PAPER – 1: FINANCIAL REPORTING

QUESTIONS

Case Scenario - I

FA Ltd. is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries. Following are the details of some of the transactions entered into by the company:

i. On 1st April 20X2, the company began the construction of a new production line in its aircraft parts manufacturing shed.

Costs relating to the production line are as follows:

Details	**Amount ₹ in lakhs**
Costs of the basic materials (list price ₹ 12.5 lakhs less 20% trade discount)	10.00
Recoverable goods and services tax incurred but not included in the purchase cost	1.00
Employment costs of the construction staff for three months till 30th June 20X2	1.20
Other overheads directly related to the construction	0.90
Payments to external advisors relating to the construction	0.50
Expected dismantling and restoration costs	2.00

The production line took two months to make ready for use and was brought into use on 31st May 20X2.

The other overheads were incurred during the two-month period ended on 31st May 20X2. They included an abnormal cost of ₹ 0.3 lakhs caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. After 8 years, FA Ltd. is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of ₹ 2 lakhs included in the cost estimates is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate discount rate is 5%. The present value of ₹ 1 payable in 8 years at a discount rate of 5% is approximately ₹ 0.68.

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

No impairment of the plant had occurred by 31st March 20X3.

ii. During the year ended 31st March 20X3, FA Ltd. provided consultancy services to a customer regarding the installation of a new production system related to aircraft parts. The system has caused the customer considerable problems, so the customer has taken legal action against the Company for the loss of profits that has arisen as a result of the problems with the system. The customer has claimed damages to the tune of ₹ 1.6 lakhs.

The legal department of FA Ltd. considers that there is a 25% chance the claim can be successfully defended. The legal department further stated that they are reasonably confident the Company is covered by insurance against these types of loss. Th accountant feels nothing needs to be provided for this claim as the Company is suitably covered against any possible losses.

iii. FA Ltd. has an associate company, Flynet Limited. Following are the information of Flynet Limited for the year ended 31st March 20X3:

Particulars	**₹ in lakhs**
Net Income after taxes	120
Decrease in accounts receivables	20
Depreciation	25
Increase in inventory	10
Increase in accounts payable	7
Decrease in wages payable	5
Tax charge for the year (deferred tax liabilities)	15
Profit from sale of land	2

On the basis of the facts given above, chose the most appropriate answer to Questions 1 to 5 below based on the relevant Indian Accounting Standards (Ind AS).

1. Which of the following items need to be capitalized in determining the cost of Production Line?

   (a) Abnormal cost of ₹ 0.3 lakhs

   (b) Recoverable GST of ₹ 1 lakhs

   (c) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 2 lakhs

   (d) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs

2. Calculate the company's associate Flynet Ltd.'s cash flow from operations.

   (a) ₹ 158 lakhs

   (b) ₹ 170 lakhs

   (c) ₹ 174 lakhs

   (d) None of the above

3. What accounting treatment should be done in FA Ltd.'s books for the year ending 31st March 20X3, as the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system?

   (a) Nothing needs to be provided for claim instituted by the customer as the Company is suitably covered against any possible losses.

   (b) Provision of ₹ 1.6 lakhs should be recognised with a corresponding charge to profit or loss.

   (c) Provision of ₹ 0.4 lakhs as per best possible outcome should be recognised with a corresponding charge to profit or loss.

   (d) Contingent Liability would be disclosed in the 31st March 20X3 financial statements. Charge to profit or loss if any would be recognised in the period when the claim is settled.

4. Compute the total amount to be charged to the Statement of Profit and Loss with respect to Production Line for the year ending 31st March 20X3 and the balance of Provision for Dismantling Cost carried to Balance Sheet.

   (a) ₹ 1.70 lakhs; ₹ 1.36 lakhs

   (b) ₹ 1.42 lakhs; ₹ 1.70 lakhs

   (c) ₹ 1.76 lakhs; ₹ 1.42 lakhs

   (d) ₹ 1.42 lakhs; ₹ 1.76 lakhs

5. Compute the cost of the production Line to be capitalized initially on 31st May, 20X2.

   (a) ₹ 13.26 lakhs

   (b) ₹ 14.60 lakhs

   (c) ₹ 13.96 lakhs

   (d) ₹ 15.76 lakhs

Case Scenario - II

HS Limited (HSL) is a car manufacturing company. During the year, HSL has entered into many transactions, details of which are given below.

i. With the intention to expand, HSL has entered into a Share Purchase Agreement ("SPA") with the shareholders of FM Limited to purchase 30% stake in FM Limited as at 1st June 20X2 at a price of ₹ 30 per share. As per the terms of SPA, HSL has an option to purchase an additional 25% stake in FM Limited on or before 15th June 20X2 at a price of ₹ 30 per share. Similarly, the selling shareholder has an option to sell additional 25% stake in FM Limited on or before 15th June, 20X2 to HSL at a price of ₹ 30 per share. The decisions on relevant activities of FM Limited are made in Annual General Meeting / Extraordinary General Meeting (AGM / EGM). A resolution in AGM / EGM is passed when more than 50% votes are cast in favour of the resolution. An AGM / EGM can be called by giving atleast 21 days advance notice to all shareholders.

ii. During the year, HSL issued Compulsory Convertible Debentures ("CCDs") on a private placement basis for ₹ 100 lakh. Each CCD is convertible into 5 shares at the end of 4 years from the date of issue and an annual interest is payable at the rate of 6% p.a. At initial recognition, HSL recognized a liability component of compound instrument at ₹ 20,79,063. HSL also incurred expenses of ₹ 2,00,000 in connection with the issue of the instrument. Nature of expenses includes fees paid to legal advisors, registration and regulatory fees.

iii. HSL acquired a 40% stake in NM Limited as at 1st January, 20X2 for ₹ 8,00,000 and classified the investment in NM Limited as an associate. As at 1st January, 20X2, the carrying amount and fair value of plant & equipment of NM Limited is ₹ 3,00,000 and ₹ 5,00,000 respectively with remaining useful life of 5 years (i.e. 20 quarters). From 1st January, 20X2 to 31st March, 20X2, NM Limited generated a profit of ₹ 50,000.

iv. While selling a car, HSL provides a trade discount of 1% on sale price which is mentioned on the invoice. HSL provides a credit period of 7 days to its customers, however if paid upfront then HSL gives an additional cash discount of 2%. HSL also provides a voucher worth ₹ 500 with a validity of 1 year which can be used at an apparel store.

On the basis of the facts given above, chose the most appropriate answer to Questions 6 to 10 below based on the relevant Indian Accounting Standards (Ind AS).

6. At what amount HSL shall carry its investments in NM Limited in its consolidated financial statements as at 31st March, 20X2?

   (a) ₹ 8,00,000

   (b) ₹ 8,20,000

   (c) ₹ 8,16,000

   (d) ₹ 8,10,000

7. How should HSL account for the trade discount, cash discount and voucher given to customers on sale of a car?

   (a) Trade discount shall be reduced from the revenue however cash discount and value of voucher shall be charged as expenses.

   (b) Trade discount and cash discount both shall be reduced from the revenue however value of voucher shall be charged as expenses.

   (c) Trade discount, cash discount and value of voucher shall be charged as expenses.

   (d) Trade discount, cash discount and value of voucher shall be reduced from revenue.

8. What shall be the accounting treatment of directly attributable expenses of ₹ 2 lakh incurred in connection with the issue of Compulsory Convertible Debentures?

   (a) Entire ₹ 2,00,000 shall be recognized as expenses in the statement of profit and loss in the current year.

   (b) Entire ₹ 2,00,000 shall be reduced from equity in the current year.

   (c) A proportion of ₹ 1,58,419 shall be reduced from equity and Balance of ₹ 41,581 shall be recognized as interest cost over the period of 4 years using an effective interest method.

(d) Entire ₹ 2,00,000 shall be recognized as interest cost over the period of 4 years using effective interest method.

9. With more acquisitions, at the end of the year, HSL has investments in 2 subsidiaries, 3 associates and 1 joint venture. Which of the following statements is correct in relation to accounting of these investments in separate financial statements?

(a) HSL is required to measure all such investments at cost.

(b) HSL has an option to account for the investments in associates and joint ventures using equity method of accounting and carry the investments in subsidiaries at cost.

(c) HSL has an option for each investment to measure either at cost or in accordance with Ind AS 109.

(d) HSL has an option to measure all such investments either at cost or in accordance with Ind AS 109. The option is available for each category of investments separately (i.e. subsidiaries, associates and joint venture).

10. With respect to the SPA entered by HSL, determine the date when HSL gained control over FM Limited

(a) 1st June, 20X2.

(b) 15th June, 20X2.

(c) On the date of AGM/EGM

(d) On the date when the resolution for AGM/EGM is issued.

Ind AS 103 'Business Combinations'

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

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

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

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

The following additional information is relevant at that date:

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

You are required to

(i) Determine the acquisition date for Pride Ltd.

(ii) Determine the gain on previously held interest in Pride Ltd. and suggest the accounting treatment on acquisition date as per Ind AS 103.

(iii) Compute the amount of goodwill arising on the acquisition of Famous Ltd.

(iv) Pass necessary journal entry on the acquisition date.

Professional and Ethical Duty of a Chartered Accountant

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

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

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

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

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

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

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

Required:

Discuss the potential conflicts which are arising in the above scenario and the ethical principles that would guide Ms. Suparna Dasgupta in responding to the situation.

Ind AS 22 'Income Taxes'

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

Summarised Balance Sheet as on 31st March 20X5:

ASSETS	**₹**
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets-Product Development Costs	60,000
Investment in Subsidiary - Pall Ltd.	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	1,80,000
TOTAL ASSETS	**30,18,000**
EQUITY & LIABILITIES	**₹**
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438
Revaluation Surplus	88,000
Non-current Liabilities	
Deferred Income - Government Grants	40,000
Liability for Product Warranty Costs	16,000

Deferred Tax Liability (From 20X3-20X4)	22,162
Current Liabilities	
Trade Payables	7,64,000
Health Care Benefits for Employees	70,000
Current Tax Liability	80,400
TOTAL EQUITY & LIABILITIES	**30,18,000**

Notes:

(a) Depreciation expense for the year 20X4-20X5 allowable in accordance with tax laws is ₹ 2,06,000. Accounting depreciation included in operating costs is ₹ 1,70,000. Cost of PPE is ₹ 16,00,000 and Joy Ltd has deducted expenses of ₹ 4,16,000 in its tax returns prior to the financial year 20X4-20X5. Moreover, as on 31st March 20X5, Joy Ltd for the first time revalued its property, plant and equipment to fair value of ₹ 12,00,000 (revaluation surplus = ₹ 88,000).

(b) In 20X1-20X2, Joy Ltd incurred product development costs of ₹ 1,00,000. These costs were recognized as an asset and being amortized over useful period of 10 years. For tax purposes, Joy Ltd deducted full product development costs in 20X1-20X2.

(c) Trading investments were acquired in 20X3-20X4 with cost of ₹ 2,30,000. These investments are classified at fair value through profit and loss and thus recognized at their fair value. Fair value adjustments are not tax deductible.

(d) Bad debt provision amounts to ₹ 1,30,000 and relates to 2 debtors:

- Debtor A - ₹ 80,000 (receivable originated in 20X2-20X3 and 100% provision was recognized in 20X3-20X4) and
- Debtor B - ₹ 50,000 (receivable originated in 20X3-20X4 and 100% provision was recognized in 20X4-20X5).

Tax law allows deduction of 20% of provision for debtors overdue for more than 1 year, another 30% for debtors overdue for more than 2 years and remaining 50% for debtors overdue for more than 3 years.

(e) Joy Ltd accounts for inventory obsolescence provision. New provision created in 20X4-20X5 was ₹ 10,800 (total provision: ₹ 18,000). This provision is not tax deductible, as it is a general provision.

(f) Government grants are not taxable. Government grant received in 20X4-20X5 is appearing in the balance sheet.

(g) In 20X4-20X5, Joy Ltd made a further provision for product warranty of ₹ 5,000. Such provisions for product warranty costs are not tax deductible until the claims are paid or settled. During the year 20X4-20X5, warranty claims were paid/settled for ₹ 6,200.

(h) During the year 20X4-20X5, Joy Ltd has introduced health care benefits for employees. The expenses are allowable as deduction in tax only when benefits are paid but in line with Ind AS 19, such liability is recognized in profit or loss when employees provide service.

Calculate temporary differences and deferred tax for Joy Ltd as on 31st March 20X5 assuming the tax rate is 32%.

Ind AS 23 'Borrowing Costs'

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

activities have resumed on 1st January 20X3 and has completed on 28th February 20X3.

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

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

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

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

Ind AS 10 'Events Occurring After the Balance Sheet Date' and Ind AS 109 'Financial Instruments'

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

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

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

Determine the amount to be shown as 'trade receivable' from SS LLP in the books of the company as on 31st March 20X3.

Ind AS 2 'Inventories'

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

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

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

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

Ind AS 7 'Statement of Cashflows'

17. Following is the Balance Sheet of Mars Ltd: ₹ in Lakhs

Particulars	31.3.20X3	31.3.20X2
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	450	410
Intangible asset	90	90
Deferred Tax Asset (net)	45	45
Other Non-current Asset	95	85
Total Non-current Assets	680	630
Current Assets		
Financial Asset		
Investments	100	60
Trade Receivables	580	600

Cash and Cash Equivalents	300	300
Inventories	800	700
Other Current Assets	160	120
Total Current Assets	1,940	1,780
Total Assets	**2,620**	**2,410**
Equity and Liabilities		
Equity		
Equity Share Capital	280	250
Other Equity	980	820
Total Equity	1,260	1,070
Non-current Liabilities		
Financial Liabilities		
Borrowings	360	300
Other Non-current Liabilities	90	80
Total Non-current Liabilities	450	380
Current Liabilities		
Financial Liabilities		
Trade Payable	455	450
Bank Overdraft	410	420
Other current liabilities	45	90
Total Current Liabilities	910	960
Total Liabilities	1,360	1,340
Total Equity and Liabilities	**2,620**	**2,410**

Additional Information:

(a) Profit before tax for the year is ₹ 200 lakhs and provision for tax is ₹ 40 lakhs.

(b) Property, Plant and Equipment purchased during the year ₹ 100 lakhs.

(c) Current liabilities include Capital creditors of ₹ 25 lakhs as at 31^{st} March 20X3 (Nil – 31^{st} March 20X2)

(d) Long Term Borrowings raised during the year ₹ 120 lakhs.

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

Ind AS 115 'Revenue from Contracts with Customers'

18. A property sale contract includes the following:

    (a) Common areas

    (b) Construction services and building material

    (c) Property management services

    (d) Golf membership

    (e) Car park

    (f) Land entitlement

    Whether they could be considered as separate performance obligations as per the requirements of Ind AS 115?

Ind AS 110 'Consolidated Financial Statements'

19. At the beginning of its current financial year, AB Limited holds 90% equity interest in BC Limited.

    During the financial year, AB Limited sells 70% of its equity interest in BC Limited to PQR Limited for a total consideration of ₹ 56 crore and consequently loses control of BC Limited.

    At the date of disposal, fair value of the 20% interest retained by AB Limited is ₹ 16 crore and the net assets of BC Limited are fair valued at ₹ 60 crore.

These net assets include the following:

(a) Debt investments classified as fair value through other comprehensive income (FVOCI) of ₹ 12 crore and related FVOCI reserve of ₹ 6 crore.

(b) Net defined benefit liability of ₹ 6 crore that has resulted in a reserve relating to net measurement losses of ₹ 3 crore.

(c) Equity investments (considered not held for trading) of ₹ 10 crore for which irrevocable option of recognising the changes in fair value in FVOCI has been availed and related FVOCI reserve of ₹ 4 crore.

(d) Net assets of a foreign operation of ₹ 20 crore and related foreign currency translation reserve of ₹ 8 crore.

In consolidated financial statements of AB Limited, 90% of the above reserves were included in equivalent equity reserve balances, with the 10% attributable to the non-controlling interest included as part of the carrying amount of the non-controlling interest.

What would be the accounting treatment on loss of control in the consolidated financial statements of AB Limited?

Ind AS 102 'Share-Based Payments'

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

As per Ind AS 102 'Share Based Payment', what should be the price and the date for recording the machinery purchased from RFD Ltd.?

SUGGESTED ANSWERS/HINTS

Answer to Case Scenario I

1. **Option (d):** Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs

Reason:

As per para 16(c) of Ind AS 16, elements of cost of PPE includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

2. **Option (b):** ₹ 170 lakhs

Reason:

Cash flow from operating activities – Indirect method

Particulars	₹ in lakhs
Net Income after taxes	120
Add /(Less) No- cash or non-operating item:	
Depreciation	25
Profit from sale of land	(2)
Tax charges for the year (deferred tax liabilities)	15
	158
Decrease in accounts receivables	20
Increase in inventory	(10)
Increase in accounts payable	7
Decrease in wages payable	(5)
Cash flow from operations	170

3. **Option (b):** Provision of ₹ 1.6 lakhs should be recognized with a corresponding charge to profit or loss.

Reason:

In accordance with Ind AS 37 '*Provisions, Contingent Liabilities and Contingent Assets*', the claim made by the customer needs to be recognised as a liability in the financial statements for the year ended 31st March 20X3.

The standard stipulates that a provision should be made when, at the reporting date:

– An entity has a present obligation arising out of a past event.

– There is a probable outflow of economic benefits.

– A reliable estimate can be made of the outflow.

Since, all three of the above conditions are satisfied here, a provision is required to be made.

The provision should be measured at the amount the entity would rationally pay to settle the obligation at the reporting date.

Where there is a range of possible outcomes, the individual most likely outcome is often the most appropriate measure to use.

In this case, a provision of ₹ 1.6 lakhs seems appropriate, with a corresponding charge to profit or loss.

4. **Option (c):** ₹ 1.76 lakhs; ₹ 1.42 lakhs

5. **Option (a):** ₹ 13.26 lakhs

Reason for 4 & 5:

Statement showing computation of cost of production line

Particulars	₹ in lakhs
Purchase cost	10.00
GST – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use [(1.2/3 month) x 2 month]	0.80

Other overheads – abnormal costs of ₹ 0.3 lakhs has been excluded (0.90- 0.30)	0.60
Payment to external advisors – directly attributable cost	0.50
Dismantling costs – recognized at present value (2 lakhs x 0.68)	1.36
Total	13.26

Provision for dismantling cost carried to Balance Sheet

Particulars	**₹ in lakhs**
Non-current liabilities (₹ 2 lakhs x 0.68)	1.36
Add: Finance cost (1.36 x 5% x 10/12)	0.06
Net book value – carried to Balance Sheet	1.42

Extract of Statement of Profit and Loss

Particulars	**₹ in lakhs**
Depreciation (W.N.)	1.70
Finance cost (1.36 x 5% x 10/12)	0.06
Amounts carried to Statement of Profit & Loss	1.76

Working Note:

Calculation of depreciation charge

Particulars	**₹ in lakhs**
The asset is split into two depreciable components out of the total capitalization amount of 13.26 lakhs:	
• Depreciation for ₹ 3 lakhs with a useful economic life of four years (3 lakhs x ¼ x 10/12). (This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life)	0.63

• Depreciation for ₹ 10.26 lakhs (13.26 – 3.00) with a useful economic life of eight years will be: ₹ 10.26 lakhs x 1/8 x 10/12	1.07
Total depreciation to be charged to Statement of Profit and Loss for the year ended 31st March 20X3	1.70

Answer to Case Scenario II

6. Option (c): ₹ 8,16,000

Reason:

As per para 10 of Ind AS 28, under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

Accordingly,

Cost of investment for 40% stake on acquisition date	₹ 8,00,000
Add: Share of post-acquisition profit and loss (50,000 x 40%)	₹ 20,000
Less: Share of post-acquisition loss due to additional depreciation [{(5,00,000 – 3,00,000)/20} x 40%]	(₹ 4,000)
	₹ 8,16,000

7. Option (d): Trade discount, cash discount and value of voucher shall be reduced from revenue

Reason

Discounts and vouchers are incentives given to customers. For Incentives, Paragraph 70 of Ind AS 115, inter-alia, states that consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer). Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer). An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue.

Therefore, cash incentives (payments given to the customer) would be considered as a reduction in the transaction price and in the measurement of revenue when the goods are delivered.

8. **Option (c):** A proportion of ₹ 1,58,419 shall be reduced from equity and balance of ₹ 41,581 shall be recognised as interest cover over the period of 4 years using effective interest method

Reason

Compulsory convertible debentures with annual interest payout is a compound financial instrument. As per the information given in the question the liability element to be initially recognised is ₹ 20,79,063. Hence the equity element would be ₹ 79,20,937 (1,00,00,000 – 20,79,063). Transaction cost of ₹ 2,00,000 will be apportioned in equity and liability component in the ratio of 79,20,937 : 20,79,063, which would be as follows:

Transaction cost attributable to equity = 2,00,000 x (79,20,937 / 1,00,00,000) = ₹ 1,58,419

Transaction cost attributable to liability = 2,00,000 x (20,79,063 / 1,00,00,000) = ₹ 41,581

9. **Option (d):** HSL has an option to measure all such investments either at cost or in accordance with Ind AS 109. The option is available for each category of investments separately (i.e. subsidiaries, associates and joint venture)

Reason

As per para 10 of Ind AS 27, when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either: (a) at cost, or (b) in accordance with Ind AS 109. The entity shall apply the same accounting for each category of investments.

In the present case, investment in subsidiaries, associates and joint ventures are considered to be different categories of investments. Further, Ind AS 27 requires accounting for the investment in subsidiaries, joint ventures and associates either at cost, or in accordance with Ind AS 109 for each category of Investment. Thus, an entity can carry its investments in subsidiaries at cost and its investments in associates or joint ventures as financial assets in accordance with Ind AS 109 in its separate financial statements.

10. Option (a): 1st June, 20X2

Reason

Paragraph 10 of Ind AS 110 'Consolidated Financial Statements', states that an investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns.

As per the facts given in the question, HSL. has 15 days to exercise the option to purchase 25% additional stake in FM Ltd. which will give it majority voting rights of 55% (30% + 25%). This is a substantive potential voting rights which is currently exercisable.

Further, the decisions on relevant activities of FM Ltd. are made in AGM / EGM. An AGM / EGM can be called by giving atleast 21 days advance notice. A resolution in AGM / EGM is passed when more than 50% votes are casted in favour of the resolution. Thus, the existing shareholders of FM Ltd. are unable to change the existing policies over the relevant activities before the exercise of option by HSL. HSL can exercise the option and get voting rights more than 50% at the date of AGM / EGM. Accordingly, the option contract gives HSL the current ability to direct the relevant activities even before the option contract is settled. Therefore, HSL controls FM Ltd. as at 1st June, 20X2.

11. (i) Acquisition date for accounting of business combination is

The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. In the given case, the acquisition date is

1st April, 20X2 i.e. when Pride Ltd. acquired 100% holding of Famous Ltd.

(ii) Computation of gain on previously held interest

An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture. If the investment in an associate becomes a investment in a subsidiary, the entity shall account for its investment in accordance with Ind AS 103 and Ind AS 110.

Ind AS 103 provides that in a business combination achieved in stages, the acquirer is required to remeasure the previously held equity interest at its acquisition date fair value and recognise any gain or loss in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in the other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

The gain on previously held equity interest in Famous Ltd. is calculated as follows:

Fair value of 30% interest as on 1st April, 20X2	₹ 4,500 crore
Carrying value of 30% investment as on 31st March, 20X2	(₹ 4,425 crore)
Gain on previously held interest	₹ 75 crore
Unrealised gain previously recognised in OCI	₹ 50 crore
Total gain recognised in Profit and loss	₹ 125 crore

(iii) Computation of goodwill

For 70% share	₹ 12,500 crore
For 30% share	₹ 4,500 crore

Total amount of purchase consideration	₹ 17,000 crore
Less: Fair value of net identifiable assets	(₹ 15,000 crore)
Goodwill	₹ 2,000 crore

(iv) Journal Entry on 1st April, 20X2

			₹ in crore
Net Identifiable Assets	Dr.	15,000	
Goodwill (W.N.1)	Dr.	2,000	
Foreign currency translation reserve	Dr.	50	
PPE revaluation reserve	Dr.	25	
To Cash			12,500
To Investment in Associate – Famous Ltd.			4,425
To Retained Earnings (W.N.)			25
To Gain on previously held interest recognised in profit and loss (Refer point (ii) above)			125

Working Note:

The credit to retained earnings represents the reversal of the unrealised gain of ₹ 25 crore in OCI related to the revaluation of PPE. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.

12. Presentation of Revenue numbers:

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

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

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

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

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

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

(b) Duty to stakeholders

The directors have a duty to act in the best interests of the company's stakeholders. While higher revenue numbers do indicate a good growth trajectory of the company, recognizing the revenue before fulfilling the performance obligations, or incorrectly booking grant income as revenue, results in misleading the stakeholders about the actual performance of the entity, thereby actually becoming detrimental to the stakeholders.

Ethical principles guiding the chartered accountant's response

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

Appropriate action

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

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

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

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

13. Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5 **Amount in ₹**

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

employees	(70,000)	0	(70,000)	Deductible	22,400
Total Deferred Tax Asset					65,920
Total Deferred Tax Liability					(90,240)
Net Deferred Tax Liability					(24,320)

Working Notes:

1. Property Plant & Equipment as per tax records

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

2. Trade receivables – Provision for doubtful debts:

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

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

(a) it incurs expenditures for the asset;

(b) it incurs borrowing costs; and

(c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	(₹ in lakhs)	(₹ in lakhs)
Cash flows from operating activities		
Profit before taxation	200	
Adjustments for non-cash items:		
Depreciation [410 - (450 - 100)]	60	
	260	
Increase in inventories (800 - 700)	(100)	
Decrease in trade receivables (600 - 580)	20	
Increase in other non-current assets (95 - 85)	(10)	
Increase in other current assets (160 - 120)	(40)	
Increase in non-current liabilities (90 - 80)	10	
Increase in trade payables (455 – 25 - 450)	(20)	
Other current liabilities (Refer Note 1) [(90 + 40) - 45]	(85)	
Net cash generated from operating activities		35
Cash flows from investing activities		
Cash paid to purchase PPE (100-25)	(75)	
Cash paid to acquire investment (100-60)	(40)	
Net cash outflow from investing activities		(115)
Cash flows from financing activities		
Raising of equity share capital (280 - 250)	30	
Long-term borrowings raised during the year	120	
Long-term borrowings repaid during the year [(300 + 120) - 360]	(60)	
Net cash outflow from financing activities		90
Increase in cash and cash equivalents during		

the year		10
Cash and cash equivalents at the beginning of the year (420-300) (Refer Note 2)		(120)
Cash and cash equivalents at the end of the year (410-300) (Refer Note 2)		(110)

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

18. Paragraph 22 of Ind AS 115 provides that at contract inception, an entity evaluates the promised goods or services to determine which goods or services (or bundle of goods or services) are distinct and therefore constitute a performance obligation.

A performance obligation is a promise in a contract to transfer to the customer either:

- a goods or service (or a bundle of goods or services) that is distinct; and
- series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

As per paragraph 27 of Ind AS 115, a goods or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the goods or service either on its own or together with other resources that are readily available to the customer (i.e. the goods or service is capable of being distinct); and

(b) the entity's promise to transfer the goods or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the goods or service is distinct within the context of the contract).

Each performance obligation is required to be accounted for separately. The facts and circumstances of each contract should be carefully considered to determine the performance obligations.

However, based on the above guidance, the following table in general discusses whether the common goods and services in property sale contract should be considered as separate performance obligation or not:

Goods/Service	Whether a separate performance obligation (PO) or not	Reason
Common areas	Unlikely to be separate PO	Common areas are unlikely to be a separate PO because the interests received in common areas are typically undivided interests that are not separable from the property itself. However, if the common areas were sold separately by the developer, then they could be considered as a separate PO provided that it is distinct in the context of the contract.
Construction services and building materials	Unlikely to be separate PO	Construction services and building materials can meet the first criterion as they are items that can be used in conjunction with other readily available goods or services. However, the developer would be considered to be providing a significant integration service as it is bringing together all the separate elements to deliver a completed building.

Property management services and Golf membership	Likely to be separate PO	Property management services and golf membership are likely to be separate PO as they may be used in isolation or with the property already acquired, i.e., management services can be used with the property. These types of services are not significantly customised, integrated with, or dependent on the property. This is because there is no change in their function with or without the property. Also, a property management service could be undertaken by a third party.
Car park and Land entitlement	Analysis required	Items such as car parks and land entitlements generally meet the first criterion – i.e., capable of being distinct – as the buyer benefits from them on their own. Whether the second criterion is met depends on the facts and circumstances. For example, if the land entitlement can be sold separately or pledged as security as a separate item, it may indicate that it is not highly dependent on, or integrated with, other rights received in the contract. In an apartment scenario, the customer can receive an

		undivided interest in the land on which the apartment block sits. This type of right is generally considered a highly inter-related with the apartment itself.*

**However, if title to the land is transferred to the buyer separately – for example in a single party development – then the separately identifiable criterion may be met.*

19. Paragraph 25 of Ind AS 110 states that, "if a parent loses control of a subsidiary, the parent:

(a) **derecognises** the assets and liabilities of the former subsidiary from the consolidated balance sheet.

(b) **recognises** any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant Ind AS. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with Ind AS 109 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(c) **recognises** the gain or loss associated with the loss of control attributable to the former controlling interest."

Paragraph B98(c) of Ind AS 110 states that, on loss of control over a subsidiary, a parent shall reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind AS, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis specified in paragraph B99.

As per paragraph B99, if a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

In view of the basis in its consolidated financial statements, AB Limited shall:

(a) re-classify the FVOCI reserve in respect of the debt investments of ₹ 5.4 crore (90% of ₹ 6 crore) attributable to the owners of the parent to the statement of profit or loss in accordance with paragraph B5.7.1A of Ind AS 109, Financial Instruments which requires that the cumulative gains or losses previously recognised in OCI shall be recycled to profit and loss upon derecognition of the related financial asset. This is reflected in the gain on disposal. Remaining 10% (i.e., ₹ 0.6 crore) relating to non-controlling interest (NCI) is included as part of the carrying amount of the non-controlling interest that is derecognised in calculating the gain or loss on loss of control of the subsidiary.

(b) transfer the reserve relating to the net measurement losses on the defined benefit liability of ₹ 2.7 crore (90% of ₹ 3 crore) attributable to the owners of the parent within equity to retained earnings. It is not reclassified to profit or loss. The remaining 10% (i.e., ₹ 0.3 crore) attributable to the NCI is included as part of the carrying amount of NCI that is derecognised in calculating the gain or loss on loss of control over the subsidiary. No amount is reclassified to profit or loss, nor is it transferred within equity, in respect of the 10% attributable to the non-controlling interest.

(c) reclassify the cumulative gain on fair valuation of equity investment of ₹ 3.6 crore (90% of ₹ 4 crore) attributable to the owners of the same parent from OCI to retained earnings under equity as per paragraph B5.7.1 of Ind AS 109, Financial

Instruments, which provides that in case an entity has made an irrevocable election to recognise the changes in the fair value of an investment in an equity instrument not held for trading in OCI, it may subsequently transfer the cumulative amount of gains or loss within equity. The remaining 10% (i.e., ₹ 0.4 crore) related to the NCI are derecognised along with the balance of NCI and not reclassified to profit and loss.

(d) reclassify the foreign currency translation reserve of ₹ 7.2 crore (90% × ₹ 8 crore) attributable to the owners of the parent to statement of profit or loss as per paragraph 48 of Ind AS 21 'The Effects of Changes in Foreign Exchange Rates', which specifies that the cumulative amount of exchange differences relating to the foreign operation, recognised in OCI, shall be reclassified from equity to profit or loss on the disposal of foreign operation. This is reflected in the gain on disposal. Remaining 10% (i.e., ₹ 0.8 crore) relating to the NCI is included as part of the carrying amount of the NCI that is derecognised in calculating the gain or loss on the loss of control of subsidiary, but is not reclassified to profit or loss in pursuance of paragraph 48B of Ind AS 21, which provides that the cumulative exchange differences relating to that foreign operation attributed to NCI shall be derecognised on disposal of the foreign operation, but shall not be reclassified to profit or loss.

The impact of loss of control over BC Limited on the consolidated financial statements of AB Limited is summarised below: **(₹ in crore)**

Particular	**Amount (Dr)**	**Amount (Cr)**	**P&L Impact**	**RE Impact**
Gain / Loss on Disposal on Investments				
Bank	56			
Non-controlling interest (Derecognised)	6			
Investment at FV (20% Retained)	16			
Gain on Disposal (P&L)		18	18	

balancing figure De-recognition of total net assets of subsidiary	60			
Reclassification of FVTOCI reserve on debt instruments to profit or loss				
FVTOCI reserve on debt instruments (6 cr. x 90%) To Profit and loss	5.4	5.4	5.4	
Reclassification of net measurement loss reserve to profit or loss				
Reserve and Surplus To Net measurement loss reserve (FVTOCI) [(3 cr. x 90%)]	2.7	2.7		-2.7
Reclassification of FVTOCI reserve on equity instruments to retained earnings				
FVTOCI reserve on equity instruments (4 crux 90%) To Reserve and Surplus	3.6	3.6	3.6	
Foreign currency translation reserve reclassified to profit or loss				
Foreign currency translation reserve (FVOCI) [8 cr. x 90%] To Profit and loss	7.2	7.2	7.2	
Total			**30.6**	**0.9**

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

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