PAPER – 1 : FINANCIAL REPORTING

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

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Question 1

(a) On 1st April 2017, A Limited acquired 80% of the share capital of S Limited. On acquisition date the share capital and reserves of S Ltd. stood at ₹ 5,00,000 and ₹ 1,25,000 respectively. A Limited paid initial cash consideration of ₹ 10,00,000. Additionally, A Limited issued 2,00,000 equity shares with a nominal value of ₹ 1 per share at current market value of ₹ 1.80 per share.

It was also agreed that A Limited would pay a further sum of ₹ 5,00,000 after three years. A Limited's cost of capital is 10%. The appropriate discount factor for ₹ 1 @ 10% receivable at the end of

1st year: 0.91

2nd year: 0.83

3rd year: 0.75

The shares and deferred consideration have not yet been recorded by A limited.

Below are the Balance Sheet of A Limited and S Limited as at 31st March, 2019:

	A Limited (₹ 000)	S Limited (₹ 000)
Non-current assets:		
Property, plant & equipment	5,500	1,500
Investment in S Limited at cost	1,000	
Current assets:		
Inventory	550	100
Receivables	400	200
Cash	200	50
	7,650	1,850
Equity:		
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	800

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Non-current liabilities	*3,000*	*400*
Current liabilities	*1,250*	*650*
	7,650	*1,850*

Further information:

(i) On the date of acquisition the fair values of S Limited's plant exceeded its book value by ₹ 2,00,000. The plant had a remaining useful life of five years at this date;

(ii) The consolidated goodwill has been impaired by ₹ 2,58,000; and

(iii) The A Limited Group, values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of the 20% non-controlling interest was ₹ 3,80,000.

You are required to prepare Consolidated Balance Sheet of A Limited as at 31st March, 2019. (Notes to Account on Consolidated Balance Sheet is not required).

(15 Marks)

(b) Entity A had obtained a long-term bank loan during January 2019, which is subject to certain financial covenants. One of such covenants states that during the tenure of the loan, debt equity ratio of 65:35 is to be maintained at all time. In case of breach of this covenant, the loan will be repayable immediately. The loan agreement also states that these covenants will be assessed at the end of each quarter and reported to the bank within a month from the end of each quarter. If the covenants are breached at this time, the loan will be repayable immediately. The entity closes its annual accounts as on 31st March every year.

You are required to show how the loan will be classified as on 31st March 2020, if:

(i) At the financial year end, Entity A determines that it is not in breach of any of the covenants;

(ii) At the quarter ending 31st December 2019, Entity A's debt equity ratio became 75:25 and thus breaches the covenant, however it obtains a waiver from the bank. The terms of the waiver specify that if Entity A rectifies the breach within a period of 12 months from the reporting date then the bank cannot demand repayment immediately on account of the breach during this period. Entity A expects to rectify the breach by raising additional equity capital by means of a rights issue to the existing shareholders and expects that the issue will be fully subscribed;

(iii) Considering the same facts as in (ii) above, except obtaining the waiver clause, what would be your answer? ***(5 Marks)***

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Answer

(a) Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd. as at 31st March, 2019

Particulars	₹ in 000s
I. Assets	
(1) Non-current assets	
(i) Property Plant & Equipment (W.N.4)	7,120.00
(ii) Intangible asset – Goodwill (W.N.3)	1,032.00
(2) Current Assets	
(i) Inventories (550 + 100)	650.00
(ii) Financial Assets	
(a) Trade Receivables (400 + 200)	600.00
(b) Cash & Cash equivalents (200 + 50)	250.00
Total Assets	9,652.00
II. Equity and Liabilities	
(1) Equity	
(i) Equity Share Capital (2,000 + 200)	2,200.00
(ii) Other Equity	
(a) Retained Earnings (W.N.6)	1190.85
(b) Securities Premium	160.00
(2) Non-Controlling Interest (W.N.5)	347.40
(3) Non-Current Liabilities (3,000 + 400)	3,400.00
(4) Current Liabilities (W.N.8)	2,353.75
Total Equity & Liabilities	9,652.00

Notes:

1. Since the question required not to prepare Notes to Account, the column of Note to Accounts had not been drawn.
2. It is assumed that shares were issued during the year 2018-2019 and entries are yet to be made.

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Working Notes:

1. **Calculation of purchase consideration at the acquisition date i.e. 1st April, 2017**

	₹ in 000s
Payment made by A Ltd. to S Ltd.	
Cash	1,000.00
Equity shares (2,00,000 shares x ₹ 1.80)	360.00
Present value of deferred consideration (₹ 5,00,000 x 0.75)	375.00
Total consideration	1,735.00

2. **Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 2017**

	₹ in 000s
Share capital of S Ltd.	500.00
Reserves of S Ltd.	125.00
Fair value increase on Property, Plant and Equipment	200.00
Net worth on acquisition date	825.00

3. **Calculation of Goodwill at the acquisition date i.e. 1st April, 2017 and 31st March, 2019**

	₹ in 000s
Purchase consideration (W.N.1)	1,735.00
Non-controlling interest at fair value (as given in the question)	380.00
	2,115.00
Less: Net worth (W.N.2)	(825.00)
Goodwill as on 1st April 2017	1,290.00
Less: Impairment (as given in the question)	258.00
Goodwill as on 31st March 2019	1,032.00

4. **Calculation of Property, Plant and Equipment as on 31st March 2019**

		₹ in 000s
A Ltd.		5,500.00
S Ltd.	1,500.00	

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Add: Net fair value gain not recorded yet	200.00		
Less: Depreciation [(200/5) x 2]	(80.00)	120.00	1,620.00
			7,120.00

5. Calculation of Post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 2019

		₹ in 000s	₹ in 000s
		NCI (20%)	A Ltd. (80%)
Acquisition date balance		380.00	Nil
Closing balance of Retained Earnings	300.00		
Less: Pre-acquisition balance	(125.00)		
Post-acquisition gain	175.00		
Less: Additional Depreciation on PPE [(200/5) x 2]	(80.00)		
Share in post-acquisition gain	95.00	19.00	76.00
Less: Impairment on goodwill	258.00	(51.60)	(206.40)
		347.40	(130.40)

6. Consolidated Retained Earnings as on 31st March 2019

	₹ in 000s
A Ltd.	1,400.00
Add: Share of post-acquisition loss of S Ltd. (W.N.5)	(130.40)
Less: Finance cost on deferred consideration (37.5 + 41.25) (W.N.7)	(78.75)
Retained Earnings as on 31st March 2019	1,190.85

7. Calculation of value of deferred consideration as on 31st March 2019

	₹ in 000s
Value of deferred consideration as on 1st April 2017 (W.N.1)	375.00
Add: Finance cost for the year 2017-2018 (375 x 10%)	37.50
	412.50
Add: Finance cost for the year 2018-2019 (412.50 x 10%)	41.25
Deferred consideration as on 31st March 2019	453.75

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8. Calculation of current Liability as on 31st March 2019

	₹ in 000s
A Ltd.	1,250.00
S Ltd.	650.00
Deferred consideration as on 31st March 2019 (W.N.7)	453.75
Current Liability as on 31st March 2019	2,353.75

(b) Para 74 of Ind AS 1 'Presentation of Financial Statements', states that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

However, an entity classifies the liability as non-current, if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

(i) The entity has obtained a long-term loan during January, 2019. Since repayment period of the loan is not mentioned in the question, it is assumed that on 31st March 2020, the repayment period of the loan is more than 12 months. Further, the entity has not breached the covenants specified in the loan; therefore, as at 31st March, 2020, the loan will be classified as 'non-current liability.

(ii) In the second case, though there is a breach of covenant on 31st December, 2019 i.e. before reporting date of 31st March, 2020, yet the bank had agreed to provide a period of grace for twelve months from the reporting period, within which the entity A can rectify the breach and during this period bank cannot demand immediate repayment. Also, entity A has intention to rectify the breach. Thus, entity A will classify the liability of bank loan as non-current liability in its books as at 31st March, 2020.

(iii) Since the covenant for the bank loan has been breached during the quarter ended 31st December, 2019 and reported to the bank within one month from the end of the quarter i.e. by 31st January, 2020, the bank loan becomes repayable immediately. Therefore, it will be presented as current liability in the books of entity A as on 31st March, 2020.

Question 2

(a) H Ltd. constructed a warehouse at a cost of ₹ 10 lakhs in 2015. It first became available for use by H Ltd. on 1st January 2016. On 29th January 2020, H Ltd. discovered that its warehouse was damaged. During early February 2020, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault

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became apparent when the warehouse building leaked severely after heavy rainfall in the week ended 27th January 2020. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at 31st December 2019. This estimate was ₹ 6,00,000. Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30-year useful life.

Seepage of rain water through the crack in the warehouse caused damage to inventory worth about ₹ 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31st December, 2019. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st December, 2019 were approved for issue by the Board of Directors on 28th February, 2020.

You are required to :

(i) Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st December, 2019. Kindly ignore tax impact;

(ii) Discuss disclosure requirement in above case as per relevant Ind AS; and

(iii) Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31st December, 2019?

(8 Marks)

(b) A Ltd. is a company which is in the business of manufacturing engineering machines and providing after sales services. The company entered into a contract with Mr. Anik to supply and install a machine, namely 'model pi' on 1st April 2018 and to service this machine on 30th September 2018 and 1st April 2019. The cost of manufacturing the machine to A Ltd. was ₹ 1,60,000.

It is possible for a customer to purchase both the machine 'model pi' and the maintenance services separately. Mr. Anik is contractually obliged to pay A Ltd ₹ 4,00,000 on 1st April, 2019.

The prevailing rate for one-year credit granted to trade customers in the industry is 5 percent per six-month period.

As per the experience, the servicing of the machine 'model pi' sold to Mr. Anik is expected to cost A Ltd. ₹ 30,000 to perform the first service and ₹ 50,000 to perform the second service. Assume actual costs equal expected costs. When A Ltd. provides machine services to customers in a separate transaction it earns a margin of 50% on cost. On 1st April, 2018, the cash selling price of the machine 'model pi' sold to Mr. Anik is ₹ 2,51,927.

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The promised supply of machine 'model pi' and maintenance service obligations are satisfactorily carried out in time by the company.

You are required to:

(i) Segregate the components of the transaction that A Ltd. shall apply to the revenue recognition criteria separately as per Ind AS 115;

(ii) Calculate the amount of revenue which A Ltd. must allocate to each component of the transaction;

(iii) Prepare journal entries to record the information set out above in the books of accounts of A Ltd. for the years ended 31st March·2019 and 31st March 2020; and

(iv) Draft an extract showing how revenue could be presented and disclosed in the financial statements of A Ltd. for the year ended 31st March 2019 and 31st March 2020. ***(12 Marks)***

Answer

(a) (i) Journal Entries on 31st December 2019

	₹	₹
Depreciation expense A/c (W.N.1) Dr.	19,608	
To Warehouse or Accumulated depreciation A/c		19,608
(Being additional depreciation expense recognised for the year ended 31st December 2019 arising from the reassessment of the useful life of the warehouse)		
Impairment loss A/c (W.N.2) Dr.	2,47,059	
To Warehouse or Accumulated depreciation A/c		2,47,059
(Being impairment loss recognised due to discovery of structural fault in the construction of warehouse at 31st December 2019)		

(ii) (a) **The damage to warehouse is an adjusting event** (occurred after the end of the year 2019) for the reporting period 2019, since it provides evidence that the structural fault existed at the end of the reporting period. It is an adjusting event, in spite of the fact that fault has been discovered after the reporting date.

The effects of the damage to the warehouse are recognised in the year 2019 reporting period. Prior periods will not be adjusted because those financial statements were prepared in good faith (eg regarding estimate of useful life, assessment of impairment indicators etc) and had not affected the financials of prior years.

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(b) Damage of inventory due to seepage of rainwater ₹ 1,00,000 occurred during the year 2020. **It is a non-adjusting event** after the end of the 2019 reporting period since the inventory was in good condition at 31st December 2019. Hence, no accounting has been done for it in the year 2019.

H Ltd. must disclose the nature of the event (i.e. rain-damage to inventories) and an estimate of the financial effect (i.e. ₹ 1,00,000 loss) in the notes to its 31st December 2019 annual financial statements.

(iii) If the damage to the warehouse had been caused by an event that occurred after 31st December 2019 and was not due to structural fault, **then it would be considered as a non-adjusting event** after the end of the reporting period 2019 as the warehouse would have been in a good condition at 31st December 2019.

Working Notes:

1. Calculation of additional depreciation to be charged in the year 2019

Original depreciation as per SLM already charged during the year 2019

= ₹ 10,00,000/ 30 years = ₹ 33,333.

Carrying value at the end of 2018 = 10,00,000 – (₹ 33,333 x 3 years) = ₹ 9,00,000

Revised depreciation = 9,00,000 / 17 years = ₹ 52,941

Additional depreciation to be recognised in the books in the year 2019

= ₹ 52,941 – ₹ 33,333 = ₹ 19,608

2. Calculation of impairment loss in the year 2019

Carrying value after charging depreciation for the year 2019

= ₹ 9,00,000 – ₹ 52,941 = ₹ 8,47,059

Recoverable value of the warehouse = ₹ 6,00,000

Impairment loss = Carrying value - Recoverable value

= ₹ 8,47,059 - ₹ 6,00,000 = ₹ 2,47,059

(b) (i) As per para 27 of Ind AS 115, a good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to them. A readily available resource is a good or service that is sold separately (by the entity or another entity) or that the customer has already obtained from the entity or from other transactions or events; and

(b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

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Factors that indicate that two or more promises to transfer goods or services to a customer are separately identifiable include, but are not limited to, the following:

(a) significant integration services are not provided (i.e. the entity is not using the goods or services as inputs to produce or deliver the combined output called for in the contract)

(b) the goods or services does not significantly modify or customize other promised goods or services in the contract.

(c) the goods or services are not highly inter-dependent or highly interrelated with other promised goods or services in the contract

Accordingly, on 1st April, 2018, entity A entered into a single transaction with three identifiable separate components:

1. Sale of a good (i.e. engineering machine);
2. Rendering of services (i.e. engineering machine maintenance services on 30th September, 2018 and 1st April, 2019); and
3. Providing finance (i.e. sale of engineering machine and rendering of services on extended period credit).

(ii) Calculation and allocation of revenue to each component of the transaction

Date	*Opening balance*	*Finance income*	*Goods*	*Services*	*Payment received*	*Closing balance*
1st April, 2018	–	–	2,51,927	–	–	2,51,927
30th September, 2018	2,51,927	12,596 (Note 1)	–	45,000	–	3,09,523
31st March 2019	3,09,523	15,477 (Note 2)	–	–	–	3,25,000
1st April, 2019	3,25,000	–	–	75,000	(4,00,000)	

Notes:

1. Calculation of finance income as on 30th September, 2018

   = 5% x 2,51,927 = ₹ 12,596

2. Calculation of finance income as on 31st March, 2019

   = 5% x 3,09,523 = ₹ 15,477

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(iii) **Journal Entries**

Date	Particulars	Dr. (₹)	Cr. (₹)
1st April, 2018	Mr. Anik Dr.	2,51,927	
	To Revenue - sale of goods (Profit or loss A/c)		2,51,927
	(Being revenue recognised from the sale of the machine on credit)		
	Cost of goods sold (Profit or loss) Dr.	1,60,000	
	To Inventories		1,60,000
	(Being cost of goods sold recognised)		
30th September 2018	Mr. Anik Dr.	12,596	
	To Finance Income (Profit or loss)		12,596
	(Being finance income recognised)		
	Mr. Anik Dr.	45,000	
	To Revenue- rendering of services (Profit or loss)		45,000
	(Being revenue from the rendering of maintenance services recognised)		
	Cost of services (Profit or loss) Dr.	30,000	
	To Cash/Bank or payables		30,000
	(Being the cost of performing maintenance services recognised)		
31st March 2019	Mr. Anik Dr.	15,477	
	To Finance Income (Profit or loss)		15,477
	(Being finance income recognised)		
1st April, 2019	Mr. Anik Dr.	75,000	
	To Revenue - rendering of services (Profit or loss)		75,000
	(Being revenue from the rendering of maintenance services recognised)		
	Cost of services (Profit or loss) Dr.	50,000	
	To Cash/Bank or payables		50,000
	(Being the cost of performing maintenance services recognised)		

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	Cash/Bank Dr.	4,00,000	
	To Mr. Anik		4,00,000
	(Being the receipt of cash from the customer recognised)		

(iv) Extract of Notes to the financial statements for the year ended 31st March, 2019 and 31st March, 2020

Note on Revenue

	2019-2020	2018-2019
	₹	₹
Sale of goods	–	2,51,927
Rendering of machine - maintenance services	75,000	45,000
Finance income	–	28,073
	75,000	3,25,000

Question 3

(a) Coups Limited availed a machine on lease from Ferrari Limited. The terms and conditions of the Lease are as under:

Lease period is 3 years, machine costing ₹ 8,00,000.

- *Machine has expected useful life of 5 years.*
- *Machine reverts back to Ferrari Limited on termination of lease.*
- *The unguaranteed residual value is estimated at ₹ 50,000 at the end of 3rd year.*
- *3 equal annual installments are made at the end of each year.*
- *Implicit Interest Rate (IRR) = 10%.*
- *Present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is 0.7513.*
- *Present value of annuity of ₹ 1 due at the end of 3rd year at 10% IRR is 2.4868.*

You are required to ascertain whether it is a Finance Lease or Operating Lease and also calculate Unearned Finance Income with the relevant context to relevant Ind AS.

(6 Marks)

(b) Super Sounds Limited had the following transactions during the Financial Year 2019-2020.

(i) On 1st April 2019, Super Sounds Limited purchased the net assets of Music Limited for ₹ 13,20,000. The fair value of Music Limited's identifiable net assets was

₹ 10,00,000. Super Sounds Limited is of the view that due to popularity of Music Limited's product, the life of goodwill is 10 years.

(ii) On 4th May 2019, Super Sounds Limited purchased a Franchisee to organize musical shows from Armaan TV for ₹ 80,00,000 and at an annual fee of 2% of musical shows revenue. The Franchisee expires after 5 years. Musical shows revenue were ₹ 10,00,000 for financial year 2019-2020. The projected future revenues for financial year 2020-2021 is ₹ 25,00,000 and ₹ 30,00,000 p.a. for remaining 3 years thereafter.

(iii) On 4th July 2019, Super Sounds Limited was granted a Copyright that had been applied for by Music Limited. During financial year 2019-2020, Super Sound Limited incurred ₹ 2,50,000 on legal cost to register the Patent and ₹ 7,00,000 additional cost to successfully prosecute a copyright infringement suit against a competitor.

The life of the Copyright is for 10 years.

Super Sound Limited follows an accounting policy to amortize all intangible on SLM (Straight Line Method) basis or any appropriate basis over a maximum period permitted by relevant Ind AS, taking a full year amortization in the year of acquisition.

You are required to prepare:

(i) A Schedule showing the intangible section in Super Sound Limited Balance Sheet as on 31st March 2020, and

(ii) A Schedule showing the related expenses that would appear in the Statement of Profit and Loss of Super Sound Limited for the year ended 2019-2020. ***(10 Marks)***

(c) Heavy Goods Ltd. has 6 operating segments namely L-Q (below). The total revenues (internal and external), profits or losses and assets are set out below: (In ₹)

Segment	Inter Segment Sales	External Sales	Profit / loss	Total assets
L	4,200	12,300	3,000	37,500
M	3,500	7,750	1,500	23,250
N	1,000	3,500	(1,500)	15,750
0	0	5,250	(750)	10,500
P	500	5,500	900	10,500
Q	1,200	1,050	600	5,250
	10,400	35,350	3,750	1,02,750

Heavy Goods Ltd. needs to determine how many reportable segments it has. You are required to advice Heavy Goods Ltd. as per the criteria defined in Ind AS 108. ***(4 Marks)***

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Answer

(a) It is assumed that the fair value of the machine on lease is equivalent to the cost of the machine.

(i) A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

(ii) Computation of annual lease payment to the lessor

	₹
Cost of equipment / fair value	8,00,000
Unguaranteed residual value	50,000
Present value of residual value after third year @ 10% (50,000 x 0.7513)	37,565
Fair value to be recovered from lease payments (8,00,000 – 37,565)	7,62,435
Present value of annuity for three years is 2.4868	
Annual lease payment = 7,62,435 / 2.4868	3,06,593

The present value of lease payment i.e., ₹ 7,62,435 is **more than 95% of the fair market value** i.e., ₹ 8,00,000. The present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) **covers the major part of the life of asset** (i.e. 5 years). Therefore, it constitutes **a finance lease.**

(ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 3,06,593 x 3)	9,19,779
Add: Unguaranteed residual value	50,000
Gross investment in the lease	9,69,779
Less: Present value of investment (lease payments and residual value) (37,565 + 7,62,435)	(8,00,000)
Unearned finance income	1,69,779

(b) (i) Super Sounds Limited

Balance Sheet (Extract relating to intangible asset) as at 31st March 2020

	Note No.	₹
Assets		
(1) Non- current asset		
Intangible assets	1	69,45,000

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(ii) **Super Sounds Limited**

Statement of Profit and Loss (Extract)

for the year ended 31st March 2020

	Note No.	₹
Revenue from Operations		10,00,000
Total Revenue		______
Expenses:		
Amortization expenses	2	16,25,000
Other expenses	3	7,20,000
Total Expenses		______

Notes to Accounts (Extract)

1. Intangible Assets

		Gross Block (Cost)			*Accumulated amortisation*			*Net block*	
		Opening balance ₹	*Additions* ₹	*Closing Balance* ₹	*Opening balance* ₹	*Additions* ₹	*Closing Balance* ₹	*Opening balance* ₹	*Closing Balance* ₹
1.	Goodwill* (W.N.1)	-	3,20,000	3,20,000	-	-	-	-	3,20,000
2.	Franchise** (W.N.2)	-	80,00,000	80,00,000	-	16,00,000	16,00,000	-	64,00,000
3.	Copyright (W.N.3)	-	2,50,000	2,50,000	-	25,000	25,000	-	2,25,000
		-	85,70,000	85,70,000	-	16,25,000	16,25,000	-	69,45,000

*As per Ind AS 36, irrespective of whether there is any indication of impairment, an entity shall test goodwill acquired in a business combination for impairment annually. This implies **that goodwill is not amortised annually but is subject to annual impairment, if any**.

**As per the information in the question, the limiting factor in the contract for the use is time i.e., 5 years and not the fixed total amount of revenue to be generated. Therefore, an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate and amortisation based on time can only be applied.

2.	**Amortization expenses**		
	Franchise (W.N.2)	16,00,000	
	Copyright (W.N.3)	25,000	16,25,000

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3.	**Other expenses**		
	Legal cost on copyright	7,00,000	
	Fee for Franchise (10,00,000 x 2%)	20,000	7,20,000

Working Notes:

		₹
(1)	**Goodwill on acquisition of business**	
	Cash paid for acquiring the business	13,20,000
	Less: Fair value of net assets acquired	(10,00,000)
	Goodwill	**3,20,000**
(2)	**Franchise**	80,00,000
	Less: Amortisation (over 5 years)	(16,00,000)
	Balance to be shown in the balance sheet	**64,00,000**
(3)	**Copyright**	2,50,000
	Less: Amortisation (over 10 years as per SLM)	(25,000)
	Balance to be shown in the balance sheet	**2,25,000**

(c) As per paragraph 13 of Ind AS 108, an entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

(a) Its reported revenue, including both sales to external customers and inter-segment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.

Combined total sales of all the segment = ₹ 10,400 + ₹ 35,350 = ₹ 45,750.

10% thresholds = 45,750 x 10% = 4,575.

(b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of

(i) the combined reported profit of all operating segments that did not report a loss and

(ii) the combined reported loss of all operating segments that reported a loss.

In the given situation, combined reported profit = ₹ 6,000 and combined reported loss (₹ 2,250). Hence, for 10% thresholds ₹ 6,000 will be considered.

10% thresholds = ₹ 6,000 x 10% = ₹ 600

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(c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Combined total assets of all the segment = ₹ 1,02,750

10% thresholds = ₹ 1,02,750 x 10% = 10,275

Accordingly, quantitative thresholds are calculated below:

Segments	*L*	*M*	*N*	*O*	*P*	*Q*	*Reportable segments*
% segment sales to total sales	**36.66%**	**24.59%**	9.84%	**11.48%**	**13.11%**	4.92%	L, M,O,P
% segment profit to total profits	**50%**	**25%**	**25%**	**12.5%**	**15%**	**10%**	L,M,N,O,P,Q
% segment assets to total assets	**36.50%**	**22.63%**	**15.33%**	**10.22%**	**10.22%**	5.11%	L,M,N,O,P

Segments L, M, O and P clearly satisfy the revenue and assets tests and they are separate reportable segments.

Segments N does not satisfy the revenue test, but it does satisfy the asset test and it is a reportable segment.

Segment Q does not satisfy the revenue or the assets test but is does satisfy the profits test. Therefore, Segment Q is also a reportable segment.

Hence, **all segments** i.e; L, M, N, O, P and Q are reportable segments.

Question 4

(a) Lovely Limited has a policy of providing subsidized loans to its employees for the purpose of buying 2 Wheelers and 4 Wheelers vehicle. Simran who is a Sales Executive, took a loan for a Four-wheeler vehicle from the Company. The following were the terms of the loan:

- *Principal Amount : ₹ 9,00,000*
- *Interest: 5% p.a. for the First ₹ 3,00,000 and 8% p.a. for the remaining amount.*
- *Loan disbursed date: 1st April 2017*
- *Loan Tenure: 3 Years*
- *Pre-Payment : Full or Partial payment at the option of the employee.*
- *Simran shall remain in service till the term of the loan ends.*

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- *The Principal amount should be recovered in 3 equal installments at the end of each year and will be first applied to 8% interest bearing principal.*
- *The accrued interest shall be paid on annual basis.*

The market rate of a comparable loan available to Simran is 12% per annum.

Following table shows the expected contractual cash flows from the loan given to Simran.

(In ₹)

Date	Outflows	Inflows·			Principal Outstanding
		Principal	Interest Income 8%	Interest Income 5%	
01.04.2017	(9,00,000)				9,00,000
31.03.2018		3,00,000	48,000	15,000	6,00,000
31.03.2019		3,00,000	24,000	15,000	3,00,000
31.03.2020		3,00,000	-	15,000	-

Simran pre-pays ₹ 1,00,000 on 31st March, 2019.

Following table shows the actual cash flows from the loan, considering the prepayment on 31st March 2019. *(In ₹)*

Date	Outflows	Inflows			Principal Outstanding
		Principal	Interest Income 8%	Interest Income 5%	
01.04.2017	(9,00,000)				9,00,000
31.03.2018		3,00,000	48,000	15,000	6,00,000
31.03.2019		4,00,000	24,000	15,000	2,00,000
31.03.2020		2,00,000	-	10,000	-

You are required to pass journal entries in the books of Lovely Limited considering the requirements of Ind AS 109. **(14 Marks)**

(b) *Sun Shine Limited is a company which seems to be covered under the ambit of CSR rules. As part of its CSR contribution an amount of ₹ 40,000 p.m. was spent by way of adoption of 2 families of drought hit area.*

The average net profits of immediately preceding financial year was ₹ 1,80,00,000. Please note that the company commenced its commercial activities only on the first day of the immediately preceding financial year. The Accountant of the company says that CSR provisions are not applicable to his company since it is one year old and in case if it is applicable he wants to carry forward the excess amount spent on account of CSR activities to future years.

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You are required to comment with the figures, whether the contention of the Accountant is correct in context of CSR provisions?

OR

With respect to Integrated Reporting, state whether following statements are true or false with reason for your answer:

(i) An integrated report is necessarily to be a stand-alone report;

(ii) The framework of Integrated reporting is written primarily for private companies;

(iii) A report prepared as required by local law containing a management commentary or other report that provides context for its financial statements can serve the purpose of Integrated reporting; and

(iv) An integrated report should include only positive material matters. ***(6 Marks)***

Answer

(a) As per requirement of Ind AS 109, a financial instrument is initially measured and recorded at its fair value. Therefore, considering the market rate of interest of similar loan available to Simran is 12%, the fair value of the contractual cash flows shall be as follows: *Amount in ₹*

	Inflows					
Date	*Principal*	*Interest income 8%*	*Interest income 5%*	*Total inflow*	*Discount factor @ 12%*	*PV*
31.03.2018	3,00,000	48,000	15,000	3,63,000	0.893	3,24,159
31.03.2019	3,00,000	24,000	15,000	3,39,000	0.797	2,70,183
31.03.2020	3,00,000	-	15,000	3,15,000	0.712	2,24,280
Total (fair value)						8,18,622

Benefit to Simran, to be considered as part of employee cost for Lovely Ltd. ₹ 81,378 (9,00,000 – 8,18,622).

The deemed employee cost is to be amortised over the period of loan i.e. the minimum period that Simran must remain in service.

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The amortization schedule of the ₹ 8,18,622 loan is shown in the following table:

Amount in ₹

Date	*Opening outstanding Loan*	*Total cash inflows (principal repayment + interest*	*Interest @ 12%*	*Closing outstanding Loan*
01.04.2017	8,18,622			8,18,622
31.03.2018	8,18,622	3,63,000	98,235	5,53,857
31.03.2019	5,53,857	3,39,000	66,463	2,81,320
31.03.2020	2,81,320	3,15,000	33,680*	Nil

* Difference is due to approximation of discounting factor and interest amount.

Journal Entries to be recorded at every period end:

a. 1 April 2017 –

Particulars		*Dr. (₹)*	*Cr. (₹)*
Loan to employee A/c	Dr.	8,18,622	
Pre-paid employee cost A/c	Dr.	81,378	
To Bank A/c			9,00,000
(Being loan asset recorded at initial fair value)			

b. 31 March 2018 –

Particulars		*Dr. (₹)*	*Cr. (₹)*
Bank A/c	Dr.	3,63,000	
To Interest income A/c			98,235
To Loan to employee A/c			2,64,765
(Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)			
Employee benefit A/c	Dr.	27,126	
To Pre-paid employee cost A/c			27,126
(Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost on straight line basis)			

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c. On 31 March 2019, due to pre-payment of a part of loan by Simran, the carrying value of the loan shall be re-computed by discounting the future remaining cash flows by the original effective interest rate.

There shall be two sets of accounting entries on 31 March 2019, first the realisation of the contractual cash flow as shown below and then the accounting for the pre-payment of ₹ 1,00,000 included in (d) below:

31 March 2019 –

Particulars	*Dr. (₹)*	*Cr. (₹)*
Bank A/c Dr.	3,39,000	
To Interest income A/c		66,463
To Loan to employee A/c		2,72,537
(Being second instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)		
Employee benefit (profit and loss) A/c Dr.	27,126	
To Pre-paid employee cost A/c		27,126
(Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)		

Computation of new carrying value of loan to employee:

	Inflows				
Date	*Principal*	*Interest income 8%*	*Interest income 5%*	*Discount factor @12%*	*PV*
31.03.2020	200,000	-	10,000	0.893	1,87,530
Total (revised carrying value)					1,87,530
Less: Current carrying value					(2,81,320)
Adjustment required					93,790

The difference between the amount of pre-payment and adjustment to loan shall be considered a gain, though will be recorded as an adjustment to pre-paid employee cost, which shall be amortised over the remaining tenure of the loan.

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d. 31 March 2019 prepayment–

Particulars	*Dr. (₹)*	*Cr. (₹)*
Bank A/c Dr. To Pre-paid employee cost A/c To Loan to employee A/c (Being gain to Lovely Limited recorded as an adjustment to pre-paid employee cost)	1,00,000	 6,210 93,790

The amortisation schedule of the new carrying amount of loan shall be as follows:

Date	*Loan outstanding*	*Total cash inflows (principal repayment + interest)*	*Interest @ 12%*
31.03.2019	1,87,530		
31.03.2020	-	2,10,000	22,470

Amortisation of employee benefit cost shall be as follows:

Date	*Opening Balance*	*Amortised to P&L*	*Adjustment*	*Closing balance*
01.04.2017	81,378			81,378
31.03.2018	81,378	27,126		54,252
31.03.2019	54,252	27,126	6,210	20,916
31.03.2020	20,916	20,916		Nil

e. 31 March 2020 –

Particulars	*Dr. (₹)*	*Cr. (₹)*
Bank A/c Dr. To Interest income (profit and loss) @ 12% A/c To Loan to employee A/c (Being last instalment of repayment of loan accounted for using the amortised cost and effective interest rate of 12%)	2,10,000	 22,470 1,87,530
Employee benefit (profit and loss) A/c Dr. To Pre-paid employee cost A/c (Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)	20,916	 20,916

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(b) EITHER

As per section 135 of the Companies Act 2013, every company having either

- net worth of ₹ 500 crore or more, or
- turnover of ₹ 1,000 crore or more or
- a net profit of ₹ 5 crore or more

during the immediately preceding financial year shall constitute a Corporate Social Responsibility (CSR) Committee.

In the given case, the average net profits of immediate preceding financial year of Sun Shine Limited is ₹ 1,80,00,000 (i.e. ₹ 1.80 crore). Hence, net profit criteria is not met.

Company is covered under the ambit of CSR rules (assuming that net worth or turnover criteria is met):

Since it is given in the question that the company seems to be covered under the ambit of CSR rules, it is assumed that either the net worth of Sun Shine Limited might have exceeded ₹ 500 crore or more, or turnover might have exceeded ₹ 1,000 crore or more during immediate preceding financial year. Accordingly, CSR provisions are applicable to Sun Shine Limited irrespective of the fact that the company is in second year of operations.

If the company meets any one of the thresholds in the immediately preceding previous year, then the contention of accountant is incorrect that CSR provisions will not be applicable to the company as it is only one year old.

The accountant wants to carry forward the excess amount spent on account of CSR activities to future years which is ₹ 1,20,000 [₹ 40,000 x 12 - (₹ 1,80,00,000 x 2%)]. However, there is no provision to carry forward the excess CSR expenditure spent* in a particular year. Hence, here also the contention of the accountant is incorrect. The excess expenditure made shall be considered as voluntary made by the entity.

(b) OR

(i) **False**. An integrated report may be prepared in response to existing compliance requirements and may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication.

(ii) **True.** The Framework is written ***primarily*** in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

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* The amendments in section of CSR has been made effective from January, 2021. Hence not applicable for January, 2021 examination.

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(iii) **True.** If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.

(iv) **False.** An integrated report should include all material matters, both positive and negative, in a balanced way and without material error. Both the increases and reductions in the value of the important capital should be reflected. Where the information is not perfectly accurate, estimates should be used and appropriate processes should be in place to insure that the risk of material misstatement is reduced.

Question 5

(a) On 1st April 2017, Kara Ltd. granted an award of 150 share options to each of its 1,000 employees, on condition of continuous employment with Kara Ltd. for three years and the benefits will then be settled in cash of an equivalent amount of share price. Fair value of each option on the grant date was ₹ 129.

Towards the end of 31st March 2018, Kara Ltd.'s share price dropped; so on 1st April 2018 management chose to reduce the exercise price of the options.

At the date of the re-pricing, the fair value of each of the original share options granted was ₹ 50 and the fair value of each re-priced option was ₹ 80. Thus, the incremental fair value of each modified option was ₹ 30.

At the date of the award, management estimated that 10% of employees would leave the entity before the end of three years (i.e., 900 awards would vest). During financial year 2018-2019, it became apparent that fewer employees than expected were leaving, so management revised its estimate of the number of leavers to only 5% (i.e. 950 awards would vest). At the end of 31st March 2020, awards to 930 employees actually vested.

Determine the expense for each year and pass appropriate journal entries as per the relevant Ind AS. ***(12 Marks)***

(b) C Ltd. acquired the following assets and liabilities of D Ltd. in a business combination:

₹ in '000s

	Fair Value	Carrying Amount	Temporary Difference
Plant & equipment	500	510	(10)
Inventory	130	150	(20)
Trade receivables	200	210	(10)
Loans and advances	80	85	(5)
	910	955	(45)

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10% Debentures	*200*	*200*	
	710	*755*	
Consideration Paid	*760*	*760*	
Goodwill	*50*	*5*	*45*

Goodwill is deductible as permissible expenses under the existing tax law. Calculate Deferred Tax Asset / liability as per relevant Ind AS and also pass related journal entry in books of C Ltd. and assume tax rate at 25%. ***(4 Marks)***

(c) On 1st November 2019, Crattle Agro Limited purchased 100 goats of special breed from a market for ₹ 10,00,000 with a transaction cost of 2%. Goats fair value decreased from ₹ 10,00,000 to ₹ 9,00,000 as on 31st March 2020. Determine the fair value on the date of purchase and as on financial year ended 31st March 2020. Also pass relevant journal entries on 1st November 2019 and 31st March 2020. ***(4 Marks)***

Answer

(a) Note: The first para of the question states that "benefits will then be settled in cash of an equivalent amount of share price." This implies that the award is cash settled share-based payment. However, the second and third para talks about repricing of the option which arises in case of equity settled share-based payment.

Hence, two alternative solutions have been provided based on the information taking certain assumptions.

1st Alternative based on the assumption that the award is cash settled share-based payment.

In such a situation, the services received against share-based payment plan to be settled in cash are measured at fair value of the liability and the liability continues to be re-measured at every reporting date until it is actually paid off.

There is a vesting condition attached to the share-based payment plans i.e. to remain in service for next 3 years. The recognition of such share-based payment plans should be done by recognizing fair value of the liability at the time of services received and not at the date of grant. The liability so recognized will be fair valued at each reporting date and difference in fair value will be charged to profit or loss for the period.

Calculation of expenses:

For the year ended 31st March 2018

= ₹ 50 x 150 awards x 900 employees x (1 year /3 years of service)

= ₹ 22,50,000

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For the year ended 31st March 2019

Note: It is assumed that the fair value of ₹ 80 each of repriced option continues at the end of the remaining reporting period ie 31st March, 2019 and 31st March, 2020

= [₹ 80 x 150 awards x 950 employees x (2 year / 3 years of service)] - ₹ 22,50,000

= ₹ 7,60,00,000 – ₹ 22,50,000 = ₹ 53,50,000

For the year ended 31st March 2020

= [₹ 80 x 150 awards x 930 employees] - ₹ 22,50,000 - ₹ 53,50,000

= ₹ 1,11,60,000 – ₹ 22,50,000 - ₹ 53,50,000= ₹ 35,60,000

Journal Entries

31st March, 2018			
Employee benefits expenses To Share based payment liability (Fair value of the liability recognized)	Dr.	22,50,000	22,50,000
31st March, 2019			
Employee benefits expenses To Share based payment liability (Fair value of the liability re-measured)	Dr.	53,50,000	53,50,000
31st March, 2020			
Employee benefits expenses To Share based payment liability (Fair value of the liability recognized)	Dr.	35,60,000	35,60,000
Share based payment liability To Bank (Being liability for awards settled in cash)	Dr.	1,11,60,000	1,11,60,000

2nd Alternative based on fair value at the grant date (ignoring the fact that the award has to be settled in cash).

Calculation of expenses:

For the year ended 31st March 2018

= [₹ 129 x 150 awards x 900 employees x (1 year /3 years of service)]

= ₹ 58,05,000

For the year ended 31st March 2019

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Ind AS 102 requires the entity to recognise the effects of repricing that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

If the repricing increases the fair value of the equity instruments granted standard requires the entity to include the incremental fair value granted (ie the difference between the fair value of the repriced equity instrument and that of the original equity instrument, both estimated as at the date of the modification) in the measurement of the amount recognised for services received as consideration for the equity instruments granted.

If the repricing occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the repricing date until the date when the repriced equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. Accordingly, the amounts recognised are as follows:

Year ended	*Calculation*	*Compensation expense for period*	*Cumulative compensation expense*
		₹	₹
31 March, 2018	[₹ 129 x 150 awards x 900 employees x (1 year /3 years of service)]	58,05,000	58,05,000
31 March, 2019	[₹ 129 x 150 awards x 950 employees x (2 year /3 years of service)] + (80-50) x 150 awards x 950 employees x (1 year / 2 years of service) - 58,05,000	85,87,500	1,43,92,500
31 March, 2020	[(₹ 129 + 30) x 150 awards x 930 employees] - 1,43,92,500	77,88,000	2,21,80,500

Journal Entries

31st March, 2018		
Employee benefits expenses Dr.	58,05,000	
To Outstanding Share based payment option		58,05,000
(Fair value of the liability recognized)		
31st March, 2019		
Employee benefits expenses Dr.	85,87,500	
To Outstanding Share based payment option		85,87,500
(Fair value of the liability re-measured)		

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31st March, 2020		
Employee benefits expenses Dr. To Outstanding Share based payment option (Fair value of the liability recognized)	77,88,000	77,88,000
Outstanding Share based payment option Dr. To Equity share capital (Being award settled)	2,21,80,500	2,21,80,500

(b) In this case there is a Deferred Tax Asset as the Tax base of assets acquired is higher by ₹ 45,000. Deferred Tax Asset would be ₹ 11,250 (45,000 x 25%)

Journal entry

Plant and equipment	Dr.	5,00,000	
Inventory	Dr.	1,30,000	
Trade receivables	Dr.	2,00,000	
Loans and advances	Dr.	80,000	
Goodwill (50,000 - 11,250)	Dr.	38,750	
Deferred Tax Asset	Dr.	11,250	
To 10% Debentures			2,00,000
To Bank			7,60,000

(Assets and liabilities taken over, goodwill and deferred tax asset have been recognised)

(c) The fair value less cost to sell of goats on the date of purchase i.e. on 1st November, 2019, would be ₹ 9,80,000 (10,00,000-20,000). Expense of ₹ 20,000 would be recognised in profit and loss.

On date of Purchase

Biological Asset	Dr.	9,80,000	
Expense on initial recognition	Dr.	20,000	
To Bank			10,00,000

(Being biological asset purchased)

On 31st March, 2020 goats would be measured at ₹ 8,82,000 as Biological Asset (9,00,000-18,000) and loss of ₹ 98,000 (9,80,000 - 8,82,000) would be recognised in profit or loss.

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At the end of reporting period

Loss – Change in fair value	Dr.	98,000	
To Biological Asset			98,000

(Being change in fair value recognised at the end of reporting period)

Note: It is assumed that the transaction cost is borne by the seller.

Question 6

(a) On 1st April 2019, an entity purchased an office block (building) for ₹ 50,00,000 and paid a non-refundable property transfer tax and direct legal cost of ₹ 2,50,000 and ₹ 50,000 respectively while acquiring the building.

During 2019, the entity redeveloped the building into two-story building. Expenditures on re-development were:

- *₹ 1,00,000 Building plan approval;*
- *₹ 10,00,000 construction costs (including ₹ 60,000 refundable purchase taxes); and*
- *₹ 40,000 due to abnormal wastage of material and labour.*

When the re-development of the building was completed on 1st October 2019, the entity rents out Ground Floor of the building to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products. The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.

How will the entity account for all the above mentioned expenses in the books of account?

Also, discuss how the above building will be shown in Consolidated financial statement of the entity as a group and in its separate financial statements as per relevant Ind AS.

(5 Marks)

(b) Jewels Ltd. entered into a transaction to purchase 1,000 gms of platinum on 15th January, 2020. The transaction provides for a price payable which is equal to market value of 1,000 gms of platinum on 15th April 2020 and shall be settled by issue of such number of equity shares as is required to settle the aforementioned transaction, at a price of ₹ 100 per share on 15th April 2020. Whether this is to be classified as liability or equity as on 31st March 2020 as per Ind AS 109?

You are required to explain with reasons. ***(5 Marks)***

(c) Z Ltd. (India) has an overseas branch in USA. It has a bank account having balance of USD 7,000 as on 1st April 2019. During the financial year 2019-2020, Z Ltd. acquired computers for its USA office for USD 280 which was paid on same date. There is no other transaction reported in USA or India.

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Exchange rates between INR and USD during the financial year 2019-2020 were:

Date	***USD 1 to INR***
1st April 2019	*70.00*
30th November 2019	*71.00 (Date of purchase of computer)*
31st March 2020	*71.50*
Average for 2019-2020	*70.50*

Please prepare the extract of Cash Flow Statement for the year ended 31st March 2020 as per the relevant Ind AS and also show the foreign exchange profitability from these transactions for the financial year 2019-2020? **(5 Marks)**

(d) On 1st April 2019, Big Limited acquired a 35 interest in Dig Limited and achieved a significant influence. The cost of the investment was ₹ 3,00,000. Dig Limited has net assets of ₹ 5,50,000 as on 1st April 2019. The fair value of those net assets is ₹ 6,50,000, since the fair value of property, plant and equipment is ₹ 1,00,000 higher than its book value. This property, plant and equipment have a remaining useful life of 8 years. For the financial year 2019-2020, Dig Limited earned a profit (after tax) of ₹ 1,00,000 and paid a dividend of ₹ 11,000 out of these profits. Dig Ltd. has also recognized the loss of ₹ 15,000, that arose from re-measurement of defined benefit directly in 'Other Comprehensive Income'.

Calculate Big Ltd.'s interest in Dig Ltd. as at the year ended 31st March 2020 under the relevant method. **(5 Marks)**

Answer

(a) In accordance with Ind AS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalised. Therefore, the initial purchase price of the building would be:

Particulars	**Amount (₹)**
Purchase amount	50,00,000
Non-refundable property tax	2,50,000
Direct legal cost	50,000
	53,00,000
Expenditures on redevelopment:	
Building plan approval	1,00,000
Construction costs (10,00,000 – 60,000)	9,40,000
Total amount to be capitalised at 1st October 2019	63,40,000

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Treatment of abnormal wastage of material and labour:

As per Ind AS 16, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. It will be charged to Profit and Loss in the year it is incurred. Hence, abnormal wastage of ₹ 40,000 will be expensed off in Profit & Loss in the financial year 2019-2020.

Accounting of property- Building

When the property is used as an administrative centre, it is not an investment property, rather it is an 'owner occupied property'. Hence, Ind AS 16 will be applicable.

When the property (land and/or buildings) is held to earn rentals or for capital appreciation (or both), it is an Investment property. Ind AS 40 prescribes the cost model for accounting of such investment property.

Since equal value can be attributed to each floor, Ground Floor of the building will be considered as Investment Property and accounted as per Ind AS 40 and First Floor would be considered as Property, Plant and Equipment and accounted as per Ind AS 16.

Cost of each floor = ₹ 63,40,000 / 2 = ₹ 31,70,000

As on 1st October 2019, the carrying value of building vis-à-vis its classification would be as follows:

(i) **In Separate Financial Statements:** The Ground Floor of the building will be classified as investment property for ₹ 31,70,000, as it is property held to earn rentals. While First Floor of the building will be classified as item of property, plant and equipment for ₹ 31,70,000.

(ii) **In Consolidated Financial Statements:** The consolidated financial statements present the parent and its subsidiary as a single entity. The consolidated entity uses the building for the supply of goods. Therefore, the leased-out property to a subsidiary does not qualify as investment property in the consolidated financial statements. Hence, the whole building will be classified as an item of Property, Plant and Equipment for ₹ 63,40,000.

(b) There is a contract for purchase of 1,000 gms of platinum whose consideration varies in response to changing value of platinum. Analysing this contract as a derivative with all three of the following characteristics:

(a) Value of contract changes in response to change in market value of platinum;

(b) There is no initial net investment

(c) It will be settled at a future date, i.e. 15th April 2020.

Since the above criteria are met, this is a derivative contract.

Now, a derivative contract that is settled in own equity other than exchange of fixed amount of cash for fixed number of shares is classified as 'liability'. In this case, since

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the contract results in issue of variable number of shares based on transaction price to be determined in future, hence, this shall be classified as 'derivative financial liability' as per Ind AS 109.

(c) **In the books of Z Ltd.**

Statement of Cash Flows for the year ended 31st March 2020

	₹	₹
Cash flows from operating activities		
Net Profit (Refer Working Note)	10,360	
Adjustments for non-cash items:		
Foreign Exchange Gain	(10,360)	
Net cash outflow from operating activities		0
Cash flows from investing activities		
Acquisition of Property, Plant and Equipment	(19,880)	
Net cash outflow from Investing activities		(19,880)
Cash flows from financing activities		0
Net change in cash and cash equivalents		(19,880)
Cash and cash equivalents at the beginning of the year i.e. 1st April 2019		4,90,000
Foreign Exchange difference		10,360
Cash and cash equivalents at the end of the year i.e. 31st March 2020		4,80,480

Working Note:

Computation of Foreign Exchange Gain

Bank Account USD	Date	USD	Exchange Rate	₹
Opening balance	1.4.2019	7,000	70.00	4,90,000
Less: Purchase of Computer	30.11.2019	280	71.00	19,880
Closing balance calculated		6,720		4,70,120
Closing balance (at year end spot rate)	31.3.2020	6,720	71.50	4,80,480
Foreign Exchange Gain credited to Profit and Loss account				10,360

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(d) Calculation of Big Ltd.'s interest in Dig Ltd at the year ended 31st March, 2020 as per Equity method:

	Amount (₹)
Cost of investment (35%)	3,00,000
Share in profit after adjustment (Refer Working Note)	30,625
Dividend received by Big Ltd from Dig Ltd (35% x ₹ 11,000)	(3,850)
Big Ltd.'s share of loss in OCI w.r.t Dig Ltd.'s loss from remeasurement of defined benefit liability (35% x ₹ 15,000)	(5,250)
Big Ltd.'s interest in Dig Ltd at the end of the year	3,21,525

Working Note:

Computation of Share in profit after adjustment

	Amount (₹)
Big Ltd.'s share of Dig Ltd.'s after tax profit (35% x ₹ 1,00,000)	35,000
Less: Big Ltd.'s share of depreciation based on fair value (35% x ₹ 12,500)	(4,375)
Share in profit after adjustment	30,625

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