PAPER – 1 : FINANCIAL REPORTING

PART-I

Answer all questions.

Case Study 1

Tara Ltd. is engaged in mining and many other industries and prepares its financial statements following Indian Accounting Standards and follows April- March as their financial year. During the year 2023-2024, the Company has faced some issues and for their solution seeks your professional advice.

(i) *Tara Ltd. and Zara Ltd. are partners of a joint operation engaged in the business of mining precious metals. The entity uses a jointly owned drilling plant in its operations. During the year ended 31st March, 2024, an inspection was conducted by the government authorities in the mining fields. The inspection authorities concluded that adequate safety measures were not followed by the entity. As a consequence, a case was filed and a penalty of ₹ 100 crores has been demanded from Tara Ltd. on 1st September, 2023.*

The legal counsel of the company has assessed the demand and opined that appeals may not be useful, and the appeal orders will be unfavourable to the joint arrangement. As per the terms of the joint operations agreement, out of ₹ 100 crores (to be paid by Tara Ltd.), ₹ 60 crores will be reimbursed by Zara Ltd. to Tara Ltd within three months from the date of any demand made in respect of joint operations by any government authorities. However, till the year end, actual reimbursement was not received from Zara Ltd.

(ii) *On 1st April, 2023, Tara Ltd. leased a machine from Dara Ltd. on a three year lease. The expected future economic life of the machine on 1st April, 2023 was eight years. If the machine breaks down, then under the terms of the lease, Dara Ltd would be required to repair the machine or provide a replacement.*

Dara Ltd agreed to allow Tara Ltd. to use the machine for the first six months of the lease without the payment of any rent as incentive to Tara Ltd. to sign the lease agreement. After this initial period, lease rentals *of ₹ 4,20,000 were payable six monthly in arrears, the first payment falling due on 31st March, 2024.*

(iii) *Tara Ltd. has invested in debentures whose interest rate is floating in nature and as per terms of the instrument, interest will be reset every month. As per terms, rate of interest is MIBOR plus 2%.*

(iv) *On 1st January, 2024, Tara Ltd. took a contract for installation of new elevator at a factory of its customer. The entity estimates the following with respect to the contract:*

Particulars	**Amount (₹)**
Transaction price	30,00,000
Expected costs:	
(a) Elevators	10,00,000
(b) Other costs	12,00,000
Total	22,00,000

It purchased the elevator and delivered the same to the site six months before it is required for installation. The entity uses an input method based on cost to measure progress towards completion. Tara Ltd. has incurred actual other costs of ₹ 3,00,000 by 31st March, 2024.

(v) *Tara Ltd. has classified its business in 5 operating segments namely A, B, C, D and E. The profit/(loss) of respective segments for the year ended 31st March, 2024, are as follow:*

Segment Profit/ (Loss)	**(₹ in lakhs)**
A	1,280
B	2,624
C	(280)
D	315
E	(2,620)
Total	**1,319**

On the basis of the information provided above, you are required to choose the most appropriate answer to the below-mentioned questions 1 to 5 in line with the relevant Ind AS:

1. *With respect to a joint operation engaged in the business of mining precious metals, how will the liability be disclosed in the books of Tara Ltd.?*

   A. *Provision for ₹ 40 crores and a contingent liability for ₹ 60 crores.*

   B. *Contingent Liability for ₹ 100 crores.*

   C. *Provision for ₹ 60 crores and a contingent liability for ₹ 40 crores.*

   D. *Provision for ₹ 100 crores.*

2. *Classify the financial asset and determine the subsequent measurement for the aforesaid debenture instrument?*

   A. *Financial asset measured at amortised cost*

   B. *Financial asset measured at FVOCI without recycling*

   C. *Financial asset measured at FVTPL*

   D. *Financial asset measured at FVOCI with recycling*

3. *Which of the following option will be considered as Reportable Segments for Tara Ltd.?*

   A. *A, B, D and E*

   B. *A, B and E*

   C. *A and E*

   D. *B and E*

4. *Calculate the current liability for machine from Dara Ltd., to be shown in the balance sheet as at 31st March, 2024.*

   A. *₹ 1,40,000*

   B. *₹ 2,80,000*

   C. *₹ 7,00,000*

   D. *₹ 8,40,000*

5. *What is the amount of revenue to be recognized by Tara Ltd. for elevator contract during the financial year 2023-2024?*

   A. *₹ 8,00,000*

   B. *₹ Nil*

   C. *₹ 15,00,000*

   D. *₹ 18,00,000* **(5 x 2 = 10 Marks)**

You are required to choose the most appropriate answer to the below mentioned questions (6 to 8) in line with the relevant Ind AS:

6. *When should the government grant be recognized by an entity according to Ind AS 20?*

   A. *As soon as the grant is offered by the government*

   B. *Once the entity fulfills the conditions attached to the grant*

   C. *When there is reasonable assurance that the entity will comply with the conditions and receive the grants*

   D. *After entity has received the grants* **(2 Marks)**

7. *What is the stance of a Chartered Accountant regarding conflicts of interest?*

   A. *Conflicts of interest should not compromise professional or business judgement*

   B. *Conflicts of interest are acceptable if managed properly*

   C. *Conflicts of interest are unavoidable and should be accepted*

   D. *Conflicts of interest should be disclosed but can still compromise judgement* **(2 Marks)**

8. *Following statements are given to you in context of Ind AS 101 'First Time Adoption of Ind AS':*

   (i) *An entity shall not make estimates in accordance with Ind AS at the date of transition to Ind AS that were not required at that date under previous GAAP.*

(ii) In particular, estimates at the date of transition to Ind AS of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.

(iii) An entity may need to make estimates in accordance with Ind AS at the date of transition in Ind AS that were not required at that date under previous GAAP.

(iv) To achieve consistency with Ind AS 10, estimates in accordance with Ind AS shall reflect conditions that existed at the date of transition to Ind AS.

Which of the above statements are true in context of Ind AS 101?

A. Only (i), (ii) and (iii) are true

B. Only (i) and (ii) are true

C. Only (ii), (iii) and (iv) are true

D. Only (iii) and (iv) are true ***(2 Marks)***

Case Study 2

Planet Ltd. is a multinational company engaged into the business of manufacturing of various products of different segments. One of the segments is the manufacturing of agricultural equipment. The company raised a term loan for ₹ 1 crore from a Nationalized Indian Bank to purchase certain plant and machinery for agricultural segment during the year ended 31st March, 2023. The loan is repayable over a period of 5 years. The terms and conditions of the loan agreement is that the company should maintain a current ratio of 1.5:1 and debt-equity ratio of 1:2. If these covenants fall below this level, then the bank has a right to recall the entire loan.

The unpaid loan as on 31st March, 2024 was ₹ 85 lakhs. The current ratio of Planet Ltd. was 0.9:1 and debt-equity ratio was 0.65:2. The bank has sent a notice on 7th April, 2024 demanding repayment of loan, on account of breach of terms of the loan agreement. The financials of the company were approved and signed on 15th May, 2024.

After receiving the notice, the Chief Finance Officer of the company contacted the bank and ensured to rectify the breach. Consequently, on 28th May, 2024, the Bank agreed not to recall the loan and allowed the company to achieve the *contracted current and debt equity ratio by the year ending on 31st March, 2025*

Planet Ltd. has recently acquired shares in Bean Ltd. and Camel Ltd. and prepared draft consolidated financial statements in accordance with Ind AS for the year ended on 31st March, 2024. It is the group's policy to value its non-controlling interests at fair value. The fair value of the non-controlling interest in Bean Ltd. on the date of acquisition was measured at ₹ 1,430 lakhs. The following information is relevant regarding the acquisition of shares in Bean Ltd. and Camel Ltd.:

Date of acquisition	***Holding acquired***	***Retained earnings at acquisition date***	***Purchase consideration***
	%	*₹ (in lakhs)*	*₹ (in lakhs)*
Bean Ltd - 01.04.2023	*85*	*5,400*	*10,200*
Camel Ltd - 01.04.2023	*40*	*6,240*	*5,760*

In the draft Consolidated Financial Statements prepared on 31st March, 2024 the financials relating to Bean Ltd. and Camel Ltd. appeared as follows:

	Bean Ltd. (₹ in lakhs)	***Camel Ltd. (₹ in lakhs)***
Issued ordinary shares of ₹ 10 each	*3,600*	*4,000*
Retained earnings	*7,200*	*7,400*

Bean Ltd. and Camel Ltd. have not issued any share capital since the acquisition of shareholding by Planet Ltd. The fair value of the net assets of Bean Ltd. and Camel Ltd. were the same as their carrying amounts at the date of acquisition. Planet Ltd. has significant influence over Camel Ltd. An impairment loss of ₹ 204 lakhs have been identified in respect of goodwill arising on the acquisition of Bean Ltd. for the year ended on 31st March, 2024. The recoverable amount of net assets of Camel Ltd. has been deemed to be ₹ 11,760 lakhs as on 31st March, 2024.

On 1st January, 2024, Planet Ltd. sold inventory costing ₹ 45 lakhs to Camel Ltd. for ₹ 63 lakhs. The inventory was still unsold by Camel Ltd. at 31st March, 2024. This inventory was sold by Camel Ltd. to third party on 8th April, 2024.

Planet Ltd. has constructed a shopping mall earlier. The company renovated a portion of mall by constructing a food court, spa and gaming zone. The food court and gaming zone are expected to result in a significant increase in sales for the shops and outlets of the mall.

On the basis of the information provided above, you are required to choose the most appropriate answer to the below-mentioned questions 9 to 12 in line with the relevant Ind AS:

9. *After negotiation with the Nationalized Bank, how long-term loan has to be classified in financials for the year ended on 31st March, 2024?*

   A. *Non-current financial liability*

   B. *Other non-current liability*

   C. *Current financial liability*

   D. *Other current liability*

10. *What will be the impairment loss from investment in associate for the year ending 31st March, 2024?*

    A. *₹ 1,440 lakhs*

    B. *₹ 1,432.80 lakhs*

    C. *₹ 1,055.20 lakhs*

    D. *₹ 1,512.80 lakhs*

11. *What will be the amount of Goodwill as on 31st March, 2024, arising from the acquisition of Bean Ltd.?*

    A. *₹ 2,530 lakhs*

    B. *₹ 2,630 lakhs*

    C. *₹ 2,426 lakhs*

    D. *₹ 2,326 lakhs*

12. *What should be the accounting treatment for the cost incurred for the renovation?*

    A. *Expenses incurred for food court and gaming should be capitalized*

    B. *Expenses incurred for food court, spa and gaming should be capitalized*

    C. *Expenses incurred for food court and gaming zone should be charged to statement of profit and loss*

    D. *Expenses incurred for food court, spa and gaming zone should be charged to statement of profit and loss* ***(4 x 2 = 8 Marks)***

Case Study 3

Nikhil Pvt. Ltd. acquired 100% of Pranav Pvt. Ltd. on 1st January, 2023. The fair value of the purchase consideration was ₹ 20 crores consisting of ordinary shares of ₹ 100 each of Nikhil Pvt. Ltd. The fair value of the net assets acquired was ₹ 15 crores. At the time of the acquisition, the value of the ordinary shares of Nikhil Pvt. Ltd. and the net assets of Pranav Pvt. Ltd. were only provisionally determined.

On 30th November, 2023, it was finally determined that the fair value of Nikhil Pvt. Ltd.'s shares was ₹ 22 crores and the fair value of net assets of Pranav Pvt. Ltd. was ₹ 16 crores.

However, the directors of Nikhil Pvt. Ltd. have seen the fair value of the company's shares decline since 1st January, 2023, and wanted to adopt the fair value of the shares as of 1st February, 2024, which will result in the fair value of consideration at being value date ₹ 18 crores.

In addition to the above Purchase Consideration, the acquisition agreement states that an additional ₹ 4 crores will be paid if Pranav Pvt. Ltd. achieves a turnover of ₹ 160 crores in the next two years. On the date of acquisition, the fair value of the said consideration was ₹ 3 crores. In February 2024, due to decline in performance of Pranav Pvt. Ltd., it is determined that it is unlikely that it would meet budgeted turnover of ₹ 160 crores.

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 13 to 15 in line with the relevant Ind AS:

13. *The Net Assets Value will be-*

    A. *₹ 15 crores*

    B. *₹ 16 crores*

    C. *₹ 20 crores*

    D. *₹ 19 crores*

14. *The value of Purchase Consideration will be-*

    A. *₹ 18 crores*

    B. *₹ 20 crores*

    C. *₹ 22 crores*

    D. *₹ 25 crores*

15. *How should Nikhil Pvt. Ltd. treat the contingent consideration linked to achieving sales?*

    A. *Nikhil Pvt. Ltd. should not recognize the consideration as it is unlikely that it would be paid.*

    B *Nikhil Pvt. Ltd. should disclose the consideration as it is contingent liability in its financial statements which will be met only upon Pranav Pvt. Ltd. earning a turnover of ₹ 160 crores.*

    C *Nikhil Pvt. Ltd. should recognise the fair value of the consideration as part of the business combination, thus increasing goodwill and re-measure it at the end of each reporting period. The impact of change in fair value is recognised in the statement of profit and loss.*

    D. *There is no specific treatment prescribed under Ind AS. Nikhil Pvt. Ltd. should decide the appropriate accounting treatment based on the facts and circumstances of the case.* ***(3 x 2 = 6 Marks)***

Answer key

1. **Option (D):** Provision for ₹ 100 crores
2. **Either Option (C):** Financial asset measured at FVTPL

   Or Option (A): Financial asset measured at amortised cost

   Or Option (D): Financial asset measured at FVOCI with recycling
3. **Option (B):** A, B and E
4. **No correct option**
5. **Option (C):** ₹ 15,00,000
6. **Option (C):** When there is reasonable assurance that the entity will comply with the conditions and receive the grants.
7. **Option (A):** Conflicts of interest should not compromise professional or business judgement
8. **Option (C):** Only (ii), (iii) and (iv) are true
9. **Option (C):** Current financial liability
10. **Option (D):** ₹ 1,512.80 lakhs
11. **Option (C):** ₹ 2,426 lakhs
12. **Option (A):** Expenses incurred for food court and gaming zone should be capitalised
13. **Option (B):** ₹ 16 crores
14. **Option (D):** ₹ 25 crores
15. **Option (C):** Nikhil Pvt. Ltd. should recognise the fair value of the consideration as part of the business combination, thus increasing goodwill and remeasure it at the end of each reporting period. The impact of change in fair value is recognised in the Statement of Profit and Loss.

PART-II

*Question No.**1** is compulsory. Candidates are required to answer any **four** questions from the remaining **five** questions.*

Working notes should form part of the answer.

Question 1

The balance sheets of H Ltd. and S Ltd. as on 31st March, 2024 were as follows:

Particulars	***H Ltd.***	***S Ltd.***
	₹ in Lakhs	
Assets:		
Non-Current Assets		
Property, plant and equipment	*14,800*	*6,000*
Financial Assets: Investment		
Investment in S Ltd.	*5,800*	
1,000 Debentures in S Ltd.	*1,500*	
Current Assets		
Inventories	*2,600*	*2,000*
Financial Assets		
Trade receivables (due from S Ltd. ₹ 160 lakh)	*4,000*	*3,000*
Dividend receivable	*320*	-
Cash and cash equivalent	*500*	*2,000*
Total	***29,520***	***13,000***
Equity and Liabilities		
Equity		
Equity Share Capital (₹ 10 per share)	*10,000*	*4,000*
Other Equity (Retained Earnings)	*16,320*	*5,000*
Non-current Liabilities		
13% Debentures of ₹ 100 each		*3,000*

Current Liabilities		
Financial Liabilities:		
Trade Payables (due to H Ltd. ₹ 120 lakh)	*1,700*	*600*
Dividend Payable		*400*
Other Liabilities	*1,500*	
Total	***29,520***	***13,000***

Additional Information:

(i) On 1st April, 2023, S Ltd. had 400 lakh shares of ₹ 10 each and ₹ 3,000 lakh in its Retained Earnings in Other Equity. H Ltd. acquired 80% share of S Ltd. on 1st April, 2023 at a consideration of ₹ 5,800 lakh in cash.

(ii) The following changes in book value of identifiable net assets of S Ltd. as on 1st April, 2023 are to be considered for arriving the fair value of identifiable net assets and to record the changes in their fair value on the said date. These changes in fair values are to be considered while drawing consolidated Financial Statement of the Group.

Assets	*Book value*	*Fair value*
PPE	*₹ 2,500 lakhs*	*₹ 2,800 lakhs*
Inventory	*₹ 500 lakhs*	*₹ 200 lakhs*

The rate of depreciation on PPE is 10% p.a.

(iii) NCI was to be measured at fair value based on purchase consideration.

(iv) Goodwill was impaired by ₹ 100 lakh.

(v) H Ltd. sold goods worth ₹ 200 lakh to S Ltd. on credit at a profit of 20% on sales. 50% of the goods were still lying unsold.

(vi) S Ltd. issued a cheque of ₹ 40 lakh in favour of H Ltd. as a part payment of the goods purchased from it in March, 2024. The cheque is yet to be received by H Ltd.

(vii) Dividend payable represents the dividend declared out of pre-acquisition profit. H Ltd. credited its share of dividend from S Ltd. to its profits.

Prepare the Consolidated Balance Sheet of the Group as at 31st March, 2024.

(14 Marks)

Answer

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

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	21,070
Goodwill	2	150
Current assets		
Inventory	3	4,275
Financial assets		
Cash and cash equivalents	4	2,540
Trade receivables	5	6,840
Dividend receivable	6	Nil
Total		**34,875**
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 10 each		10,000
Other equity	7	16,292
Non-controlling interest (W.N.4)		1,824
Non-current liabilities		
Financial liabilities		
Borrowings- 13% Debentures	8	2,999
Current Liabilities		
Financial liabilities		
Trade payables	9	2,180
Dividend payable	10	80
Other liabilities		1,500
Total		**34,875**

Notes to Accounts

1. Property, Plant and Equipment **₹ in lakhs**

Particulars		**₹**	**₹**
H Ltd.		14,800	
S Ltd.	6,000		
Add: Fair value gain	300		
Less: Additional depreciation due to fair value gain	(30)	6,270	21,070

2. Goodwill **₹ in lakhs**

Particulars	**₹**	**₹**
Goodwill on acquisition of S Ltd. (Refer W.N.3)	250	
Less: Impairment	(100)	150

3. Inventory **₹ in lakhs**

Particulars		**₹**	**₹**
H Ltd.		2,600	
S Ltd.	2,000		
Less: Fair value loss	(300)		
Less: Unrealised gain (200/80% x 20% x 50%)	(25)	1,675	4,275

4. Cash and cash equivalent **₹ in lakhs**

Particulars	**₹**	**₹**	**₹**
H Ltd.	500		
Add: Cheque in Transit	40	540	
S Ltd.		2,000	2,540

5. Trade Receivable **₹ in lakhs**

Particulars		**₹**	**₹**
H Ltd.	4,000		
Less: Mutual transaction	(160)	3,840	
S Ltd.		3,000	6,840

6. Dividend Receivable **₹ in lakhs**

Particulars	**₹**	**₹**
H Ltd.	320	
Less: Mutual transaction	(320)	Nil

7. Other Equity (Retained Earnings) **₹ in lakhs**

Particulars	**₹**	**₹**
H Ltd.	16,320	
Less: Share of pre-acquisition dividend (400 x 80%)	(320)	16,000
Post acquisition RE of S Ltd. (W.N.1)	2,370	
Less: Share of NCI in post-acquisition RE of S Ltd. (2,370 x 20%)	(474)	1,896
Less: Impairment of goodwill (100 x 80%)		(80)
Less: Loss on cancellation of debentures (mutual holding) (W.N.5)		(1,499)
Less: Unrealised gain (W.N.6)		(25)
		16,292

8. Borrowings (13% Debentures) **₹ in lakhs**

Particulars	**₹**	**₹**
S Ltd.	3,000	
Less: Mutual holding by H Ltd. (1,000 Debentures x ₹ 100)	(1)	2,999

9. Trade Payables **₹ in lakhs**

Particulars		**₹**	**₹**
H Ltd.		1,700	
S Ltd.	600		
Less: Mutual transaction	(120)	480	2,180

10. Dividend Payables **₹ in lakhs**

Particulars	₹	₹
S Ltd.	400	
Less: Mutual transaction	(320)	80

Working Notes:

1. Analysis of Retained Earnings of S Ltd. **₹ in lakhs**

Closing balance as on 31st March, 2024	5,000
Less: Pre-acquisition Retained Earnings as on 1st April, 2023 (3,000 – 400)	(2,600)
	2,400
Less: Additional depreciation	(30)
Post-acquisition Retained Earnings	2,370

2. Computation of net worth (net identifiable assets) as on 1st April, 2023 **₹ in lakhs**

Share Capital of S Ltd.	4,000
Pre-acquisition Retained Earnings	3,000
Fair value gain on PPE (2,800 – 2,500)	300
Fair value loss on inventory (500 - 200)	(300)
Net Worth or Net Identifiable Assets	7,000

3. Computation of Goodwill on acquisition date of S Ltd. **₹ in lakhs**

Purchase consideration	5,800
NCI (by fair value method) as on 1st April, 2023 [(5,800/80%) x 20%]	1,450
	7,250
Less: Net worth or Net Identifiable Assets (W.N.2)	(7,000)
Goodwill as on 1st April, 2023	250

4. Non-Controlling Interest as on 31st March, 2024 **₹ in lakhs**

NCI (by fair value method) as on 1st April, 2023	1,450
Less: Share of pre-acquisition dividend (400 x 20%)	(80)
Post-acquisition Retained Earnings (2,370 x 20%)	474

Less: Share of impairment of Goodwill (100 x 20%)	(20)
NCI as on 31st March, 2024	1,824

5. Loss on settlement of Debentures held by H Ltd. **₹ in lakhs**

Investment in Debentures by H Ltd.	1,500
Less: Nominal value of debentures held by H Ltd. (1,000 x ₹ 100)	(1)
Loss on settlement of investment in Debentures	1,499

6. Computation of unrealised gain by H Ltd. on sale of goods to S Ltd.

₹ in lakhs

Cost price of the goods sold	200
Sales price of the goods sold (200/80%)	250
Profit on sale of such goods	50
Unrealized gain on 50% unsold goods (50 x 50%)	25

Note: In the above solution, it is assumed that in additional information (v), ₹ 200 lakh is the cost price of the goods for H Ltd. which is sold to S Ltd. at ₹ 250 lakhs i.e. after 20% profit on sales. However, alternatively it may be assumed that ₹ 200 lakhs is the sales price of the goods for H Ltd. profit will be ₹ 200 lakhs x 20% i.e. ₹ 40 lakhs. In such a situation, the answer will be as follows:

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

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	21,070
Goodwill	2	150
Current assets		
Inventory	3	4,280
Financial assets		
Cash and cash equivalents	4	2,540
Trade receivables	5	6,840

Dividend receivable	6	Nil
Total		34,880
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 10 each		10,000
Other equity	7	16,297
Non-controlling interest (W.N.4)		1,824
Non-current liabilities		
Financial liabilities		
Borrowings - 13% Debentures	8	2,999
Current Liabilities		
Financial liabilities		
Trade payables	9	2,180
Dividend payable	10	80
Other liabilities		1,500
Total		34,880

Notes to Accounts

1. Property, Plant and Equipment **₹ in lakhs**

Particulars		**₹**	**₹**
H Ltd.		14,800	
S Ltd.	6,000		
Add: Fair value gain	300		
Less: Additional depreciation due to fair value gain	(30)	6,270	21,070

2. Goodwill **₹ in lakhs**

Particulars	**₹**	**₹**
Goodwill on acquisition of S Ltd. (Refer W.N.3)	250	
Less: Impairment	(100)	150

3. Inventory **₹ in lakhs**

Particulars		**₹**	**₹**
H Ltd.		2,600	
S Ltd.	2,000		
Less: Fair value loss	(300)		
Less: Unrealised gain (W.N.6)	(20)	1,680	4,280

4. Cash and cash equivalent **₹ in lakhs**

Particulars	**₹**	**₹**	**₹**
H Ltd.	500		
Add: Cheque in Transit	40	540	
S Ltd.		2,000	2,540

5. Trade Receivables **₹ in lakhs**

Particulars		**₹**	**₹**
H Ltd.	4,000		
Less: Mutual transaction	(160)	3,840	
S Ltd.		3,000	6,840

6. Dividend Receivables **₹ in lakhs**

Particulars	**₹**	**₹**
H Ltd.	320	
Less: Mutual transaction	(320)	Nil

7. Other Equity (Retained Earnings) **₹ in lakhs**

Particulars	**₹**	**₹**
H Ltd.	16,320	
Less: Share of pre-acquisition dividend (400 x 80%)	(320)	16,000
Post acquisition RE of S Ltd. (W.N.1)	2,370	

Less: Share of NCI in post-acquisition RE of S Ltd. (2,370 x 20%)	(474)	1,896
Less: Impairment of goodwill (100 x 80%)		(80)
Less: Loss on cancellation of debentures (mutual holding) (W.N.5)		(1,499)
Less: Unrealised gain (W.N.6)		(20)
		16,297

8. Borrowings (13% Debentures) **₹ in lakhs**

Particulars	₹	₹
S Ltd.	3,000	
Less: Mutual holding by H Ltd. (1,000 Debentures x ₹ 100)	(1)	2,999

9. Trade Payables **₹ in lakhs**

Particulars		₹	₹
H Ltd.		1,700	
S Ltd.	600		
Less: Mutual transaction	(120)	480	2,180

10. Dividend Payables **₹ in lakhs**

Particulars		
S Ltd.	400	
Less: Mutual transaction	(320)	80

Working Notes:

1. Analysis of Retained Earnings of S Ltd. **₹ in lakhs**

Closing balance as on 31st March, 2024	5,000
Less: Pre-acquisition Retained Earnings as on 1st April, 2023 (3,000 – 400)	(2,600)
	2,400
Less: Additional depreciation	(30)
Post-acquisition Retained Earnings	2,370

2. Computation of net worth (net identifiable assets) as on 1st April, 2023

₹ in lakhs

Share capital of S Ltd.	4,000
Pre-acquisition Retained Earnings	3,000
Fair value gain on PPE (2,800 – 2,500)	300
Fair value loss on inventory (500 - 200)	(300)
Net Worth or Net Identifiable Assets	7,000

3. Computation of Goodwill on acquisition date of S Ltd. **₹ in lakhs**

Purchase consideration	5,800
NCI (by fair value method) as on 1st April, 2023 [(5,800 / 80%) x 20%]	1,450
	7,250
Less: Net worth or Net Identifiable Assets (W.N.2)	(7,000)
Goodwill as on 1st April, 2023	250

4. Non-controlling Interest as on 31st March, 2024 **₹ in lakhs**

NCI (by fair value method) as on 1st April, 2023	1,450
Less: Share of pre-acquisition dividend (400 x 20%)	(80)
Post-acquisition Retained Earnings (2,370 x 20%)	474
Less: Share of impairment of Goodwill (100 x 20%)	(20)
NCI as on 31st March, 2024	1,824

5. Loss on settlement of Debentures held by H Ltd. **₹ in lakhs**

Investment in Debentures by H Ltd.	1,500
Less: Nominal value of debentures held by H Ltd. (1,000 x ₹ 100)	(1)
Loss on settlement of investment in Debentures	1,499

6. Computation of unrealised gain by H Ltd. on sale of goods to S Ltd.

₹ in lakhs

Sales price of the goods sold	200
Profit on sale of such goods (200 x 20%)	40
Unrealized gain on 50% unsold goods (40 x 50%)	20

Question 2

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

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

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

Evaluate and explain whether the above option meets the definition of derivatives as laid down in Ind AS 109 and record the entries for each quarter ended till the date of actual purchase of USD. ***(10 Marks)***

(b) *Spicer Ltd., a listed company, prepares interim financial reports at the end of each quarter.*

The following information is provided:

(i) *On 1st April, 2023, Spicer Ltd. has brought forward losses of ₹ 620 lakh under Income Tax Act. No Deferred Tax Asset has been recognized by the management of the company for such losses in view of the uncertainty over company's ability to earn profits in the foreseeable future and set off these losses.*

(ii) *Due to sudden change in government policies, the company's business turned around and it has reported quarterly earnings of ₹ 650 lakh and ₹ 360 lakh respectively for the first two quarters of financial year 2023-2024 and anticipates net earnings of ₹ 720 lakh in the coming half year ended March 2024 of which ₹ 160 lakh will be the loss in the quarter ended December 2023.*

(iii) *The tax rate for the company is 25% with a 10% surcharge.*

You are required to calculate the amount of Tax Expenses to be reported for each quarter of the financial year 2023-2024. ***(4 Marks)***

Answer

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

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

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

(c) it is settled at a future date.

The contract meets the definition of a derivative as follows:

(a) the value of the contract to purchase USD at a fixed price changes in response to changes in foreign exchange rate.

(b) the initial amount received to enter into the contract is zero. A contract which would give the holder a similar response to foreign exchange rate changes would have required an investment of USD 40,000 on inception.

(c) the contract is settled in future

The derivative liability is a written put option contract.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) It is assumed that net profit for all the quarters of the year 2023-2024 excludes the brought forward losses of ₹ 620 lakh.

Computation of estimated total earnings for the year 2023-2024

Quarter	**Earnings before tax (in lakhs)**
1	650 (actual)
2	360 (actual)
3	(160) (estimated)
4	720 + 160 = 880 (estimated)
	1,730 (estimated)

Tax rate for the company = 25 x 110% = 27.5%

Computation of Average Annual Effective Tax Rate

The estimated payment of the annual tax on earnings for the current year:

= (1,730-620) x 27.5% = ₹ 305.25 lakhs.

As per Ind AS 34, income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income-tax rate expected for the full financial year.

Thus, average annual effective tax rate = (305.25 / 1,730) × 100

= 17.645% (approx.)

Tax expense to be shown in each quarter.

Quarter	**Earnings before tax (in lakhs)**		**Tax expense @ 17.645%**
1	650	(actual)	114.69
2	360	(actual)	63.52
3	(160)	(estimated)	(28.23)
4	720 + 160 = 880	(estimated)	155.27
	1,730	(estimated)	305.25

Question 3

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

Following information is relevant for Building X for the year ending 31st March, 2024:

Building X was initially purchased at the cost of ₹ 120 crores. At that time, the useful life of the building was estimated to be 10 years; out of which 5 years have been expired as on 1st April, 2023: The company follows straight line method for depreciation.

During the year, the company has invested in another Building Y with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 2023 at the cost of ₹ 20 crores. Expected life of the building is 20 years. As usual, the company follows straight line method of depreciation

Further, during the year 2023-2024, the company earned/incurred the following, directly relating to Building X and Building Y:

Rental income from Building X = ₹ 15 crores

Rental income from Building Y = ₹ 5 crores

Sales promotion expenses = ₹ 0.50 crores

Fees and Taxes = ₹ 0.10 crores

Ground Rent = ₹ 0.25 crores-

Repairs and Maintenance	*= ₹ 0.15 crores*
Legal and Professional	*= ₹ 0.20 crores*
Commission and Brokerage	*= ₹ 0.10 crores*

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

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

Assume that the fair value of properties based on discounted cash flow method is measured at ₹ 105 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian Accounting Standards.

You are required to:

(i) Show how the Building X and Building Y would be the treated in the Balance Sheet of Anand Ltd.?

(ii) Provide detailed disclosures and computations in line with relevant Ind AS. (Treat it as if you are preparing a separate note or schedule of the given assets in the Balance Sheet.) ***(8 Marks)***

(b) *Mahadev Ltd. has a block of assets with a written down value of ₹ 5,00,000 on 1st April, 2022 for tax purposes. The book value of the assets for accounting purposes is also ₹ 5,00,000. Depreciation is charged on written down value @ 20% p.a. for both accounting and tax purposes. Of the entire block, assets costing ₹ 50,000 on 1st April, 2022 were sold for ₹ 1,00,000 on 31st March, 2024. You are required to compute the deferred tax asset/liability assuming tax rate of 35%.* ***(6 Marks)***

Answer

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

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

	INVESTMENT PROPERTIES:			(₹ in crores)
Particulars	**Property X**	**Property Y**		**Period ended 31st March, 2024**
Gross Amount:				
Opening balance	120.00		120.00	
Additions during the year	______	20.00	20.00	
Closing balance (A)	120.00	20.00		140.00
Depreciation:				
Opening balance	60.00		60.00	
Depreciation during the year (12 + 1)	12.00	1.00	13.00	
Closing balance (B)	72.00	1.00		(73.00)
Net balance (A-B)	48.00	19.00		67.00

The changes in the carrying value of investment properties for the year ended 31st March, 2024 are as follows:

Amount recognized in Profit and Loss with respect to Investment Properties (₹ in crores)

Particulars	**Period ending 31st March, 2024**
Rental income from investment properties (15.00 + 5.00)	20.00

Less: Direct operating expenses generating rental income (0.50 + 0.10 + 0.25 + 0.15 + 0.20 + 0.10)	(1.30)
Profit from investment properties before depreciation and indirect expenses	18.70
Less: Depreciation	(13.00)
Profit from earnings from investment properties before indirect expenses	5.70

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist of Building X and Building Y. As at 31st March, 2024, the fair value of the properties is ₹ 105 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

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

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

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

(b) Computation of tax base

Particulars	**Carrying amount (₹)**	**Taxbase (₹)**
Carrying balance on 1st April, 2022	5,00,000	5,00,000
Less: Depreciation	(1,00,000)	(1,00,000)

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

Working Note:

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

= ₹ 32,000

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

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

Question 4

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

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

You are required to:

(i) Advise the accounting treatment of the above; and

(ii) Pass necessary journal entries across all four years. **(6 Marks)**

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

(a) *According to scheme, each employee has an option to purchase 250 equity shares of the company at ₹ 45 per share provided that the employee does not leave the company for 3 years from the date of launch of the scheme i.e. up to 31st March, 2024.*

(b) *Once 3 years are completed by an employee, the employee can exercise the option within 1 year i. e. by 31st March, 2025.*

(c) *The closing share price on stock exchange as at 1st April, 2021 is ₹ 91 per share with face value of ₹ 10 per share. A registered valuer has been appointed by the company who derived the price of option at ₹ 75 using Black Scholes model of option pricing.*

(d) *There are 750 employees eligible for the scheme. As at 31st March, 2022, 25 employees left the company and further 35 employees are expected to leave over the next 2 years. During the year 2022-2023, a foreign based company entered into the market and started hiring experienced employees and therefore retention of existing employees has been problematic and a high attrition rate is observed in the market. 275 employees left the company during the year ended 31st March, 2023 and further 135 employees are expected to leave in the next one year. As at 31st March, 2024, only 400 employees remained with the company out of 750 employees.*

(e) *Out of it only 375 employees exercised the option to purchase the equity shares during the year ended 31st March, 2024.*

You are required to provide necessary accounting entries during the life of share-based payment scheme to account the scheme implemented by the company. ***(8 Marks)***

Answer

(a) (i) Accounting Treatment

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

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

(ii) Journal Entries

Date	Particular	Dr. (₹)	Cr. (₹)
1st April, 2020	Machine A/c (PPE) Dr.	4,41,000	
	To Provision for decommissioning liability		4,41,000
	(Being the present value of decommissioning liability of ₹ 4,41,000 recognized as an addition to cost of PPE with corresponding recognition to decommissioning liability)		
31st March, 2021	Finance charge Dr.	35,280	
	To Provision for decommissioning liability		35,280
	(Being the unwinding of discount as finance charge recognized at the end of Year 1)		
	Profit and Loss A/c Dr.	35,280	
	To Finance charge		35,280
	(Being Finance charge transferred to Profit & Loss A/c)		

31st March, 2022	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 2)	38,102	38,102
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	38,102	38,102
31st March, 2023	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 3)	41,151	41,151
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	41,151	41,151
31st March, 2024	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 4)	44,467	44,467
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	44,467	44,467
	Provision for decommissioning liability Dr.	6,00,000	

	To Bank A/c (Being decommissioning liability incurred at the end of the life of the machine i.e. 4th year)		6,00,000

Working Note:

The following table shows the unwinding of discount **(₹)**

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

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

(b) **Journal Entries**

31st March, 2022		**₹**	**₹**
Employee benefits expenses (W.N.1)	Dr.	43,12,500	
To Share-based payment reserve (equity)			43,12,500
(Being 1/3rd expenses on share-based payment recognised)			
Profit and Loss A/c	Dr.	43,12,500	
To Employee benefits expenses			43,12,500
(Being employee benefits expenses transferred to P/L)			
31st March, 2023			
Share-based payment reserve (equity) (W.N.1)	Dr.	3,75,000	
To Employee benefits expenses (transferred to P/L)			3,75,000

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

Working Notes:

1. Calculation of Employee Benefit Expenses

	31.3.2022	31.3.2023	31.3.2024
No of Employees	750	750	750

Less: Employees left	(25)	(300)	(350)
Less: Employees expected	(35)	(135)	____
No of employees eligible	690	315	400
No of options per employee	250	250	250
Total options expected to vest	172,500	78,750	100,000
Fair value per option	75	75	75
Total FV	12,937,500	5,906,250	7,500,000
Cumulative expenses	1/3	2/3	3/3
	4,312,500	3,937,500	7,500,000
Expense already recognised	-	4,312,500	3,937,500
Expense to be recognised	4,312,500	-375,000	3,562,500

2. For the year ended 31st March, 2025

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

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

Securities Premium = 375 employees x 250 options x ₹ (75 + 35)

= ₹ 1,03,12,500

Retained Earnings = (400-375) employees x 250 options x ₹ 75

= ₹ 4,68,750

Question 5

(a) Big Deal Ltd. is a marketing company having its departmental stores in 'A' class city of India. The company sells diversified products. For the purpose of increasing sales and attract customers, the company during the financial year 2023-2024, has adopted the following policy:

(i) For every purchase of ₹ 400 the customer is awarded with 6 points.

(ii) Each point is redeemable on any future purchases of company's same departmental store situated in any of 'A' class city within 3 years i.e. up to 31st March, 2026

(iii) Value of each award point is ₹ 0.60

During the financial year 2023-2024, the Big Deal Ltd:

(i) Assessed that the sales of the company during the year 2023-2024 is ₹ 150 lakhs.

(ii) Awarded 2,25,000 points to various customers during the year.

(iii) Estimated that out of the awarded points, 54,000 points will remain unredeemed as at 31st March, 2024 which shall be eligible for redemption till 31st March, 2026 and;

(iv) Expects only 75% points will be redeemed in the future.

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

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

(5 Marks)

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

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

(i) As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The land was acquired for a consideration of ₹ 5,00,000. However, the fair value of land as on the date of transition was ₹ 6,00,000.

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

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding. Prepare Ind AS Impact Analysis Report (Extract) for Z Ltd. for presentation to the management wherein you *are required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue and its impact there upon for preparation of transition date balance sheet. Also pass journal entry for each of the issues mentioned above.* ***(5 Marks)***

(c) *Define the concept of 'Offsetting'. In offsetting permitted under the following circumstances:*

(a) *Whether profit on sale of an asset against loss on sale of another asset can be offset?*

(b) *Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary - whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?*

(c) *When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?*

Or

Explain how enhancing qualitative characteristics can improve the usefulness of financial information. ***(4 Marks)***

Answer

(a) Points earned on ₹ 1,50,00,000 @ 6 points on every ₹ 400

= [(1,50,00,000/400) x 6] = 2,25,000 points.

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

Accordingly, value of points will be computed as follows:

Value of points redeemed in the current year

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

Value of points estimated to be redeemed in future

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

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

Revenue recognized for sale of goods

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

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

Journal Entry for the year 2023-2024

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

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year

= 54,000 x 75% = 40,500 points

Total points to be redeemed within 3 years

= [(2,25,000 – 54,000) + 40,500] = 2,11,500 points

Revenue to be recognised with respect to discounted points

= ₹ 1,25,835 x (1,71,000/2,11,500) = ₹ 1,01,739

Note:

The above answer is based on the consideration that 75% likelihood of redemption of award points in future. **Alternatively,** the 75% likelihood of redemption of award points in future might not be considered. In such a case, the answer would be as follows:

Points earned on ₹ 1,50,00,000 @ 6 points on every ₹ 400.

= [(1,50,00,000/400) x 6] = 2,25,000 points.

Out of 2,25,000 points, it is estimated that 54,000 points will remain unredeemed in the current year.

Accordingly, value of points redeemed in the current year

= 2,25,000 points x ₹ 0.6 each point = ₹ 1,35,000

Revenue recognized for sale of goods

= ₹ 1,48,66,204 [1,50,00,000 x (1,50,00,000 / 1,51,35,000)]

Revenue for points = ₹ 1,33,796 [1,35,000 x (1,50,00,000 / 1,51,35,000)]

Journal Entry for the year 2023-2024

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

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year

=54,000 x 75% = 40,500 points

Total points to be redeemed within 3 years

= [(2,25,000 – 54,000) + 40,500] = 2,11,500 points

Revenue to be recognised with respect to discounted points

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

(b) Assessment of Preliminary Impact Assessment on transition to Ind AS of Z Ltd.'s Financial Statements

(i) Fair value as deemed cost for property plant and equipment:

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

Journal Entry on the date of transition

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

(ii) Borrowings - Processing fees/transaction cost:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, such expenditure is charged to Profit and loss account	As per Ind AS, such expenditure is amortised over the period of the loan.	Fair value as on the date of transition is ₹ 2,80,000 as against its book value of ₹ 3,00,000. Accordingly, the difference of ₹ 20,000

or capitalised as the case may be	Ind AS 101 states that if it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability.	is adjusted through retained earnings.

Journal Entry on the date of transition

Particulars	**Debit (₹)**	**Credit (₹)**
Borrowings / Loan payable Dr.	20,000	
To Retained earnings		20,000
(Being Borrowings recorded at fair value on date of transition to Ind AS)		

(c) **Either**

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

Scenarios for determining applicability of the concept of offsetting:

(a) Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising from disposal of various items of property, plant and equipment shall be presented on a net basis. However, gains or losses should be presented separately if they are material.

(b) As per paragraph 33 of Ind AS 1, offsetting is permitted only when offsetting reflects the substance of the transaction. In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. If the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

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

Or

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

1. ***Comparability:*** Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability refers to the use of the same methods for the same items, and uniformity implies that like things must look alike and different things must look different.

2. ***Verifiability:*** Verifiability means that different knowledgeable and independent observers could reach a consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

3. **Timeliness:** Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because some users may need to identify and assess trends.

4. **Understandability:** Classifying, characterising and presenting information clearly and concisely makes it understandable.

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

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

Question 6

(a) *An entity provides broadband services to its customers along with voice call service. Customer buys modem from the entity. However, customer can also get the connection from the entity and modem from any other vendor. The installation activity requires Ltd. effort and the cost involved is almost insignificant. It has various plans where it provides either broadband services or voice call services or both.*

Comment on how to identify whether the performance obligations under the contract are distinct by using an automated process? ***(5 Marks)***

(b) *Creative Ltd. performed a revaluation of all of its plant and machinery at the beginning of 1st April, 2024. The following information relates to one of its Machinery:*

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

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

You are required to advise how the company should account for revaluation of plant and machinery and depreciation subsequent to revaluation. Also pass journal entries in relation to the above. ***(5 Marks)***

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

(a) As per the judgement of the court an arrear of salaries and wages relating to previous year amounting to ₹ 15,00,000 will be paid in the current year. At the end of the previous year, the management of the company was of the opinion that arrears of salaries and wages would not be required to be paid and accordingly no provision was made at the end of previous year.

(b) Expenses of ₹ 1,50,000 of the previous year which were omitted from books of accounts of the previous year due to an oversight

(c) The amount of provision for doubtful debts as at the end of the previous year was ₹ 10,00,000 of which debts of ₹ 6,00,000 were realized during the current year.

(d) Company had taken a Group Insurance policy. During the previous year due to a mistake of Insurance Company the company paid less premium, which insurance company is demanding to pay now. ***(4 Marks)***

Answer

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

a. Analyze the clauses in the contract related to the services provided (broadband services, voice call services, modem sales).

b. Each clause should be codified using appropriate parameters or tags to capture the relevant information.

c. Assign Boolean values (0 or 1) to each parameter or tag in the codified clauses.

d. Use "0" to represent "No" and "1" to represent "Yes" for each parameter.

e. Define the criteria for evaluating the performance obligations based on the parameters and their Boolean values.

f. Consider factors such as the type of service involved, benefits derived by the customer, and promises made in the contract regarding the transfer of goods or services.

g. Develop an automated algorithm or script that evaluates the Boolean values of the parameters according to the defined criteria.

h. Calculate scores or weights for each parameter based on their significance in determining performance obligations.

i. Utilize the scores or weights assigned to the parameters to determine if the performance obligations are distinct.

j. If the total score exceeds a certain threshold, consider it a separate performance obligation.

The automated process should flag and identify these distinct performance obligations based on the evaluation results.

Considering the above facts, the following conclusion arises:

There are three separate obligations

- Broadband Service
- Voice Call Services
- Modem

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

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

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

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

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

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

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

Journal Entry

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

Depreciation subsequent to revaluation

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

Journal Entry

Accumulated Depreciation Dr.	₹ 50,000	
To Plant and Machinery (Gross Block)		₹ 50,000
(Being the revised depreciation after revalued charged)		

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

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

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

Journal Entry

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

Depreciation subsequent to revaluation

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

Journal entry

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

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

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

(b) In the given case, since the information regarding expenses of ₹ 1,50,000 in the previous year was available with the entity, and was omitted due to an oversight, it will be considered as a prior period error.

(c) As per para 32 of Ind AS 8, a loss allowance for expected credit losses (i.e. provision for doubtful debts) applying Ind AS 109, *Financial Instruments,* is an example of accounting estimate. Hence, any change in the previous year's estimate on account of recovery of such loss allowance in the current year would be a change in the accounting estimate in the current year because of the uncertainties inherent in business activities and it is not possible to measure the provision for doubtful debts with precise accuracy.

(d) This is neither a case of prior period error nor a change in accounting estimates. In the given case, the company did not have any information as on the balance sheet date and it is the mistake committed by the Group Insurance company and not the reporting entity. Hence, the demand for an additional premium amount by the Group Insurance Company will not be considered as a prior period error for the reporting entity. Further, the entity had paid the premium amount in the previous year, so no accounting estimate was involved thereupon. Therefore, the additional demand cannot be considered as a change in accounting estimate for the reporting entity.