

**PAPER –1: FINANCIAL REPORTING**

**PART – I : RELEVANT AMENDMENTS, NOTIFICATIONS AND ANNOUNCEMENTS**

**A. Applicable for May, 2019 Examination**

**1. Amendment in Schedule III notified by MCA on 12.10.2018**

Following amendments have been made in Schedule III to the Companies Act, 2013

**(a) In Division I which covers formats and instructions for financial statements drawn as per Accounting Standards ie Indian GAAP**

*Following amendments have been made*

- (i) Clause (ii) of paragraph 4 under 'General instructions for preparation of Balance Sheet and Statement of Profit and Loss of a company', states uniform use of unit of measurement in the financial statements. In the given sentence the word 'shall' has been replaced with the word 'should' through this notification. Hence, now the clause (ii) of paragraph 4 shall be read as follows:

*"Once a unit of measurement is used, it **should** be used uniformly in the Financial Statements."*

- (ii) Underneath Part I in the format of Balance Sheet, under the heading "II Assets" sub-heading "Non-current assets", **the words "Fixed assets" should be replaced as "Property, Plant and Equipment"**. This amendment has been done since the title of revised AS 10 is now 'Property, Plant and Equipment' instead of 'Fixed Assets'.

Similar substitution has been done in Point W of the "Notes" under the heading "General Instructions for preparation of Balance Sheet".

- (iii) Point 6B of the "Notes", under the heading "General Instructions for preparation of Balance Sheet" deals with the classification of Reserves and Surplus. One of the category was 'Securities Premium Reserve'. As per the amendment, the word 'Reserve' after Securities Premium has been omitted. Now it should be read as '**Securities Premium**' only.

**(b) In Division II which covers formats and instructions for financial statements drawn as per Indian Accounting Standards ie Ind AS**

*Following amendments have been made*

- (i) In Part I which specifies the format of Balance Sheet, under the heading 'Equity and Liabilities', Trade Payables (both under 'non-current liabilities' and 'current liabilities') shall further be classified as

*"(A) total outstanding dues of micro enterprises and small enterprises; and*

- (B) total outstanding dues of creditors other than micro enterprises and small enterprises.”;
- (ii) In the table (format) for ‘Other Equity’ under the ‘Statement of Changes in Equity’, “Securities Premium Reserve” is substituted as “Securities Premium”. Also below the table on ‘Other Equity’ a note has been given which shall be renumbered as ‘(i)’ and further a note has been added as follows:  
*“(ii) A description of the purposes of each reserve within equity shall be disclosed in the Notes.”*
- (iii) Paragraph 6A and 6B of “General Instructions for Preparation of Balance Sheet” is on ‘Non-current assets’ and ‘current assets’ respectively.
- (A) Under point ‘VI. Trade Receivables’ of 6A and ‘III. Trade Receivables’ of 6B, sub point (i) has been substituted as follows:  
*“(i) Trade Receivables shall be sub-classified as:*  
 (a) *Trade Receivables considered good - Secured;*  
 (b) *Trade Receivables considered good - Unsecured;*  
 (c) *Trade Receivables which have significant increase in Credit Risk; and*  
 (d) *Trade Receivables - credit impaired.”*
- (B) Under point ‘VIII. Loans’ of 6A and ‘V. Loans’ of 6B, sub point (ii) is substituted as follows:  
*“(ii) Loans Receivables shall be sub-classified as:*  
 (a) *Loans Receivables considered good - Secured;*  
 (b) *Loans Receivables considered good - Unsecured;*  
 (c) *Loans Receivables which have significant increase in Credit Risk; and*  
 (d) *Loans Receivables - credit impaired,”*
- (iv) After paragraph F of “General Instructions for Preparation of Balance Sheet” paragraph FA shall be inserted as follows:  
**“FA. Trade Payables**  
*The following details relating to micro, small and medium enterprises shall be disclosed in the notes:*  
 (a) *the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;*

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- (b) *the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006), along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;*
- (c) *the amount of interest due and payable for the period of delay in making payment (which has been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;*
- (d) *the amount of interest accrued and remaining unpaid at the end of each accounting year; and*
- (e) *the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.*

**Explanation-** *The terms 'appointed day', 'buyer', 'enterprise', 'micro enterprise', 'small enterprise' and 'supplier', shall have the same meaning as assigned to them under clauses (b), (d), (e), (h), (m) and (n) respectively of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006."*

- (v) In paragraph 9, after the words "For instance," the words "plain vanilla" has been inserted. This amendment has been done to bring clarity to the treatment of redeemable preference shares ie which redeemable preference shares should fall in the category of 'borrowings'. Accordingly, the last sentence of para 9 will be read as follows:

*"For instance, **plain vanilla** redeemable preference shares shall be classified and presented under 'non-current liabilities' as 'borrowings' and the disclosure requirements in this regard applicable to such borrowings shall be applicable mutatis mutandis to redeemable preference shares."*

**(c) Division III (newly notified division applicable for NBFCs)**

Through this notification, MCA added/notified Division III in the Schedule III which is applicable to Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015. **However, this Division III has not been made applicable for CA Final Students.**

**2. Amendment in Ind AS 20 notified by MCA in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 20<sup>th</sup> September 2018**

Amendment has been made in Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. The amendment provides entities the option for

recording non-monetary government grants at a nominal amount and presenting government grants related to assets by deducting the grant from the carrying amount of the asset.

**3. Notification of Ind AS 115 and withdrawal of Ind AS 11 and Ind AS 18 alongwith the consequential amendments in other Ind AS and other amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 28<sup>th</sup> March, 2018**

The Rules have brought in the following significant amendments to Ind AS:

- New revenue standard Ind AS 115 has been notified which supersedes Ind AS 11, Construction Contracts and Ind AS 18, Revenue. **(Refer Chapter 5 of November, 2018 edition of the study material)**
- Appendix B, Foreign Currency Transactions and Advance Consideration to Ind AS 21, The Effects of Changes in Foreign Exchange Rates has been notified. The appendix applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used for initial recognition of the related asset, expense or income. Ind AS 21 requires an entity to use the exchange rate at the 'date of the transaction', which is defined as the date when the transaction first qualifies for initial recognition.

Here, the question arises that whether the date of the transaction is the date when the asset, expense or income is initially recognised, or an earlier date on which the advance consideration is paid or received, resulting in recognition of a prepayment or deferred income.

The appendix provides guidance for when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

- **Single payment/receipt** The appendix states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, should be the date on which an entity initially recognises the non-monetary asset or liability arising from an advance consideration paid/received.
- **Multiple receipts/payments** The appendix states that, if there are multiple payments or receipts in advance of recognising the related asset, income or expense, the entity should determine the date of the transaction for each payment or receipt.
- Amendment to Ind AS 40, Investment Property stating that when assets are transferred to, or from, investment properties. The amendment states that to transfer to, or from, investment properties there must be a change in use supported by evidence. A change in intention, in isolation is not enough to support a transfer.

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The amendment has re-described the list of evidence of change in use as a non-exhaustive list of examples and scope of these examples have been expanded to include assets under construction and development and not only transfers of completed properties.

Examples of evidence of a change in use include:

- a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;
  - b) commencement of development with a view to sale, for a transfer from investment property to inventories;
  - c) end of owner-occupation, for a transfer from owner-occupied property to investment property;
  - d) inception of an operating lease to another party, for a transfer from inventories to investment property.
- Amendments to Ind AS 12, Income Taxes elucidate the existing guidance in Ind AS 12. They do not change the underlying principles of recognition of deferred tax asset. As per the amendment:
    - Existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value in the books of the holder for which the tax base remains at cost gives rise to a deductible temporary difference. This is regardless of whether the holder expects to collect all the contractual cash flows of the debt instrument.
    - Determining the existence and amount of temporary differences and estimating future taxable profit against which deferred tax assets can be utilised are two separate steps. Recovering assets for more than their carrying amounts is inherent in an expectation of taxable profits and should therefore be included in estimated taxable profit if there is sufficient evidence to conclude that it is probable that the entity will recover the asset for more than its carrying amount. For example, an entity should assume that a debt investment measured at fair value will be recovered for more than its carrying value when that outcome is probable even if carrying value is below its tax base (original investment cost).
    - Recoverability of deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply (for example where capital losses can be set off

against capital gains), deferred tax assets are assessed in combination only with other deferred tax assets of the same type.

- When comparing deductible temporary differences against future taxable profits, the determination of future taxable profits shall exclude tax deductions resulting from reversal of these deductible temporary differences.
- Amendment to Ind AS 28, Investments in Associates and Joint Ventures and Ind AS 112, Disclosure of Interests in Other Entities stating that:
  - Disclosures requirement of Ind AS 112 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of Ind AS 112).
  - In Ind AS 28, the option available with venture capital organisations, mutual funds, unit trusts and similar entities to measure their investments in associates or joint ventures at fair value through profit or loss (FVTPL) is available for each investment in an associate or joint venture.
- Consequential amendments to other Ind AS due to notification of Ind AS 115 and other amendments discussed above
  - (i) **Ind AS 101, First-time Adoption of Indian Accounting Standards:** The Rules introduce two additional exemptions in Ind AS 101 related to Ind AS 115 and Appendix B to Ind AS 21. These are:
    - Ind AS 115: A first-time adopter can apply the transition provisions in paragraphs C5 and C6 of Ind AS 115 (related to practical expedients when applying Ind AS 115 retrospectively) at the date of transition to Ind AS. Further, a first-time adopter is not required to restate contracts that were completed before the earliest period presented.
    - Appendix B to Ind AS 21: A first-time adopter need not apply Appendix B to Ind AS 21 to assets, expenses and income in the scope of the appendix initially recognised before the date of transition to Ind AS.
  - (ii) **Ind AS 2, Inventories:** Costs of services by a service provider that does not give rise to inventories will need to be accounted for as costs incurred to fulfil a contract with customer in accordance with Ind AS 115. Such costs can be capitalised under Ind AS 115 if they
    - (1) relate directly to the contract,
    - (2) enhance the resources of the entity to perform under the contract and relate to satisfying a future performance obligation, and
    - (3) are expected to be recovered.

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Earlier paragraph 8 of Ind AS 2 which stated that in case of a service provider, inventories include costs of the service, for which the entity has not yet recognised the related revenue, has been deleted.

- (iii) **Ind AS 16, Property, Plant and Equipment, Ind AS 38, Intangible Assets and Ind AS 40, Investment Property:** These standards have been amended to require use of principles of Ind AS 115 for recognition of a gain or loss on the transfer of non-financial assets i.e. property, plant and equipment, intangible asset and investment property, that are not an output of an entity's ordinary activities. Although a gain or loss on this type of sale generally does not meet the definition of revenue, an entity should apply the guidance in Ind AS 115 related to the transfer of control and measurement of the transaction price including the constraint on variable consideration, to evaluate the timing and amount of the gain or loss recognised.

Further, since Ind AS 115 deals with accounting for contract assets, Ind AS 38 has been amended to add a scope exclusion for such contract assets.

- (iv) **Ind AS 37, Provisions, Contingent Assets and Contingent Liabilities:** Ind AS 115 does not have any specific requirement to address the accounting of contracts with customers that are, or have become, onerous. Previously, depending upon type of contract, such onerous contracts were accounted under Ind AS 11 or Ind AS 37. With the omission of Ind AS 11, a consequential amendment has been made to Ind AS 37 to bring all onerous revenue contracts within the scope of the Ind AS 37. Ind AS 37 defines onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

- (v) **Ind AS 109, Financial Instruments:** Amendments to Ind AS 109 are discussed below:

- (i) The current Ind AS 109 states that an entity shall measure trade receivables at their transaction price. Due to notification of Ind AS 115, an entity is required to measure trade receivables at their transaction price if the trade receivables do not contain a significant financing component in accordance with Ind AS 115.
- (ii) An entity shall have an accounting policy choice to measure loss allowance on trade receivables or contracts assets within the scope of Ind AS 115 containing a significant financing component at an amount equal to life time expected credit losses (simplified approach) or using the general model (3 stage).

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- (iii) Entities shall now consider the principles of Ind AS 115 for subsequent measurement of financial guarantee and loan commitments.

**4. Relevant Sections of the Companies Act, 2013**

The relevant Sections of the Companies Act, 2013 notified up to 31<sup>st</sup> October, 2018 are applicable for May, 2019 Examination.

**B. Not applicable for May, 2019 Examination**

Division III of Schedule III (stating format of financial statements for NBFCs) notified by MCA on 12.10.2018 has not been made applicable for May, 2019 examination.

**PART – II : QUESTIONS AND ANSWERS****QUESTIONS****Ind AS 36**

1. Elia limited is a manufacturing company which deals in to manufacturing of cold drinks and beverages. It is having various plants across India. There is a Machinery A in the Baroda plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with Machine A it cannot produce output as well. The Company considers this group of assets as a Cash Generating Unit and an Inventory amounting to ₹ 2 Lakh and Goodwill amounting to ₹ 1.50 Lakhs is included in such CGU. Machinery A was purchased on 1<sup>st</sup> April 2013 for ₹ 10 Lakhs and residual value is ₹ 50 thousands. Machinery B was purchased on 1<sup>st</sup> April, 2015 for ₹ 5 Lakhs with no residual value. The useful life of both Machine A and B is 10 years. The Company expects following cash flows in the next 5 years pertaining to Machinery A. The incremental borrowing rate of the company is 10%.

| Year         | Cash Flows from Machinery A         |
|--------------|-------------------------------------|
| 1            | 1,50,000                            |
| 2            | 1,00,000                            |
| 3            | 1,00,000                            |
| 4            | 1,50,000                            |
| 5            | 1,00,000 (excluding Residual Value) |
| <b>Total</b> | <b>6,00,000</b>                     |



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

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

**Required:**

- a) Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31<sup>st</sup> March, 2018 by providing all the relevant working notes to arrive at such calculation.
- b) Compute the prospective depreciation for the year 2018-2019 on the above assets.
- c) Compute the carrying value of CGU as at 31<sup>st</sup> March, 2019.

**Ind AS 12**

2. PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31<sup>st</sup> March each year. During the year ended 31<sup>st</sup> March, 2018, the following events affected the tax position of the group:
  - QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of ₹ 30,00,000. QPR Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow QPR Ltd. to transfer the tax loss to other group companies. However, it allows QPR Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of PQR Ltd. do not consider that QPR Ltd. will make taxable profits in the foreseeable future.
  - During the year ended 31<sup>st</sup> March, 2018, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was ₹ 16,00,000. The development project began to generate economic benefits for PQR Ltd. from 1<sup>st</sup> January, 2018. The directors of PQR Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31<sup>st</sup> March, 2018.
  - On 1<sup>st</sup> April, 2017, PQR Ltd. borrowed ₹ 1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1<sup>st</sup> April 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31<sup>st</sup> March 2020 will be ₹ 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax

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Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31<sup>st</sup> March, 2020.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of PQR Ltd. group at 31<sup>st</sup> March, 2018 as per Ind AS. The rate of corporate income tax is 30%.

**Ind AS 103**

3. How should contingent consideration payable in relation to a business combination be accounted for on initial recognition and at the subsequent measurement as per Ind AS in the following cases:
- (i) On 1 April 2016, A Ltd. acquires 100% interest in B Ltd. As per the terms of agreement the purchase consideration is payable in the following 2 tranches:
    - a. an immediate issuance of 10 lakhs shares of A Ltd. having face value of INR 10 per share;
    - b. a further issuance of 2 lakhs shares after one year if the profit before interest and tax of B Ltd. for the first year following acquisition exceeds INR 1 crore.
      - i. The fair value of the shares of A Ltd. on the date of acquisition is INR 20 per share. Further, the management has estimated that on the date of acquisition, the fair value of contingent consideration is ₹25 lakhs.
      - ii. During the year ended 31 March 2017, the profit before interest and tax of B Ltd. exceeded ₹1 crore. As on 31 March 2017, the fair value of shares of A Ltd. is ₹25 per share.
  - (ii) Continuing with the fact pattern in (a) above except for:
    - c. The number of shares to be issued after one year is not fixed.
    - d. Rather, A Ltd. agreed to issue variable number of shares having a fair value equal to ₹40 lakhs after one year, if the profit before interest and tax for the first year following acquisition exceeds ₹1 crore. A Ltd. issued shares with ₹40 lakhs after a year.

**Ind AS 115**

4. KK Ltd. runs a departmental store which awards 10 points for every purchase of ₹ 500 which can be discounted by the customers for further shopping with the same merchant. Each point is redeemable on any future purchases of KK Ltd.'s products within 3 years. Value of each point is ₹ 0.50. During the accounting period 2017-2018, the entity awarded 1,00,00,000 points to various customers of which 18,00,000 points remained undiscounted (to be redeemed till 31<sup>st</sup> March, 2020). The management expects only 80% of the remaining will be discounted in future.

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The Company has approached your firm with the following queries and has asked you to suggest the accounting treatment (Journal Entries) under the applicable Ind AS for these award points:

|     |  |
|-----|--|
| (a) | How should the recognition be done for the sale of goods worth ₹ 10,00,000 on a particular day?  |
| (b) | How should the redemption transaction be recorded in the year 2017-2018? The Company has requested you to present the sale of goods and redemption as independent transaction. Total sales of the entity is ₹ 5,000 lakhs.   |
| (c) | How much of the deferred revenue should be recognised at the year-end (2017-2018) because of the estimation that only 80% of the outstanding points will be redeemed?  |
| (d) | In the next year 2018-2019, 60% of the outstanding points were discounted Balance 40% of the outstanding points of 2017-2018 still remained outstanding. How much of the deferred revenue should the merchant recognize in the year 2018-2019 and what will be the amount of balance deferred revenue? |
| (e) | How much revenue will the merchant recognized in the year 2019-2020, if 3,00,000 points are redeemed in the year 2019-2020?  |

**Ind AS 21**

5. Supplier, A Ltd., enters into a contract with a customer, B Ltd., on 1<sup>st</sup> January, 2018 to deliver goods in exchange for total consideration of USD 50 million and receives an upfront payment of USD 20 million on this date. The functional currency of the supplier is INR. The goods are delivered and revenue is recognised on 31<sup>st</sup> March, 2018. USD 30 million is received on 1<sup>st</sup> April, 2018 in full and final settlement of the purchase consideration.

State the date of transaction for advance consideration and recognition of revenue. Also state the amount of revenue in INR to be recognized on the date of recognition of revenue. The exchange rates on 1<sup>st</sup> January, 2018 and 31<sup>st</sup> March, 2018 are ₹ 72 per USD and ₹ 75 per USD respectively.

**Ind AS 102**

6. A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is ₹ 30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.

Pass the necessary journal entries for giving effect to the above arrangement.

**Ind AS 10**

7. XYZ Ltd. was formed to secure the tenders floated by a telecom company for publication of telephone directories. It bagged the tender for publishing directories for Pune circle for 5 years. It has made a profit in 2013-2014, 2014-2015, 2015-2016 and 2016-2017. It bid in tenders for publication of directories for other circles – Nagpur, Nashik, Mumbai, Hyderabad but as per the results declared on 23<sup>rd</sup> April, 2017, the company failed to bag any of these. Its only activity till date is publication of Pune directory. The contract for publication of directories for Pune will expire on 31<sup>st</sup> December 2017. The financial statements for the F.Y. 2016-17 have been approved by the Board of Directors on July 10, 2017.

Whether it is appropriate to prepare financial statements on going concern basis?

**Ind AS 28 / Ind AS 110**

8. Angel Ltd. has adopted Ind AS with a transition date of 1<sup>st</sup> April, 2017. Prior to Ind AS adoption, it followed Accounting Standards notified under Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as "IGAAP").

It has made investments in equity shares of Pharma Ltd., a listed company engaged in the business of pharmaceuticals. The shareholding pattern of Pharma Ltd. is given below:

| Shareholders (refer Note 1)                   | Percentage shareholding as on 1st April, 2017 |
|---|---|
| Angel Ltd.                                    | 21%   |
| Little Angel Ltd. (refer Note 2)              | 24%   |
| Wealth Master Mutual Fund (refer Note 3)      | 3%  |
| Individual public shareholders (refer Note 4) | 52%   |

**Notes:**

- (1) None of the shareholders have entered into any shareholders' agreement.
- (2) Little Angel Ltd. is a subsidiary of Angel Ltd. (under Ind AS) in which Angel Ltd. holds 51% voting power.
- (3) Wealth Master Mutual Fund is not related party of either Little Angel Ltd. or Pharma Ltd.
- (4) Individual public shareholders represent 17,455 individuals. None of the individual shareholders hold more than 1% of voting power in Pharma Ltd.

All commercial decisions of Pharma Ltd. are taken by its directors who are appointed by a simple majority vote of the shareholders in the annual general meetings ("AGM"). The following table shows the voting pattern of past AGMs of Pharma Ltd.:

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| Shareholders              | AGM for the financial year:  |  |  |
|---------------------------|--|--|--|
|                           | 2013-14  | 2014-15  | 2015-16  |
| Angel Ltd.                | Attended and voted in favour of all the resolutions  | Attended and voted in favour of all the resolutions  | Attended and voted in favour of all the resolutions  |
| Little Angel Ltd.         | Attended and voted as per directions of Angel Ltd.   | Attended and voted as per directions of Angel Ltd  | Attended and voted as per directions of Angel Ltd  |
| Wealth Master Mutual Fund | Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors   | Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors   | Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors   |
| Individuals               | 7% of the individual shareholders attended the AGM. All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors. | 8% of the individual shareholders attended the AGM. All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors. | 6% of the individual shareholders attended the AGM. All the individual shareholders voted in favour of all the resolutions, except that 50% of the individual Shareholders voted against the resolution to appoint the retiring directors. |

Pharma Ltd. has obtained substantial long term borrowings from a bank. The loan is payable in 20 years from 1<sup>st</sup> April, 2017. As per the terms of the borrowing, following actions by Pharma Ltd. will require prior approval of the bank:

- Payment of dividends to the shareholders in cash or kind;
- Buyback of its own equity shares;
- Issue of bonus equity shares;
- Amalgamation of Pharma Ltd. with any other entity; and
- Obtaining additional loans from any entity.

Recently, the Board of Directors of Pharma Ltd. proposed a dividend of ₹5 per share. However, when the CFO of Pharma Ltd. approached the bank for obtaining their approval, the bank rejected the proposal citing concerns over the short-term cash liquidity of Pharma Ltd. Having learned about the developments, the Directors of Angel Ltd. along with the Directors of Little Angel Ltd. approached the bank with a request to re-consider its decision. The Directors of Angel Ltd. and Little Angel Ltd. urged the bank to approve a reduced dividend of at least ₹2 per share. However, the bank categorically refused to approve any payout of dividend.

Under IGAAP, Angel Ltd. has classified Pharma Ltd. as its associate. As the CFO of Angel Ltd., you are required to comment on the correct classification of Pharma Ltd. on transition to Ind AS.

#### Ind AS 109

9. KK Ltd. has granted an interest free loan of ₹ 10,00,000 to its wholly owned Indian Subsidiary YK Ltd. There is no transaction cost attached to the said loan. The Company has not finalised any terms and conditions including the applicable interest rates on such loans. The Board of Directors of the Company are evaluating various options and has requested your firm to provide your views under Ind AS in following situations:
- (i) The Loan given by KK Ltd. to its wholly owned subsidiary YK Ltd. is interest free and such loan is repayable on demand.
  - (ii) The said Loan is interest free and will be repayable after 3 years from the date of granting such loan. The current market rate of interest for similar loan is 10%. Considering the same, the fair value of the loan at initial recognition is ₹ 8,10,150.
  - (iii) The said loan is interest free and will be repaid as and when the YK Ltd. has funds to repay the Loan amount.

Based on the same, KK Ltd. has requested you to suggest the accounting treatment of the above loan in the stand-alone financial statements of KK Ltd. and YK Ltd. and also in the consolidated financial statements of the group. Consider interest for only one year for the above loan.

Further the Company is also planning to grant interest free loan from YK Ltd. to KK Ltd. in the subsequent period. What will be the accounting treatment of the same under applicable Ind AS?

#### Ind AS 38

10. As part of its business expansion strategy, KK Ltd. is in process of setting up a pharma intermediates business which is at very initial stage. For this purpose, KK Ltd. has acquired on 1<sup>st</sup> April, 2018, 100% shares of ABR Ltd. that manufactures pharma intermediates. The purchase consideration for the same was by way of a share exchange valued at ₹ 35 crores. The fair value of ABR Ltd.'s net assets was ₹ 15 crores, but does not include:

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- (i) A patent owned by ABR Ltd. for an established successful intermediate drug that has a remaining life of 8 years. A consultant has estimated the value of this patent to be ₹ 10 crores. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated ₹ 15 crores.
- (ii) ABR Ltd. has developed and patented a new drug which has been approved for clinical use. The cost of developing the drug was ₹ 12 crores. Based on early assessment of its sales success, the valuer has estimated its market value at ₹ 20 crores.
- (iii) ABR Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the Company has been granted an exclusive five-year license to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valuable asset which assures guaranteed sales and the value for the same is estimated at ₹ 10 crores.

KK Ltd. has requested you to suggest the accounting treatment of the above transaction under applicable Ind AS.

**Ind AS 101**

11. XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The Company has decided to voluntarily adopt Ind AS w.e.f 1<sup>st</sup> April, 2018 with a transition date of 1<sup>st</sup> April, 2017.

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

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

**Consolidated Financial Statements****(₹ in Lakhs)**

| Particulars                    | 31.03.2018 | 31.03.2017 |
|--------------------------------|------------|------------|
| <b>Shareholder's Funds</b>     |            |            |
| Share Capital                  | 7,953      | 7,953      |
| Reserves & Surplus             | 16,547     | 16,597     |
| <b>Non-Current Liabilities</b> |            |            |
| Long Term Borrowings           | 1,000      | 1,000      |
| Long Term Provisions           | 1,101      | 691        |
| Other Long-Term Liabilities    | 5,202      | 5,904      |

|  |               |               |
|--|---------------|---------------|
| <b>Current Liabilities</b>                     |               |               |
| Trade Payables                                 | 9,905         | 8,455         |
| Short Term Provisions                          | 500           | 475           |
| <b>Total</b>                                   | <b>42,208</b> | <b>41,075</b> |
| <b>Non-Current Assets</b>                      |               |               |
| Property Plant & Equipment                     | 21,488        | 22,288        |
| Goodwill on Consolidation of subsidiary and JV | 1,507         | 1,507         |
| Investment Property                            | 5,245         | 5,245         |
| Long Term Loans & Advances                     | 6,350         | 6,350         |
| <b>Current Assets</b>                          |               |               |
| Trade Receivables                              | 4,801         | 1,818         |
| Investments                                    | 1,263         | 3,763         |
| Other Current Assets                           | 1,554         | 104           |
| <b>Total</b>                                   | <b>42,208</b> | <b>41,075</b> |

**Additional Information:**

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

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

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

The Company has approached you to advice and suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1st April, 2017.

**Ind AS 105**

12. CK Ltd. prepares the financial statement under Ind AS for the quarter year ended 30th June, 2018. During the 3 months ended 30th June, 2018 following events occurred:



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On 1<sup>st</sup> April, 2018, the Company has decided to sell one of its divisions as a going concern following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with the Company collecting any outstanding trade receivables relating to the division and settling any current liabilities.

On 1<sup>st</sup> April, 2018, the carrying amount of the assets of the division were as follows:

- Purchased Goodwill – ₹ 60,000
- Property, Plant & Equipment (average remaining estimated useful life two years) - ₹ 20,00,000
- Inventories - ₹ 10,00,000

From 1<sup>st</sup> April, 2018, the Company has started to actively market the division and has received number of serious enquiries. On 1<sup>st</sup> April, 2018 the directors estimated that they would receive ₹ 32,00,000 from the sale of the division. Since 1<sup>st</sup> April, 2018, market condition has improved and as on 1<sup>st</sup> August, 2018 the Company received and accepted a firm offer to purchase the division for ₹ 33,00,000.

The sale is expected to be completed on 30<sup>th</sup> September, 2018 and ₹ 33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30<sup>th</sup> June, 2018. During the period from 1<sup>st</sup> April to 30<sup>th</sup> June inventories of the division costing ₹ 8,00,000 were sold for ₹ 12,00,000. At 30<sup>th</sup> June, 2018, the total cost of the inventories of the division was ₹ 9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

The Company has approached you to suggest how the proposed sale will be reported in the interim financial statements for the quarter ended 30<sup>th</sup> June, 2018 giving relevant explanations.

**Ind AS 8**

13. ABC Ltd. changed its method adopted for inventory valuation in the year 2018-2019. Prior to the change, inventory was valued using the first in first out method (FIFO). However, it was felt that in order to match current practice and to make the financial statements more relevant and reliable, a weighted average valuation model would be more appropriate.

The effect of the change in the method of valuation of inventory was as follows:

- 31<sup>st</sup> March, 2017 - Increase of ₹ 10 million
- 31<sup>st</sup> March, 2018 - Increase of ₹ 15 million
- 31<sup>st</sup> March, 2019 - Increase of ₹ 20 million

Profit or loss under the FIFO valuation model are as follows:

|                     | 2018-2019  | 2017-2018  |
|---------------------|------------|------------|
| Revenue             | 324        | 296        |
| Cost of goods sold  | (173)      | (164)      |
| <b>Gross profit</b> | <b>151</b> | <b>132</b> |
| Expenses            | (83)       | (74)       |
| <b>Profit</b>       | <b>68</b>  | <b>58</b>  |

Retained earnings at 31<sup>st</sup> March, 2017 were ₹ 423 million

Present the change in accounting policy in the profit or loss and produce an extract of the statement of changes in equity in accordance with Ind AS 8.

#### AS 15 / Ind AS 19

14. ABC Limited operates a defined benefit plan which provides to the employees covered under the plan a pension benefit which is equal to 0.75% final salary for each year of completed service. An employee needs to complete minimum of five years' service for becoming eligible to the benefit. On 1<sup>st</sup> April, 2015, the entity improves the pension benefit to 1% of final salary for each year of service, including prior years. The present value of the defined benefit obligation is therefore, increased by ₹ 80 million. Given below is the composition of this amount:

|   |              |
|---|--------------|
| Employees with more than 5 years' of service at 1 <sup>st</sup> April, 2015 | ₹ 60 million |
| Employees with less than 5 years' of service at 1 <sup>st</sup> April, 2015 | ₹ 20 million |

The employees in the second category have completed average 2 and half years of service. Hence, they need to complete another two and half year of service until vesting.

Comment on the treatment of ₹ 80 million of the defined benefit obligation in the financial statements both as per AS 15 and Ind AS 19.

#### Corporate Social Responsibility Reporting

15. ABC Ltd. is a company which has a net worth of INR 200 crores, it manufactures rubber parts for automobiles. The sales of the company are affected due to low demand of its products.

The previous year's financial state:

(₹ in Crore)

|                  | March 31, 2019<br>(Current year) | March 31, 2018 | March 31, 2017 | March 31, 2016 |
|------------------|----------------------------------|----------------|----------------|----------------|
| Net Profit       | 3.00                             | 8.50           | 4.00           | 3.00           |
| Sales (turnover) | 850                              | 950            | 900            | 800            |

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Does the Company have an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year?

**Ind AS 33**

16. An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term, and are issued at par with a face value of ₹ 1,000 per bond, giving total proceeds of ₹ 2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 per cent. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9 per cent. At the issue date, the market price of one ordinary share is ₹ 3. Income tax is ignored.

Calculate basic and diluted EPS when

|  |             |
|--|-------------|
| Profit attributable to ordinary equity holders of the parent entity Year 1 | ₹ 1,000,000 |
| Ordinary shares outstanding  | 1,200,000   |
| Convertible bonds outstanding  | 2,000       |

**Ind AS 7**

17. Z Ltd. has no foreign currency cash flow for the year 2017. It holds some deposit in a bank in the USA. The balances as on 31.12.2017 and 31.12.2018 were US\$ 100,000 and US\$ 102,000 respectively. The exchange rate on December 31, 2017 was US\$1 = ₹ 45. The same on 31.12.2018 was US\$1 = ₹ 50. The increase in the balance was on account of interest credited on 31.12.2018. Thus, the deposit was reported at ₹ 45,00,000 in the balance sheet as on December 31, 2017. It was reported at ₹ 51,00,000 in the balance sheet as on 31.12.2018. How these transactions should be presented in cash flow for the year ended 31.12.2018 as per Ind AS 7?

**Ind AS 17**

18. The building, if purchased outright, would have a useful economic life of 50 years. The lease term, which would commence on 1 January 2019, is for 30 years. D Ltd would pay 40% of the asset's value upfront. At the end of each of the 30 years, there is also an annual rental payment due. This is equivalent to 6% of the asset's value as at 1 January 2019 or a contingent rent, if higher, at the year end. Legal title at the end of the lease remains with the lessor, but D Ltd can continue to lease the asset indefinitely at a rental that is substantially below its market value. If D Ltd cancels the lease, it must make a payment to the lessor to recover their remaining investment.

As per Ind AS 17 Leases, should the lease be classified as an operating lease or a finance lease?

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**FINAL (NEW) EXAMINATION: MAY, 2019****Ind AS 16**

19. Company X performed a revaluation of all of its plant and machinery at the beginning of 2018-2019. The following information relates to one of the machinery:

|   | Amount ('000) |
|---|---------------|
| Gross carrying amount                           | ₹ 200         |
| Accumulated depreciation (straight-line method) | ₹ 80          |
| Net carrying amount                             | ₹ 120         |
| Fair value                                      | ₹ 150         |

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 the 4<sup>th</sup> year.

How should the Company account for revaluation of plant and machinery and depreciation subsequent to revaluation?

**Ind AS 108**

20. An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations. Which cost formula should be used for Ind AS 108 disclosure purposes?

**ANSWERS**

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

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

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

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|   |     |                   |
|---|-----|-------------------|
| Residual Value  |     | -                 |
| Useful life   |     | 10 years          |
| Useful life already elapsed                               |     | 3 years           |
| Yearly depreciation                                       | (D) | ₹ 50,000          |
| <b>WDV as at 31<sup>st</sup> March, 2018 [C- (D x 3)]</b> |     | <b>₹ 3,50,000</b> |

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

| Period              | Cash Flows (₹) | PVF   | PV                     |
|---------------------|----------------|-------|------------------------|
| 1                   | 1,50,000       | 0.909 | 1,36,350               |
| 2                   | 1,00,000       | 0.826 | 82,600                 |
| 3                   | 1,00,000       | 0.751 | 75,100                 |
| 4                   | 1,50,000       | 0.683 | 1,02,450               |
| 5                   | 1,00,000       | 0.621 | 62,100                 |
| 5                   | 50,000         | 0.621 | 31,050                 |
| <b>Value in use</b> |                |       | <b><u>4,89,650</u></b> |

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

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

## (iv) Calculation of Impairment loss on Machinery A

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

## (v) Calculation of Impairment loss of CGU

1. First goodwill will be impaired fully and then the remaining impairment loss of ₹ 75,000 will be allocated to Machinery A and B.
2. If we allocate remaining impairment loss to Machinery A and B on pro-rata basis, it would come to ₹ 45,000 on Machinery A. However, the

impairment loss of Machinery A cannot exceed ₹ 35,350. Hence, impairment to CGU will be as follows:

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

\* Balancing figure.

(b) Carrying value after adjustment of depreciation

|  | ₹               |
|--|-----------------|
| Machinery A [4,89,650 – {(4,89,650-50,000)/5}] | 4,01,720        |
| Machinery B [3,10,350 – (3,10,350/7)]          | 2,66,014        |
| Inventory                                      | 2,00,000        |
| Goodwill                                       | -               |
| <b>Total</b>                                   | <b>8,67,734</b> |

(c) Calculation of carrying value of CGU as on 31<sup>st</sup> March, 2019

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

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

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

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

**2. Impact on consolidated balance sheet of PQR Ltd. group at 31<sup>st</sup> March, 2018**

- The tax loss creates a potential deferred tax asset for the PQR Ltd. group since its carrying value is nil and its tax base is ₹ 30,00,000. However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.
- The development costs have a carrying value of ₹ 15,20,000 (₹ 16,00,000 – (₹ 16,00,000 × 1/5 × 3/12)). The tax base of the development costs is nil since the relevant tax deduction has already been claimed. The deferred tax liability will be ₹ 4,56,000 (₹ 15,20,000 × 30%). All deferred tax liabilities are shown as non-current.
- The carrying value of the loan at 31<sup>st</sup> March, 2018 is ₹ 1,07,80,000 (₹ 1,00,00,000 – ₹ 200,000 + (₹ 98,00,000 × 10%)). The tax base of the loan is 1,00,00,000. This creates a deductible temporary difference of ₹ 7,80,000 and a potential deferred tax asset of ₹ 2,34,000 (₹ 7,80,000 × 30%).

**3. Paragraph 37 of Ind AS 103, inter alia, provides that the consideration transferred in a business combination should be measured at fair value, which should be calculated as the sum of (a) the acquisition-date fair values of the assets transferred by the acquirer, (b) the liabilities incurred by the acquirer to former owners of the acquiree and (c) the equity interests issued by the acquirer.**

Further, paragraph 39 of Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32 or other applicable Ind AS, i.e., for the rare case of non-financial contingent consideration. Paragraph 40 provides that the acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of Ind AS 32, Financial Instruments: Presentation. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.

- (i) In the given case the amount of purchase consideration to be recognized **on initial recognition** shall be as follows:

|   |              |
|---|--------------|
| Fair value of shares issued (10,00,000 x ₹20) | ₹2,00,00,000 |
| Fair value of contingent consideration        | ₹25,00,000   |
| Total purchase consideration                  | ₹2,25,00,000 |

Subsequent measurement of contingent consideration payable for business combination

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:

- (a) 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 unfavorable conditions (for the issuer of the instrument).
- (b) If the instrument will or may be settled in the issuer's own equity instruments, then it is:
  - (i) a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or
  - (ii) 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 fulfilment 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.

Here, the obligation to pay contingent consideration amounting to ₹25,00,000 is recognized as a part of equity and therefore not re-measured subsequently or on issuance of shares.

- (ii) The amount of purchase consideration to be recognized **on initial recognition** is shall be as follows:

|  |              |
|--|--------------|
| Fair value shares issued (10,00,000 x ₹20) | ₹2,00,00,000 |
| Fair value of contingent consideration     | ₹25,00,000   |
| Total purchase consideration               | ₹2,25,00,000 |

Subsequent measurement of contingent consideration payable for business combination

The contingent consideration will be classified as liability as per Ind AS 32.



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As per paragraph 58 of Ind AS 103, contingent consideration not classified as equity should be measured at fair value at each reporting date and changes in fair value should be recognized in profit or loss.

As at 31 March 2017, (being the date of settlement of contingent consideration), the liability would be measured at its fair value and the resulting loss of ₹15,00,000 (₹40,00,000 - ₹25,00,000) should be recognized in the profit or loss for the period. A Ltd. would recognize issuance of 160,000 (₹40,00,000/25) shares at a premium of ₹15 per share.

4. (a) Points earned on ₹ 10,00,000 @ 10 points on every ₹ 500 =  $[(10,00,000/500) \times 10]$  = 20,000 points.

Value of points = 20,000 points x ₹ 0.5 each point = ₹ 10,000

|                                      |            |  |
|--------------------------------------|------------|--|
| Revenue recognized for sale of goods | ₹ 9,90,099 | $[10,00,000 \times (10,00,000/10,10,000)]$ |
| Revenue for points deferred          | ₹ 9,901    | $[10,00,000 \times (10,000/10,10,000)]$    |

## Journal Entry

|   |     | ₹         | ₹        |
|---|-----|-----------|----------|
| Bank A/c                                      | Dr. | 10,00,000 |          |
| To Sales A/c                                  |     |           | 9,90,099 |
| To Liability under Customer Loyalty programme |     |           | 9,901    |

- (b) Points earned on ₹ 50,00,00,000 @ 10 points on every ₹ 500 =  $[(50,00,00,000/500) \times 10]$  = 1,00,00,000 points.

Value of points = 1,00,00,000 points x ₹ 0.5 each point = ₹ 50,00,000

Revenue recognized for sale of goods = ₹ 49,50,49,505  $[50,00,00,000 \times (50,00,00,000 / 50,50,00,000)]$

Revenue for points = ₹ 49,50,495  $[50,00,00,000 \times (50,00,000 / 50,50,00,000)]$

## Journal Entries in the year 2017-18

|   |     | ₹            | ₹            |
|---|-----|--------------|--------------|
| Bank A/c                                      | Dr. | 50,00,00,000 |              |
| To Sales A/c                                  |     |              | 49,50,49,505 |
| To Liability under Customer Loyalty programme |     |              | 49,50,495    |
| (On sale of Goods)                            |     |              |              |

|  |     |           |           |
|--|-----|-----------|-----------|
| Liability under Customer Loyalty programme       | Dr. | 42,11,002 |           |
| To Sales A/c                                     |     |           | 42,11,002 |
| (On redemption of (100 lakhs - 18 lakhs) points) |     |           |           |

**Revenue for points to be recognized**

Undiscounted points estimated to be recognized next year  $18,00,000 \times 80\%$   
 $= 14,40,000$  points

Total expected points to be redeemed in 2018-2019 and 2019-2020 =  $[(1,00,00,000 - 18,00,000) + 14,40,000] = 96,40,000$

Revenue to be recognised with respect to discounted point =  $49,50,495 \times (82,00,000/96,40,000) = 42,11,002$

- (c) Revenue to be deferred with respect to undiscounted point in 2017-2018 =  $49,50,495 - 42,11,002 = 7,39,493$
- (d) In 2018-2019, KK Ltd. would recognize revenue for discounting of 60% of outstanding points as follows:

Outstanding points =  $18,00,000 \times 60\% = 10,80,000$  points

Total points discounted till date =  $82,00,000 + 10,80,000 = 92,80,000$  points

Revenue to be recognized in the year 2018-2019 =  $[(49,50,495 \times (92,80,000 / 96,40,000)) - 42,11,002] = ₹ 5,54,620$ .

**Journal Entry in the year 2018-2019**

|   |     | ₹        | ₹        |
|---|-----|----------|----------|
| Liability under Customer Loyalty programme  | Dr. | 5,54,620 |          |
| To Sales A/c                                |     |          | 5,54,620 |
| (On redemption of further 10,80,000 points) |     |          |          |

The Liability under Customer Loyalty programme at the end of the year 2018-2019 will be  $₹ 7,39,493 - 5,54,620 = 1,84,873$ .

- (e) In the year 2019-2020, the merchant will recognized the balance revenue of ₹ 1,84,873 irrespective of the points redeemed as this is the last year for redeeming the points. Journal entry will be as follows:

**Journal Entry in the year 2019-2020**

|   |     | ₹        | ₹        |
|---|-----|----------|----------|
| Liability under Customer Loyalty programme  | Dr. | 1,84,873 |          |
| To Sales A/c                                |     |          | 1,84,873 |
| (On redemption of further 10,80,000 points) |     |          |          |

**5. This is the case of Revenue recognised at a single point in time with multiple payments. As per the guidance given in Appendix B to Ind AS 21:**

A Ltd. will recognise a non-monetary contract liability amounting ₹ 1,440 million, by translating USD 20 million at the exchange rate on 1<sup>st</sup> January, 2018 ie ₹ 72 per USD.

A Ltd. will recognise revenue at 31<sup>st</sup> March, 2018 (that is, the date on which it transfers the goods to the customer).

A Ltd. determines that the date of the transaction for the revenue relating to the advance consideration of USD 20 million is 1<sup>st</sup> January, 2018. Applying paragraph 22 of Ind AS 21, A Ltd. determines that the date of the transaction for the remainder of the revenue as 31<sup>st</sup> March, 2018.

On 31<sup>st</sup> March, 2018, A Ltd. will:

- derecognise the non-monetary contract liability of USD 20 million and recognise USD 20 million of revenue using the exchange rate as at 1<sup>st</sup> January, 2018 ie ₹ 72 per USD; and
  - recognise revenue and a receivable for the remaining USD 30 million, using the exchange rate on 31<sup>st</sup> March, 2018 ie ₹ 75 per USD.
  - The receivable of USD 30 million is a monetary item, so it should be translated using the closing rate until the receivable is settled.
- 6.** As required by paragraph B53 of the Ind AS 102, over the two-year vesting period, the subsidiary measures the services received from the employees in accordance, the requirements applicable to equity-settled share-based payment transactions as given in paragraph 43B. Thus, the subsidiary measures the services received from the employees on the basis of the fair value of the share options at grant date. An increase in equity is recognised as a contribution from the parent in the separate or individual financial statements of the subsidiary.

The journal entries recorded by the subsidiary for each of the two years are as follows:

| Year 1                                   |     | ₹        | ₹        |
|--|-----|----------|----------|
| Remuneration expense                     | Dr. | 2,40,000 |          |
| (200 x 100 employees x ₹ 30 x 80% x ½)   |     |          |          |
| To Equity (Contribution from the parent) |     |          | 2,40,000 |
| Year 2                                   |     |          |          |
| Remuneration expense                     | Dr. | 2,46,000 |          |
| [(200 x 81 employees x ₹ 30) – 2,40,000] |     |          |          |
| To Equity (Contribution from the parent) |     |          | 2,46,000 |

7. With regard to going concern basis to be followed for preparation of financial statements, Ind AS 10 provides as follows:

“14 An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

15 Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.”

In accordance with the above, an entity needs to change the basis of accounting if the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the instant case, since contract is expiring on 31st December 2017 and it is confirmed on 23rd April, 2017, i.e., after the end of the reporting period and before the approval of the financial statements, that no further contract is secured, implies that the entity's operations are expected to come to an end. Accordingly, if entity's operations are expected to come to an end, the entity needs to make a judgement as to whether it has any realistic possibility to continue or not. In case, the entity determines that it has no realistic alternative of continuing the business, preparation of financial statements for 2016-17 and thereafter on going concern basis may not be appropriate.

8. To determine whether Pharma Limited can be continued to be classified as an associate on transition to Ind AS, we will have to determine whether Angel Limited controls Pharma Limited as defined under Ind AS 110.

An investor controls an investee if and only if the investor has all the following:

- (a) Power over investee
- (b) Exposure, or rights, to variable returns from its involvement with the investee
- (c) Ability to use power over the investee to affect the amount of the investor's returns.

Since Angel Ltd. does not have majority voting rights in Pharma Ltd. we will have to determine whether the existing voting rights of Angel Ltd. are sufficient to provide it power over Pharma Ltd.

Analysis of each of the three elements of the definition of control:

| Elements / conditions | Analysis  |
|-----------------------|---|
| Power over investee   | Angel Limited along with its subsidiary Little Angel Limited (hereinafter referred to as "the Angel group") |

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|   |   |
|---|---|
|   | <p>does not have majority voting rights in Pharma Limited. Therefore, in order to determine whether Angel group have power over Pharma Limited. we will need to analyse whether Angel group, by virtue of its non-majority voting power, have <u>practical ability to unilaterally direct the relevant activities</u> of Pharma Limited. In other words, we will need to analyse whether Angel group has <b>de facto power</b> over Pharma Limited. Following is the analysis of <i>de facto</i> power of Angel over Pharma Limited:</p> <ul style="list-style-type: none"> <li>- The public shareholding of Pharma Limited (that is, 52% represents thousands of shareholders none individually holding material shareholding,</li> <li>- The actual participation of Individual public shareholders in the general meetings is minimal (that is, in the range of 6% to 8%).</li> <li>- Even the public shareholders who attend the meeting do not consult with each other to vote.</li> <li>- Therefore, as per guidance of Ind AS 110, the public shareholders will not be able to outvote Angel group (who is the largest shareholder group) in any general meeting.</li> </ul> <p>Based on the above-mentioned analysis, we can conclude that Angel group has <i>de facto</i> power over Pharma Limited.</p> |
| Exposure, or rights, to variable returns from its involvement with the investee       | Angel group has exposure to variable returns from its involvement with Pharma Limited by virtue of its equity stake.  |
| Ability to use power over the investee to affect the amount of the investor's returns | <p>Angel group has ability to use its power (in the capacity of a principal and not an agent) to affect the amount of returns from Pharma Limited because it is in the position to appoint directors of Pharma Limited who would take all the decisions regarding relevant activities of Pharma Limited.</p> <p>Here, it is worthwhile to evaluate whether certain rights held by the bank would prevent Angel Limited's ability to use the power over Pharma Limited to affect its returns. It is to be noted that, all the rights held by the bank in relation to Pharma Limited are protective in nature as they do not relate to the relevant activities</p>  |

|   |  |
|---|--|
|   | <p>(that is, activities that significantly affect the Pharma Limited's returns) of Pharma Limited.</p> <p>As per Ind AS 110, protective rights are the rights designed to protect the interest of the party holding those rights <u>without giving that party power over the entity to which those rights relate.</u></p> <p>Therefore, the protective rights held by the bank should not be considered while evaluating whether or not Angel Group has control over Pharma Limited.</p> |
| <p><b>Conclusion:</b> Since all the three elements of definition of control is present, it can be concluded that Angel Limited has control over Pharma Limited.</p> |  |

Since it has been established that Angel Limited has control over Pharma Limited, upon transition to Ind AS, Angel Limited shall classify Pharma Limited as its subsidiary.

#### 9. Scenario (i)

Since the loan is repayable on demand, it has fair value equal to cash consideration given. KK Ltd. and YK Ltd. should recognize financial asset and liability, respectively, at the amount of loan given (assuming that loan is repayable within a year). Upon repayment, both the entities should reverse the entries that were made at the origination.

##### Journal entries in the books of KK Ltd.

|                        |     |             |             |
|------------------------|-----|-------------|-------------|
| <i>At origination</i>  |     |             |             |
| Loan to YK Ltd. A/c    | Dr. | ₹ 10,00,000 |             |
| To Bank A/c            |     |             | ₹ 10,00,000 |
| <i>On repayment</i>    |     |             |             |
| Bank A/c               | Dr. | ₹ 10,00,000 |             |
| To Loan to YK Ltd. A/c |     |             | ₹ 10,00,000 |

##### Journal entries in the books of YK Ltd.

|                          |     |             |             |
|--------------------------|-----|-------------|-------------|
| <i>At origination</i>    |     |             |             |
| Bank A/c                 | Dr. | ₹ 10,00,000 |             |
| To Loan from KK Ltd. A/c |     |             | ₹ 10,00,000 |
| <i>On repayment</i>      |     |             |             |
| Loan from KK Ltd. A/c    | Dr. | ₹ 10,00,000 |             |
| To Bank A/c              |     |             | ₹ 10,00,000 |

In the consolidated financial statements, there will be no entry in this regard since loan receivable and loan payable will get set off.

**Scenario (ii)**

Applying the guidance in Ind AS 109, a 'financial asset' shall be recorded at its fair value upon initial recognition. Fair value is normally the transaction price. However, sometimes certain type of instruments may be exchanged at off market terms (ie, different from market terms for a similar instrument if exchanged between market participants).

If a long-term loan or receivable that carries no interest while similar instruments if exchanged between market participants carry interest, then fair value for such loan receivable will be lower from its transaction price owing to the loss of interest that the holder bears. In such cases where part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. The difference in fair value and transaction cost will treated as investment in Subsidiary YK Ltd.

Both KK Ltd. and YK Ltd. should recognise financial asset and liability, respectively, at fair value on initial recognition, i.e., the present value of ₹ 10,00,000 payable at the end of 3 years using discounting factor of 10%. Since the question mentions fair value of the loan at initial recognition as ₹ 8,10,150, the same has been considered. 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.

**Journal entries in the books of KK Ltd. (for one year)**

|  |     |             |             |
|--|-----|-------------|-------------|
| <i>At origination</i>  |     |             |             |
| Loan to YK Ltd. A/c  | Dr. | ₹ 8,10,150  |             |
| Investment in YK Ltd. A/c  | Dr. | ₹ 1,89,850  |             |
| To Bank A/c  |     |             | ₹ 10,00,000 |
| <i>During periods to repayment- to recognise interest</i>  |     |             |             |
| <i>Year 1 – Charging of Interest</i>   |     |             |             |
| Loan to YK Ltd. A/c  | Dr. | ₹ 81,015    |             |
| To Interest income A/c   |     |             | ₹ 81,015    |
| <i>Transferring of interest to Profit and Loss</i>   |     |             |             |
| Interest income A/c  | Dr. | ₹ 81,015    |             |
| To Profit and Loss A/c   |     |             | ₹ 81,015    |
| <i>On repayment</i>  |     |             |             |
| Bank A/c   | Dr. | ₹ 10,00,000 |             |
| To Loan to YK Ltd. A/c   |     |             | ₹ 10,00,000 |
| Note- Interest needs to be recognised in statement of profit and loss. The same cannot be adjusted against capital contribution recognised at origination. |     |             |             |

**Journal entries in the books of YK Ltd. (for one year)**

|   |     |             |             |
|---|-----|-------------|-------------|
| <i>At origination</i>                                     |     |             |             |
| Bank A/c  | Dr. | ₹ 10,00,000 |             |
| To Loan from KK Ltd. A/c                                  |     |             | ₹ 8,10,150  |
| To Equity Contribution in KK Ltd. A/c                     |     |             | ₹ 1,89,850  |
| <i>During periods to repayment- to recognise interest</i> |     |             |             |
| <i>Year 1</i>   |     |             |             |
| Interest expense A/c                                      | Dr. | ₹ 81,015    |             |
| To Loan from KK Ltd. A/c                                  |     |             | ₹ 81,015    |
| <i>On repayment</i>                                       |     |             |             |
| Loan from KK Ltd. A/c                                     | Dr. | ₹ 10,00,000 |             |
| To Bank A/c   |     |             | ₹ 10,00,000 |

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

**Scenario (iii)**

Generally, a loan which is repayable when funds are available, cannot be stated as loan repayable on demand. Rather the entity needs to estimate the repayment date and determine its measurement accordingly by applying the concept prescribed in Scenario (ii).

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

In case the subsidiary YK Ltd. is planning to grant interest free loan to KK Ltd., then the difference between the fair value of the loan on initial recognition and its nominal value should be treated as dividend distribution by YK Ltd. and dividend income by the parent KK Ltd.

10. As per para 13 of Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.

Based on the above, the company can recognise following Intangible assets while determining Goodwill / Bargain Purchase for the transaction:

- (i) **Patent owned by ABR Ltd.:** The patent owned will be recognised at fair value by KK Ltd. even though it was not recognised by ABR Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 8 years. Since the company is awaiting the outcome of the trials, the value of the patent



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cannot be estimated at ₹ 15 crore and the extra ₹ 5 crore should only be disclosed as a Contingent Asset and not recognised.

- (ii) **Patent internally developed by ABR Ltd.:** Further as per para 75 of Ind AS 38 'Intangible Assets', after initial recognition, an intangible asset shall be carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market.

From the information given in the question, it appears that there is no active market for patents since the fair value is based on early assessment of its sale success. Hence it is suggested to use the cost model and recognise the patent at the actual development cost of ₹ 12 crore.

- (iii) **Grant of Licence to ABR Ltd. by the Government:** As regards to the five-year license, para 44 of Ind AS 38 requires to recognize grant asset at fair value. KK Ltd. can recognize both the asset (license) and the grant at ₹ 10 crore to be amortised over 5 years.

Hence the revised working would be as follows:

|                                      |                     |
|--------------------------------------|---------------------|
| Fair value of net assets of ABR Ltd. | ₹ 15 crore          |
| Add: Patent (10 + 12)                | ₹ 22 crore          |
| Add: License                         | ₹ 10 crore          |
| Less: Grant for License              | <u>(₹ 10 crore)</u> |
|                                      | ₹ 37 crores         |
| Purchase Consideration               | <u>₹ 35 crores</u>  |
| Bargain purchase                     | <u>₹ 2 crore</u>    |

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

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

**Accordingly, the deemed cost of the investment will be**

|                                     |             |
|-------------------------------------|-------------|
| Property, Plant & Equipment         | 1,200       |
| Goodwill (Refer Note below)         | 119         |
| Long Term Loans & Advances          | 405         |
| Trade Receivables                   | 280         |
| Other Current Assets                | <u>50</u>   |
| Total Assets                        | 2054        |
| Less: Trade Payables                | 75          |
| Short Term Provisions               | <u>35</u>   |
| Deemed cost of the investment in JV | <u>1944</u> |

**Calculation of proportionate goodwill share of Joint Venture ie ABC Pvt. Ltd.**

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

**Proportionate Goodwill of Joint Venture**

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

$$= (1507 / 23,137) \times 1825 = 119 \text{ (approx.)}$$

Accordingly, the proportional share of assets and liabilities of Joint Venture will be removed from the respective values assets and liabilities appearing in the balance sheet on 31.3.2017 and Investment in JV will appear under non-current asset in the transition date balance sheet as on 1.4.2017.

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

| Particulars                | 31.3.2017 | Ind AS Adjustment | Transition date Balance Sheet as per Ind AS |
|----------------------------|-----------|-------------------|---|
| <b>Non-Current Assets</b>  |           |                   |   |
| Property Plant & Equipment | 22,288    | (1,200)           | 21,088                                      |

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|   |               |              |               |
|---|---------------|--------------|---------------|
| Intangible assets - Goodwill on Consolidation | 1,507         | (119)        | 1,388         |
| Investment Property                           | 5,245         | -            | 5,245         |
| Long Term Loans & Advances                    | 6,350         | (405)        | 5,945         |
| Non- current investment in JV                 | -             | 1,944        | 1,944         |
| <b>Current Assets</b>                         | -             |              |               |
| Trade Receivables                             | 1,818         | (280)        | 1,538         |
| Investments                                   | 3,763         | -            | 3,763         |
| Other Current Assets                          | 104           | (50)         | 54            |
| <b>Total</b>                                  | <b>41,075</b> | <b>(110)</b> | <b>40,965</b> |
| <b>Shareholder's Funds</b>                    |               |              |               |
| Share Capital                                 | 7,953         | -            | 7,953         |
| Reserves & Surplus                            | 16,597        | -            | 16,597        |
| <b>Non-Current Liabilities</b>                |               |              |               |
| Long Term Borrowings                          | 1,000         |              | 1,000         |
| Long Term Provisions                          | 691           |              | 691           |
| Other Long-Term Liabilities                   | 5,904         |              | 5,904         |
| <b>Current Liabilities</b>                    |               |              |               |
| Trade Payables                                | 8,455         | (75)         | 8,380         |
| Short Term Provisions                         | 475           | (35)         | 440           |
| <b>Total</b>                                  | <b>41,075</b> | <b>(110)</b> | <b>40,965</b> |

12. The decision to offer the division for sale on 1<sup>st</sup> April, 2018 means that from that date the division has been classified as held for sale. The division available for immediate sale, is being actively marketed at a reasonable price and the sale is expected to be completed within one year.

The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts and their fair value less cost to sell. Here the division shall be measured at their existing carrying amount ie ₹ 30,60,000 since it is less than the fair value less cost to sell ₹ 32,00,000.

The increase in expected selling price will not be accounted for since earlier there was no impairment to division held for sale.

The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes should be separately disclosed either on the face of the balance sheet or in the notes.

The Property, Plant and Equipment shall not be depreciated after 1<sup>st</sup> April, 2018 so its carrying value at 30<sup>th</sup> June, 2018 will be ₹ 20,00,000 only. The inventories of the division will be shown at ₹ 9,00,000.

The division will be regarded as discontinued operation for the quarter ended 30<sup>th</sup> June, 2018. It represents a separate line of business and is held for sale at the year end.

The Statement of Profit and Loss should disclose, as a single amount, the post-tax profit or loss of the division on classification as held for sale.

Further, as per Ind AS 33, EPS will also be disclosed separately for the discontinued operation.

**13. Profit or loss under weighted average valuation method is as follows:**

|                     | 2018-2019        | 2017-2018<br>(Restated) |
|---------------------|------------------|-------------------------|
| Revenue             | 324              | 296                     |
| Cost of goods sold  | <u>(168)</u>     | <u>(159)</u>            |
| <b>Gross profit</b> | <b>156</b>       | <b>137</b>              |
| Expenses            | <u>(83)</u>      | <u>(74)</u>             |
| <b>Profit</b>       | <b><u>73</u></b> | <b><u>63</u></b>        |

**Statement of changes in Equity (extract)**

|   | Retained earnings | Retained earnings<br>(Original) |
|---|-------------------|---------------------------------|
| At 1 <sup>st</sup> April, 2017                  | 423               | 423                             |
| Change in inventory valuation policy            | <u>10</u>         | <u>-</u>                        |
| <b>At 1<sup>st</sup> April, 2017 (Restated)</b> | <b>433</b>        | <b>-</b>                        |
| Profit for the year 2017-2018                   | <u>63</u>         | <u>58</u>                       |
| <b>At 31<sup>st</sup> March, 2018</b>           | <b>496</b>        | <b>481</b>                      |
| Profit for the 2018-2019                        | <u>73</u>         | <u>68</u>                       |
| <b>At 31<sup>st</sup> March, 2019</b>           | <b><u>569</u></b> | <b><u>549</u></b>               |

- 14.** Under AS 15, a past service cost of ₹ 60 million needs to be recognized immediately, as those benefits are already vested. The remaining ₹ 20 million cost is recognized on a straight line basis over the vesting period, i.e., period to two and half years commencing from 1<sup>st</sup> April, 2015.

Under Ind AS 19, the entire past service cost of ₹ 80 million needs to be recognized and charged in profit or loss immediately. ABC Ltd. cannot defer any part of this cost.

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15. It has been clarified that 'any financial year' referred to under sub-section (1) of section 135 of the Act read with Rule 3(2) of Companies CSR Rule, 2014, implies 'any of the three preceding financial years'.

A company which meets the net worth, turnover or net profits criteria in any of the preceding three financial years, but which does not meet the criteria in the relevant financial year, will still need to constitute a CSR Committee and comply with provisions of sections 135(2) to (5) read with the CSR Rules.

As per the criteria to constitute CSR committee -

- 1) Net worth greater than or equal to INR 500 Crores: This criterion is not satisfied.
- 2) Sales greater than or equal to INR 1000 Crores: This criterion is not satisfied.
- 3) Net Profit greater than or equal to INR 5 Crores: This criterion is satisfied in financial year ended March 31, 2018.

Hence, the Company will be required to form a CSR committee.

16. **Allocation of proceeds of the bond issue:**

|                                    |                    |
|------------------------------------|--------------------|
| Liability component (Refer Note 1) | ₹ 1,848,122        |
| Equity component                   | <u>₹ 151,878</u>   |
|                                    | <u>₹ 2,000,000</u> |

The liability and equity components would be determined in accordance with Ind AS 32. These amounts are recognised as the initial carrying amounts of the liability and equity components. The amount assigned to the issuer conversion option equity element is an addition to equity and is not adjusted.

**Basic earnings per share Year 1:**

$$\frac{\text{₹ 1,000,000}}{1,200,000} = \text{₹ 0.83 per ordinary share}$$

**Diluted earnings per share Year 1:**

It is presumed that the issuer will settle the contract by the issue of ordinary shares. The dilutive effect is therefore calculated in accordance with the Standard.

$$\frac{\text{₹1,000,000} + \text{₹166,331}}{1,200,000 + 500,000} = \text{₹ 0.69 per ordinary share}$$

**Notes:**

1. This represents the present value of the principal and interest discounted at 9% – ₹ 2,000,000 payable at the end of three years; ₹ 120,000 payable annually in arrears for three years.
  2. Profit is adjusted for the accretion of ₹ 166,331 (₹ 1,848,122 × 9%) of the liability because of the passage of time. However, it is assumed that interest @ 6% for the year has already been adjusted.
  3. 500,000 ordinary shares = 250 ordinary shares × 2,000 convertible bonds
17. The profit and loss account was credited by ₹ 1,00,000 (US\$ 2000 × ₹ 50) towards interest income. It was credited by the exchange difference of US\$ 100,000 × (₹ 50 - ₹45) that is, ₹ 500,000. In preparing the cash flow statement, ₹ 500,000, the exchange difference, should be deducted from the 'net profit before taxes, and extraordinary item'. However, in order to reconcile the opening balance of the cash and cash equivalents with its closing balance, the exchange difference ₹ 500,000, should be added to the opening balance in note to cash flow statement.

Cash flows arising from transactions in a foreign currency shall be recorded in Z Ltd.'s functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

18. A finance lease is a lease where the risks and rewards of ownership transfer from the lessor to the lessee.

Key indications that a lease is a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term.
- The lease term is for the major part of the asset's economic life.
- At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
- If the lessee can cancel the lease, the lessor's losses are borne by the lessee.
- The lessee has the ability to lease the asset for a secondary period at a rent that is substantially lower than market rent.

The lease term is only for 60% (30 years/50 years) of the asset's useful life. Legal title also does not pass at the end of the lease. These factors suggest that the lease is an operating lease. However, D Ltd can continue to lease the asset at the end of the lease term for a value that is substantially below market value. This suggests that D Ltd will benefit from building over its useful life and is therefore an indication of a finance lease. D Ltd is also unable to cancel the lease without paying the lessor. This is an indication

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that the lessor is guaranteed to recoup their investment and therefore that they have relinquished the risks of ownership: It also seems likely that the present value of the minimum lease payments will be substantially all of the asset's fair value. Contingent rentals should be excluded from minimum lease payments - the impact of the potential rental increase should be ignored as this is contingent upon a future event. The minimum lease payments (ignoring discounting) equate to 40% of the fair value, payable upfront, and then another 180% (30 years x 6%) of the fair value over the lease term. Therefore, this again suggests that the lease is a finance lease.

The fact that there is a contingent rental can be suggestive of an operating or a finance lease. This must be examined more closely to see whether it suggests a transfer of the risks and rewards of ownership. "In this particular case, an increase in the value of the building will mean that the lessor receives greater payments from the lessee. However, a decrease in the value of the building will mean that the rent is fixed at 6% of the fair value at inception. This appears to be guaranteeing the lessor their required return on the investment, suggesting that the risks of ownership have been transferred to the lessee.

All things considered, it appears that the lease is a finance lease.

19. 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:

- (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. 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; or
- (b) 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 the paragraphs 39 and 40 of Ind AS 16.

If the Company opts for the treatment as per option (a), then the revised carrying amount of the machinery will be:

|                          |       |                   |
|--------------------------|-------|-------------------|
| Gross carrying amount    | ₹ 250 | [(200/120) x 150] |
| Net carrying amount      | ₹ 150 |                   |
| Accumulated depreciation | ₹ 100 | (₹ 250 – ₹ 150)   |

**Journal entry**

|                                       |     |      |      |
|---------------------------------------|-----|------|------|
| Plant and Machinery A/c (Gross Block) | Dr. | ₹ 50 |      |
| To Accumulated Depreciation           |     |      | ₹ 20 |
| To Revaluation Reserve                |     |      | ₹ 30 |

If the balance of accumulated depreciation is eliminated as per option (b), then the revised carrying amount of the machinery will be as follows:

Gross carrying amount is restated to ₹150 to reflect the fair value and Accumulated depreciation is set at zero.

**Journal entry**

|  |     |      |      |
|--|-----|------|------|
| Accumulated Depreciation                 | Dr. | ₹ 80 |      |
| To Plant and Machinery A/c (Gross Block) |     |      | ₹ 80 |
| Plant and Machinery A/c (Gross Block)    | Dr. | ₹ 30 |      |
| To Revaluation Reserve                   |     |      | ₹ 30 |

**Depreciation**

Option (a) – Since the Gross Block has been restated, the depreciation charge will be ₹ 25 per annum (₹ 250 / 10 years).

Option (b) – 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 ₹ 25 per annum as per Option A (₹ 150 / 6 years).

20. The entity should use First-In, First-Out (FIFO) method for its Ind AS 108 disclosures, even though it uses the weighted average cost formula for measuring inventories for inclusion in its financial statements. Where chief operating decision maker uses only one measure of segment asset, same measure should be used to report segment information. Accordingly, in the given case, the method used in preparing the financial information for the chief operating decision maker should be used for reporting under Ind AS 108.

However, reconciliation between the segment results and results as per financial statements needs to be given by the entity in its segment report.