PAPER – 1 : FINANCIAL REPORTING

*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 respective answer.

Question 1

(a) *KUPA Ltd. borrowed ₹ 95 lakh as loan from XYZ Bank on 1st April, 2018 at an interest rate of 10% p.a. KUPA Ltd. spent ₹ 1,80,912 as loan processing charges. Principal amount of loan is to be repaid in 5 equal instalments and the interest to be paid annually on accrual basis. Effective interest rate on loan is 10.8%.*

On 31st March, 2020, KUPA Ltd. faced challenges in business because of sudden change in the technology. It approached XYZ Bank and renegotiated the terms of the loan. Interest rate changed to 15% p.a. Principal amount of loan is to be repaid in 8 equal instalments payable annually starting 31st March, 2021 and the interest is to be paid annually on accrual basis. Before approaching bank, KUPA Ltd. made the interest payment on 31st March, 2020.

You are required to record Journal entries in the books of KUPA Ltd. till 31st March, 2021, after giving effect of the changes in the terms of the loan on 31st March, 2020. Workings should form part of the answer.

PV of ₹ 1	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
10%	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467
10.8%	0.903	0.815	0.735	0.664	0.599	0.540	0.488	0.440
15%	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327

(12 Marks)

(b) *Rainy Pvt Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006. The company has decided to present its first financials under Ind AS for the year ended 31st March, 2021. The transition date is 1st April, 2019.*

The following adjustments were made upon transition to Ind AS:

(i) *The company opted to fair value its land as on the date on transition. The fair value of the land as on 1st April, 2019 was ₹ 95 lakh. The carrying amount as on 1st April, 2019 under the existing GAAP was ₹ 42.75 lakh.*

(ii) *The company has recognised a provision for proposed dividend of ₹ 5.7 lakh and related dividend distribution tax of ₹ 1.65 lakh during the year ended 31st March, 2019. It was written back as on opening balance sheet date.*

(iii) The company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of ₹ 2 lakh as part of reserves. On first time adoption of Ind AS, the company intends to avail Ind AS exemption of resetting the cumulative translation difference to zero.

(iv) The company had made an investment in subsidiary for ₹ 18.62 lakh that carried a fair value of ₹ 25.75 lakh as at the transition date. The company intends to recognise the investment at its fair value as at the date of transition.

(v) The company has an Equity Share Capital of ₹ 760 lakh and Redeemable Preference Share Capital of ₹ 180 lakh. The company identified that the preference shares were in nature of financial liabilities.

(vi) The Reserves and Surplus as on 1st April, 2019 before transition to Ind AS was ₹ 910 lakh representing ₹ 380 lakh of general reserve and ₹ 40 lakh of Capital Reserve acquired out of business combination and balance is surplus in the Retained Earnings.

What is the balance of total equity (Equity and other equity) as on 1st April, 2019 after transition to Ind AS? Show reconciliation between Total Equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1st April, 2019. Ignore deferred tax impact. ***(8 Marks)***

Answer

(a) The following table shows the amortisation of loan based on effective interest rate:

Date (1)	Opening Amortised cost (2)	Cash flows (Principal) (3)	Cash outflows (Interest @ 10% and fee) (4)	Total cash flows (3 + 4 = 5)	Interest @ EIR 10.80% (2 x 10.80% = 6)	Closing Amortised cost (2- 5 + 6 = 7)
1st April, 2018		(95,00,000)	1,80,912			93,19,088
31st March, 2019	93,19,088	19,00,000	9,50,000	28,50,000	10,06,462	74,75,550
31st March, 2020	74,75,550	19,00,000	7,60,000	26,60,000	8,07,359	56,22,909
31st March, 2021	56,22,909	19,00,000	5,70,000	24,70,000	6,07,274	37,60,183
31st March, 2022	37,60,183	19,00,000	3,80,000	22,80,000	4,06,100	18,86,283
31st March, 2023	18,86,283	19,00,000	1,90,000	20,90,000	2,03,717*	

* Difference of ₹ 2 (2,03,719 – 2,03,717) is due to approximation.

(i) On 1st April, 2018

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr.	93,19,088	
To Loan from bank A/c		93,19,088
(Being loan recorded at its fair value less transaction costs on the initial recognition date)		

(ii) On 31st March, 2019

Particulars	Dr. (₹)	Cr. (₹)
Loan from bank A/c Dr.	18,43,538	
Interest expense Dr.	10,06,462	
To Bank A/c		28,50,000
(Being first instalment of loan and payment of interest accounted for as an adjustment to the amortised cost of loan)		

(iii) On 31st March, 2020– Before KUPA Ltd. approached the bank

Particulars	Dr. (₹)	Cr. (₹)
Interest expense Dr.	8,07,359	
To Loan from bank A/c		47,359
To Bank A/c		7,60,000
(Being loan payment of interest recorded by the Company before it approached the Bank for deferment of principal)		

Reason for treating the modification as a fresh loan:

Upon receiving the new terms of the loan, KUPA Ltd., re-computed the carrying value of the loan by discounting the new cash flows with the original effective interest rate and comparing the same with the current carrying value of the loan. As per requirements of Ind AS 109, any change of more than 10% shall be considered a substantial modification, resulting in fresh accounting for the new loan.

The following table shows the present value (PV) of new contractual cash flows and percentage of variation:

Date	Cash flows (principal)	Interest outflow @ 15%	Total cash outflow	Discounting factor @ 10.80%	PV of cash flows
31st March, 2020	(76,00,000)				

31st March, 2021	9,50,000	11,40,000	20,90,000	0.903	18,87,270
31st March, 2022	9,50,000	9,97,500	19,47,500	0.815	15,87,213
31st March, 2023	9,50,000	8,55,000	18,05,000	0.735	13,26,675
31st March, 2024	9,50,000	7,12,500	16,62,500	0.664	11,03,900
31st March, 2025	9,50,000	5,70,000	15,20,000	0.599	9,10,480
31st March, 2026	9,50,000	4,27,500	13,77,500	0.540	7,43,850
31st March, 2027	9,50,000	2,85,000	12,35,000	0.488	6,02,680
31st March, 2028	9,50,000	1,42,500	10,92,500	0.440	4,80,700
PV of new contractual cash flows discounted @ 10.80%					86,42,768
Carrying amount of loan (93,19,088 - 18,43,538 + 47,359)					(75,22,909)
Difference					11,19,859
Percentage of carrying amount					14.89%

Decision Making:

Considering a more than 10% change in PV of cash flows compared to the carrying value of the loan, the existing loan shall be considered to have been extinguished and the new loan shall be accounted for as a separate financial liability.

The accounting entries for the same are included below:

On 31st March, 2020 – Accounting for extinguishment

Particulars		**Dr. (₹)**	**Cr. (₹)**
Loan from bank (old) A/c	Dr.	75,22,909	
Finance cost	Dr.	77,091	
To Loan from bank (new) A/c			76,00,000
(Being new loan accounted for at its principal amount in absence of any transaction costs directly related to such loan and corresponding derecognition of existing loan)			

(iv) On 31st March, 2021

Particulars		**Dr. (₹)**	**Cr. (₹)**
Loan from bank A/c	Dr.	9,50,000	
Interest expense	Dr.	11,40,000	
To Bank A/c			20,90,000
(Being first instalment of the new loan and payment of interest accounted for as an adjustment to the amortised cost of loan)			

(b) Computation of balance total equity as on 1st April, 2019 after transition to Ind AS

			₹ in lakh
Share capital- Equity share Capital			760.00
Other Equity			
General Reserve		380.00	
Capital Reserve		40.00	
Retained Earnings (910.00 – 380.00 – 40.00)	490.00		
Add: Increase in value of land (95.00 – 42.75)	52.25		
Add: Derecognition of proposed dividend (5.70 + 1.65)	7.35		
Add: Transfer of cumulative translation difference balance to retained earnings	2.00		
Add: Increase in value of Investment (25.75 – 18.62)	7.13	558.73	978.73
Balance total equity as on 1st April, 2019 after transition to Ind AS			1,738.73

Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1st April, 2019

		₹ in lakh
Equity share capital		760.00
Redeemable Preference share capital		180.00
		940.00
Reserves and Surplus		910.00
Total Equity as per AS		1,850.00
Adjustment due to reclassification:		
Preference share capital classified as financial liability		(180.00)
Adjustment due to de-recognition:		
Proposed dividend not considered as liability as on 1st April, 2019		7.35
Adjustment due to re-measurement:		
Increase in the value of Land due to re-measurement at fair value	52.25	
Resetting of cumulative translation difference balance to zero in Ind AS Transition date Balance Sheet	2.00	

Increase in the value of investment due to re-measurement at fair value	7.13	61.38
Equity as on 1st April, 2019 after transition to Ind AS		1,738.73

Question 2

(a) *Sun Limited and Moon Limited amalgamated from 1st April, 2021. A new company Sunmoon Limited with shares of ₹ 10 each was formed to take over the businesses of the existing companies.*

Summarised Balance Sheet as on 31st March, 2021

Particulars	*Note No.*	*Sun Limited (₹)*	*Moon Limited (₹)*
ASSETS			
Non-current assets			
Property, plant and equipment		*1,70,00,000*	*1,50,00,000*
Financial assets			
Investment		*21,00,000*	*11,00,000*
Current assets			
Inventory		*25,00,000*	*55,00,000*
Financial assets			
Trade receivables		*36,00,000*	*80,00,000*
Cash and cash equivalent		*9,00,000*	*8,00,000*
Total		***2,61,00,000***	***3,04,00,000***
EQUITY AND LIABILITIES			
Equity			
Equity share capital (FV ₹ 10 each)		*1,20,00,000*	*1,40,00,000*
Other equity	*1*	*61,00,000*	*54,00,000*
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings (12% Debentures)		*60,00,000*	*80,00,000*
Current liabilities			
Financial liabilities			
Trade payables		*20,00,000*	*30,00,000*
Total		***2,61,00,000***	***3,04,00,000***

Notes to Accounts:

	Sun Limited ₹	Moon Limited ₹
Other equity		
General reserve	30,00,000	40,00,000
Profit & Loss	20,00,000	10,00,000
Investment allowance reserve	10,00,000	2,00,000
Export profit reserve	1,00,000	2,00,000
	61,00,000	54,00,000

Sunmoon Limited issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies. Also, the new debentures were issued in exchange of the old series of both the companies.

Compute purchase consideration and advice discharge thereof by preparing a note and draft the Balance Sheet of Sunmoon Limited assuming that Sun Limited and Moon Limited are not under common control and management of larger entity out of Sun Limited and Moon Limited will take over the control of the entity Sunmoon Limited.

The fair value of net assets as at 31st March, 2021 of Sun Limited and Moon Limited are as follows:

Assets	Sun Limited ₹	Moon Limited ₹
Property, Plant and Equipment	1,90,00,000	1,70,00,000
Inventory	26,00,000	58,00,000
Fair value of the Business	2,20,00,000	2,80,00,000

(14 Marks)

(b) *In the year 2020-2021, one land was sold for ₹ 5 crore and another land purchased for ₹ 3 crore by XYZ Limited. Company reported Cash Flow on a Net Basis in Cash Flow Statement i.e. ₹ 2 crore in Investing Activity as Cash receipt from Sale of Land. Advise whether treatment given as above is correct or not as per the provisions of Ind AS 7.*

Also, calculate the cash from operations by indirect method from the following information:

Operating Statement of XYZ Limited for the year ended 31st March, 2021

Particulars	₹
Sales	20,00,000
Less: Cost of goods sold	(14,00,000)

Administration & selling overheads	*(2,20,000)*
Depreciation	*(28,000)*
Interest paid	*(12,000)*
Loss on sale of asset	*(8,000)*
Profit before tax	*3,32,000*
Less: Tax	*(1,20,000)*
Profit after tax	*2,12,000*

Balance Sheet as on 31st March

	2021 (₹)	*2020 (₹)*
Assets		
Non-current assets		
Property, plant and equipment	*3,00,000*	*2,60,000*
Investment	*48,000*	*40,000*
Current assets		
Inventories	*48,000*	*52,000*
Trade receivables	*40,000*	*28,000*
Cash and cash equivalents	*24,000*	*20,000*
Total	***4,60,000***	***4,00,000***
Equity and liabilities		
Shareholders' funds	*2,40,000*	*2,00,000*
Non-current Liabilities	*1,32,000*	*1,40,000*
Current liabilities		
Trade payables	*48,000*	*32,000*
Expenses payables	*40,000*	*28,000*
Total	***4,60,000***	***4,00,000***

(6 Marks)

Answer

(a) 1. Determination of larger entity out of Sun Ltd. and Moon Ltd.

The management of a larger entity (out of Sun Limited and Moon Limited) will take the control of the Sunmoon Ltd. Since, here Sun Ltd. and Moon Ltd. are not under common control and hence accounting prescribed under Ind AS 103 for business combination will be applied. As per the accounting guidance provided in

Ind AS 103, sometimes the legal acquirer may not be the accounting acquirer. In the given scenario although Sunmoon Ltd. is issuing the shares but management of a larger entity out of Sun Ltd. and Moon Ltd. will have control of Sunmoon Ltd.

This can be determined by the following table: **(₹)**

		Sun Ltd.	**Moon Ltd.**
Fair Value	A	2,20,00,000	2,80,00,000
Value per share	B	10	10
Number of shares	A/B = C	22,00,000	28,00,000
Total number of shares in Sunmoon Ltd. will be 50,00,000 shares (22,00,000 + 28,00,000)			
Thus, % held by each company in Sunmoon Ltd.	[(C/50,00,000) x 100]	**44%**	**56%**

Note: It is a case of Reverse Acquisition. Since post-merger, Moon Ltd. is bigger in size which is a clear indicator that Moon Ltd. will have control of Sunmoon Ltd. and will be considered as an accounting acquirer. Accordingly, Moon Ltd.'s assets and liabilities will be recorded at historical cost in the merged financial statements.

2. **Computation of Purchase Consideration and the manner in which it will be discharged**

Number of shares to be issued by Moon Ltd. to Sun Ltd. to maintain the same percentage i.e. 56%

Since 14,00,000 shares of Moon Ltd. (given in the balance sheet) represent 56%, the total number of shares would be 25,00,000 shares (14,00,000 shares / 56%).

This implies Moon Ltd. would need to issue 11,00,000 shares (25,00,000 – 14,00,000) to Sun Ltd.

Purchase Consideration = 11,00,000 shares x ₹ 20 per share (ie. 2,80,00,000 / 14,00,000 shares) = ₹ 2,20,00,000.

3. **Balance Sheet of Sunmoon Ltd. as on 1.4.2021**

ASSETS	**Note No.**	**Amount ₹**
Non-current assets		
Property, Plant and Equipment (1,90,00,000 + 1,50,00,000)		3,40,00,000

Goodwill (Refer Working Note)		18,00,000
Financial assets		
Investment (21,00,000 + 11,00,000)		32,00,000
Current assets		
Inventory (26,00,000 + 55,00,000)		81,00,000
Financial assets		
Trade receivables (36,00,000 + 80,00,000)		1,16,00,000
Cash and Cash equivalent (9,00,000 + 8,00,000)		17,00,000
		6,04,00,000
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of ₹ 10 each)	1	2,50,00,000
Other equity	2	1,64,00,000
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings (12% Debentures) (60,00,000 + 80,00,000)	3	1,40,00,000
Current liabilities		
Financial liabilities		
Trade payables (20,00,000 + 30,00,000)		50,00,000
		6,04,00,000

Notes to Accounts

		(₹)	(₹)
1.	**Share Capital**		
	25,00,000 Equity Shares of ₹ 10 each (14,00,000 to Moon Ltd. and 11,00,000 as computed above, to Sun Ltd.)		2,50,00,000
2.	**Other Equity**		
	General reserve of Moon Ltd.	40,00,000	

	Profit and loss of Moon Ltd.	10,00,000	
	Export profit reserve of Moon Ltd.	2,00,000	
	Investment allowance reserve of Moon Ltd.	2,00,000	
	Security premium (11,00,000 shares x ₹ 10)	1,10,00,000	1,64,00,000
3.	**Long Term Borrowings**		
	12% Debentures		1,40,00,000

Working Note:

Computation of Goodwill

Assets:		₹
Property, plant and equipment		1,90,00,000
Investment		21,00,000
Inventory		26,00,000
Trade receivables		36,00,000
Cash & cash equivalent		9,00,000
Total assets		2,82,00,000
Less: Liabilities:		
Borrowings (12% Debentures)		(60,00,000)
Trade payables		(20,00,000)
Net assets	A	2,02,00,000
Purchase consideration	B	2,20,00,000
Goodwill	(B-A)	18,00,000

(b) (i) Correct treatment of cash flow:

If nothing is specifically mentioned, then as per Ind AS 7, the cash flows will be presented on gross basis. Gross basis means the receipts would be shown separately and the payments will be shown separately.

Accordingly, in the year 2020-2021, while presenting the information, entity will show separately cash outflow from investing activity of ₹ 3 crore for purchase of land and cash inflow from investing activity of ₹ 5 crore from sale of land.

(ii) Cash flow from Operations by Indirect Method

	₹
Profit After Tax	2,12,000
Add back / (Less): Depreciation	28,000

Interest paid	12,000
Loss on sale of an asset	8,000
	2,60,000
Adjustments for changes in inventory and operating receivables and payables	
Decrease in inventory	4,000
Increase in trade receivables	(12,000)
Increase in trade payables	16,000
Increase in expenses payables	12,000
Net cash generated from operating activity	2,80,000

Question 3

(a) Hari Ltd. purchased an equipment for 10,200 CAD from Canada supplier on credit basis on 31st January, 2020. Hari Ltd.'s functional currency is INR. The fair value of the equipment determined on 31st March, 2020 is 12,100 CAD. The payment to overseas supplier done on 31st March 2021 and the fair value of the equipment remains unchanged for the year ended on 31st March, 2021.

The exchange rates are as follow:

- *On the date of transaction - 1 CAD = INR 57.68*
- *On 31st March, 2020 - 1 CAD = INR 62.12*
- *On 31st March 2021 -1 CAD = INR 69.24*

Prepare the journal entries for the year ended on 31st March, 2020 and 31st March, 2021 according to Ind AS 21. Tax rate is 25%. Hari Ltd. follows revaluation model as per Ind AS 16 in respect of Property Plant & Equipment. ***(5 Marks)***

(b) PC Ltd. got incorporated on 1st April, 2020. As on 31.3.2021, the following temporary differences exist:

(i) Taxable temporary differences relating to accelerated depreciation of ₹ 1,24,000. These are expected to reverse equally over next 4 years.

(ii) Deductible temporary difference relating to preliminary expenses of ₹ 80,000 expected to reverse equally over next 5 years.

It is expected that PC Ltd. will continue to make losses for next 5 years. Tax rate is 20%. Losses can be carried forward but not backwards.

Discuss the treatment of deferred tax as on 31st March, 2021 as per relevant Ind AS.

(5 Marks)

(c) *An entity has a fixed fee contract for ₹ 22,00,000 to develop a product that meets specified performance criteria. Estimated cost to complete the contract is ₹ 20,00,000. The entity will transfer control of the product over five years and the entity uses the cost-to-cost input method to measure progress on the contract. An incentive award is available if the product meets the following weight criteria:*

Weight (Kg)	*Award % of Fixed Fee*	*Incentive Fee (₹)*
951 or greater	*0%*	*Nil*
701 - 950	*10%*	*2,20,000*
700 or less	*25%*	*5,50,000*

The entity has extensive experience creating products that meet the specific performance criteria. Based on its experience, the entity has identified five engineering alternatives that will achieve the 10% incentive and two that will achieve the 25% incentive. In this case, the entity determined that it has 90% confidence that it will achieve the 10% incentive and 10% confidence that it will achieve 25% incentive. Based on this analysis, the entity believes 10% to be the most likely amount when estimating the transaction price. Therefore, the entity includes only the 10% award in the transaction price when calculating revenue because the entity has concluded it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved due to its 90% confidence in achieving the 10% award.

The entity reassesses its production status quarterly to determine whether it is on track to meet the criteria for the incentive award. At the end of the year four, it becomes apparent that this contract will fully achieve the weight-based criteria. Therefore, the entity revises its estimate of variable consideration to include the entire 25% incentive fee in the year four because, at this point, it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur when including the entire variable consideration in the transaction price. Analyse the impact of changes in variable consideration when cost incurred is as follows:

Year	*₹*
1	*1,20,000*
2	*3,70,000*
3	*8,20,000*
4	*5,70,000*
5	*1,20,000*

Calculate yearly Revenue, Operating Profit and Margin (%). For simplification purposes, calculate revenue for the year independently based on costs incurred during the year *divided by total expected costs, with the assumption that total expected costs do not change.* ***(10 Marks)***

Answer

(a) Journal Entries

Purchase of an equipment on credit basis on 30th January 2020:

	₹	₹
Equipment A/c (10,200 CAD x ₹ 57.68) Dr.	5,88,336	
To Creditors – Equipment A/c		5,88,336
(Being initial transaction recorded at exchange rate on the date of transaction)		

Exchange difference arising on translating monetary item on 31st March 2020:

	₹	₹
Profit & Loss A/c [(10,200 CAD x ₹ 62.12) – (10,200 CAD x ₹ 57.68)] Dr.	45,288	
To Creditors – Equipment A/c		45,288
(Being loss on exchange difference recognised)		
Equipment A/c Dr.	1,09,592	
To Revaluation Surplus (OCI)		1,09,592
(Being equipment revalued to 12,100 CAD [₹ 57.68 x (12,100 CAD – 10,200 CAD)])		
Equipment A/c Dr.	53,724	
To Revaluation Surplus (OCI)		53,724
(Being equipment measured at the exchange rate on 31.3.2020 [12,100 CAD x (₹ 62.12 - ₹ 57.68)]		
Revaluation Surplus (OCI) [(1,09,592 + 53,724) x 25%] Dr.	40,829	
To Deferred Tax Liability		40,829
(Being DTL created @ 25% of the total OCI amount)		

Exchange difference arising on translating monetary item and settlement of creditors on 31st March 2021:

	₹	₹
Creditors - Equipment A/c (10,200 CAD x ₹ 62.12) Dr.	6,33,624	
Profit & loss A/c [(10,200 CAD x (₹ 69.24 -₹ 62.12)] Dr.	72,624	
To Bank A/c		7,06,248
(Being final settlement of creditors done)		

Equipment A/c [(12,100 CAD x (₹ 69.24 - ₹ 62.12)] Dr. To Revaluation Surplus (OCI) (Being equipment revalued)	86,152	 86,152
Revaluation Surplus (OCI) (86,152 x 25%) Dr. To Deferred Tax Liability (Being DTL created @ 25% of the total OCI amount)	21,538	 21,538

(b) The year-wise anticipated reversal of temporary differences is as under:

Particulars	**Year ending on 31st March, 2022**	**Year ending on 31st March, 2023**	**Year ending on 31st March, 2024**	**Year ending on 31st March, 2025**	**Year ending on 31st March, 2026**
Reversal of taxable temporary difference relating to accelerated depreciation over next 4 years (₹ 1,24,000 / 4)	31,000	31,000	31,000	31,000	Nil
Reversal of deductible temporary difference relating to preliminary expenses over next 5 years (₹ 80,000 / 5)	16,000	16,000	16,000	16,000	16,000

Recognition of deferred tax liability:

PC Ltd. will recognise a deferred tax liability of ₹ 24,800 on taxable temporary difference relating to accelerated depreciation of ₹ 1,24,000 @ 20%.

Recognition of deferred tax asset:

However, it will limit and recognise a deferred tax asset on reversal of deductible temporary difference relating to preliminary expenses reversing up to year ending 31st March, 2025 amounting to ₹ 12,800 (₹ 64,000 @ 20%).

Reversal of deferred tax asset:

No deferred tax asset shall be recognized for the reversal of deductible temporary difference for the year ending on 31st March, 2026 as there are no taxable temporary differences. Further, the future estimation is also a loss. However, if there are tax planning opportunities that could be identified for the year ending on 31st March, 2026, deferred tax asset on the remainder of ₹ 16,000 (₹ 80,000 – ₹ 64,000) of deductible temporary difference could be recognised at the 20% tax rate.

(c) Table showing Yearly Revenue, Operating Profit and Margin (%)

Fixed consideration	A	22,00,000				
Estimated costs to complete	B	20,00,000				
		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Total estimated variable consideration	C	2,20,000	2,20,000	2,20,000	5,50,000	5,50,000
Fixed revenue	D=A x H/B	1,32,000	4,07,000	9,02,000	6,27,000	1,32,000
Variable revenue	E=C x H/B	13,200	40,700	90,200	1,56,750	33,000
Cumulative revenue adjustment	F (see below)	—	—	—	2,16,150	—
Total revenue	G=D+E+F	1,45,200	4,47,700	9,92,200	9,99,900	1,65,000
Costs	H	1,20,000	3,70,000	8,20,000	5,70,000	1,20,000
Operating profit	I=G–H	25,200	77,700	1,72,200	4,29,900	45,000
Margin (rounded off)	J=I/G	17.36%	17.36%	17.36%	42.99%	27.27%

In practice, under the cost-to-cost measure of progress, total revenue for each period is determined by multiplying the total transaction price (fixed and variable) by the ratio of cumulative cost incurred to total estimated costs to complete, less revenue recognized to date.

Calculation of cumulative catch-up adjustment:			
Updated variable consideration	L		5,50,000
Cumulative costs through Year 4	M	18,80,000	
Estimated costs to complete	N	20,00,000	
Percent complete in Year 4: (rounded off)	O=M/N		94%
Cumulative variable revenue through Year 4:	P		3,00,850
Cumulative catch-up adjustment	F=[(LxO)–P]		2,16,150

Question 4

(a) • *Jakob Ltd. entered into a contract for lease of machinery with Jason Ltd. on 1.1.2018. The initial term of the lease is 6 years with a renewal option of further 2 years.*

• *The annual payments for initial term and renewal term are ₹ 2,80,000 and ₹ 3,50,000 respectively.*

- *The annual lease payment will increase based on the annual increase in the CPI at the end of the preceding year. For example, the payment due on 1.1.2019 will be based on the CPI available at 31.12.2018.*
- *Jakob Ltd.'s incremental borrowing rate at the lease inception date and as at 1.1.2021 is 8% and 10% respectively and the CPI at lease commencement date and as at 1.1.2021 is 250 and 260 respectively.*
- *At the lease commencement date, Jakob Ltd. did not think that it will be a viable option to renew the lease but in the first quarter of 2021, Jakob Ltd. made some major changes in the retail store which increases its economic life by five years.*
- *Jakob Ltd. determined that it would only recover the cost of the improvements if it exercises the renewal option, creating a significant economic incentive to extend.*

Jakob Ltd. asked your opinion whether remeasurement of lease is required in the first quarter of 2021. ***(10 Marks)***

(b) Georgy Ltd. gave its key management an option to take either 810 equity shares or cash amount equivalent to 650 equity shares on 1st April, 2020. The minimum service requirement is 2 years. If shares are opted then they are to be kept for at least 4 years.

Fair value of the shares	*₹*
Fair value for share alternative (with restrictions)	*460*
Grant date fair value on 1st April, 2020	*480*
Fair value on 31st March, 2021	*530*
Fair value on 31st March, 2022	*560*

Pass the necessary Journal Entries for the years ended 31st March, 2021 & 2022 if the key management exercises the cash option at the end of 2022. ***(6 Marks)***

(c) Pharma Ltd. manufactures surgical items. Pharma Ltd. has shown a net profit of ₹ 50,00,000 for the second quarter of 2020-2021.

Following adjustments are made while computing the net profit:

(i) Bad debts of ₹ 2,60,000 incurred during the quarter. 40% of the bad debts have been deferred to the next quarter.

(ii) Additional depreciation of ₹ 5,20,000 resulting from the change in the method of depreciation.

(iii) Exceptional loss of ₹ 8,16,000 incurred during the second quarter. 60% of exceptional loss has been deferred to next quarter.

(iv) ₹ 4,70,000 expenditure on account of sales expenses pertaining to the second quarter is deferred on the argument that the third quarter will have more sales,

therefore, third quarter should be debited by higher expenditure. The expenditures are uniform throughout all quarters.

Analyse and ascertain the correct net profit to be shown in the interim financial results of the second quarter to be presented to the Board of Directors as per Ind AS 34.

(4 Marks)

OR

(c) Mr. Q has determined the valuation of Rhythm Ltd. by two approaches i.e., Market Approach and Income Approach and selected the highest as the final value but the management of Rhythm Ltd. is not satisfied and requests you to determine the fair value of shares of Rhythm Ltd. by assigning the weights to Market Approach and Income Approach in the ratio of 7:3.

Determine the Equity value on the basis of details given below:

Particulars	*₹*
Valuation as per Market Approach	*35,82,380*
Valuation as per Income Approach	*21,99,930*
Debt obligation as on measurement date	*9,96,812*
Surplus cash & cash equivalent	*2,10,388*
Fair value of surplus assets and liabilities	*3,12,449*
Number of shares of Rhythm Ltd.	*1,06,680 shares*

(4 Marks)

Answer

(a) Since in the first quarter of 2021, Jakob Ltd. is reasonably certain that it will exercise its renewal option, it is required to re-measure the lease in the first quarter of 2021.

The following table summarizes information pertinent to the lease re-measurement:

Re-measured lease term	**5 years (3 years remaining in the initial term plus 2 years in the renewal period)**
Jakob Ltd.'s incremental borrowing rate on the re-measurement date	10%
CPI available on the re-measurement date	260
Right-of-use asset immediately before the re-measurement	₹ 6,99,019 (Refer note 2)
Lease liability immediately before the re-measurement	₹ 7,79,417 (Refer note 2)

Procedure to re-measure the lease liability:

To re-measure the lease liability, Jakob Ltd. would first calculate the present value of the future lease payments for the new lease term (using the updated discount rate of 10%).

Since the initial lease payments were based on a CPI of 250, the CPI has increased by 4% [{(260-250)/250} x 100]. As a result, Jakob Ltd. would increase the future lease payments by 4%.

Computation of present value of the future lease payments based on an updated CPI of 260:

	Year					Total
	4	5	6	7	8	
Lease payment	2,91,200	2,91,200	2,91,200	3,64,000	3,64,000	16,01,600
Discount @ 10%	1	0.909	0.826	0.751	0.683	
Present value	2,91,200	2,64,701	2,40,531	2,73,364	2,48,612	13,18,408

Calculation of the adjustment to the lease liability on re-measurement by comparing the recalculated and original lease liability balances on the re-measurement date:

Revised lease liability	13,18,408
Original lease liability	(7,79,417)
Adjustment to the lease liability on re-measurement	5,38,991

Based on above calculations, it is clear that re-measurement of lease is required and accordingly adjustment to lease liability and ROU asset is required in the first quarter of 2021.

Journal entry to adjust the lease liability

ROU Asset	Dr.	5,38,991	
To Lease liability			5,38,991
(Being lease liability and ROU asset adjusted on account of re-measurement)			

Working Notes:

1. Calculation of ROU asset before the date of re-measurement

Year beginning	Lease Payment (A)	Present value factor @ 8% (B)	Present value of lease payments (A x B = C)
1	2,80,000	1.000	2,80,000
2	2,80,000	0.926	2,59,280
3	2,80,000	0.857	2,39,960
4	2,80,000	0.794	2,22,320

5	2,80,000	0.735	2,05,800
6	2,80,000	0.681	1,90,680
Lease liability as at the commencement date			13,98,040

Or

(2,80,000 x Sum of PV (4.993) @ 8% for 5 years = 13,98,040)

2. **Calculation of Lease Liability and ROU asset at each year end**

Year	Lease Liability				ROU asset		
	Initial value	**Lease payments**	**Interest expense @ 8%**	**Closing balance**	**Initial Value**	**Depreciation for 6 years**	**Closing balance**
	a	**b**	**c = (a-b) x 8%**	**d = a-b+c**			
1	13,98,040	2,80,000	89,443	12,07,483	13,98,040	2,33,007	11,65,033
2	12,07,483	2,80,000	74,199	10,01,682	11,65,033	2,33,007	9,32,026
3	10,01,682	2,80,000	57,735	7,79,417	9,32,026	2,33,007	6,99,019
4	7,79,417				6,99,019		

As per the information given in the third bullet point at page 10, it is inferred that annual lease payments are due at the beginning of the year. Hence, it can be inferred that the annual lease payment of 2021 had been paid on 1.1.2021. Accordingly lease liability considered for the purpose of remeasurement would be of 5th, 6th, 7th and 8th year only i.e. for 4 years. However, since remeasurement has been decided in the first quarter of 2021, ROU asset balance before remeasurement will be after depreciation of 3 years i.e. till 2020.

Based on the above contention, following **alternative solutio**n is also possible:

Since in the first quarter of 2021, Jakob Ltd. is reasonably certain that it will exercise its renewal option, it is required to re-measure the lease in the first quarter of 2021.

The following table summarizes information pertinent to the lease re-measurement:

Re-measured lease term	**4 years (2 years remaining in the initial term plus 2 years in the renewal period)**
Jakob Ltd.'s incremental borrowing rate on the re-measurement date	10%
CPI available on the re-measurement date	260
Right-of-use asset immediately before the re-measurement	₹ 6,99,019 (Refer note 2)
Lease liability immediately before the re-measurement	₹ 5,39,370 (Refer note 2)

Procedure to re-measure the lease liability:

To re-measure the lease liability, Jakob Ltd. would first calculate the present value of the future lease payments for the new lease term (using the updated discount rate of 10%).

Since the initial lease payments were based on a CPI of 250, the CPI has increased by 4% [{(260-250)/250} x 100]. As a result, Jakob Ltd. would increase the future lease payments by 4%.

Computation of present value of the future lease payments based on an updated CPI of 260:

	Year				Total
	5	6	7	8	
Lease payment	2,91,200	2,91,200	3,64,000	3,64,000	13,10,400
Discount @ 10%	1	0.909	0.826	0.751	
Present value	2,91,200	2,64,701	3,00,664	2,73,764	11,30,329

Calculation of the adjustment to the lease liability on re-measurement by comparing the recalculated and original lease liability balances on the re-measurement date:

Revised lease liability	11,30,329
Original lease liability	(5,39,370)
Adjustment to the lease liability on re-measurement	5,90,959

Based on above calculations, it is clear that re-measurement of lease is required and accordingly adjustment to lease liability and ROU asset is required in the first quarter of 2022.

Journal entry to adjust the lease liability

ROU Asset	Dr.	5,90,959	
To Lease liability			5,90,959
(Being lease liability and ROU asset adjusted on account of re-measurement)			

Working Notes:

1. **Calculation of ROU asset before the date of re-measurement**

Year beginning	Lease Payment (A)	Present value factor @ 8% (B)	Present value of lease payments (A x B = C)
1	2,80,000	1.000	2,80,000
2	2,80,000	0.926	2,59,280

3	2,80,000	0.857	2,39,960
4	2,80,000	0.794	2,22,320
5	2,80,000	0.735	2,05,800
6	2,80,000	0.681	1,90,680
Lease liability as at commencement date			13,98,040

Or

(2,80,000 x sum of PV (4.993) @ 8% for 5 years = 13,98,040)

2. Calculation of Lease Liability and ROU asset at each year end

Year	**Lease Liability**				**ROU asset**		
	Initial value	**Lease payments**	**Interest expense @ 8%**	**Closing balance**	**Initial Value**	**Depreciation for 6 years**	**Closing balance**
	a	**b**	**c = (a-b) x 8%**	**d = a-b+c**			
1	13,98,040	2,80,000	89,443	12,07,483	13,98,040	2,33,007	11,65,033
2	12,07,483	2,80,000	74,199	10,01,682	11,65,033	2,33,007	9,32,026
3	10,01,682	2,80,000	57,735	7,79,417	9,32,026	2,33,007	6,99,019
4	7,79,417	2,80,000	39,953	5,39,370	6,99,019		
5	5,39,370						

(b)

	1st April, 2020	**31st March, 2021**	**31st March, 2022**
Equity alternative (810 x 460)	3,72,600		
Cash alternative (650 x 480)	3,12,000		
Equity option (3,72,600 – 3,12,000)	60,600		
Cash Option (cumulative) (using period end fair value)		[(650 x 530) x 1/2] 1,72,250	[650 x 560] 3,64,000
Equity Option (cumulative)		30,300	60,600
Expense for the period			
Equity option		30,300	30,300
Cash Option		1,72,250	1,91,750
Total		2,02,250	2,22,050

Journal Entries

31st March, 2021			
Employee benefits expenses	Dr.	2,02,250	
To Share based payment reserve (equity)			30,300
To Share based payment liability			1,72,250
(Recognition of Equity option and cash settlement option)			
31st March, 2022			
Employee benefits expenses	Dr.	2,22,050	
To Share based payment reserve (equity)			30,300
To Share based payment liability			1,91,750
(Recognition of Equity option and cash settlement option)			
Share based payment liability	Dr.	3,64,000	
To Bank/ Cash			3,64,000
(Settlement in cash)			

(c) Either

The quarterly net profit has not been correctly stated. As per Ind AS 34, *Interim Financial Reporting*, the quarterly net profit should be adjusted and restated as follows:

(i) The treatment of bad debts is not correct as the expenses incurred during an interim reporting period should be recognised in the same period. Accordingly, ₹ 1,04,000 (₹ 2,60,000 x 40%) should be deducted from ₹ 50,00,000 in the second quarter itself.

(ii) Recognising additional depreciation of ₹ 5,20,000 in the same quarter is correct and is in tune with Ind AS 34.

(iii) Treatment of exceptional loss is not as per the principles of Ind AS 34, as the entire amount of ₹ 8,16,000 incurred during the second quarter should be recognized in the same quarter. Hence ₹ 4,89,600 (ie. ₹ 8,16,000 x 60%) which was deferred for next quarter should be deducted from the profits of second quarter only.

(iv) (a) As per Ind AS 34 the income and expense should be recognised when they are earned and incurred respectively. As per para 39 of Ind AS 34, the costs should be anticipated or deferred only when it is appropriate to anticipate or defer that type of cost at the end of the financial year; and

(b) Costs are incurred unevenly during the financial year of an enterprise.

Therefore, the treatment done relating to deferment of ₹ 4,70,000 is not correct as expenditures are uniform throughout all quarters.

Thus, considering the above, the correct net profits to be shown in Interim Financial Report of the second quarter shall be

		₹
Net Profit of second quarter		50,00,000
Adjustments		
Less: Bad debts wrongly deferred to third quarter	1,04,000	
Exceptional loss wrongly deferred to third quarter	4,89,600	
Sales expenses wrongly deferred to third quarter	4,70,000	(10,63,600)
Revised Profit		39,36,400

(c) **Or**

Equity Valuation of Rhythm Ltd.

Particulars	**Weights out of 10**	**(₹)**
As per Market Approach	7	35,82,380
As per Income Approach	3	21,99,930
Enterprise Valuation based on weights (35,82,380 x 70%) + (21,99,930 x 30%)		31,67,645
Less: Debt obligation as on measurement date		(9,96,812)
Add: Surplus cash & cash equivalent		2,10,388
Add: Fair value of surplus assets and liabilities		3,12,449
Enterprise value of Rhythm Ltd.		26,93,670
No. of shares		1,06,680
Value per share		25.25

Question 5

(a) Ram Limited is a company incorporated In India. It provides ₹ 25,00,000 interest free loan to its wholly owned Indian subsidiary Balram Limited. There are no transaction costs.

How should the loan be accounted for, in the light of provisions of related Ind AS, in the books of Ram Limited, Balram Limited and Consolidated Financial Statements of the group, considering the following scenarios:

(i) The loan is repayable on demand.

(ii) The loan is repayable after 3 years. The current market rate of interest for similar loan is 12% p.a. for both holding and subsidiary.

(iii) The loan is repayable when Balram Limited has funds to repay the loan.

Briefly, analyse the above scenarios. Also pass Journal Entries in the books of Ram Limited and Balram Limited in case of Scenario (i) and (ii).

Present value of ₹ 1 payable in 3 years' time at an annual discount rate of 12% is 0.7118.

(12 Marks)

(b) From the following information you are asked to calculate (a) Basic and Diluted EPS of Duck Ltd. and (b) Diluted EPS of Swan Ltd.:

	Duck Ltd.	*Swan Ltd.*
	Amount (₹)	*Amount (₹)*
Income/(Loss) from Continuing Operations	*2,52,000*	*(1,80,000)*
Income/(Loss) from Discontinued Operations	*(4,20,000)*	*3,25,920*
Net Income/(Loss)	*(1,68,000)*	*1,45,920*
Weighted Average Number of Shares outstanding	*80,000*	*96,000*
Incremental common shares outstanding relating to stock options	*16,000*	*25,600*

(8 Marks)

Answer

(a) Requirement of Ind AS: Ind AS 109 requires that financial assets and liabilities are recognized on initial recognition at its fair value, as adjusted for the transaction cost. In accordance with Ind AS 113 'Fair Value Measurement', the fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Using the guidance, the loan will be accounted for as below in various scenarios:

Scenario (i)

Since the loan is repayable on demand, it has fair value equal to cash consideration given. The parent and subsidiary recognize financial asset and liability, respectively, at the amount of loan given. Going forward, no interest is accrued on the loan.

Upon repayment, both the parent and the subsidiary reverse the entries made at origination.

Accounting in the books of Ram Ltd. (Parent)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan**		
	Loan to Balram Ltd. (Subsidiary) Dr.	25,00,000	
	To Bank		25,00,000
	(Being the loan is given to Balram Ltd. and recognised at fair value)		
2.	**At the time the Loan is received back:**		
	Bank Dr.	25,00,000	
	To Loan to Balram Ltd. (Subsidiary)		25,00,000
	(Being demand loan received)		

Accounting in the books of Balram Ltd. (Subsidiary)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan**		
	Bank Dr.	25,00,000	
	To Loan from Ram Ltd.		25,00,000
	(Being the loan is taken from Ram Ltd. and recognised at fair value)		
2.	**On repayment of loan**		
	Loan from Ram Ltd. Dr.	25,00,000	
	To Bank		25,00,000
	(Being demand loan paid)		

Scenario (ii)

Both parent and subsidiary recognize financial asset and liability, respectively, at fair value on initial recognition. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Accounting in the books of Ram Ltd. (Parent)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan**		
	Loan to Balram Ltd. (Subsidiary) Dr.	17,79,500	

	Deemed Investment (Capital Contribution) in Balram Ltd. Dr.	7,20,500	
	To Bank		25,00,000
	(Being the loan is given to Balram Ltd. and recognised at fair value)		
2.	**Accrual of Interest income**		
	Loan to Balram Ltd. Dr.	2,13,540	
	To Interest income		2,13,540
	(Being interest income accrued) – Year 1		
3.	Loan to Balram Ltd. Dr.	2,39,165	
	To Interest income		2,39,165
	(Being interest income accrued) – Year 2		
4.	Loan to Balram Ltd. Dr.	2,67,795	
	To Interest income		2,67,795
	(Being interest income accrued) – Year 3		
5.	**On receipt of loan**		
	Bank Dr.	25,00,000	
	To Loan to Balram Ltd. (Subsidiary)		25,00,000
	(Being term loan received)		

Accounting in the books of Balram Ltd. (Subsidiary)

S. No.	Particulars	Amount	Amount
1.	**On the date of loan**		
	Bank Dr.	25,00,000	
	To Loan from Ram Ltd.		17,79,500
	To Equity (Deemed Capital Contribution from Ram Ltd.)		7,20,500
	(Being the loan is taken from Ram Ltd. and recognised at fair value)		
2.	**Accrual of Interest**		
	Interest expense Dr.	2,13,540	
	To Loan from Ram Ltd.		2,13,540
	(Being interest expense recognised) – Year 1		
3.	Interest expense Dr.	2,39,165	
	To Loan from Ram Ltd.		2,39,165
	(Being interest expense recognised) – Year 2		

4.	Interest expense Dr. To Loan from Ram Ltd. (Being interest expense recognised) – Year 3	2,67,795	 2,67,795
5.	**On repayment of loan** Loan from Ram Ltd. (Payable) Dr. To Bank (Being term loan paid)	 25,00,000	 25,00,000

Working Notes:

1.	**Computation of present value of loan**	
	Rate	12%
	Amount of Loan	25,00,000
	Year	3
	Present Value	17,79,500
2.	**Computation of interest for Year I**	
	Present Value	17,79,500
	Rate	12%
	Period of interest - for 1 year	1
	Closing value at the end of year 1	19,93,040
	Interest for 1st year	2,13,540
3.	**Computation of interest for Year 2**	
	Value of loan as at the beginning of Year 2	19,93,040
	Rate	12%
	Period of interest - for 2nd year	1
	Closing value at the end of year 2	22,32,205
	Interest for 2nd year	2,39,165
4.	**Computation of interest for Year 3**	
	Value of loan as at the beginning of Year 3	22,32,205
	Rate	12%
	Period of interest - for 3rd year	1
	Closing value at the end of year 3	25,00,000
	Interest for 3rd year (25,00,000 – 22,32,205)	2,67,795*

* Difference of ₹ 70 [(22,32,205 x 12%) – 2,67,795] is due to approximation.

Scenario (iii)

Generally, a loan, which is repayable when funds are available, can't be stated to be repayable on demand. Rather, the entities need to estimate repayment date and determine its measurement accordingly. If the loan is expected to be repaid in three years, its measurement will be the same as in scenario (ii).

In the Consolidated Financial Statements (CFS) for all three scenarios (i), (ii) and (iii)

In the Consolidated Financial Statements (CFS), the loan and interest income / expense will get knocked-off as intra-group transaction in all the three scenarios. Hence the above accounting will not have any impact in the CFS.

(b) (a) For Duck Ltd.

I Calculation of Basic EPS

Basic EPS = Profit for the year / Weighted average number of shares outstanding

Basic EPS (Continued Operations) = Profit from continued operations / Weighted average number of shares outstanding

= ₹ 2,52,000 / 80,000 = ₹ 3.15

Basic Loss per share (Discontinued operations) = Loss from discontinued operations / Weighted average number of shares outstanding

= (₹ 4,20,000)/80,000=(₹ 5.25)

Overall Basic Loss per share = (₹ 1,68,000) / 80,000 = (₹ 2.10) (i)

II Calculation of Diluted EPS

Diluted EPS = Profit for the year / Adjusted weighted average number of shares outstanding

EPS (Continued Operations) = Profit from continued operations / Adjusted weighted average number of shares outstanding

= ₹ 2,52,000 / 96,000 = ₹ 2.625

Loss per share (Discontinued operations) = Loss from discontinued operations/ Adjusted weighted average number of shares outstanding

= (₹ 4,20,000) / 96,000 = (₹ 4.375)

Overall Diluted Loss per share = (₹ 1,68,000) / 96,000 = (₹ 1.75) (ii)

Reporting Status:

The income from continuing operations is the control number, there is a dilution in basic EPS for income from continuing operations (reduction of EPS from ₹ 3.15 to ₹ 2.625). Therefore, even though there is an anti-dilution [Loss per share reduced from ₹ 2.10 (i) to ₹ 1.75 (ii) above], diluted loss per share of ₹ 1.75 is reported.

(b) For Swan Ltd.

Treatment of potential shares:

In case of loss from continuing operations, the potential shares are excluded since including those shares would result into anti-dilution effect on the control number (loss from continuing operations).

Therefore, the diluted EPS will be calculated as under:

Diluted EPS = Profit for the year / Adjusted weighted average number of shares outstanding

Overall Profit = Loss from continuing operations + Gain from discontinued operations

= (₹ 1,80,000) + ₹ 3,25,920 = ₹ 1,45,920

Weighted average number of shares outstanding = 96,000

Diluted EPS = ₹ 1,45,920 / 96,000 = ₹ 1.52

Reporting Status:

The dilutive effect of the potential common shares on EPS for income from discontinued operations and net income would not be reported because of the loss from continuing operations.

Question 6

(a) PQR Limited acquired a building for its administrative purposes and presented the same as Property, Plant and Equipment (PPE) in the financial year 2019-2020. During the financial year 2020-2021, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, PQR Limited reclassified it from PPE to Investment Property in the Financial Year 2020-2021. Should PQR Limited account for the change as a change in accounting policy? Examine.

(5 Marks)

(b) M Limited has made a security deposit whose details are given below:

Particulars	*Details*
Date of security deposit (starting date)	*1st April, 2016*
Date of security deposit (finishing date)	*31st March, 2021*
Description	*Lease*
Total lease period	*5 years*
Security deposit	*₹ 20,00,000*
Present value factor at the end of the 5th year	*0.6499*

Determine, how above financial asset should be measured and briefly explain measurement determined as such. Make necessary journal entries for accounting of the security deposit in the first year and last year. Assume market rate for a deposit for similar period to be 9% p.a. ***(5 Marks)***

(c) *In a manufacturing process of Saturn Limited, one by-product BP emerges besides two main products MP1 and MP2 and scrap. Details of cost of production process for financial year 2020-2021 are here under:*

Item	Amount (₹)	Output (Units)	Closing Stock 31.3.2021
Raw Material	6,00,000	MP1- 20,000	1,000
Wages	3,60,000	MP2- 16,000	400
Fixed Overhead	2,60,000	BP- 8,000	
Variable Overhead	2,00,000		

Average Market Price of MP1 and MP2 is ₹ 45.00 per unit and ₹ 37.50 per unit respectively. Average Market Price of by-product BP is ₹ 10 per unit. All the units of by-product BP sold after incurring separate processing charges of ₹ 32,000 and packing charges of ₹ 8,000. ₹ 20,000 was realised from sale of scrap.

Calculate the value of closing stock of MP1 and MP2 as on 31.3.2021. Allocate Joint Cost based on the relative sales value of each product. ***(5 Marks)***

(d) *From the following data, determine in each case:*

(i) *Non-controlling interest at the date of acquisition (using proportionate share method) and at the date of consolidation.*

(ii) *Goodwill or gain on bargain purchase.*

(iii) *Amount of Holding Company's share of profit in the Consolidated Balance Sheet assuming Holding Company's own retained earnings to be ₹ 4,00,000 in each basis.*

Case	Subsidiary Company	% of Shares Owned	Cost	Date of Acquisition 1.4.2020		Consolidation Date 31.3.2021	
				Share Capital (A)	Retained Earnings (B)	Share Capital (C)	Retained Earnings (D)
Case 1	P	90%	2,80,000	2,00,000	1,00,000	2,00,000	1,40,000
Case 2	Q	85%	2,08,000	2,00,000	60,000	2,00,000	40,000
Case 3	R	80%	1,12,000	1,00,000	40,000	1,00,000	40,000
Case 4	S	100%	2,00,000	1,00,000	80,000	1,00,000	1,12,000

The Company has adopted an accounting policy to measure non-controlling interest at NCI's proportionate share of the acquiree's Identifiable Net Assets. It may be assumed that the fair value of acquiree's net identifiable assets is equal to their book values.

(5 Marks)

Answer

(a) Requirement of Ind AS 8:

Paragraph 16(a) of Ind AS 8 provides that the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies

Definition of PPE as per relevant Ind AS:

As per Ind AS 16, 'property, plant and equipment' are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

Definition of Investment Property as per relevant Ind AS: As per Ind AS 40, 'investment property' is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

Analysis and decision making:

As per the above definitions, whether a building is an item of property, plant and equipment (PPE) or an investment property for an entity depends on the purpose for which it is held by the entity. It is thus possible that due to a change in the purpose for which it is held, a building that was previously classified as an item of property, plant and equipment may warrant reclassification as an investment property, or vice versa. Whether a building is PPE or investment property is determined by applying the definitions of these terms from the perspective of that entity.

Thus, the classification of a building as an item of property, plant and equipment or as an investment property is not a matter of an accounting policy choice. Accordingly, a change in classification of a building from property, plant and equipment to investment property due to change in the purpose for which it is held by the entity is not a change in an accounting policy.

(b) The given security deposit is an interest free deposit redeemable at the end of lease term for ₹ 20,00,000. Hence, this involves collection of contractual cash flows and shall be accounted at amortised cost.

Upon initial measurement

Particulars		**₹**
Security deposit	(A)	20,00,000
Present value of deposit at beginning (20,00,000 x 0.6499)	(B)	(12,99,800)
Prepaid lease payment at beginning	(A-B)	**7,00,200**

Journal Entries

Year 1 - beginning

Particulars		**₹**	**₹**
Security deposit A/c	Dr.	12,99,800	
Prepaid lease rent (ROU Asset)	Dr.	7,00,200	
To Bank A/c			20,00,000
(Recognised present value of security deposit and prepaid lease)			

Subsequently, every annual reporting year, interest income shall be accrued @ 9% per annum and prepaid expenses shall be amortised on straight line basis over the lease term.

Year 1 - end

Particulars		**₹**	**₹**
Security deposit A/c (12,99,800 x 9%)	Dr.	1,16,982	
To Interest income A/c			1,16,982
(Recognised interest on security deposit)			
Depreciation (7,00,200 / 5 years)	Dr.	1,40,040	
To Prepaid lease rent (ROU Asset)			1,40,040
(Prepaid lease depreciated for the year)			

Year 5- end

At the end of 5th year, the security deposit shall accrue ₹ 20,00,000 and prepaid lease expenses shall be fully amortised (i.e. depreciated as per Ind AS 116, this prepaid lease rent would be shown as ROU asset).

Journal entry for realisation of security deposit

Particulars		₹	₹
Security deposit A/c (Refer W.N.)	Dr.	1,65,227	
To Interest income A/c			1,65,227
(Recognised interest on security deposit)			
Depreciation (7,00,200 / 5 years)	Dr.	1,40,040	
To Prepaid lease rent (ROU Asset)			1,40,040
(Prepaid lease depreciated for the year)			
Bank A/c	Dr.	20,00,000	
To Security deposit A/c			20,00,000
(Security deposit paid back at the end of the lease term)			

Working Note:

Amortisation schedule

Year end	Opening balance	Interest income	Closing balance
1	12,99,800	1,16,982	14,16,782
2	14,16,782	1,27,510	15,44,292
3	15,44,292	1,38,986	16,83,278
4	16,83,278	1,51,495	18,34,773
5	18,34,773	1,65,227*	20,00,000

* Difference is due to approximation.

(c) (1) Calculation of NRV of By-product BP

		₹
Selling price of by-product	8,000 units x 10 per unit	80,000
Less: Separate processing charges of by-product BP		(32,000)
Packing charges		(8,000)
Net realizable value of by-product BP		40,000

(2) Calculation of cost of conversion for allocation between joint products MP1 and MP2

		₹
Raw material		6,00,000
Wages		3,60,000
Fixed overhead		2,60,000

Variable overhead		2,00,000
		14,20,000
Less: NRV of by-product BP (See calculation 1)	40,000	
Sale value of scrap	20,000	(60,000)
Joint cost to be allocated between MP1 and MP2		13,60,000

(3) Determination of "basis for allocation" and allocation of joint cost to MP1 and MP2

	MP1	**MP2**
Output in units (a)	20,000	16,000
Sales price per unit (b)	₹ 45.00	₹ 37.50
Sales value (a x b)	9,00,000	6,00,000
Ratio of allocation	3	2
Joint cost of ₹ 13,60,000 allocated in the ratio of 3:2 (c)	₹ 8,16,000	₹ 5,44,000
Cost per unit [c/a]	₹ 40.80	₹ 34.00

(4) Determination of value of closing stock of MP1 and MP2

Particulars	**MP1**	**MP2**
Closing stock in units	1,000 units	400 units
Cost per unit	₹ 40.80	₹ 34.00
Value of closing stock	₹ 40,800	₹ 13,600

(d) Non-controlling Interest = the equity in a subsidiary not attributable, directly or indirectly, to a parent. Equity is the residual interest in the assets of an entity after deducting all its liabilities i.e. in this given case Share Capital + Balance in Statement of Profit & Loss (Assuming it to be the net aggregate value of identifiable assets in accordance with Ind AS)

(1) Calculation of amount of NCI at the date of acquisition and consolidation

	% of shares owned by NCI [E]	**Non-controlling interest as at the date of acquisition [E] x [A + B]**	**Non-controlling interest as at the date of consolidation [E] x [C + D]**
Case 1	[100-90] 10%	30,000	34,000
Case 2	[100-85] 15%	39,000	36,000
Case 3	[100-80] 20%	28,000	28,000
Case 4	[100-100] Nil	Nil	Nil

(2) Calculation of Goodwill or Gain on bargain purchase

Case	Consideration [G]	Non-controlling interest [H]	Net Identifiable assets [A] + [B] = [I]	Goodwill [G]+[H] - [I]	Gain on bargain purchase [I]-[G]-[H]
Case 1	2,80,000	30,000	3,00,000	10,000	Nil
Case 2	2,08,000	39,000	2,60,000	Nil	13,000
Case 3	1,12,000	28,000	1,40,000	Nil	Nil
Case 4	2,00,000	Nil	1,80,000	20,000	Nil

(3) In each case the following amount (shown in column No. O) shall be added or deducted from the balance of holding company's retained earnings of ₹ 4,00,000:

Case	% Share Holding [K]	Retained earnings as on 1.4.2020 [L]	Retained earnings as on consolidation date 31.3.2021 [M]	Retained earnings post-acquisition [N] = [M] - [L]	Amount to be added / (deducted) from holding's retained earnings [O] = [K] x [N]
Case 1	90%	1,00,000	1,40,000	40,000	36,000
Case 2	85%	60,000	40,000	(20,000)	(17,000)
Case 3	80%	40,000	40,000	Nil	Nil
Case 4	100%	80,000	1,12,000	32,000	32,000