mera Limited towards restructuring of the loan.

You are required to record the necessary journal entries in the books of Mera Limited from 1st April, 2023 to 31st March, 2026 after giving effect to the changes in the terms of the loan.

The following present values of ₹ 1 are provided :

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
11%	0.901	0.812	0.731	0.659	0.593	0.535	0.482	0.434
11.5%	0.897	0.804	0.721	0.647	0.580	0.520	0.467	0.419
15%	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327

[May-2025]

Ans.

On the date of initial recognition, the effective interest rate of the loan shall be computed keeping in view the contractual cash flows and upfront processing fee paid. The following table shows the amortisation of loan based on effective interest rate:

Date	Opening Balance	Cash outflows (principal)	Cash outflows (interest and fee)	Interest [EIR @ 11.50%]	Closing Balance (amortised cost)
	(a)	(b)	(c) = [(5,00,00,000 - instalments paid till previous year) x 11%]	(d) = [a x 11.50%]	(e) = (a) - (b) - (c) + (d)
1-Apr-2023	(5,00,00,000)	5,90,000			4,94,10,000
31-Mar-2024	4,94,10,000	1,00,00,000	55,00,000	56,82,150	3,95,92,150
31-Mar-2025	3,95,92,150	1,00,00,000	44,00,000	45,53,097	2,97,45,247
31-Mar-2026	2,97,45,247	1,00,00,000	33,00,000	34,20,703	1,98,65,950
31-Mar-2027	1,98,65,950	1,00,00,000	22,00,000	22,84,584	99,50,534
31-Mar-2028	99,50,534	1,00,00,000	11,00,000	11,49,466*	(0)

*Difference of ₹ 5,155 (11,49,466 – 11,44,311) is due to rounding off.

a. 1st April, 2023

Particulars	(₹)	(₹)
Bank A/c Dr.	4,94,10,000	
To Loan from Tera Finance Limited A/c		4,94,10,000
(Being loan recorded at its fair value less transaction costs on the initial recognition date)		

31st March, 2024

Particulars	(₹)	(₹)
-------------	-----	-----

Loan from Tera Finance Limited A/c	Dr.	98,17,850	
Interest expense (profit and loss)	Dr.	56,82,150	
To Bank A/c (1,00,00,000 + 55,00,000)			1,55,00,000
(Being first instalment of loan and payment of interest accounted for as an adjustment to the amortised cost of loan)			

31st March, 2025 – Before Mera Limited approached the bank

Particulars		(₹)	(₹)
Interest expense (profit and loss)	Dr.	45,53,097	
To Loan from Tera Finance Limited A/c			1,53,097
To Bank A/c			44,00,000
(Being loan payment of interest recorded by the Company before it approached the Bank for deferment of principal)			

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

Date	Cash flows (principal) (a)	Interest outflow @15% (b)	Discount factor @ 11.50% (c)	PV of cash flows (a + b) x c
31-Mar-2025	(4,00,00,000)			
31-Mar-2026	50,00,000	60,00,000	0.897	98,67,000
31-Mar-2027	50,00,000	52,50,000	0.804	82,41,000
31-Mar-2028	50,00,000	45,00,000	0.721	68,49,500
31-Mar-2029	50,00,000	37,50,000	0.647	56,61,250
31-Mar-2030	50,00,000	30,00,000	0.580	46,40,000
31-Mar-2031	50,00,000	22,50,000	0.520	37,70,000
31-Mar-2032	50,00,000	15,00,000	0.467	30,35,500
31-Mar-2033	50,00,000	7,50,000	0.419	24,09,250
PV of new contractual cash flows discounted at 11.50%				4,44,73,500
Carrying amount of loan (3,95,92,150 + 1,53,097)				3,97,45,247
Difference				47,28,253
Percentage of difference to carrying amount				11.90%

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

The accounting entries for the same are included below:

b. 31st March, 2025 – Accounting for Extinguishment

Particulars	(₹)	(₹)
Loan from Tera Finance Limited (old) A/c Dr.	3,97,45,247	
Loss on modification of loan (profit and loss) Dr.	2,54,753	
To Loan from Tera Finance Limited (new) A/c		4,00,00,000
(Being new loan accounted for at its principal amount by correspondingly derecognising the existing loan)		

31st March, 2026

Particulars	(₹)	(₹)
Loan from Tera Finance Limited A/c Dr.	50,00,000	
Interest expense (profit and loss) Dr.	60,00,000	
To Bank A/c		1,10,00,000
(Being first instalment of the principal of new loan and payment of interest accounted)		

Ind AS 34
PE 3A.

MEASUREMENT

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	10
	26
Less: Sales promotion expenses (60% of ₹ 30 lakhs)	(18)
Gain on sale of investment (occasional gain should not be deferred)	(10)
Adjusted Profit before tax for the third quarter	(2)

Ind AS 36

PE 27A.

Reversal of IL



Tiny Ltd. deals in trading of cars across India. It became 100% subsidiary of Any Ltd. on 1st April, 2022 at a purchase consideration of ₹ 64 crores. At the time of acquisition, the fair value of the net identifiable assets of Tiny Ltd. was ₹ 51 crores and goodwill was ₹ 13 crores.

The useful life of Tiny Ltd.'s assets as on 1st April, 2022 was estimated to be 15 years with no residual value. Any Ltd. follows straight line depreciation method.

On 31st March 2024, the government issued new guidelines due to which Tiny Ltd. had to close few of its showrooms. As a result, Tiny Ltd.'s revenue was estimated to reduce by 30%. This adverse change in marketplace and regulatory conditions indicated impairment. As a result, Any Ltd. had to estimate the recoverable amount of goodwill and net assets of Tiny Ltd. on 31st March 2024. No independent cash inflows can be identified to any individual assets. So, the entire operation of Tiny Ltd. was treated as a CGU. Due to the regulatory entangle it was not possible to determine the selling price of Tiny Ltd. as a CGU. Its value in use was estimated by the management at ₹ 35 crores.

Recently, on 31st March, 2025, the government withdrew the guidelines issued on 31st March, 2024. The management expects a favourable change in net cash flows. The recoverable amount of Tiny Ltd.'s net asset is re-estimated. The value in use is expected to be ₹ 52 crores and fair value less cost to disposal is expected to be ₹ 48 crores.

You are required to :

- (i) Calculate the impairment loss, if any, as on 31st March 2024.
- (ii) Also advise the accounting treatment for reversal of impairment loss and the subsequent depreciation thereon.

[May-2025]

Ans.

Since the fair value less costs of disposal is not determinable the recoverable amount of the CGU is its value in use. The carrying amount of the assets of the CGU on 31st March, 2024 is as follows:

Calculation of Impairment loss

₹ in crores			
	Goodwill	Other assets	Total
Historical Cost	13.00	51.00	64.00
Accumulated Depreciation $[(51/15) \times 2]$	—	<u>(6.80)</u>	<u>(6.80)</u>
Carrying Amount	13.00	44.20	57.20
Impairment Loss	(13.00)	(9.20)	(22.20)

Revised Carrying Amount

Impairment Loss = Carrying Amount – Recoverable Amount (₹ 57.20 crore – ₹ 35 crore) = ₹ 22.20 crore is charged to Statement of Profit and Loss for the period ending 31st March, 2024 as impairment loss.

Impairment loss is allocated first to goodwill ₹ 13 crore and remaining loss of ₹ 9.20 crore (₹ 22.20 crore – ₹ 13 crore) is allocated to the other assets.

Reversal of Impairment loss

Reversal of impairment loss is recognised subject to that the impairment loss on goodwill cannot be reversed.

The increased carrying amount of an asset after reversal of an impairment loss not to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior year.

Calculation of carrying amount of identifiable assets had no impairment loss is recognised

	₹ in crore
Historical Cost	51.00
Accumulated Depreciation for 3 years $[(51/15) \times 3]$	<u>(10.20)</u>
Carrying amount had no impairment loss is recognised on 31 st March, 2025	<u>40.80</u>

Carrying amount of other assets after recognition of impairment loss

	₹ in crore
Carrying amount on 31 st March, 2024	35.00
Accumulated Depreciation for 1 year $[(35/13) \times 1]$ [rounded off to nearest two decimal]	<u>(2.69)</u>
Carrying amount on 31 st March, 2025	<u>32.31</u>

1. Recoverable amount on 31st March, 2025 would be ₹ 52 crore [i.e. higher of fair value less costs of disposal (₹ 48 crore) and value in use (₹ 52 crore)]
2. The impairment loss recognised previously can be reversed only to the extent of lower of re-estimated carrying amount (₹ 40.80 crore) and recoverable amount (₹ 52 crore) i.e. ₹ 40.80 crore.
3. Impairment loss reversal will be ₹ 8.49 crore i.e. (₹ 40.80 crore – ₹ 32.31 crore). This amount is recognised as income in the statement of profit and loss for the year ended 31st March, 2025.
4. The carrying amount of other assets at 31st March, 2025 after reversal of impairment loss will be ₹ 40.80 crore.
5. From 1st April, 2025, the depreciation charge will be ₹ 3.40 crore i.e. (₹ 40.80 crore/12)

Ind AS 16
PE 10A. Joint Operations and DRS Costs


Tiger Gems Ltd. and Mammoth Minerals Ltd. are engaged in extraction of coal and minerals from coal-fields, which they own and operate independently of each other.

In May 2024, Tiger Gems Ltd. and Mammoth Minerals Ltd. jointly acquired an underground luminuos' Coal mine in the ratio of 55:45. Both the companies agreed to share services and costs. Decisions relating to 'Luminuos' Coal mine requires unanimous agreement of both the parties. No separate entity is incorporated.

The extraction of coal and minerals from Coal mine is done through huge machines. These machines can extract only upto 95%. The remaining coal is irrecoverable and remains in the Coal mine until the mine is decommissioned. As per the laws in force, the Coal mine should be decommissioned at the end of its useful life.

- (i) Discuss whether the joint arrangement between Tiger Gems Ltd. and Mammoth Minerals Ltd. is a Joint Operation or Joint Venture.
- (ii) Discuss the accounting for the unextracted coal and mineral as per Ind AS 16 and Ind AS 37 with respect to aforesaid 'Luminuos' Coal mine. **[May-2025]**

Ans.

(i) Determination of Joint Arrangement

As per Ind AS 111 'Joint Arrangements', a joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The structure and form of the arrangement determines the nature of the relationship.

Joint Operation: A joint arrangement which is NOT structured through a separate vehicle is a joint operation. In such a case, the contractual arrangement establishes the parties' rights and obligations.

Joint Venture: A Joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operator accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation in accordance with the relevant Ind AS.

The arrangement between Tiger Gems Ltd. and Mammoth Minerals Ltd. is a joint operation as no separate vehicle is formed and the companies have agreed to share services and costs with decisions regarding the underground 'Luminuos' coal mine requiring unanimous agreement of both the parties.

Both the companies should recognize their share of the asset as Property, Plant and Equipment.

(ii) Accounting for the unextracted coal and mineral

As per para 16 of Ind AS 16 'Property, Plant and Equipment', the cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Further, para 45 of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', provides that where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

Thus, costs incurred by an entity in respect of obligations for dismantling, removing and restoring the site on which an item of property, plant and equipment is situated are recognized and measured in accordance with Ind AS 16 and Ind AS 37.

Each of the entities in the joint arrangement should recognize their respective share of the cost of decommissioning of the underground storage facility.

However, as per para 29 of Ind AS 37 where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Accordingly, each of the entities in the joint arrangement should also disclose the share of the cost of decommissioning of the underground facility, to be borne by another joint arrangement entity, as a contingent liability.

As per Ind AS 16, Property, Plant and Equipment are tangible items that:

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

Thus, both the entities should classify and account for their share of irrecoverable coal and minerals as property, plant and equipment, as the irrecoverable coal and minerals is necessary for the storage facility to perform its function. Therefore, the irrecoverable coal and minerals, being a part of the storage facility, should be capitalized as a component of the storage facility asset, and should be depreciated to its residual value over the life of the storage facility.

Ind AS 1

PE 38A.

CLASSIFICATION



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

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

[May-2025]

Ans.

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

Framework for Preparation and Presentation of FS
PE 10. Discuss the limitations of general purpose financial reporting.

[May-2025]
Ans.

Limitations of General-Purpose Financial Reporting:

- General-purpose Financial Reporting does not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks;
- General-purpose Financial Reporting is not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity; and
- General-purpose Financial Reporting is not primarily directed to other parties, such as regulators and members of the public other than investors, lenders and other creditors.

Accounting and Technology
PE 5A. Discuss any five key impacts of Blockchain on Financial Reporting.

[May-2025]
Ans.

Key Impacts of Blockchain on Financial Reporting

1. **Enhanced Transparency:** Blockchain technology provides a decentralized and immutable ledger, where transactions are recorded and stored in a transparent and tamper-proof manner. This increased transparency ensures that financial data is accurately captured and can be easily audited, promoting trust and reliability in financial reporting.
2. **Improved Data Integrity:** Blockchain's distributed ledger ensures that each transaction is verified and encrypted, preventing unauthorized modifications or tampering. This feature enhances data integrity, reducing the risk of fraudulent activities and errors in financial reporting.
3. **Streamlined Audit Processes:** Blockchain technology enables real-time access to financial data, eliminating the need for time-consuming and manual data reconciliation processes. Auditors can directly access the blockchain ledger to verify transactions, reducing audit time and enhancing efficiency in financial reporting.
4. **Enhanced Security:** Blockchain incorporates advanced cryptographic algorithms, making it highly secure against unauthorized access or data breaches. Financial data stored on the blockchain is encrypted and protected, minimizing the risk of data manipulation or unauthorized disclosure, thus strengthening the security of financial reporting.
5. **Simplified Reconciliation:** Blockchain's decentralized ledger eliminates the need for reconciling multiple versions of data across different systems. With a single shared source of truth, financial reporting processes become more streamlined, reducing reconciliation efforts and potential errors.
6. **Cost Reduction:** By eliminating intermediaries and central authorities, blockchain reduces the costs associated with traditional financial reporting processes. It eliminates the need for third-party verification and reconciliation, leading to cost savings for organizations.
7. **Enhanced Audit Trail:** Blockchain maintains a comprehensive and immutable audit trail of all transactions, providing a transparent and traceable record of financial activities. This audit trail simplifies the identification and investigation of any irregularities or discrepancies, improving the accuracy and reliability of financial reporting.
8. **Real-time Financial Reporting:** With blockchain's real-time data availability and consensus mechanism, financial reporting can be performed more frequently and with greater accuracy. Organizations can generate up-to-date financial statements, enabling stakeholders to make informed decisions based on the most current financial information.

CA Final FR

RTP– Sept- 2025

Ind AS 102

RT 10A.



Equity Settled Plan Account and Equity Method (Ind AS 28)

Beta Limited (investee) has issued 2,000 equity shares which are outstanding at the reporting date. On this date, Beta issues 1,000 share options to its employees, which can be converted into 1,000 equity shares of Beta. The grant-date fair value of each option issued is ₹ 1. The options will vest over five years and all 1,000 options are expected to vest.

Beta recognises share-based remuneration expense of ₹ 200 in its profit or loss and an offsetting credit to equity in the current year. Alpha Limited (investor) holds 600 shares of Beta. Alpha has significant influence over Beta. Alpha recognises its share of the remuneration expense in its profit or loss as part of income from the equity-accounted investees. It records the offsetting credit as a reduction of its investment in Beta.

At the end of the vesting period, all options vest and are exercised. The exercise price is ₹ 3 per option. The face value per share is ₹ 1.

Required

- Pass journal entries in the books of Beta Limited and Alpha Limited for recording share-based payment expenses for the first year.
- Pass Journal entries for exercising of option in the 5th year, in the books of Beta Limited.
- In the books of Alpha Limited, compute the loss on dilution of shares of Beta Limited and pass journal entries for the same. Beta has net assets totalling ₹ 11,000, immediately before the shares are issued.

[RTP-Sept-2025]

Ans.

first attempt success tutorials

(i) Journal Entries to be recorded over the five-year vesting period:

		₹	₹
In Beta's books			
Share based payments remuneration (profit or loss)	Dr.	200	
To Shareholders' equity (ESOP reserve)			200
(To recognise share based payment at associate level)			
In Alpha's books			
Share based payment remuneration (profit or loss)	Dr.	60	
Investment in associate			60
(To recognise share based payment at investor level)			

(ii) Journal Entries in the books of Beta to recognise share issue:

		₹	₹
Cash	Dr.	3,000	
Shareholders' equity (ESOP reserve)	Dr.	1,000	
To Share capital			1,000
To Share premium			3,000
(To recognise exercise of options at the associate level)			

(iii) Accounting in the Financial Statements of Alpha

The issue of new share options results in a dilution of Alpha's interest in Beta by 10% $[30\% - \{(600/(2,000+1000) \times 100\}]$. However, Alpha maintains significant influence over Beta.

Alpha calculates loss on dilution as below.

Alpha's share of net assets before exercise $(11,000 \times 30\%)$	3,300
Alpha's share of net assets after exercise $((11,000+3,000) \times 20\%)$	<u>(2,800)</u>
Cumulative adjustment required	500
Less: Adjustment previously recognized for share based payment expense $(60 \times 5 \text{ years})$	<u>(300)</u>
Loss on dilution	<u>200</u>

Alpha passes the following entry to recognise dilution

	₹	₹
Loss on dilution (profit or loss) Dr.	200	
To Investment in associate		200
(To recognize dilution of investment in associate)		

RT 18A.
Share Based Payment-Services


PQR Ltd. has entered into a fixed price contract on 1st February, 20X2 to provide annual maintenance services worth USD 10,000 which is rendered uniformly throughout the year over a period of two years (1st April, 20X2 – 31st March 20X4) to a foreign customer. As per the terms of the contract, it has received advance payment of USD 3,000 on 1st February, 20X2 and the balance is to be received on 31st March, 20X4.

The entity recognises revenue at the end of every year.

How should the entity account for the said transactions, where the consideration is received in advance?

[RTP-Sept-2025]

Ans.

If the advance received from the customer is determined to be in the nature of prepayments or progress payments, these are treated as non-monetary items.

Accordingly, in the instant case, PQR Ltd. receives the advance payment of USD 3,000 on 1st February which it translates into its functional currency using the exchange rate on 1st February, 20X2. Applying paragraph 23(b) of Ind AS 21, the entity does not update the translated amount of the nonmonetary liability.

Applying Ind AS 115, Revenue from Contracts with Customers, it recognises revenue over a period of two years.

Since, the entity recognises revenue at the end of the year, revenue of USD 5,000 will be recognised at the end of the first year.

PQR Ltd. has determined that the consideration of USD 3,000 relates to the service it has rendered in the first year. At the end of year 1, the entity is entitled to an unconditional right to USD 2,000 of the remaining consideration.

Accordingly, at the end of the first year, on 31st March 20X3, it recognises revenue of USD 5,000 out of which USD 3,000 will be recognised by derecognising the contract liability and no exchange fluctuation will be involved. Balance of USD 2,000 revenue will be recognised by translating the exchange rate at the date of transaction and a receivable (monetary asset) will be recognised and translated at the exchange rate as at 31st March 20X3.

It will update the translated amount of the receivable until the receivable is settled on 31st March 20X4 and recognises the corresponding gain or loss in profit or loss.

At the end of the second year on 31st March 20X4, it recognises the balance revenue of USD 5,000 using the exchange rate at the date of the transaction.

RT 22A. Equity Sattedled to Cash Sattedled

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. on longer expects to list; and the employees are informed of this fact. Max Ltd. announces to employees that if it is not listed after the five years and employees leave, Max Ltd. will repurchase the shares. The fair value of the shares is ₹ 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

first attempt success tutorials		₹	₹
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

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

FINANCIAL INSTRUMENTS

RT 101B.
Embedded Derivative


Zx issues a fixed-rate loan for ₹ 500,000 and incurs issue costs of ₹ 20,000, resulting in an initial carrying value of ₹ 480,000. The loan carries an interest rate of 8% per annum, and it is repayable at par at the end of year 10. However, under the contract, Zx can call the loan at any time after year 4 by paying a fixed premium of ₹ 30,000. The fair value of the option is ₹ 10,000 at inception. The effective interest rate amounts to 8.30213%.

Required:

- (i) How is the embedded issuer-only call feature accounted for by Zx, the issuer initially?
- (ii) Explain the accounting of the loan when
 - (a) In years 1 and 2, there is no change in interest rate since inception for an instrument of similar maturity and credit rating. The option's fair value (time value) at the end of year 2 is ₹ 6,000.
 - (b) At the end of year 3, interest rates have fallen, and the option's fair value increases to ₹ 9,000.
 - (c) At the end of year 4, interest rates have fallen further. The option's fair value increases to ₹ 20,000, and the entity decides to repay the loan at the end of year 4. **[RTP-Sept-2025]**

Ans.

It is first necessary to determine whether the call option is closely related to the host debt instrument. Because the fixed premium is required to be paid whenever the call option is exercised after year 4, it is not known if it will be equal to the present value of any interest lost during the remaining term after exercise of the option. Additionally, the call option's exercise price is ₹ 5,30,000 (inclusive of the premium) therefore, it is unlikely to be approximately equal to the debt instrument's amortised cost in year 4, or at any subsequent year. Consequently, the call option shall be separated from the host debt contract and accounted for separately. This assumes that the expected life of the instrument is the full 10-year term. Even if the expected life is assumed to be four years, the 10-year loan with a call option after four years is economically same as a four-year loan with a six-year extension option. Because there is no concurrent adjustment to the interest rate after four years, the term extension option would not be closely related, and it would need to be accounted for separately. Thus, whichever way the loan and option are viewed, the embedded derivative needs to be separated.

Even though the option is out of the money at inception, because the option's exercise price is greater than the debt instrument's carrying value, it has a time value.

Since the value of a callable bond is equal to the value of a straight bond less the value of the option feature, the accounting entries at inception is:

		Dr (₹)	Cr. (₹)
Embedded option (derivative asset)	Dr.	10,000	
Cash	Dr.	4,80,000	
To Debt instrument (host)			4,90,000

Since the call option will be fair valued and accounted for separately, with fair value movements taken to profit or loss, it has no impact on the entity's estimate of future cash flows; accordingly, the amortisation period will be the debt host's period to original maturity. The amortisation schedule is shown below:

	Opening amortised cost ₹	Interest expense @ 8.30213% ₹	Cash payments ₹	Closing amortised cost ₹
Year 1	490,000	40,680	40,000	490,680
Year 2	490,680	40,737	40,000	491,417
Year 3	491,417	40,798	40,000	492,216
Year 4	492,216	40,864	40,000	493,080
Year 5	493,080	40,936	40,000	494,016
Year 6	494,016	41,014	40,000	495,030
Year 7	495,030	41,098	40,000	496,128
Year 8	496,128	41,189	40,000	497,317
Year 9	497,317	41,288	40,000	498,605
Year 10	498,605	41,395	540,000	-

The entity would recognize interest expense in profit or loss and the loan's amortised cost in the balance sheet each year, in accordance with the above amortisation schedule.

In years 1 and 2, there is no change in interest rate since inception for an instrument of similar maturity and credit rating. The option's fair value (time value) at the end of year 2 is ₹ 6,000. The decrease in fair value of ₹ 4,000 since inception will be reported in profit or loss, and the option will be recorded at ₹ 6,000 at the end of year 2.

At the end of year 3, interest rates have fallen, and the option's fair value increases to ₹ 9,000. The increase in value of ₹ 3,000 will be recorded in profit or loss, and the option will be recorded at its fair value of ₹ 9,000 at the end of year 3.

At the end of year 4, interest rates have fallen further. The option's fair value increases to ₹ 20,000, and the entity decides to repay the loan at the end of year 4.

The accounting entries, to reflect the change in the option's fair value and the loan's early repayment at the end of year 4, are as follows:

		Dr (₹)	Cr. (₹)
Embedded option	Dr.	11,000	
To Profit or loss			11,000
(Early repayment of loan)			
Debt instrument (host)	Dr.	4,93,080	
Loss on de- recognition of liability	Dr.	56,920	
To Embedded option (derivative asset)			20,000
To Cash			5,30,000

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
RT 91A.
Sale of Stake


A Ltd. owns 100% of a subsidiary B Ltd. It disposes of 60% of its interest in the subsidiary for ₹ 360 million and loses control of the subsidiary. It will de-consolidate the subsidiary and account for the remaining 40% interest as an associate using the equity method of accounting. At the disposal date, the fair value of the retained investment in B Ltd. is determined to be ₹ 240 million. The carrying value of the identifiable net assets of the subsidiary is ₹ 440 million, excluding goodwill. There is ₹ 60 million of goodwill recorded related to the previously acquired interests in the subsidiary. A Ltd. tested the subsidiary's goodwill and long-lived assets prior to disposal and there was no impairment. There is ₹ 4 million credit in the available-for-sale reserve and ₹ 10 million credit in the revaluation reserve relating to the subsidiary B Ltd. The tax consequences of the gain have been ignored.

Required:

- Pass Journal Entries for sale of 60% stake of B Ltd. on disposal date
- Compute gain on 40% retained investment

[RTP-Sept-2025]
Ans.

- The accounting entry on the disposal date for the 60% interest sold, the gain recognised on the 40% retained investment and the de-recognition of the subsidiary is as follows:**

		₹ in million	
Cash / Bank A/c	Dr.	360	
Investment in associate	Dr.	240	
Available -for-sale reserve	Dr.	4	
Revaluation reserve	Dr.	10	
To Net assets (including goodwill)			500
To Retained earnings			10
To Gain on disposal of controlling interest			104

The ₹ 104 million gain on the interest sold and the retained investment is recognised in the income statement and is disclosed in the consolidated financial statements.

- Computation of remeasurement of the retained non-controlling investment to fair value:**

	₹ in million
Fair value of retained investment	240
Percentage retained of carrying value of subsidiary $[(440 + 60) \times 40\%]$	<u>(200)</u>
Gain on retained investment	<u>40</u>

The gain or loss on the interest sold and on the retained investment recognised in the income statement, is calculated as follows:

	₹ in million
Fair value of the consideration	360
Fair value of retained investment	<u>240</u>
	600
Less: Carrying value of former subsidiary's net assets $(440 + 60)$	<u>(500)</u>
Available for sale reserve transferred to income	<u>4</u>
Gain on interest sold and on retained investment	<u>104</u>

RT 147A.

Partial Reduction in Stake

H Ltd. purchased a 100% subsidiary S Ltd. for ₹ 500,000 at the end of March, 20X3, when the fair value of the S Ltd.'s net assets was ₹ 400,000. H Ltd. sold 60% of its investment in the S Ltd. in March, 20X5 for ₹ 675,000, leaving H Ltd. with 40% investment and significant influence. At the date of disposal, the carrying value of the net assets of S Ltd., excluding goodwill, is ₹ 800,000. The fair value of the investment in S Ltd. retained is proportionate to the fair value of the 60% investment sold.

Required:

Compute gain or loss for H Ltd. on sale of 60% stake in S Ltd. for the purpose of separate financial statements and consolidated financial statements. **[RTP-Sept-2025]**

Ans.

- (i) **Computation of gain on the sale of 60% investment in Separate Financial Statements of H Ltd.'s for the year ended 31st March, 20X5**

	₹
Sale proceeds	6,75,000
Less: Cost of investment in S Ltd. (5,00,000 x 60%)	<u>(3,00,000)</u>
Gain on sale in the parent's financial statements	<u>3,75,000</u>

- (ii) **Computation of gain on the sale of 60% investment in Consolidated Financial Statements of H Ltd.'s for the year ended 31st March, 20X5**

In the consolidated financial statements, the group will calculate the gain or loss on disposal differently. The carrying amounts of all of the assets, including goodwill and the full amount of any cumulative exchange differences and any FVOCI-reserve previously recognised in equity, are de-recognised when control is lost. This is compared to the proceeds received and the fair value of the investment retained.

The gain on disposal will be calculated as follows:

	₹
Sale proceeds	6,75,000
Add: Fair value of 40% interest retained	<u>4,50,000</u>
	11,25,000
Less: Net assets disposed, including goodwill (8,00,000 + 1,00,000)	<u>(9,00,000)</u>
Gain on sale in the group's financial statements	<u>2,25,000</u>

This gain on loss of control would be recorded in profit or loss. The gain or loss includes the gain of ₹ 1,35,000 (₹ 6,75,000 - (₹ 9,00,000 x 60%)) on the portion sold. However, it also includes a gain on remeasurement of the 40% retained interest of ₹ 90,000 (₹ 4,50,000 - ₹ 3,60,000). The entity will need to disclose the portion of the gain that is attributable to remeasuring any remaining interest to fair value that is ₹ 90,000).

RT 42C.

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 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>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	-	400,000	(400,000)	-
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>10,00,000</u>	<u>1000,000</u>	<u>380,000</u>
	<u>11,750,000</u>	<u>1000,000</u>	<u>2,130,000</u>
Share capital	2000,000	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) × 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 × 25%)	4,37,500
Non-controlling interest C Ltd. measured at the proportionate share of the acquired net-asset (₹ 5,00,000 × 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 × 25%)			4,00,000
To Non-controlling interest - C Ltd. (500,000 × 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>10,00,000</u>	<u>1,00,000</u>	<u>380,000</u>	<u>120,000</u>	<u>11,500,000</u>
	<u>11,750,000</u>	<u>1,00,000</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	-	-	-	525,000	525,000
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>

Ind AS 7
RT 4A.
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 [$€ 1,00,000 \times (105 - 100) = ₹ 5,00,000$].

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

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>

RT 15A. Comprehensive


A Ltd. purchased 100 goats at an auction for ₹ 1,00,000 on 30th September, 20X7. Subsequent transportation costs were ₹ 1,000. A Ltd. would have to incur the same transportation costs if it had sold its goats in this auction. In addition, there would be a 2% auctioneer's fee on the market price of the goats payable by the seller. A Ltd. so incurred ₹ 500 on veterinary expenses.

On 31st March 20X8, the market value of the goats in the most relevant market increases to ₹ 1,10,000. Transportation costs of ₹ 1,000 would have to be incurred by the seller to get the goats to the relevant market. An auctioneer's fee of 2% on the market price of the goats would be payable by the seller.

On 1st June 20X8, the entity sold 18 goats at auction for ₹ 20,000 and incurred transportation charges of ₹ 150. In addition, there was a 2% auctioneer's fee on the market price of the goats paid by the seller.

On 15th September, 20X8, the fair value of the 82 goats was ₹ 82,820. 42 goats were slaughtered on that day, with a total slaughter cost of ₹ 4,200. The total market price of the carcasses on that day was ₹ 48,300, and the estimated transportation cost to sell the carcasses is ₹ 420. No other selling costs are expected.

On 30th September, 20X8, the market price of the remaining 40 goats was ₹ 44,800. The estimated transportation cost is ₹ 400. In addition, there would be a 2% auctioneer's fee on the market price of the goats payable by the seller.

A Ltd. adopts the fair value model to recognize biological assets, as required by the standard, and reports on 30th September and 31st March each year and determines fair value on these dates.

Pass Journal Entries for the above transactions.

[RTP-Sept-2025]

Ans.

Journal Entries

		₹	₹
Initial recognition of goats at 30th September, 20X7			
Biological asset (goats)	Dr.	97,000	
Loss on initial recognition	Dr.	4,000	
To Cash (purchase and transport to farm)			101,000
(Initial recognition of the goats at fair value less costs to sell)			
Veterinary expenses	Dr.	500	
To Cash			500
Recognition of veterinary expenses at 30th September, 20X7 (such expenses do not, in themselves, affect the fair value)			
Biological asset (goats)	Dr.	9,800	
To Gain on change in fair value less costs to sell (1,06,800-97,000)			9,800
(Subsequent measurement of biological assets at fair value less costs to sell at 31st March, 20X7 reporting date)			
Sale of goats on 1st June, 20X8			
Cash	Dr.	19,450	
Selling expenses (150+400)	Dr.	550	
To Revenue			20,000
(Recognition of the revenue from the sale of goats)			
Transfer of biological assets to inventory on 15th September, 20X8			
Inventory (Carcasses)	Dr.	47,880	
Fair value loss on goats	Dr.	1,176	
To Biological asset (goats) (the proportion of goats sold using the fair value			

at the previous reporting period, 31 st March, 20X8) (1,06,800 x 42/100)		44,856
To Cash		4,200
(Transfer of goats slaughtered to inventory)		
Subsequent measurement of goats at 30th September, 20X8		
Loss on change in fair value less costs to sell Dr.	18,440	
To Biological asset (goats) (fair value of goats at last reporting date less transfer to inventory) (43,504-(1,06,800-44,856))		18,440
(Subsequent measurement of biological assets at fair value less costs to sell at 30th September, 20X8 reporting date)		

Working Notes:

1. The fair value less costs to sell at initial recognition	₹
Fair value in the most relevant market	1,00,000
Transport costs	(1,000)
Auctioneer's fee	<u>(2,000)</u>
	<u>97,000</u>
2. The fair value less costs to sell at 31st March, 20X8 and gain thereupon	
Fair value in the most relevant market	1,10,000
Transport costs	(1,000)
Auctioneer's fee	<u>(2,200)</u>
	1,06,800
Less: Original cost recorded	<u>(97,000)</u>
	<u>9,800</u>
3. The fair value less estimated costs to sell of the carcasses on 15th September, 20X8	
Market value of carcasses	48,300
Transport costs	<u>(420)</u>
	<u>47,880</u>
Initial cost of the carcasses at the date of transfer to inventory is measured at the fair value less costs to sell of the carcasses. [Ind AS 41.13]	
4. The fair value less costs to sell at 30th September, 20X8	
Fair value in most relevant market	44,800
Transport costs	(400)
Auctioneer's fee	<u>(896)</u>
	<u>43,504</u>

The reduction in the herd due to the sale of goats at 1st June, 20X8 is included in the fair value adjustment at 30th September, 20X8. An alternative to the above presentation is to remeasure the goats to fair value just prior to the point at which they are sold and record a cost of sales figure separately with a corresponding reduction in the value of the biological assets. This will result in the same net profit for the period, but the presentation of cost of sales and net fair value re-measurements on biological assets will be different.

Ind AS 116**RT 41A.****Remeasurement-Scope Reduction**

Wealth Ltd. has entered into lease agreement with a lessor for a period of 5 years at the annual lease rental of ₹ 8 lakhs. There is an option at the end of the said period that lease can be owned by lessee. Other factors to be noted are discount rate of 8% per annum and interest rate implicit in the lease of 10% per annum.

Wealth Ltd. is reasonably certain to exercise the option to purchase the leased asset at the end of lease term and ₹ 56,00,000 is the exercise price agreed in the lease term for purchasing of land at the end of the 5th year. Therefore, the same has been considered in computing the present value of the lease liability. At the end of the year 3, Wealth Ltd. exercised the option to purchase the land at value of ₹ 56 lakhs, whereas the market value on that date was ₹ 75 lakhs.

For revised discount rate, consider the interest rate implicit in the lease.

Required

- Calculate the lease liability and right of use asset for the lease with the lessor. RoU is depreciated on SLM basis.
- Provide the amounts reflecting in the balance sheet, profit and loss and statement of cash flows at the end of year 1.
- What are the accounting entries if Wealth Ltd. decides to purchase the leased property at the end of year 3?

[RTP-Sept-2025]

Ans.

(i) Calculation of ROU Asset and Lease Liability:

Year	Lease Payments / Purchase Price	PVF @ 10%	PV of Lease payments
1	8,00,000	0.909	7,27,200
2	8,00,000	0.826	6,60,800
3	8,00,000	0.751	6,00,800
4	8,00,000	0.683	5,46,400
5	64,00,000 (8,00,000 + 56,00,000)	0.621	<u>39,74,400</u>
			<u>65,09,600</u>

Entity would amortise the right-of-use asset over the useful life of the underlying asset (5 years). Annual amortisation expense would be ₹ 13,01,920 (₹ 65,09,600 / 5 years). Accordingly, ROU Asset balance at the end of Year 1 is ₹ 52,07,680 (₹ 65,09,600 - ₹ 13,01,920).

(ii) Presentation at the end of Year 1:

In Balance Sheet	In Profit and Loss	In Statement of Cash Flows
ROU Asset: ₹ 52,07,680 (W.N.2)	Depreciation = ₹ 13,01,920 (W.N.2)	Cash flow from financing activities: Lease payment = ₹ 8,00,000
Lease Liability: ₹ 63,60,560 (W.N.1)	Interest expense (Finance cost) = ₹ 6,50,960 (W.N.1)	

- In the above part (i), it was considered that lessee was reasonably certain that he will exercise the option at the end of 5th year that's why the same has been considered in determination of lease payment. Now, lessee is exercising the option at the end of 3rd year which implies that there is **change in the assessment of an option** to purchase the underlying asset. Hence, paras 39 and 40(b) of IFRS 16 will come into the picture which are as follows (only relevant part have been reproduced here):

39 After the commencement date, a lessee shall apply paragraphs 40–43 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

40 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate,

if either:

- there is a change in the lease term, as described in paragraphs 20–21. A lessee shall determine the revised lease payments on the basis of the revised lease term; or
- there is a change in the assessment of an option to purchase the underlying asset**, assessed considering the events and circumstances described in paragraphs 20–21 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

Therefore, the lease liability has to be remeasured on change in the assessment of exercising the option.

Original lease liability is ₹ 60,16,278 (Working Note 1). Since at the end of the 3rd year, the lease has been terminated due to exercise of option to purchase the asset, the revised lease liability is the amount paid on exercising the option i.e. ₹ 56,00,000. The difference of original lease liability and revised lease liability will decrease the carrying amount of the right-of-use asset.

Accordingly, the adjustment to ROU Asset would be

$$= ₹ 60,16,278 - ₹ 56,00,000 = ₹ 4,16,278.$$

Journal Entry

Particulars		(₹)	(₹)
Lease liability Dr. To ROU Asset (Adjustment of difference in original lease liability and revised lease liability to ROU Asset)		4,16,278	4,16,278
PPE Dr. To ROU Asset (₹ 26,03,840 (Refer W.N.2) - ₹ 4,16,278) (ROU Asset balance transferred to PPE on exercising of lease option)		21,87,562	21,87,562
Lease Liability Dr. To Bank/Lease payable (Extinguishment of lease liability)		56,00,000	56,00,000

Note: We have stopped till the entry to exercise the option to purchase the leased asset (as per the requirement of the question). Treatment for change in the value of PPE due to its fair value has not been considered here.

Working Notes:

1. Calculation of outstanding Lease Liability at the end of 3rd year

Year	Opening balance (A)	Interest @ 10% (B)	Lease payments (C)	Closing balance (A) + (B) - (C)
	₹	₹	₹	₹
1	65,09,600	6,50,960	8,00,000	63,60,560
2	63,60,560	6,36,056	8,00,000	61,96,616
3	61,96,616	6,19,662	8,00,000	60,16,278

2. Calculation of ROU Asset balance at the end of 3rd year

Year	Opening balance (A)	Depreciation (B)	Closing balance (A-B)
	₹	₹	₹
1	65,09,600	13,01,920	52,07,680
2	63,60,560	13,01,920	39,05,760
3	61,96,616	13,01,920	26,03,840

CA Final FR

MTP -Sept-2025

ACCOUNTING AND TECHNOLOGY

MT 7A.

What are proactive measures to mitigate cyber security risks?

[MTP-Sept-2025]

Ans.



In view of the cybersecurity attacks and threats, it is important to taking proactive measures to mitigate cybersecurity risks as listed below:

- i. **Password management:** Strong passwords are critical for protecting sensitive financial data. Accounting professionals should ensure that all passwords are complex and changed regularly.
- ii. **Encryption:** Encryption can be used to protect sensitive data during transmission and storage. The IT Team of an organization should ensure that all sensitive data is encrypted using appropriate methods.
- iii. **Access control:** Access control is critical for preventing unauthorized access to financial data. Accounting professionals should ensure that access to sensitive data is limited to authorized personnel and that appropriate access controls are in place. The access controls should be continuously reviewed and updated based on any changes in the management or employee structure.
- iv. **Network security:** Network security is critical for protecting financial data from cyberattacks. It should be ensured that firewalls and other security measures are in place to prevent unauthorized access to the network.
- v. **Employee training:** Employee training is critical for ensuring that all staff members are aware of the importance of cybersecurity and understand how to protect sensitive financial data.
- vi. **Data backup:** Regular data backups are critical for ensuring that financial data is not lost in the event of a cyberattack. Accounting professionals should ensure that data backups are performed regularly and that backups are stored securely.
- vii. **Incident response planning:** Accounting professionals should have a clear incident response plan in place in the event of a cyberattack. This plan should include procedures for detecting, containing and mitigating the impact of a cyberattack.

“

NOTES

”

CA Final FR

Exam-Sept-2025

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Q. 1



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) Financial assets			
(a) Trade receivables	6	110	120
(b) Cash and cash equivalents		85	135
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	90	76
Total Equity and Liabilities		1,170	691

Notes to the Balance Sheet:

Note No.		Z Ltd. (₹ in lakhs)	R Ltd. (₹ in lakhs)
1.	Share capital:		
	(i) Equity shares of 10 each	600	300
	(ii) 10% Preference shares of 10 each	120	60
		720	360
2.	Other equity:		
	(i) General reserve	120	75
	(ii) Retained earnings	195	150
		315	225
3.	Trade payables:		
	(i) Sundry creditors	90	69
	(ii) Bills payable	Nil	7
		90	76
4.	Property, plant and equipment:		
	(i) Machinery	210	135

5.	(ii) Furniture and fixture	240	113
		450	248
	Intangible asset:		
	Goodwill	75	45
	Trade receivables:		
6.	(i) Sundry debtors	106	120
	(ii) Bills receivable	4	Nil
		110	120

Additional Information :

- Z Ltd. acquired 12,00,000 equity shares of R Ltd. on 1st April, 2024 and further acquired 13,50,000 equity shares of R Ltd. on 1st January, 2025 at a cost of ₹1,44,00,000 and ₹1,55,25,000 respectively.
- The Preference share capital of R Ltd. includes nominal value of ₹22,50,000 held by Z Ltd. acquired on 1st April, 2024 at a cost of ₹54,00,000.
- The retained earnings of R Ltd. had a credit balance of ₹45,00,000 as on 1st April, 2024 and that of General reserve on that date was ₹30,00,000.
- R Ltd. had paid dividend @ 12% on its paid-up equity share capital out of its retained earnings' balance on 1st April, 2024 for the year 2023-24. The entire dividend received by Z Ltd. in August 2024 has been credited to its retained earnings.
- On 1st October, 2024, machinery of R Ltd. was overvalued by ₹ 15,00,000 for which necessary adjustments are to be made. The Company charges depreciation @ 10% on W.D.V. basis.
- Bills receivables of Z Ltd. were drawn upon R Ltd. out of which bills amounting to ₹3,00,000 have been discounted with bank.

You are required to prepare consolidated balance sheet (In ₹ Without rounding off) of Z Ltd. and its subsidiary R Ltd. as on 31st March, 2025 with the assumption that the group has adopted fair value method to measures NCI and the fair value of each equity share of R Ltd. is ₹ 14 per share as on the date of acquisition of control by Z Ltd. and also on 31st March 2025. Ignore taxation and adjustment, if any, of preference dividend. **[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		14,44,50,000

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>
	7,20,00,000

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>
		3,79,96,875

Working Notes:

1. Consolidated Other Equity

Particulars	General Reserve	Retained Earnings
Standalone - Z Ltd.	1,20,00,000	1,95,00,000

Add: Fair Value gain of existing stake [(12 lakh x 14) – 144 lakhs]		24,00,000
Less: Fair Value loss of existing stake [(12 lakh x ₹ 11.50) – 144 lakhs]		
Less: Loss on cancellation of preference shares (54 lakhs - 22.5 lakhs)		(31,50,000)
Add: Share in post-acquisition Profits (W.N.4(i))	9,56,250	
(W.N.4(ii))		<u>30,28,125</u>
	<u>1,29,56,250</u>	<u>2,17,78,125</u>

2. Computation of bargain purchase i.e. capital reserve

(i) Computation of net worth (net identifiable assets) as on 1st January 2025

	₹
Share Capital	3,00,00,000
Pre-acquisition Retained Earnings (after adjusting downward revaluation of machinery)	1,00,12,500
Pre-acquisition General Reserve	63,75,000
Adjustment for Goodwill since it has no fair value	<u>(45,00,000)</u>
Net worth or Net Identifiable assets	<u>4,18,87,500</u>

(ii) Computation of bargain purchase i.e. capital reserve

		₹
Net worth or Net identifiable assets		4,18,87,500
Purchase consideration (155.25 lakhs + 168 lakhs)	3,23,25,000	
NCI [30 lakhs shares x 15% x ₹ 14]	<u>63,00,000</u>	<u>(3,86,25,000)</u>
Bargain purchase (capital reserve)		<u>32,62,500</u>

3. Non-Controlling Interest A/c (at Fair Value)

	₹
NCI at fair value as on 1 st January 2025	63,00,000
Post-acquisition General Reserve (W.N.4(i))	1,68,750
Post-acquisition Retained Earnings (W.N.4(ii))	5,34,375
Preference share capital (60 lakh – 22.50 lakh)	<u>37,50,000</u>
NCI at fair value as on 31st March 2025	<u>1,07,53,125</u>

4. Analysis of Other Equity

(i) General Reserve

		₹
Closing balance as on 31 st March 2025		75,00,000
Less: Opening Balance (45.00 - 36.00)	pre	<u>(30,00,000)</u>
Net Profit transferred during the year		<u>45,00,000</u>
For 9 months till 31 st December 2024	pre	33,75,000
For 3 months from 1 st Jan. 2025 to 31 st Mar. 2025	post	11,25,000
Total pre-acquisition reserve (30.00 lakh+33.75 lakh)	pre	63,75,000
Share of Z Ltd. in post-acquisition reserve (85%)	post	9,56,250
Share of NCI in post-acquisition reserve (15%)	post	1,68,750

(ii) Retained Earnings (RE)

		₹
Closing balance as on 31 st March, 2025		1,50,00,000
Less: Opening balance		45,00,000
Less: Dividend @12% (300 lakhx12%)		<u>(36,00,000)</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:

- 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. 2



Modern Limited, whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of ₹ 5,00,000/-, but there are no other assets or liabilities in its financial statements as on 1st April, 2024.

During the year 2024-25, the company has entered into the following foreign currency transactions:

- It purchased goods for resale from Spain for Euro 1,00,000 when the exchange rate was 1 Euro = ₹77. This balance is still unpaid at 31st March, 2025 when the exchange rate was 1 Euro = ₹ 72. An exchange gain of ₹ 5,00,000/- on the retranslation of Trade Payables is recorded in the Statement of Profit and Loss.
- It sold the goods to an American client for US \$ 1,00,000 when the exchange rate was 1 US \$ = ₹82. This amount was settled when the exchange rate was 1 US \$ = ₹85. The exchange gain regarding the Trade Receivable is recorded in the Statement of Profit and Loss.
- Modern Limited also borrowed Euro 1,00,000 under a long term loan agreement when the exchange rate was 1 Euro = ₹ 75 and immediately converted it into ₹ 75,00,000/-. The loan was retranslated at 31st March, 2025 at ₹ 72, with an exchange gain recorded in the Statement of Profit and Loss. The loan is still payable.

Modern Limited, therefore, records a cumulative exchange gain of ₹11,00,000/- (5,00,000 + 3,00,000 + 3,00,000) in arriving at its profit for the year. Besides it also records a trading profit of 5,00,000/- (₹82,00,000 - ₹77,00,000) on the sale of goods.

How would the cash flows arising from the above transactions be reported in the Statement of Cash flows of Modern Limited prepared under Indirect Method as per applicable Ind AS ? Ignore taxation.

[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 (77 - 72) = ₹ 5,00,000].

A further exchange gain of ₹ 3,00,000 regarding the trade receivable is recorded in the statement of profit or loss [€ 1,00,000 x (85 - 82) = ₹ 3,00,000].

The loan was retranslated at 31st March 2025 @ ₹ 72 = ₹ 72,00,000, with a further exchange gain of ₹ 3,00,000 recorded in the statement of profit or loss.

Statement of Cash Flows

Particulars	₹
Cash flows from operating activities (Indirect method)	
Profit before taxation (5,00,000 + 11,00,000)	16,00,000
Adjustment for unrealised exchange gains / losses:	
Foreign exchange gain on long term loan	(3,00,000)
Foreign Exchange gain on trade payables	<u>(5,00,000)</u>
Operating cash flow before working capital changes	8,00,000
Changes in working capital (Due to increase in trade payables)	<u>77,00,000</u>
<i>Net cash inflow from operating activities</i>	85,00,000
Cash inflow from financing activity	<u>75,00,000</u>
Net increase in cash and cash equivalents	1,60,00,000
Cash and cash equivalents at the beginning of the period	<u>5,00,000</u>
Cash and cash equivalents at the end of the period (Refer W.N.)	<u>1,65,00,000</u>

Working Note:

Closing Cash and Cash Equivalents

Particulars	₹
Opening balance of cash and cash equivalents	5,00,000
Add: Received from settlement of Trade Receivables	85,00,000
Add: Received from conversion of loan	<u>75,00,000</u>
	<u>1,65,00,000</u>

Note: One may show changes in working capital net of foreign exchange gain of ₹ 72,00,000.

Ind AS 8

Q. 3



While preparing the financial statements for the year ended 31st March, 2025, Gama Ltd. observed two issues in the previous year Ind AS financial statements (i.e. 31st March, 2024) which are as follows:

Issue 1:

The company had presented certain material liabilities as non-current in its financial statements as on 31st March, 2024. While preparing annual financial statements for the year ended 31st March, 2025, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period i.e. as at 31st March, 2024.

Issue 2:

The company had charged off certain expenses as finance costs in the year ended 31st March, 2024. While preparing annual financial statements for the year ended 31st March, 2025, it discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The entity intends to restate the comparative amounts for the prior period in which the error occurred i.e. year ended 31st March, 2024.

You are required to analyse the above issues and give your recommendation as to their treatment in preparation of the financial statements for the financial year 2024-25. **[Sept-2025]**

Ans.

As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Issue 1

In accordance with the guidance provided above, the reclassification of liabilities from non-current to current would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March 2025, the comparative amounts as at 31st March 2024 would be restated to reflect the correct classification.

Issue 2

The reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March 2025, the comparative amounts for the year ended 31st March 2024 would be restated to reflect the correct classification. In the given case, the retrospective restatement of relevant items in statement of profit and loss has no effect on the information in the balance sheet at the beginning of the preceding period (1st April 2023). Therefore, the entity is not required to present a third balance sheet.

Q. 4



XYZ Ltd. operates a defined retirement benefits plan on behalf of current and former employees. XYZ Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 2024, the actuaries advised that the present value of the defined benefit obligation was ₹90 lakhs. On the same day, the fair value of the assets of the defined benefit plan was ₹78 lakhs. On 1st April, 2024, the annual market yield on high quality corporate bonds was 6%. During the year ended 31st March, 2025, XYZ Ltd. made contributions of ₹ 10,50,000 into the plan and the plan paid out benefits of ₹ 6,30,000 to retired members. Assume that both these payments were made on 31st March, 2025. The actuaries advised that the current service cost for the year ended 31st March, 2025 was ₹9,30,000.

On 28th February, 2025, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of defined benefit obligation was increased by ₹ 2,25,000 from that date. During the year ended 31st March, 2025 XYZ Ltd. was in negotiation with employees' representatives regarding redundancies. The negotiations were completed shortly before the year and the redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 12,00,000. Before 31st March, 2025, XYZ Ltd. made payments of ₹11,25,000 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan. On 31st March, 2025, the actuaries advised that the present value of the defined benefit obligation was ₹ 1,02,00,000. On the same day the fair value of the assets of the defined benefit plan were ₹ 84,00,000.

You are required to suggest the accounting treatment of the above under the provisions of relevant Ind AS. Please note that the finance cost is to be computed on the opening balance. **[Sept-2025]**

Ans.

On 31st March 2025, XYZ Ltd. will report a net pension liability in the Balance sheet. The amount of the liability will be ₹ 18,00,000 (₹ 1,02,00,000 – ₹ 84,00,000).

For the year ended 31st March 2025, XYZ Ltd. will report the current service cost as an operating cost in the statement of profit and loss. The amount reported will be ₹ 9,30,000. The same treatment applies to the past service cost of ₹ 2,25,000.

For the year ended 31st March 2025, XYZ Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of ₹ 12,00,000 (₹ 90,00,000 – ₹ 78,00,000). The amount of the finance cost will be ₹ 72,000 (₹ 12,00,000 x 6%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of ₹ 75,000 (₹ 12,00,000 – ₹ 11,25,000) will be reported in the statement of profit and loss.

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

For the year ended 31st March 2025, the remeasurement loss will be ₹ 4,98,000 (Refer W. N.).

Working Note:
Remeasurement of gain or loss

	₹
Liability at the start of the year (₹ 90,00,000 – ₹ 78,00,000)	12,00,000
Current service cost	9,30,000
Past service cost	2,25,000
Net finance cost	72,000

Gain on settlement	(75,000)
Contributions to plan	(10,50,000)
Remeasurement loss (balancing figure)	<u>4,98,000</u>
Liability at the end of the year (₹ 1,02,00,000 – ₹ 84,00,000)	<u>18,00,000</u>

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

	₹
Current service cost	9,30,000
Finance Cost (Net interest) on net defined liability	
[(₹ 90,00,000 – ₹ 78,00,000) x 6%]	72,000
Past Service Cost	2,25,000
Gain on Settlement	(75,000)

Defined benefit re-measurements recognised in Other Comprehensive Income:	₹
Loss on defined benefit obligation	(4,98,000)

In the Balance sheet, the following will be recognised:	₹
Defined benefit liability (₹ 1,02,00,000 – ₹ 84,00,000)	18,00,000

Note: Alternatively, one may work out remeasurement gain/loss by making statement or ledger account of defined benefit obligation and plan assets as follows:

Statement to Calculate Actuarial Gain or Loss on Defined Benefit Liability and Plan Assets

	Plan Assets	Defined Benefit obligation
	₹	₹
Fair Value/Present Value as on 1 st April, 2024	78,00,000	90,00,000
Interest @ 6%	4,68,000	5,40,000
Current Service Cost		9,30,000
Past Service Cost		2,25,000
Redundancy benefit	(11,25,000)	(12,00,000)
Contribution received	10,50,000	
Contribution paid	(6,30,000)	(6,30,000)
Return on Plan Assets (Balancing Figure)	8,37,000	
Actuarial loss (Balancing Figure)		<u>13,35,000</u>
Closing Balance as on 31 st March, 2025	<u>84,00,000</u>	<u>1,02,00,000</u>

Ind AS 33

Q. 5



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

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Ind AS 101

Q. 6


Bee Kay Limited has voluntarily opted to adopt Indian Accounting Standards (Ind AS) from 1st April, 2025 in accordance with the Companies (Indian Accounting Standards) Rules, 2015.

The management has identified the following issues and has sought your guidance so that the Opening Ind AS Balance Sheet as on the date of transition can be prepared:

- (i) Property, Plant and Equipment (PPE) comprise land held for capital appreciation purposes costing ₹15,00,000/- and qualifies to be treated as Investment Property as per Ind AS. Besides Exchange differences of ₹ 1,50,000/- were capitalized to depreciable PPE on which accumulated depreciation of ₹ 37,500/- was recognized. The management intends to avail deemed cost exemption for using the previous GAAP carrying values as deemed cost at the date of transition.
- (ii) Bee Kay Limited had acquired 70% shares of X Private Limited a few years ago thereby acquiring the control upon it at that time. It recognized a goodwill of ₹1,25,000/- as per the erstwhile Accounting Standard by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition.
- (iii) Company had given a loan of ₹ 10,00,000/- at an interest rate of 7% per annum to an entity six years ago. Transaction costs were incurred separately for this loan. The loan is repayable in 10 equal instalments over the period of ten years along with accrued interest at the close of each year. The fair value of the loan as on the date of transition is ₹ 5,00,000/- against the carrying amount of ₹ 4,00,000/-. The management says that it is a tedious task to compute the value of the loan by applying the effective interest rate method and has expressed its reluctance in doing so.

You are required to state necessary explanation for each of the items presented by the management of Bee Kay Limited in the form of notes, which may or may not require the adjustment on the date of transition.

[Sept-2025]

Ans.

- (i) **Property, Plant & Equipment:** Since the land held for capital appreciation purposes qualifies as investment property, such investment property should be reclassified from property, plant and equipment (PPE) to investment property and presented separately. As the Company has adopted the previous GAAP carrying values as deemed cost, all items of PPE and investment property should be carried at its previous GAAP carrying values of ₹ 15,00,000. As such, the past capitalised exchange differences require no adjustment in this case.
- (ii) **Goodwill:** Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as on the date of acquisition. However, a first-time adopter may elect not to apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS. Hence, company can continue to carry the goodwill in its books of account as per the previous GAAP.
- (iii) **Loan:** Para B8C of Ind AS 101 states that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS. Accordingly, ₹ 5,00,000 would be the gross carrying amount of loan and difference of ₹ 1,00,000 (₹ 5,00,000 – ₹ 4,00,000) would be adjusted to retained earnings.

ACCOUNTING AND TECHNOLOGY

Q. 7



Which specific Computer Technology can be used in under-mentioned scenarios to reduce burden and streamline the process? Give reasons in support of your answer.

- (i) Koyal Ltd. has 8 subsidiaries including 2 foreign subsidiaries and 2 foreign associate companies, each maintaining their own financial data independently. Koyal Ltd. prepares consolidated financial statements in accordance with Ind AS 110 every year. This whole process needs to be accurate, consistent and completed in time, but Koyal Ltd. is struggling for the same.
- (ii) Doham Ltd. is a financial institution which deals with high-profile people and Mr. Salil, who works for Doham Ltd. handles sensitive customer data, such as personal information and transaction records. He is under stress all the time and needs support.

[Sept-2025]

Ans.

- (i) In the given scenario, to streamline its financial reporting processes, Koyal Ltd. should leverage Robotic Process Automation (RPA) to automate the process of extracting financial data from the subsidiary systems and consolidating it into the parent company's financial system.
The bots retrieve the relevant financial information, perform necessary currency conversions, and reconcile intercompany transactions, ensuring accurate and timely consolidation.
RPA bots are programmed to identify intercompany transactions within the consolidated financial data. The bots automatically eliminate these transactions by adjusting the corresponding accounts and generating elimination entries, simplifying the process and reducing the potential for errors.
The bots retrieve the consolidated financial data from the parent company's financial system and apply the necessary consolidation adjustments. They perform calculations for non-controlling interests, equity, and comprehensive income attributable to the parent and non-controlling interests.
The bots generate the consolidated balance sheet, income statement, statement of changes in equity, and cash flow statement, ensuring accuracy and consistency in the financial reporting process.

- (ii) In the given scenario, to streamline its financial reporting processes and to handle sensitive customer data, an entity should utilize blockchain technology. Doham Ltd., being a financial institution, can implement a secure and encrypted blockchain network to store and share customer data. The finance professional can ensure the integrity and security of the data by leveraging blockchain's cryptographic algorithms and consensus mechanisms. This eliminates the risk of unauthorized access, data tampering, or data loss.

With blockchain, the finance professional can confidently handle customer data, knowing that it is protected by a robust and transparent system, enhancing data privacy, and maintaining the trust of customers and regulatory bodies.

“

NOTES



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CA Final FR

RTP-Jan-2026

Ind AS 102

Q. 1



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	<table><tr><th>Particular</th><th>Debit</th><th>Credit</th></tr><tr><td>Equity (ESOP reserves) Dr.</td><td>7,500</td><td></td></tr><tr><td>To Investment in Subsidiary</td><td></td><td>2,500</td></tr><tr><td>To Dividend Income (Deemed Distribution from Subsidiary)</td><td></td><td>5,000</td></tr><tr><td colspan="3">(Parent is no longer required to settle ESOP for its own employees as well as subsidiary employees under New ESOP scheme by Subsidiary)</td></tr></table>	Particular	Debit	Credit	Equity (ESOP reserves) Dr.	7,500		To Investment in Subsidiary		2,500	To Dividend Income (Deemed Distribution from Subsidiary)		5,000	(Parent is no longer required to settle ESOP for its own employees as well as subsidiary employees under New ESOP scheme by Subsidiary)			<table><tr><th>Particular</th><th>Debit</th><th>Credit</th></tr><tr><td>Equity (Distribution to Parent) Dr.</td><td>5,000</td><td></td></tr><tr><td>Equity (capital contribution from Parent) Dr.</td><td>2,500</td><td></td></tr><tr><td>To Equity (ESOP reserves)</td><td></td><td>7,500</td></tr><tr><td colspan="3">(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)</td></tr></table>	Particular	Debit	Credit	Equity (Distribution to Parent) Dr.	5,000		Equity (capital contribution from Parent) Dr.	2,500		To Equity (ESOP reserves)		7,500	(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)					
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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><tr><td colspan="3">[*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]</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 Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)			[*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]			<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><tr><td colspan="3">[#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]</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 Old ESOP scheme and incremental fair value under New ESOP scheme for Year 2)			[#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]		
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Q. 2
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.

Ind AS 8

Q. 3



PRIOR PERIOD ITEM

During 20X3, T Ltd. discovered that prepayments of ₹ 680 made during 20X1 had not been recognised in profit or loss as the related expenses were incurred. The prepayments should have been recognised as an expense of ₹ 170 in 20X1; ₹ 425 in 20X2; and ₹ 85 in 20X3. The misstatement is material.

Extract from draft 20X3 Statement of Profit and Loss before correction of error

	Draft 20X3	20X2
Revenue	10,200	6,800
Less: Expenses	<u>(9,350)</u>	<u>(6,120)</u>
Net profit	<u>850</u>	<u>680</u>

Extract from Statement of Changes in Equity

	Draft 20X3	20X2
Opening retained earnings	24,480	23,800
Add: Current-year net profit	<u>850</u>	<u>680</u>
Closing retained earnings	<u>25,330</u>	<u>24,480</u>

The opening balance of retained earnings is adjusted and comparatives are restated when practicable to reflect the correction of the error. Assume there are no tax effects.

Required:

Draw the revised Statement of Profit and Loss (extract) and Statement of Changes in Equity (extract) after rectifying the above error. [RTP-Jan-2026]

Ans.

In restating the comparatives, the adjustment will be included in the appropriate line item. In addition, the financial statements will include full disclosure regarding the error and the adjustments made to correct it as per para 49 of Ind AS 8. The restated comparative financial statements should be accompanied with the heading 'restated' to highlight for users the fact that the comparative financial statements are not the same as the financial statements previously published.

Statement of Profit and Loss after correction of error (Extract)

	20X3 ₹	20X2 (Restated) ₹
Revenue	10,200	6,800
Less: Expenses (9,350 + 85)	<u>(9,435)</u>	<u>(6,545)</u>
Net profit	<u>765</u>	<u>255</u>

Statement of Changes in Equity (Extract)

	20X3 ₹	20X2 (Restated) ₹
Opening retained earnings as reported previously	-	23,800
Correction of an error related to previous years	<u>-</u>	<u>(170)</u>
Opening retained earnings (restated)	23,885	23,630
Current-year net profit	<u>765</u>	<u>255</u>
Closing retained earnings	<u>24,650</u>	<u>23,885</u>

Ind AS 115

Q. 4



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]

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
 $= (\text{₹ } 1,00,000 / \text{₹ } 10,00,000) \times 100 = 10\%$
- Share of upfront payment to be recognised in Quarter 1
 $= 10\% \times \text{₹ } 50,000 = \text{₹ } 5,000$

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
 $= \text{₹ } 1,00,000 + \text{₹ } 1,25,000 = \text{₹ } 2,25,000$
- Percentage of sale till Quarter 2 to total estimated sale
 $= (\text{₹ } 2,25,000 / \text{₹ } 15,00,000) \times 100 = 15\%$
- Share of upfront payment to be recognised in Quarter 2
 $= (15\% \times \text{₹ } 50,000 \text{ upfront payment}) - \text{Upfront payment recognized in Quarter 1}$
 $= \text{₹ } 7,500 - \text{₹ } 5,000 = \text{₹ } 2,500$

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).

Ind AS 32 Financial Instrument

Q. 5

CFI WITH EARLY REDEMPTION OPTION

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.	300

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

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

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

There is no gain or loss on early conversion.

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

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

Date	Particulars	Amount (rounded off in Crores)
End of Year 1-4	Interest on debentures (cumulative interest for 4 years) Dr.	245
	To Debentures (Interest recognised in P&L @ 17%)	245
End of Year 4	Debentures [280 + 245] Dr.	525
	To Bank (Being debentures redeemed)	525

Working Note:

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

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

Ind AS 24

Q. 6
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.



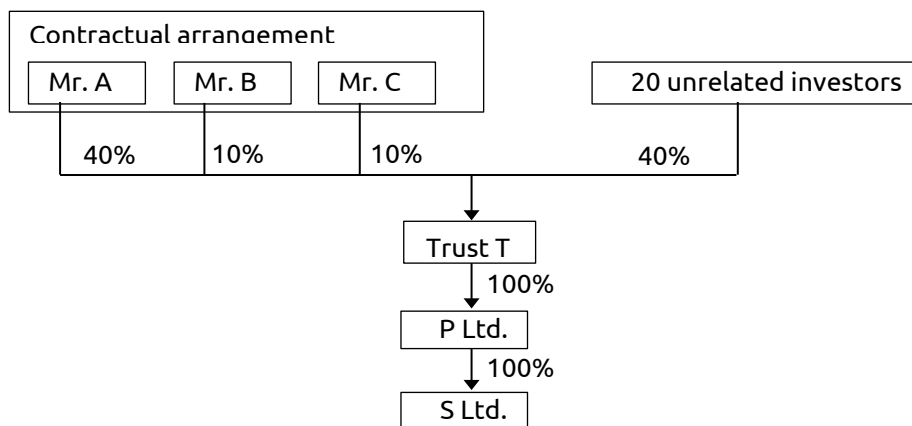
S Ltd. is a wholly owned subsidiary of P Ltd. and P Ltd. is wholly owned by Trust T.

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]

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.

Ind AS 2

Q. 7

NRV - WIP



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

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

Required:

Assuming that the selling cost are zero, what is the NRV of the semi- finished product in stage 1 and stage 2 at the year end? [RTP-Jan-2026]

Ans.

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

	₹
Selling price of completed product	275
Less: Stage 3 conversion costs	(62)
Less: Stage 2 conversion costs	(35)
Net realisable value at stage1	<u>178</u>

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

Ind AS 23

Q. 8 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% $(10,00,000 \times 12\% \times 1/12)$	10,000
Interest payable for January 20X9 at 12% $(10,00,000 \times 12\% \times 1/12)$	10,000
Interest for February 20X9 at 13% $(10,00,000 \times 13\% \times 1/12)$	10,833
Interest payable for March 20X9 at 13% $(10,00,000 \times 13\% \times 1/12)$	<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 $[(10,00,000 - 1,00,000) \times 5\% \times 1/12]$	3,750
Interest receivable on re-invested funds of ₹ 6,50,000 in October 20X9 $[(9,00,000 - 2,50,000) \times 5\% \times 1/12]$	2,708
Interest receivable on re-invested funds of ₹ 4,00,000 in November 20X9 $[(6,50,000 - 2,50,000) \times 5\% \times 1/12]$	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.

Ind AS 7

Q. 9



Consolidated Statement of Cash Flows – Indirect Method

Z Ltd. had acquired a subsidiary V Ltd. during the year 20X1-20X2. Summarized information from the consolidated statement of profit and loss and balance sheet together with some supplementary information have been provided:

Consolidated Statement of Profit and Loss for the year 20X1-20X2

	₹
Revenue	4,56,000
Cost of sales	<u>(2,64,000)</u>
Gross profit	1,92,000
Depreciation	(36,000)
Other operating expenses	(67,200)
Interest cost	<u>(4,800)</u>
Profit before taxation	84,000
Taxation	<u>(18,000)</u>
Profit after taxation	<u>66,000</u>

Consolidated Balance Sheet as at 31st March

	20X2	20X1
	₹	₹
Assets		
Non-current assets		
Property, plant and equipment	1,92,000	96,000
Goodwill	21,600	-
Current assets		
Inventories	36,000	42,000
Financial assets		
Trade receivables	64,800	60,000
Cash and cash equivalents	<u>9,600</u>	<u>6,000</u>
Total	<u>3,24,000</u>	<u>2,04,000</u>
Equity and Liabilities		
Shareholders' equity	1,08,000	42,000
Non-current liabilities		
Long term debt	1,20,000	76,800

Current liabilities		
Income tax payables	14,400	13,200
Financial liabilities		
Trade payables	<u>81,600</u>	<u>72,000</u>
Total	<u>3,24,000</u>	<u>2,04,000</u>

Other information

All of the shares of V Ltd. were acquired for ₹ 88,800 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	₹
Inventories	4,800
Trade receivables	9,600
Cash	2,400
Property, plant and equipment	1,32,000
Trade payables	(38,000)
Long-term debt	(43,200)
Goodwill	21,600
Cash consideration paid	88,800

Required:

Prepare a consolidated statement of cashflows for the year 20X1-20X2 under indirect method. [RTP-Jan-2026]

Ans.

Consolidated Statement of Cash Flows for the 20X1-20X2

	₹	₹
Cash flows from operating activities		
Profit after taxation		84,000
Adjustments for non-cash items:		
Depreciation	36,000	
Interest paid to be included in financing activities	<u>4,800</u>	<u>40,800</u>
		1,24,800
Adjustments for working capital changes:		
Decrease in inventories (W.N.1)	10,800	
Decrease in trade receivables (W.N.2)	4,800	
Decrease in trade payables (W.N.3)	<u>(28,800)</u>	<u>(13,200)</u>
		1,11,600
Less: Taxation (13,200 + 18,000 – 14,400)		<u>(16,800)</u>
Net cash generated from operating activities		94,800
Cash flows from investing activities		
Cash paid to be acquired subsidiary (88,800 – 2,400)	(86,400)	
Net cash outflow from investing activities		(86,400)
Cash flows from financing activities		
Interest paid	(4,800)	
Net cash outflow from financing activities		<u>(4,800)</u>
Increase in cash and cash equivalents		3,600
Cash and cash equivalents at the beginning of the year		<u>6,000</u>
Cash and cash equivalents at the end of the year		<u>9,600</u>

Working Notes:
1. Computation of increase/decrease in inventory of the Group for the year

	₹
Total inventory of the Group at the end of the year	36,000
Inventory acquired during the year from subsidiary	<u>(4,800)</u>

Closing inventory	31,200
Less: Opening inventory	(42,000)
Decrease in inventory	(10,800)

2. Computation of increase/decrease in trade receivables of the Group for the year

Total trade receivables of the Group at the end of the year	64,800
Trade receivables acquired during the year from subsidiary	(9,600)
Closing trade receivables	55,200
Less: Opening trade receivables	(60,000)
Closing trade receivables	(4,800)

3. Computation of increase/decrease in trade payables of the Group for the year

Trade payables at the end of the year	81,600
Trade payables of the subsidiary assumed during the year	(38,400)
Closing trade payables	43,200
Less: Opening trade payables	(72,000)
Closing trade payables	(28,800)

Ind AS 16
Q. 10
Exchange


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

Required:

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

[RTP-Jan-2026]
Ans.

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

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

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

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

CA Final FR - MTP1-Jan-2026

Ind AS 16

Q. 1

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).

CA Final FR

Exam-Jan-2026

CFS

Q. 1



On 1st April 2024, A Limited acquired 80% of the equity share capital of S Limited. On the said date, the share capital and other equity (represented entirely by retained earnings) of S Limited were ₹ 10.00 lakhs and ₹ 2.50 lakhs respectively.

To the selling shareholders, A Limited :

- paid initial cash consideration of ₹ 20.00 lakhs;
- issued fresh 400,000 equity shares of a nominal value of ₹ 1 per share at current market price of ₹ 2 per share;
- agreed to pay a further ₹ 6.00 lakhs after 3 years i.e. on 31st March 2027.

A Limited's cost of capital is 10% per annum. The appropriate discount factor for ₹ 1 @10% per annum receivable at the end of :

- 1st year is 0.91;
- 2nd year is 0.83;
- 3rd year is 0.75.

Both A Limited and S Limited prepare their financial statements as per Companies (Indian Accounting Standards) Rules, 2015.

The Balance Sheet of A Limited and S Limited as at 31st March 2025 is as under :

(All amounts in ₹ in lakhs)		
Particulars	A Limited	S Limited
ASSETS		
Non-current assets		
- Property, plant and equipment	60.00	30.00
- Financial assets		
• Investment (in S Limited at cost)	20.00	-
Current assets		
- Inventories	7.00	12.00
- Financial assets		
• Trade receivables	4.50	10.00
• Cash and cash equivalents	2.00	4.00
Total Assets	93.50	56.00
EQUITY AND LIABILITIES		
EQUITY		
Equity share capital (₹ 1 per share)	40.00	10.00
Other equity		
- Retained earning	15.00	6.00
LIABILITIES		
Non-current liabilities		
- Financial liabilities		
• Borrowings	25.00	25.00
Current liabilities		
- Financial liabilities		
• Trade payables	13.50	15.00
Total Equity and Liabilities	93.50	56.00

The following additional information is provided :

- Since its incorporation, S Limited has been selling some of its products under the brand name 'BLISS'. At the acquisition date, A Limited valued this brand at ₹ 8.00 lakhs with a remaining life of 10 years with NIL residual value. A Limited amortizes its intangible assets on straight line method. The brand is not recognized in S Limited's Balance sheet;
- As at 31st March 2025, goodwill recognized on consolidation is to be impaired by 25%;
- A Limited Group measures the non-controlling interest at fair value;
- Equity shares of S Limited were quoted at ₹ 4 per share on the date of acquisition;
- Immediately after acquisition i.e. on 1st April 2024, A Limited (which also sells capital equipment) sold a capital equipment costing ₹ 4.00 lakhs to S Limited at ₹ 5.00 lakhs. This capital equipment is recorded as Property, Plant and Equipment by S Limited. The useful life of the equipment on the date of transfer was 10 years with NIL residual value. The equipment is depreciated on straight line method.
- A Limited is yet to record issuance of shares and deferred consideration in its books of account.

You are required to prepare Consolidated Balance Sheet of A Limited as at 31st March 2025. Workings should form part of your answer. [Jan-2026]

Ans.

Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd. as at 31st March 2025

Particulars	Note No.	₹ in lakhs
I. Assets		
(1) Non-Current Assets		
(i) Property Plant & Equipment	1	89.10
(ii) Goodwill (W.N.3)		15.00
(ii) Intangible Asset - Brand	1	7.20
(2) Current Assets		
(i) Inventories	1	19.00
(ii) Financial Assets		
(a) Trade Receivables	1	14.50
(b) Cash & Cash Equivalents	1	<u>6.00</u>
Total Assets		<u>150.80</u>
II. Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital	2	44.00
(ii) Other Equity	3	15.79
(2) Non-Controlling Interest (W.N.5)		7.56
(3) Non-Current Liabilities		
(i) Financial Liabilities		
(a) Borrowings	1	50.00
(b) Other – Contingent Consideration	1	4.95
(4) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	1	<u>28.50</u>
Total Equity & Liabilities		<u>150.80</u>

Note: It is assumed that depreciation on capital equipment has already been accounted for by S Ltd. for the year 2024-2025 based on its purchase price.

Notes to Accounts

1. Assets and Liabilities

₹ in lakhs

Particulars	A Ltd.	S Ltd.	Adjustments	Total
Property, Plant and Equipment	60.00	30.00	-1.00+0.10	89.10
Intangible Assets (Brand)	-	-	+8.00-0.80	7.20
Investments	20.00	-	- 20.00	-
Inventories	7.00	12.00		19.00
Trade Receivables	4.50	10.00		14.50
Cash and Cash Equivalents	2.00	4.00		6.00
Borrowings	25.00	25.00		50.00
Other Non-current financial liability (Deferred consideration) (W.N.7)	4.95	-		4.95
Trade Payables	13.50	15.00		28.50

2. Equity Share Capital

	₹ in lakhs
44 lakhs equity shares of ₹ 1 each, fully paid	44.00
- (Out of which 4 lakh equity shares of ₹ 1 each, fully paid issued for consideration other than cash)	<u>44.00</u>

3. Consolidated Other Equity

	₹ in lakhs
Retained Earnings (W.N.6)	11.79
Securities Premium (4,00,000 shares x ₹ 1)	<u>4.00</u>
	<u>15.79</u>

Working Notes:

1. Calculation of purchase consideration at the acquisition date i.e. 1st April 2024

	₹ in lakhs
Payment made by A Ltd. to S Ltd.	
Cash	20.00
Equity shares (4,00,000 shares x ₹ 2.00)	8.00
Present value of deferred consideration (₹ 6,00,000 x 0.75)	<u>4.50</u>
Total consideration	<u>32.50</u>

2. Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 2024

	₹ in lakhs
Share capital of S Ltd.	10.00
Retained Earnings of S Ltd.	2.50
Fair value increase due to identifiable asset - Brand	<u>8.00</u>
Net worth on acquisition date	<u>20.50</u>

3. Calculation of Goodwill at the acquisition date (1st April 2024) and 31st March 2025

	₹ in lakhs
Purchase consideration (W.N.1)	32.50
Non-controlling interest at fair value (10,00,000 x 20% x 4)	<u>8.00</u>
	40.50
Less: Net worth (W.N.2)	<u>(20.50)</u>
Goodwill as on 1st April 2024	20.00
Less: Impairment @ 25%	<u>(5.00)</u>
Goodwill as on 31st March 2025	<u>15.00</u>

4. Calculation of Property, Plant and Equipment as on 31st March 2025

		₹ in lakhs
A Ltd.		60.00
S Ltd.	30.00	
Less: Elimination of gain on mutual transaction (5.00 – 4.00)	<u>(1.00)</u>	
	29.00	
Add: Excess depreciation on gain on mutual transaction [(5.00 – 4.00)/10 years]	<u>0.10</u>	<u>29.10</u>
		<u>89.10</u>

5. Calculation of post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 2025

	NCI (20%)	A Ltd. (80%)
Acquisition date balance (10,00,000 shares x 20% x ₹ 4)	8.00	
Closing balance of Retained Earnings 6.00		
Less: Pre-acquisition balance <u>(2.50)</u>		
Post-acquisition Retained Earnings before adjustments 3.50		
Less: Amortisation of Brand (8/10 years) (0.80)		
Add: Excess depreciation on PPE (1.00 x 1/10) (W.N.4) <u>0.10</u>		
Post-acq. Retained Earnings after adjustments <u>2.80</u>	0.56	2.24
Less: Impairment on Goodwill (20 x 25%) in 20:80 <u>(1.00)</u>	<u>(1.00)</u>	<u>(4.00)</u>
	<u>7.56</u>	<u>(1.76)</u>

6. Consolidated Retained Earnings as on 31st March 2025

	₹ in lakhs
A Ltd.	15.00
Less: A Ltd.'s share of post-acquisition loss in S Ltd. (W.N.5)	<u>(1.76)</u>
Less: Finance cost on deferred consideration (W.N.7)	<u>(0.45)</u>
Less: Gain on sale of capital equipment (5.00 – 4.00)	<u>(1.00)</u>
Retained Earnings as on 31st March 2025	<u>11.79</u>

7. Calculation of value of deferred consideration as on 31st March 2025

	₹ in lakhs
Value of deferred consideration as on 1st April 2024 (W.N.1)	4.50
Add: Finance cost for the year 2024-2025 (4.50 x 10%)	<u>0.45</u>
Deferred consideration as on 31st March 2025	<u>4.95</u>

Ind AS 16
Q. 2


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

- The supplier would buy-back the existing machine of Kagaz Limited. The carrying value of the existing machine is ₹ 6.60 lakhs.
- The supplier would give a special discount of 5%;
- A cash payment of ₹ 15 lakhs would be made by Kagaz Limited to the supplier;

- Kagaz Limited will purchase from local market all accessories required to operate the machine at ₹ 3.00 lakhs (inclusive of all taxes);
- The supplier will, however, deliver free of cost certain heavy-duty cables etc., having MRP of ₹ 2.00 lakhs, required to install and operate the machine;
- Transit insurance will be borne by Kagaz Limited @ 3% of MRP of the machine only;
- Freight and other incidentals of ₹ 1.00 lakh is borne by Kagaz Limited.

Compute as per applicable Ind AS :

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

Also pass necessary journal entries in the books of Kagaz Limited.

Ignore any impact of GST.

[Jan-2026]

Ans.

(i) Computation of cost of new machine

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

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

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

(ii) Journal Entries

	₹ in lakhs	₹ in lakhs
New Machine A/c Dr. To Cash A/c (Being the expenses incurred for purchase of New Machine – cash payment ₹ 15.00 lakh + accessory ₹ 3.00 lakh + transit insurance ₹ 0.60 lakh + freight ₹ 1.00 lakh)	19.60	19.60
New Machine A/c Dr. Loss on buy back of old machine A/c Dr. To Old Machine A/c (Being the transfer of fair market value of ₹ 4.00 lakhs of old machine to new machine under buy-back scheme and recognition of loss on buy back)	6.00 0.60	6.60

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

Q. 3


Grant Limited enters into a contract with a customer to sell a machinery. The machinery is transferred to the customer when the contract is signed. The price as per the contract is ₹ 10.00 lakhs plus contractual rate of interest at 8% per annum, payable in 5 annual equal instalments of ₹ 2,50,438 each. No down payment is envisaged for the sale.

Grant Limited avails loan @ 10% per annum from its banker for similar back-to-back transactions. Statutory Auditors of the Company had advised Grant Limited to recognize the transaction price of the machinery after discounting instalment payments @ 10% per annum and observes that the 8% contractual rate of interest is significantly lower than the 10% interest rate at which company avails loan from its bankers to fund such transactions.

- (i) Determine the transaction price of the machinery if the company accepts the suggestion of the Statutory Auditors of the Company.
- (ii) Should Grant Limited accept the offer of the customer where the customer wants to cancel the contract for payment in instalments and offers a cash price of ₹ 9.65 lakhs.

(Present value of inflow of equated amount stream of annual instalments for 5 years discounted at 10% rate of interest is 3.79 times of the yearly equated instalment amount) (Your response should be as per applicable Ind AS). [Jan-2026]

Ans.

(i) Determination of transaction price of the machinery

Although the contract price is stated as ₹ 10,00,000, the payment is deferred over 5 years with no down payment and carries contractual interest rate of 8%. Hence, the contract contains a significant financing component.

However, the contractual interest rate of 8% is significantly lower than the market rate of 10% at which Grant Limited borrows for similar transactions. As per para 61 of Ind AS 115, the transaction price must be adjusted for the time value of money using the market rate of interest that is 10%.

$$\begin{aligned} \text{Accordingly, the transaction price would be} &= ₹ 2,50,438 \times 3.79 \\ &= ₹ 9,49,160. \end{aligned}$$

This amount will be recognised as revenue at contract inception and the difference of the sale proceeds of ₹ 10,00,000 and the transaction price of ₹ 9,49,160 i.e. ₹ 50,800 will be recognised as interest income over the five-year period.

(ii) Analysis of the customer's offer of cash price of ₹ 9,65,000 instead of payment machinery in five annual instalments.

Although the present value of the instalment payments is ₹ 9,49,160, the customer has offered a higher cash price of ₹ 9,65,000. Acceptance of the cash price is commercially beneficial as it not only exceeds the discounted transaction price but also avoids the complexities of a significant financing component, reduces credit and collection risks and strengthens cash flows and liquidity.

Therefore, Grant Limited should accept the customer's offer of the cash price of ₹ 9,65,000 which is higher than the discounted transaction price of ₹ 9,49,160. It is consistent with Ind AS 115 and is also financially and commercially advantageous.

INTRODUCTION TO INDIAN ACCOUNTING STANDARDS (& SCHEDULE III)
Q. 4

In view of the increasing inflow of foreign capital and the resultant complexities in financial instruments and transactions, critically examine the necessity for the introduction of Indian Accounting Standards (Ind AS) in place of the erstwhile Accounting Standards (AS). **[Jan-2026]**

Ans.


The increasing inflow of foreign capital and the resulting complexities in financial transactions necessitated the introduction of Indian Accounting Standards (Ind AS) to replace the earlier Accounting Standards (AS) due to the following reasons:

1. **Complex Financial Instruments:** AS lacks explicit guidance on accounting for complex capital-raising instruments such as optionally or compulsorily convertible shares and debentures, leading to inconsistent treatment across entities.
2. **Derivative Instruments and Embedded Features:** The proliferation of derivative instruments embedded in foreign currency bonds, equity instruments and commodity derivatives require comprehensive accounting principles which are inadequately addressed under AS.
3. **Group Restructuring and Business Combinations:** Activities such as mergers, acquisitions, demergers and slump sales are increasingly common but lack a uniform accounting framework, creating discrepancies in recognition and measurement.
4. **Emerging Business Models and Revenue Arrangements:** The rise of innovative digital economy business models introduce complex revenue recognition issues that are not explicitly covered in AS, leading to divergent practices.
5. **Stock-based Compensation:** Diverse and innovative remuneration models, especially for senior management and executives, demand detailed standards which AS do not comprehensively provide.
6. **Complex Tax Provisions:** The determination of current and deferred tax was complicated by changing tax laws and business structures, requiring enhanced guidance beyond the limited scope of AS.
7. **Shareholder Returns and Investments in Kind:** Varied modes of providing returns to shareholders and investments during group reorganizations lacked clear accounting principles under AS.
8. **Need for Enhanced Disclosures:** The limited disclosure requirements under AS in areas such as revenue, related party transactions, segment reporting and business combinations were insufficient for providing investors with a complete understanding of business risks and performance.
9. **Alignment with Global Standards:** To attract foreign investment and ensure comparability with international financial reporting, adoption of Ind AS aligned with IFRS became essential.

Ind AS was introduced to address the above complexities and to provide a comprehensive, consistent and transparent accounting framework that improves the quality of financial reporting and enables investors to make informed decisions.

Q. 5

Discuss the key relevant provisions of the Companies Act, 2013 with reference to Ind AS and the matters to be included in the Report of the Board of Directors and the Report of the Statutory Auditors of the company in respect of the compliance of Indian Accounting Standards as notified by the Central Government under Section 133 of the Companies Act, 2013. **[Jan-2026]**

Ans.


Following are the some of the key relevant provisions of the Companies Act 2013, which gives reference to Ind AS:

1. Section 2(2) states that accounting standards means the standards of accounting or any addendum

thereto for companies or class of companies referred to in Section 133.

2. Section 133 states the Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority. Under the power given to the Central Government under section 133, it notified the Companies (Indian Accounting Standards) Rules, 2015.
3. Section 129 suggests the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III.
4. Section 134(5)(a), a statement that the applicable accounting standards had been followed with proper explanation relating to material departures shall be given in the Director Responsibility Statement to be issued under section 134(3)(c) in the Director's report to be published in Annual General Meeting.
5. Section 143, auditor has to opine whether the financial statements comply with the accounting standards.

Professional and ethical Ethics

Q. 6



You, a Chartered Accountant, have recently been appointed as the new 5 Chief Financial Officer (CFO) at Digitization Solutions Limited, a listed company in the hardware distribution sector. While reviewing the financial statements for the financial year 2024-25, before submitting the same for audit, you identify the following issues :

Issue 1 : Channel Stuffing and Premature Revenue Recognition

- Products worth ₹ 18 crores were shipped to distributors on March 30, 2025, but there were no confirmed purchase orders.
- These transactions have been recorded as revenue for Q4.
- Distributors were offered extended credit terms of 180 days and a "right of return" for unsold goods within 60 days.

Issue 2 : Deferred Recognition of Marketing Expense

- A ₹ 4.5 crore marketing campaign conducted during Q4 was capitalised as "deferred revenue expenditure" instead of being expensed, with the intent of inflating profits.

Issue 3 : Understatement of Warranty Provisions

- Historically, the company incurs warranty claims equal to 4% of sales, but for FY 2024-25, management has only provisioned 1.5%, citing the need to "smooth earnings".

The management of the company is under pressure to meet quarterly earnings targets due to the risk of a credit rating downgrade and to meet the expectations of institutional investors.

Discuss and analyze the implications of accepting these treatments, with reference to the ICAI Code of Ethics.

[Jan-2026]

Ans.

Issue 1: Channel Stuffing and Premature Revenue Recognition

In the given case, the entity has stuffed its goods with the distributors without confirm purchase orders. This implies that the control of the goods might have not transferred to the distributors. Further, since the entity

has offered the distributors with extended credit terms of 180 days and a right of return for unsold goods within 60 days, the recognition of revenue shall be deferred or not be recognized for the products expected to be returned.

Issue 2: Deferred Recognition of Marketing Expense

Marketing expenditure does not meet the definition of an asset and must be expensed under Ind AS 38. Capitalising it as “deferred revenue expenditure” to inflate profits is manipulation of earnings.

Issue 3: Understatement of Warranty Provisions

Warranty obligation represents the additional cost that the seller may have to incur to rectify the defects in the products, if any. This is in the nature of provision as there is an uncertainty associated with the amount and timing of the liability. A provision is recognised to the best estimate of the costs of making good the products sold under warranty before the end of the reporting period.

As per para 25 of Ind AS 37, the use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability, especially in the case of provisions. Therefore, make an estimate of the obligation that is sufficiently reliable to use in recognising a provision. In the given case, historical evidence supports a 4% provision, yet only 1.5% is recognised. This violates Ind AS 37. “Smoothing earnings” as cited by the entity is not a valid accounting rationale.

Ethical Issues

Accepting these treatments, which are not in compliance with the applicable Ind AS would result in material misstatements in financial statements. Chartered Accountants are required to comply with the fundamental principles laid down in the ICAI Code of Ethics. This includes acting with integrity. The integrity of CFO would be compromised in case he accounts for the transaction as sale and not as an asset in case of issue 1 and inflating of profits in case of issues 2 and 3. This effectively amounts to ‘window dressing’, which is not honest as it does not present the actual performance and position of Digital Solutions Ltd.

Accountants must also act with objectivity, which means they must not allow bias, conflict or undue influence of others to override professional or business judgments. The pressure to meet quarterly earnings targets due to the risk of a credit rating downgrade and to meet the expectations of institutional investors or intent to inflate profit or need to smooth earnings and account for in accordance with the situation is clearly a conflict of interest and non-compliance with the principles of professional behaviour.

Implications as per ICAI Code of Ethics

In case of non-compliance with the provisions of Ind AS, the CFO would be subject to professional misconduct under Clause 1 of Part II of Second Schedule of the Chartered Accountants Act, 1949. Clause 1 states that a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. As per the Guidelines issued by the Council, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

CA Final FR

RTP-May-2026

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Q. 1
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	80,000	1,05,000
Total	20,30,000	11,25,000
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	2,00,000	40,000
Total	20,30,000	11,25,000

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)	<u>2,40,000</u>
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 $(20,000 \times 75/100)$	(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. $(1,50,000 \times 20\%)$	<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. $(1,80,000 \times 50\%)$	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 $(10,000 \text{ Shares} \times ₹18)$	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 $(10,000 \text{ Shares} \times ₹18)$	<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>
	(5,75,000)
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 x 20/120)	<u>(15,000)</u>
Net Inventory for CBS	<u>6,05,000</u>

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	<u>3,55,000</u>	<u>4,60,000</u>

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)	<u>(15,000)</u>
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>

Ind AS 1
Q. 2

Find out total comprehensive income for 20X1-20X2 of V Ltd. from the following information:



Profit from normal operations	₹50,00,000
Remeasurement gains from defined benefit plans	₹5,00,000
Gain on translation of foreign operations	₹10,00,000
Revaluation gains on property, plant and equipment	₹3,50,000
Fair value changes on financial assets	₹4,50,000

[RTP-May-2026]
Ans.
Total Comprehensive Income of V Ltd.

Particulars		₹
Profit from normal operations (A)		50,00,000
Other Comprehensive Income		
Items not reclassified to P&L		
Remeasurement gains from defined benefit plans	5,00,000	5,00,000
Items reclassified to P&L		
Gain on translation of foreign operations	10,00,000	
Revaluation gains on Property, Plant and Equipment	3,50,000	
Fair value changes on financial assets	4,50,000	<u>18,00,000</u>
Total Other Comprehensive Income (B)		<u>23,00,000</u>
Total Comprehensive Income (A+B)		<u>73,00,000</u>

Q. 3

DEFERRED TAX - GROUP ACCOUNTS

X Ltd. has 2 wholly owned subsidiaries A Ltd. and B Ltd. The company had acquired 100% equity of these companies as at 1st April, 20X1. The investment was made as under:

Company	Invested on April 1, 20X1 ₹	Profit (loss) for the FY 20X1- 20X2 ₹	Profit (loss) for the FY 20X2- 20X3 ₹	Profit (loss) for the FY 20X3- 20X4 ₹
A Ltd.	5,00,000	(50,000)	(60,000)	(70,000)
B Ltd.	5,00,000	50,000	60,000	70,000

As at 31st March, 20X4 in the standalone financial statements of X Ltd., the future projections of company A Ltd. being negative, the entire investment was impaired by ₹5,00,000. The same was disallowed under income-tax laws of X Ltd.'s jurisdiction. Further, in the consolidated financial statements of X Ltd., the net assets in relation to A Ltd. was also fully impaired.

As at 31st March, 20X4, B Ltd. has excess earnings available which would be transferred to the holding company in future but it cannot be repatriated in a tax free manner.

Required

On the preparation of the consolidated financial statements of X Ltd.-

- Would a deferred tax liability be recorded for the difference in the carrying value and tax books value of A Ltd. in the consolidated financial statement (CFS) of X Ltd.? Assume no indexation benefit is available on investment in A Ltd.
- Would a deferred tax liability be recorded for the difference in the carrying value and tax books value of B Ltd. in the CFS of X Ltd.? Assume no indexation benefit is available on investment in B Ltd.

[RTP-May-2026]

Ans. For investment in subsidiaries, branches and associates and interests in joint arrangements, paragraphs 38 and 39 of Ind AS 12 states that temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint arrangements (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

- the existence of undistributed profits of subsidiaries, branches, associates and joint arrangements;
- changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and
- a reduction in the carrying amount of an investment in an associate to its recoverable amount.

In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the parent's separate financial statements if the parent carries the investment in its separate financial statements at cost or revalued amount.

Further, an entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

Further, paragraph 44 of Ind AS 12 provides that an entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

- (a) the temporary difference will reverse in the foreseeable future; and
- (b) taxable profit will be available against which the temporary difference can be utilised.

Applying the above guidance,

- (i) In consolidated financial statements of X Ltd., the investment in subsidiary is eliminated and the net assets including goodwill are recorded. For comparing the tax base of investment with the books in case of a consolidated financial statements the carrying value of investment is replaced with the net assets (including goodwill).

Thus, book base of A Ltd. in consolidated financial statements of X Ltd. is Nil (i.e. ₹5,00,000 less losses amounting to ₹1,80,000 less impairment of ₹3,20,000).

The impairment on investment in subsidiary-A Ltd. recognised in standalone financial statements (amounting to ₹5,00,000) was disallowed under the Income tax laws of X Ltd.'s jurisdiction. The entire cost of investment of ₹5,00,000 is deductible upon sale of investment under the applicable tax laws. Thus, the tax base of investment in A Ltd. is ₹5,00,000.

Thus, there is a temporary difference of ₹5,00,000. In practice, such temporary differences are commonly referred to as 'outside basis differences'.

A deferred tax asset should be recorded for this outside basis difference only if the conditions specified in paragraph 44 of Ind AS 12 mentioned above are met.

- (ii) In consolidated financial statements of X Ltd., the investment in subsidiary is eliminated and the net assets including goodwill are recorded.

The book base of B Ltd. in consolidated financial statements of X Ltd. is ₹6,80,000 (i.e. ₹5,00,000 add profits amounting to ₹1,80,000).

The entire cost of investment of ₹5,00,000 is deductible under tax upon sale of investment. Thus, the tax base of investment in B Ltd. is ₹5,00,000.

The difference in the book base and tax base lead to an outside basis difference of INR 1,80,000.

Paragraph 40 of Ind AS 12 provides that as a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability. The same considerations apply to investments in branches."

In the given scenario, for B Ltd., the company proposes to repatriate the surplus to its holding company in the foreseeable future and it cannot be repatriated in a tax-free manner. Thus, it is probable that the temporary difference would reverse in the foreseeable future.

Thus, a deferred tax liability would be recorded for this temporary difference at the tax rate applicable to the repatriation of surplus by B Ltd. to its holding company on such portion which will reverse in the foreseeable future. To illustrate, if X Ltd. expects that out of the temporary difference of ₹1,80,000, X Ltd. expects to repatriate only ₹1,00,000 and would re-invest the balance ₹80,000 in B Ltd. itself or requires it for its working capital requirements. Thus, deferred tax liability would be recorded on ₹1,00,000 only as this is the amount which is reversible in the foreseeable future and not the entire amount.

However, if it is probable that the temporary difference will not reverse in the foreseeable future (e.g. by way of dividend distribution or sale of investment), then no deferred tax liability is recognised on outside basis difference of ₹1,80,000 in the consolidated financial statements of X Ltd.

Ind AS 23**Q. 4****GROUP COMPANY**

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

State how the same will be treated in the separate financial statements of S Ltd. and P Ltd. and consolidated financial statements of P Ltd. as per Ind AS 23? **[RTP-May-2026]**

Ans.

In the separate financial statements of:

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

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

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

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

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

Ind AS 38**Q. 5****COST - SELF GENERATED ASSET**

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

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

Required

What costs can B Ltd. capitalise?

[RTP-May-2026]**Ans.**

As per para 24 of Ind AS 38, an intangible asset shall be measured initially at cost. Furthermore, para 25 states that normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other

words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion is always considered to be satisfied for separately acquired intangible assets.

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

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

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

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

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

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

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

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

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

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

Financial Instrument

Q. 6
ACM: FL WITH TRANSACTION COSTS


On 1st April 2XX0, Zx Co originates a 10-year 6% ₹1,00,000 loan. The loan carries an annual interest rate of 6% payable at the end of each year and the loan is repayable at par at the end of year 10. Zx charges ₹3,000 non-refundable loan origination fee to the borrower and it also incurs ₹5,000 in direct loan origination costs. The contract specifies that the borrower has an option to pre-pay the instrument and that no penalty will be charged for pre-payment. The contract meets the SPPI criteria. At inception, Zx expects the borrower not to pre-pay.

The effective interest rate is approximately 5.7317%.

What is the carrying amount on initial recognition and what impact does the pre-payment feature have on the amortised cost calculations?

[RTP-May-2026]

Ans.

The initial carrying amount of the loan asset is calculated as follows:

	₹
Loan principal	1,00,000
Origination fees charged to borrower	(3,000)
Origination costs incurred by lender	<u>5,000</u>
Carrying amount of loan	<u>1,02,000</u>

Because the entity expects the borrower not to pre-pay, the amortisation period is equal to the instrument's full term.

The carrying amount of the loan over the period to maturity, assuming that the entity continues to expect the borrower not to pre-pay, will be as follows:

	Opening Carrying amount	Cash in flows (coupon)	Interest- income@ 5.7317%	Amortisation of net fees	Closing Carrying amount
		₹	₹	₹	₹
	a	b=1,00,000 x 6%	c=a x 5.7317%	d=b-c	e=a-d
1 Apr 2XX0					1,02,000
31 Mar 2XX1	1,02,000	6,000	5,846	154	1,01,846
31 Mar 2XX2	1,01,846	6,000	5,838	162	1,01,684
31 Mar 2XX3	1,01,684	6,000	5,828	172	1,01,512
31 Mar 2XX4	1,01,512	6,000	5,818	182	1,01,330
31 Mar 2XX5	1,01,330	6,000	5,808	192	1,01,138
31 Mar 2XX6	1,01,138	6,000	5,797	203	1,00,935
31 Mar 2XX7	1,00,935	6,000	5,785	215	1,00,721
31 Mar 2XX8	1,00,721	6,000	5,773	227	1,00,494
31 Mar 2XX9	1,00,494	6,000	5,760	240	1,00,254
31 Mar 2X10	1,00,254	<u>6,000</u>	<u>5,746</u>	<u>254</u>	1,00,000
		<u>60,000</u>	<u>58,000</u>	<u>2,000</u>	
31 Mar 2X10		Repayment of principal			(1,00,000)
31 Mar 2X10		Carrying value of loan			Nil

The effective interest income for the period is calculated by applying the effective interest rate of 5.7317% to the loan's amortised cost at the end of the previous reporting period. The annual interest income decreases each year, to reflect the decrease in the asset's carrying value as the initial net fee is amortised. So, the difference between the calculated effective income for a given reporting period and the loan's coupon is the amortisation of the transaction costs during that reporting period. The loan's amortised cost at the end of the previous period less amortisation in the current reporting period gives the loan's amortised cost at the end of the current period. By maturity date, the net fees received are fully amortised and the loan's carrying amount is equal to the face amount, which is then repaid in full.

Ind AS 115
Q. 7
PERFORMANCE OBLIGATION


X Ltd. agrees to produce 2,000 customized engines for use by Customer A in its products. X Ltd. concludes that the engines will transfer to Customer A over time because:

- they have no alternative use to X Ltd.; and
- Customer A is contractually obligated to pay X Ltd. for any finished or in-process engines, including a reasonable margin, if Customer A terminates the contract even when no fault of X Ltd.

X Ltd. already has the process in place to produce the engines and is given the design by Customer A, such that X Ltd. does not expect to incur any significant learning curve or design and development costs. X Ltd. uses a method of measuring progress toward complete satisfaction of its manufacturing contracts that takes into account work in progress and finished goods controlled by Customer A.

Require:

- State whether the 2000 engines are distinct in nature or not.
- State whether 2000 engines is a single performance obligation or each engine is a separate performance obligation.

[RTP-May-2026]

Ans.

- (i) X Ltd. concludes that each of the 2,000 engines is distinct, because:
- Customer A can use each engine on its own; and
 - each engine is separately identifiable from the others because one does not significantly affect, modify or customize another.
- (ii) Despite the fact that each engine is distinct, X Ltd. concludes that the 2,000 units are a single performance obligation because:
- each engine will transfer to Customer A over time; and
 - X Ltd. uses the same method to measure progress toward complete satisfaction of the obligation to transfer each engine to Customer A.

Consequently, the transaction price for all 2,000 engines is recognized over time using an appropriate measure of progress. This outcome may be different from the outcome of allocating a fixed amount to each engine if each one was a performance obligation.

Ind AS 20

Q. 8

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.

Ind AS 116

Q. 9

LEASE & NON-LEASE COMPOUNENTS

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	96,000	26.666%	1,12,140
Total	3,60,000	100.00%	4,20,000

*The portion of consideration that is allocated to the lease components includes, apart from rent, those amounts that are not considered a separate component (e.g., ₹60,000 on account of property taxes and ₹36,000 on account of building insurance).

Ind AS 7

Q. 10

CASE FLOW UNDER ACM METHOD



An entity invests in a 10-year bond with a face value of ₹6,00,000 by paying ₹2,31,500. The effective rate of interest is 10%. An entity recognises proportionate interest income in its statement of profit and loss over the period of bond.

How the interest income will be treated in the statement of cash flows during the period of bond?

How the maturity proceeds of ₹6,00,000 will be treated in the statement of cash flows?

Note: The entity is not in the business of dealing in securities.

[RTP-May-2026]

Ans.

Since the entity is not in the business of dealing in securities, a sum of ₹2,31,500 invested in a bond will be classified as investing activities. There is no cash flow of interest during bond period, as there is no cash receipt. On maturity, proceeds of ₹6,00,000 will be classified as receipt under investing activity with a bifurcation of ₹3,68,500 as interest and ₹2,31,500 as proceeds towards redemption of bond.

Q. 11

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.

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CA Final FR

MTP1-May-2026

Q. 1



Zenith Infrastructure Ltd. is engaged in the construction of large commercial complexes. During the financial year ending 31 March 20X6, the company undertook a major project which experienced significant delays due to regulatory approvals and design changes. As a result, the management expects the project to incur substantial additional costs, which may lead to a loss on the contract.

While reviewing the draft financial statements, the Finance Manager, CA. Neha Kapoor, noted that no provision has been made for the expected loss on the contract, even though reliable estimates of the additional costs are available. In her opinion, in accordance with Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', the company should recognise a provision for the onerous contract in the financial statements.

However, the Chief Executive Officer, Mr. Arvind Malhotra, advised CA. Neha Kapoor not to recognise the provision in the current year and instead defer it to the next financial year. He believes that recognising the provision would significantly reduce the company's reported profits and may adversely affect the company's ability to secure new infrastructure contracts and maintain its credit rating with lenders. He further indicated that the financial statements should present a "strong performance" for the year.

CA. Neha Kapoor is concerned that not recognising the provision would result in the financial statements not reflecting the true and fair view of the company's financial position and performance.

Discuss the ethical issues and potential conflicts that arise in the above situation. Also explain the fundamental principles of professional ethics that should guide CA. Neha Kapoor in dealing with the matter.

[MTP-May-2026]

Ans.

Accounting Treatment

As per Ind AS 37 – Provisions, Contingent Liabilities and Contingent Assets, a provision shall be recognised when:

- An entity has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

Further, the standard states that if a contract becomes onerous, the present obligation under the contract shall be recognised and measured as a provision. A contract is considered onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it.

In the given case, the construction project undertaken by Zenith Infrastructure Ltd. is expected to incur substantial additional costs, resulting in an expected loss on the contract. Since reliable estimates of the additional costs are available, the contract has effectively become an onerous contract.

Accordingly, the company should recognise a provision for the expected loss in the financial statements in accordance with Ind AS 37.

Failure to recognise the provision would result in overstatement of profits and understatement of liabilities, thereby leading to a misleading presentation of the financial performance and financial position of the company.

Ethical Issues

The direction given by the Chief Executive Officer to defer recognition of the provision to the next year creates an ethical dilemma for CA. Neha Kapoor.

The management's intention to avoid recognising the provision in order to present stronger financial results for obtaining contracts and maintaining credit ratings raises concerns regarding the fair presentation of financial statements.

Threats to Fundamental Principles

The situation gives rise to the following threats to the fundamental principles of professional ethics:

1. Intimidation Threat

The CEO's indication that the financial statements should portray a strong performance may exert pressure on the finance manager to ignore the correct accounting treatment. This creates an intimidation threat to the principles of integrity and objectivity.

2. Advocacy Threat

The expectation that the financial statements should support negotiations with lenders and potential clients may compel the finance manager to present information that favours management's interests rather than reflecting the true financial position. This results in an advocacy threat.

Professional Competence and Due Care

The fundamental principle of professional competence and due care requires that a Chartered Accountant should prepare financial statements in compliance with applicable accounting standards.

Since the project contract has become onerous, a provision for the expected loss must be recognised in accordance with Ind AS 37. Not recognising such provision would lead to misstatement of financial statements.

The Institute of Chartered Accountants of India Code of Ethics requires members to maintain integrity, objectivity, and professional competence while performing their duties.

Appropriate Course of Action

CA. Neha Kapoor should:

- Explain to the CEO the requirements of Ind AS 37 and the implications of not recognising the provision.
- Emphasise that non-recognition would result in misleading financial statements and may affect the credibility of the company.
- If the CEO continues to insist on the incorrect treatment, the matter should be escalated to higher levels of governance, such as the Audit Committee or the Board of Directors.

If CA. Neha Kapoor succumbs to the pressure and accepts the incorrect treatment, it would amount to non-compliance with accounting standards and a breach of the principle of professional competence and due care.

In such a situation, she may be held liable for professional misconduct under Clause (1) of Part II of the Second Schedule of the Chartered Accountants Act, 1949, which states that a member shall be deemed to be guilty of professional misconduct if he or she contravenes the provisions of the Act, Regulations, or Guidelines issued by the Council.

Therefore, CA. Neha Kapoor must ensure that the financial statements are prepared in accordance with the applicable accounting standards and ethical principles, even if this requires escalating the matter to the appropriate governance authority.

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