FINAL COURSE

PAPER – 1

FINANCIAL REPORTING

[RELEVANT FOR MAY, 2026 EXAMINATION AND ONWARDS]

BOOKLET ON CASE SCENARIOS

BOARD OF STUDIES (ACADEMIC)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This booklet has been prepared by the faculty of the Board of Studies (Academic). The objective of the booklet is to provide practice material to the students to enable them to prepare for the examination. In case students need any clarifications or have any suggestions to make for further improvement of the booklet, they may write to the Joint Director, Board of Studies (Academic).

All care has been taken to provide answers and its reasoning in a manner useful for the students. However, the booklet has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

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BEFORE WE BEGIN.....

Under the New Scheme of Education and Training which began from 1st July, 2023, 30% of the examination assessment is by the way of Objective Type Questions at Intermediate and Final level. Therefore, to provide hands on practice for such type of questions, BOS launched MCQ Paper Practice Portal on 1st July, 2023. This online portal carried independent MCQs as well as case scenario based MCQs both for conceptual clarity and practice of the students.

In continuation to this handholding initiative and to provide quality academic inputs to the students to help them grasp the intricate aspects of the subject, the Board of studies had brought forth subject-wise booklets on Case Scenarios at Intermediate and Final level. These booklets are meticulously designed to assist Chartered Accountancy (CA) students in their preparation of the CA course.

At Final level, the **'Booklet on Case Scenarios for Financial Reporting'** carries integrated case scenarios involving more than one Indian Accounting Standards. It covers a wide range of scenarios covering various provisions of Indian Accounting Standards, ensuring that students gain a thorough and diverse understanding of the subject. These case scenarios based MCQs are all application oriented and arise from the facts of the case. One need to apply the provisions of Ind AS to the facts of the case to choose the correct option. At the end of each Case Scenario followed by MCQs, we have also provided detailed solutions and explanations for each MCQ which will enable students to evaluate their performance and identify areas requiring further attention.

However, you are advised that before working out the case scenarios based MCQs in this booklet, be thorough with the concepts and provisions of Indian Accounting Standards as discussed in the study material. After attaining the conceptual clarity, you will be able to apply the concepts learnt in answering the case scenario based MCQs. The process of learning concepts and provisions of Indian Accounting Standards will help you attain conceptual clarity and hone your application and analytical skills so that you approach the examination with confidence and a positive attitude.

We are confident that this booklet will serve as a valuable companion in your preparation journey. We encourage students to make the most of this resource by engaging deeply with the scenarios, reflecting on the MCQs, and embracing the learning process.

Best wishes for your studies and success in the CA Final Examination!

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CASE SCENARIO 1

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

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

(ii) ABC Ltd. pays ₹ 50 crores to acquire RST Ltd. from MN Ltd. RST Ltd. manufactured products containing fiber glass and has been named in 10 class actions concerning the effects of these fiber glass, MN Ltd. agrees to indemnify ABC Ltd. for the adverse results of any court cases up to an amount of ₹ 10 crores. The class actions have not specified amounts of damages and past experience suggests that claims may be up to ₹ 1 crore each, but that they are often settled for small amounts. ABC Ltd. makes an assessment of the court cases and decides that due to the potential variance in outcomes, the contingent liability cannot be measured reliably and accordingly no amount is recognised in respect of the court cases.

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

MULTIPLE CHOICE QUESTIONS

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

   (a) ₹ 2 crores; ₹ 1 crore

   (b) ₹ 1 crore; ₹ 1 crore

   (c) ₹ 0.70 crore; ₹ 1 crore

   (d) ₹ 0.70 crore; ₹ 0.70 crore

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

   (a) The net impact on goodwill will be Nil

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

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

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

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

   (a) ₹ 2 crores; ₹ 1 crore

   (b) ₹ 1.20 crore; ₹ 1 crore

   (c) ₹ 1 crore; ₹ 1 crore

   (d) ₹ 1.20 crores; ₹ 1.20 crores

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

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

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

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

   (d) The net impact on goodwill will be Nil

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

   (a) ₹ 10 crores

   (b) ₹ 1 crore

   (c) Nil

   (d) ₹ 9 crores

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d): ₹ 0.70 crore; ₹ 0.70 crore**

2. **Option (a): The net impact on goodwill will be Nil**

   Reasoning for 1 & 2:

   ABC Ltd. recognises indemnification asset at the same time and measures them on the same basis as the indemnified item, subject to contractual limitations and adjustments for collectability, if applicable). In the current scenario, ABC Ltd., measures the identifiable liability of entity PQR Ltd., at ₹ 0.70 crore and also recognises a corresponding asset of ₹ 0.70 crore on its consolidated balance sheet. The net impact on goodwill from the recognition of the contingent liability and associated indemnification asset is nil.

3. **Option (b): ₹ 1.20 crore; ₹ 1 crore**

4. **Option (c): Increase in the value of Goodwill by ₹ 0.20 crore**

   Reasoning for 3 & 4:

   In the case where the liability's fair value is ₹ 1.20 crores, the asset will be limited to ₹ 1 crore. The net impact on goodwill from the recognition of the contingent liability and associated indemnification asset would be an increase in the value of goodwill by ₹ 0.20 crore.

5. **Option (c): Nil**

   Reasoning

   Since no liability is recognised in the given case, ABC Ltd. will also not recognise an indemnification asset as part of the business combination accounting. Further ABC Ltd, is required to make the necessary disclosures for contingent consideration arrangements and indemnification assets.

CASE SCENARIO 2

Choose the most appropriate answer to Questions 1 to 5, based on below mentioned facts:

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

MULTIPLE CHOICE QUESTIONS

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

   (a) ₹ 750

   (b) ₹ 720

   (c) ₹ 240

   (d) ₹ 120

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

   (a) ₹ 750

   (b) ₹ 720

   (c) ₹ 240

   (d) ₹ 120

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

   (a) ₹ 4,920

   (b) ₹ 5,040

   (c) ₹ 4,600

   (d) ₹ 5,300

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

   (a) ₹ 4,920

   (b) ₹ 5,040

   (c) ₹ 4,600

   (d) ₹ 5,300

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

   (a) ₹ 560; ₹ 5,300

   (b) ₹ 440; ₹ 5,040

   (c) ₹ 560; ₹ 5,160

   (d) ₹ 700; ₹ 5,300

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b): ₹ 720

2. Option (d): ₹ 120

3. Option (a): ₹ 4,920

Reasoning for 1 to 3

Date	₹	Event
1st January, 20X6	7,500	Asset acquired

Till 31st December, 20X7	1,500	Depreciation accounted for considering useful life of 10 years
On 31st December, 20X7	240	Indicators of impairment noted and impairment allowance accounted
On 31st December, 20X7	5,760	Carrying value
From 1st January, 20X8 to 31st December, 20X8	720	Depreciation accounted for
From 1st January, 20X9 to 28th February, 20X9	120	Depreciation accounted for
On 28th February, 20X9	4,920	Carrying value, classified as held for sale

4. Option (c): ₹ 4,600

Reasoning

The carrying amount and accumulated depreciation of the asset are:

Date	**Original Cost (₹)**	**Cumulative Depreciation (₹)**	**Cumulative Impairment recognized (₹)**	**Carrying Amount (₹)**
31st December, 20X7	7,500	1,500	240	5,760
31st December, 20X8	7,500	2,220	240	5,040
28th February, 20X9 (After classification as held for sale)	7,500	2,340	560 (7,500-2,340-4,600)	4,600

5. Option (c): ₹ 560; ₹ 5,160

Reasoning

On 30th June, 20X9, when the asset is still held for sale, fair value less costs to sell increases to ₹ 5,300.

Paragraph 21 of Ind AS 105 states that an entity shall recognize a gain for any subsequent increases in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized either in accordance with Ind AS or previously in accordance with Ind AS 36, 'Impairment of Assets'.

When reversing an impairment allowance for an asset or a disposal group classified as held for sale, the entity should consider cumulative impairment loss recognized up to the date of classification as held for sale, as if the asset was not impaired before this date. The gain for any subsequent increase in fair vale less costs to sell cannot be more than the total impairment loss recognized before and after the classification of the asset as held for sale.

Since the cumulative impairment is ₹ 560, the maximum impairment reversal could be upto ₹ 560. Hence, the carrying value after reversal of impairment will be ₹ 5,160.

CASE SCENARIO 3

M Ltd. is engaged in production and agricultural activities. It also runs a chain of gyms. M Ltd. prepares its financial statements following Indian Accounting Standards and follows April-March as its financial year. During the year 20X1-20X2, the company has faced following issues and for their solution seeks your professional advice:

(i) Fixed production overheads for the financial year is ₹ 10,000. Normal expected production for the year, after considering planned maintenance, normal breakdown and also considering the future demand of the product is 2,000 MT. It is considered that there are no quarterly / seasonal variations. Therefore, the normal expected production for each quarter is 500 MT and the fixed production overheads for the quarter are ₹ 2,500.

Actual production achieved	Quantity (In MT)
First quarter	400
Second quarter	600
Third quarter	500
Fourth quarter	400
Total	**1,900**

There are no quarterly / seasonal variation.

(ii) On 1st April, 20X1, M Ltd. sells gym memberships for ₹ 7,500 per member for 1st year to 100 customers, with an option to renew at a discount in 2nd and 3rd year at ₹ 6,000 per year. M Ltd. estimates an annual attrition rate of 50% each year.

(iii) On 1st November, 20X1, M Ltd. 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, 20X2.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. As per Ind AS 34 read with Ind AS 2, what will be the amount of fixed production overhead allocated to actual production and the amount of expenses to be debited/credited to profit and loss account by the end of first quarter?

   (a) ₹ 2,000 capitalised to the cost of inventory; ₹ 500 debited to profit and loss account

   (b) ₹ 2,500 capitalised to the cost of inventory; No amount is debited/credited to profit and loss account

   (c) Nothing is capitalised to the cost of inventory; ₹ 2,500 debited to profit and loss account

   (d) ₹ 500 capitalised to the cost of inventory; ₹ 2,000 debited to profit and loss account

2. As per Ind AS 34 read with Ind AS 2, what will be the amount of fixed production overhead allocated to actual production and the amount of expenses to be debited/credited to profit and loss account by the end of second quarter?

   (a) ₹ 5,000 capitalised to the cost of inventory; No amount is debited/credited to profit and loss account

   (b) ₹ 5,000 capitalised to the cost of inventory; ₹ 500 credited to profit and loss account

   (c) ₹ 5,000 capitalised to the cost of inventory; ₹ 500 debited to profit and loss account

   (d) ₹ 3,000 capitalised to the cost of inventory; ₹ 500 credited to profit and loss account

3. What is the amount of revenue to be recognized per membership in the first year and the amount of contract liability per membership against the option given to the customer for renewing the membership at discount?

   (a) ₹ 7,500; Nil

   (b) ₹ 6,500; ₹ 1,000

(c) ₹ 6,857; ₹ 643

(d) ₹ 7,500; ₹ 12,000

4. What is the amount of the biological asset recognised on the date of purchase?

(a) ₹ 10,00,000

(b) ₹ 9,00,000

(c) ₹ 10,20,000

(d) ₹ 9,80,000

5. What is the amount of gain or loss recognised on fair valuation of biological asset as on financial year ended 31st March, 20X2?

(a) ₹ 1,00,000

(b) ₹ 18,000

(c) ₹ 1,20,000

(d) ₹ 98,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a): ₹ 2,000 capitalised to the cost of inventory; ₹ 500 debited to profit and loss account

2. Option (b): ₹ 5,000 capitalised to the cost of inventory; ₹ 500 credited to profit and loss account

Reasoning for 1 & 2:

Fixed production overhead to be allocated per unit of production in every quarter will be ₹ 5 per MT (Fixed overheads / Normal production).

Quarters	Allocations
First Quarter	➢ Actual fixed production overheads = ₹ 2,500 ➢ Fixed production overheads based on the allocation rate of ₹ 5 per unit allocated to actual production = ₹ 5 x 400 = ₹ 2,000 ➢ Unallocated fixed production overheads to be charged as expense as per Ind AS 2 and consequently as per Ind AS 34 = ₹ 500

Second Quarter	➢ Actual fixed production overheads on year-to-date basis = ₹ 5,000 ➢ Fixed production overheads to be absorbed on year-to-date basis = 1,000 x ₹ 5 = ₹ 5,000 ➢ Earlier, ₹ 500 was not allocated to production in the 1st quarter. To give effect to the entire ₹ 5,000 to be allocated in the second quarter, as per Ind AS 34, ₹ 500 are reversed by way of a credit to the statement of profit and loss of the 2nd quarter.

3. **Option (c) : ₹ 6,857; ₹ 643**

Reasoning

Total estimated memberships is 175 members (Year 1 = 100; Year 2 = 50; Year 3 = 25) = 175

Total consideration is ₹ 12,00,000 {(100 x 7,500) + (50 x 6,000) + (25 x 6,000)}

Allocated membership fee per membership per year is ₹ 6,857 approx. (12,00,000 / 175). Although M Ltd. has collected ₹ 7,500 per membership for the first year but revenue to be recognized is ₹ 6,857 approx. and remaining ₹ 643 should be recorded as a contract liability against option given to a customer for renewing their membership at discount.

4. **Option (d): ₹ 9,80,000**

5. **Option (d) : ₹ 98,000**

Reasoning for 4 & 5:

As per para 12 of Ind AS 41, a biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. Therefore, the transaction costs of 2% are the costs to sell the goats on 1st November 20X1, and therefore, the goats should be measured at their fair value less costs to sell on initial recognition date, i.e., ₹ 9,80,000. As on 31st March 20X2, loss on fair valuation of biological assets would be = [9,80,000 - (9,00,000 - 18,000)] = ₹ 98,000.

CASE SCENARIO 4

P Ltd. is a multi-national company and prepares and presents its financial statements following Indian Accounting Standards as its securities are listed on National Stock Exchange. P Ltd. has a number of business segments and requires guidance on following matters.

(i)

Particulars		Kg.	₹
Opening Inventory:	Finished Goods	1,000	25,000
	Raw Materials	1,100	11,000
Purchases		10,000	1,00,000
Labour			76,500
Overheads (Fixed)			75,000
Sales		10,000	2,80,000
Closing Inventory:	Raw Materials	900	
	Finished Goods	1200	

The expected production for the year was 15,000 kg of the finished product. Due to fall in market demand the sales price for the finished goods was ₹ 20 per kg and the replacement cost for the raw material was ₹ 9.50 per kg on the closing day. Calculate the closing inventory as on that date.

(ii) P Ltd has made a security deposit whose details are described below. The market interest rate for a deposit for similar period is 12% per annum.

Particulars	Details
Date of Security Deposit (Starting Date)	1-Apr-20X1
Date of Security Deposit (Finishing Date)	31-Mar-20X6
Description	Lease
Total Lease Period	5 years
Discount rate	12.00%

Security deposit	10,00,000
Present value factor at the 5th year	0.567427

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. What is the total cost of production during the year?

   (a) ₹ 2,62,500

   (b) ₹ 2,51,500

   (c) ₹ 2,53,500

   (d) ₹ 2,29,500

2. What is the value of closing inventory of finished goods at the end of the year?

   (a) ₹ 27,000

   (b) ₹ 29,823

   (c) ₹ 24,000

   (d) ₹ 32,550

3. What is the value of closing inventory of raw materials at the end of the year?

   (a) ₹ 8,550

   (b) ₹ 9,000

   (c) ₹ 18,000

   (d) ₹ 32,550

4. Security deposit will be initially recognized at

   (a) ₹ 10,00,000

   (b) ₹ 5,67,427

(c) ₹ 4,32,573

(d) Nil

5. Prepaid lease payment will be initially recognized at

(a) ₹ 10,00,000

(b) ₹ 5,67,427

(c) ₹ 4,32,573

(d) Nil

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : ₹ 2,29,500

2. Option (c) : ₹ 24,000

3. Option (a) : ₹ 8,550

Reasoning for 1 to 3

Calculation of cost for closing inventory

Particulars	₹
Cost of Purchase (10,200 x 10)	1,02,000
Direct Labour	76,500
Fixed Overhead $\frac{75,000 \times 10,200}{15,000}$	51,000
Cost of Production	2,29,500
Cost of closing inventory per unit (2,29,500/10,200)	₹ 22.50
Net Realisable Value per unit	₹ 20.00

Since, net realisable value is less than cost, closing inventory will be valued at ₹ 20. As NRV of the finished goods is less than its cost, relevant raw materials will be valued at replacement cost i.e. ₹ 9.50.

Therefore, value of closing inventory: Finished Goods (1,200 x 20)	₹ 24,000
Raw Materials (900 x 9.50)	₹ 8,550
	₹ 32,550

4. **Option (b) : ₹ 5,67,427**

5. **Option (c) : ₹ 4,32,573**

Reasoning for 4 & 5:

The security deposit is an interest free deposit redeemable at the end of lease term for ₹ 10,00,000. Hence, this involves collection of contractual cash flows and shall be accounted at amortised cost.

Upon initial measurement –

Particulars	**Details**
Security deposit (A)	₹ 10,00,000
Total Lease Period (Years)	5
Discount rate	12.00%
Present value factor of 5th year end	0.56743
Present value of deposit at beginning (B)	₹ 5,67,427
Prepaid lease payment at beginning (A-B)	₹ 4,32,573

CASE SCENARIO 5

ABC Ltd. acquires XYZ Ltd. in a business combination on 15th January, 20X1. Few days before the date of acquisition, one of XYZ Ltd.'s customers had claimed that certain amounts were due by XYZ Ltd. under penalty clauses for completion delays included in the contract.

ABC Ltd. evaluates the dispute based on the information available at the date of acquisition and concludes that XYZ Ltd. was responsible for at least some of the delays in completing the contract. Based on the evaluation, ABC Ltd. recognises ₹ 1 crore towards this liability which is its best estimate of the fair value of the liability to the customer based on the information available at the date of acquisition.

In October, 20X1 (within the measurement period), the customer presents additional information as per which ABC Ltd. concludes the fair value of liability on the date of acquisition to be ₹ 2 crore.

ABC Ltd. continues to receive and evaluate information related to the claim after October, 20X1. Its evaluation doesn't change till February, 20X2 (i.e. after the measurement period), when it concludes that the fair value of the liability for the claim at the date of acquisition is ₹ 1.9 crore. ABC Ltd. determines that the amount that would be recognised with respect to the claim under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets as at February, 20X2 is ₹ 2.2 crore.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 3 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. At what amount the contingent liability in relation to customer claim should be included in the consolidated balance sheet as on 31st March, 20X1, on accounting of acquisition of XYZ Ltd.?

   (a) ₹ 1 crore

   (b) ₹ 2 crores

   (c) ₹ 1.90 crores

   (d) ₹ 2.20 crores

2. At what amount the contingent liability be valued after making the adjustment for measurement period and in what account the adjustment is to be made with the difference in the value to previous valuation?

   (a) ₹ 1 crore; adjustment to retained earnings by ₹ 1 crore

   (b) ₹ 2 crores; adjustment to goodwill account by ₹ 1 crore

   (c) ₹ 1.90 crores; adjustment to goodwill account by ₹ 0.9 crore

   (d) ₹ 2.20 crores; adjustment to retained earnings by ₹ 1.20 crore

3. At what amount the contingent liability be valued in the consolidated balance sheet as on 31st March, 20X2, and in what account the adjustment is to be made with the difference in the value to previous valuation?

   (a) ₹ 1 crore; adjustment to goodwill by ₹ 1 crore

   (b) ₹ 2 crores; adjustment to retained earnings by ₹ 1 crore

   (c) ₹ 1.90 crores; crediting retained earnings by ₹ 0.1 crore

   (d) ₹ 2.20 crores; debiting retained earnings by ₹ 0.20 crore

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a) : ₹ 1 crore**

2. **Option (b) : ₹ 2 crores**

3. **Option (d) : ₹ 2.20 crores; debiting retained earnings by ₹ 0.20 crore**

   Reasoning

   The consolidated financial statements of ABC Ltd. for the year ended 31st March, 20X1 should include ₹ 1 crore towards the contingent liability in relation to the customer claim.

   When the customer presents additional information in support of its claim, the incremental liability of ₹ 1 crore (₹ 2 crore – ₹ 1 crore) will be adjusted as a part of acquisition accounting as it is within the measurement period. In its financial statements for the year ending on 31st March, 20X2, ABC Ltd. will disclose the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, it will disclose that the comparative information for the year ending on 31st March, 20X1 is adjusted retrospectively to increase the fair value of the item of liability at the acquisition date by ₹ 1 crore, resulting in a corresponding increase in goodwill.

The information resulting in the decrease in the estimated fair value of the liability for the claim in February, 20X2 was obtained after the measurement period. Accordingly, the decrease is not recognised as an adjustment to the acquisition accounting. If the amount determined in accordance with Ind AS 37 subsequently exceeds the previous estimate of the fair value of the liability, then ABC Ltd. recognises an increase in the liability. As the change has occurred after the end of the measurement period, the increase in the liability amounting to ₹ 20 lakh (₹ 2.2 crore – ₹ 2 crore) is recognised in profit or loss.

CASE SCENARIO 6

A Ltd. is engaged in multi production/construction and service activities. A Ltd. prepares its financial statements following Indian Accounting Standards and follows April-March as its financial year. During the year 20X1-20X2, the company has faced following issues and for their solution seeks your professional advice:

(i) A Ltd. produces aircrafts. The length of time between first purchasing raw materials to make the aircrafts and the date the company completes the production and delivery is 9 months. The company receives payment for the aircrafts 7 months after the delivery.

(ii) A Ltd. provides advertising services to its customers. A Ltd. enters into a sub-contract with a multinational online video sharing company, F Ltd. Under the sub-contract, F Ltd. places all of A Ltd.'s customers' adverts.

A Ltd. notes the following:

– A Ltd. works directly with customers to understand their advertising needs before placing adverts.

– A Ltd. is responsible for ensuring that the advert meets the customer's needs after the advert is placed.

– A Ltd. directs F Ltd. over which advert to place and when to place it.

– A Ltd. does not bear inventory risk because there is no minimum purchase requirement with F Ltd.

– A Ltd. does not have discretion in setting the price because fees are charged based on F Ltd.'s scheduled rates.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 3 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. What is the length of operating cycle for manufacturing an aircraft?

   (a) 9 months

   (b) 7 months

   (c) 16 months

   (d) 2 months

2. What would be the classification of Trade Receivables in the balance sheet whose amount will be realised in 15 months?

   (a) Current asset

   (b) Non-current asset

   (c) As per the wish of A Ltd. either current asset or non-current asset

   (d) Such Trade Receivables will not appear in the balance sheet

3. Which of the following statement is correct with respect to entering into sub-contract with F Ltd.?

   (a) A Ltd. is an agent under this sub-contract

   (b) A Ltd. is a principal under this sub-contract

   (c) Ind AS 115 is not applicable to this scenario

   (d) Arrangement between A Ltd. and F Ltd. whether principal or agent will not affect the amount of revenue to be recognised by A Ltd.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c): 16 months

2. Option (a): Current asset

Reasoning of 1 & 2

(a) The length of the operating cycle will be 16 months.

(b) Assuming the inventory and debtors will be realised within normal operating cycle, i.e., 16 months, both the inventory as well as debtors should be classified as current.

3. **Option (b): A Ltd. is a principal under this sub-contract**

Reasoning

D Ltd. is primarily responsible for fulfilling the promise to provide advertising services. Although F Ltd. delivers the placement service, D Ltd. works directly with customers to ensure that the services are performed to their requirements. Even though D Ltd. does not bear inventory risk and does not have discretion in setting the price, it controls the advertising services before they are provided to the customer. Therefore, D Ltd. is the principal in this case.

CASE SCENARIO 7

X Ltd. is engaged in the construction industry and prepares its financial statements up to 31st March each year.

(i) On 1st April, 20X1, X Ltd. purchased a large property (consisting of land) for ₹ 2,00,00,000 and immediately began to lease the property to Y Ltd. on an operating lease. Annual rentals were ₹ 20,00,000. On 31st March, 20X5, the fair value of the property was ₹ 2,60,00,000. Under the terms of the lease, Y Ltd. was able to cancel the lease by giving six months' notice in writing to X Ltd. Y Ltd. gave this notice on 31st March, 20X5 and vacated the property on 30th September, 20X5. On 30th September, 20X5, the fair value of the property was ₹ 2,90,00,000. On 1st October, 20X5, X Ltd. immediately began to convert the property into ten separate flats of equal size which X Ltd. intended to sell in the ordinary course of its business. X Ltd. spent a total of ₹ 60,00,000 on this conversion project between 30th September, 20X5 to 31st March, 20X6. The project was incomplete at 31st March, 20X6 and the directors of X Ltd. estimate that they need to spend a further ₹ 40,00,000 to complete the project, after which each flat could be sold for ₹ 50,00,000.

(ii) Mr. A is a domestic partner of Ms. B. Mr. A has an investment in X Limited and Ms. B has an investment in Z Limited.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. At what value the property be reclassified as on 30th September, 20X5?

   (a) ₹ 2,90,00,000

   (b) ₹ 2,60,00,000

   (c) ₹ 3,50,00,000

   (d) ₹ 2,00,00,000

2. What is the net realizable value of the property as on 31st March, 20X6?

   (a) ₹ 5,00,00,000

   (b) ₹ 4,60,00,000

   (c) ₹ 2,60,00,000

   (d) ₹ 3,00,00,000

3. At what value the property (all flats) be shown in the balance sheet as on 31st March, 20X6?

   (a) ₹ 5,00,00,000

   (b) ₹ 4,60,00,000

   (c) ₹ 2,60,00,000

   (d) ₹ 3,00,00,000

4. State which of the following statement is correct with respect to Mr. A's investment in X Ltd.?

   (a) Mr. A is not a related party to X Ltd. even if it controls X Ltd.

   (b) Z Ltd. is related to X Ltd. if Mr. A controls or jointly controls X Ltd. even if Ms. B does not controls or jointly controls Z Ltd.

   (c) Z Ltd. is related to X Ltd. if Mr. A controls or jointly controls X Ltd. and Ms. B controls or jointly controls Z Ltd.

   (d) Mr. A is not a related party to X Ltd. but Ms. B is a related party to X Ltd.

5. State which of the following statement is correct if Mr. A and Ms. B only have significant influence over respective X Ltd. and Z Ltd.?

   (a) X Ltd, and Z Ltd. are related party

   (b) X Ltd. and Z Ltd. are not related party

   (c) Mr. A is related party to Z Ltd.

   (d) Ms. B is related party to X Ltd.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d): ₹ 2,00,00,000**
2. **Option (b): ₹ 4,60,00,000**
3. **Option (c): ₹ 2,60,00,000**

Reasoning

From 1st April, 20X1, the property would be regarded as an investment property since it is being held for its investment potential rather than being owner occupied or developed for sale. The property would be measured under the cost model. This means it will be measured at ₹ 2,00,00,000 at each year end.

On 30th September, 20X5, the property ceases to be an investment property. X Ltd. begins to develop it for sale as flats. As per para 59 of Ind AS 40, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Hence, the carrying value of the reclassified property will be ₹ 2,00,00,000. Since the lease of the property is an operating lease, rental income of ₹ 10,00,000 (₹ 20,00,000 x 6/12) would be recognized in P/L for the year ended 31st March, 20X6.

The additional costs of ₹ 60,00,000 for developing the flats which were incurred up to and including 31st March, 20X6 would be added to the 'cost' of inventory to give a closing cost of ₹ 2,60,00,000.

The total selling price of the flats is expected to be ₹ 5,00,00,000 (10 x ₹ 50,00,000). Since the further costs to develop the flats total ₹ 40,00,000, their net realisable value is ₹ 4,60,00,000 (₹ 5,00,00,000 – ₹ 40,00,000), so the flats will be measured at a cost of ₹ 2,60,00,000. The flats will be shown in inventory as a current asset.

4. **Option (c): Z Ltd. is related to X Ltd. if Mr. A controls or jointly controls X Ltd. and Ms. B controls or jointly controls Z Ltd.**

5. **Option (b): X Ltd. and Z Ltd. are not related party**

   Reasoning

   If Mr. X controls or jointly controls A Limited, B Limited is related to A Limited when Ms. Y has control, joint control or significant influence over B Limited. No, significant influence does not lead to direct/indirect control between the A Ltd. & B Ltd. i.e., if Mr. X has significant influence (but not control or joint control) over Entity A and Ms. Y has significant influence (but not control or joint control) over Entity B, Entities A and B are not related to each other.

CASE SCENARIO 8

G Ltd. is currently engaged in different business segments and is also looking to expand its operations overseas. G Ltd. is also exploring investment from an overseas investor to carry out the expansion plan.

(i) G Ltd has made an interest free security deposit against a lease of 5 years redeemable at the end of the lease term, when market interest rate for a deposit for similar period was 12% per annum. Following are the details of the deposit made by G Ltd.:

Particulars	Details
Date of Security Deposit (Starting Date)	1st April, 20X1
Date of Security Deposit (Finishing Date)	31st March, 20X6
Discount rate	12.00%
Security deposit	10,00,000
Present value factor at the end of 5th year	0.567427

(ii) G Ltd. acquired 25% of the equity share capital of R Ltd. on the first day of the financial year for ₹ 1,25,000. As of that date, the carrying value of the net assets of R Ltd. was ₹ 3,00,000 and the fair value was ₹ 4,00,000. The excess of fair value over the carrying value was attributable to one of the buildings owned by R Ltd. having a remaining useful life of 20 years. R Ltd. earned profit of ₹ 40,000 and other comprehensive income of ₹ 10,000 during the year.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. What will be the initial amount of prepaid lease payment in the lease contract to be recognised by G Ltd. as Right-of-Use Asset?

   (a) ₹ 5,67,427

   (b) ₹ 4,32,573

(c) ₹ 10,00,000

(d) Nil

2. What will be the amount of interest income on security deposit to be recognised in the financial statements of G Ltd. as on 31st March, 20X2?

   (a) ₹ 1,20,000

   (b) ₹ 68,091

   (c) ₹ 51,909

   (d) Nil

3. Calculate the goodwill / capital reserve on the date of acquisition of R Ltd.?

   (a) Goodwill ₹ 25,000

   (b) Capital reserve ₹ 25,000

   (c) No goodwill or capital reserve

   (d) Goodwill ₹ 50,000

4. What will be G Ltd.'s share in the profit and other comprehensive income for the year?

   (a) ₹ 10,000; ₹ 8,750

   (b) ₹ 8,750; ₹ 1,250

   (c) ₹ 1,250; ₹ 2,500

   (d) ₹ 8,750; ₹ 2,500

5. What will be the closing balance of investment in R Ltd. at the end of the year in the books of G Ltd.?

   (a) ₹ 1,25,000

   (b) ₹ 1,36,250

   (c) ₹ 1,00,000

   (d) ₹ 1,33,750

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b): ₹ 4,32,573**

Reasoning

The security deposit is an interest free deposit redeemable at the end of lease term for ` 10,00,000. Hence, this involves collection of contractual cash flows and shall be accounted at amortised cost.

Upon initial measurement –

Particulars	**Details**
Security deposit (A)	10,00,000
Total Lease Period (Years)	5
Discount rate	12.00%
Present value factor of 5th year end	0.567427
Present value of deposit at beginning (B)	5,67,427
Prepaid lease payment at beginning (A-B)	4,32,573

2. **Option (b): ₹ 68,091**

The Security deposit will be recognised with present value of the lease liability i.e. ₹ 10,00,000 x 0.56743 = ₹ 5,67,427.

Subsequently, every annual reporting year end, interest income shall be accrued @ 12% per annum as follows:

Security deposit A/c (₹ 5,67,427 x 12%) = ₹ 68,091

3. **Option (a): Goodwill ₹ 25,000**

Reasoning

The cost of the investment is higher than the net fair value of the investee's identifiable assets and liabilities. Hence there is goodwill calculated as follows:

	₹
Cost of acquisition of investment	1,25,000
Blue Ltd.'s share in fair value of net assets of Green Ltd. on the date of acquisition (4,00,000 x 25%)	(1,00,000)
Goodwill	**25,000**

4. **Option (d): ₹ 8,750; ₹ 2,500**

Reasoning

Share in profit and other comprehensive income of Green Ltd.

	₹
Share in profit of Green Ltd. (40,000 x 25%)	10,000
Adjustment for depreciation based on fair value (1,00,000 ÷ 20) x 25%	(1,250)
Share in profit after adjustment	**8,750**
Share in other comprehensive income (10,000 x 25%)	**2,500**

5. **Option (b): ₹ 1,36,250**

Reasoning

Closing balance of investment at the end of the year

	₹
Cost of acquisition of investment (including goodwill of ₹ 25,000)	1,25,000
Share in profit after adjustments	8,750
Share in other comprehensive income	2,500
Closing balance of investment	**1,36,250**

CASE SCENARIO 9

ABC Ltd. manufactures and sells healthcare products, and food and grocery products.

(i) Three products namely A, B & C are manufactured. Product A is classified as healthcare product and product B & C are classified as food and grocery products. Products B & C are similar products. Discrete financial information is available for each manufacturing locations and for the selling activity of each product. There are two-line managers responsible for manufacturing activities of products A, B & C. Manager X manages product A and Manager B manages products B & C. The operating results of health care products (product A) and food and grocery products (products B & C) are regularly reviewed by the CODM.

(ii) ABC Ltd provides you the following information:

Raw material stock holding period	: 3 months
Work-in-progress holding period	: 1 month
Finished goods holding period	: 5 months
Debtors collection period	: 5 months

The trade payables of the Company are paid in 12.5 months.

(iii) ABC Ltd. owns 30% of the share capital of XYZ Ltd. and has the ability to exercise significant influence over it.

XYZ Ltd. holds the following investments:

a. 70% of the share capital of its subsidiary, PQR Ltd.; and

b. 30% of the share capital of LMN Ltd., with the ability to exercise significant influence.

ABC Ltd. transacts with PQR Ltd. and LMN Ltd.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 4 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. What is the operating cycle of ABC Ltd.?

   (a) 9 months

   (b) 14 months

   (c) 26.5 months

   (d) 4 months

2. What would be the classification of trade payables in the balance sheet of ABC Ltd.?

   (a) Current liability

   (b) Non-current liability

   (c) Would not appear in the balance sheet

   (d) Would be disclosed in the Notes to Accounts only

3. How many operating segments does ABC Ltd. have?

   (a) One operating segment i.e. Healthcare segment

   (b) One operating segment i.e Food and Grocery Segment

   (c) Two operating segments i.e 'healthcare segment and 'food and grocery segment'

   (d) Three operating segments i.e 'healthcare segment, 'food segment' and 'grocery segment'

4. State which of the following statement is **NOT** correct as per Ind AS 24 with respect to ABC Ltd.'s transactions between PQR Ltd. and LMN Ltd.?

   (a) ABC Ltd. should disclose its transactions with PQR Ltd. in its separate financial statements. PQR Ltd. is a related party of ABC Ltd., because PQR Ltd. is the subsidiary of ABC Ltd.'s associate, XYZ Ltd.

   (b) ABC Ltd. is not required to disclose its transactions with LMN Ltd. in its financial statements. LMN Ltd. is not a related party of ABC Ltd., because ABC Ltd. has no ability to exercise control or significant influence over LMN Ltd.

(c) PQR Ltd. is required to disclose its transactions with ABC Ltd. in its financial statements, because ABC Ltd. is a related party but LMN Ltd. is not required to disclose transactions with ABC Ltd., because they are not related parties.

(d) ABC Ltd. should not disclose its transactions with PQR Ltd. in its separate financial statements. PQR Ltd. is not a related party of ABC Ltd., because PQR Ltd. is the subsidiary of ABC Ltd.'s associate, XYZ Ltd.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b): 14 months**

2. **Option (a): Current liability**

   Reasoning

   In this case, the operating cycle of X Ltd. is 14 months. Since the trade payables are expected to be settled within the operating cycle i.e. 12.5 months, they should be classified as a current.

3. **Option (c): Two operating segments i.e 'healthcare segment and 'food and grocery segment'**

   Reasoning

   In this situation both the healthcare, and food and grocery product line meet the criteria for operating segments set out above. Therefore, it is likely that ABC Ltd.'s operating segments would be classified as being (i) healthcare and (ii) food and grocery segments.

   Not every part of an entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of Ind AS 108, an entity's post-employment benefit plans are not operating segments.

4. **Option (d): ABC Ltd. should not disclose its transactions with PQR Ltd. in its separate financial statements. PQR Ltd. is not a related party of ABC Ltd., because PQR Ltd. is the subsidiary of ABC Ltd.'s associate, XYZ Ltd.**

   Reasoning

   Entity A should disclose its transactions with entity C in entity A's separate financial statements. Entity C is a related party of entity A, because entity C is the subsidiary of entity A's associate, entity B.

   Entity A's management is not required to disclose entity A's transactions with entity D in its financial statements. Entity D is not a related party of entity A, because entity A has no ability to exercise control or significant influence over entity D.

   Entity C is required to disclose its transactions with entity A in its financial statements, because entity A is a related party.

   Entity D is not required to disclose transactions with entity A, because they are not related parties.

CASE SCENARIO 10

B Ltd. is engaged in many businesses including manufacturing and fitness clubs and sports gymnasium. It prepares its financial statements following Indian Accounting. During the year, the company has faced some issues and for their solution seeks your professional advice.

(i) A gymnasium enters into a contract with a new member to provide access to its gym for a 12-month period at ₹ 4,500 per month. The member can cancel his or her membership without penalty after three months.

(ii) The following information is gathered from B Ltd.:

- Full capacity is 10,000 labour hours in a year.
- Normal capacity is 7,500 labour hours in a year.
- Actual labour hours for current period are 6,500 hours.
- Total fixed production overhead is ₹ 1,500.
- Total variable production overhead is ₹ 2,600.
- Total opening inventory is 2,500 units.
- Total units produced in a year are 6,500 units.
- Total units sold in a year are 6,700 units.
- The cost of inventories is assigned by using FIFO cost formula.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 4 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. What is the contract term of the contract entered by the gymnasium and a new member?

   (a) 3 months

   (b) 12 months

(c) 9 months

(d) There is no contract

2. The amount of fixed production overhead allocated to units produced during the year would be

(a) ₹ 1,800

(b) ₹ 1,640

(c) ₹ 1,500

(d) ₹ 1,300

3. What is the total fixed and variable production overhead recognized as part of cost of closing inventory of the year?

(a) ₹ 1,380

(b) ₹ 2,720

(c) ₹ 1,500

(d) ₹ 2,420

4. What amount will be recognized as an expense in the profit and loss account?

(a) ₹ 1,380

(b) ₹ 2,720

(c) ₹ 1,500

(d) ₹ 2,420

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a): 3 months

Reasoning

The enforceable rights and obligations of this contract are for three months, and therefore the contract term is three months.

2. **Option (d): ₹ 1,300**

3. **Option (a): ₹ 1,380**

4. **Option (b): ₹ 2,720**

Reasoning for 2 to 4

Hours taken to produce 1 unit = 6,500 hours / 6,500 units = 1 hour per unit.

Fixed production overhead absorption rate:

= Fixed production overhead / labour hours for normal capacity

= ₹ 1,500 / 7,500

= ₹ 0.2 per hour

Management should allocate fixed overhead costs to units produced at a rate of ₹ 0.2 per hour.

Therefore, fixed production overhead allocated to 6,500 units produced during the year (one unit per hour) = 6,500 units x1 hour x ₹ 0.2 = ₹ 1,300.

The remaining fixed overhead incurred during the year of ₹ 200 (₹ 1,500 – ₹ 1,300) that remains unallocated is recognized as an expense.

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

Variable production overhead absorption rate:

= Variable production overhead/actual hours for current period

= ₹ 2,600 / 6,500 hours

= ₹ 0.4 per hour

Management should allocate variable overhead costs to units produced at a rate of ₹ 0.4 per hour.

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

Closing inventory = Opening inventory + Units produced during year – Units sold during year

= 2,500 + 6,500 – 6,700 = 2,300 units

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

= Number of units of closing inventory x Number of hours to produce each unit x (Fixed production overhead absorption rate + Variable production overhead absorption rate)

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

The remaining ₹ 2,720 [(₹ 1,500 + ₹ 2,600) – ₹ 1,380] is recognized as an expense in the income statement as follows:

	₹
Absorbed in cost of goods sold (FIFO basis)	
(6,500 – 2,300) = 4,200 x ₹ 0.6	2,520
Unabsorbed fixed overheads, not included in the cost of goods sold	200
Total	**2,720**

CASE SCENARIO 11

Z Ltd. is a multi-national company and prepares and presents its financial statements following Indian Accounting Standards.

(i) Z Ltd. makes sale of goods to customers on credit of 45 days. The customers are entitled to earn a cash discount @ 2% per annum if payment is made before 45 days and an interest @ 10% per annum is charged for any payments made after 45 days.

(ii) Z Ltd. makes sale of goods to customers on credit. Goods are carried in large containers for delivery to the dealers' destinations. All dealers are required to deposit a fixed amount of ₹ 10,000 as security for the containers, which is returned only when the contract with Company terminates. The deposits carry 8% per annum which is payable only when the contract terminates.

If the containers are returned by the dealers in broken condition or any damage caused, then appropriate adjustments shall be made from the deposits at the time of settlement.

(iii) Z Ltd. has following three types of interests in an associate:

- Equity shares: 25% of the equity shares to which equity method of accounting is applied
- Preference shares: Non-cumulative preference shares that form part of net investment in the associate. Such preference shares are measured at fair value as per Ind AS 109.
- Long-term loan: The loan carrying interest of 10% p.a. The interest income is received at the end of each year. The long-term loan is accounted as per amortised cost as per Ind AS 109. This loan also forms part of net investment in the associate.

At the start of year 1, the carrying value of each of the above interests is as follows:

- Equity shares – ₹ 10,00,000
- Preference shares – ₹ 5,00,000
- Long-term loan – ₹ 3,00,000

Following table summarises the changes in the fair value of preference shares as per Ind AS 109, impairment loss on long-term loan as per Ind AS 109 and entity's share in profit / loss of associate for year 1: ₹

End of Year	Increase / (Decrease) in fair value of preference shares as per Ind AS 109	Impairment loss / (reversal) on long-term loan as per Ind AS 109	Entity's share in profit / (loss) of associate
1	(50,000)	(50,000)	(16,00,000)

Throughout year 1 to 5, there has been no objective evidence of impairment in the net investment in the associate. The entity does not have any legal or constructive obligation to share the losses of the associate beyond its interest in the associate.

Based on above, determine the closing balance of each of the above interests at the end of each year.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. What will be the classification of such trade receivables in the books of Z Ltd.?

   (a) Non-current, non-financial asset

   (b) Non-current, financial asset

   (c) Current financial asset

   (d) Current non-financial asset

2. What will be the classification of such deposits in the books of dealers?

   (a) Non-current, non-financial asset

   (b) Non-current, financial asset

   (c) Current financial asset

   (d) Current non-financial asset

3. The closing balance of equity share interest in an associate at the end of year 1 will be

   (a) ₹ 10,00,000

   (b) (₹ 6,00,000)

   (c) ₹ 2,00,000

   (d) Nil

4. The closing balance of preference share interest in an associate at the end of year 1 will be

   (a) ₹ 5,00,000

   (b) ₹ 4,50,000

   (c) Nil

   (d) (₹ 50,000)

5. The closing balance of long-term loan interests in an associate at the end of year 1 will be

   (a) ₹ 3,00,000

   (b) ₹ 2,50,000

   (c) Nil

   (d) ₹ 1,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c): Current financial asset

Reasoning

A financial asset is an asset where there is a contractual right to receive cash or another financial asset from another entity. In the above case, A Ltd. has the contractual right to receive cash /bank from its trade receivable recorded in its books of accounts, after the expiry of credit period of 45 days or earlier after passing discounts of 2% per annum.

Hence, trade receivables would meet the definition of financial assets.

It may be noted that contractual right to receive cash includes contractual right to receipt of money in bank account or any wallet account.

2. **Option (b): Non-current, financial asset**

Reasoning

A financial asset is an asset where there is a contractual right to receive cash or another financial asset from another entity.

In the above case, such security deposits are receivable in cash at the end of contract period between the dealer and the Company.

Hence, they meet the definition of financial assets.

3. **Option (d): Nil**

4. **Option (c): Nil**

5. **Option (d): ₹ 1,00,000**

Reasoning

<u>Year 1</u>

Below table summarises the closing balance of each of the interest at the end of year 1: ₹

Type of interest	Opening balance at the start of the year	Adjustment as per Ind AS 109	Balance after applying Ind AS 109	Share in profit / (loss) of associate	Closing balance at the end of the year
	(A)	(B)	I = (A+B)	(D)	I = (C+D)
Equity shares	10,00,000	NA	10,00,000	(10,00,000)	-
Preference shares	5,00,000	(50,000)	4,50,000	(4,50,000)	-
Long-term loan	3,00,000	(50,000)	2,50,000	(1,50,000)	1,00,000
Total	**18,00,000**	**(1,00,000)**	**17,00,000**	**(16,00,000)**	**1,00,000**

The entire loss of ₹ 16,00,000 is recognised. Hence, there is no unrecognised loss at the end of year 1.

CASE SCENARIO 12

X Ltd. is engaged in many businesses for which it is in the process of acquiring fixed assets and intangible assets. X Ltd. prepares its financial statements following Ind AS and follows April-March as its financial year.

X Ltd. has paid an advance tax amounting to ₹ 5,30,000 during the current year. Out of the said paid tax, ₹ 30,000 is paid for tax on long term capital gains.

X Ltd. acquires fixed asset of ₹ 10,00,000 from Y Ltd. by accepting the liabilities of ₹ 8,00,000 of Y Ltd. and balance amount it paid in cash.

X Ltd. acquired a trademark on 31st March, 20X1 for ₹ 1,00,000. The asset was revalued at ₹ 1,20,000 on 31st March, 20X2 and ₹ 85,000 on 31st March, 20X3.

X Ltd. acquired patent on 31st March, 20X1 for ₹ 1,00,000. The asset was revalued at ₹ 85,000 on 31st March, 20X2 and at ₹ 1,05,000 on 31st March, 20X3.

X Ltd. uses the revaluation model.

X Ltd. enters into a ten-year contract with A Ltd. for the use of rolling stock specifically designed for X Ltd. The rolling stock is designed to transport materials used in X Ltd.'s production process and is not suitable for use by other customers. The rolling stock is not explicitly specified in the contract but A Ltd. owns only one rolling stock that is suitable for X Ltd.'s use. If the rolling stock does not operate properly, the contract requires A Ltd. to repair or replace the rolling stock.

The company has faced certain issues and for their solution seeks your professional advice.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. Under which activity the advance tax amounting to ₹ 5,30,000 be classified in the statement of cash flows of X Ltd.?

   (a) ₹ 5,30,000 to be shown under operating activities.

(b) ₹ 5,30,000 to be shown under investing activities.

(c) ₹ 5,00,000 to be shown under investing activities. ₹ 30,000 to be shown under operating activities.

(d) ₹ 5,00,000 to be shown under operating activities. ₹ 30,000 to be shown under investing activities.

2. What will the accounting treatment of fixed assets bought and liabilities assumed by X Ltd., in its statement of cash flows?

(a) X Ltd. should classify only cash payment of ₹ 2,00,000 under investing activities and remaining ₹ 8,00,000 being non-cash transactions – liabilities and asset should be disclosed in the notes to the financial statements.

(b) X Ltd. should classify only cash payment of ₹ 10,00,000 under investing activities and ₹ 8,00,000 in the financing activities.

(c) X Ltd. should classify only cash payment of ₹ 2,00,000 under operating activities and remaining ₹ 8,00,000 being non-cash transactions-liabilities and asset, should be disclosed in the notes to the financial statements.

(d) ₹ 2,00,000 should be shown as cash and cash equivalent and remaining ₹ 8,00,000 being non-cash transactions – liabilities and asset should be disclosed in the notes to the financial statements.

3. What will be the treatment for revaluation of trademark on 31st March, 20X3? Ignore computation of amortization on it.

(a) ₹ 35,000 of the revaluation decrease on 31st March, 20X3 should be debited to revaluation reserve account in other comprehensive income.

(b) ₹ 35,000 of the revaluation decrease on 31st March, 20X3 should be debited as expense in the profit and loss account.

(c) ₹ 20,000 of the revaluation decrease on 31st March, 20X3 should be debited to revaluation reserve in other comprehensive income and remaining ₹ 15,000 should be recognized as an expense in the profit and loss account.

(d) No adjustment to be made in other comprehensive income and only ₹ 15,000 should be recognized as an expense in the profit and loss account.

4. What will be the treatment for revaluation of patent on 31st March, 20X3? Ignore computation of amortization on it.

(a) ₹ 5,000 net increase on 31st March, 20X3 should be recognized as income in the profit and loss account.

(b) ₹ 15,000 out of the ₹ 20,000 increase on 31st March, 20X3 should be recognized as income in the profit and loss account and remaining ₹ 5,000 should be credited to revaluation reserve in other comprehensive income.

(c) ₹ 20,000 increase on 31st March, 20X3 should be recognized as income in the profit and loss account.

(d) ₹ 20,000 increase on 31st March, 20X3 should be credited to revaluation reserve and recognized in other comprehensive income.

5. State which of the following statement is correct with respect to the contract entered by X Ltd. with A Ltd.

(a) Rolling stock is an identified asset though it is not explicitly specified in the contract

(b) Rolling stock is not an identified asset since it is not explicitly specified in the contract

(c) Rolling stock is not an identified asset even if it is explicitly specified in the contract

(d) Rolling stock is not an identified asset even if it is explicitly or implicitly specified in the contract

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d): ₹ 5,00,000 to be shown under operating activities. ₹ 30,000 to be shown under investing activities.**

   Reasoning

   Cash flows arising from taxes on income should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. In the case of X Limited, the tax amount of ₹ 30,000 is specifically related with investing activities.

   ₹ 5,00,000 to be shown under operating activities. ₹ 30,000 to be shown under investing activities.

2. **Option (a): X Ltd. should classify only cash payment of ₹ 2,00,000 under investing activities and remaining ₹ 8,00,000 being non-cash transactions – liabilities and asset should be disclosed in the notes to the financial statements.**

3. **Option (c): ₹ 20,000 of the revaluation decrease on 31st March, 20X3 should be debited to revaluation reserve in other comprehensive income and remaining ₹ 15,000 should be recognized as an expense in the profit and loss account.**

   Reasoning

   ₹ 20,000 revaluation increase on 31st March, 20X2 should be credited to the revaluation reserve and recognized in other comprehensive income. ₹ 20,000 of the revaluation decrease on 31st March, 20X3 should be debited to revaluation reserve and remaining ₹ 15,000 should be recognized as an expense.

4. **Option (b): ₹ 15,000 out of the ₹ 20,000 increase on 31st March, 20X3 should be recognized as income in the profit and loss account and remaining ₹ 5,000 should be credited to revaluation reserve in other comprehensive income.**

Reasoning

₹ 15,000 revaluation decrease on 31st March, 20X2 should be recognized as an expense in the Statement of Profit and loss. ₹ 15,000 out of the ₹ 20,000 increase on 31st March, 20X3 should be recognized as income. The remaining ₹ 5,000 should be credited to revaluation reserve and recognized in other comprehensive income.

5. **Option (a)**: **Rolling stock is an identified asset though it is not explicitly specified in the contract**

Reasoning

The said rolling stock is an identified asset, though the rolling stock is not explicitly specified in the contract (e.g., by serial number), it is implicitly specified because Supplier A Ltd. must use it to fulfil the contract.

CASE SCENARIO 13

PQR Ltd. is engaged in providing a wide range of telecommunications services, including mobile connectivity, broadband and enterprise network solutions. It prepares its financial statements in accordance with Ind AS and follows the financial year for the purpose of accounting and reporting.

A customer buys modem from PQR Ltd. However, customer can also get the connection from PQR Ltd. and modem from any other vendor. The installation activity requires limited effort and the cost involved is almost insignificant. It has various plans where it provides either broadband services or voice call services or both.

PQR Ltd. has 350 employees (same as a year ago). The average staff attrition rates observed during past 10 years represents 6% per annum. PQR Ltd. provides to all its employees, paid vacation of 10 days per year regardless of date of hiring. Compensation for paid vacation is 100% of employee's salary and unused vacation can be carried forward for 1 year. As of 31st March, 20X1, unused vacation carried forward was 3 days per employee, average salary was ₹ 15,000 per day and accrued expense for unused vacation in 20X0-20X1 was ₹ 65,00,000. During 20X1-20X2, employees took 9 days of vacation in average. Salary increases in 20X1-20X2 was 10%.

PQR Ltd. had taken 6-year term loan in April 20X0 from bank and paid processing fees at the time of sanction of loan. The term loan is disbursed in different tranches from April 20X0 to April 20X6. On the date of transition to Ind AS, i.e. 1.4.20X5, it has calculated the net present value of term loan disbursed upto 31.03.20X5 by using effective interest rate and proportionate processing fees has been adjusted in disbursed amount while calculating net present value.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. How many performance obligations are there?

   (a) Broadband Service

   (b) Voice Call services

   (c) Modem

   (d) All of the above

2. What would be the total unused vacation in terms of man-days as on 31st March, 20X2?

   (a) 21 man-days

   (b) 1,295 man-days

   (c) 1,316 man-days

   (d) 1,337 man-days

3. By what amount should PQR Ltd. make provision for unused paid vacation for the year 20X1-20X2?

   (a) ₹ 2,20,60,500

   (b) ₹ 2,17,14,000

   (c) ₹ 2,13,67,500

   (d) ₹ 3,46,500

4. What would be the accounting treatment of the processing fee belonging to undisbursed term loan amount, in case future drawdown is probable?

   (a) The processing fee is accounted for as a transaction cost under Ind AS 109 but not deferred and deducted from the carrying value of the financial liabilities when the draw down occurs.

   (b) The processing fee is accounted for as a transaction cost under Ind AS 109 and the fee is deferred and deducted from the carrying value of the financial liabilities when the draw down occurs and considered in the effective interest rate calculations.

(c) The processing fee is recognised as an expense on a straight-line basis over the term of the loan.

(d) The processing fee is not accounted for as a transaction cost under Ind AS 109 but is deferred and deducted from the carrying value of the financial liabilities when the draw down occurs and considered in the effective interest rate calculations.

5. What would be the accounting treatment of the processing fee belonging to undisbursed term loan amount, in case future drawdown is not probable?

(a) The processing fee is accounted for as a transaction cost under Ind AS 109 but not deferred and deducted from the carrying value of the financial liabilities when the draw down occurs.

(b) The processing fee is accounted for as a transaction cost under Ind AS 109 and the fee is deferred and deducted from the carrying value of the financial liabilities when the draw down occurs and considered in the effective interest rate calculations.

(c) The processing fee is not accounted for as a transaction cost and recognised as an expense on a straight-line basis over the term of the loan.

(d) The processing fee is not accounted for as a transaction cost under Ind AS 109 but is deferred and deducted from the carrying value of the financial liabilities when the draw down occurs and considered in the effective interest rate calculations.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d): All of the above

Reasoning

Entity promises to customer to provide

- Broadband Service
- Voice Call services
- Modem

Entity's promise to provide goods and services is distinct if

- customer can benefit from the goods or service either on its own or together with other resources that are readily available to the customer, and
- entity's promise to transfer the goods or service to the customer is separately identifiable from other promises in the contract

For broadband and voice call services -

- Broadband and voice services are separately identifiable from other promises as company has various plans to provide the two services separately. These two services are not dependant or interrelated. Also the customer can benefit on its own from the services received.

For sale of modem -

- Customer can either buy product from entity or third party. No significant customisation or modification is required for selling product.

Based on the evaluation, it can be said that there are three separate performance obligation:

- Broadband Service
- Voice Call services
- Modem

2. Option (d): 1,337 man-days

Reasoning

Paid Vacation:

Step 1: Calculation of Unused Vacation in man-days as on 31st March, 20X2:

A. No. of Employees in service for the whole year (94%):

Particulars	Man-days
Unused vacation as on 31st March, 20X1	3 days per employee
Entitlement to vacation for 20X1-20X2	10 days per employee

Average vacation availed in 20X1-20X2	(9) days per employee
Unused vacation as on 31st March, 20X2 (being unused leaves of 20X1-20X2 on FIFO basis)	**4 days per employee**
Total Unused vacation as on 31st March, 20X2-(A) (350 employees x 94% x 4 days per employee)	**1,316 man-days**

B. Newcomers (6%):

Particulars	Man-days
Entitlement to vacation for 20X1-20X2	10 days per employee
Average vacation availed in 20X1-20X2	(9) days per employee
Unused vacation as on 31st March, 20X2 (being unused leaves of 20X1-20X2 on FIFO basis)	1 day per employee
Total Unused vacation as on 31st March, 20X2 - (B) (350 employees x 6% x 1 day per employee)	21 man-days
Total unused vacation as on 31st March, 20X2 (A+B)	1,337 man-days

3. Option (a): ₹ 2,20,60,500

Reasoning

Step 2: Calculation of average salary per day:

Particulars	Amount (₹)
Average salary per day as on 31st March, 20X1	15,000
Salary increase in 20X1-20X2	10%
Average salary per day as on 31st March, 20X2	**16,500**

Step 3: Calculation of provision for unused paid vacation:

Particulars	**Amount (`)**
Calculation of provision for unused paid vacation 20X1-20X2: (1,337 man-days x ₹ 16,500)	2,20,60,500
Provision for unused paid vacation 20X0-20X1	65,00,000

4. **Option (b): The processing fee is accounted for as a transaction cost under Ind AS 109 and the fee is deferred and deducted from the carrying value of the financial liabilities when the draw down occurs and considered in the effective interest rate calculations.**

5. **Option (c): The processing fee is not accounted for as a transaction cost and recognised as an expense on a straight-line basis over the term of the loan.**

CASE SCENARIO 14

ABC Ltd. prepares consolidated financial statements up to 31st March each year. On 1st July 20X1, ABC Ltd. acquired 75% of the equity shares of JKL Ltd. and gained control of JKL Ltd. The issued shares of JKL Ltd. is 1,20,00,000 equity shares. Details of the purchase consideration are as follows:

- On 1st July, 20X1, ABC Ltd. issued two shares for every three shares acquired in JKL Ltd. On 1st July, 20X1, the market value of an equity share in ABC Ltd. was ₹ 6.50 and the market value of an equity share in JKL Ltd. was ₹ 6.
- On 30th June, 20X2, ABC Ltd. will make a cash payment of ₹ 71,50,000 to the former shareholders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 20X1. On 1st July, 20X1, ABC Ltd. would have to pay interest at an annual rate of 10% on borrowings.
- On 30th June, 20X3, ABC Ltd. may make a cash payment of ₹ 3,00,00,000 to the former shareholders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 20X1. This payment is contingent upon the revenues of ABC Ltd. growing by 15% over the two-year period from 1st July, 20X1 to 30th June, 20X3. On 1st July, 20X1, the fair value of this contingent consideration was ₹ 2,50,00,000. On 31st March, 20X2, the fair value of the contingent consideration was ₹ 2,20,00,000.

On 1st July, 20X1, the carrying values of the identifiable net assets of JKL Ltd. in the books of that company was ₹ 6,00,00,000. On 1st July, 20X1, the fair values of these net assets was ₹ 7,00,00,000. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31st March, 20X2, JKL Ltd. had a poorer than expected operating performance. Therefore, on 31st March, 20X2 it was necessary for ABC Ltd. to recognise an impairment of the goodwill arising on acquisition of JKL Ltd., amounting to 10% of its total computed value.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 3 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. What would be the amount of net assets on the acquisition date?
   (a) ₹ 7,00,00,000
   (b) ₹ 6,80,00,000
   (c) ₹ 6,00,00,000
   (d) ₹ 5,60,00,000

2. What will be the amount of Goodwill, in case non-controlling interest is measured at fair value?
   (a) ₹ 2,05,00,000
   (b) ₹ 1,95,00,000
   (c) ₹ 1,80,00,000
   (d) ₹ 1,70,00,000

3. What will be the amount of Goodwill, in case non-controlling interest is measured at proportionate share of fair value of net assets of JKL Ltd.?
   (a) ₹ 2,05,00,000
   (b) ₹ 1,95,00,000
   (c) ₹ 1,80,00,000
   (d) ₹ 1,70,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b): ₹ 6,80,00,000

Reasoning

Net assets on the acquisition date	**₹ '000**
Fair value at acquisition date	70,000
Deferred tax on fair value adjustments [20% x (70,000 – 60,000)]	(2,000)
	68,000

2. **Option (a): ₹ 2,05,00,000**

3. **Option (b): ₹ 1,95,00,000**

Reasoning for 3 & 4

Computation of goodwill impairment

	NCI at fair value ₹ in '000	**NCI at of net assets ₹ in '000**
Cost of investment		
Share exchange (12,000 x 75% x 2/3 x ₹ 6.50)	39,000	39,000
Deferred consideration (7,150 / 1.10)	6,500	6,500
Contingent consideration	25,000	25,000
Non-controlling interest at date of acquisition:		
Fair value – 3,000 x ₹ 6	18,000	
% of net assets –68,000 x 25%		17,000
Net assets on the acquisition date	(68,000)	(68,000)
Goodwill on acquisition	20,500	19,500
Impairment @ 10%	2,050	1,950

CASE SCENARIO 15

On 1st April, 20X1, S Ltd. issued 30,000 6% convertible debentures of face value of ₹ 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31st March 20X5 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is 1st April 20X3.

3.17 is present value of annuity factor of ` 1 at a discount rate of 10% for 4 years. On maturity, ` 110 will be paid (` 100 as principal payment + ` 10 as premium)

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 and 2 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. What would be the accounting treatment of 6% convertible debentures on the date of transition?

    (a) Since the liability is outstanding on the date of transition, S Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition

    (b) Since the liability is outstanding on the date of transition, S Ltd. will not split the convertible debentures into debt and equity portion on the date of transition

    (c) The entire outstanding amount will be recognised as equity on the date of transition as these may be converted into ordinary shares.

    (d) On the date of transition, the outstanding amount will be considered as repaid immediately.

2. What would be the amount of financial liability to be recognised in the books of S Ltd. on transition date?

    (a) ₹ 31,50,000

    (b) ₹ 30,27,666

    (c) ₹ 29,16,060

    (d) ₹ 28,14,600

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a): Since the liability is outstanding on the date of transition, S Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition**

Reasoning

As per para D18 of Ind AS 101, Ind AS 32, Financial Instruments: Presentation, requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 would involve separating two portions of equity. The first portion is recognised in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this Ind AS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Ind AS.

In the present case, since the liability is outstanding on the date of transition, S Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition.

2. **Option (b): ₹ 30,27,666**

Reasoning

The carrying amount of the debenture on the date of transition under previous GAAP, assuming that all interest accrued other than premium on redemption have been paid, will be ₹ 31,50,000 [(30,000 x 100) + (30,000 x 100 x 10/100 x 2/4)]. The premium payable on redemption is being recognised as borrowing costs as per para 4(b) of AS 16 i.e. under previous GAAP on straight-line basis.

Since the liability is outstanding on the date of transition, S Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, first measure the liability component by discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of

10% p.a. (being the market interest rate for similar debentures with no conversion option).

	(₹)
Interest payments p.a. on each debenture	6
Present Value (PV) of interest payment for years 1 to 4 (6 x 3.17)	19.02
PV of principal repayment (including premium) 110 x 0.68	74.80
Total liability component per debenture	93.82
Equity component per debenture (Balancing figure)	6.18
Face value of debentures	100.00
Total equity component for 30,000 debentures	1,85,400
Total debt amount (30,000 x 93.82)	28,14,600

Thus, on the date of initial recognition, the amount of ₹ 30,00,000 will be split as under:

Debt	₹ 28,14,600
Equity	₹ 1,85,400

However, on the date of transition, unwinding of ₹ 28,14,600 will be done for two years as follows:

Year	Opening balance	Finance cost @ 10%	Interest paid	Closing balance
1	28,14,600	2,81,460	1,80,000	29,16,060
2	29,16,060	2,91,606	1,80,000	30,27,666

Therefore, on transition date, S Ltd. shall recognise the carrying amount of convertible debentures at ₹ 30,27,666;

CASE SCENARIO 16

Z Ltd. is engaged in manufacturing of Automobiles with its registered office in Pune and is listed on the Bombay Stock Exchange. It also owns a chain of retail stores across 20 different locations in the twin cities of Pune and Kolhapur.

Following are the brief facts about the transaction entered into by the company for which accounting advice is sought by the CFO of Z Ltd. from you:

Z Limited owns two vehicles on 1st July, 20X1 and a local statute was passed which necessitated Z Ltd. to undertake modifications to its vehicles to enable reduction of harmful emissions. The modifications should have been completed by 31st December, 20X1 at an estimated cost to Z Ltd. of ₹ 20 lakhs. Actually, by 31st March, 20X2, none of the vehicles had been modified although they continued to be used. It is quite likely that Z Ltd. will have to pay a penalty of ₹ 2 lakhs per month for the illegal usage of the vehicles. The directors of Z Ltd. intend to carry out the modifications only at the end of March, 20X3, due to paucity of funds. They expect that penalty will become payable very shortly as legal action has been initiated against Z Ltd.

On 1st April, 20X1, Z Ltd. issued 1,00,000 Loan Notes of ₹ 5 each at par. The loan notes entitle the holders for an interest payment of 8% p.a., payable annually in arrears. The loan notes are repayable at par on 31st March, 20X5. As an alternative to repayment, the holders can elect to convert the notes into equity shares in A Ltd. On 1st April, 20X1, investors in non-convertible notes expect an annual return of 10%.

You are given the following discount factors:

Discount Rate	**Present Value of ₹ 1 payable**	
	At end of year 4	**Cumulative at end of years 1-4**
8%	73.50 paise	₹ 3.31
10%	68.30 paise	₹ 3.17

On 1st April, 20X1, Z Ltd. had two equity investments that it designated as "fair value through other comprehensive income" in accordance with Ind AS 109:

Name	Original Cost	Fair Value 31.3.20X1	Fair Value 31.3.20X2
	(₹ in 000)	(₹ in 000)	(₹ in 000)
K Ltd.	30,000	37,500	NA
H Ltd.	27,500	35,000	38,500

On 28th February, 20X2, Z Ltd. disposed off its investment in K Ltd. for ₹ 50,000 and shown a profit on sale as part of investment income. Apart from recording the receipt of dividend income, no other entries have been made in the financial statements for the year ended 31st March, 20X2 regarding the investment in H Ltd. Both investments had been correctly treated in the financial statements for the year ended 31st March, 20X1.

Analyze the transactions mentioned above and choose the most appropriate option in the below mentioned questions 1 to 3 in line with the relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. What will be the amount of provision of penalty for illegal use of automobiles, which Z Ltd. have to make as on 31st March, 20X2?

   (a) ₹ 12,00,000

   (b) ₹ 30,00,000

   (c) ₹ 6,00,000

   (d) ₹ 60,00,000

2. Calculate the amount, which should be shown in "other comprehensive income" for the period ending 31st March, 20X2 on account of equity investment made by Z Ltd.

   (a) Gain of ₹ 16,000

   (b) Gain of ₹ 12,500

   (c) Gain of ₹ 20,000

   (d) Gain of ₹ 23,500

3. What will be the finance cost of convertible loan notes issued by Z Ltd., for the period ending 31st March, 20X2?

(a) ₹ 34,150

(b) ₹ 40,000

(c) ₹ 46,830

(d) ₹ 50,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c): ₹ 6,00,000

Reasoning

₹ 2,00,000 × 3 months = ₹ 6,00,000

Provision is to be made only for the year ending 31.3.20X2 and not up to 31.3.20X3 and penalty is levied on monthly basis and not on number of vehicles held.

2. Option (a): Gain of ₹ 16,000

Reasoning

Other Comprehensive Income	**₹**
Gain on revaluation of investment in H Ltd. (38,500 – 35,000)	3,500
Profit on disposal	12,500
Total	16,000

3. Option (c): ₹ 46,830

Reasoning

Finance cost of convertible loan notes

Liability element of compound financial instrument at 1st April 20X1

(₹ 5,00,000 × 8% × ₹ 3.17) + (₹ 5,00,000 × ₹ 0.683) = ₹ 4,68,300

Accordingly, finance cost at 10% (i.e. ₹ 4,68,300 × 10%) = ₹ 46,830

CASE SCENARIO 17

C Ltd. is preparing its financial statements for the year ended 31 March 20X4. The Board is scheduled to approve the financial statements on 30th May 20X4.

On 1st April, 20X3, C Ltd. issued 1,00,000 ₹ 10 bonds for ₹ 10,00,000. On 1st April, each year interest at the fixed rate of 8% per year is payable on outstanding capital amount of the bonds (i.e. the first payment will be made on 1st April, 20X4). On 1st April each year (i.e. from 1st April, 20X4), C Ltd. has a contractual obligation to redeem 10,000 of the bonds at ₹ 10 per bond. In its balance sheet at 31st March, 20X4, how should this be presented in the financial statements?

C Ltd. sells a piece of machinery to the customer for ₹ 2 million, payable in 90 days. C Ltd. is aware at contract inception that the customer might not pay the full contract price. C Ltd. estimates that the customer will pay atleast ₹ 1.75 million, which is sufficient to cover C Ltd.'s cost of sales i.e. ₹ 1.5 million and which C Ltd. is willing to accept because it wants to grow its presence in this market. C Ltd. has granted similar price concessions in comparable contracts. C Ltd. concludes that it is highly probable that it will collect ₹ 1.75 million and such amount is not constrained under the variable consideration guidance.

On 15th April, 20X4, the company discovers a significant fraud that actually occurred during the financial years 20X1–20X2. The fraud involved overstatement of revenue by manipulating sales invoices during those earlier years.

C Ltd. has recognised goodwill worth ₹ 80,00,000 in the past for a business combination. During the current year, it has impaired the goodwill by ₹ 16,00,000 and the carrying amount of goodwill is ₹ 64,00,000. Amortisation or impairment of goodwill is not deductible as per the tax regulations applicable in the jurisdiction, where C Ltd. files its tax returns. Applicable tax rate is 30%.

Analyze the transactions mentioned above and choose the most appropriate option in the below mentioned questions 1 to 4 in line with the relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. State which of the following statement is correct with respect to the bonds issued by C Ltd. as on 31st March, 20X4.

   (a) ₹ 80,000 accrued interest and ₹ 1,00,000 current portion of the non-current bond would be presented as current liabilities while ₹ 9,00,000 would be presented as a non-current liability.

   (b) Entire ₹ 10,00,000 would be presented as a non-current liability.

   (c) Entire ₹ 10,00,000 would be presented as a current liability.

   (d) ₹ 80,000 accrued interest and ₹ 1,00,000 current portion of the non-current bond would be presented as non-current liabilities while ₹ 9,00,000 would be presented as a current liability.

2. What is the transaction price in the arrangement to sell a piece of machinery to the customer?

   (a) ₹ 2 million

   (b) ₹ 1.75 million

   (c) ₹ 1.50 million

   (d) ₹ 0.25 million

3. State which of the following statement is correct with respect to the fraud related to 20X1-20X2 discovered after the end of the reporting period but before the date of approval of financial statements for 20X3-20X4?

   (a) The discovery of fraud is a non-adjusting event as it was discovered after the reporting period. Hence, no adjustment to be done in the year 20X3-20X4 or previous years.

   (b) The discovery of fraud is an adjusting event as the fraud took place before the end of the reporting period, which has been confirmed after the end of the reporting period but before the approval of financial statements. Hence, to be adjusted in the year 20X3-20X4 with retrospective restatement.

   (c) The discovery of fraud is an adjusting event as the fraud took place before the end of the reporting period, which has been confirmed after the end of the reporting period but before the approval of financial statements. Hence, to be adjusted in the year 20X3-20X4 without retrospective restatement.

(d) The discovery of fraud is a non-adjusting event as it was discovered after the reporting period. Hence, no adjustment to be done in the year 20X3-20X4 but previous years financial statements will be reinstated.

4. What is the amount of deferred tax to be recognised by C Ltd. on goodwill?

(a) Deferred tax liability of ₹ 4,80,000

(b) Deferred tax liability of ₹ 24,00,000

(c) Deferred tax asset of ₹ 4,80,000

(d) No Deferred tax asset/liability

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a): ₹ 80,000 accrued interest and ₹ 1,00,000 current portion of the non-current bond would be presented as current liabilities while ₹ 9,00,000 would be presented as a non-current liability.**

Reasoning

C Ltd. must present ₹ 80,000 accrued interest and ₹ 1,00,000 current portion of the non-current bond (i.e. the portion repayable on 1st April, 20X4) as current liabilities. The ₹ 9,00,000 due later than 12 months after the end of the reporting period is presented as a non-current liability.

2. **Option (b)**: **₹ 1.75 million**

Reasoning

C Ltd. is likely to provide a price concession and accept an amount less than ₹ 2 million in exchange for the machinery. The consideration is therefore variable. The transaction price in this arrangement is ₹ 1.75 million, as this is the amount which C Ltd. expects to receive after providing the concession and it is not constrained under the variable consideration guidance. C Ltd. can also conclude that the collectability threshold is met for ₹ 1.75 million and therefore contract exists.

3. **Option (b): The discovery of fraud is an adjusting event as the fraud took place before the end of the reporting period, which has been confirmed after the end of the reporting period but before the approval of financial statements. Hence, to be adjusted in the year 20X3-20X4 with retrospective restatement.**

Reasoning

In the instant case, the fraud is discovered after the end of the reporting period of 20X3-20X4, which related to financial year 20X1-20X2. Since the fraud took place before the end of the reporting period, the condition was existing which has been confirmed by the detection of the same after the end of the reporting period but before the approval of financial statements. Therefore, it is an adjusting event.

Moreover, Ind AS 10 in paragraph 9, specifically provides that the discovery of fraud or error after the end of the reporting period, that shows that financial statements are incorrect, is an adjusting event. Such a discovery of fraud should be accounted for in accordance with Ind AS 8 if it meets the definition of prior period error.

4. **Option (d): No Deferred tax asset / liability**

CASE SCENARIO 18

ABC Ltd. acquired an asset 3 years ago at a cost of ₹ 5 million. The depreciation method adopted for the asset was 10 percent reducing balance method.

At the end of Year 3, ABC Ltd. estimates that the remaining useful life of the asset is 8 years and determines to adopt straight–line method from that date so as to reflect the revised estimated pattern of recovery of economic benefits.

Later ABC Ltd. acquires PQR Ltd. for a consideration of ₹ 1 crore. Four years ago, ABC Ltd. had granted a ten-year license allowing PQR Ltd. to operate in Europe. The cost of the license was ₹ 2,50,000. The contract allows either party to terminate the franchise at a cost of the unexpired initial fee plus 20%. At the date of acquisition, the settlement amount is ₹ 1,80,000 [(₹ 2,50,000 x 6/10) + 20%].

ABC Ltd. has acquired PQR Ltd., because it sees high potential in the European market and wishes to exploit it. ABC Ltd. calculates that under current economic conditions and at current prices it could grant a six-year franchise for a price of ₹ 4,50,000.

The Accountant of ABC Ltd. has the following information in his possession for the purpose of calculating EPS-Diluted EPS, for the financial year 20X1-20X2:

Particulars	Amount
Net profit attributable to ordinary shareholders	₹ 12,00,000
Weighted average number of equity shares	1,50,000
6% convertible debentures of ₹10,00,000 each	1,000
Convertible into	20 shares
Dividend arrears (Cumulative preference shareholders)	₹ 10,000
Tax rate	25%

Analyze the transactions mentioned above and choose the most appropriate option in the below mentioned questions 1 to 6 in line with the relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. Calculate the depreciation charge for Year 3 in accordance with Ind AS 16.

   (a) ₹ 5,00,000

   (b) ₹ 4,50,000

   (c) ₹ 4,05,000

   (d) ₹ 4,55,625

2. Calculate the depreciation charge for Year 4 in accordance with Ind AS 16.

   (a) ₹ 5,00,000

   (b) ₹ 4,50,000

   (c) ₹ 4,05,000

   (d) ₹ 4,55,625

3. At what value the license would be recognised by ABC Ltd. as part of the business combination?

   (a) The license is recognised at ₹ 2,50,000, at the original cost price

   (b) The license is recognised at ₹ 2,00,000, the difference of fair value at market rates of a license based on the remaining contractual life and the original cost price.

   (c) The license is recognised at ₹ 7,00,000, the sum of fair value at market rates of a license based on the remaining contractual life and the original cost price.

   (d) The license is recognised at ₹ 4,50,000, the fair value at market rates of a license based on the remaining contractual life.

4. What would be the gain or loss on settlement of the license contract?

   (a) ₹ 3,00,000

   (b) ₹ 1,80,000

   (c) ₹ 2,50,000

   (d) ₹ 4,50,000

5. What would be the amount of purchase consideration to be considered for acquisition of PQR Ltd.

   (a) ₹ 1 crore

   (b) 98.20 lakhs

   (c) 95.50 lakhs

   (d) 97.50 lakhs

6. What should be the amount to be added to the numerator for calculating diluted Earnings per Share?

   (a) ₹ 60,000

   (b) ₹ 45,000

   (c) ₹ 50,000

   (d) ₹ 70,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c): ₹ 4,05,000

2. Option (d): ₹ 4,55,625

Reasoning for 1 & 2

Change in depreciation method shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8 and hence will have a prospective effect.

Depreciation charges for year 1 to 11 will be as follows:

Year 1	₹ 5,00,000
Year 2	₹ 4,50,000
Year 3	₹ 4,05,000
Year 4 to Year 11 (refer W.N.)	₹ 4,55,625 p.a.

Working Note:

Year	Opening balance of asset (a)	Depreciation @ 10% on (a) (b)	Closing balance of asset (c) = (a)- (b)
1	50,00,000	5,00,000	45,00,000
2	45,00,000	4,50,000	40,50,000
3	40,50,000	4,05,000	36,45,000

Year 3 onwards method of depreciation has been changed from reducing balance method to straight line method for which it is assessed that the remaining useful life is 8 years. Hence revised depreciation would be calculated as follows:

Revised depreciation as per straight line method

= (Carrying amount as at the end of the 3rd year – Residual value) / Remaining useful life

= 36,45,000 / 8 years = ₹ 4,55,625 per annum (for year 4 to year 11)

3. **Option (d): The license is recognised at ₹ 4,50,000, the fair value at market rates of a license based on the remaining contractual life.**

4. **Option (b): ₹ 1,80,000**

5. **Option (b): ₹ 98.20 lakhs**

6. **Option (b): ₹ 45,000**

Reasoning for 3 to 6

Paragraph B51 of Ind AS 103 provides that "the acquirer and acquiree may have a relationship that existed before they contemplated the business combination, referred to here as a 'pre-existing relationship'. A pre-existing relationship between the acquirer and acquiree may be contractual (for example, vendor and customer or licensor and licensee) or non-contractual (for example, plaintiff and defendant)."

Further, paragraph B52 of Ind AS 103 provides that "if the business combination in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

(a) for a pre-existing non-contractual relationship (such as a lawsuit), fair value.

(b) for a pre-existing contractual relationship, the lesser of (i) and (ii):

  (i) the amount by which the contract is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.)

  (ii) the amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavourable.

If (ii) is less than (i), the difference is included as part of the business combination accounting.

The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements."

Based on the above in the instant case, the license is recognised at ₹ 4,50,000, the fair value at market rates of a license based on the remaining contractual life.

The gain or loss on settlement of the contract is the lower of:

- ₹ 3,00,000, which is the amount by which the right is unfavourable to ABC Ltd. compared to market terms. This is the difference between the amount that ABC Ltd. could receive for granting a similar right, ₹ 4,50,000, compared to the carrying value (or the unamortised value) that it was granted for, ₹ 1,50,000 (2,50,000 x 6/10).

- ₹ 1,80,000, which is the amount that ABC Ltd. would have to pay to terminate the right at the date of acquisition.

  The loss on settlement of the contract is ₹ 1,80,000. Therefore, out of the ₹ 1 crore paid, ₹ 98.2 lakh is accounted for as consideration for the business combination and ₹ 1,80,000 is accounted for separately as a settlement loss on the re-acquired right.

CASE SCENARIO 19

X Ltd. prepares its financial statements on the basis of Indian Accounting Standards.

X Ltd. (lessee) enters into an agreement with Y Ltd. (lessor) to lease an entire floor of a building for a period of 10 years with an option to extend the lease for five years. At the commencement date, X Ltd. is not reasonably certain to exercise the option to extend the lease. Lease payments are ₹ 50,000 per year during the initial term and ₹ 55,000 per year during the optional period. As per the terms of contract, lease payments are required to be paid at the beginning of each year. To obtain the lease, X Ltd. incurred initial direct costs of ₹ 20,000, out of which ₹ 15,000 relates to a payment to a former tenant occupying that floor of the building and ₹ 5,000 relates to commission paid to the real estate agent that arranged the lease. As an incentive to X Ltd. for entering into the lease, Y Ltd. agrees to reimburse to X Ltd. the real estate commission of ₹ 5,000. The interest rate implicit in the lease is not readily determinable by X Ltd. X Ltd.'s incremental borrowing rate is 10%.

X Ltd. has deferred tax assets, recognised in the balance sheet at 31st March, 20X2 in respect of unused tax losses that can be used to reduce taxable income in future years. The income tax rate used to calculate the deferred tax asset was 40%, which was the current rate of tax applicable at the balance sheet date. A new government came to power on 1st April, 20X2 and passed legislation such that, on 17th April, 20X2, the income tax rate was reduced to 33% with immediate effect.

On the basis of the facts given above, choose the most appropriate answer to Questions 1 to 5 below based on the relevant Ind AS.

MULTIPLE CHOICE QUESTIONS

1. What would be the lease term in the given case?

   (a) 10 years

   (b) 5 years

   (c) 15 years

   (d) Cannot be determined

2. At what value does the lease liability be recognized initially?

   (a) ₹ 3,07,000

   (b) ₹ 2,87,500

   (c) ₹ 3,37,500

   (d) ₹ 3,52,500

3. At what value the right of use assets be recognized initially

   (a) ₹ 3,07,000

   (b) ₹ 3,57,500

   (c) ₹ 3,52,500

   (d) ₹ 3,62,500

4. What would be the amount of depreciation to be charged annually on ROU asset

   (a) ₹ 30,700

   (b) ₹ 35,750

   (c) ₹ 35,250

   (d) ₹ 36,250

5. At what rate, would defer tax be calculated for the year ended 31st March, 20X2

   (a) 40%

   (b) 33%

   (c) 7%

   (d) Nil

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) : 10 years

2. Option (b) : ₹ 2,87,500

3. Option (c) : ₹ 3,52,500

4. **Option (c) : ₹ 35,250**

Reasoning for 1 to 4

As per paragraph 24 of Ind AS 116, the cost of the right-of-use asset shall comprise the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site or the underlying asset.

Further, para 26 states that at the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

Ind AS 116 states that lease incentives are payments made by a lessor to a lessee associated with a lease, or the reimbursement or assumption by a lessor of costs of a lessee.

Also, Ind AS 116 states that lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

At the commencement date, since X Ltd. is not reasonably certain to exercise the option to extend the lease, the lease term would be considered as 10 years.

At the commencement date, X Ltd. makes the lease payments for the first year, incurs initial direct costs, and receives lease incentive from Y Ltd. Hence, X Ltd. will measure the lease liability at the present value of the remaining nine payments of ₹ 50,000 which will be discounted at the interest rate of 10% as follows:

Year	Lease Payments (A)	PV@10% (B)	Present value of lease payments (A x B = C)
2	50,000	0.91	45,500
3	50,000	0.83	41,500
4	50,000	0.75	37,500
5	50,000	0.68	34,000
6	50,000	0.62	31,000
7	50,000	0.56	28,000
8	50,000	0.51	25,500
9	50,000	0.47	23,500
10	50,000	0.42	21,000
			2,87,500

Annual depreciation to be charged on ROU Asset would be

= ₹ 3,52,500/ 10 years = ₹ 35,250

5. **Option (a) : 40%**

Reasoning

The change in the income tax rate was announced (and enacted) after the balance sheet date. Therefore, it is a non-adjusting event. Management should not adjust the amounts recognised in its financial statements because of the event.

If the effect of the new tax rate on the deferred tax asset will be material management should disclose details of the change in the income tax rate, and its related effects on the entity, in the notes to the financial statements. Where applicable the disclosure should consider the impact on the different performance statements.

CASE SCENARIO 20

A Ltd. enters into a 3-year contract to provide 1,000 hours of standard call center operator time per annum for ₹ 6,00,000 (₹ 2,00,000 per year); the stand-alone selling price at inception. At the end of the 1st Year, the contract is extended for another three years @ ₹ 6,60,000 as follows:

(i) in accordance with the contractual provisions the fee for the 1st year is reduced by ₹ 90,000 because of highly defective service; and

(ii) the contract is extended for another 3 years for ₹ 7,50,000 (₹ 2,50,000 per year); when the stand-alone selling price is ₹ 2,30,000.

Further, Government G has significant influence over L Ltd. L Ltd. has significant influence over A Ltd. and controls K Ltd. All the entities have transactions with each other.

On the basis of the facts given above, choose the most appropriate answer to Questions 1 to 5 below based on the relevant Ind AS.

MULTIPLE CHOICE QUESTIONS

1. What amount of revenue be recognized for Year 1?

   (a) ₹ 2,00,000

   (b) ₹ 2,25,000

   (c) ₹ 2,30,000

   (d) ₹ 1,10,000

2. What will be the accounting treatment for the contract extended at the end of year 1 with respect to its revenue recognition?

   (a) The modification in the contract will be accounted for prospectively by allocating remaining revenue equally for 5 years

   (b) The modification in the contract will be accounted for retrospectively by allocating total revenue equally for 6 years

(c) The modification in the contract will be accounted for as two separate contract for 3 years each

(d) The modification in the contract does not fall under the purview of Ind AS 115

3. What would be the remaining total revenue of the contract for 5 years?

(a) ₹ 11,50,000

(b) ₹ 10,60,000

(c) ₹ 12,40,000

(d) ₹ 13,50,000

4. What amount of revenue be recognized for Year 2?

(a) ₹ 2,00,000

(b) ₹ 2,25,000

(c) ₹ 2,30,000

(d) ₹ 1,10,000

5. State which of the following statements is correct with respect to transactions between A Ltd. and K Ltd. and between A Ltd. and L Ltd. under Ind AS 24?

(a) Transactions between A Ltd. and L Ltd. and between A Ltd. and K Ltd. are not disclosable.

(b) Transactions between A Ltd. and L Ltd. are not disclosable but transactions between A Ltd. and K Ltd. are disclosable.

(c) Transactions between A Ltd. and L Ltd. are disclosable but transactions between A Ltd. and K Ltd. are not disclosable.

(d) Transactions between A Ltd. and L Ltd. and between A Ltd. and K Ltd. are disclosable.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d) : ₹ 1,10,000**

2. **Option (a) : The modification in the contract will be accounted for prospectively by allocating remaining revenue equally for 5 years**

3. **Option (a) : ₹ 11,50,000**

4. **Option (c) : ₹ 2,30,000**

   Reasoning for 1 to 4

   Revenue recognized for the 1st year is ₹ 1,10,000 (2,00,000 - 90,000). The deduction by the customer of ₹ 90,000 in accordance with the contractual provisions will reduce the revenue for A Ltd.

   The services to be rendered over the remaining five years are distinct. The contract extension for another three years is not at the stand-alone selling price.

   Consequently, the modification is accounted for prospective, i.e., as if the old contract is terminated and a new contract is entered into. The remaining revenue ₹ 11,50,000 (4,00,000+7,50,000) will be allocated equally over next five years, i.e., ₹ 2,30,000 per year.

5. **Option (d) : Transactions between A Ltd. and L Ltd. and between A Ltd. and K Ltd. are disclosable.**

   Reasoning

   L Ltd. and K Ltd. could take the exemption from disclosure for government related entities because Government G has significant influence over L Ltd. and control over K Ltd. (because L Ltd. controls K Ltd.). The exemption does not extend to any transactions with A Ltd. because, while government G has significant influence over L Ltd., L Ltd.'s significant influence over A Ltd. is not sufficient to assert that government G also has significant influence over A Ltd. Transactions between A Ltd. and L Ltd. and between A Ltd. and K Ltd. are disclosable.

CASE SCENARIO 21

ABC Ltd is a diversified company engaged in multiple lines of business and operates through several subsidiaries and associates. The Group has prepared its consolidated financial statements for the year ended 31st March 20X4 in accordance with the Indian Accounting Standards. During the preparation of these financial statements, the management identified certain accounting issues and errors relating to prior periods, along with revenue recognition implications under Ind AS.

(i) ABC Ltd. has an investment property with an original cost of ₹ 1,00,000 which it inadvertently omitted to depreciate in previous financial statements. The property was acquired on 1st April, 20X1. The property has a useful life of 10 years and is depreciated using straight line method. Estimated residual value at the end of 10 year is Nil.

(ii) While preparing the annual financial statements for the year ended 31st March, 20X4, ABC Ltd. discovers that a provision for constructive obligation for payment of bonus to selected employees in corporate office (material in amount) which was required to be recognised in the annual financial statements for the year ended 31st March, 20X2 was not recognised due to oversight of facts. The bonus was paid during the financial year ended 31st March, 20X3 and was recognised as an expense in the annual financial statements for the said year.

(iii) ABC Ltd. sells gym memberships for ₹ 7,500 per year to 100 customers, with an option to renew at a discount in 2nd and 3rd year at ₹ 6,000 per year. Entity estimates an annual attrition rate of 50% each year.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 3 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. How should the omission of depreciation of investment property be corrected in the financial statements for the year ended 31st March, 20X4, assuming the impact of the same is considered material?

   (a) The error shall be corrected by restating the figures prospectively for financial year 20X2-20X3.

   (b) The error shall be corrected by retrospectively restating the figures for financial year 20X2-20X3 but without presenting a third balance sheet as at 1st April, 20X2 which is the beginning of the earliest period presented in the financial statements.

   (c) The error shall be corrected by retrospectively restating the figures for financial year 20X2-20X3 and also by presenting a third balance sheet as at 1st April, 20X2 which is the beginning of the earliest period presented in the financial statements.

   (d) There is no error, its only omission of the adjustment, hence should be ignored.

2. With respect to point (ii) above, how should ABC Ltd. treat the situation in its financial statements for the financial year 20X3–20X4?

   (a) No adjustment is required as the expense has already been recognised in FY 20X2–20X3.

   (b) Recognise the provision in FY 20X3–20X4 as a current year expense.

   (c) Present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 20X2) wherein it should recognise the provision for bonus and restate the retained earnings.

   (d) Disclose the omission in the notes to accounts without any retrospective adjustment.

3. Amount of revenue per membership to be recognized in the first year and the amount of contract liability per membership against the option given to the customer for renewing the membership at discount would be

   (a) Revenue can be recognized at ₹ 7,500 per membership with no contract liability

(b) Revenue can be recognized at ₹ 6,857 approx. per membership and remaining ₹ 643 per membership should be recorded as contract liability

(c) Revenue can be recognized at ₹ 7,50,000 approx. per membership with no contract liability

(d) Revenue can be recognized at ₹ 6,85,700 approx. per membership and remaining ₹ 64,300 per membership should be recorded as contract liability

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c):** The error shall be corrected by retrospectively restating the figures for financial year 20X2-20X3 and also by presenting a third balance sheet as at 1st April, 20X2 which is the beginning of the earliest period presented in the financial statements.

2. **Option (c):** Present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 20X2) wherein it should recognise the provision for bonus and restate the retained earnings.

3. **Option (b):** Revenue can be recognized at ₹ 6,857 approx. per membership and remaining ₹ 643 per membership should be recorded as contract liability.

   Reasoning

   Allocated price per unit (year) is calculated as follows:

   Total estimated memberships is 175 members (i.e. Year 1 = 100; Year 2 = 50; Year 3 = 25)

   Total consideration is ₹ 12,00,000 {(100 x 7,500) + (50 x 6,000) + (25 x 6,000)}

   Allocated price per membership is ₹ 6,857 approx. (12,00,000 / 175)

   Based on above, it is to be noted that although entity has collected ₹ 7,500 but revenue can be recognized at ₹ 6,857 approx. per membership and remaining ₹ 643 should be recorded as contract liability against option given to customer for renewing their membership at discount.

CASE SCENARIO 22

MS Ltd., a diversified organisation with several subsidiaries and business lines, has prepared its financial statements for the year ended 31st March in accordance with the Indian Accounting Standards. During the preparation, the management of MS Ltd. are facing following issues:

(i) MS Ltd. has acquired a heavy machinery at a cost of ₹ 1,00,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, one of the major components, the turbine requires replacement, as further maintenance is uneconomical. The remainder of the machine is perfect and is expected to last for the next four years. The cost of a new turbine is ₹ 45,00,000. The discount rate assumed is 5%.

(ii) The rate of income tax applicable to MS Ltd. is 20%. The following information relates to transactions, assets and liabilities of MS Ltd during the year ended 31st March 20X6:

1. MS Ltd. has a 40% shareholding in L Ltd. MS Ltd purchased this shareholding for ₹ 45 Cr. The shareholding gives MS Ltd significant influence over L Ltd but not control and therefore MS Ltd. accounts for its interest in L Ltd using the equity method. The equity method carrying value of MS Ltd.'s investment in L Ltd was ₹ 70 Cr on 31st March 20X5 and ₹ 75 Cr on 31st March 20X6. In the tax jurisdiction in which MS Ltd operates, profits recognised under the equity method are taxed if and when they are distributed as a dividend or the relevant investment is disposed of.

2. MS Ltd. measures its head office building using the revaluation model. The building is revalued every year on 31st March. On 31st March 20X5, carrying value of the building (after revaluation) was ₹ 40 Cr and its tax base was ₹ 22 Cr. During the year ended 31st March 20X6, MS Ltd. charged depreciation in its statement of profit or loss of ₹ 2 Cr and claimed a tax deduction for tax depreciation of ₹ 1.25 Cr. On 31st March 20X6, the building was revalued to ₹ 45 Cr. In the tax jurisdiction in which MS Ltd. operates,

revaluation of property, plant and equipment does not affect taxable income at the time of revaluation.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. The approximate cost of turbine at year 1 would be

   (a) ₹ 45,00,000

   (b) ₹ 33,57,900

   (c) ₹ 13,43,160

   (d) Nil

2. The current carrying amount of the turbine at the end of 6th year would be

   (a) ₹ 45,00,000

   (b) ₹ 33,57,900

   (c) ₹ 13,43,160

   (d) Nil

3. The revised carrying amount of machine after replacement of new turbine would be

   (a) ₹ 71,56,840

   (b) ₹ 45,00,000

   (c) ₹ 40,00,000

   (d) ₹ 60,00,000

4. The total deferred tax liability of MS Ltd. at 31st March 20X6 would be

   (a) Nil

   (b) ₹ 6 Crore

(c) ₹ 4.85 Crore

(d) ₹ 10.85 Crore

5. The charge to other comprehensive income relating to deferred tax for the year ended 31st March 20X6 would be

(a) ₹ 1.4 Cr

(b) ₹ 3.45 Cr

(c) ₹ 0.15 Cr

(d) ₹ 4.85 Cr

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b): ₹ 33,57,900

2. Option (c): ₹ 13,43,160

3. Option (a): ₹ 71,56,840

Reasoning for 1 to 3

The new turbine will produce economic benefits to MS Ltd., and the cost is measurable. Hence, the item should be recognized as an asset. The original invoice for the machine did not specify the cost of the turbine; however, the cost of the replacement ₹ 45,00,000 can be used as an indication (usually by discounting) of the likely cost, six years previously.

If an appropriate discount rate is 5% per annum, ₹ 45,00,000 discounted back six years amounts to ₹ 33,57,900 [₹ 45,00,000/$(1.05)^6$], i.e., the approximate cost of turbine before 6 years.

The current carrying amount of the turbine which is required to be replaced of ₹ 13,43,160 would be derecognized from the books of account, (i.e., Original Cost ₹ 33,57,900 as reduced by accumulated depreciation for past 6 years ₹ 20,14,740, assuming depreciation is charged on straight-line basis.)

The cost of the new turbine, ₹ 45,00,000 would be added to the cost of machine, resulting in a revision of carrying amount of machine to ₹ 71,56,840. (i.e., ₹ 40,00,000* – ₹ 13,43,160 + ₹ 45,00,000).

*Original cost of machine ₹ 1,00,00,000 reduced by accumulated depreciation (till the end of 6 years) ₹ 60,00,000.

4. **Option (d): ₹ 10.85 Cr**

Reasoning

Deferred Tax Liability as at 31st March 20X2

Investment in L Ltd:

Carrying Amount	=	₹ 75 Cr
Tax base	=	₹ 45 Cr (Purchase cost)
Temporary Difference	=	₹ 30 Cr

Since carrying amount is higher than the tax base, the temporary difference is recognized as a taxable temporary difference. Using the tax rate of 20%, a deferred tax liability of ₹ 6 Cr is recognized:

Head office building

Carrying Amount	= ₹ 45 Cr (Revalued amount on 31st March 20X6)
Tax base	= ₹ 20.75 Cr (22 Cr – 1.25 Cr)
Temporary Difference	= ₹ 24.25 Cr

Since carrying amount is higher than the tax base, the temporary difference is recognized as a taxable temporary difference. Using the tax rate of 20%, a deferred tax liability of ₹ 4.85 Cr is created.

Total Deferred Tax Liability = ₹ 6 Cr + ₹ 4.85 Cr = ₹ 10.85 Cr

5. **Option (a): ₹ 1.4 Cr**

Reasoning

Charge to Statement of Profit or Loss for the year ended 31st March 20X2:

Investment in L Ltd.

Particulars	Carrying amount	Tax Base	Temporary Difference
Opening Balance (1st April 20X5)	₹ 70 Cr	₹ 45 Cr	₹ 25 Cr

Closing Balance (31st March 20X6)	₹ 75 Cr	₹ 45 Cr	₹ 30 Cr
Net Change			₹ 5 Cr
Increase in Deferred Tax Liability (20% tax rate)			₹ 1 Cr

Considering the increase in the value of investment arising through Statement of Profit or Loss, the accounting for the increase in deferred tax liability is made as under:

Head Office Building:

The deferred tax liability at 31st March 20X5 is ₹ 3.6 Cr (20% x {₹ 40 Cr – ₹ 22 Cr}).

At 31st March 20X6, prior to revaluation, the carrying amount of the property is ₹ 38 Cr and its tax base is ₹ 20.75 Cr (₹ 22 Cr – ₹ 1.25 Cr). The deferred tax liability at this point is ₹ 3.45 Cr (20% x {₹ 38 Cr – ₹ 20.75 Cr}).

The reduction in this liability is ₹ 0.15 Cr (₹ 3.6 Cr – ₹ 3.45 Cr). This would be credited to income tax expense in arriving at profit or loss.

Post revaluation, the carrying value of the building becomes ₹ 45 Cr and the tax base stays the same. Therefore, the new deferred tax liability is ₹ 4.85 Cr (20% x (₹ 45 Cr – ₹ 20.75 Cr)). The increase in the deferred tax liability of ₹ 1.4 Cr (₹ 4.85 Cr – ₹ 3.45 Cr) is charged to other comprehensive income.

CASE SCENARIO 23

XYZ Ltd. prepares its financial statements as per Ind AS. The management requires your assistance in following cases:

(i) XYZ Ltd. originates 2,000 bullet loans with a total gross carrying amount of ₹ 5,00,000. XYZ Ltd. segments its portfolio into borrower groups (Groups X and Y) on the basis of shared credit risk characteristics at initial recognition. Group X comprises 1,000 loans with a gross carrying amount per client of ₹ 200, for a total gross carrying amount of ₹ 2,00,000. Group Y comprises 1,000 loans with a gross carrying amount per client of ₹ 300, for a total gross carrying amount of ₹ 3,00,000. There are no transaction costs, and the loan contracts include no options, premiums or discounts, points paid, or other fees.

Additional information

Group	Historic per annum average defaults	Present value of observed loss assumed
X	4	₹ 600
Y	2	₹ 450

(ii) XYZ Ltd. has invested in 40% share capital of N Ltd. and hence N Ltd. is an associate of XYZ Ltd. During the year 20X5-20X6, N Ltd. sold inventory to XYZ Ltd. for a value of ₹ 10,00,000. This included profit of 10% on the transaction price i.e. profit of ₹ 1,00,000. Out the above inventory, XYZ Ltd. sold inventory of ₹ 6,00,000 to outside customers. Hence, the inventory of ₹ 4,00,000 purchased from N Ltd. is still lying with XYZ Ltd.

(iii) XYZ Ltd. has also invested in 40% share capital of A Ltd. and hence A Ltd. is also an associate of XYZ Ltd. XYZ Ltd. sold the inventory to A Ltd. for a value of ₹ 10,00,000. This included profit of 10% on the transaction price i.e. profit of ₹ 1,00,000. Out the above inventory, A Ltd. sold inventory of ₹ 6,00,000 to outside customers. Hence, the inventory of ₹ 4,00,000 purchased from XYZ Ltd. is still lying with A Ltd.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. Calculate the loss rate of Group X

   (a) 0.15%

   (b) 0.3%

   (c) 0.45%

   (d) Nil

2. Calculate loss rate of Group Y

   (a) 0.15%

   (b) 0.3%

   (c) 0.45%

   (d) Nil

3. The unrealised profit to be eliminated on sale of inventory would be

   (a) ₹ 4,00,000

   (b) ₹ 6,00,000

   (c) ₹ 16,000

   (d) ₹ 40,000

4. In case of N Ltd. sold inventory to XYZ Ltd., the value of inventory appearing in consolidated financial statements of XYZ Ltd. as on 31st March, 20X6 would be

   (a) ₹ 4,00,000

   (b) ₹ 3,84,000

   (c) ₹ 3,60,000

   (d) ₹ 40,000

5. In case of XYZ Ltd. sold inventory to A Ltd., the unrealised profit of XYZ Ltd. would be reversed by debiting

   (a) Sales A/c

   (b) Cost of material consumed A/c

   (c) Investment in A Ltd.

   (d) Not required to reverse the unrealised profit in this case

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b): 0.3%

2. Option (a): 0.15%

Reasoning for 1 & 2

XYZ Ltd. measures expected credit losses on the basis of a loss rate approach for Groups X and Y. In order to develop its loss rates, XYZ Ltd. considers samples of its own historical default and loss experience for those types of loans.

In addition, XYZ Ltd. considers forward-looking information and updates its historical information for current economic conditions as well as reasonable and supportable forecasts of future economic conditions. Historically, for a population of 1,000 loans in each group, Group X's loss rates are 0.3 per cent, based on four defaults, and historical loss rates for Group Y are 0.15 per cent, based on two defaults.

	Number of clients in sample	Estimated per client gross carrying amount at default	Total estimated gross carrying amount at default	Historic per annum average defaults	Estimated total gross carrying amount at default	Present value of observed loss assumed	Loss rate
Group	**A**	**B**	**C = A × B**	**D**	**E = B × D**	**F**	**G = F ÷ C**
X	1,000	₹ 200	₹ 2,00,000	4	₹ 800	₹ 600	0.3%
Y	1,000	₹ 300	₹ 3,00,000	2	₹ 600	₹ 450	0.15%

3. **Option (c) : ₹ 16,000**

4. **Option (b) :₹ 3,84,000**

5. **Option (a) : Sales A/c**

Reasoning for 3 to 5

Scenario A

Firstly, as part of its equity method accounting for investment in N Ltd., XYZ Ltd. will pass this journal entry:

Investment in N Ltd.	Dr.	40,000	
To Share in profit of N Ltd.			40,000

Out of the inventory of ₹ 10,00,000, XYZ Ltd. has sold inventory worth ₹ 6,00,000 to outside customers. Hence, the profit of ₹ 60,000 (6,00,000 x 10% profit margin) on such inventory is realised. However, the inventory worth ₹ 4,00,000 is still held by XYZ Ltd. which consists profit of ₹ 40,000 (4,00,000 x 10%). Hence, XYZ Ltd.'s share in such profit i.e. ₹ 16,000 (40,000 x 40%) is considered as unrealised.

Accordingly, after recording of share in total profit of N Ltd., XYZ Ltd. should pass following adjustment entry to reverse the unrealised profit margin:

Share in profit of N Ltd.	Dr.	16,000	
To Inventory / Investment in N Ltd.			16,000

In subsequent period, when this inventory of ₹ 4,00,000 is sold by N Ltd. to an outside customer then the above profit margin of ₹ 16,000 will be treated as realised and hence the above entry will be reversed in that period.

[**Note**: in the separate financial statements of XYZ Ltd., inventory is carried at ₹ 4,00,000 whereas in its consolidated financial statements, inventory is carried at ₹ 3,84,000 (due to elimination entry above in respect of unrealized profit). In the subsequent period, when the inventory is sold, Inventory Account is credited by ₹ 4,00,000 whereas for the purpose of consolidated financial statements, it should have been credited by only ₹ 3,84,000. The difference is adjusted by debiting back ₹ 16,000 to the

Inventory Account and a corresponding recognition of share in profit of associate.]

Scenario B

Out of the inventory of ₹ 10,00,000, A Ltd. has sold inventory worth ₹ 6,00,000 to outside customers. Hence, the profit of ₹ 60,000 (6,00,000 x 10% profit margin) on such inventory is realised. However, the inventory worth ₹ 4,00,000 is still held by A Ltd. which consists profit of ₹ 40,000 (4,00,000 x 10%). Out of this profit of ₹ 40,000, profit to the extent of other investor's interest in the investee is treated as realised profit i.e. ₹ 24,000 (40,000 x 60%) is treated as realised profit. Balance profit of ₹ 16,000 (40,000 x 40%) is considered as unrealised. Hence, XYZ Ltd. should pass following adjustment entry to reverse the unrealised profit:

Sales A/c	Dr.	160,000	
To Cost of material consumed			144,000
To Investment in A Ltd.			16,000

In subsequent period, when this inventory of ₹ 4,00,000 is sold by A Ltd. to an outside customer then the above profit margin of ₹ 16,000 will be treated as realised and hence the above entry will be reversed in that period.

CASE SCENARIO 24

Tara Ltd. is engaged in mining and many other industries and prepares its financial statements following Indian Accounting Standards and follows April-March as their financial year. During the year 20X1-20X2, the Company has faced some issues and for their solution seeks your professional advice.

(i) Tara Ltd. and Zara Ltd. are partners of a joint operation engaged in the business of mining precious metals. The entity uses a jointly owned drilling plant in its operations. During the year ended 31st March, 20X2, an inspection was conducted by the government authorities in the mining fields. The inspection authorities concluded that adequate safety measures were not followed by the entity. As a consequence, a case was filed and a penalty of ₹ 100 crores has been demanded from Tara Ltd on 1st September, 20X1.

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

(ii) Tara Ltd. has invested in debentures whose interest rate is floating in nature and as per terms of the instrument, interest will be reset every month. As per terms, rate of interest is SOFR plus 2%. The entity does not intend to hold the instrument to receive contractual cash flows solely for payments of principal and interest on the principal amount outstanding. Also, the holder does not intend to measure the instrument at FVTOCI.

(iii) On 1st January, 20X2, Tara Ltd. took a contract for installation of new elevator at a factory of its customer. The entity estimates the following with respect to the contract:

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

It purchased the elevator and delivered the same to the site six months before it is required for installation. The entity uses an input method based on cost to measure progress towards completion. Tara Ltd. has incurred actual other costs of ₹ 3,00,000 by 31st March, 20X2.

(iv) Tara Ltd. has classified its business in 5 operating segments namely A, B, C, D and E. The profit/(loss) of respective segments for the year ended 31st March, 20X2, are as follow:

Segment Profit/ (Loss)	(₹ in lakhs)
A	1,280
B	2,624
C	(280)
D	315
E	(2620)
Total	**1,319**

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

MULTIPLE CHOICE QUESTIONS

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

   (a) Provision for ₹ 40 crores and a contingent liability for ₹ 60 crores.

   (b) Contingent Liability for ₹ 100 crores.

(c) Provision for ₹ 60 crores and a contingent liability for ₹ 40 crores.

(d) Provision for ₹ 100 crores.

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

(a) Financial asset measured at amortised cost

(b) Financial asset measured at FVOCI without recycling

(c) Financial asset measured at FVTPL

(d) Financial asset measured at FVOCI with recycling

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

(a) A, B, D and E

(b) A, B and E

(c) A and E

(d) B and E

4. What is the amount of revenue to be recognized by Tara Ltd. for elevator contract during the financial year 20X1-20X2?

(a) ₹ 8,00,000

(b) ₹ Nil

(c) ₹ 15,00,000

(d) ₹ 18,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d): Provision for ₹ 100 crores

Reasoning

As per para 53 of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', when some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision. In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for reimbursement.

This implies that provision is created with full amount and later during presentation in the financial statements, it is presented at net value.

In the given case, Tara Ltd. will record provision of ₹ 100 crores in its books and ₹ 60 crores will be reimbursed by Zara Ltd. Hence, ₹ 100 crore will be recognised as provision and ₹ 60 crore is disclosed as a contingent asset, if it is virtually certain that reimbursement will be received if the entity settles the obligation.

2. **Option (c): Financial asset measured at FVTPL**

Reasoning

The interest rate is leveraged and hence will fail the SPPI test. Therefore, it will be measured at FVTPL.

3. **Option (b): A, B and E**

Reasoning

To determine reportable segment, paragraph 13(b) of Ind AS 108 states that 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 compliance with Ind AS 108, the segment profit/loss of respective segment will be compared with the greater of the following:

(i) All segments in profit, i.e., A, B and D – Total profit ₹ 4,219 crores.

(ii) All segments in loss, i.e., C and E – Total loss ₹ 2,900 crores.

Based on the above, reportable segments will be determined as follows:

Segment	Profit/(Loss) (₹ in crore)	As absolute % of ₹ 4,219 crore	Reportable segment
A	1,280	30.34%	Yes
B	2,624	62.19%	Yes
C	(280)	6.64%	No
D	315	7.47%	No
E	(2,620)	62.10%	Yes
Total	1,319		

Hence, A, B and E are reportable segments.

4. Option (c): ₹ 15,00,000

Reasoning

The revenue to be recognized is measured as follows:

Particulars	Amount (₹)
Measure of progress:	3,00,000 / 12,00,000 = 25%
Revenue to be recognized:	
(a) For costs incurred (other than elevators)	Total attributable revenue = (30,00,000 – 10,00,000) = 20,00,000 % of work completed = 25% Revenue to be recognized = 5,00,000
(b) Revenue for elevators	10,00,000 (equal to costs incurred)
Total revenue to be recognized	10,00,000 + 5,00,000 = 15,00,000

Therefore, for the year ended 31st March, 20X2, the Company shall recognize revenue of ₹ 15,00,000 on the project.

CASE SCENARIO 25

Planet Limited is a multinational company engaged into the business of manufacturing of various products of different segments. One of the segments is the manufacturing of agricultural equipment. The company raised a term loan for ₹ 1 crore from a Nationalized Indian Bank to purchase certain plant and machinery for agricultural segment during the year ended 31st March, 20X1. The loan is repayable over a period of 5 years. The terms and conditions of the loan agreement is that the company should maintain a current ratio of 1.5:1 and debt-equity ratio of 1:2. If these covenants fall below this level, then the bank has a right to recall the entire loan.

The unpaid loan as on 31st March, 20X2 was ₹ 85 lakhs. The current ratio of Planet Ltd. was 0.9:1 and debt-equity ratio was 0.65:2. The bank has sent a notice on 7th April 20X2 demanding repayment of loan, on account of breach of terms of the loan agreement. The financials of the company were approved and signed on 15th May, 20X2.

After receiving the notice, the Chief Finance Officer of the company contacted the bank and ensured to rectify the breach. Consequently, on 28th May, 20X2, the Bank agreed not to recall the loan and allowed the company to achieve the contracted current and debt equity ratio by the year ending on 31st March, 20X3

Planet Limited has recently acquired shares in Bean Ltd. and Camel Ltd. and prepared draft consolidated financial statements in accordance with Ind AS for the year ended on 31st March, 20X2. It is the group's policy to value its non-controlling interests at fair value. The fair value of the non-controlling interest in Bean Ltd. on the date of acquisition was measured at ₹ 1,430 lakhs. The following information is relevant regarding the acquisition of shares in Bean Ltd. and Camel Ltd.:

Date of acquisition	Holding acquired %	Retained earnings at acquisition date ₹ (in lakhs)	Purchase consideration ₹ (in lakhs)
Bean Ltd - 1.4.20X1	85	5,400	10,200
Camel Ltd - 1.4.20X1	40	6,240	5,760

In the draft Consolidated Financial Statements prepared on 31st March, 20X2 the financials relating to Bean Ltd. and Camel Ltd. appeared as follows:

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

Bean Ltd. and Camel Ltd. have not issued any share capital since the acquisition of shareholding by Planet Ltd. The fair value of the net assets of Bean Ltd. and Camel Ltd. were the same as their carrying amounts at the date of acquisition. Planet Ltd. has significant influence over Camel Ltd. An impairment loss of ₹ 204 lakhs have been identified in respect of goodwill arising on the acquisition of Bean Ltd. for the year ended on 31st March, 20X2. The recoverable amount of net assets of Camel Ltd. has been deemed to be ₹ 11,760 lakhs as on 31st March, 20X2.

On 1st January, 20X2, Planet Ltd. sold inventory costing ₹ 45 lakhs to Camel Ltd. for ₹ 63 lakhs. The inventory was still unsold by Camel Ltd. at 31st March, 20X2. This inventory was sold by Camel Ltd. to third party on 8th April, 20X2.

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

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 1 to 4 in line with the relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. After negotiation with the Nationalized Bank, how long-term loan has to be classified in financials for the year ended on 31st March, 20X2?

   (a) Non-current financial liability

   (b) Other non-current liability

   (c) Current financial liability

   (d) Other current liability

2. What will be the impairment loss from investment in associate for the year ending 31st March, 20X2?

   (a) ₹ 1,440 lakhs

   (b) ₹ 1,432.80 lakhs

   (c) ₹ 1,055.20 lakhs

   (d) ₹ 1,512.80 lakhs

3. What will be the amount of Goodwill as on 31st March, 20X2, arising from the acquisition of Bean Ltd.?

   (a) ₹ 2,530 lakhs

   (b) ₹ 2,630 lakhs

   (c) ₹ 2,426 lakhs

   (d) ₹ 2.326 lakhs

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

   (a) Expenses incurred for food court and gaming should be capitalized

   (b) Expenses incurred for food court, spa and gaming should be capitalized

   (c) Expenses incurred for food court and gaming zone should be charged to statement of profit and loss

   (d) Expenses incurred for food court, spa and gaming zone should be charged to statement of profit and loss

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c): Current financial liability

Reasoning

As per para 74 of Ind AS 1, 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.

In the given case the bank agreed not to demand payment as a consequence of the breach after the approval of the financial statements, it will be classified as current financial liability for the year ended on 31st March, 20X2.

2. Option (d): ₹ 1,512.80 lakhs

Reasoning

Carrying value of the investment in Associates Camel Ltd. as on 31st March, 20X2 = ₹ 5,760 lakhs + [(₹ 7,400 – ₹ 18 (unrealised gain) – ₹ 6,240) x 40%] i.e. share of post-acquisition profit = ₹ 6,216.80 lakhs

Recoverable value for share of investment I associate = ₹ 11,760 lakhs x 40% = ₹ 4,704 lakhs

Impairment loss =₹ 6,216.80 lakhs – ₹ 4,704 lakhs = ₹ 1,512.80 lakhs

As per para 29 of Ind AS 28, when downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor.

3. Option (c): ₹ 2,426 lakhs

Reasoning

Net worth on the date of acquisition = ₹ 3,600 lakhs + ₹ 5,400 lakhs

= ₹ 9,000 lakhs

Goodwill on the date of acquisition = PC + NCI – Net worth

= ₹ 10,200 lakhs + ₹ 1,430 lakhs – ₹ 9,000 lakhs = ₹ 2,630 lakhs

Goodwill as on 31st March, 20X2

= ₹ 2,630 lakhs – ₹ 204 lakhs (impairment loss)

= ₹ 2,426 lakhs

4. Option (A) : Expenses incurred for food court and gaming zone should be capitalised

Reasoning

Paragraph 7 of Ind AS 16 'Property, Plant and Equipment', requires that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

Further as per paragraph 10 of Ind AS 16, an entity evaluates under this recognition principle all its property, plant and equipment cost at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

In view of the above, since it is probable that the construction of food court and gaming zone will result into flow of future economic benefits to the entity in the form of increase in sales and the cost of construction can be measured reliably, accordingly, the subsequent cost of construction of food court and gaming zone should be capitalised in the cost of mall as an item of property, plant and equipment.

CASE SCENARIO 26

Nikhil Private Limited acquired 100% of Pranav Private Limited on 1st January, 20X1. The fair value of the purchase consideration was ₹ 20 crores consisting of ordinary shares of ₹ 100 each of Nikhil Private Limited. The fair value of the net assets acquired was ₹ 15 crores. At the time of the acquisition, the value of the ordinary shares of Nikhil Private Limited and the net assets of Pranav were only provisionally determined.

On 30th November, 20X1, it was finally determined that the fair value of Nikhil Private Limited Shares was ₹ 22 crores and the fair value of net assets of Pranav Private Limited was ₹ 16 crores.

However, the directors of Nikhil Private Limited have seen the fair value of the company's shares decline since 1st January, 20X1, and wanted to adopt the fair value of the shares as of 1st February, 20X2, which will result in the fair value of consideration at being value date ₹ 18 crores.

In addition to the above Purchase Consideration, the acquisition agreement states that an additional ₹ 4 crores will be paid if Pranav Private Limited achieves a turnover of ₹ 160 crores in the next two years. On the date of acquisition, the fair value of the said consideration was ₹ 3 crores. In February 20X2, due to decline in performance of Pranav Private Limited, it is determined that it is unlikely that it would meet budgeted turnover of ₹ 160 crores.

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 1 to 3 in line with the relevant Ind AS:

MULTIPLE CHOICE QUESTIONS

1. The Net Assets Value will be?

   (a) ₹ 15 crores

   (b) ₹ 16 crores

   (c) ₹ 20 crores

   (d) ₹ 19 crores

2. The value of Purchase Consideration will be?

   (a) ₹ 18 crores

   (b) ₹ 20 crores

   (c) ₹ 22 crores

   (d) ₹ 25 crores

3. How should Nikhil Private Limited treat the contingent consideration linked to achieving sales?

   (a) Nikhil Private Limited should not recognize the consideration as it is unlikely that it would be paid.

   (b) Nikhil Private Limited should disclose the consideration as it is contingent liability in its financial statements which will be met only upon Pranav Private Limited earning a turnover of ₹ 160 crores.

   (c) Nikhil Private Limited should recognize the fair value of the consideration as part of the business combination, thus increasing goodwill and re-measure it at the end of each reporting period. The impact of change in fair value is recognized in the statement of profit and loss.

   (d) There is no specific treatment prescribed under Ind AS. Nikhil Private Limited should decide the appropriate accounting treatment based on the facts and circumstances of the case.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b): ₹ 16 crores

2. Option (d): ₹ 25 crores

Reasoning for 1 & 2:

As per para 37 of Ind AS 103, the consideration transferred in a business combination shall be measured at fair value. Examples of potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, *contingent consideration*, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.

Further, as per para 39 of Ind AS 103, the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognise *the acquisition-date fair value of contingent consideration* as part of the consideration transferred in exchange for the acquiree.

As per para 45 of Ind AS 103, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements, provisional amounts for the items for which the accounting is incomplete. During the measurement period, *the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date* and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, *the measurement period shall not exceed one year from the acquisition date*.

The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Ind AS:

(a) the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;

(b) the consideration transferred for the acquiree (or the other amount used in measuring goodwill);

(c) in a business combination achieved in stages, the equity interest in the acquiree previously held by the acquirer; and

(d) the resulting goodwill or gain on a bargain purchase.

On application of the above guidance, value of purchase consideration will be ₹ 25 crores (i.e. ₹ 22 crores + ₹ 3 crores)

3. **Option (c): Nikhil Private Limited should recognise the fair value of the consideration as part of the business combination, thus increasing goodwill and remeasure it at the end of each reporting period. The impact of change in fair value is recognised in the Statement of Profit and Loss.**

Reasoning

As per para 39 of Ind AS 103, the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 37). The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

As per para 58 of Ind AS 103, some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 45–49. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity.

(b) Other contingent consideration that:

(i) is within the scope of Ind AS 109 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with Ind AS 109.

(ii) is not within the scope of Ind AS 109 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.

CASE SCENARIO 27

Raja Limited, a leading public limited company engaged in the manufacture of pharmaceuticals, prepares its accounts as per Ind AS. The company has entered into the following transactions during the financial year ended 31st March, 20X2:

(i) On 1st April, 20X1, Raja Limited held 35% of total equity shares of Volga Limited, which is an associate company. The carrying value of the investment in Volga Limited on 31st March, 20X1 is ₹ 1,50,00,000 in the consolidated financial statements of Raja Limited. During financial year 20X1-20X2, Raja Limited sold goods worth ₹ 3,50,000 to Volga Limited. The cost of goods sold is ₹ 3,00,000. Out of these, goods costing ₹ 1,00,000 to Volga Limited were lying unsold with it on 31st March, 20X2. During the year ended 31st March, 20X2, the Statement of Profit and Loss of Volga Limited showed a profit of ₹ 25,00,000. Volga Limited declared and paid a dividend of ₹ 10,00,000 to its equity shareholders during 20X1-20X2·.

(ii) Raja Limited held 50% of the voting power of Sharp Limited, which is a Joint Venture of Raja Limited. The carrying value as on 1st April, 20X1 of the investment in Sharp Limited as per Equity Method is ₹ 50,00,000. On 1st July, 20X1, out of the 50% stake, Raja Limited sold 20% stake in Sharp Limited to an unrelated entity for a consideration of ₹ 40,00,000. The fair value of the retained 30% interest is ₹ 60,00,000. It is to be noted that Equity method accounting needs to be discontinued.

(iii) On 1st August, 20X1, Raja Limited acquired 70% Equity Shares of S Limited by paying a cash consideration of ₹ 97,50,000 (including control premium). The fair value of net identifiable assets of S Limited is ₹ 1,30,00,000. The fair value of 30% of the shares owned by the non-controlling shareholders on the date of acquisition is ₹ 25,00,000. The carrying amount of net identifiable assets of S Limited is ₹ 1,20,00,000. Raja Limited choses to measure the interest of non-controlling shareholders at fair value.

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 1 to 3 in line with the relevant Ind AS.

MULTIPLE CHOICE QUESTIONS

1. Determine the value of Investment in Volga Limited as on 31st March, 20X2 in the Consolidated Financial Statements of Raja Limited, if equity method is adopted for valuing the investment in associates.

   (a) ₹ 1,55,25,000

   (b) ₹ 1,58,75,000

   (c) ₹ 1,55,10,714

   (d) ₹ 1,55,20,000

2. Determine the amount of gain/loss to be recorded by Raja Limited on disposal of its stake in Sharp Limited.

   (a) ₹ 20,00,000

   (b) Nil

   (c) ₹ 50,00,000

   (d) ₹ 30,00,000

3. Determine the amount of goodwill/gain on bargain purchase arising on the acquisition of S Limited.

   (a) Goodwill ₹ 2,50,000

   (b) Gain on Bargain Purchase ₹ 7,50,000

   (c) Goodwill ₹ 6,50,000

   (d) Goodwill ₹ 16,50,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d): ₹ 1,55,20,000

Reasoning

Calculation of Investor Ltd.'s investment in XYZ Ltd. under equity method:

	₹
Acquisition of investment in Volga Ltd.	1,50,00,000
Add: Share of profit in Volga Ltd. recognised in income by Raja Ltd. (25,00,000 x 35%)	8,75,000

Less:	Unrealised profit on sale of inventory (downstream transaction) [{(50,000/3,50,000) x 1,00,000} x 35%]	(5,000)
Less:	Dividend received by Raja Ltd. during the year [35% of ₹ 10,00,000]	(3,50,000)
Closing balance of Raja Ltd.'s investment in Volga Ltd.		1,55,20,000

2. Option (c): ₹ 50,00,000

Reasoning

Applying para 22 of Ind AS 28, Raja Ltd. shall record in profit or loss difference between below:

- the fair value of any retained interest (i.e. ₹ 60,00,000) and any proceeds from disposing of a part interest in the joint venture (i.e. ₹ 40,00,000); and
- the carrying amount of the investment at the date the equity method was discontinued (i.e. ₹ 50,00,000).

Hence, Raja Ltd. shall record gain of ₹ 50,00,000 in profit or loss i.e. [(60,00,000 + 40,00,000) – 50,00,000].

3. Option (b): Gain on Bargain Purchase ₹ 7,50,000

Reasoning

The goodwill is calculated as per fair value method as below:

	₹
Fair value of consideration transferred	97,50,000
Fair value of non-controlling interest	25,00,000
	1,22,50,000
Value of subsidiary's identifiable net assets as per Ind AS 103	(1,30,00,000)
Gain on Bargain Purchase	**7,50,000**

CASE SCENARIO 28

XYZ Ltd. is a manufacturing company engaged in the manufacturing of home and kitchen appliance products. Following information is available in respect of XYZ Ltd. for the year ended on 31st March, 20X4:

(i) During the year 20X3-20X4, XYZ Ltd. purchased a special type of packing material from an USA based company for $ 14,00,000 on 1st December, 20X3 when the exchange rate was $ 1= ₹ 75. The American company provided XYZ Ltd. with 5-month interest-free credit. At the reporting date i.e. 31st March, 20X4, the exchange rate was $ 1 = ₹ 77.5. As at 31st March, 20X4, 60% of the raw material purchased was still in inventory of XYZ Ltd. The functional currency of XYZ Ltd. is Indian Rupee.

(ii) In order to motivate and retain employees, XYZ Ltd. announced on 1st April, 20X1, a scheme of granting 6 stock appreciation rights (SAR) to 400 employees who remain in the organization for the next 3 years. Other information available on the portal relating to this scheme is as under:

Year ended	Fair value of SAR (₹)	Employees expected to remain in the organization as at year end
31-03-20X2	100	400
31-03-20X3	110	390
31-03-20X4	116	380

SARs are vested at the end of 3rd year based on the condition attached to the SARs scheme.

(iii) The borrowings of XYZ Ltd. include 10% Optionally Convertible Debentures (OCD) issued on 1st October, 20X3 for ₹ 50 lakhs. These debentures are convertible into equity shares of XYZ Ltd. at the option of the holder at the end of the tenure of 5 years in the ratio of 1:1 i.e., each OCD will be converted to one equity share. Interest is paid annually on 31st March. The market rate for these debentures without a conversion option is 14% per annum.

(iv) The share capital of XYZ Ltd. includes 10,00,000 12% cumulative preference shares of, ₹ 100 each. The Company has arrears of ₹ 2.40 crores of preference dividend as on 31st March, 20X4; it includes current year arrear of ₹ 1.20 crores. The Company did not declare any dividend for equity shareholders as well as for preference shareholders for the year ended on 31st March 20X4.

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 1 to 4 in line with the relevant Ind AS.

MULTIPLE CHOICE QUESTIONS

1. Determine the amount of exchange loss/gain to be recognized on 31st March, 20X4 in relation to the purchase of raw material from the American Company.

   (a) ₹ 35,00,000 exchange loss

   (b) ₹ 33,20,000 exchange loss

   (c) ₹ 17,40,000 exchange loss

   (d) Nil

2. With respect to share appreciation rights, determine the balance of liability at the end of 31.3.20X4 and expense for the financial year 20X3-20X4.

   (a) ₹ 92,880 and ₹ 72,880 respectively

   (b) ₹ 2,64,480 and ₹ 1,71,600 respectively

   (c) ₹ 2,64,480 and ₹ 92,880 respectively

   (d) ₹ 92,880 and ₹ 2,64,480 respectively

3. With respect to Optionally Convertible Debentures, determine the finance cost that should be charged to Statement of Profit and Loss as per relevant Ind AS for the year ended 31st March, 20X4.

   (a) ₹ 6,03,897

   (b) ₹ 3,01,949

   (c) ₹ 6,86,450

   (d) ₹ 96,103

4. Determine the amount of preference share dividend to be reduced from profit or loss for the year ended 31st March, 20X4 to compute the basic Earnings per Share.

   (a) ₹ 2.40 crores

   (b) ₹ 1.20 crores

   (c) ₹ 3.60 crores

   (d) Nothing, as no dividend has been declared by the company.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a): ₹ 35,00,000 exchange loss

Reasoning

XYZ Ltd. purchased packing materials from American Company. As XYZ Ltd. agreed the value of the contract in US Dollars rather than in their functional currency, the Indian rupee, XYZ Ltd. is subject to exchange rate risks. Any movement in the Indian rupee to US dollar exchange rate between the transaction date and the date the contract is settled will give rise to either an exchange gains or loss in accordance with Ind AS 21.

The contract will initially be recorded in Indian rupee at the spot rate on 1st December, 20X3, the date of the contract. As no payment has been made to the American suppler by 31st March, 20X4 the contract must be translated at the 31st March, 20X4 spot rate to calculate the gain or loss on foreign exchange, as follows:

Date	Transaction currency amount ($)	Exchange rate	Functional currency amount (₹)
01.11.20X3	14,00,000	75	10,50,00,000
31.03.20X4	14,00,000	77.5	(10,85,00,000)
Exchange Loss			35,00,000

2. Option (c): ₹ 2,64,480 and ₹ 92,880 respectively

Reasoning

Year ended	Employee a	Number of SARs b	Fair value c	Cumulative d= [(a x b x c x vesting period lapsed) – previous year expense]	Expense trfd to P/L e= d- prev. yr d
Period 1	400	6	100	(2,40,000 x 1/3)	80,000
Period 2	390	6	110	[(2,57,400 x 2/3) – 80,000] = 1,71,600 -80,000	91,600
Period 3	380	6	116	[(2,64,480 x 3/3)- 1,71,600]	92,880 2,64,480

3. Option (b): ₹ 3,01,949

Reasoning

Optionally convertible debentures is a compound financial instrument

	(₹)
Present value of principal paid in the 5th year (50,00,000 lakhs x 0.519)	25,95,000
Annuity value of interest payable (50,00,000 x 10% x 3.433)	17,16,500
Total liability component	43,11,500

Finance cost on liability component = ₹ 3,01,805 (43,11,500 x 14% x 6/12). Approx. 3,01,949

4. Option (b): ₹ 1.20 crores

Reasoning

As per para 14(b) of Ind AS 33 'Earnings per Share', the after-tax amount of preference dividends that is deducted from profit or loss is the after-tax amount of the preference dividends for cumulative preference shares required for the period, whether or not the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

In the given case the amount of preference dividends of ₹ 1.20 crore declared for the year ended 31 March 20X4 (i.e. the current period) is to be deducted from profit or loss for calculating EPS.

CASE SCENARIO 29

Savita Limited, a public listed company, is engaged in various types of manufacturing and retail activities. It is also engaged in the real estate business. You are provided with the following information:

(i) Savita Limited had the following closing stock of finished goods as on 31.3.20X4:

Item	Quantity (No.)	Cost (₹ per pc)	Estimated Selling Price (₹ per pc)	Selling Cost (₹ per pc)
Wooden Boards	1000	88	110	5
Iron rods	300	458	495	46

(ii) On 1st June, 20X1, Savita Ltd. purchased land at Kota for ₹ 1,45,60,000 whose future use was not determined. It remained vacant for more than two years. On 30th September, 20X3, the fair value of the property was ₹ 1,60,80,000 and on the same date Savita Ltd. began to convert the property into twenty separate flats of equal size which it intended to sell in the ordinary course of its business. Savita Ltd. spent a total of ₹ 1,82,68,000 on this conversion project till 31st March, 20X4. The project was incomplete as on 31st March, 20X4, and it was estimated that Savita Ltd. need to spend further ₹ 94,00,000 to complete the project, after which each flat could be sold for ₹ 20,00,000.

(iii) Savita Ltd. developed a new drug that was in the final phase of clinical trials. Beta Ltd. had an equity investment in Savita Ltd.'s shares. Beta Ltd. determined that the shares had a readily determinable fair value and accounted for the investment at fair value through profit and loss. On 31st March, 20X4, the drug approval authority notified Savita Ltd.'s management that the drug was not approved. Savita Ltd.'s share closed at ₹ 112 on 31st March, 20X4. Savita Ltd. issued a press release after markets closed on 31st March, 20X4 announcing the failed clinical trial. Savita Ltd.'s share opened on the next working day at ₹ 85.

(iv) Omega Ltd is one of the associate companies of Savita Ltd. Omega Ltd. provided you with the following information for the year ended 31st March, 20X4:

Particulars	₹ Crores
Net Profit after taxes	93.4
Decrease in accounts receivables	42.5
Depreciation	24.9
Increase in inventory	31.3
Increase in accounts payable	12.7
Decrease in wages payable	5.7
Increase in deferred tax asset	1.5
Tax paid	21.8
Profit from sale of land	3.4
Sale of land	85.2

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

MULTIPLE CHOICE QUESTIONS

1. The value of closing inventory of raw material as on 31st March 20X4 is:

   (a) ₹ 2,22,700

   (b) ₹ 2,39,700

   (c) ₹ 2,25,400

   (d) ₹ 2,41,500

2. What is the classification of land at Kota as on 31st March 20X3?

   (a) Property, Plant & Equipment

   (b) Investment Property

   (c) Inventory

   (d) Not required to be disclosed in books

3. Compute the value of flats to be disclosed in the financial statements for the year ended 31st March, 20X4.

   (a) ₹ 3,43,48,000

   (b) ₹ 3,28,28,000

   (c) ₹ 3,06,00,000

   (d) ₹ 4,22,28,000

4. **Assertion (I):** Beta Ltd. will record the share at ₹ 85 and disclose the investment as Level 2 measurement as per Ind AS 113 as on 31st March 20X4.

   Reason (II): Level 2 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

   (a) Both (I) & (II) are true and (II) is the correct explanation of (I).

   (b) Both (I) & (II) are true but (II) is not the correct explanation of (I).

   (c) (I) is true but (II) is false.

   (d) (I) is false but (II) is true.

5. Omega Ltd.'s Cash flow from Operations for financial year 20X3-20X4 is:

   (a) ₹ 135.0 Crores

   (b) ₹ 216.8 Crores

   (c) ₹ 131.6 Crores

   (d) ₹ 109.8 Crores

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a): ₹ 2,22,700

Reasoning

The value of closing inventory in the financial statements:

Item of inventory	Quantity	Cost per pc	NRV (Estimated Sales price-Selling costs)	Measurement base	Value
Wooden Boards	1,000	88	(110 – 5) 105	Cost	88,000

Iron Rods	300	458	(495 – 46) 449	NRV	1,34,700
Value of Inventory					**2,22,700**

2. **Option (b): Investment Property**

   Reasoning

   From 1st June, 20X1 till 30th September, 20X3, the land property would be regarded as an investment property since it is being held for its investment potential rather than being owner occupied or developed for sale.

3. **Option (c): ₹ 3,06,00,000**

   Reasoning

   As per para 59 of Ind AS 40, transfers between investment property to inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. Hence, the carrying value of the reclassified property will be ₹ 1,45,60,000.

   The additional costs of ₹ 1,82,68,000 for developing the flats which were incurred up to and including 31st March, 20X4 would be added to the 'cost' of inventory to give a closing cost of ₹ 3,28,28,000.

   The total selling price of the flats is expected to be ₹ 4,00,00,000 (20 x ₹ 20,00,000). Since the further costs to develop the flats total ₹ 94,00,000, their net realisable value is ₹ 3,04,00,000 (₹ 4,00,00,000 – ₹ 94,00,000).

   The inventory is measured at lower of cost or net realisable value. Here cost is ₹ 3,28,28,000 and NRV is ₹ 3,04,00,000, so the flats will be measured at a cost of ₹ 3,04,00,000.

4. **Option (c): (I) is true but (II) is false**

   Reasoning

   The drug failure is a condition (or a characteristic of the asset being measured) that existed as of the measurement date. Beta Ltd. concludes the ₹ 112.00 closing price on the measurement date does not represent fair value of the Savita Ltd.'s shares at 31st March 20X4 because the price does not reflect the effect of the Authority's non-approval.

The subsequent transactions that take place when the market opens are relevant to the fair value measurement recorded as of the measurement date. The opening price of ₹ 85.00 indicates how market participants have incorporated the effect of the non-approval on Savita Ltd.'s stock price.

Beta Ltd. adjusts the 31st March 20X4 quoted price for the new information, records the shares at ₹ 85.00 per share at 31st March 20X4 and discloses the investment as a Level 2 measurement.

Further, as per Ind AS 113, Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date and level 2 inputs.

5. Option (c): ₹ 131.6 Crores

Reasoning

	₹ in crores
Cash flows from Operating Activities	
Net profit after tax	93.40
Add: Tax paid	21.80
	115.20
Add: Depreciation	24.90
Less: Gain on sale of land	(3.40)
Less: Increase in Deferred Tax Asset	(1.50)
	135.20
Change in operating assets and liabilities	
Add: Decrease in trade receivables	42.50
Less: Increase in Inventory	(31.30)
Less: Decrease in wages payable	(5.70)
Add: Increase in trade payables	12.70
	153.40
Less: Income Tax	(21.80)
Cash generated from Operating Activities	**131.60**

CASE SCENARIO 30

Saumya Limited manufactures and sells various paper products & related machinery and equipment.

(i) On 1st June, 20X1, Saumya Limited sold a machinery for ₹ 42,02,230 to a new customer. To get into a long-term relationship with the customer, the terms of sales include after sales service to be provided free of cost for the next four years after the initial warranty period of 1 year. In general practice, the Company sells the after-sales service contract separately which is purchased by the customer after the initial warranty period of 1 year at ₹ 7,41,570.

(ii) Saumya Limited had 5,000 packets of computer paper inventory as on 31st March, 20X2 recorded at a carrying amount of ₹ 340 per packet. The market price as on 31st March, 20X2 was ₹ 280 per packet at which these packets could be sold. Saumya Limited had a firm sales contract with Javin Limited to sell 2,760 packets at ₹ 380 per packet, which cannot be settled net. Estimated incremental selling cost was ₹ 20 per packet.

(iii) Saumya Ltd. bought 100 acres of land on 30th June, 20X1 for growing bamboo to be used for paper production. On 1st October, 20X1, Saumya Limited purchased 10 dogs for the security of the aforesaid land.

Answer the below questions 1 – 3 based on the information given above in line with the relevant Ind AS:

1. How much revenue be recognised in the books of Saumya Ltd. for the machinery sold on 1st June, 20X1 as per Ind AS 115?

   (a) ₹ 42,02,230

   (b) ₹ 40,16,838

   (c) ₹ 34,60,660

   (d) ₹ 35,71,896

2. The value of closing inventory of computer paper as on 31st March, 20X2 is
   (a) ₹ 15,76,000
   (b) ₹ 16,76,000
   (c) ₹ 13,00,000
   (d) ₹ 14,00,000

3. **Assertion (I):** Purchase of dogs by Saumya Limited will not fall under the scope of Ind AS 41.

   Reason (II) : Ind AS 41 applies to agricultural produce at the time of harvest; not prior or subsequent to harvest.
   (a) Both (I) & (II) are true and (II) is the correct explanation of (I).
   (b) Both (I) & (II) are true but (II) is not the correct explanation of (I).
   (c) (I) is true but (II) is false.
   (d) (I) is false but (II) is true.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : ₹ 35,71,896

Reasoning

There are two performance obligations; therefore, the transaction price, is allocated as follows:

Performance obligation	**₹**	**Allocated transaction price**	
Machinery	42,02,230	[(₹42,02,230 ÷ ₹ 49,43,800) × ₹ 42,02,230)]	35,71,896
After sales service	7,41,570	[(₹7,41,570 ÷ ₹ 49,43,800) × ₹ 42,02,230)]	6,30,335
Total	49,43,800		42,02,230

2. Option (a) : ₹ 15,76,000

Reasoning

Value of Inventory = Cost or NRV whichever is less

	Unit	Bases	Calculation	Amount	Amount
Firm sale contract	2,760	NRV	360 (380-20)	9,93,600	
Other inventory	2,240	NRV	260 (280-20)	5,82,400	15,76,000
	5,000	Cost	340	17,00,000	17,00,000

Since NRV is less, the value of inventory would be Rs. 15,76,000.

3. Option (b) : Both (I) & (II) are true but (II) is not the correct explanation of (I).

Reasoning

Guard dogs for security purposes do not qualify as agricultural activity, since they are not being kept for sale, or for conversion into agricultural produce or into additional biological assets. Hence, they are outside the scope of Ind AS 41.

Further, para 3 of Ind AS 41 which states that

This Standard is applied to agricultural produce, which is the harvested produce of the entity's biological assets, **at the point of harvest.**

CASE SCENARIO 31

Saumya Limited manufactures and sells various paper products & related machinery and equipment.

(i) Saumya Limited acquired software for its internal use costing ₹ 3,20,000. The amount paid for the software was ₹ 1,00,000 immediately and ₹ 2,20,000 in one year's time. It also incurred purchase tax of ₹ 24,000, entry tax of 10% (recoverable later from tax department) and legal fees of ₹ 42,000. The cost of capital of the company is 10%.

(ii) Saumya Ltd. obtained a term loan of ₹ 50 lakhs from Wood Cooperative Bank in 20X1-20X2 and paid 1% as loan processing fees and commitment charges. In May 20X7, Saumya Ltd. availed fresh loan of ₹ 30 Lakhs from Iron Cooperative Bank to pay off the old loan taken from Wood Cooperative Bank. The Company paid ₹ 20,000 as prepayment premium to Wood Cooperative Bank to clear the old term loan and paid 1% as processing fees to Iron Cooperative Bank for the new term loan.

(iii) Saumya Ltd. purchased a building in Chandigarh on 1st September, 20X6 for its administrative purposes and disclosed it as Property, Plant and Equipment in the financial statements of 20X6-20X7. Due to some policy changes of the government, it relocated its office to Delhi in April 20X7. On 1st May 20X7, Saumya Ltd. leased out the building to Ms. Lessee.

Answer the below questions 1 – 3 based on the information given above in line with the relevant Ind AS:

1. The cost of the software on initial recognition using the principles of Ind AS 38 is

   (a) ₹ 4,18,000

   (b) ₹ 3,86,000

   (c) ₹ 3,66,000

   (d) ₹ 3,96,000

2. Unamortised processing fees of old loan will be

   (a) Added to new loan amount.

   (b) Charged to Other Comprehensive Income.

   (c) Charged to Statement of Profit and Loss.

   (d) Added as transaction cost while calculating effective interest rate for new loan.

3. **Assertion (I):** Saumya Ltd. should reclassify the leased building from Property, Plant and Equipment to Investment Property in the financial year 20X2-20X3.

   Reason (II) : A change in classification of a building from Property, Plant and Equipment to Investment Property due to a change in purpose for which it is held by the entity is a change in accounting policy.

   (a) Both (I) & (II) are true and (II) is the correct explanation of (I).

   (b) Both (I) & (II) are true but (II) is not the correct explanation of (I).

   (c) (I) is true but (II) is false.

   (d) (I) is false but (II) is true.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c): ₹ 3,66,000

Reasoning

Particulars	**₹**
Cash paid	1,00,000
Deferred consideration (₹ 2,20,000 / 1.1)	2,00,000
Purchase Tax	24,000
Entry tax (not to be considered as it is a refundable tax)	-
Legal fees	42,000
Total cost to be capitalised	**3,66,000**

2. **Option (c): Charged to Statement of Profit and Loss.**

Reasoning

As per Ind As 109, unamortized processing fees are charged to Statement of Profit and Loss.

3. **Option (c): (I) is true but (II) is false.**

Reasoning

As per Ind AS 40, in case of change in use of the asset, it has to be reclassified in the balance sheet. However, the change in use and change in classification do not constitute a change in accounting policy.

CASE SCENARIO 32

Hans Ltd. is engaged in the business of manufacturing of automotive accessories with its registered office in Bhiwadi and is listed on the National Stock Exchange. It also owns a chain of retail stores across 15 different locations in the twin cities of Delhi and Noida. Following are the brief facts about the transactions entered into by the company for which accounting advice is sought by the Accountant of Hans Ltd. from you:

(i) As per Company's policy, on 1st April, 20X1, Hans Ltd. granted 15,000 share options each to each of its 3,000 key employees. The options are due to vest on 31st March, 20X5 provided that the employees remain in employment as at 31st March, 20X4. On 1st April, 20X1, the directors of Hans Ltd. estimated that 80% of the key employees would satisfy the vesting conditions. However, actual employee turnover was such that this estimate was revised to 82% on 31st March, 20X2 and 92% on 31st March, 20X3.

On 1st April, 20X1 the fair value of each share option was estimated at ₹ 3. The estimate was revised to ₹ 4 on 31st March, 20X2 and ₹ 5 on 31st March 20X3. Hans Ltd. correctly recognised this transaction in the financial statements for the year ended 31st March, 20X2 but, however, the company did not make additional adjustment in the financial statements for the year ended 31st March, 20X3.

(ii) On 1st September, 20X2, a local statute was passed which necessitated Hans Ltd. to undertake modifications to its automotive accessories to enable reduction of harmful emissions. The modifications should have been completed by 31st January, 20X3 at an estimated cost to Hans Ltd. of ₹ 50 lakhs. As a matter of fact, by 31st March, 20X3 none of the accessories had been modified although they continued to be used. It is quite likely that Hans Ltd. will be fined ₹ 3 lakhs per month for the illegal use of the accessories. The directors of Hans Ltd. intend to carry out the modifications during the year to be ended on 31st March, 20X4. They expect that a penalty will become payable very shortly as legal action has commenced against Hans Ltd.

(iii) On 1st April, 20X2, Hans Ltd. issued preference shares for a consideration of ₹ 10 lakhs to an investor. The holder has an option to convert these preference shares to a fixed number of equity shares of Hans Limited anytime upto a period of 3 years. If the option is not exercised by the holder, the preference shares are redeemed at the end of 3 years. The preference shares carry a fixed coupon of 6% per annum which is payable at the end of every year. The prevailing market rate for similar preference shares, without the conversion feature, is 9% per annum.

Answer the below questions 1 – 3 based on the information given above in line with the relevant Ind AS.

1. What will be the amount of share-based payment to be recognised in Statement of Profit or Loss for the financial year 20X2-20X3?

   (a) ₹ 2,76,75,000

   (b) ₹ 6,21,00,000

   (c) ₹ 3,44,25,000

   (d) ₹ 12,42,00,000

2. What will be the amount of provision of fine for illegal use of automotives accessories, which Hans Ltd. should make as on 31st March, 20X3?

   (a) ₹ 50,00,000

   (b) ₹ 2,00,000

   (c) ₹ 6,00,000

   (d) ₹ 24,00,000

3. What will be the finance cost of preference shares issued by Hans Ltd., for the year ending 31st March, 20X3?

   (a) ₹ 60,000

   (b) ₹ 55,450 (approx.)

   (c) ₹ 83,150 (approx.)

   (d) ₹ 90,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c): ₹ 3,44,25,000

Reasoning

Expense for the year 20X1-20X2 = Number of employees x Options per employee x Fair value of share x Proportionate vesting period

= 3,000 x 15,000 x 82% x 3 x ¼ =₹ 2,76,75,000

Expense for the year 20X2-20X3 = Number of employees x Options per employee x Fair value of share x Proportionate vesting period

= (3,000 x 15,000 x 82% x 3 x 2/4) - ₹ 2,76,75,000

= ₹ 3,44,25,000

2. Option (c): ₹ 6,00,000

Reasoning

Amount of provision as on 31st March, 20X3 would be for 2 months i.e. ₹ 6,00,000 (i.e. ₹ 3,00,000 + ₹ 3,00,000)

3. Option (c): ₹ 83,150 (approx.)

Reasoning

The liability component = Present value of principal + Present value of Interest

Present value of principal = ₹ 10,00,000 x 0.772	= 7,72,000
Present value of Interest = ₹ 10,00,000x 6% x 2.531	= <u>1,51,860</u>
Total liability component	= <u>9,23,860</u>

Finance cost on it ₹ 9,23,860 x 9% = ₹ 83,147 or ₹ 83,150 approx.

CASE SCENARIO 33

Hans Ltd. is engaged in the business of manufacturing of automotive accessories with its registered office in Bhiwadi and is listed on the National Stock Exchange. It also owns a chain of retail stores across 15 different locations in the twin cities of Delhi and Noida. Following are the brief facts about the transactions entered into by the company for which accounting advice is sought by the Accountant of Hans Ltd. from you:

(i) On 1st April, 20X1, Hans Limited entered into a loan agreement with a bank. The loan is repayable in five equal annual instalments starting from 31st March, 20X4. One of the loan covenants is that an amount equivalent to 50% of the loan amount should be contributed by the promoters by 28th February, 20X2 failing which the loan becomes payable on demand. In anticipation that the company may not be able to mobilize the promoters' contribution by due date, it approached the bank on 15th January, 20X2 and got the compliance date extended up to 31st May, 20X2 for getting promoters' contribution.

(ii) Hans Limited entered into a transaction to purchase 1,000 grams of silver on 15th January, 20X2. The transaction provides for a price payable which is equal to market value of 1,000 grams of silver on 15th April, 20X2 and shall be settled by issue of such number of equity shares of Hans Limited as is required to settle the afore mentioned transaction, at a price of ₹ 100 per share on 15th April, 20X2.

(iii) On 1st May, 20X1, Hans Limited acquired 100% of the equity and voting rights of MNO Limited, a subsidiary of a property investment group. It paid ₹ 600 lakhs in cash and issued 1,00,000 Equity Shares of the face value of ₹ 100 each at a fair value of ₹ 185 per share to the selling shareholders of MNO Limited. MNO Limited owns three investment properties. Fair values of the said properties are estimated to be ₹ 700 lakhs. The properties are single tenant industrial warehouses subject to long term leases. The leases oblige MNO Limited to provide basic maintenance and security services, which have been outsourced to third party specialist providers. The administration of MNO Limited's leases was carried out by an executive of its former parent company on a part time basis but the said executive does not transfer to the new owner. The financial statements for the year ended and as on 31st March, 20X2 are still under finalization.

Answer the below questions 1 – 3 based on the information given above in line with the relevant Ind AS.

1. How would the loan be classified in the financials of the Company for the year ended on 31st March, 20X2?

   (a) Non-current financial liability

   (b) Other non-current liability

   (c) Current financial liability

   (d) Other current liability

2. How would the transaction to purchase silver be classified and measured in the books of Hans Limited as on 31st March, 20X2 assuming that the own use assumption does not apply?

   (a) Derivative financial liability measured at FVTOCI

   (b) Derivative financial liability measured at FVTPL

   (c) The contract does not fall within the scope of Ind AS 109

   (d) Equity measured at fair value on the date of transaction

3. How would the acquisition of MNO Limited be accounted for in the books of Hans Limited?

   (a) As a business combination under Ind AS 103

   (b) As a purchase of business with goodwill

   (c) As an asset purchase

   (d) As a joint arrangement under Ind AS 111

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a): Non-current financial liability

Reasoning

Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on 31st May, 20X2, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on 31st March, 20X2, the loan will retain its classification as non-current.

2. Option (b): Derivative financial liability measured at FVTPL

Reasoning

There is a contract for purchase of 1000 grams of silver whose consideration varies in response to changing value of silver. Analysing this contract as a derivative –

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

(b) There is no initial net investment

(c) It will be settled at a future date, i.e. 15th April 20X2.

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 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'.

Per Ind AS 109.4.2.1 – A derivative financial liability shall be carried at fair value through profit or loss.

3. Option (c): As an asset purchase

Reasoning

In most cases, an asset or group of assets and liabilities that are being capable of generating revenues, combined with all or many of the activities necessary to earn those revenues, would constitute a business. However, investment property is a specific case in which earning a return for investors is a defining characteristic of the asset. Accordingly, revenue generation and activities that are specific and ancillary to an investment property and its tenancy agreements should therefore be given a lower 'weighting' in assessing whether the acquiree is a business.

Further process (i.e. Basic maintenance, security services and administration) is not critical to the ability to continue producing outputs. Also process (i.e. Basic maintenance, security services and administration) is not unique and it can be replaced easily without significant cost.

Hence, the purchase of investment property with tenants and services that are purely ancillary to the property and its tenancy agreements should generally be accounted for as an asset purchase.

CASE SCENARIO 34

A Ltd. is engaged in the business of manufacturing a number of products including moulds, dies and machinery. They have a wide customer base both within India and abroad. Typically, a contract is entered into for sale of each product and consideration is received on the event of delivery of goods to the customer place. The cost of each mould is ₹ 400 and the selling price is ₹ 450. The terms of the contract entitle the customer to return any unused moulds within 30 days and receive a full refund. The Company estimates that the costs of recovering the mould will be immaterial and expects that the returned moulds can be resold at a profit. The company has sold a total of 10,000 moulds during the month ended 31st March, 20X4. From past experience, A Ltd expects that 3% of the moulds will be returned during the current year.

MULTIPLE CHOICE QUESTIONS

1. The consideration received from the customer is

   (a) Variable

   (b) Fixed

   (c) Both variable and fixed

   (d) There is no consideration

2. Upon transfer of control of the 10,000 moulds, the entity will recognise revenue for

   (a) 10,000 moulds

   (b) 300 moulds

   (c) 9,700 moulds

   (d) 10,300 moulds

3. The entity recognises revenue of

   (a) ₹ 45,00,000

   (b) ₹ 43,65,000

(c) ₹ 1,35,000

(d) ₹ 1,20,000

4. The entity recognises a refund liability of

(a) ₹ 45,00,000

(b) ₹ 43,65,000

(c) ₹ 1,35,000

(d) ₹ 1,20,000

5. The entity recognises a return asset of

(a) ₹ 45,00,000

(b) ₹ 43,65,000

(c) ₹ 1,35,000

(d) ₹ 1,20,000

6. The journal entry for the above would be

(a)	Trade Receivables (Customer) Dr.	₹ 45,00,000	
	To Revenue		₹ 45,00,000
(b)	Trade Receivables (Customer) Dr.	₹ 43,65,000	
	To Revenue		₹ 43,65,000
(c)	Trade Receivables (Customer) Dr.	₹ 1,35,000	
	To Refund liability		₹ 1,35,000
(d)	Trade Receivables (Customer) Dr.	₹ 45,00,000	
	To Revenue		₹ 43,65,000
	To Refund liability		₹ 1,35,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a) : Variable**

   Reasoning

   Since the contract allows a customer to return the products, the consideration received from the customer is variable.

2. **Option (c) : 9,700 moulds**

   Reasoning

   Upon transfer of control of the 10,000 moulds, the entity does not recognise revenue for the 300 moulds that it expects to be returned.

3. **Option (b): ₹ 43,65,000**

   Reasoning

   Revenue of ₹ 43,65,000 (₹ 450 × 9,700 moulds not expected to be returned).

4. **Option (c) : ₹ 1,35,000**

   Reasoning

   A refund liability of ₹ 1,35,000 (₹ 450 refund × 300 moulds expected to be returned).

5. **Option (d) : ₹ 1,20,000**

   Reasoning

   A return asset of ₹ 1,20,000 (₹ 400 × 300 moulds for its right to recover products from customers on settling the refund liability).

6. **Option (d) :**

		₹	₹
Trade Receivables (Customer)	Dr.	45,00,000	
To Revenue			43,65,000
To Refund liability			1,35,000

CASE SCENARIO 35

All Limited holds 35% of total equity shares of M Limited, an associate company. The value of investments in M Limited on 31st March 20X3 is ₹ 3,00,00,000 in the consolidated financial statements of All Limited. All Limited sold goods worth ₹ 3,50,000 to M Limited. The cost of goods sold is ₹ 3,00,000. Out of these goods costing ₹ 1,00,000 to M Limited were in the closing stock of M Limited. M Limited declared a dividend of ₹ 75,00,000 to the equity shareholders of the Company. During the year ended 31st March 20X4 the statement of profit and loss of M Limited showed a profit of ₹ 1,50,00,000.

MULTIPLE CHOICE QUESTIONS

1. What is the share of All Limited in the post-acquisition profit of M Limited?

   (a) ₹ 1,50,00,000

   (b) ₹ 52,50,000

   (c) ₹ 75,00,000

   (d) ₹ 26,25,000

2. Compute unrealised gain on unsold inventory for All Limited.

   (a) ₹ 5,000

   (b) ₹ 16,667

   (c) ₹ 50,000

   (d) ₹ 5,833

3. What is the share of All Limited in the dividend declared from M Limited?

   (a) ₹ 75,00,000

   (b) ₹ 50,00,000

   (c) ₹ 26,25,000

   (d) ₹ 52,50,000

4. What is the value of investment in M Limited as on 31st March, 20X4 as per equity method in the consolidated financial statements of All Limited?

   (a) ₹ 3,26,25,000

   (b) ₹ 3,52,50,000

   (c) ₹ 3,52,45,000

   (d) ₹ 3,26,20,000

5. What is the approximate gross margin on goods sold by All Limited to M Limited?

   (a) 14.29%

   (b) 16.67%

   (c) 50%

   (d) 5%

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) : ₹ 52,50,000

Reasoning

1,50,00,000 x 35% = ₹ 52,50,000.

2. Option (a) : ₹ 5,000

Reasoning

[{(50,000/3,50,000) x 1,00,000} x 35%] = ₹ 5,000.

3. Option (c) : ₹ 26,25,000

Reasoning

(75,00,000 x 35%) = ₹ 26,25,000.

4. Option (d) : ₹ 3,26,20,000

Reasoning

₹ 3,00,00,000 + ₹ 52,50,000 - ₹ 5,000 - ₹ 26,25,000 = ₹ 3,26,20,000.

5. Option (a) : 14.29%

Reasoning

(50,000 / 3,50,000) x 100 = 14.29%.

CASE SCENARIO 36

A Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X2 and are facing issues in the following transactions while finalization of financial statements:

(i) A Ltd. owns 250 ordinary shares in X Ltd., an unquoted company. X Ltd. has a total share capital of 5,000 shares with nominal value of ₹ 10. X Ltd.'s after-tax maintainable profits are estimated at ₹ 70,000 per year. An appropriate price/earnings ratio determined from published industry data is 15 (before lack of marketability adjustment). A Ltd.'s management estimates that the discount for the lack of marketability of X Ltd.'s shares and restrictions on their transfer is 20%. A Ltd. values its holding in X Ltd.'s shares based on earnings.

(ii) A Ltd. has a telecom segment. It entered into an agreement with B Ltd. which is engaged in generation and supply of power. The agreement provided that A Ltd. will provide 1,00,000 minutes of talk time to employees of B Ltd. in exchange for getting power equivalent to 20,000 units. A Ltd. normally charges ₹ 0.50 per minute and B Ltd. charges ₹ 2.5 per unit.

(iii) A Ltd. began construction of a new building at an estimated cost of ₹ 7 lakh on 1st April, 20X1. To finance construction of the building it obtained a specific loan of ₹ 2 lakh from a financial institution at an interest rate of 9% per annum.

The company's other outstanding loans were:

Amount	Rate of Interest per annum
₹ 7,00,000	12%
₹ 9,00,000	11%

The expenditure incurred on the construction was:

April, 20X1	₹ 1,50,000
August, 20X1	₹ 2,00,000
October, 20X1	₹ 3,50,000
January, 20X2	₹ 1,00,000

The construction of building was completed by 31st January, 20X2.

The construction of the building started on 1st April, 20X1 and all the expenditures on construction of building had been incurred at the beginning of the respective month.

MULTIPLE CHOICE QUESTIONS

1. What is the value of shares of X Ltd.?

   (a) ₹ 8,40,000

   (b) ₹ 10,50,000

   (c) ₹ 8,00,000

   (d) ₹ 10,00,000

2. What is the fair value of A Ltd.'s investment in X Ltd.'s shares?

   (a) ₹ 50,000

   (b) ₹ 42,000

   (c) ₹ 10,50,000

   (d) ₹ 10,00,000

3. By what amount the revenue be measured and recognised by A Ltd. in the case of telecom segment?

   (a) ₹ 10,000

   (b) ₹ 2,50,000

   (c) ₹ 2,00,000

   (d) ₹ 50,000

4. What will be the capitalization rate for computation of borrowing cost on the building based on general borrowings?

   (a) 9%

   (b) 11%

   (c) 11.4375%

   (d) 12%

5. What will be the total amount of borrowing cost on specific borrowing?

   (a) ₹ 11,250

   (b) ₹ 13,500

   (c) ₹ 15,000

   (d) ₹ 37,875

6. What will be the total amount of borrowing cost on general borrowing?

   (a) ₹ 22,875

   (b) ₹ 15,000

   (c) ₹ 37,875

   (d) ₹ 13,500

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) : ₹ 8,40,000

2. Option (b) : ₹ 42,000

Reasoning for 1 & 2:

An earnings-based valuation of A Ltd.'s holding of shares in X Ltd. could be calculated as follows:

Particulars	
X Ltd.'s after-tax maintainable profits (A)	₹ 70,000
Price/Earnings ratio (B)	15
Adjusted discount factor (C) (1- 0.20)	0.80
Value of X Ltd. (A) x (B) x (C)	₹ 8,40,000

Value of a share of X Ltd. = ₹ 8,40,000 ÷ 5,000 shares = ₹ 168

The fair value of A Ltd.'s investment in X Ltd.'s shares is estimated at ₹ 42,000 (that is, 250 shares x ₹ 168 per share).

3. Option (d) : ₹ 50,000

4. Option (c) : 11.4375%

5. Option (c) : ₹ 15,000

Reasoning for 3-5:

Revenue recognized by A Ltd. will be the consideration in the form of power units that it expects to be entitled for talktime sold, i.e. ₹ 50,000 (20,000 units x ₹ 2.5). The revenue recognized by B Ltd. will be the consideration in the form of talk time that it expects to be entitled for the power units sold, i.e., ₹ 50,000 (1,00,000 minutes x ₹ 0.50).

6. Option (a) : ₹ 22,875

Reasoning

(i) Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (₹)	***Rate of interest***	***Amount of interest (₹)***
7,00,000	12%	84,000
9,00,000	11%	99,000
16,00,000		1,83,000
Weighted average rate of interest (1,83,000/16,00,000) x 100		11.4375%

(ii) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	***Amount spent***	***Financed through***	***Calculation***	₹
1st April, 20X1	1,50,000	Specific borrowing	1,50,000 x 9% x 10/12	11,250
1st August, 20X1	2,00,000	Specific borrowing	50,000 x 9% x 10/12	3,750
		General borrowing	1,50,000x11.4375% x 6/12	8,578.125
1st October, 20X1	3,50,000	General borrowing	3,50,000x11.4375% x 4/12	13,343.75
1st January, 20X2	1,00,000	General borrowing	1,00,000x11.4375% x 1/12	953.125
				37,875

CASE SCENARIO 37

H Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31st March 20X2, it requires insights and accounting suggestions on the following transactions:

(i) H Ltd. holds 12% of the voting shares in Z Ltd. Z Ltd.'s board comprises of eight members and two of these members are appointed by H Ltd. casting significant influence. Each board member has one vote at the meeting.

(ii) H Ltd. holds 10% of the voting power of G Ltd. The balance 90% voting power is held by nine other investors each holding 10%.

The decisions about the relevant activities (except decision about taking borrowings) of G Ltd. are taken by the members holding majority of the voting power. The decisions about taking borrowings are required to be taken by unanimous consent of all the investors. Further, decisions about taking borrowing are not the decisions that most significantly affect the returns of G Ltd.

(iii) H Ltd. is also engaged in the business of pharmaceuticals. It has invested in the share capital of Y Ltd. and is holding 15% of Y Ltd.'s total voting power.

Y Ltd. is engaged in the business of producing packing materials for pharmaceutical entities. One of the incentives for H Ltd. to invest in Y Ltd. was the fact that Y Ltd. is engaged in the business of producing packing materials which is also useful for H Ltd. Since last many years, almost 90% of the output of Y Ltd. is procured by H Ltd.

MULTIPLE CHOICE QUESTIONS

1. What is the relationship of Z Ltd. with H Ltd.?

   (a) Z Ltd. is a subsidiary of H Ltd.

(b) Z Ltd. is an associate of H Ltd.

(c) Z Ltd. is in joint arrangement with H Ltd.

(d) H Ltd. has invested in Z Ltd. with no further relationship as subsidiary, associate or joint arrangement.

2. What is the relationship of G Ltd. with H Ltd.?

(a) G Ltd. is a subsidiary of H Ltd.

(b) G Ltd. is an associate of H Ltd.

(c) G Ltd. is in joint arrangement with H Ltd.

(d) H Ltd. has invested in G Ltd. with no further relationship as subsidiary, associate or joint arrangement.

3. What is the relationship of Y Ltd. with H Ltd.?

(a) Y Ltd. is a subsidiary of H Ltd.

(b) Y Ltd. is an associate of H Ltd.

(c) Y Ltd. is in joint arrangement with H Ltd.

(d) H Ltd. has invested in Y Ltd. with no further relationship as subsidiary, associate or joint arrangement.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) : Z Ltd. is an associate of H Ltd.

Reasoning

Z Ltd is an associate of H Ltd as significant influence is demonstrated by the presence of directors on the board and the relative voting rights at meetings.

2. Option (b) : G Ltd. is an associate of H Ltd.

Reasoning

In this case, though H Ltd. is holding less than 20% of the voting power of the investee, H Ltd.'s consent is required to take decisions about taking borrowings, which is one of the relevant activities. Further, since the decisions about taking borrowing are not the decisions that most significantly affect the returns of the investee, it cannot be said that all the investors have joint control over the investee. Hence, it can be said that H Ltd. has significant influence over the investee.

3. Option (b) : Y Ltd. is an associate of H Ltd.

Reasoning

Since 90% of the output of Y Ltd. is procured by H Ltd., Y Ltd. would be dependent on H Ltd. for the continuation of its business. Hence, even though H Ltd. holds only 15% of the voting power of Y Ltd. it has significant influence over Y Ltd.

CASE SCENARIO 38

Joy Ltd. wishes to calculate tax base of its assets and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of the Assets part of the Balance Sheet as on 31st March 20X5 is as follows:

ASSETS	₹
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets:	
Product Development Costs	60,000
Investment In Subsidiary - Pall Ltd.	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	1,80,000
TOTAL ASSETS	**30,18,000**

Notes:

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

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

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

Assuming the tax rate of 32% for the year 20X4-20X5.

MULTIPLE CHOICE QUESTIONS

1. With respect to point (a), determine the tax base of property, plant and equipment for the year 20X4-20X5.

   (a) ₹ 12,00,000

   (b) ₹ 9,78,000

   (c) ₹ 13,94,000

   (d) ₹ 11,84,000

2. With respect to point (a), determine defer tax on property, plant and equipment for the year 20X4-20X5.

   (a) DTL ₹ 71,040

   (b) DTA ₹ 71,040

   (c) DTL ₹ 28,160

   (d) DTA ₹ 28,160

3. With respect to point (b), determine the tax base of Product Development Cost for the year 20X4-20X5.

   (a) ₹ 60,000

   (b) ₹ 1,00,000

   (c) ₹ 40,000

   (d) Nil

4. With respect to point (b), determine defer tax on Product Development Cost for the year 20X4-20X5.

   (a) DTL ₹ 32,000

   (b) DTA ₹ 32,000

(c) DTL ₹ 19,200

(d) DTA ₹ 19,200

5. With respect to point (c), determine the tax base of Trade Investment for the year 20X4-20X5.

(a) ₹ 2,30,000

(b) ₹ 2,08,000

(c) ₹ 22,000

(d) Nil

6. With respect to point (c), determine defer tax on Trade Investment for the year 20X4-20X5.

(a) DTL ₹ 66,560

(b) DTA ₹ 66,560

(c) DTL ₹ 7,040

(d) DTA ₹ 7,040

7. Determine the net defer tax asset / liability of Joy Ltd. for the year 20X4-20X5.

(a) DTL ₹ 83,200

(b) DTA ₹ 83,200

(c) DTL ₹ 97,280

(d) DTA ₹ 44,800

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) : ₹ 9,78,000

Reasoning

Property Plant & Equipment as per tax records

	₹
Cost of PPE	16,00,000

Less: Current Tax Depreciation	(2,06,000)
Less: Previous year Tax Depreciation	(4,16,000)
Tax base	9,78,000

2. Option (a) : DTL ₹ 71,040

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Property Plant & Equipment	12,00,000	9,78,000	2,22,000	Taxable	(71,040)

3. Option (d) : Nil

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Product Development Costs	60,000	0	60,000	Taxable	(19,200)

4. **Option (c) : DTL ₹ 19,200**

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Product Development Costs	60,000	0	60,000	Taxable	(19,200)

5. **Option (a) : ₹ 2,30,000**

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA/ (DTL) at 32%
Trading investments	208,000	2,30,000	(22,000)	Deductible	7,040

6. **Option (d) : DTA ₹ 7,040**

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Trading investments	208,000	2,30,000	(22,000)	Deductible	7,040

7. Option (a) : DTL ₹ 83,200

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Property Plant & Equipment	12,00,000	9,78,000	2,22,000	Taxable	(71,040)
Product Development Costs	60,000	0	60,000	Taxable	(19,200)
Trading investments	208,000	2,30,000	(22,000)	Deductible	7,040
Deferred tax asset – total					7,040
Deferred tax liability – total					(90,240)
Net Deferred Tax Liability					(83,200)

CASE SCENARIO 39

Joy Ltd. wishes to calculate tax base of its assets and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of the Assets part of the Balance Sheet as on 31st March 20X5 is as follows:

ASSETS	₹
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets:	
Product Development Costs	60,000
Investment In Subsidiary - Pall Ltd.	4,40,000
Current Assets	
Trade Investments	2,08,000
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	1,80,000
TOTAL ASSETS	**30,18,000**

Notes:

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

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

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

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

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

Assume the tax rate of 32% for the year 20X4-20X5.

MULTIPLE CHOICE QUESTIONS

1. With respect to point (a), determine the tax base of Trade Receivables for the year 20X4-20X5.

   (a) ₹ 7,16,000

   (b) ₹ 7,46,000

   (c) ₹ 7,56,000

   (d) ₹ 7,06,000

2. With respect to point (a), determine defer tax on Trade Receivables for the year 20X4-20X5.

   (a) DTA ₹ 28,800

   (b) DTA ₹ 41,600

   (c) DTA ₹ 25,600

   (d) DTA ₹ 41,600

3. With respect to point (b), determine the tax base of Inventories for the year 20X4-20X5.

   (a) ₹ 3,04,000

   (b) ₹ 3,22,000

   (c) ₹ 3,14,800

   (d) Nil

4. With respect to point (b), determine defer tax on Inventories for the year 20X4-20X5.

   (a) DTA ₹ 5,760

   (b) DTA ₹ 3,456

(c) Nil

(d) DTA ₹ 18,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : ₹ 7,06,000

Reasoning

Trade receivables – Provision for doubtful debts:

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

2. Option (c) : DTA ₹ 25,600

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Trade receivables	6,26,000	7,06,000	(80,000)	Deductible	25,600

3. Option (b) : ₹ 3,22,000

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760

4. Option (a) : DTA ₹ 5,760

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Inventories	3,04,000	3,22,000	(18,000)	Deductible	5,760

CASE SCENARIO 40

Joy Ltd. wishes to calculate tax base of its liabilities and defer tax as on 31st March 20X5. The balance sheet has been adjusted by current tax expense. The extracts of equity and liabilities portion of the Balance Sheet as on 31st March 20X5 is as follows:

EQUITY & LIABILITIES	₹
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438
Revaluation Surplus	88,000
Long-term Liabilities	
Deferred Income - Government Grants	40,000
Liability for Product Warranty Costs	16,000
Deferred Tax Liability (From 20X3-20X4)	22,162
Current Liabilities	
Trade Payables	7,64,000
Health Care Benefits for Employees	70,000
Current Tax Liability	80,400
TOTAL EQUITY & LIABILITIES	30,18,000

Notes:

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

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

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

Assume the tax rate of 32% for the year 20X4-20X5.

MULTIPLE CHOICE QUESTIONS

1. With respect to point (a), determine the tax base of Government grants for the year 20X4-20X5.

   (a) Nil

   (b) ₹ 40,000

   (c) ₹ 12,800

   (d) ₹ 27,200

2. With respect to point (a), determine defer tax on Government grants for the year 20X4-20X5.

   (a) Nil

   (b) DTA ₹ 40,000

   (c) DTL ₹ 12,800

   (d) Deferred income - government grant will not be taxable.

3. With respect to point (b), determine the tax base of liability for product warranty costs for the year 20X4-20X5.

   (a) Nil

   (b) ₹ 5,000

   (c) ₹ 16,000

   (d) ₹ 6,200

4. With respect to point (b), determine defer tax on Liability for product warranty costs for the year 20X4-20X5.

   (a) Nil

   (b) DTA ₹ 5,120

(c) DTL ₹ 5,120

(d) Liability for product warranty costs will not be taxable.

5. With respect to point (c), determine the temporary difference, as per Ind AS 12, on account of Health care benefits for employees for the year 20X4-20X5.

(a) ₹ 70,000

(b) ₹ 80,400

(c) ₹ 22,162

(d) Nil

6. With respect to point (c), determine defer tax on Health care benefits for employees for the year 20X4-20X5.

(a) Nil

(b) DTL ₹ 22,400

(c) DTA ₹ 22,400

(d) Health care benefits for employees will not be taxable.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) : Nil

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Deferred income – Government grants	(40,000)	0	(40,000)	Excluded	0

2. **Option (d) : Deferred income - government grant will not be taxable.**

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Deferred income – Government grants	(40,000)	0	(40,000)	Excluded	0

3. **Option (a) : Nil**

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Liability for product warranty costs	(16,000)	0	(16,000)	Deductible	5,120

4. **Option (b) : DTA ₹ 5,120**

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Liability for product warranty costs	(16,000)	0	(16,000)	Deductible	5,120

5. **Option (a) : ₹ 70,000**

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Health care benefits for employees	(70,000)	0	(70,000)	Deductible	22,400

6. **Option (c) : DTA ₹ 22,400**

Reasoning

Calculation of temporary differences and deferred tax for Joy Ltd. as on 31st March, 20X5

Item	Carrying amount	Tax base	Temporary Difference	Taxable/ Deductible	DTA / (DTL) at 32%
Health care benefits for employees	(70,000)	0	(70,000)	Deductible	22,400

CASE SCENARIO 41

A Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual consolidated financial statements under Indian Accounting Standards.

The central finance team has been working on closing the books of accounts and generating consolidated financial statements for the year ended 31st March 20X3. You are the Finance Controller and your assistants want your views on following transactions for finalization of financial statements:

(i) B Ltd., one of the subsidiaries of A Ltd., reported net income of ₹ 25 lakhs, which equals the company's comprehensive income. The company has no outstanding debt. Following is the information from the comprehensive balance sheet (₹ in lakhs) related to cash flows:

Extract of Balance Sheet	31.03.20X2	31.03.20X3
Equity share capital	100	100
Further issue of equity shares	100	140
Retained earnings	100	115
Total shareholders' equity	300	355

(ii) A Limited also operates in the travel industry and incurs costs unevenly through the financial year. Advertising costs of ₹ 40 lakhs were incurred on 1st July, 20X2, and staff bonuses are paid at year-end based on sales. Staff bonuses are expected to be around ₹ 400 lakhs for the year; of that a sum of ₹ 60 lakhs would relate to the period ending 30th September 20X2.

(iii) An item of equipment X was acquired by A Ltd. on 1st April 20X1 for ₹ 1,00,000 having an estimated useful life of 10 years, with a residual value of zero. The asset is depreciated on a straight-line basis. The asset was revalued to ₹ 1,04,000 on 31st March 20X3.

(iv) A Ltd. has spent ₹ 15,00,000 in developing a new product during the year ended 31st March, 20X3. The development costs incurred were recognised as an intangible asset as per Ind AS 38. For the purposes of computing the taxable income, these expenses are allowable in full in the year of incurring the expenses. At the year end, the Company recognised an impairment loss of ₹ 75,000 against the intangible asset.

(v) The company has issued preference shares that are redeemable at the option of the holder. Three months before the end of the year, it was probable that the holders would require redemption.

MULTIPLE CHOICE QUESTIONS

1. What cashflow should B Ltd. report, as financing activity in the statement of cash flows?

   (a) Issuance of equity shares ₹ 240 lakhs; dividends paid ₹ 10 lakhs

   (b) Issuance of equity shares ₹ 100 lakhs; dividends paid ₹ 10 lakhs

   (c) Issuance of equity shares ₹ 140 lakhs; dividends paid ₹ 10 lakhs

   (d) Issuance of equity shares ₹ 40 lakhs; dividends paid ₹ 10 lakhs

2. With respect to point (ii), what costs should be included in the entity's financial report for the quarter ended 30th September 20X2?

   (a) Advertising costs ₹ 40 lakhs; staff bonuses ₹ 100 lakhs

   (b) Advertising costs ₹ 10 lakhs; staff bonuses ₹ 100 lakhs

   (c) Advertising costs ₹ 10 lakhs: staff bonuses ₹ 60 lakhs

   (d) Advertising costs ₹ 40 lakhs; staff bonuses ₹ 60 lakhs

3. What will be the annual depreciation charge on equipment X for years 3 to 10 and the amount of the revaluation surplus that can be transferred to retained earnings annually?

   (a) Annual depreciation charge will be ₹ 10,000 and an annual transfer of ₹ 3,000 can be made from revaluation surplus to retained earnings

(b) Annual depreciation charge will be ₹ 10,000, however, annual transfer from revaluation surplus to retained earnings is not permitted

(c) Annual depreciation charge will be ₹ 13,000 and an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings

(d) Annual depreciation charge will be ₹ 13,000, however, annual transfer from revaluation surplus to retained earnings is not permitted

4. With respect to point (iv), What is the tax base of the intangible asset?

(a) ₹ 15,00,000

(b) ₹ 75,000

(c) ₹ 14,25,000

(d) Nil

5. Which one of the following is the appropriate classification for the annual payment of ₹ 12,000 to preference shareholders at year-end?

(a) Dividend ₹ 12,000

(b) Interest expense ₹ 12,000

(c) Dividend ₹ 3,000, interest expense ₹ 9,000

(d) Dividend ₹ 9,000, interest expense ₹ 3,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : Issuance of equity shares ₹ 40 lakhs; dividends paid ₹ 10 lakhs

Reasoning

Issuance of equity shares including further issue of equity shares (240 – 200) = ₹ 40 lakhs

Dividends paid worked out as under:

Particulars	₹ in lakhs
Opening retained earnings	100
Add: Net income	25
Less: Cash dividend paid (balancing figure)	(10)
Closing retained earnings	115

Hence, cash dividend paid ₹ 10 lakhs.

2. **Option (d) : Advertising costs ₹ 40 lakhs; staff bonuses ₹ 60 lakhs**

Reasoning

As per para 39 of Ind AS 34 'Interim Financial Reporting', costs that are incurred unevenly during an entity's financial year shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

A bonus is anticipated for interim reporting purposes if and only if,

(a) The bonus is a legal obligation or past practice would make the bonus a constructive obligation for which the entity has no realistic alternative but to make the payments and

(b) a reliable estimate of the obligation can be made.

Accordingly, in the given case, while advertising costs cannot be deferred, bonus expenses are accrued relating to the period to which they relate.

3. **Option (c) : Annual depreciation charge will be ₹ 13,000 and an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings.**

Reasoning

The annual depreciation charge for years 3 to 10 will be ₹ 13,000 (i.e. 104,000/ 8). The amount that may be transferred from revaluation surplus to retained earnings in accordance with para 41 of

Ind AS 16 will be the difference between the depreciation expense based on historic cost (i.e.,

₹ 10,000), and the depreciation expense based on the revalued amount (i.e., ₹ 13,000). Therefore, an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings as the asset is used by an entity.

4. **Option (d) : Nil**

Reasoning

As per para 7 of Ind AS 12 'Income Taxes', the tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset.

In the given case, since the entire cost of intangible asset is fully allowed as expense for tax purposes, the tax base will be nil.

5. **Option (b) : Interest expense ₹ 12,000**

Reasoning

Under Ind AS 32, the redeemable preference shares are classified as a liability from the date of issue because the holder has the right to demand redemption. Therefore, the instruments are a liability and the payment for the year is classified as interest. The probability of conversion makes no difference to the classification of the instruments.

CASE SCENARIO 42

U Ltd. is engaged in mining and many other industries and prepares its financial statements following Indian Accounting Standards and follows April-March as their financial year. During the year 20X2-20X3, the company has faced some issues and for their solution seeks your professional advice.

(i) U Ltd. and F Ltd. are partners of a joint operation engaged in the business of mining precious metals. The entity uses a jointly owned drilling plant in its operations. During the year ended 31st March 20X3, an inspection was conducted by the government authorities in the mining fields. The inspection authorities concluded that adequate safety measures were not followed by the entity. As a consequence, a case was filed and a penalty of ₹ 50 crores has been demanded from U Ltd.

The legal counsel of the company has assessed the demand and opined that appeals may not be useful, and the appeal orders will be unfavourable to the joint arrangement. Out of ₹ 50 crores (to be paid by U Ltd.), ₹ 30 crore will be reimbursed by F Ltd. later, as per the terms of the Joint Operation Agreement. At the year end, actual reimbursement was not received from F Ltd.

(ii) U Ltd. has issued 10,00,000, 9% cumulative preference shares. The Company has arrears of ₹ 15 crores of preference dividend as on 31st March 20X3, it includes current year arrears of ₹ 1.75 crores. The Company did not declare any dividend for equity shareholders as well as for preference shareholders.

Further U Ltd. has also issued certain optionally convertible debentures, which are outstanding as at the year end.

(iii) On 1st January, 20X3, U Ltd. acquired 30% of the shares of T Ltd. The investment was accounted for as an associate in U Ltd.'s consolidated financial statements. Both U Ltd. and T Ltd. have an accounting year end of 31st March 20X3. U Ltd. has no other investments in associates.

Net profit for the year in T Ltd.'s income statement for the year ended 31st March 20X3 was ₹ 0.23 crores. It declared and paid dividend of ₹ 0.1 crore on 1st March 20X3. No other dividends were paid in the year.

(iv) On 1st January, 20X3, U Ltd. also acquired a 60% stake in S Ltd. The cash consideration payable was ₹ 1 crore to be paid immediately, and ₹ 1.21 crores after two years. The fair value of net assets of S Ltd. at acquisition date was ₹ 3 crores. U Ltd. has calculated that its cost of capital is 10%. Non-controlling interest is measured at the proportionate share of identifiable net assets.

MULTIPLE CHOICE QUESTIONS

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

   (a) Provision for ₹ 20 crores and a contingent liability for ₹ 30 crores

   (b) Contingent liability for ₹ 50 crores

   (c) Provision for ₹ 30 crores and a contingent liability for ₹ 20 crores

   (d) Provision for ₹ 50 crores.

2. What is the amount of preference dividend to be reduced from profit or loss for the year for calculating Basic Earnings Per Share?

   (a) ₹ 15 crores

   (b) ₹ 1.75 crores

   (c) ₹ 13.25 crores

   (d) Nothing, as no dividend has been declared by the entity.

3. What amount will be shown as an inflow in respect of earnings from the associate in the statement of cash flows of U Ltd. for the year ended 31st March 20X3?

   (a) ₹ 0.020 crores

   (b) ₹ 0.026 crores

(c) ₹ 0.030 crores

(d) ₹ 0.046 crores

4. Calculate the amount of goodwill / gain on bargain purchase arising upon acquisition of S Ltd.

(a) ₹ 1 crore gain on bargain purchase

(b) ₹ 80 lakhs gain on bargain purchase

(c) ₹ 20 lakhs goodwill

(d) ₹ 41 lakhs goodwill

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : Provision for ₹ 50 crores

Reasoning

As per para 53 of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', when some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision. In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

In the given case, U Ltd. will record provision by ₹ 50 crores in its books and ₹ 30 crores will be reimbursed by F Ltd. Hence ₹ 50 crore will be recognised as provision and ₹ 30 crore is disclosed as a contingent asset, if it is virtually certain that reimbursement will be received if the entity settles the obligation.

2 **Option (b) : ₹ 1.75 crores**

Reasoning

As per para 14(b) of Ind AS 33 'Earnings per Share', the after-tax amount of preference dividends that is deducted from profit or loss is the after-tax amount of the preference dividends for cumulative preference shares required for the period, whether the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

In the given case, the amount of preference dividends of ₹ 1.75 crore declared for the year ended 31st March 20X3 (i.e. the current period) is to be deducted from profit or loss for calculating EPS.

3. **Option (c) : ₹ 0.03 crores**

Reasoning

As per para 37 of Ind AS 7, when accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

Accordingly,

Dividend paid by associate T Ltd.	= ₹ 0.10 crores
U Ltd.'s share of dividend 30% x ₹ 0.10 lakhs	= ₹ 0.030 crores

This is the amount that should appear in the statement of cash flows of U Ltd. as this is the share of U Ltd.'s dividend from the associate T Ltd.

4. **Option (c) : ₹ 20,00,000 goodwill**

Reasoning

Total consideration paid:

Cash	1 cr
PV of deferred consideration (1.21 x 0.826)	1 cr
	2 cr

NCI by Proportionate Share Method 3 cr x 40% = 1.20 cr

Calculation of goodwill:

Proportionate Share Method			**(₹ in crore)**
Net Identifiable Assets	Dr.	3.00	
Goodwill (Balancing figure)	Dr.	0.20	
To Consideration payable			2.00
To Non–controlling Interest			1.20

CASE SCENARIO 43

G Ltd. is a multi-national company and prepares and presents its financial statements following Indian Accounting Standards as its securities are listed on National Stock Exchange. G Ltd. has a number of business segments.

(i) H Ltd. is one of the recently acquired Indian subsidiary of G Ltd. It has to adopt Ind AS for the first time as at 31st March, 20X4, with 1st April, 20X2 as the date of transition. As at 31st March, 20X2, the value of raw material inventories was incorrectly reported due to an error. The amounts are significant.

(ii) G Ltd. is also engaged in software development. It enters into a contract with a customer to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. G Ltd. sells the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

(iii) G Ltd. sells a 20% interest in a wholly owned subsidiary K Ltd. to outside investors for ₹ 100 lakh in cash. The carrying value of K Ltd.'s net assets is ₹ 300 lakh, including goodwill of ₹ 65 lakh from the subsidiary's initial acquisition.

MULTIPLE CHOICE QUESTIONS

1. With respect to H Ltd., state whether the error should be reported in the Ind AS financial statements and how to rectify it.

   (a) H Ltd. shall report the impact of the error as a correction to Statement of Profit and Loss for the comparative period i.e., the year ended 31st March, 20X3.

(b) The correction shall be reflected in a reconciliation as at the end of the first Ind AS reporting period i.e., as at 31st March, 20X3.

(c) The impact of the correction is significant and it shall be amortized on a rational and systematic basis in the first two periods of Ind AS reporting i.e., years ended 31st March, 20X3 and 31st March, 20X4.

(d) The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 20X2.

2. How many performance obligations G Ltd. has, with respect to the contract with the customer to transfer software license?

(a) 4 performance obligations

(b) 3 performance obligations

(c) 2 performance obligations

(d) 1 performance obligation

3. What is the amount of gain on sale of interest in subsidiary K Ltd.?

(a) ₹ 100 lakhs

(b) ₹ 60 lakhs

(c) ₹ 53 lakhs

(d) ₹ 40 lakhs

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 20X2.

Reasoning

Refer para 26 of Ind AS 101 which states that if an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.

2. **Option (a) : 4 performance obligations**

Reasoning

The entity assesses the goods and services promised to the customer to determine which goods and services are distinct. The entity observes that the software is delivered before the other goods and services and remains functional without the updates and the technical support. Thus, the entity concludes that the customer can benefit from each of the goods and services either on their own or together with the other goods and services that are readily available.

The entity also considers the factors of Ind AS 115 and determines that the promise to transfer each goods and service to the customer is separately identifiable from each of the other promises. In particular, the entity observes that the installation service does not significantly modify or customise the software itself and, as such, the software and the installation service are separate outputs promised by the entity instead of inputs used to produce a combined output.

On the basis of this assessment, the entity identifies four performance obligations in the contract for the following goods or services:

1. The software license
2. An installation service
3. Software updates
4. Technical support

3. Option (d) : ₹ 40 lakhs

Reasoning

	₹ in lakhs	
	Dr.	Cr.
Cash Dr.	100	
To Non-controlling interest (20% x 300 lakh)		60
To Other Equity (Gain on sale of interest in subsidiary)		40

As per para B96 of Ind AS 110, where proportion of the equity of NCI changes, then group shall adjust controlling and non-controlling interest and any difference between amount by which NCI (₹ 60 lakh) is adjusted and fair value of consideration received (₹ 100 lakh) to be attributed to parent in other equity ie. ₹ 40 lakh.

CASE SCENARIO 44

ABC Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X3 and are facing issues in the following transactions while finalization of financial statements:

(i) One of the businesses of ABC Ltd. is manufacturing sugar and chemicals. The Company has taken a term loan for ₹ 5 crores from State Bank to buy certain plant and machinery during the year ended 31st March 20X2. The loan is repayable over a period of 5 years. The terms and conditions of the loan agreement requires the company to maintain a current ratio of 1.33 : 1 and debt-equity ratio of 1 : 2. If these loan covenants fall below this level, then the bank has a right to recall the entire loan.

The loan outstanding as on 31st March, 20X3 was ₹ 4.25 crores. The current ratio of ABC Ltd. was 1 : 1 and debt equity ratio was 0.5 : 2. State Bank sent a notice on 5th April, 20X3 demanding repayment of loan, on account of breach of terms of the loan agreement. The financials were signed on 10th May, 20X3.

On receiving the notice, the CFO of ABC Ltd. negotiated with the bank and ensured to rectify the breach. As a result, on 25th April, 20X3, the Bank has agreed not to recall the loan and allowed the Company to achieve the contracted current and debt-equity ratio by 20X5.

(ii) ABC Ltd. has inventory of raw material Y of 10,000 units as at 31st March, 20X4 with a carrying amount of ₹ 100 each. The current market value of that raw material is ₹ 95 each. ABC Ltd. will use raw material to manufacture a component for a customer. The conversion cost for making the finished goods would be ₹ 130 each. ABC Ltd. estimates costs to completion and sale of ₹ 50 each and a selling price for the component is estimated to be ₹ 290 each.

(iii) ABC Ltd. sold machinery Z for ₹ 900 thousand to a new customer. To get into long term relationship with the customer, the terms of sales also include after sales service to be provided for next three years free of cost. The company also sells the sales service contract separately where the customer buys it after the initial warranty period at ₹ 100 thousand.

MULTIPLE CHOICE QUESTIONS

1. How long-term loan from State Bank has to be classified in the financials for the year ended 31st March 20X3 in case ABC Ltd. has not negotiated with the bank for rectification of breach?

   (a) Other current liabilities

   (b) Current financial liability

   (c) Non-current financial liability

   (d) Other non-current liability

2. After negotiation with State Bank, how long-term loan has to be classified in the financials for the year ended 31st March 20X3?

   (a) Other current liabilities

   (b) Current financial liability

   (c) Non-current financial liability

   (d) Other non-current liability

3. At what value the raw material Y be measured in the books of ABC Ltd. as per applicable Ind AS?

   (a) ₹ 950 thousand.

   (b) ₹ 1,100 thousand.

   (c) ₹ 1,000 thousand.

   (d) ₹ 1,600 thousand.

4. How should the revenue be recognised in the books of account for the sale of machinery Z?

   (a) ₹ 900 thousand is to be recognised as revenue in the year of sale.

(b) ₹ 900 thousand is to be recognised at the end of three years after sale.

(c) ₹ 900 thousand is to be recognised in the year of sale and ₹ 100 thousand to be spread over next three years.

(d) ₹ 810 thousand is to be recognised in the year of sale and ₹ 90 thousand to be spread over next three years.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b) : Current financial Liability**

2. **Option (c) : Non-Current financial Liability**

   Reasoning for 1 & 2:

   Para 74 of Ind AS 1 "Presentation of Financial Statements" states that when an entity breaches a 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, it classifies the liability as current, even 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. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

3. **Option (c) : ₹ 1,000 thousand**

   Reasoning

   As per para 32 of Ind AS 2, materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

Here, the NRV of each unit of finished goods is ₹ 240 (ie ₹ 290 – ₹ 50), which is more than the cost of finished goods ie ₹ 230 (ie. ₹ 100 + ₹ 130). Hence the raw material will be valued at cost ie ₹ 100 each. Thus, the total cost of raw material will be ₹ 10,00,000 (ie ₹ 10,000 x ₹ 100)

4. **Option (d) : ₹ 810 thousand is to be recognised in the year of sale and ₹ 90 thousand to be spread over next three years.**

Reasoning

As per para B29 of Ind AS 115, if a customer has the option to purchase a warranty separately, the warranty is a distinct service because the entity promises to provide the service to the customer in addition to the product that has the functionality described in the contract. In those circumstances, an entity shall account for the promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation based on stand-alone selling prices as follows:

Total value after including sales service

= ₹ 900 thousand + ₹ 100 thousand

= ₹ 1,000 thousand

Sales price of machinery recognised immediately

= ₹ 900 thousand x (₹ 900 / 1,000)

= ₹ 810 thousand

Sales service recognised over three years

= ₹ 900 thousand x (₹ 100 / 1,000)

= ₹ 90 thousand

CASE SCENARIO 45

DEF Ltd. is a globally diversified business conglomerate with operations spanning across various business sectors worldwide. The company adheres to Indian Accounting Standards for maintaining its financial records and annually releases its financial statements. As the finance team progresses towards finalizing the financial statements for the fiscal year ending on 31st March 20X3, the team is stuck up in the accounting of the following transactions:

(i) On 1st June, 20X2, DEF Ltd. decided to dispose of the business and current and non-current assets of one of its divisions related to the specialty chemicals business which it had acquired several years ago. This disposal does not involve DEF Ltd. withdrawing from a particular market sector. The carrying values on 1st June, 20X2 of the assets to be disposed of were as follows:

Particulars	**₹ in Million**
Goodwill	10.0
Property, Plant and Equipment	20.0
Patents and trademarks	8.0
Inventories	15.0
Trade Receivables	10.0

None of the assets of the business had suffered impairment as at 1st June, 20X2. At that date the inventories and trade receivables of the business were already stated at no more than their recoverable amounts.

DEF Ltd. offered the business for sale at a price of ₹ 46.5 million, which was considered to be reasonably achievable. DEF Ltd. estimated that the direct costs of selling the business would be ₹ 5,00,000. These estimates have not changed since 1st June, 20X2 and DEF Ltd. estimates that the business will be sold by 31st March, 20X3 at the latest.

(ii) The government provided DEF Ltd. with a grant of ₹ 21 million to assist it in the development of the factory.

This grant was provided in two parts:

(1) ₹ 6 million of the grant was a payment by the government as an inducement to DEF Ltd. to begin developing the factory. No conditions were attached to this part of the grant.

(2) ₹ 15 million of the grant related to the construction of the factory at a cost of ₹ 60 million. The ₹ 60 million is depreciable over the estimated 40-year useful life of the factory without adjustment of grant amount from the cost of the factory.

MULTIPLE CHOICE QUESTIONS

1. Compute the value of Specialty chemical division's Goodwill at the date of classification after re-measurement.

   (a) ₹ 7.3 million

   (b) ₹ 10 Million

   (c) ₹ Nil

   (d) ₹ 8 million

2. Calculate the closing balance of Specialty chemical division's asset – Property, Plant and Equipment at the period end.

   (a) ₹ 21 million

   (b) ₹ 17.36 million

   (c) ₹ 6 million

   (d) ₹ 15 million

3. What amount of grant out of ₹ 15 million with respect to construction of factory be transferred to profit and loss account in the year 20X3-20X4?

   (a) ₹ 15 million

   (b) ₹ 0.375 million

   (c) ₹ 1.5 million

   (d) ₹ 0.125 million

4. What would be the treatment of grant of ₹ 6 million received from the government as an inducement to DEF Ltd. to begin developing the factory?

   (a) Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit and Loss.

   (b) ₹ 0.15 million amount is to be credited each year in the income statement over 40-year period.

   (c) ₹ 1.2 million amount is to be credited each year in the income statement over 40-year period.

   (d) Net off the grant received against the cost of the asset and depreciate the net figure over its useful economic life.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c) : ₹ Nil

2. Option (d) : ₹ 15 million

Reasoning for 1 & 2:

Pursuant to the provisions of *Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'* the business would be regarded as held for sale from 1st June, 20X2. The held for sale criteria apply because the business is being actively marketed at a reasonable price and the sale is expected to be completed within one year of the date of classification. Given this classification, Ind AS 105 requires that the assets be separately classified under current assets in the balance sheet. No further depreciation would be charged on these assets.

The assets will be measured at the lower of their current carrying amounts at the date of classification and their fair value less costs to sell. In this case, the total carrying amount after re-measurement will be ₹ 46 million (₹ 46·5 million – ₹ 0·5 million).

The impairment loss of ₹ 17 million (₹ 63 million – ₹ 46 million) will first be allocated to goodwill taking its carrying amount to nil.

None of the remaining impairment loss will be allocated to inventories or trade receivables since their recoverable amounts are at least equal to their existing carrying amounts.

The remaining impairment loss of ₹ 7 million (₹ 17 million – ₹ 10 million) will be allocated to the property, plant and equipment and the patents on a pro-rata basis.

The closing carrying amounts of the property, plant and equipment and the patents will be ₹ 15 million and ₹ 6 million respectively.

3. **Option (b) : ₹ 0.375 million**

Reasoning

The grant of ₹ 15 million in respect of the plant and equipment should be recognized over the 40-year life of the factory

Since the amount of grant will be considered as deferred credit, it would be released to the Statement of Profit and Loss over the same 40-year period as the asset is depreciated. So, the amount included in the Statement of Profit and Loss for the current year 20X3-20X4 would be ₹ 0.375 million (15 million x 1/40).

4. **Option (a) : Grant relating to an inducement to begin developing the factory can be recognized immediately in the Statement of Profit and Loss**

Reasoning

Accounting for government grants is dealt with by Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. The basic principle of Ind AS 20 is that grants should be recognized as income over the periods necessary to match them with the related costs for which they are intended to compensate, on a systematic basis. That part of the grant relating to an inducement to begin developing the factory (₹ 6 million) was received without any conditions and so can be recognized immediately in the Statement of Profit and Loss.

CASE SCENARIO 46

HIJ Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31st March 20X2, it requires insights and accounting suggestions on the following transactions:

(i) On 1st October 20X1, HIJ Ltd. subscribed for 40 million ₹ 1 loan notes in Z Ltd. The loan notes were issued at 90 paise and were redeemable at ₹ 1.20 on 30th September 20X6. Interest is payable on 30th September in arrears at 4% of par value. This represents an effective annual rate of return for HIJ Ltd. of 9.9%. HIJ Ltd.'s intention is to hold the loan notes until redemption.

(ii) On 1st April 20X1, HIJ Ltd. commenced joint construction of a property with G Ltd. For this purpose, an agreement has been entered into that provides for joint operation and ownership of the property. All the ongoing expenditure, comprising maintenance plus borrowing costs, is to be shared equally. The construction was completed on 30th September 20X1 and utilisation of the property started on 1st January, 20X2 at which time the estimated useful life of the same was estimated to be 20 years.

Total cost of the construction of the property was ₹ 40 crores. Besides internal accruals, the cost was partly funded by way of loan of ₹ 10 crores taken on 1st January, 20X1. The loan carries interest at an annual rate of 10% with interest payable at the end of year on 31st December each year. The company has spent ₹ 4,00,000 on the maintenance of such property.

The company has recorded the entire amount paid as investment in Joint Venture in the books of accounts. Suggest the suitable accounting treatment of the above transaction as per applicable Ind AS.

MULTIPLE CHOICE QUESTIONS

1. What would be the initial measurement of financial instruments as subscription of loan notes in Z Ltd.?

    (a) ₹ 40 million

    (b) ₹ 37.782 million

    (c) ₹ 38.4 million

    (d) ₹ 36 million

2. What would be the closing balance of financial instruments (as subscription of loan notes in Z Ltd.) as on 31st March 20X2?

    (a) ₹ 37.6 million

    (b) ₹ 34.218 million

    (c) ₹ 37.782 million

    (d) ₹ 36.182 million

3. With respect to point (ii), what is the nature of the agreement?

    (a) Agreement is in the nature of Joint venture

    (b) Agreement is in the nature of Joint Operations

    (c) Agreement is in the nature of Holding subsidiary relationship

    (d) Agreement is in the nature of Associates

4. What will the initial cost of PPE appearing in the books of HIJ Ltd.?

    (a) ₹ 40,50,00,000

    (b) ₹ 40,00,00,000

    (c) ₹ 20,25,00,000

    (d) ₹ 20,00,00,000

5. Calculate the depreciation charge for the year ended 31st March 20X2 to be charged by G Ltd. in its books?

    (a) ₹ 50,62,500

(b) ₹ 1,01,25,000

(c) ₹ 1,00,00,000

(d) ₹ 50,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : ₹ 36 million

2. Option (c) : ₹ 37.782 million

Reasoning for 1 and 2:

In accordance with Ind AS 109 '*Financial Instruments*' entities are required to measure financial assets at either amortized cost or fair value depending on the reason for holding them and the nature of the expected returns from the asset.

In the instant case, amortized cost should be used because Johansen Ltd.'s objective is to hold the assets to collect the contractual cash flows associated with it and those cash flows consist solely of the repayment of principal and interest by Carlton Ltd.

The asset will initially be measured at ₹ 36 million (₹ 40 million x 90 paise).

The finance income for the six months to 31st March 20X2 will be ₹ 1·782 million (₹ 36 million x 9·9% x 6/12).

The closing asset will be ₹ 37·782 million (₹ 36 million + ₹ 1·782 million).

3. Option (b) : Agreement is in the nature of Joint Operations

4. Option (c) : ₹ 20,25,00,000

5. Option (a) : ₹ 50,62,500

Reasoning for 3, 4 & 5:

As provided in Ind AS 111 'Joint Arrangements', this is a joint arrangement because two or more parties have joint control of the property under a contractual arrangement. The arrangement will be regarded as a joint operation because HIJ Ltd. and G Ltd. have rights to the assets and obligations for the liabilities of this joint arrangement. This means that the company and the other investor will each recognise 50% of the cost of constructing the asset in property, plant and equipment.

The borrowing cost incurred on constructing the property should under the principles of Ind AS 23 'Borrowing Costs', be included as part of the cost of the asset for the period of construction.

In this case, the relevant borrowing cost to be included is ₹ 50,00,000 (₹ 10,00,00,000 x 10% x 6/12).

The total cost of the asset is ₹ 40,50,00,000 (₹ 40,00,00,000 + ₹ 50,00,000) ₹ 20,25,00,000 crores is included in the property, plant and equipment of HIJ Ltd. and the same amount in the property, plant and equipment of G Ltd.

The depreciation charge for the year ended 31st March 20X2 will therefore be ₹ 1,01,25,000

(₹ 40,50,00,000 x 1/20 x 6/12) ₹ 50,62,500 will be charged in the statement of profit and loss of the company and the same amount in the statement of profit and loss of G Ltd.

The other costs relating to the arrangement in the current year totalling ₹ 54,00,000 (finance cost for the second half year of ₹ 50,00,000 plus maintenance costs of ₹ 4,00,000) will be charged to the statement of profit and loss of HIJ Ltd. and G Ltd. in equal proportions - ₹ 27,00,000 each.

CASE SCENARIO 47

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

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

Costs relating to the production line are as follows:

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

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

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

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

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

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

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

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

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

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

MULTIPLE CHOICE QUESTIONS

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

   (a) Abnormal cost of ₹ 0.3 lakhs

   (b) Recoverable GST of ₹ 1 lakhs

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

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

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

   (a) ₹ 158 lakhs

   (b) ₹ 170 lakhs

   (c) ₹ 174 lakhs

   (d) None of the above

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

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

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

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

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

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

   (a) ₹ 1.70 lakhs; ₹ 1.36 lakhs

   (b) ₹ 1.42 lakhs; ₹ 1.70 lakhs

   (c) ₹ 1.76 lakhs; ₹ 1.42 lakhs

   (d) ₹ 1.42 lakhs; ₹ 1.76 lakhs

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

   (a) ₹ 13.26 lakhs

   (b) ₹ 14.60 lakhs

   (c) ₹ 13.96 lakhs

   (d) ₹ 15.76 lakhs

ANSWERS TO MULTIPLE CHOICE QUESTIONS

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

Reasoning

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

2. Option (b): ₹ 170 lakhs

Reasoning

Cash flow from operating activities – Indirect method

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

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

Reasoning

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

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

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

– There is a probable outflow of economic benefits.

– A reliable estimate can be made of the outflow.

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

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

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

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

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

5. **Option (a): ₹ 13.26 lakhs**

Reasoning for 4 & 5:

Statement showing computation of cost of production line

Particulars	**₹ in lakhs**
Purchase cost	10.00
GST – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use [(1.2/3 month) x 2 month]	0.80
Other overheads – abnormal costs of ₹ 0.3 lakhs have been excluded (0.90- 0.30)	0.60
Payment to external advisors – directly attributable cost	0.50
Dismantling costs – recognized at present value (2 lakhs x 0.68)	1.36
Total	13.26

Provision for dismantling cost carried to Balance Sheet

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

Extract of Statement of Profit and Loss

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

Working Note:

Calculation of depreciation charge

Particulars	**₹ in lakhs**
The asset is split into two depreciable components out of the total capitalization amount of ₹ 13.26 lakhs:	
Depreciation for ₹ 3 lakhs with a useful economic life of four years (3 lakhs x ¼ x 10/12).	0.63
(This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life)	
Depreciation for ₹ 10.26 lakhs (13.26 – 3.00) with a useful economic life of eight years will be: ₹ 10.26 lakhs x 1/8 x 10/12	1.07
Total depreciation to be charged to Statement of Profit and Loss for the year ended 31st March 20X3	1.70

CASE SCENARIO 48

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

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

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

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

MULTIPLE CHOICE QUESTIONS

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

   (a) ₹ 8,00,000

   (b) ₹ 8,20,000

   (c) ₹ 8,16,000

   (d) ₹ 8,10,000

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

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

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

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

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

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

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

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

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

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

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

(a) 1st June, 20X2.

(b) 15th June, 20X2.

(c) On the date of AGM/EGM

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

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c): ₹ 8,16,000**

Reasoning

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

Accordingly,

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

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

Reasoning

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

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

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

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

Reasoning

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

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

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

Reasoning

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

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

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

CASE SCENARIO 49

NM Ltd. is an Ind AS compliant multinational company which is engaged in various businesses. On 1st April 20X1, NM Ltd. issues a new instrument with the following characteristics:

- Face value 100, issue price 90.
- Cumulative dividend payable at 5% per annum for 10 years. After 10 years, the dividend is payable at the discretion of the issuer.
- The holder of the note has the option to convert to ordinary shares of NM Ltd. after 10 years, and conversion will be 10 ordinary shares for each instrument.
- The holder can demand redemption for the face value at any time, with six months' notice up until the end of 10 years. After 10 years, redemption is at the discretion of the issuer.
- There is no fixed maturity date.

S Limited is a subsidiary of H Limited which is an associate of T Ltd. T Ltd. is an associate of NM Limited. S Limited's functional and presentation currency is INR, while the functional currency of its parent is USD and its presentation currency is EUR. S Limited has a firm commitment to buy a commodity in EUR. It has entered into a forward contract to hedge the firm commitment against foreign exchange risk. It has to prepare its financial statements for the purpose of consolidation with its parent.

NM Limited is a huge machine manufacturer. It has to overhaul its machinery every 3 years. It has purchased machinery worth ₹ 50,00,000. It is estimated that the overhaul costs will be ₹ 5,00,000. It is expected that the machine will have a useful life of 10 years.

MULTIPLE CHOICE QUESTIONS

1. How should the instrument be classified by NM Ltd. in the first 10 years in accordance with Ind AS 32? Select which one of the following is correct.

    (a) As equity

(b) As a liability

(c) As either equity or liability

(d) As a compound financial instrument

2. How can S Limited account for a hedge relationship for the purpose of preparing H Limited's consolidated financial statements?

(a) Cash flow hedge

(b) Fair value hedge

(c) Option to designate under cash flow hedge or fair value hedge

(d) Net investment hedge

3. How should NM Limited initially recognise the purchase of its machinery?

(a) Recognise the machine at its cost of ₹ 50,00,000 and depreciate over 10 years.

(b) Recognise two assets - the machine worth ₹ 45,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 5,00,000 to be depreciated over 3 years.

(c) Recognise two assets - the machine worth ₹ 50,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 5,00,000 to be depreciated over 3 years.

(d) Recognise an asset for ₹ 45,00,000 to be depreciated over 10 years and expense ₹ 5,00,000 immediately.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : As a compound financial instrument

Reasoning

The new instrument creates an obligation to deliver cash for 10 years. Such an obligation meets the definition of financial liability. Further the holder has the option to convert to 10 ordinary shares of NM Limited after 10 years. Thus, the instrument is convertible to fixed number of shares. Thus, the instrument meets the definition of equity instrument. Therefore, the instrument contains both a liability component and an equity component. Accordingly, NM Limited shall classify the instrument as compound financial instrument.

2. **Option (c) : Option to designate under cash flow hedge or fair value hedge**

Reasoning

As per Ind AS 109, a hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or a cash flow hedge. This is because firm commitments against foreign currency risk affects both the cash flows and the fair value of the hedged item and hence has a dual character.

3. **Option (b) : Recognize two assets – the machine worth ₹ 45,00,000 to be depreciated over 10 years and costs related to overhaul of ₹ 5,00,000 to be depreciated over 3 years.**

Reasoning

The initial recognition and depreciation charge for the first three years of the asset's life will be as follows:

	Overhaul component	**Machinery (other than overhaul component)**
Cost	5,00,000	45,00,000
Years	3	10
Depreciation per year	1,66,667	4,50,000

CASE SCENARIO 50

A Limited is engaged in the manufacturing of certain specialized chemicals. During the manufacturing process, certain wastewater is produced which is released by A Limited in the nearby river. In order to reduce pollution of the rivers, the state government has introduced a scheme with the following salient features:

If a manufacturer installs certain pre-approved wastewater treatment plant, the government will provide an interest free loan equal to 50% of the cost of the plant;

Such loan will be repayable to the government in 5 years from the date of disbursal;

The manufacturer availing the benefit of this scheme must treat the wastewater of its factory using the specified plant before releasing it to the river. If this condition is violated, the entire loan shall become immediately repayable to the government along with a penalty of ₹ 10 lakh.

Cost of the wastewater treatment plant to be installed to avail the benefit of the scheme is ₹ 50 lakh. A Limited decided to utilise this scheme because, if it were to obtain the similar loan from a bank, it would be available at a market interest rate of 12% per annum. Accordingly, A Limited applied for and obtained the government loan of ₹ 25 lakh on 1st April, 20X1. A Limited purchased and installed the plant such that it became ready for use on the same date.

A Limited has an accounting policy of recognising government grant in relation to depreciable assets in the proportion of depreciation expense. It has determined that the plant will be depreciated over a period of 5 years using straight-line method.

MULTIPLE CHOICE QUESTIONS

1. What is the fair value of the loan to be initially recorded in the books of A Ltd., on 1st April, 20X1?

   (a) ₹ 50,00,000

(b) ₹ 25,00,000

(c) ₹ 10,82,500

(d) ₹ 14,17,500

2. What is the amount of grant to be recognised initially in the books of A Ltd., on 1st April, 20X1?

(a) ₹ 50,00,000

(b) ₹ 25,00,000

(c) ₹ 10,82,500

(d) ₹ 14,17,500

3. What is the amount of depreciation to be recognised for the year 20X1-20X2 on wastewater treatment plant?

(a) ₹ 10,00,000

(b) ₹ 5,00,000

(c) Nil

(d) ₹ 2,16,500

4. What is the amount of grant income to be recognised in the books for the year 20X1-20X2?

(a) ₹ 1,70,100

(b) ₹ 1,90,512

(c) ₹ 2,16,500

(d) ₹ 25,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d): ₹ 14,17,500

Reasoning

Fair value of the loan to be initially recorded in the books of A Limited as on 1st April, 20X1:

Fair value of loan = ₹ 25,00,000 x 0.567 (PVF @ 12%, 5th year)

= ₹ 14,17,500

2. Option (c): ₹ 10,82,500

Reasoning

A Limited will initially recognize ₹ 10,82,500 (25,00,000 – 14,17,500) as government grant, in its books as on 1st April, 20X1.

3. Option (a): ₹ 10,00,000

Reasoning

Depreciation for the year (20X1-20X2) = ₹ 50,00,000 / 5 years = ₹ 10,00,000.

4. Option (c): ₹ 2,16,500

Reasoning

Since the depreciation is provided on straight line basis by A Limited, it will credit ₹ 2,16,500 (10,82,500 / 5) equally to its statement of profit and loss over the 5 years.

CASE SCENARIO 51

A Limited is engaged in the manufacturing of certain specialized chemicals. During the manufacturing process, certain wastewater is produced which is released by A Limited in the nearby river. In order to reduce pollution of the rivers, the state government has introduced a scheme with the following salient features:

If a manufacturer installs certain pre-approved wastewater treatment plant, the government will provide an interest free loan equal to 50% of the cost of the plant;

Such loan will be repayable to the government in 5 years from the date of disbursal;

The manufacturer availing the benefit of this scheme must treat the wastewater of its factory using the specified plant before releasing it to the river. If this condition is violated, the entire loan shall become immediately repayable to the government along with a penalty of ₹ 10 lakh.

Cost of the wastewater treatment plant to be installed to avail the benefit of the scheme is ₹ 50 lakh. A Limited decided to utilise this scheme because, if it were to obtain the similar loan from a bank, it would be available at a market interest rate of 12% per annum. Accordingly, A Limited applied for and obtained the government loan of ₹ 25 lakh on 1st April, 20X1. A Limited purchased and installed the plant such that it became ready for use on the same date.

A Limited has an accounting policy of recognising government grant in relation to depreciable assets in the proportion of depreciation expense. It has determined that the plant will be depreciated over a period of 5 years using straight-line method. In the month of March 20X3, government officials conducted a surprise audit, and it was found that A Limited was not using the wastewater treatment plant as prescribed. Accordingly, on 31st March, 20X3, the government ordered A Limited to repay the entire loan along with penalty. A Limited repaid the loan with interest and penalty as per the order on 31st March 20X3.

MULTIPLE CHOICE QUESTION

1. The government grant that becomes repayable should be accounted for as

   (a) Change in accounting policy

   (b) Change in accounting estimate

   (c) Error

   (d) Should not be accounted at all

2. What is the amount of finance cost to be recognised in the books for the year 20X1-20X2 and 20X2-20X3 respectively?

   (a) ₹ 1,70,100; ₹ 1,90,512

   (b) ₹ 1,90,512; ₹ 1,70,100

   (c) ₹ 2,16,500; ₹ 5,00,000

   (d) ₹ 25,00,000; ₹ 10,00,000

3. What is the amount that becomes repayable to the government on revocation of grant on 31st March, 20X3?

   (a) ₹ 35,00,000

   (b) ₹ 25,00,000

   (c) ₹ 10,00,000

   (d) ₹ 10,82,500

4. What is the balance of deferred grant income account on 31st March, 20X3, after crediting the grant income to Profit and loss account at the end of 20X2-20X3?

   (a) ₹ 10,82,500

   (b) ₹ 25,00,000

   (c) ₹ 8,66,000

   (d) ₹ 6,49,500

5. On refund of grant, out of grant of ₹ 25,00,000, what amount of grant income to be debited from Profit and loss account as on 31st March, 20X3? (Ignore finance cost)

   (a) ₹ 1,70,100

   (b) ₹ 1,90,512

   (c) ₹ 2,16,500

   (d) ₹ 72,388

6. What will be the total impact on profit and loss account on revocation of government grant on 31st March, 20X3? (Ignore finance cost)

   (a) ₹ 72,388

   (b) ₹ 10,72,388

   (c) ₹ 10,00,000

   (d) ₹ 25,00,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b): Change in accounting estimate

Reasoning

As per para 32 of Ind AS 20, a government grant that becomes repayable shall be accounted for as a change in accounting estimate.

2. Option (a): ₹ 1,70,100; ₹ 1,90,512

Reasoning

Since the fair value of loan = ₹ 25,00,000 x 0.567 (PVF @ 12%, 5th year) = ₹ 14,17,500. Therefore, the amount of finance cost will be calculated for the year 20X1-20X2 and 20X2-20X3 as below:

Year	Opening balance of Loan	Interest @ 12%	Closing balance of Loan
31.03.20X2	14,17,500	1,70,100	15,87,600
31.03.20X3	15,87,600	1,90,512	17,78,112

3. Option (a): ₹ 35,00,000

Reasoning

The amount that become repayable to the government on revocation of grant as on 31st March, 20X3 will be

Amount payable to Government on account of principal loan	₹ 25,00,000
Amount payable to Government on account of penalty	₹ 10,00,000
	₹ 35,00,000

4. Option (d): ₹ 6,49,500

Reasoning

Deferred Grant Income

Year	Opening balance	Adjustment	Closing balance
31.03.20X2	10,82,500	2,16,500	8,66,000
31.03.20X3	8,66,000	2,16,500	6,49,500

5. Option (d): ₹ 72,388

Reasoning

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.20X3	Loan account	Dr.	17,78,112	
	Deferred grant income	Dr.	6,49,500	
	Profit or Loss	Dr.	72,388	
	To Government grant payable			25,00,000

6. Option (b): ₹ 10,72,388

Reasoning

Total impact on profit or loss on account of revocation of government grant as on 31st March, 20X3 will be ₹ 10,72,388 (10,00,000 + 72,388).

CASE SCENARIO 52

FF Limited (the Company) is into manufacturing and retailing of FMCG products listed on stock exchanges in India. The Company and its one of subsidiaries have entered into various transactions, the accounting of which needs to be analysed in detail from the perspective of Ind AS implications. You being an Ind AS expert, CFO of the Company have appointed you to analyse the transaction based on following details:

The Company has entered into a lease agreement for its retail store as on 1st April, 20X2 for a period of 10 years. A lease rental of ₹ 56,000 per annum is payable in arrears. The Company recognized a lease liability of ₹ 3,51,613 at inception using an incremental borrowing rate of 9.5% p.a. as at 1st April 20X2. As per the terms of the lease agreement the lease rental shall be adjusted every 2 years to give effect of inflation. Inflation cost index as notified by the Income tax department shall be used to derive the lease payments. The inflation cost index was 280 for financial year 20X2-20X3 and 301 for financial year 20X4-20X5. The current incremental borrowing rate is 8% p.a.

Vikash Retail Private Limited, a subsidiary of the Company, had suffered heavy losses in previous periods. These losses are accumulated and eligible for setoff from future taxable income while calculating tax liabilities for future periods. However, there is no convincing evidence available which conveys that sufficient taxable profits will be available against which tax losses can be utilized.

The Company has also launched a share-based payment plan under which it will grant Stock Appreciation Rights (SAR) to the employees of its subsidiary, Vikash Retail Private Limited. As per the terms of the plan, the Company (i.e. parent) will pay an amount per SAR which is the difference between the current stock price of the Company and stock price of the Company after 3 years. The amount will be paid by the Company directly to those employees of the subsidiary who complete 3 years from the launch of the plan.

To ensure the availability of funds at the time of settlement of the scheme, the Company purchases its own shares from the open market. The Company will sell these shares in the market after 3 years when the Company will be required to pay cash to the employees of the subsidiary.

The Company has issued share capital of ₹ 1 crore divided into 10,00,000 equity shares of ₹ 10 each. As of 1st June, 20X3, the Company had issued 3,60,000 convertible warrants of ₹ 10 each. 6 warrants will be converted into 1 equity share of the Company at the end of 18 months from issue date. Warrants will not be redeemed.

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements correctly describe the accounting of lease arrangement for the retail store?

   (a) Increase in lease liability by ₹ 22,820 with corresponding debit to profit or loss.

   (b) Increase in lease liability by ₹ 22,820 with corresponding increase in right of use asset.

   (c) Increase in lease liability by ₹ 41,675 with corresponding debit to profit or loss.

   (d) Increase in lease liability by ₹ 41,675 with corresponding increase in right of use asset.

2. What shall be the right accounting of tax losses accumulated by Vikash Retail Private Limited in its separate financial statements?

   (a) The entity shall recognize the deferred tax asset on accumulated tax losses.

   (b) The entity shall not recognize the deferred tax asset on accumulated tax losses nor it shall disclose in financial statements.

   (c) The entity shall not recognize the deferred tax asset on accumulated tax losses however it shall disclose in financial statements the amount of accumulated tax losses and period by which it expires.

   (d) The entity shall recognize the deferred tax asset on accumulated losses and shall also provide the justification in financial statements for recognition of deferred tax assets.

3. What shall be the accounting treatment of share appreciation rights given, in standalone financial statements of parent and subsidiary?

   (a) Parent and subsidiary both shall account it as equity settled share-based transaction with corresponding debit / credit in profit or loss.

   (b) Parent shall account it as cash settled share-based payment transaction with corresponding debit to investment in subsidiary. Subsidiary shall account it as equity settled share-based payment transaction with corresponding credit to equity.

   (c) Parent shall account it as equity settled share-based payment transaction with corresponding debit to investment in subsidiary. The subsidiary shall account it as cash settled share-based payment transaction with corresponding credit to equity.

   (d) Parent and subsidiary both shall account it as cash settled share-based transaction with corresponding debit/ credit in profit or loss.

4. Which of the following statements is correct for calculation of earnings per share of the Company for the year ended 31st March, 20X4?

   (a) 10,50,000 shares shall be used as denominator for calculation of both basic and diluted earnings per share.

   (b) 10,00,000 shares shall be used as denominator for calculation of basic earnings per share however 10,50,000 shares shall be used as denominator for calculation of diluted earnings per share.

   (c) 10,60,000 shares shall be used as denominator for calculation of both basic and diluted earnings per share.

   (d) 10,00,000 shares shall be used as denominator for calculation of basic earnings per share however 10,60,000 shares shall be used as denominator for calculation of diluted earnings per share.

5. How should the Company account for the amount invested in its own shares and profit earned or loss incurred on those shares while selling back in the market (to settle the SAR scheme)?

   (a) The Company shall recognize the amount invested as 'investment in equity shares' and measure it at fair value. The Company has an option to recognize the fair value gain/loss either in statement of profit and loss or in other comprehensive income.

(b) The Company shall reduce the amount invested from equity. Any gain earned or loss incurred on those shares shall also be adjusted directly in equity.

(c) Either (A) or (B) at the option of the Company.

(d) The Company shall recognize the amount invested as 'investment in equity shares'. Any gain earned or loss incurred on those shares shall be adjusted directly in equity.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b) : Increase in lease liability by ₹ 22,820 with corresponding increase in right of use asset**

Reasoning

As per para 27 (b) of Ind AS 116, variable lease payments that depend on an index or a rate, are initially measured using the index or rate as at the commencement date.

At the beginning of the third year, Lessee remeasures the lease liability at the present value of eight payments of ₹ 60,200 discounted at an unchanged discount rate of 9.5% per annum as per para 43.

Year	Revised lease rental	Discount factor @ 9.5%	Present value (calculations made at full scale)
3	[(56,000 / 280) x 301] = 60,200	0.913	54,977
4	60,200	0.834	50,207
5	60,200	0.762	45,852
6	60,200	0.696	41,874
7	60,200	0.635	38,241
8	60,200	0.580	34,923
9	60,200	0.530	31,893

10	60,200	0.484	29,126
			3,27,093

Table showing amortised cost of lease liability

Year	Opening balance	Interest @ 9.5%	Rental paid	Closing balance
1	3,51,613	33,403	56,000	3,29,016
2	3,29,016	31,257	56,000	3,04,273

Difference of ₹ 22,820 (3,27,093– 3,04,273) will increase the lease liability with corresponding increase in ROU Asset as per para 39 of Ind AS 116.

2. **Option (c) : The entity shall not recognise the deferred tax asset on accumulated tax losses however, it shall disclose in financial statements the amount of accumulated tax losses and period by which it expires.**

Reasoning

As per para 36 of Ind AS 12, to the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

As per para 81e of Ind AS 12 states to disclose, the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet.

3. **Option (b) : Parent shall account it as cash settled share based payment transaction with corresponding debit to investment in subsidiary. Subsidiary shall account it as equity settled share-based payment transaction with corresponding credit to equity.**

Reasoning

The subsidiary does not have an obligation to settle the transaction with its employees. Therefore, the subsidiary shall account for the transaction with its employees as equity-settled (as per para 43B of Ind AS 102) and recognise a corresponding increase in equity as a contribution from its parent with corresponding debit to employee expenses.

Since the parent has an obligation to settle the transaction with the employees, and the consideration is cash, the parent (and the consolidated group) shall measure its obligation in accordance with the requirements applicable to cash-settled share-based payment transactions in paragraph 43C.

4. **Option (a) : 10,50,000 shares shall be used as denominator for calculation of both basic and diluted earnings per share.**

Reasoning

As per para 23 of Ind AS 33, mandatorily convertible instruments are included in the calculation of basic earnings per share from the date the contract is entered into. Therefore, it will be assumed that the company issued 60,000 (3,60,000 warrants divided by 6) equity shares at 1st June, 20X3.

As per para 19, for the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.

Accordingly, Weighted Average Shares

= [10,00,000 + {(3,60,000 / 6) x 10/12} = 10,50,000

5. **Option (b) : The company shall reduce the amount invested from equity. Any gain earned or loss incurred on those shares shall also be adjusted directly in equity.**

Reasoning

As per para 33 of Ind AS 32, if an entity reacquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received shall be recognised directly in equity.

CASE SCENARIO 53

HS Limited ("the Company") is a car manufacturing company. During the year, the Company has entered into many transactions, details of which are given below. Finance controller of HS Limited requires your assistance in determining the accounting treatment of these transactions in accordance with Ind AS.

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

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

MULTIPLE CHOICE QUESTIONS

1. At what amount the Company shall carry its investments in NM Limited in its consolidated financial statements as at 31st December 20X2?

   (a) ₹ 8,00,000

   (b) ₹ 8,20,000

   (c) ₹ 8,16,000

   (d) ₹ 8,10,000

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

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

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

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

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

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (c) : ₹ 8,16,000

Reasoning

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

Accordingly,

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

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

Reasoning

Compulsory convertible debentures with annual interest payout is a compound financial instrument. As per the information given in the question the liability element to be initially recognised is ₹ 20,79,063. Hence, the equity element would be ₹ 79,20,937 (1,00,00,000 – 20,79,063).

Transaction cost of ₹ 2,00,000 will be apportioned in equity and liability component in the ratio of 79,20,937 : 20,79,063, which would be as follows:

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

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

CASE SCENARIO 54

New Age Technology Limited is an IT infrastructure Company which provides customize IT solutions to its customers.

New Age Technology Limited issued additional shares on 31st March, 20X3. Cost associated with the issue of equity were ₹ 50,00,000 and recorded directly in equity. Under Indian tax laws, deduction can be claimed over five year period from the date of share issue. Assuming a tax rate of 30%.

New Age Technology Limited is engaging with several investors to invest funds into the Company. As part of the negotiations several instruments are being considered depending on the yield each instrument would provide to the investor. New Age Technology Limited enters into a barter transaction to exchange its existing server for new high-end laptop with its vendor, Sunshine Limited. The server has a fair value of ₹ 2,00,000 and a carrying amount of ₹ 1,75,000. Whereas, the high-end laptop has a fair value of ₹ 2,50,000 and carrying amount of ₹ 2,10,000 in the books of Sunshine Limited.

New Age Technology Limited acquired copyrights for certain patented software on 1st April, 20X1 for ₹ 50,00,000. The software would assist the Company to develop an entire new range of IT solutions to its customers. Management basis its internal assessment, determined the useful life of the acquired software to be 10 years from the date of purchase. Further management performed a fair value assessment of the acquired software based on the active market and determined it to be ₹ 48,00,000 as at 31st March, 20X2 and ₹ 43,00,000 as at 31st March, 20X3.

MULTIPLE CHOICE QUESTIONS

1. What would be the amount of Deferred Tax Asset or Liability that the Company should recognize as on 31st March, 20X3 on the cost incurred on the issue of equity shares during the year?

   (a) No DTA or DTL should be recognized

(b) DTA of ₹ 15,00,000

(c) DTL of ₹ 15,00,000

(d) DTA of ₹ 50,00,000

2. What would be carrying amount of the acquired software in the books of accounts of New Age Technology Limited as at 31st March, 20X3?

(a) ₹ 43,00,000

(b) ₹ 45,00,000

(c) ₹ 40,00,000

(d) ₹ 48,00,000

3. At what value should New Age Technology Limited record the high-end laptop purchased in exchange for its existing server in its books of accounts?

(a) ₹ 2,00,000

(b) ₹ 1,75,000

(c) ₹ 2,50,000

(d) ₹ 2,10,000

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (B) : DTA of ₹ 15,00,000

Reasoning

Since the cost of issue of shares has a tax base and no carrying amount, it leads to Deductible Temporary Difference. Hence, it will result into Deferred Tax Asset of ₹ 15,00,000 (₹ 50,00,000 x 30%).

2. Option (A) : ₹ 43,00,000

Reasoning

Since the fair value of the intangible asset is assessed with reference to active market its fair value as on 31st March, 20X3 would be ₹ 43,00,000.

3. Option (A) : ₹ 2,00,000

Reasoning

Ind AS 16 *inter alia* states that if an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

CASE SCENARIO 55

Buildings & Co. Limited with a financial year ending at 31st March, entered into a contract with its customer, Radar Company Limited, to build a manufacturing facility. Buildings & Co. Limited determines that the contract contains one performance obligation satisfied over time. Construction is scheduled to be completed by the end of the 36th month for an agreed upon price of ₹ 25 crore. Buildings & Co. Limited has the opportunity to earn a performance bonus for early completion as follows:

- 15% bonus of the contract price if contract is completed by 30th month (25% likelihood).
- 10% bonus of the contract price if contract is completed by 32nd month (40% likelihood).
- 5% bonus of the contract price if contract is completed by 34th month (15% likelihood).

In addition to the potential performance bonus for early completion, Buildings & Co. Limited is entitled to a quality bonus of ₹ 2 crore if a health and safety inspector assigns the facility a gold star rating as defined by Radar Company Limited in terms of the contract. Buildings & Co. Limited concludes that it is 60% likely that it will receive the quality bonus.

Buildings & Co. Limited has prepared interim financial statements for the third quarter ended 31st December, 20X2 for the purposes of submission to banks. The interim financial statements show a net profit of ₹ 20 crore for the third quarter ended 31st December, 20X2. Following adjustments have been made while computing the net profit:

Bad debts of ₹ 1 crore were incurred during the quarter ended 31st December, 20X2. 50% of the bad debt have been deferred to next quarter.

Additional depreciation of ₹ 45,00,000 resulting from change in the method of depreciation.

₹ 5 crore expenditure on account of administrative expenses pertaining to the third quarter 31st December, 20X2 is deferred on the argument that the fourth quarter will have more sales; therefore, fourth quarter should be debited by higher expenditure. The expenditures are uniform all throughout the quarters.

MULTIPLE CHOICE QUESTIONS

1. Determine the amount of variable consideration Building & Co. Limited should recognize in its contract with Radar Company Limited to build a manufacturing facility.

   (a) ₹ 2.13 crore

   (b) ₹ 4.13 crore

   (c) ₹ 2 crore

   (d) ₹ 3.94 crore.

2. The CFO of the Company has requested you to review the interim financial statements of the third quarter ended 31st December, 20X2 to ascertain the correct net profit to be presented to the Board of Directors. What is the correct amount of profit to be reported in the interim financial statements?

   (a) ₹ 14.75 crore

   (b) ₹ 18.25 crore

   (c) ₹ 14.84 crore

   (d) ₹ 14.50 crore.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) : ₹ 4.13 crore

Reasoning

In determining the transaction price, AST Limited separately estimates variable consideration for each element of variability i.e. the early completion bonus and the quality bonus.

AST Limited decides to use the expected value method to estimate the variable consideration associated with the early completion bonus because there is a range of possible outcomes, and the entity has experience with a large number of similar contracts that provide a reasonable basis to predict future outcomes. Therefore, the entity expects this method to best predict the amount of variable consideration associated with the early completion bonus. AST's best estimate of the early completion bonus is ₹ 2.13 crore, calculated as shown in the following table:

Bonus %	**Amount of bonus (₹ in crore)**	**Probability**	**Probability-weighted amount (₹ in crore)**
15%	3.75	25%	0.9375
10%	2.50	40%	1.00
5%	1.25	15%	0.1875
0%	-	20%	-
		100%	2.125

AST Limited decides to use the most likely amount to estimate the variable consideration associated with the potential quality bonus because there are only two possible outcomes (₹ 2 crore or Nil) and this method would best predict the amount of consideration associated with the quality bonus. AST Limited believes the most likely amount of the quality bonus is ₹ 2 crore.

Therefore, total variable consideration will be ₹ 4.13 crore (₹ 2.13 crore + ₹ 2 crore).

2. Option (d) : ₹ 14.50 crore

Reasoning

In the instant case, 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, ₹ 0.5 crore should be deducted from ₹ 20 crore.

(ii) Recognising additional depreciation of ₹ 0.45 crore in the same quarter is correct and is in tune with Ind AS 34.

(iii) As per Ind AS 34 the income and expense should be recognised when they are earned and incurred respectively. As per Ind AS 34, the costs should be anticipated or deferred only when:

(i) it is appropriate to anticipate or defer that type of cost at the end of the financial year, and

(ii) costs are incurred unevenly during the financial year of an enterprise.

Therefore, the treatment done relating to deferment of ₹ 5 crore 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 third quarter shall be ₹ 14.5 crore (₹ 20 crore - ₹ 0.5 crore - ₹ 5 crore).

CASE SCENARIO 56

While preparing the annual financial statements for the year ended 31st March 20X2, Buildings & Co. Limited charged certain expenses as finance cost (assume the expenses to be material on overall level). While preparing the annual financial statements for the year ended 31st March 20X3, management discovered that these expenses should have been classified as other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The management restated the comparative amount for the prior period presented i.e. for the year ended 31st March, 20X2.

On 15th November, 20X2, Buildings & Co. Limited acquired Concrete Mixers Private Limited for a purchase consideration of ₹ 10 crore. Concrete Mixers Private Limited is in the process of setting up a plant to make ready mix-concrete· and expects the plant to become operational by 30th April, 20X3. Other than the plant in construction, there are no other operations in the Concrete Mixers Private Limited.

Buildings & Co. Limited has taken a loan of USD 15,00,000 as on 1st April 20X2 taken for construction of its fabrication plant at an interest rate of 6% per annum payable on annual basis. On 1st April, 20X2, the exchange rate between the currencies i.e. USD vs. Rupees was ₹ 72 per USD. The exchange rate on the reporting date i.e. 31st March, 20X3 is ₹ 76 per USD. The corresponding amount could have been borrowed by Buildings & Co. Limited from and Indian bank in Rupees at an interest rate of 11% per annum as on 1st April, 20X2.

MULTIPLE CHOICE QUESTIONS

1. Would the error of classifying certain other expenses instead of finance costs in the comparative amounts (31st March, 20X2) be considered as correction of an error? Would the entity need to present a third balance sheet in its financial statements for the year ended 31st March, 20X3?

   (a) Reclassifications of previous year numbers is permissible in case of both balance sheet and statement of profit and loss and is not considered as an error.

(b) Reclassifications of previous year numbers shall be considered as an error and in case of an error it is mandatory to present a third balance sheet at the beginning of the period.

(c) Reclassifications of previous year numbers shall be considered as an error and since the retrospective restatement in statement of profit and loss has no impact on the information in balance sheet at the beginning of the preceding year i.e. 1st April, 20X1, the entity is not required to present the third balance sheet.

(d) Reclassifications of previous year numbers is permissible in case of only statement of profit and loss and is not considered as an error.

2. The CFO of the Company has requested you to evaluate whether the acquisition of Concrete Mixers Private Limited will be covered in Ind AS 103 'Business combinations' or whether the under-construction plant should be accounted for as an asset acquisition? What factors will you consider in your evaluation?

(a) Whether Concrete Mixers Private Limited has begun planned principal activities or is pursuing a plan to produce outputs.

(b) Will the entity be able to obtain access to customers that will purchase the outputs.

(c) Whether Concrete Mixers Private Limited has employees, intellectual property and other inputs and processes that could be applied to those inputs.

(d) All of the above.

3. In case of the foreign currency borrowing obtained by Buildings & Co. Limited, what is the amount of borrowing cost eligible for capitalization for the construction of the fabrication plant (assume eligibility conditions related to capitalization of borrowing cost are met)?

(a) ₹ 1,18,80,000

(b) ₹ 68,40,000

(c) ₹ 1,25,40,000

(d) ₹ 1,28,40,000.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c) : Reclassifications of previous year numbers shall be considered as an error and since the retrospective restatement in statement of profit and loss has no impact on the information in balance sheet at the beginning of the preceding year i.e. 1st April, 20X1, the entity is not required to present the third balance sheet.**

   Reasoning

   The reclassification of expenses from finance costs to other expenses would be considered as correction of an error under Ind AS 8. Accordingly, in the financial statements for the year ended 31st March, 20X3, the comparative amounts for the year ended 31st March, 20X2 would be restated to reflect the correct classification.

   Ind AS 1 requires an entity to present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

   In the given case, the retrospective restatement of relevant items in statement of profit and loss has no effect on the information in the balance sheet at the beginning of the preceding period (1st April, 20X1). Therefore, the entity is not required to present a third balance sheet.

2. **Option (d) : All of the above**

   Reasoning

   The above is based on the definition of Business in Ind AS 103. The three elements of a business are input, process and output. The options given in the question covers these elements. Hence all have to be considered for evaluation purposes.

3. **Option (a) : ₹ 1,18,80,000**

Reasoning

An entity can borrow funds in its functional currency (₹) @ 11%. It borrows $ 15,00,000 @ 6% on 1st April, 20X2 when $ 1 = ₹ 72.

The equivalent amount in functional currency is ₹ 10,80,00,000.

Interest is payable on 31st March, 20X3. The loan is not due for repayment.

On 31st March, 20X3, exchange rate is $ 1 = ₹ 76.

The exchange loss in this case is ₹ 60,00,000 [$ 15,00,000 x (₹ 76- ₹ 72)].

The borrowing cost is ₹ 68,40,000 ($ 15,00,000 x 6% x ₹ 76).

Had the entity borrowed in functional currency the borrowing cost would have been ₹ 1,18,80,000 (₹ 10,80,00,000 x 11%).

The entity will treat exchange difference upto ₹ 50,40,000 (₹ 1,18,80,000 – ₹ 68,40,000) as a borrowing cost that may be eligible for capitalisation under this Standard.

Thus, the total eligible borrowing cost is ₹ 1,18,80,000 (₹ 68,40,000 + ₹ 50,40,000) equivalent to the cost of borrowing cost in functional currency.

CASE SCENARIO 57

Sun Enterprise Limited (SEL), whose functional currency FC is engaged in the business of manufacturing various items from metals. It prepares its financial statements as per Ind AS.

It is considering raising funds for the expansion of its production capacity. However, its debt-equity ratio is under pressure. It has the following options before it:

(i) SEL issues 6% cumulative, non-redeemable preference shares (6% CNRPS) with discretionary dividends that are subject to availability of distributable reserves. The directors of SEL can decide at each period end whether and the extent to which a dividend will be paid on the preference share. The terms of the preference shares provide that if no dividend is paid on the preference shares, then no dividend is paid on SEL ordinary shares.

(ii) SEL issues 6% discretionary non-cumulative, non-redeemable preference shares (6% NCNRPS) that are subject to availability of distributable reserves. The directors of SEL can decide at each period end whether and the extent to which a dividend will be paid on the preference shares. The payment of dividends on SEL ordinary shares is also discretionary. The terms of the preference shares provide that if dividend is to be paid on SEL's ordinary shares, then a dividend must be paid on the preference shares.

MULTIPLE CHOICE QUESTIONS

1. Whether 6% CNRPS can be classified as:

   (a) Equity in its entirety

   (b) Liability in its entirety

   (c) Either of the above with disclosure

   (d) Compound Financial Instruments.

2. Whether 6% NCNRPS can be classified as:

   (a) Equity in its entirety

   (b) Liability in its entirety

   (c) Either of the above with disclosure

   (d) Compound Financial Instrument.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) : Equity in its entirety

2. Option (a) : Equity in its entirety

Reasoning for 1 and 2:

In this case, appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments.

The classification of a preference shares as an equity instrument or a financial liability is not affected by, for example:

(a) a history of making distributions

(b) an intention to make distributions in the future

(c) a possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares)

(d) the amount of the issuer's reserves

(e) an issuer's expectation of a profit or loss for a period; or

(f) an ability or inability of the issuer to influence the amount of its profit or loss for the period.

Hence, the contractual terms determine the nature of instrument. Any historical trend or ability of the Issuer does not affect the classification of an instrument as 'equity' or 'financial liability'.

CASE SCENARIO 58

Sun Enterprise Limited (SEL), whose functional currency FC is engaged in the business of manufacturing various items from metals. It prepares its financial statements as per Ind AS.

It is considering raising funds for the expansion of its production capacity. However, its debt-equity ratio is under pressure. It has the following options before it:

SEL issues 6% non - redeemable, fixed cumulative mandatory dividend preference shares (6% NRCMP). If earnings are not sufficient in any given year, such dividends will be paid in future years. Additional dividends may be declared but only if dividends of the same amount are declared on the other classes of shares.

SEL issues 2000 convertible bonds with a 3-year term at a face value of FC 1,000 per bond resulting into a total proceed of FC 2.0 million. Interest is payable annually @ 6.00% per annum. Each bond is convertible, at the holder's discretion, at any time upto maturity into 250 shares. When the bonds are issued, the market interest rate for similar debt instrument without the conversion option is 9% per annum;

SEL issues a 2-year mandatorily convertible instruments for FC 1 million. The instrument requires SEL to make cash coupon payments of FC 50,000 each at the end of year 1 and year 2. At the end of year 2, the instrument will mandatorily convert into 5,000 ordinary shares.

MULTIPLE CHOICE QUESTIONS

1. Whether 6% NRCMP can be classified as:

   (a) Compound financial instrument

   (b) Equity in its entirety

   (c) Liability in its entirety

   (d) Either (B) or (C) at the discretion of SEL.

2. If SEL issues 2,000 convertible bonds of FC 1,000 per bond, assuming no transaction costs, on initial recognition:

   (a) There is no equity component

   (b) The equity component is FC 1,51,878

   (c) The equity component is FC 2,00,000

   (d) None of the above.

3. If SEL issues the 2 year mandatorily convertible instruments for FC 1.0 million, assuming no transaction costs and market interest rate for similar debt instrument without conversion option is 8% per annum, on initial recognition:

   (a) There is no equity component

   (b) There is no liability component

   (c) The equity component is FC 9,10,837

   (d) The equity component is FC 6,87,435.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) : Compound financial instrument

Reasoning

In cases where the preference shares are not redeemable, it is like an equity instrument. But if they are entitled to a dividend which is payable such that entity does not have an unconditional right to defer payment, then this provides the shareholders with a lender's return on the amount invested. This obligation is also not negated if the entity is unable to pay such dividend for lack of funds or insufficient distributable profits. Therefore, the obligation to pay dividend meets the definition of financial liability. The instrument in such cases shall have two components – financial liability represented by dividend and equity component represented by the issue price, such instruments are overall classified as 'compound financial instruments' and each of the components as mentioned above are accounted separately.

2. **Option (b) : The equity component is FC 151,878**

Reasoning

The values of the liability and equity components are calculated as follows:

Present value of principal payable at the end of 3 years (₹ 20 lakhs discounted at 9% for 3 years) = ₹ 15,44,367

Present value of interest payable in arrears for 3 years (₹ 1,20,000 discounted at 9% for each of 3 years) = ₹ 3,03,755

Total financial liability = ₹ 18,48,122 (3,03,755 + 15,44,367)

Therefore, equity component = Fair value of compound instrument, ₹ 20,00,000 - financial liability component i.e. ₹ 18,48,122 = ₹ 1,51,878 (approx.)

3. **Option (c) : The equity component is FC 910,837**

Reasoning

The values of the liability and equity components are calculated as follows:

Principal value is to be mandatorily converted into ordinary shares. Hence, it is equity.

Present value of interest payable in arrears for 2 years would only be the financial liability (₹ 50,000 discounted at 8% for each of 2 years) = ₹ 89,163

Therefore, equity component = Fair value of compound instrument, ₹ 10,00,000 - financial liability component ₹ 89,163 = ₹ 9,10,837 (approx.)

CASE SCENARIO 59

Mr. Deepak Goel, a chartered accountant with 10 years of experience was earlier working with a big Indian practicing firm having clientele of Ind AS and auditing assurance. Recently he left his job and started his own consultancy firm. He has received certain Ind AS based projects wherein his opinion and guidance on applicability of Ind AS has been sought for on following issues:

1. Narayan Ltd. requires to calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income:

		₹
Estimated Gross Annual Income		33,00,000
(inclusive of Estimated Capital Gains of ₹ 8,00,000)		
Estimated Income of Quarter I		7,00,000
	Quarter II	8,00,000
	Quarter III	12,00,000
	(including estimated Capital Gain of ₹ 8,00,000)	
	Quarter IV	6,00,000

Tax Rates:

On Capital Gains		12%
On Other Income:	First ₹ 5,00,000	30%
	Balance Income·	40%

2. C Ltd. is a construction company. It enters into a contract with Customer E to build an asset. Depending on when the asset is completed, C will receive either ₹ 1,10,000 or ₹ 1,30,000.

Outcome	Consideration (₹)	Probability
Project completes on time	1,30,000	90%
Project is delayed	1,10,000	10%

3. In the financial year 20X1-20X2, X Ltd. incurred the following expenditure in acquiring property consisting of 6 identical houses each with separate legal title including the land on which it is built.

The expenditure incurred on various dates is given below:

On 1st April, 20X1 - Purchase cost of the property ₹ 1,80,00,000.

On 1st April, 20X1 – Non-refundable transfer taxes ₹ 20,00,000 (not included in the purchase cost).

On 2nd April, 20X1- Legal cost related to property acquisition ₹ 5,00,000.

On 6th April, 20X1- Advertisement campaign to attract tenants ₹ 3,00,000.

On 8th April, 20X1 - Opening ceremony function for starting business ₹ 1,50,000.

Throughout 20X1-20X2, incurred ₹ 1,00,000 towards day-to-day repair maintenance and other administrative expenses.

X Limited uses one of the six houses for office and accommodation of its few staffs. The other five houses are rented to various independent third parties.

How X Limited will account for all the above-mentioned expenses in the books of account?

MULTIPLE CHOICE QUESTIONS

1. What will be the weighted average annual income tax rate for Narayan Ltd.?

   (a) 29%

   (b) 38%

   (c) 30%

   (d) 40%

2. What will be the tax expense for quarter III and quarter IV?

   (a) ₹ 2,66,000; ₹ 3,04,000

   (b) ₹ 3,04,000; ₹ 2,48,000

(c) ₹ 2,48,000; ₹ 2,28,000

(d) ₹ 2,28,000; ₹ 10,46,000

3. What will be the transaction price for C Ltd.?

(a) ₹ 1,10,000

(b) ₹ 1,20,000

(c) ₹ 1,17,000

(d) ₹ 1,30,000

4. What will be the total cost of the property to X Ltd.?

(a) ₹ 2,05,00,000

(b) ₹ 2,09,50,000

(c) ₹ 1,85,00,000

(d) ₹ 1,89,50,000

5. What will be the cost of the investment property to be reflected in the balance sheet of X Ltd.?

(a) ₹ 2,05,00,000

(b) ₹ 2,09,50,000

(c) ₹ 1,70,83,333

(d) ₹ 34,16,667

6. What will be the cost of the owner-occupied property to be reflected in the balance sheet of X Ltd.?

(a) ₹ 2,05,00,000

(b) ₹ 2,09,50,000

(c) ₹ 1,70,83,333

(d) ₹ 34,16,667

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b) : 38%

Reasoning

	₹
Estimated annual income exclusive of estimated capital gain (33,00,000 – 8,00,000) (A)	25,00,000
Tax expense on other income:	
30% on ₹ 5,00,000	1,50,000
40% on remaining ₹ 20,00,000	8,00,000
(B)	9,50,000
Weighted average annual income tax rate $= \frac{B}{A} = \frac{9,50,000}{25,00,000} = 38\%$	

2. Option (c) : ₹ 2,48,000; ₹ 2,28,000

Reasoning

As per para 30(c) of Ind AS 34 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

If different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries) to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income.

Tax expense to be recognised in each of the quarterly reports

		₹
Quarter I - ₹ 7,00,000 x 38%		2,66,000
Quarter II - ₹ 8,00,000 x 38%		3,04,000
Quarter III - ₹ (12,00,000 - 8,00,000) x 38%	1,52,000	

₹ 8,00,000 x 12%	96,000	2,48,000
Quarter IV - ₹ 6,00,000 x 38%		2,28,000
		10,46,000

3. **Option (d) : ₹ 1,30,000**

   Reasoning

   Since there are only two possible outcomes under the contract, C Ltd. should determine that using the most likely amount provides the best prediction of the amount of consideration to which it will be entitled. Hence, C Ltd. should estimate the transaction price to be ₹ 1,30,000, which is the single most likely amount.

4. **Option (a) : ₹ 2,05,00,000**

5. **Option (c) : ₹ 1,70,83,333**

6. **Option (d) : ₹ 34,16,667**

   Reasoning for 4, 5 and 6:

   The cost of the property = ₹ (1,80,00,000 + 20,00,000 + 5,00,000)

   = ₹ 2,05,00,000.

   Since five houses out of six are being rented, 5/6th of the property cost will be accounted for as an investment property and 1/6th of the property cost will be accounted for as owner-occupied property.

   Cost of the investment property = ₹ 2,05,00,000 x 5/6

   = ₹ 1,70,83,333

   Cost of the owner-occupied property = ₹ (2,05,00,000 - 1,70,83,333)

   = ₹ 34,16,667.

CASE SCENARIO 60

G Ltd. (herein after referred to as 'the Company') is currently engaged in different business segments and is also looking to expand its operations overseas. The Company is also exploring investment from an overseas investor to carry out the expansion plan. The functional currency of G Ltd. is Rupees. The Company is required to submit its financial statements for the year ended 31st March, 20X2 as per Ind AS.

On 30th September, 20X1, the Company acquired 70% of the share capital of M Ltd., an entity registered as company in Germany. The fair value of the net assets of M Ltd. was 23 million EURO and the purchase consideration paid was 17.5 million EURO on 30th September, 20X1. The exchange rates as at 30th September, 20X1 was ₹ 82 / EURO and at 31st March, 20X2 was ₹ 84 / EURO. NCI is valued at proportionate share of fair value of net assets of M Limited.

G Ltd has made an interest-free security deposit against a lease of 5 years redeemable at the end of the lease term, when the market interest rate for a deposit for similar period was 12% per annum. Following are the details of the deposit made by G Ltd.:

Particulars	Details
Date of Security Deposit (Starting Date)	1st April, 20X1
Date of Security Deposit (Finishing Date)	31st March, 20X6
Discount rate	12.00%
Security deposit	10,00,000
Present value factor at the end of 5th year	0.567427

The accountant of the company is facing a challenge in the accounting treatment of the above issues.

MULTIPLE CHOICE QUESTIONS

1. What will be the value of goodwill on the acquisition of M Ltd., in Euro, as on 30th September, 20X1?

   (a) 5.5 million EURO

   (b) 2 million EURO

   (c) 1.4 million EURO

   (d) Nil

2. What will be the value of goodwill to be recognised in the financial statements of G Ltd. as on 31st March, 20X2?

   (a) ₹ 117.6 million

   (b) ₹ 114.8 million

   (c) ₹ 451 million

   (d) ₹ 462 million

3. What will be the initial amount of prepaid lease payment in the lease contract to be recognised by G Ltd.?

   (a) ₹ 5,67,427

   (b) ₹ 4,32,573

   (c) ₹ 10,00,000

   (d) Nil

4. What will be the amount of interest income on security deposit to be recognised in the financial statements of G Ltd. as on 31st March, 20X2?

   (a) ₹ 1,20,000

   (b) ₹ 68,091

   (c) ₹ 51,909

   (d) Nil

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (c) : 1.4 million EURO**

2. **Option (a) : ₹ 117.6 million**

Reasoning for 1 and 2:

Para 47 of Ind AS 21 requires that goodwill arose on business combination as on 30th September, 20X1, shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42. In this case the amount of goodwill in EURO will be as follows:

Net identifiable asset	Dr. 23 million EURO	
Goodwill (bal. fig.)	Dr. 1.4 million EURO	
To Bank		17.5 million EURO
To NCI (23 x 30%)		6.9 million EURO

Thus, goodwill on reporting date 31st March, 20X2 would be 1.4 million EURO x ₹ 84 =₹ 117.6 million

3. **Option (b) : ₹ 4,32,573**

4. **Option (b) : ₹ 68,091**

Reasoning for 3 and 4:

The security deposit is an interest free deposit redeemable at the end of lease term for ₹ 10,00,000. Hence, this involves collection of contractual cash flows and shall be accounted for at amortised cost.

Upon initial measurement

Particulars	Details
Security deposit (A)	10,00,000
Total Lease Period (Years)	5
Discount rate	12.00%
Present value factor of 5th year end	0.56743

Present value of deposit at beginning (B)	5,67,427
Prepaid lease payment at beginning (A-B)	4,32,573

This prepaid lease rent would be shown as ROU asset.

Subsequently, every annual reporting year, interest income shall be accrued @ 12% per annum and prepaid expenses shall be amortised on straight line basis over the lease term.

At the end of year 1, the interest @ 12% on security deposit will be recognised as income in the books. Accordingly, the interest income would be ₹ 5,67,427 x 12% = ₹ 68,091.

CASE SCENARIO 61

X Ltd. is a listed entity in India and prepares consolidated financial statements as per the requirements of Ind AS. X Ltd. has a wholly owned subsidiary A Ltd. which is an unlisted entity with a net worth of ₹ 280 crore. A Ltd. is not in the process of listing any of its instruments in public market. A Ltd. has two wholly owned subsidiaries B Ltd. and C Ltd.

MULTIPLE CHOICE QUESTIONS

1. State which of the following is true for A Ltd. as per the requirements of Ind AS 110?

   (a) Since A Ltd. is an unlisted entity, it is mandatory for it to prepare Consolidated Financial Statements (CFS)

   (b) Even if X Ltd. does not object to A Ltd. for not preparing CFS, A Ltd. has to mandatory prepare CFS

   (c) Even if A Ltd. is an unlisted entity and X Ltd. objects A Ltd. for not preparing CFS, A Ltd. is not required to prepare CFS

   (d) Since A Ltd. is not a listed entity and if X Ltd. does not object to A Ltd. for not preparing CFS, A Ltd. will not be required to prepare CFS.

2. Assume the same facts as given in the scenario for wholly owned subsidiaries A Ltd., X Ltd. is a foreign entity and is listed in stock exchange of a foreign country and it prepares its financial statements as per the generally accepted accounting principles (GAAP) applicable to that country. Now state which of the following is true for A Ltd. as per the requirements of Ind AS 110?

   (a) Since A Ltd. is an unlisted entity, preparation of CFS is not mandatory to it

   (b) Since X Ltd. is not preparing CFS under Ind AS, A Ltd. is mandatorily required to prepare CFS under Ind AS

(c) Even if X Ltd. does not object to A Ltd. for not preparing CFS, A Ltd. is not required to mandatory prepare CFS

(d) Even if A Ltd. is an unlisted entity and X Ltd. objects A Ltd. for not preparing CFS, A Ltd. is not required to prepare CFS

3. Assume the same facts as given in the scenario except that 100% of the investment in A Ltd. is held by Mr. X (an individual) instead of X Ltd. Now state which of the following is true for A Ltd. as per the requirements of Ind AS 110?

(a) A Ltd. is not required to prepare CFS as it is an unlisted entity

(b) Even if Mr. X is an individual, A Ltd. is not mandatorily required to prepare CFS under Ind AS

(c) A Ltd. will prepare consolidated financial statements under AS and not Ind AS

(d) Even if A Ltd. is an unlisted entity, it is mandatorily required to prepare CFS

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (d) : Since A Ltd. is not a listed entity and if X Ltd. does not object to A Ltd. for not preparing consolidated financial statements, A Ltd. will not be required to prepare CFS.**

Reasoning

In this case, A Ltd. satisfies all the conditions for not preparing consolidated financial statements i.e. it is not a listed entity, nor it is in the process of listing, the parent of A Ltd. prepares consolidated financial statements as per Ind AS which is available for public use and parent of A Ltd. does not object A Ltd. not preparing consolidated financial statements.

Hence, A Ltd. is not required to prepare consolidated financial statements.

2. **Option (b) : Since X Ltd. is not preparing CFS under Ind AS, A Ltd. is mandatorily required to prepare CFS under Ind AS**

   Reasoning

   In this case, the consolidated financial statements of parent of A Ltd. are not prepared under Ind AS. Hence, A Ltd. cannot avail the exemption from preparation of consolidated financial statements even though it is an unlisted entity since its net worth is more than ₹ 250 crore.

3. **Option (d) : Even if A Ltd. is an unlisted entity, it is mandatorily required to prepare CFS**

   Reasoning

   In this case, Mr. X (an individual) would not be preparing its financial statements as per the requirements of Ind AS which is available for public use.

   Hence, A Ltd. cannot avail exemption from preparation of consolidated financial statements even though it is an unlisted entity since its net worth is more than ₹ 250 crore.

CASE SCENARIO 62

Deepak started a new company S Pvt. Ltd. with T Ltd. wherein investment of 55% is done by T Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company S Pvt. Ltd. formed was the subsidiary of T Ltd. with two directors, and Deepak eventually becomes one of the directors of company. The company, S Pvt. Ltd. was incorporated on 1st April 20X1. The financials of T Ltd. are prepared as per Ind AS. However, S Pvt. Ltd. is preparing its financial statements as per Accounting Standards.

Further, Deepak has started using accounting software and other tools to automate manual processes in S Pvt. Ltd. He is evidencing major change in accounting due to automation of the accounting process. However, at the same time, he also realised that automation comes with its own set of potential drawbacks and challenges.

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements is true with respect to preparation of financial statements?

   (a) S Pvt. Ltd. has to mandatorily prepare its financial statements as per Ind AS

   (b) S Pvt. Ltd. is not at all required to prepare its financial statements as per Ind AS

   (c) S Pvt. Ltd. has to prepare its financial statements both as per AS and Ind AS

   (d) T Ltd. has to prepare its financial statements as per AS.

2. State which of the following is the challenge of the automation process:

   (a) Software can automatically categorize transactions into the appropriate accounts

(b) Optical character recognition (OCR) or barcode recognition technology, is automating the entry of data from source documents such as receipts and invoices.

(c) Automation process enables accountants to focus on higher-level tasks such as analysis and planning instead of routine manual entry.

(d) Automation requires ongoing training and education to keep up with the latest technology

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (a) : S Pvt. Ltd. has to mandatorily prepare its financial statements as per Ind AS**

   Reasoning

   If Ind AS is applicable to any company, then Ind AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of set of standards on such companies.

   In the given case it has been mentioned that the financials of T Ltd. are prepared as per Ind AS. Accordingly, the results of its subsidiary S Pvt. Ltd. should also have been prepared as per Ind AS. However, the financials of S Pvt. Ltd. have been presented as per accounting standards (AS).

   Hence, it is necessary to revise the financial statements of S Pvt. Ltd. as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

2. **Option (d)** : **Automation requires ongoing training and education to keep up with the latest technology**

   Reasoning

   Since, in the field of information technology, often advancement takes place. Therefore, with major shift in the technology, training and education of staff is required.

CASE SCENARIO 63

Medicines India Limited (MIL) incorporated under the Companies Act, 1956 is a pharmaceutical company. It has its manufacturing plant at Pune in Maharashtra. Besides domestic sales, it also exports the medicines to various countries. Its net worth exceeded ₹ 1,000 crore as per the audited accounts for the year ended 31st March 20X1 & has remained above that since then. When preparing and finalizing the financial statements as at and for the year ended 31st March 20X7, the following issues required attention:

MIL during the year ended 31st March 20X7 had invested in a 12-year bond with a face value of ₹ 6,00,000 by paying ₹ 2,31,500. The effective rate of interest is 10%. MIL recognizes proportionate interest income in its statement of profit and loss over the period of bond. MIL is not in the business of dealing in securities.

MIL has a legal claim for damages filed by its customer of ₹ 2.50 million. There is a 40% chance that the entity will win the case, and no cost will be involved. However, there is a 60% chance that the decision will not be in the favour of the entity, and it will have to pay for the damages.

MIL entered into a contract to supply 10,00,000 million strips of a particular medicine for ₹ 2 million. An increase in the cost of inputs has resulted into an increase in the cost of sales to ₹ 2.5 million. The penalty for non-performance of the contract is expected to be ₹ 0.25 million.

The Finance & Accounts department had drawn the following calendar for finalization, approval & submission of financial statements for the year ended 31st March 20X7:

Completion of preparation of financial statements	28th May, 20X7
Review & recommendation for approval by the Audit Committee	15th June, 20X7
Review & approval for issue by the Board of Directors	19th June, 20X7
Available to shareholders	1st July, 20X7

Annual General Meeting	15th September, 20X7
Filing with regulatory authority	6th October, 20X7

The calendar was duly adhered.

MULTIPLE CHOICE QUESTIONS

1. With respect to investment in bonds, interest income during the currency of the bond, in the cash flow statement will be treated as:

   (a) Financing activity

   (b) Investing activity

   (c) Either a or b with disclosure

   (d) Non-cash item.

2. How the maturity proceeds of bonds will be treated in the cash flow statement?

   (a) Investing activity

   (b) Financing activity

   (c) Operating activity

   (d) Any of the above with disclosure.

3. With respect to legal claim for damages filed by its customer, MIL should recognize a provision of

   (a) Nil

   (b) ₹ 2.5 million

   (c) ₹ 1.5 million

   (d) ₹ 1 million.

4. The contract to supply 10,00,000 strips requires a provision of

   (a) Nil

   (b) ₹ 0.25 million

(c) ₹ 0.50 million

(d) ₹ 0.125 million.

5. What is the date of approval for issue of-the financial statements?

(a) 15th June, 20X7

(b) 19th June, 20X7

(c) 1st July, 20X7

(d) 15th September, 20X7.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : Non-cash item

Reasoning

The company is using effective interest rate and is recognising interest income on proportionate basis. It appears that no interest is received and the payment on redemption of bond will be received in bullet. Hence, there will be no cash flow in these years because no cash has been received.

2. Option (a) : Investing activity

Reasoning

Receipt of ₹ 6,00,000 will be classified as investment activity with a bifurcation of interest income & money received on redemption of bond.

3. Option (b) : ₹ 2.5 million

Reasoning

In this case the outcome will either be zero cost or a cost of ₹ 2.5 million. As per paragraph 40 of Ind AS 37, where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. Here, the provision should be measured at the most likely outcome which is ₹ 2.5 million. When the provision relates to a single event, or a small number of events, expected value is not a valid technique.

4. Option (b) : ₹ 0.25 million

Reasoning

It is an onerous contract as cost of meeting the contract exceeds the economic benefits. Therefore, the provision should be recognised at the best estimate of the unavoidable cost, which is lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, i.e., at ₹ 0.25 million [lower of ₹ 0.25 million and ₹ 0.5 million (2.5 million – 2 million)].

5. Option (b): 19^{th} June, 20X7

Reasoning

The date of approval is the date on which the financial statements are approved by the Board of Directors of the company i.e; 19^{th} June, 20X7.

CASE SCENARIO 64

On 1st October, 20X1, Skywalk Ltd. signed a contract to purchase a machine from a foreign supplier on 31st March, 20X2.

The purchase price of the machine, payable in cash on 31st March, 20X2, was USD 2 million. On 1st October, 20X1, Skywalk Ltd. entered into a forward contract to purchase USD 2 million on 31st March, 20X2 for ₹ 140.0 million. On 31st December, 20X1, a contract to buy USD 2 million on 31st March, 20X2 would have required a payment of ₹ 150·0 million. On 31st March, 20X2, the spot rate of exchange was ₹ 70 = USD 1. The forward contract was settled by the other party making a payment of ₹ 15 million to Skywalk Ltd. on that date.

Skywalk Ltd. estimated that the useful economic life of the machine was five years from 31st March, 20X2, with no residual value. Skywalk Ltd. uses hedge accounting whenever permitted by Ind AS 109. The currency contract fully complies with the criteria and conditions for hedge accounting as set out in Ind AS 109.

MULTIPLE CHOICE QUESTIONS

1. Show the amount to be recognized in balance sheet at 31st December, 20X1 of property, plant and equipment for purchases of machine from foreign supplier.

   (a) ₹ 10 million

   (b) ₹ 140 million

   (c) ₹ 150 million

   (d) Nil

2. Calculate the gain on revaluation of the derivative for the year ended 31st December, 20X2.

   (a) ₹ 5 million

   (b) ₹ 10 million

(c) ₹ 15 million

(d) ₹ 11.25 million

3. Calculate the net carrying amount of property, plant and equipment (machine purchased from foreign supplier) as at 31st December, 20X2.

(a) ₹ 119.00 million

(b) ₹ 127.50 million

(c) ₹ 106.25 million

(d) ₹ 121.25 million

4. At which time the hedging instrument as derivative in this case is to be derecognized from books?

(a) When the property, plant and equipment has been purchased

(b) When the forward contract is settled

(c) When the company starts charging depreciation to property, plant and equipment

(d) At the end of relevant financial year when the contract is entered.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (d) : Nil

2. Option (a) : ₹ 5 million

3. Option (c) : ₹ 106.25 million

Reasoning for 1, 2 and 3:

Note-1: Explanation and supporting calculations – year ended 31st December, 20X1

The property, plant and equipment is not recognised in the year ended 31st December, 20X1 because the contract to purchase is an executory one.

At 31st December, 20X1 the derivative will be shown on the balance sheet under current assets at its fair value of ₹ 10 million.

The derivative has a nil cost so a gain in fair value of ₹ 10 million will be reported in the statement of other comprehensive income. Since, the derivative is designated as a hedging instrument, this will be taken to other comprehensive income rather than Statement of profit and loss.

Note-2: Explanation and supporting calculations – year ended 31st December, 20X2

Between 1st January, 20X2 and 31st March, 20X2, a further gain on revaluation of the derivative of ₹ 5 million (₹ 15 million – ₹ 10 million) will be recognised in other comprehensive income.

On 31st March, 20X2, the machine will be recognised in property, plant and equipment at cost. The initial amount recognised will be ₹ 140 million (USD 2 million x ₹ 70).

The gain of ₹ 15 million in other comprehensive income must be recognised in profit and loss.

This is done by adjusting the carrying value of the asset at the date of recognition.

Accordingly, depreciation for the current period is ₹ 18.750 million [(₹ 140 million – ₹ 15 million) x 1/5 x 9/12]. Hence, the closing balance in property, plant and equipment is ₹ 106.25 million (₹ 140 million – ₹ 15 million – ₹ 18.750 million).

4. Option (b) : When the forward contract is settled

Reasoning

The financial asset will be removed from the balance sheet of Skywalk Ltd. when the contract is settled on 31st March, 20X2.

CASE SCENARIO 65

Mr. H is a Chartered Accountant and is working in GHI & Co., Chartered Accountants as a Manager. GHI & Co. has recently been approached by A Ltd. for providing advice on certain accounting matters (discussed below). A Ltd. is an automotive supplier having a registered office in New Delhi and is listed on the Bombay Stock Exchange (BSE).

(i) A Ltd. has a machinery costing ₹ 15,00,000 having a useful life 10 years. Estimated cost of major overhaul planned after 3 years is ₹ 2,00,000.

(ii) A Ltd. received a subsidy of ₹ 15,00,000 from the Government in north-east India in return for setting up approved industrial activities in those states. One of the key conditions of the subsidy is that A Ltd. needs to employ the locals staying in those states for a period of 5 years.

(iii) A Ltd. offers 400 shares to each of its 1000 staff if they stay with them for 3 years. The fair value of the shares on the date of offer was ₹ 50. At the end of year 1, 20 employees left and the entity estimates that total 25% of the employees at the beginning of the grant of shares will left at the end of the vesting period. During the second year, a further 20 employees left and the entity further revises its estimate of total departures over the vesting period from 25% to 28%. During the third year, a further 20 employees leave the entity.

MULTIPLE CHOICE QUESTIONS

1. Considering the principles of Ind AS, determine the accounting for machinery held by A Ltd.?

   (a) Machinery of ₹ 15,00,000 should be depreciated over a period of 10 years.

   (b) Machinery of ₹ 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of ₹ 2,00,000 should be depreciated over a period of 3 years.

(c) Machinery of ₹ 15,00,000 should be depreciated over a period of 10 years and cost of major overhaul of ₹ 2,00,000 should be recognised at the end of third year.

(d) Machinery of ₹ 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of ₹ 2,00,000 should be recognised at the end of third year.

2. How should A Ltd. account for the subsidy received from the Government for setting up approved industrial activities in north-east states?

(a) Subsidy received should be recognised on the date of receipt.

(b) Subsidy received should be recognised at the end of year 5, i.e., when the condition relating to employment is met.

(c) Subsidy received should be recognised over the period of 5 years, i.e., ₹ 3,00,000 per annum.

(d) Subsidy received should be recognised on the date of notification issued by the Government in this regard.

3. Determine the amounts to be recognised in the statement of profit and loss in relation to share-based payments?

(a) Expense in year 1 = ₹ 50,00,000; expense in year 2 = ₹ 50,00,000 and expense in year 3 = ₹ 50,00,000

(b) Expense in year 1 = ₹ 62,66,667; expense in year 2 = ₹ 62,66,667 and expense in year 3 = ₹ 62,66,667

(c) Expense in year 1 = ₹ 50,00,000; expense in year 2 = ₹ 46,00,000 and expense in year 3 = ₹ 92,00,000

(d) Expense in year 1 = ₹ 63,33,333; expense in year 2 = ₹ 64,00,000 and expense in year 3 = ₹ 60,66,667

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b): Machinery of ₹ 13,00,000 should be depreciated over a period of 10 years; major overhaul cost of ₹ 2,00,000 should be depreciated over a period of 3 years.**

   Reasoning

   Cost of each significant item of property, plant and equipment having different useful life should be recognised and depreciated separately.

2. **Option (c): Subsidy received should be recognised over the period of 5 years, i.e., ₹ 3,00,000 per annum.**

   Reasoning

   The income related grant should be matched with the costs of meeting the grants over the balance period of employing the locals. So each year a portion of the grant received should be deferred over the balance portion of the 5 year condition attached to the grant.

3. **Option (c): Expense in year 1 = ₹ 50,00,000; expense in year 2 = ₹ 46,00,000 and expense in year 3 = ₹ 92,00,000**

   Reasoning

   Fair value on grant date = 400 x 1,000 x 50 = ₹ 2,00,00,000

   Cumulative charge

   Year 1- ₹ 2,00,00,000 x 75% x (1/3) = ₹ 50,00,000

   Year 2- ₹ 2,00,00,000 x 72% x (2/3) = ₹ 96,00,000

   Year 3- 940 x 50 x 400 = ₹ 1,88,00,000

   Expense for the period

   Year 1 = ₹ 50,00,000

   Year 2 = ₹ 46,00,000 (₹ 96,00,000 – ₹ 50,00,000)

   Year 3 = ₹ 92,00,000 (₹ 1,88,00,000 – ₹ 96,00,000)

CASE SCENARIO 66

Mr. H is a Chartered Accountant and is working in GHI & Co., Chartered Accountants as a Manager. GHI & Co. has recently been approached by A Ltd. for providing advice on certain accounting matters (discussed below). A Ltd. is an automotive supplier having a registered office in New Delhi and is listed on the Bombay Stock Exchange (BSE).

(i) As on 1st April 20X1, A Ltd. has opening shares of 10,00,000. On 31st May, A Ltd. issued 2,00,000 shares. On 30th November, A Ltd. made a bonus issue of 1 for every 3 shares held. On 28th February, 20X2, A Ltd. issued another 2,50,000 shares.

(ii) A Ltd. has agreed in a directors' meeting to sell a building and has tentatively started looking for a buyer for the building. The price of the building has been fixed at ₹ 4 crore and a surveyor has valued the building based on market prices at ₹ 3.6 crore. A Ltd. will continue to use the building until another building has been found with equivalent facilities, and in a suitable location for the office staff, who will not be relocated until the new building has been found.

MULTIPLE CHOICE QUESTIONS

1. Determine the weighted average number of shares which would be used in the calculation of basic EPS under Ind AS?

   (a) 14,50,000 shares

   (b) 15,76,389 shares

   (c) 18,50,000 shares

   (d) 13,20,834 shares

2. How should A Ltd. classify the building as given in the scenario?

   (a) Property, plant and equipment

   (b) Inventory

(c) Investment property

(d) Asset held for sale

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (b): 15,76,389 shares

Reasoning

	Weighted average number of shares	
1st April – 31st May	10,00,000 x 2/12 x 4/3	2,22,222
1st June – 30th November	12,00,000 x 6/12 x 4/3	8,00,000
1st December – 28th February	16,00,000 x 3/12	4,00,000
1st March – 31st March	18,50,000 x 1/12	1,54,167
		15,76,389

2. Option (a): Property, plant and equipment

Reasoning

The building will not be classified as held-for-sale as it is not available for immediate sale because, until new premises have been found, the office staff will remain in the existing building. Also, the directors have only tentatively started looking for a buyer which may indicate that the entity is not committed to the sale. Additionally, the price being asked for the building is above the market price and is not reasonable compared to that price. It is unlikely that the entity will sell the building for that price.

CASE SCENARIO 67

DEF Ltd. is a diversified business group operating in multiple business segments across different parts of the world with multiple subsidiaries. It maintains its books of accounts and publishes its annual financial statements under Indian Accounting Standards. The finance team has been working on closing the books of accounts and generating financial statements for the year ended 31st March 20X1 and are facing issues in the following transactions while finalization of financial statements:

(i)

Profit attributable to ordinary equity holders of the parent entity for year 20X1	₹ 1,200,000
Weighted average number of ordinary shares outstanding during year 20X1	5,00,000 shares
Average market price of one ordinary share during year 20X1	₹ 20.00
Weighted average number of shares under option during year 20X1	100,000 shares
Exercise price for shares under option during year 20X1	₹ 15.00

(ii) DEF Ltd. enters into a contract to buy 100 tonnes of cocoa beans at 1,000 per tonne for delivery in 12 months. On the settlement date, the market price for cocoa beans is 1,500 per tonne. The contract cannot be settled net in cash and is entered for delivery of cocoa beans in line with DEF Ltd.'s expected purchase/ usage requirements.

(iii) DEF Ltd. invests in compulsorily convertible preference shares (CCPS) issued by its subsidiary B Ltd. at ₹ 1,000 each (₹ 10 face value + ₹ 990 premium). Under the terms of the instrument, each CCPS is compulsorily convertible into one equity share of B Ltd at the end of 5 years. Such

CCPS carry dividend @ 12% per annum, payable only when declared at the discretion of B Ltd.

MULTIPLE CHOICE QUESTIONS

1. Based on the facts given in scenario (i), what will be basic EPS of the entity?

   (a) ₹ 2.29

   (b) ₹ 2.40

   (c) ₹ 2.00

   (d) ₹ 1.77

2. Based on the facts given in scenario (i), what will be diluted EPS of the entity?

   (a) ₹ 2.29

   (b) ₹ 2.40

   (c) ₹ 2.00

   (d) ₹ 1.77

3. What is the nature of the contract entered into for cocoa beans?

   (a) Cash contract

   (b) Non-executory and derivative contract

   (c) Derivative contract

   (d) Executory and non-derivative contract

4. What is the nature of the financial instrument mentioned in point (iii)?

   (a) Financial Asset

   (b) Financial Liability

   (c) Equity

   (d) Not a financial instrument

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. **Option (b) : ₹ 2.40**

2. **Option (a) : ₹ 2.29**

Reasoning for 1 and 2:

Calculation of earnings per share

	Earnings	***Shares***	***Per share***
Profit attributable to ordinary equity holders of the parent entity for year 20X1	₹ 1,200,000		
Weighted average shares outstanding during year 20X1		500,000	
Basic earnings per share			**₹ 2.40**
Weighted average number of shares under option		100,000	
Weighted average number of shares that would have been issued at average market price: (100,000 × ₹ 15.00) ÷ ₹ 20.00	Refer Note	(75,000)	
Diluted earnings per share	**₹1,200,000**	**525,000**	**₹ 2.29**

Note: Earnings have not increased because the total number of shares has increased only by the number of shares (25,000) deemed to have been issued for no consideration.

3. **Option (d) : Executory contract and non-derivative contract**

Reasoning

If the contract cannot be settled net in cash and this contract is entered for delivery of cocoa beans in line with DEF Ltd.'s expected purchase/ usage requirements, then own-use exemption applies.

In such case, the contract is considered to be an executory contract outside the scope of Ind AS 109 and hence shall not be accounted as a derivative.

4. **Option (c) : Equity**

Reasoning

B Ltd. has issued CCPS which provide for –

(a) Conversion into fixed number of equity shares, i.e., one equity share for every CCPS

(b) Non-cumulative dividends.

Applying the definition of 'equity' under Ind AS 32 –

(a) There is no contractual obligation to deliver cash or other financial asset. Dividends are payable only when declared and hence, at the discretion of the Issuer – B Ltd., thereby resulting in no contractual obligation over B Ltd.

(b) Conversion is into a fixed number of equity shares.

Hence, it meets definition of equity instrument and shall be classified as such in books of B Ltd.

CASE SCENARIO 68

PQR Ltd. is required to adopt Ind AS from 1st April, 20X1, with comparatives for one year, i.e., for 20X0-20X1. On 1st April, 20X1, PQR Ltd. acquired 30% of the voting ordinary shares of XYZ Ltd. for ₹ 8,000 crore. PQR Ltd. accounts its investment in XYZ Ltd. using equity method as prescribed under Ind AS 28. At 31st March, 20X2, PQR Ltd. recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

	(₹ in crore)
Share of profit or loss	700
Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50

The carrying amount of the investment in the associate on 31st March, 20X2 was therefore ₹ 8,850 crore (8,000 + 700 + 100 + 50).

On 1st April, 20X2, PQR Ltd. acquired the remaining 70% of XYZ Ltd. for cash ₹ 25,000 crore. The following additional information is relevant at that date:

	(₹ in crore)
Fair value of the 30% interest already owned	9,000
Fair value of XYZ's identifiable net assets	30,000

MULTIPLE CHOICE QUESTIONS

1. What is the fair value of the total consideration transferred by PQR Ltd. to XYZ Ltd.?

   (a) ₹ 34,000 crores

   (b) ₹ 33,850 crores

   (c) ₹ 33,000 crores

   (d) ₹ 25,000 crores

2. What is the amount of goodwill in the said business combination?

   (a) ₹ 3,000 crores

   (b) ₹ 4,000 crores

   (c) ₹ 2,150 crores

   (d) ₹ 3,850 crores

3. What is the gain on previously held interest in XYZ Ltd. recognised in profit or loss?

   (a) ₹ 150 crores

   (b) ₹ 100 crores

   (c) ₹ 250 crores

   (d) Nil

4. What is the transition date for PQR Ltd. for adopting Ind AS?

   (a) 1st April, 20X0

   (b) 1st April, 20X1

   (c) 1st April, 20X2

   (d) 1st April, 20X3

5. PQR Ltd. present its comparatives financial statements for the year-

   (a) 20X1-20X2

   (b) 20X2-20X3

   (c) 20X0-20X3

   (d) 20X0-20X1

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. Option (a) : ₹ 34,000 crores

2. Option (b) : ₹ 4,000 crores

3. Option (c) : ₹ 250 crores

Reasoning for 1 to 3:

Paragraph 42 of Ind AS 103 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in statement of profit and loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

Notes:

1. Calculation of Goodwill

	₹ in crore
Cash consideration	25,000
Add: Fair value of previously held equity interest in XYZ Ltd.	9,000
Total consideration	34,000
Less: Fair value of identifiable net assets acquired	(30,000)
Goodwill	4,000

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

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

	₹ in crore
Fair Value of 30% interest in XYZ Ltd. at 1st April, 20X2	9,000

Carrying amount of interest in XYZ Ltd. at 1st April, 20X2	(8,850)
	150
Unrealised gain previously recognised in OCI	100
Gain on previously held interest in XYZ Ltd. recognised in profit or loss	250

4. Option (a) : 1st April, 20X0

5. Option (d) : 20X0-20X1

Reasoning for 4 & 5:

The date of transition for PQR Ltd. will be 1st April, 20X0 being the beginning of the earliest comparative period presented. To explain it further, PQR Ltd. is required to adopt an Ind AS from 1st April, 20X1 (i.e. year 20X1-20X2), and it will give comparatives as per Ind AS for 20X0-20X1. Accordingly, the beginning of the comparative period will be 1st April, 20X0 which will be considered as date of transition.