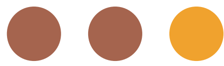


PAPER – 1: FINANCIAL REPORTING

QUESTIONS

Case Scenario I

ABC Ltd. is a dynamic company engaged in strategic acquisitions to expand its business portfolio. As part of its growth strategy, the company has recently acquired PQR Ltd. and RST Ltd. While these acquisitions present growth opportunities, these acquisitions also include ongoing lawsuits against the acquired companies. However, ABC Ltd. has secured indemnities from the respective sellers to mitigate potential financial risks associated with these legal matters. Following acquisitions took place during the year

(i) ABC Ltd. acquired a beverage company PQR Ltd. from XYZ Ltd. At the time of acquisition, PQR Ltd. is the defendant in a court case whereby certain customers of PQR Ltd. have alleged that products of PQR Ltd. contain pesticides in excess of the permissible levels, which have caused them health damage. PQR Ltd. is being sued for damages of ₹ 2 crores. XYZ Ltd. has indemnified ABC Ltd. for the losses, if any, due to the case for amount up to ₹ 1 crore. The fair value of the contingent liability for the court case is ₹ 0.70 crore.

(ii) ABC Ltd. pays ₹ 50 crores to acquire RST Ltd. from MN Ltd. RST Ltd. manufactured products containing fiber glass and has been named in 10 class actions concerning the effects of these fiber glass, MN Ltd. agrees to indemnify ABC Ltd. for the adverse results of any court cases up to an amount of ₹ 10 crores. The class actions have not specified amounts of damages and past experience suggests that claims may be up to ₹ 1 crore each, but that they are often settled for small amounts. ABC Ltd. makes an assessment of the court cases and decides that due to the potential variance in outcomes, the contingent liability cannot be

measured reliably and accordingly no amount is recognised in respect of the court cases.

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. At what amount would ABC Ltd. account for the identified liability related to contingent liability and the indemnification assets at the time of acquisition of PQR Ltd. related to court case by the customer?

   (a) ₹ 2 crores; ₹ 1 crore

   (b) ₹ 1 crore; ₹ 1 crore

   (c) ₹ 0.70 crore; ₹ 1 crore

   (d) ₹ 0.70 crore; ₹ 0.70 crore

2. What will be the impact on goodwill due to recognition of such liability and indemnified asset?

   (a) The net impact on goodwill will be Nil

   (b) Decrease in the value of Goodwill by ₹ 0.30 crore

   (c) Increase in the value of Goodwill by ₹ 0.30 crore

   (d) Increase in the value of Goodwill by ₹ 1 crore

3. Suppose in case the fair value of the identified liability is ₹ 1.20 crores instead of ₹ 0.70 crore, then what will be the value of the liability and the indemnification assets at the time of acquisition of PQR Ltd.?

   (a) ₹ 2 crores; ₹ 1 crore

   (b) ₹ 1.20 crore; ₹ 1 crore

   (c) ₹ 1 crore; ₹ 1 crore

   (d) ₹ 1.20 crores; ₹ 1.20 crores

4. What will be the impact on goodwill due to recognition of such liability and indemnified asset?

   (a) Increase in the value of Goodwill by ₹ 1 crores

   (b) Decrease in the value of Goodwill by ₹ 0.20 crore

(c) Increase in the value of Goodwill by ₹ 0.20 crore

(d) The net impact on goodwill will be Nil

5. On acquisition of RST Ltd. at what amount should indemnification asset be accounted for in relation to 10 class actions?

(a) ₹ 10 crores

(b) ₹ 1 crore

(c) Nil

(d) ₹ 9 crores

Case Scenario II

Choose the most appropriate answer to Questions 6 to 10, based on below mentioned facts:

Date	Amount (₹)	Event
1st January, 20X6	7,500	Asset acquired with depreciation to be charged based on useful life of 10 years
On 31st December, 20X7	240	Indicators of impairment noted and impairment allowance accounted
On 28th February, 20X9		Assets has been classified as held for sale
On 28th February, 20X9	4,600	Fair value less costs to sell
On 30th June, 20X9	5,300	Fair value less costs to sell

6. The amount of depreciation on the asset for the year 20X8 would be-

(a) ₹ 750

(b) ₹ 720

(c) ₹ 240

(d) ₹ 120

7. The amount of depreciation on the asset for the year 20X9 would be-

(a) ₹ 750

(b) ₹ 720

(c) ₹ 240

(d) ₹ 120

8. What will be the carrying value of the asset immediately before its classification as 'Held for Sale' as on 28th February, 20X9?

(a) ₹ 4,920

(b) ₹ 5,040

(c) ₹ 4,600

(d) ₹ 5,300

9. What will be the carrying value of the asset immediately after its classification as 'Held for Sale' as on 28th February, 20X9?

(a) ₹ 4,920

(b) ₹ 5,040

(c) ₹ 4,600

(d) ₹ 5,300

10. What will be the amount of reversal of impairment loss and the carrying value of the asse after reversal of impairment loss as on 30th June, 20X9?

(a) ₹ 560; ₹ 5,300

(b) ₹ 440; ₹ 5,040

(c) ₹ 560; ₹ 5,160

(d) ₹ 700; ₹ 5,300

Ind AS 28 "Investment in Associates & Joint Ventures"

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

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

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

Ind AS 109 "Financial Instruments"

12. On 1st April, 20X1, ABC Ltd. issues a 10- year bond with a par value of ₹ 15,00,000 and an annual fixed coupon rate of 8%, which is consistent with market rates for bonds with similar characteristics. ABC Ltd. uses Secured Overnight Financing Rate (SOFR) as its benchmark interest rate. At the date of inception of the bond, SOFR is 5%. At the end of the first year:

- SOFR has decreased to 4.75%; and
- The fair value of bond is ₹ 15,38,110. This value is consistent with an interest rate of 7.6%.
- The remaining cash flows on bond are ₹ 1,20,000 per year for nine years and ₹ 15,00,000 at the end of nineth year. These cash flows discounted at 7.6% equals ₹ 15,38,110.

ABC Ltd. assumes a flat yield curve, that all changes in interest rates result from a parallel shift in the yield curve, and that the changes in SOFR are the only relevant changes in market conditions.

Following discounting factors may be considered

Discount rate @7.75%	**Present value of ₹ 1 payable**
At the end of year 9	51.1 paise
Cumulatively for the years 1–9	6.312
At the end of year 10	47.4 paise
Cumulatively for the years 1–10	6.786

Required

What is the amount transferred to the OCI at the end of Year 1 ?

Ind AS 32 "Financial Instruments: Presentation"

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

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

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

    Required

    How does A Ltd. account for the repurchase?

Ind AS 103 "Business Combinations"

14. On 1st April, 20X1, PQR Ltd. acquired 30% of the shares of XYZ Ltd. for ₹ 8,000 crores. At 31st March, 20X2, PQR Ltd. recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

    (Amounts ₹ in crores)

Share of profit or loss	700
Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50

On 1st April, 20X2, PQR Ltd. acquired the remaining 70% of XYZ Ltd. for cash of ₹ 25,000 crores. The following additional information is relevant at that date. **(Amount ₹ in crores)**

Fair value of the 30% interest already owned	9,000
Fair value of XYZ Ltd's identifiable net assets	30,000

Required

How should such business combination be accounted for?

Ind AS 103 "Business Combinations"

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

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

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

Ind AS 21 "The Effects of Changes in Foreign Exchange Rates"

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

(₹ in thousand)

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

Required:

How does an entity account for cumulative translation adjustment (CTA) on disposal of a foreign subsidiary?

Ind AS 2 "Inventories"

17. Following information have been provided for A Ltd. which account for its inventories by using FIFO cost formula:

a) Full capacity is 10,000 labour hours in a year.

b) Normal capacity is 7,500 labour hours in a year.

c) Actual labour hours for current period are 6,500 hours.

d) Total fixed production overhead is ₹ 1,500,

e) Total variable production overhead is ₹ 2,600.

f) Total opening inventory is 2,500 units.

g) Total units produced in a year are 6,500 units.

h) Total units sold in a year are 6,700 units.

i) Total closing inventory is 2,300 units.

Required

How will the overhead cost be allocated to inventory at normal capacity and at less than normal production for the current year based on the above information?

Ind AS 7 "Statement of Cash Flows"

18. The opening balance sheet at 1st April, 20X6 of an Indian company (which account for its transactions in INR (₹), which consists of cash of ₹ 1,00,000 and share capital of ₹ 100,000. The Company borrows a long term loan on 30th September, 20X6 for US $ 2,200 when the rate of exchange is 1 US $= ₹ 87. There are no other transactions during the year. The exchange rate at the balance sheet date of 31st March, 20X7 is 1 US $ = ₹ 85.

The summarized balance sheet at 31st March, 20X7 is as follows:

	₹	₹
Assets		
Cash (1,00,000+1,91,400)		2,91,400
		2,91,400
Equity and liabilities		
Capital and reserves		
Share capital	1,00,000	
Other Equity		
Foreign Currency Translation Reserves	4,400	1,04,400
Non- current liabilities		
Long -term loan		1,87,000
Total equity and liabilities		2,91,400

Required:

How the foreign exchange difference arising from unsettled transactions will reflect in the Statement of Cash Flows?

Ind AS 24 "Related Party Disclosures"

19. Mr. Y's father owns 100% of the shares in A Ltd. Mr. Y and Mrs. Y own 100% of the shares in B Ltd. Ms. Z who is Mrs. Y's sister, provides

book-keeping services from time to time to B Ltd. However, Ms. Z is not an employee of B Ltd. A Ltd. has increased its loan of ₹ 1,50,000 to B Ltd. to ₹ 2,00,000 during the year, for which A Ltd. charges a below market rate of interest.

Required:

(i) State whether Mr. Y's father & Mrs. Y's sister are related party of B Ltd.

(ii) What disclosure is to be made in the financial statements of both A Ltd. & B Ltd. with respect to the loan given by A Ltd. to B Ltd.?

(iii) Whether B Ltd. is required to disclose the dealings with the sister of Mrs. Y in its financial statements?

Ind AS 102 "Share-based Payment"

20. At 1st April, 20X1 an entity enters into a share-based payment arrangement with its employees. The terms of the award are as follows:

- Employees are required to work for the entity for five years; after that they will receive a cash payment equal to the value of the entity's shares.
- If the entity achieves a successful IPO during the five -year period, the employees will receive free shares rather than a cash payment. So, employees might receive free shares at the time of IPO or a cash payment at the end of 5th year, but not both.
- No employees are expected to leave the entity over the next five years.
- At the date of the award and till the end of second year, it was not probable that a successful IPO would occur before year 5.
- At the end of year 3, a successful IPO becomes probable; and management expects it to occur in year 4.
- At the end of year 4, a successful IPO occurs; and employees receive free shares.
- The fair value of the equity-settled award alternative is ₹ 1,000 at the grant date. The fair value of the cash-settled alternative,

ignoring the probability that an IPO will happen within the five years, is as follows:

- ₹ 50 at the end of year 1;
- ₹ 500 at the end of year 2;
- ₹ 100 at the end of year 3; and
- ₹ 50 at the end of year 4.

Required:

How the entity would account for this transaction?

ANSWERS

Answer to Case Scenario I

1. **Option (d):** ₹ 0.70 crore; ₹ 0.70 crore
2. **Option (a):** The net impact on goodwill will be Nil
3. **Option (b):** ₹ 1.20 crore; ₹ 1 crore
4. **Option (c):** Increase in the value of Goodwill by ₹ 0.20 crore
5. **Option (c):** Nil

Answer to Case Scenario II

6. **Option (b)**: ₹ 720
7. **Option (d):** ₹ 120
8. **Option (a):** ₹ 4,920
9. **Option (c):** ₹ 4,600
10. **Option (c):** ₹ 560; ₹ 5,160
11. While applying equity method, paragraph 10 of Ind AS 28 requires, the investment in an associate to be initially recognized at cost. However, it doesn't include any specific guidance on how to account for existing investment, which is accounted for under Ind AS 109, that subsequently becomes an associate or a joint venture. One may apply

the fair value approach, by drawing an analogy from paragraph 42 of Ind AS 103.

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

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

Computation of goodwill on gaining significant influence on V Ltd.

Particulars	₹
Fair value of previously held 10% interest [2,00,000/25% x10%]	80,000
Fair value of additional 25% (amount paid)	2,00,000
Cost of investment in associate V Ltd.	2,80,000
Less: Fair value of identifiable net assets acquired (4,00,000 x 35%)	(1,40,000)
Goodwill	1,40,000

Journal Entries

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

OCI (Equity) Dr.	30,000	
To Retained Earning		30,000

12. The amount of change in fair value of the bond that is not attributable to changes in market conditions giving rise to market risk is estimated as follows:

Step (a)

The bond's IRR at the start of the period is 8%.

Step (b)

Because the benchmark interest rate (SOFR) is 5%, the instrument - specific component of the IRR is 3%.

Step (c)

The contractual cash flows of the instrument at the end of the period are:

- Interest of ₹ 1,20,000 [₹ 15,00,000 x 8%] per year for the next 9 years.
- Principal repayment of ₹ 15,00,000 at the end of 9th year.

The present value of these cash flows is calculated using a discount rate of 7.75%. This rate is arrived at as below:

- 4.75% end of period SOFR, plus
- 3% instrument - specific component calculated as at the start of the period

This gives a notional present value of ₹ 15,23,670

= [(15,00,000 x 0.511) + (1,20,000 x 6.312)].

Step (d)

The fair value of the liability at the end of the period is ₹ 15,38,110. Hence, ABC Ltd. should present ₹ 14,440 [₹ 15,38,110 – ₹ 15,23,670] in the OCI.

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

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

The repurchase price is allocated as follows:

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

A Ltd. recognises the repurchase of the debenture as follows: (₹)

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

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

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

14. Paragraph 42 of Ind AS 103 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, 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 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.

Applying the above, PQR Ltd. records the following entry in its consolidated financial statements: **(Amounts ₹ in crores)**

		Dr.	Cr.
Identifiable net assets of XYZ Ltd.	Dr.	30,000	
Goodwill (W.N.1)	Dr.	4,000	
Foreign currency translation reserve	Dr.	1,00	
PPE revaluation reserve	Dr.	50	
To Cash			25,000
To Investment in associate- XYZ Ltd. (W.N.3)			8,850
To Retained earnings (W.N.2)			50
To Gain on previously held interest in XYZ recognized in Profit or loss (W.N.4)			250
(To recognize acquisition of XYZ Ltd.)			

Working Notes :

1. Goodwill calculated as follows:

Cash consideration	25,000
Fair value of previously held equity interest in XYZ	9,000
Total consideration	34,000
Fair value of identifiable net assets acquired	(30,000)
Goodwill	4,000

2. The credit to retained earnings represents the reversal of the unrealized gain of ₹ 50 crores in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.

3. The carrying amount of the investment in the associate on 31st March, 20X2 would be as follows: **(Amounts ₹ in crores)**

Investment in Associate	8,000
Share of profit or loss	700
Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50
	8,850

4. The gain on the previously held equity interest in XYZ Ltd. is calculated as follows:

Fair Value of 30% interest in XYZ Ltd. at 1st April, 20X2	9,000
Carrying amount of interest in XYZ Ltd. at 1st April, 20X2 (W.N.3)	(8,850)
	150
Unrealised gain previously recognized in OCI	100
Gain on previously held interest in XYZ Ltd. recognized in profit or loss	250

15. Calculation of deferred tax arising on acquisition of S Ltd. and goodwill

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

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

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

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

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

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

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

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

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

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

reclassified to profit or loss and is derecognised as a part of the NCI balance.

17. Management should allocate fixed overhead costs and variable overhead costs to units produced at a rate of ₹ 0.2 per hour = $\left(\frac{1,500}{7,500}\right)$ and ₹ 0.4 per hour = $\left(\frac{2,600}{6,500}\right)$ respectively.

Fixed production overhead absorption rate:

= Fixed production overhead / Labour hours under normal capacity

= ₹1,500/7,500

= ₹0.2 per hour

Therefore, Fixed production overhead allocated to 6,500 units produced during the year (one unit per hour) = 6,500 units x ₹ 0.2 = ₹ 1,300. The remaining ₹ 200 of overhead incurred that remains unallocated is recognized as an expense in the profit and loss.

The amount of fixed overhead allocated to inventory is not increased as a result of low production by using normal capacity to allocate fixed overhead.

Variable production overhead absorption rate:

= Variable production overhead / Actual hours for current period

= ₹ 2,600 / 6,500 units

= ₹ 0.4 per hour

The above rate results in the allocation of all variable overheads to units produced during the year.

As each unit has taken one hour to produce (6,500 hours /6,500 units produced), total fixed and variable production overhead recognized as part of cost of inventory:

= Number of units of closing inventory x number of hours to produce each unit x (fixed production overhead absorption rate + variable production overhead absorption rate)

= 2,300 x 1 x (₹ 0.2+ ₹ 0.4) = ₹ 1,380

The remaining ₹ 2,720 {(₹ 1,500 + ₹ 2,600) – ₹ 1,380} is recognized as an expense in the Statement of profit and loss as follows:

	₹
Absorbed in cost of goods sold (FIFO basis) (6,500- 2,300) = 4,200 x ₹ 0.6	2,520
Unabsorbed fixed overheads, also included in cost of goods sold	200
Total	2,720

18. The foreign currency loan, having been translated at the rate ruling at the receipt date to ₹ 1,91,400 (US $ 2,200 x ₹ 87), is translated at the balance sheet date to ₹ 1,87,000 (US $ 2,200 x ₹ 85). The exchange gain of ₹ 4,400 is recognised in the Statement of profit and loss. The cash is made up of ₹ 1,00,000 (received from the share issue) and ₹ 1,91,400 (received on converting the currency loan immediately to ₹).

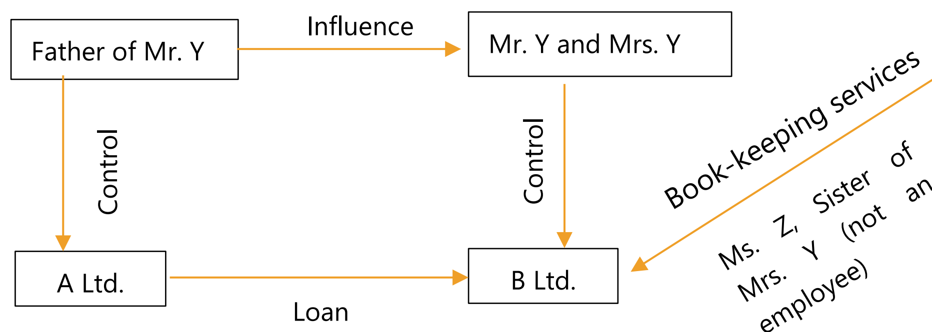
Statement of Cash Flows

	₹
Cash flows from operating activities	
Profit	4,400
Less: Foreign exchange gain	(4,400)
Net cash flow from operating activities A	0
Cash flows from financing activities	
Receipts of foreign currency loan	1,91,400
Net cash flow from financing activities B	1,91,400
Net increase in cash and cash equivalent *A+B*	1,91,400
Cash and cash equivalents at the beginning of the reporting period	1,00,000
Cash and cash equivalents at the end of the reporing period*	2,91,400

* Represents year end cash balances.

The exchange gain of ₹ 4,400 does not have any cash flow effect and is related to financing activities. Therefore, it needs to be eliminated from profit. A similar adjustment would be necessary if the loan remains outstanding at 31st March, 20X8.

19.



(i) Mr. Y's father and Mrs. Y's sister are related parties of B Ltd., if they are 'close family' of either Mr. Y or Mrs. Y. They are close family if they might be expected to influence, or be influenced by, Mr. Y or Mrs. Y in their dealing with B Ltd. Mr. Y's father and Mr. Y and Mrs. Y are 'close family', so Mr. Y's father is a related partly of B Ltd., which is controlled by Mr. Y and Mrs. Y.

Mr. Y's father has a controlling interest in A Ltd. A Ltd. is a related party of B Ltd.

(ii) Both entities should disclose the necessary details regarding the increase in the loan to ₹ 2,00,000 in their financial statements. A Ltd. should also disclose the amounts due to it from B Ltd. on the balance sheet date, together with any provisions and amounts written off. B Ltd. should disclose the amount that it owes to A Ltd. at the balance sheet date.

(iii) B Ltd. would have to disclose the transactions with Mrs. Y's sister if the sister might be expected to influence, or be influenced by, either Mr. Y or Mrs. Y in their dealings with B Ltd. based on further facts of the case. In case the influence exists, following disclosures to be made as per para 18A of Ind AS 24 which states

that amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.

20. At the end of first and second year, the entity would not record a charge for the equity-settled award; this is because the vesting conditions are not expected to be met (that is, a successful IPO is not probable).

Hence, a liability is recognised, because cash settlement is probable until year 3. (Refer para 42 of Ind AS 102)

	Dr. (₹)	**Cr. (₹)**
Year end 31st March, 20X2		
Employee benefits expense (₹ 50 / 5years) Dr.	10	
To Share-based payment liability		10
(Cash settled award recognised over the vesting period)		
Year end 31st March, 20X3		
Employee benefits expense{(₹ 500 x 2/5)- ₹10} Dr.	190	
To Share-based payment liability		190
(Cash -settled award recognised over the vesting period)		

At the end of year 3, a successful IPO becomes probable; so the entity would record a charge for an equity-settled award.

There should also be a reversal of the SBP liability, because this award is now deemed not probable.

Year end 31st March, 20X4	**Dr.**	**Cr.**
Share-based payment Liability Dr.	200	
To Share-based Payment Reserve		200
(Reversal of cash -settled share-based payment, because IPO deemed probable)		

Employee benefits expense {(₹ 1,000 x ¾) - ₹ 200} Dr.	550	
To Share-based Payment Reserve		550
(Equity -Settled award measured at grant date fair value of ₹ 550, because IPO is now deemed probable)		
Year end 31st March, 20X5		
Employee Benefits Expenses Dr.	250	
To Share-based Payment Reserve		250
(Equity settled award recognised over the vesting period)		
Share-based Payment Reserve Dr.	1,000	
To Equity share capital		1,000
(Settlement of share-based payment award through issuance of free shares)		

Equity -settled award measured at fair value of ₹ 1,000. All of the vesting conditions for this ward have been met in year 4; so the award has vested, and the remaining charge of ₹ 250 (₹ 1,000 – ₹ 750) is recognised in the Statement of profit and loss.