Question NO. 1 is mandatory and write 5 questions out of remaining 6

Question No. 1

a) The balance sheets of Football Ltd. and its subsidiary Hockey Ltd. as on 31st March, 2018 are as under

Liabilities	Football Ltd.	Hockey Ltd.	Assets	Football Ltd.	Hockey Ltd.
Equity shares of ₹ 10 each	48,00,00	20,00,000	Goodwill	4,50,000	3,00,000
10% preference shares of ₹ 10/- each	7,00,000	3,80,000	Plant and machinery	12,00,000	5,00,000
General reserve	5,50,000	4,20,000	Motor vehicles	9,50,000	7,50,000
Retained earnings	10,00,000	6,00,000	Furniture and fittings	6,50,000	4,00,000
Bank overdraft	1,20,000	70,000	Investments	26,00,000	4,50,000
Sundry creditors	4,30,000	4,80,000	Stock	4,50,000	7,20,000
Bills payable	-	1,60,000	Cash at Bank	2,25,000	2,10,000
			Debtors	9,30,000	7,80,000
			Bills receivable	1,45,000	-
	76,00,000	**41,10,000**		**76,00,000**	**41,10,000**

Details of acquisition of shares of Football Ltd. are as under:

Nature of Shares	Nos. acquired	Date of acquisition	Cost of acquisition (₹)
Preference shares	14,250	01.04.2015	3,10,000
Equity Shares	80,000	01.04.2016	9,50,000
Equity Shares	70,000	01.04.2017	8,00,000

Other information

i. On 1.4.2017, Profit and loss A/c and general reserve of Hockey Ltd. had credit balance of ₹ 3,00,000 and ₹ 2,00,000 respectively.

ii. Dividend @ 10% was paid by Hockey Ltd. for the year 2016-2017 out of its Profit and loss A/c balance as on 1.4.2017. Football Ltd. credited its share of dividend to its Profit and loss A/c

iii. Hockey Ltd. allotted bonus shares out of general reserve at the rate of 1 share for every 10 shares held. Accounting thereof has not yet been made.

iv. Bills receivable of Football Ltd. were drawn upon Hockey Ltd.

v. During the year 2017-2018, Football Ltd. purchased goods from Hockey Ltd. for ₹ 1,00,000 at a sale price of ₹ 1,20,000. 40% of these goods remained unsold at close of the year.

vi. On 01.04.2017 machinery of Hockey Ltd. were overvalued by ₹ 1,00,000. Applicable depreciation rate is 20%.

vii. Dividends proposed for the year 2017-18 in the holding and the subsidiary companies are 15% and 10% respectively at the year end.

Prepare consolidated Balance Sheet as on 31st March, 2018 under Ind AS assuming that the fair value of share is ₹ 11 per share. **(16 Marks)**

Answer:

Point of discussion

As per Ind AS 103, when the control is obtained step by step – the previously acquired investment should be measured at fair value and it should be transferred to P&L or OCI depending on the accounting at standalone financial statements;

	₹
Cost of first 80,000 shares bought on 1-4-2016	950,000
Cost of next 70,000 shares bought for 1-4-2017	8,00,000
So the fair value on the date of control (80,000 / 7,000)	**11.43 per share**
The fair value of 80,000 shares initially acquired (80,000 x 11.43)	914,286
Loss on revaluation charged to P&L (9,50,000 – 9,14,286)	**(35,714)**

the following journal entry will be recorded in CFS

Loss due to fair valuation a/c Dr 35,714 *(Step 5)*

To Investment in Y ltd. a/c 35,714

So now the cost of investment after recording the above journal entry = 914,286+ 800,000 = **₹17,14,286** *(used in Step 3)*

Step 1: **Establish the group structure**

DOA: 1-4-2017

DOB: 31st March 2018;

DOC: Control in Hockey Ltd. - 75% (150,000 / 200,000) & NCI – (50,000 shares) 25% (Before bonus)

Step 2: **Analysis of net assets of subsidiary**

Column 1 **Particulars**	*Column 2* **At the date of acquisition** ₹	*Column 3* **At the balance sheet date** ₹	*Column 4* **Post-acquisition** ₹
Share capital	20,00,000	20,00,000	-
+ Bonus issue	200,000	200,000	-
General reserve *(Note1)*	200,000	420,000	220,000
Less: Bonus issue	(200,000)	(200,000)	-
Less: Fair value adjustment	(100,000)	(100,000)	-
Retained earnings (*Note 2 below*)	3,00,000	6,00,000	300,000
Less: Unrealised profits		(8,000)	(8,000)
Add: Savings in dep (100,000 x 20%)		+20,000	+20,000
Total	**24,00,000**	**29,32,000**	**532,000**
Allocation of post-acquisition			
Parent's share (75%)		Used in step 5	
In Retained earnings		312,000 * 75%	234,000
In General reserve		220,000 * 75%	165,000
NCI's share (25%)		532,000 * 25%	133,000
		Used in step 4	

Note 1 Bonus issue

Bonus shares issued in 1:10 ratio i.e. ₹ 200,000 bonus from general reserve;

Remember - **Bonus issues is NOT accounted for yet.**

General reserve balance as on 1-4-2017 is ₹ 200,000 and balance on 31-3- 2018 ₹420,000;

It means ₹220,000 is transferred during the period;

(Read this carefully)

Bonus issue date is not provided, hence we are assuming that it is issued from pre-acquisition profits.

Note 2 Retained earnings

Retained earnings balance as on 1-1-2018 is ₹300,000 and balance on 31-12-2018 - ₹600,000;

Dividend paid for the year 2016-17 is already accounted for – Hence, no adjustment is required.

Proposed dividend for 2017-18 does not create a liability at the year end, it is a non-adjusting event, hence it does not require adjustment in analysis.

Step 3: **Calculation of Goodwill / Capital reserve**

Particulars	**₹**
Cost of investment at fair value (Point for discussion)	17,14,286
Non-controlling interest at acquisition (50,000 x 11)*	550,000
Less: Fair value of net assets at acquisition (Step 2 – column 2)	(24,00,000)
Capital reserve	**(135,714)**

*As fair value of shares is available, we are assuming that NCI is measured at Fair value. Student can follow alternative method.

Step 4: **Non- controlling interest**

Particulars	**₹**
NCI value at acquisition (as per **step 3**)	550,000
NCI share of post-acquisition reserves (as in **Step 2**)	133,000
Total NCI as on balance sheet date	**683,000**

Step 5: Group retained earnings (Parent + Subsidiary)

Particulars	**Retained earnings**	**General reserve**
P Ltd (Parent)	10,00,000	550,000
Add: Loss on remeasurement of investment at FV	(35,714)	-
Less: Adjustment in investment in PSC of Y Ltd. *(Note below)*	(167,500)	-
Add: S's proportionate share (step 2)	234,000	165,000
Total	**10,30,786**	**715,000**

Note:

Preference share capital of Subsidiary is held by the parent company. It is inter-company balance it should be eliminated. But the face value of PSC is ₹ 142,500 but it is bought by the parent company for ₹ 310,000. This difference of ₹ 167,500 should be charged to P&L in CFS so that the balance can be eliminated in consolidated balance sheet.

Consolidated Balance Sheet of Football Ltd and its subsidiary Hockey Ltd. as at 31st March 2018

	Particulars	₹	₹
I	**ASSETS**		
A.	Non-current Assets 1. Property, Plant and Equipment Plant and Machinery (12,00,000 + 5,00,000 – 1,00,000 + 20,000) Motor vehicles (9,50,000 + 7,50,000) Furniture and fittings (6,50,000 + 4,00,000)	 16,20,000 17,00,000 10,50,000	 43,70,000
	2. Goodwill (On acquisition – 4,50,000 + 3,00,000)		7,50,000
	3. Financial Assets Investments (26,00,000 + 4,50,000 – 20,60,000)		 9,90,000
	Total Non-current Assets (A)		**61,10,000**
B.	Current Assets 1. Inventories (450,000 + 720,000 – 8,000 unrealised)		 11,62,000
	2. Financial Assets a. Trade receivables (9,30,000 + 7,80,000) b. Cash and cash equivalents c. Balance with Bank (2,25,000 + 2,10,000)		 17,10,000 4,35,000
	Total Current Assets (B)		**33,07,000**
	Total (A + B)		**94,17,000**
II.	**EQUITY AND LIABILITIES**		
A.	Equity		
	1. Equity Share capital issued, subscribed and fully paid up 4,80,000 equity shares of ₹ 10 each		48,00,000
	2. Other Equity – Reserves and surplus a. Capital Reserve (Step 3) b. General Reserve (Step 5) c. Retained earnings (Step 5) **Equity attributable to owners**	 1,35,714 7,15,000 10,30,786	 18,81,500 66,81,500
	3. Non-Controlling Interests (Step 4)		6,83,000
	Total Equity (A)		**73,64,500**
B.	Liabilities		
	1. Non Current Liabilities a. Financial Liabilities (i) Borrowings 70,000 10% preference shares of ₹ 10 23,750 10% preference shares of ₹ 10	 7,00,000 2,37,500	 9,37,500
	2. Current Liabilities a. Financial Liabilities (i) Short-term borrowings [Bank overdraft] (1,20,000 + 70,000) (ii) Trade payables Sundry Creditors (4,30,000 + 4,80,000) Bills Payable (*note below*)	 9,10,000 15,000	 190,000 9,25,000
	Total Liabilities (B) **Total (A + B)**		**20,52,500** **94,17,000**

Inter-company transactions:

Bills of Exchange

Particulars	Bills receivable	Bill payable
Aggregate Balance	1,45,000	1,60,000
Less: Inter-company transaction	(1,45,000)	(1,45,000)
Balance carried to CBS	**-**	**15,000**

b) Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing balance	500 units
	₹ ***Per unit***
Cost price including excise duty	200
GST (input credit is receivable on the excise duty paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150
Finished goods Y	
Closing Balance	1200 units
	₹ ***Per unit***
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units. Calculate the value of the closing stock, when

(i) Net Realizable Value of the Finished Goods Y is ₹ 400.
(ii) Net Realizable Value of the Finished Goods Y is ₹ 300. **(4 Marks)**

Answer

Net Realizable Value of the Chemical Y (Finished Goods) is ₹ 600 per unit which is less than its cost ₹ 656 per unit. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

	Qty.	Rate (₹)	Amount (₹)
Raw Material X	1,000	320	3,20,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,60,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	₹
Cost Price	400
Add: Freight Inward	40
Cost	440

Chemical Y	₹
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/25,000 units)	16
Cost	656

Question No. 2

a) X Ltd. began construction of a new building on 1st January, 2007. It obtained ₹ 1 lakh special loan to finance the construction of the building on 1st January, 2007 at an interest rate of 10%.

The company's other outstanding two non-specific loans were:

Amount (₹)	Rate of Interest
5,00,000	11%
9,00,000	13%

The expenditure that was made on the building project was as follows:–

Month	Amount (₹)
Jan-07	2,00,000
Apr-07	2,50,000
Jul-07	4,50,000
Dec-07	1,20,000

Building was completed by 31st December, 2007. Following the principles prescribed in Ind AS 23 'Borrowing Cost,' calculate the amount of interest to be capitalized and pass one Journal Entry for capitalizing the cost and borrowing cost in respect of the building. **(6 Marks)**

Answer

Note 1

Computation of average accumulated expenses

	₹
₹ 2,00,000 × 12/12	2,00,000
₹ 2,50,000 × 9/12	1,87,500
₹ 4,50,000 × 6/12	2,25,000
₹ 1,20,000 × 1/12	10,000
	6,22,500

Note 2: Calculation of average interest rate other than for specific borrowings:

Loan amt (₹)	Rate of Interest	Amount of int
5,00,000	11%	55,000
9,00,000	13%	1,17,000
14,00,000		**1,72,000**

Weighted average rate of interest = (1,72,000/14 lakh) × 100 = 12.285%

Note 3: Interest on average accumulated expenses:

	₹
Specific borrowings (₹ 1,00,000 × 10%)	10,000
Non specific borrowings (₹ 5,22,500 × 12.285 %) (**Note 1 & 2)**	64,189
Amount of interest to be capitalised	**74,189**

Total expenses to be capitalised for plant:

	₹
Cost of building ₹ (2 lakh + 2.5 lakh + 4.5 lakh + 1.2 lakh) **(As given)**	10,20,000
Add: Amount of interest to be capitalised **(Note 3)**	74,189
Amount to be capitalised	**10,94,189**

Journal entry to be recorded in the books on 31.12.2007:

Building a/c …….Dr 10,94,189

To Bank a/c 10,94,189

(Being amount of cost of building and borrowing cost thereon capitalised)

b) On 1st January 2018, Sam Co. Ltd. agreed to purchase USD ($) 20,000 from JT Bank in **future** on 31st December 2018 for a rate equal to ₹ 68 per USD. Sam Co. Ltd. did not pay any amount upon entering into the contract. Sam Co Ltd. is a listed company in India and prepares its financial statements on a quarterly basis.

Following the classification principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for each quarter ended till the date of actual purchase of USD.

For the purposes of accounting, please use the following information representing marked to market fair value of forward contracts at each reporting date:

As at 31st March 2018 – ₹ (25,000)

As at 30th June 2018 - ₹ (15,000)

As at 30th September 2018 - ₹ 12,000

Spot rate of USD on 31st December 2018 - ₹ 66 per USD **(6 Marks)**

Answer

The derivative liability is a written put option contract.

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

i. Accounting on 1st January 2018

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

ii. Accounting on 31st March 2018

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

Profit and loss A/c	Dr.	25,000	
To derivative financial liability			25,000

(being mark to market loss on the put option contra recorded)

iii. Accounting on 30th June 2018

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

Derivative financial liability A/c	Dr.	10,000	
To Profit and loss A/c			10,000

(being partial reversal of mark to market loss on the put optic contract recorded)

iv. Accounting on 30th September 2018

The change in value of the derivative option contract shall be recorded as a zero in the books of Sam Co Ltd. by recording the following journal entry:

Derivative financial liability A/c	Dr	15,000	
To Profit and loss A/c			15,000

(being gain on mark to market of put option contract booked make the value the derivative liability as zero)

v. Accounting on 31st December 2018

The settlement of the derivative put option contract by actual purchase of USD 20,000 shall be recorded in the books of Sam Co Ltd. upon exercise by JT Corp. by recording the following journal entry:

Cash (USD Account) @ 20,000 * 66	Dr.	13,20,000	
Profit and loss A/c	Dr.	40,000	
To Cash @ 20,000 * 68			

(being loss on settlement of put option contract booked on actual purchase of USD)

c) A parent entity provides a guarantee to a bank that has gave a loan to its subsidiary, the subsidiary has obtained a benefit, in that it would pay a lower rate of interest on the loan than it would have otherwise paid for an un-guaranteed loan. How should the **subsidiary account** for the benefit of the intra-group guarantee? **(4 Marks)**

Answer

Ind AS 109 is silent on the accounting treatment for financial guarantees by the borrower. Hence, I feel we can take it as an accounting policy choice. Considering that, the subsidiary could either of the below 2 options:

- Recognise at fair value of the loan from the bank by reference to a **normal market rate of interest** that it would pay on a similar but un-guaranteed loan, **and** take the benefit of the interest **differential to equity as a capital contribution from the parent**; **OR**
- Recognise at the fair value of the guaranteed loan by expecting the fair value as the face value of the proceeds that the subsidiary receives.

In practice, there is diversity on which accounting policy is applied; however, the majority of subsidiaries do not take the capital contribution to equity approach, and they recognise instead the fair value of the guaranteed loan.

Question No. 3

a) Assume that the firm has not been operating its warranty for five years, and reliable data exists to suggest the following:

- If minor defects occur in all products sold, repair costs of ₹ 20,00,000 would result.
- If major defects are detected in all products, costs of ₹ 50,00,000 would result.
- The manufacturer's past experience and future expectations indicate that each year 80% of the goods sold will have no defects. 15% of the goods sold will have minor defects, and 5% of the goods sold will have major defects.

Calculate the expected value of the cost of repairs in accordance with the requirements of Ind AS 37, if any. Ignore both income tax and the effect of discounting **(4 Marks)**

Answer

For a provision to be recognized, Para 14 of Ind AS 37 requires that:

a) an entity has a present obligation (legal or constructive) as a result of a past event;

b) it is probable that an outflow of resources embodying economic benefits will required to settle the obligation, and

c) a reliable estimate can be made of the amount of the obligation.

Here, the manufacturer has a present legal obligation. The obligation event is the sale of the product with a warranty.

Ind AS 37 outlines that the future sacrifice of economic benefits is probable when it is more likely than less likely that the future sacrifice of economic benefits will required. The probability that settlement will be required will be determined by considering the class of obligation (warranties) as a whole. In accordance with para 24 of Ind AS 37, it is more likely than less likely that a future sacrifice of economic benefits will be required to settle the class of obligations as a whole.

If a reliable estimate can be made the provision can be measured re liably. Past data can provide reliable measures, even if the data is not firm specific but rather industry based. Ind AS 37 notes that only in extremely rare cases, a reliable measure of a provision cannot be obtained. Difficulty in estimating the amount of a provision under conditions of significant uncertainty does not justify non-recognition of the provision.
Here, the manufacturer should recognize a provision based on the best estimate of the consideration required to settle the present obligation as at the reporting date.

The expected value of cost of repairs in accordance with Ind AS 37 is:

(80% x nil) + (15% x ₹ 20,00,000) + (5% x ₹ 50,00,000) = 3,00,000 + 2,50,000 = 5,50,000

b) PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st 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 31st 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 1st 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 31st March, 2018.
- On 1st 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 1st April, 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March, 2020 will be ₹ 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31st 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 31st March, 2018 as per Ind AS. The rate of corporate income tax is 30%. **(8 marks)**

Answer

Impact on consolidated balance sheet of PQR Ltd. group at 31st 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 31st March, 2018 is ₹ 1,07,80,000 (₹ 1,00,00,000 – ₹ 2,00,000 + (₹ 98,00,000 x 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%).

c) Mike Ltd. has undertaken following various transactions in the financial year ended 31.03.2018: (₹)

(a)	Re-measurement of defined benefit plans	1,54,200
(b)	Current service cost	1,05,000
(c)	Changes in revaluation surplus	75,000
(d)	Gains and losses arising from translating the monetary assets in foreign currency	45,000

(e)	Gains and losses arising from translating the financial statements of a foreign operation	39,000
(f)	Gains and losses arising from investments in equity instruments designated at fair value through other comprehensive income	60,000
(g)	Income tax expenses	21,000
(h)	Share based payments cost	2,01,000

Identify and present the transactions in the financial statements as per Ind AS 1. **(4 Marks)**

Answer

Items impacting the Statement of Profit and Loss for the year ended 31st March, 2018 **(₹)**

Current service cost	1,05,000
Gains and losses arising from translating the monetary assets in foreign currency	45,000
Income tax expenses	21,000
Share based payments cost	2,01,000

Items impacting the OCI for the year ended 31st March, 2018

Remeasurement of defined benefit plans	1,54,200
Changes in revaluation surplus	75,000
Gains and losses arising from translating the financial statements of a foreign operation	39,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	60,000

Question No. 4

a) Sunny Ltd., is developing a new production process. During the financial year ended 31st March 2017, the company has incurred total expenditure of ₹40 lakh on the process. On 1st December, 2016, the process has met the norms to be recognized as 'intangible assets' and the expenditure incurred till that date is ₹16 lakh. During the financial year ending on 31st March 2018, the company has further incurred ₹70 lakh. The recoverable amount as on 31st March 2018 of the process is estimated to be ₹62 lakh. You are required to work out:

(i) Expenditure to be charged to P&L for the FYs 31st March 2017 & 31st March 2018. (ignore depreciation)

(ii) Carrying amount of the 'Intangible asset' as at 31st March 2017 and 31st March 2018. **(6 Marks)**

Answer

As per the standard, development expense should be capitalised only when the entity is able to demonstrate the conditions mentioned. The expense incurred till date of satisfying the conditions should be charged to P&L.

For FY 2016-17

Total development expense incurred during the year = ₹40 lakh. Out of this ₹16 lakh incurred till date of meeting the norms, hence this amount should be charged to P&L and the remaining ₹24 lakh should be capitalised as ***intangible asset under development (WIP)***. So the carrying amount of intangible asset under development as on 31st March, 2017 is ₹24 lakh.

For FY 2017-18

The development expense incurred during the financial year = ₹70 lakh. It should capitalise the total expense to the intangible asset. Hence the carrying amount of after this will be ₹94 lakh (₹24 lakh + ₹70 lakh).

As per the Standard, an intangible asset which is under development should be tested for impairment at every financial year end and if there is any impairment loss exists, it should be recognised as expense in P&L.

Impairment loss is the excess of carrying amount over the recoverable amount. In the given case, the carrying amount is ₹94 lakh and whereas the recoverable amount is ₹62 lakh. Hence the impairment loss is ₹32 lakh (₹94 lakh – ₹62 lakh) should be charged to P&L.

Hence the carrying amount of intangible asset at 31st March, 2018 is ₹62 lakh.

b) Discuss whether Ind AS 102 is applicable in the following cases

1. Entity B grants 10 shares to its employees provided that they remain in service for the next 12 months.
2. Entity C grants employees a cash bonus equal to C's share price growth provided that they remain in service over the next 12 months.
3. Entity E's share price is ₹120. E awards a cash bonus of ₹120 to employees, payable in one year to those who remain in service during the next 12 months.
4. Entity D awards a cash bonus of 500 to employees, payable in one year to those who remain in service if D's share price exceeds a price of ₹10 per share during the next 12 months.
5. Entity E is developing a new product and purchases a patent from entity F. The parties agree a purchase price of 1,000 of entity E's shares. These will be issued to entity F within 60 days of finalising the legal documentation that transfers the patent from entity F to entity E.
6. An **individual** with a 40% shareholding in entity F awards 2% of his shareholding in entity F to a director of entity F's subsidiary, entity G, in exchange for employment services;
7. Shares, share options, Bonus shares or other equity instruments are granted to **employees** as part of their **remuneration package**, in addition to a cash salary and other employment benefits.
8. Entity F needs a new Plant & Machinery and has arranged to acquire it from an existing shareholder. The purchase price will be settled by the entity issuing 1,500 new shares. For legal purposes, the transaction is considered as an in-kind capital contribution of P & M.
9. Entity H enters into a contract to purchase 10 tonnes of cocoa beans. The purchase price will be **settled in cash** at an amount **equal to the value of 100 of entity H's shares**. But the entity can settle the contract at any time by paying an amount equal to the current market value of ₹100 of its shares less the market value of 10 tonnes of cocoa beans. The entity has entered into the contract as part of its hedging strategy and has no intention of taking physical delivery of the cocoa beans. (Read carefully)
10. The management committee of an entity has initiated a plan to provide some stock options to its employees but there are some terms which are yet to be finalized and the plan is not yet communicated to employees till the year end. Whether this standard should be followed for the current year**?** **(10 Marks)**

Answer

1. The entity is receiving employee services for 12 months period and it is settling the same by issuing the shares to employees. This is an equity-settled share-based payment – covered by this Standard.
2. The entity is receiving required period of service (12 months) from employees and it is settling the same by paying cash which is determined based on the change in share price. This is a cash-settled share-based payment. this award is also known as an SAR.
3. This is not a share-based payment. Although the payment to the employees is linked to the delivery of service from the employees, the payment is not based on the share price of E. i.e. employee receives ₹ 120 irrespective of increase or decrease in share value over the period. The award is considered an employee benefit in the scope of Ind AS 19.
4. Although D has an obligation if the share price-related target is met and the employees provide the required services, the amount of the payment is **not based on the share price of D**. The award is considered an employee benefit in the scope of Ind AS 19. This is not a share-based payment.
5. The entity is issuing shares as a consideration of received goods (patents – intangible asset). This is equity settled share-based payment;
6. As per the definition, agreement between a shareholder of any group entity and another person – In this case, the individual is share holder of the group entity and issuing to the director (other person) of the its subsidiary for employee services. This is scoped into the standard. The award will be reflected in *entity G's financial statements and in entity F's consolidated financial statements*.
7. Shares, share options, Bonus shares issued for receipt of services in the capacity of employee. These transactions are within the scope of the standard and come under equity settled share based payment.
8. The counterparty did not act in its capacity as shareholder, but as a supplier of the P & M. It is like, the entity is issuing shares for the receipt of goods (P&M) from another party. This transaction is within the scope of the standard.
9. The transaction meets the definition of a cash-settled share-based payment transaction (that is, entity H has acquired goods in exchange for payment of an amount based on the value of its shares). **However**, the contract **can be settled net and has not been entered into to satisfy entity H's expected purchase**, sale or usage requirements as there is no intention of taking delivery. So the transaction is outside the scope and is instead dealt with under Ind AS 32.
10. As per the definition of share based arrangement is an agreement between the parties. The standard will be applicable only when there is a binding agreement. Moreover, as the arrangement has not even been communicated to the employees, there is nothing to account.
11. It has been mentioned above that this standard is applicable for goods/services whether identified (or) unidentified. Suppose, the value of the goods received has been paid by issuing its own equity shares but if the fair value of the goods received is less than the value of share issued by the entity, <u>then it means that some un-identified goods / services will be received. In case, the difference is to be debited to P&L if it merits to be considered as an expense. Similarly, if the fair value of the goods received is more than the value of the shares issues by the entity, it means that some unidentified goods / services have been received</u>.

    In this case, the difference is to be credited to P&L. The given case falls under this scenario and hence, Ind AS 102 is applicable. However, this treatment is not applicable in case of transactions with those who are considered as employees for tax purpose.

Question No. 5

a) Pluto Ltd. has purchased a manufacturing plant for ₹ 6 lakhs on 1st April, 20X1. The useful life of the plant is 10 years. On 30th September, 20X3, Pluto temporarily stops using the manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.
The accountant of Pluto ltd. decided to treat the plant as held for sale until the demands picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell.

Also, the accountant has also stopped charging the depreciation for the rest of period considering the plant as held for sale. The fair value less cost to sell on 30th September, 20X3 and 31st March, 20X4 was ₹ 4 lakhs and ₹ 3.5 lakhs respectively.

The accountant has performed the following working:

Carrying amount on initial classification as held for sale		
Purchase Price of Plant	6,00,000	
Less: Accumulated dep (6,00,000/ 10 Years) x 2.5 years	(1,50,000)	4,50,000
Fair Value less cost to sell as on 31st March, 20X4		4,00,000
The value will be lower of the above two		4,00,000

Balance Sheet extracts as on 31st March, 20X4

Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	3,50,000

Analyse whether the above accounting treatment made by the accountant is in-compliance with the Ind AS. If not, advise the correct treatment along with the necessary workings. **(6 Marks)**

Answer

As per Ind AS 105 "An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered **principally through a sale transaction rather than through continuing use**".

It should satisfy the **six criteria** as discussed in the standard to be classified as held for sale. Abandonment does not satisfy the criteria because it is abandoning the operations with an intention to restart in the future but not to sell, hence it cannot be classified as "held for sale".
As per Ind AS 16 states that:
"Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated."
Pluto Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.
The working of the same for presenting in the balance sheet is given as below:

Calculation of carrying amount as on 31st March, 20X4	
Purchase Price of Plant	6,00,000
Less: Accumulated depreciation (6,00,000/ 10 Years) x 3 Years	(1,80,000)
	4,20,000

Less: Impairment loss *(Refer note below)*	(70,000)
	3,50,000

Balance Sheet extracts as on 31st March, 20X4

Assets	
Non-Current Assets	
Property, Plant and Equipment	3,50,000

Working Note:

Fair value less cost to sell of the Plant= ₹ 3,50,000

Value in Use (not given) or = Nil (since plant has temporarily not been used for manufacturing due to decline in demand)

Recoverable amount = higher of above i.e. ₹ 3,50,000

Impairment loss = Carrying amount – Recoverable amount Impairment loss = ₹ 4,20,000 - ₹ 3,50,000 = ₹ 70,000.

b) ST Limited enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (i.e. the performance obligation will be satisfied at a point in time). The contract includes two alternative payment options:

(1) Payment of ₹ 5,000 in two years when the customer obtains control of the asset or

(2) Payment of ₹ 4,000 when the contract is signed.

The customer elects to pay ₹ 4,000 when the contract is signed.

ST Limited concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer, as well as the prevailing interest rates in the market.

The interest rate implicit in the transaction is 11.8%, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the entity determines that, the rate that should be used in adjusting the promised consideration is 6%, which is the entity's incremental borrowing rate.

Pass journal entries showing how the entity would account for the significant financing **component** **(6 Marks)**

Answer

Journal Entries showing accounting for the significant financing component:

(a) Recognise a contract liability for the ₹ 4,000 payment received at contract inception:

Cash Dr. ₹ 4,000

To Contract liability ₹ 4,000

(b) During the two years from contract inception until the transfer of the asset, the entity adjusts the promised amount of consideration and accretes the contract liability by recognising interest on ₹ 4,000 at 6% for two years:

Interest expenseDr. ₹ 494*

To Contract liability ₹ 494

* ₹ 494 = ₹ 4,000 contract liability × (6% interest per year for two years).

(c) Recognise revenue for the transfer of the asset:

Contract liability	Dr.	₹ 4,494
To Revenue		₹ 4,494

c) On 1-4-2014 Indra Ltd. bought a machinery for ₹1,00,000. The company followed revaluation model for plant and machinery class and it revalued the machinery to ₹1,50,000 on 31-3-2016. The company follows SLM to depreciate the asset over its remaining useful life of 8 years (i.e. original life is 10 years). Out of the depreciation of ₹18,750 (₹1,50,000/8 years), the company wants to charge only ₹10,000 (i.e. ₹1,00,000/10 years) to P&L and remaining amount of ₹8,750 to revaluation surplus. Do you agree with this accounting? **(4 Marks)**

Answer

The accounting proposed i.e. charging part of depreciation directly revaluation surplus is not accepted as per Ind AS 16. Depreciation should be usually charged to P&L statement unless it is included in the carrying amount of another asset.

As per Ind AS 16, entire amount of revaluation surplus related to asset should be transferred to revenue reserves once the asset is disposed off/derecognised

Question No. 6

a) On 1st April, 20X1, Entity A leases a property for a lease term of 8 years. The lease payments for the first three years have been agreed at ₹100 per year. The lease payments will be reset on 1st April, 20X4 (and, subsequently, on 1st April, 20X7) on the basis of the increase in the Retail Price Index (RPI) for the preceding three years. All lease payments are made at the **end of the relevant year**.
Interest rate implicit in the lease of 5%.
On 1st April, 20X2, 20X3 and 20X4, respectively, the RPI is 103, 107 and 108. On 1st April, 20X7, the RPI is 113. **(10 Marks)**

Answer

At 1 April 20X1 (the commencement date), the RPI is 100 and Entity A measures its lease liability at ₹646 (₹100 * 6.46 i.e. PVAF for 8 years @ 5%).

The entity recognises the following journal entry on 1 April 20X1

Right-of-use asset a/c	Dr	₹646	
To Lease liability			₹646

In its financial statements for the years ended 31 March 20X1, 31 March 20X2 and 31 March 20X3, Entity A **does not make adjustment** for increases in RPI because there is **no change in cash flows** in those years.

Movement of Lease liability over the first three years.

Year	Opening lease liability	Adjustment	Interest	Repayment	Closing lease liability
	₹	₹	₹	₹	₹

20X1	646	-	32	-100	578
20X2	578	-	29	-100	507
20X3	507	-	25	-100	432

The lease payments will be reset on 1 April 20X4. Entity A **recalculates** its liability based on the increased RPI. It means, it treats that rent payments will be ₹108 for remaining 5 years;

Present value of remaining lease payments = ₹108 * 4.32 (PVAF for 5 years @ 5%) = ₹467;

The difference between ₹432 & ₹467 = ₹35 will be added to the lease liability.

Record the following Journal entry

Right-of-use asset a/c	Dr	₹35	
To Lease liability			₹35

Year	Opening lease liability	Adjustment	Interest	Repayment	Closing lease liability
	₹	₹	₹	₹	₹
20X4	432	35	23*	-108	382
20X5	382	-	19	-108	293
20X6	293	-	15	-108	200

*Interest calculation = (432+ 35) * 5% = 23

Note: as we discussed already in case of change in future lease payments due to change in an Index or a rate – we need not change the discounting rate.

The lease payments will be reset on 1 April 20X7 again. Entity A **recalculates** its liability based on the increased RPI. It means, it treats that rent payments will be ₹113 for remaining 5 years;

Present value of remaining lease payments = ₹113 * 1.85 (PVAF for 2 years @ 5%) = ₹209;

The difference between ₹200 & ₹209 = ₹9 will be added to the lease liability.

Record the following Journal entry

Right-of-use asset a/c	Dr	₹9	
To Lease liability			₹9

Year	Opening lease liability	Adjustment	Interest	Repayment	Closing lease liability
	₹	₹	₹	₹	₹
20X7	200	9	11	-113	107
20X8	107	-	6	-113	0

b) On 1st April 2019, Investor Ltd. acquires 35% interest in another entity, XYZ

Ltd. Investor Ltd. determines that it is able to exercise significant influence over XYZ Ltd. Investor Ltd. has paid total consideration of ₹ 47,50,000 for acquisition of its interest in XYZ Ltd. At the date of acquisition, the book value of XYZ Ltd.'s net assets was ₹ 90,00,000 and their fair value was ₹ 1,10,00,000. Investor Ltd. has determined that the difference of ₹ 20,00,000 pertains to an item of property, plant and equipment (PPE) which has remaining useful life of 10 years.

During the year, XYZ Ltd. made a profit of ₹ 8,00,000. XYZ Ltd. paid a dividend of ₹ 12,00,000 on 31st March, 2020. XYZ Ltd. also holds a long-term investment in equity securities. Under Ind AS, investment is classified as at FVTOCI in accordance with Ind AS 109 and XYZ Ltd. recognized an increase in value of investment by ₹ 2,00,000 in OCI during the year. Ignore deferred tax implications, if any.

Calculate the closing balance of Investor Ltd.'s investment in XYZ Ltd. as at 31st March, 2020 as per the relevant Ind AS. **(6 Marks)**

Answer

Calculation of Investor Ltd.'s investment in XYZ Ltd. under equity method:

	₹	₹
Acquisition of investment in XYZ Ltd.		
Share in book value of XYZ Ltd.'s net assets (35% of ₹ 90,00,000)	31,50,000	
Share in fair valuation of XYZ Ltd.'s net assets [35% of (₹ 1,10,00,000 – ₹90,00,000)]	7,00,000	
Goodwill on investment in XYZ Ltd. (balancing figure)	9,00,000	
Cost of investment		**47,50,000**
Profit during the year		
Share in the profit reported by XYZ Ltd. (35% of ₹ 8,00,000)	2,80,000	
Adjustment to reflect effect of fair valuation [35% of (₹20,00,000/10 years)]	(70,000)	
Share of profit in XYZ Ltd. recognised in income by Investor Ltd.		**2,10,000**
Long term equity investment		
FVTOCI gain recognised in OCI (35% of ₹ 2,00,000)		70,000
Dividend received by Investor Ltd. during the year [35% of ₹ 12,00,000]		(4,20,000)
Closing balance of Investor Ltd.'s investment in XYZ Ltd.		**46,10,000**

Question No. 7

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

Following information is relevant for Building A for the year ending 31 st March, 2020:

Building A was purchased 5 years ago at the cost of ₹10 crore and building life is estimated to be 20 years. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 2019 at the cost of ₹ 2 crore. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year 2019-2020, the company earned / incurred following direct operating expenditure relating to Building A and Building B:

Rental income from Building A	=	₹ 75 lakh
Rental income from Building B	=	₹ 25 lakh
Sales promotion expenses	=	₹ 5 lakh
Fees & Taxes	=	₹ 1 lakh
Ground rent	=	₹ 2.5 lakh
Repairs & Maintenance	=	₹ 1.5 lakh
Legal & Professional	=	₹ 2 lakh

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

The other key inputs for valuation are as follows:

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

Assume that the fair value of properties based on discounted cash flow method is measured at ₹ 10.50 crore on 31st March, 2020.

What would be the treatment of Building A and Building B in the balance sheet of Shaurya Limited? Provide detailed disclosures and computations in line with relevant Indian accounting standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the balance sheet. **(8 Marks)**

Answer

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

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

INVESTMENT PROPERTIES:

Particulars	Period ended 31st March, 2020 (₹in crore)
Gross Amount:	

Opening balance (A)	10.00
Additions during the year (B)	2.00
Closing balance (C) = (A) + (B)	12.00
Depreciation:	
Opening balance (D)	2.50
Depreciation during the year (E) (0.5 + 0.05)	0.55

Closing balance (F) = (D) + (E)	3.05
Net balance (C) - (F)	8.95

The changes in the carrying value of investment properties for the year ended 31st March, 2020 are as follows:

Amount recognised in Profit and Loss with respect to Investment Properties

Particulars	Period ending 31st March, 2020 (₹in crore)
Rental income from investment properties (0.75 + 0.25)	1.00
Less: Direct operating expenses generating rental income (5+1+2.5+1.5+2+1)	(0.13)
Profit from investment properties before depreciation and indirect expenses	0.87
Less: Depreciation	(0.55)
Profit from earnings from investment properties before indirect expenses	0.32

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist Property A and Property B. As at 31st March, 2020, the fair value of the properties is ₹10.50 crore. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

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

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

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

b) Company P holds an asset that is traded in three different markets but it usually buys and sells in Market C. Information about all three markets follows

Particulars	Market A	Market B	Market c
Volume (annual)	30,000	12,000	6,000
Trades per month	30	12	10
Market price	50	48	53
Transportation cost	(3)	(3)	(4)

Possible fair value	**47**	**45**	**49**
Transaction costs	(1)	(2)	(2)
Net proceeds	**46**	**43**	**47**

What is principal and most advantageous market for the company? What is the fair value to be considered in each market? **(4 Marks)**

Answer

P identifies the relevant markets as follows.

The **principal market** for the asset is Market A, because it has the greatest volume and level of activity.

The **most advantageous market** is Market C, because it has the highest net proceeds.P bases its measurement of fair value on prices in Market A, even though it does not normally transact in that market and it is not the most advantageous market. Therefore, fair value is 47, considering transport costs but not transaction costs, even though P normally transacts in Market C and could maximise its net proceeds in that market.

If P is unable to access Markets A and B, then it would use Market C as the most advantageous market. In that case, fair value would be 49 (market price less transport costs).

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

Required

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

(d) Whether the outcome in (a) & (b) would be different if Mr. X has significant influence over A Limited.

(e) what would be your answer if Mr. X is just KMP (does not control A Ltd.) from the perspective of C Limited for A Limited. **(4 Marks)**

Answer

(a) A Limited is related to C Limited because Mr. X controls A Limited and is a member of KMP of C Limited.
(b) Still A Limited will be related to C Limited.
(c) No, Still A Limited will be related to C Limited.
(d) Yes, A Ltd. is not controlled by Mr. X. Therefore, despite Mr. X being KMP of C Ltd., A Ltd., having significant influence of Mr. X, will not be considered as related party of C Limited.
(e) As per point (b) (vi & viii), the entities become related only when a person controls or jointly controls one entity and has significant influence or KMP of another entity. Mere being a KMP of both the companies, A & C companies cannot be related.