

**Case Scenario – I :**

Sea-link Limited is a company which manufactures ship and vessel parts and sells them to large companies across the globe. The company prepares financial statements under Ind AS Reporting Standards.

The accountant of the company Mr. Lalit needs your guidance in closing the books and preparation of the financial statements. Mr. Lalit is confused as to how he should treat the transactions for the year ended 31<sup>st</sup> March 2023 and explained you the transactions.

On 1<sup>st</sup> May 2022, Sea-link Limited acquired 75% of the equity shares of Sea Hawk Limited and gained control of Sea Hawk Limited. Sea Hawk Limited has 90 lakh equity shares in issue. Details of the purchase consideration are as follows :

On 1<sup>st</sup> May 2022, Sea-link Limited issued two shares for every three shares acquired in Sea Hawk Limited. On 1<sup>st</sup> May 2022, the market value of an equity share in Sea-link Limited was ₹ 7.00 and the market value of an equity share in Sea Hawk Limited was ₹ 6.25.

On 30 April 2023, Sea-link Limited shall make a cash payment of ₹ 75.60 lakh to the former shareholders of Sea Hawk Limited who sold their shares to Sea-link Limited on 1<sup>st</sup> May 2022. On 1<sup>st</sup> May 2022, Sea-link Limited would have needed to pay interest at an annual rate of 8% on borrowings.

(4)

**ELB1**

On 30 April 2024, Sea-link Limited may make a cash payment of ₹ 250 lakhs to the former shareholders of Sea Hawk Limited who sold their shares to Sea-link Limited on 1<sup>st</sup> May 2022. This payment is contingent upon the revenues of Sea-link Limited growing by 14% or more over the two-year period from 1<sup>st</sup> May 2022 to 30<sup>th</sup> April 2024. On 1<sup>st</sup> May 2022, the fair value of this contingent consideration was ₹ 230 lakhs. On 31<sup>st</sup> March 2023, the fair value of the contingent consideration was ₹ 240 lakhs.

Sea-link Limited sold some ship and vessel components to a customer on 31<sup>st</sup> December 2022. The invoiced amount was ₹ 8,00,000. The Company expected to receive the payment on 28<sup>th</sup> February 2023. However, no cash was received till 31<sup>st</sup> March 2023. On 30<sup>th</sup> April 2023, the credit control department informed that the customer has major cash flow problems because of the failure of one of its projects, sometime in January 2023. They have agreed to allow the customer to settle the debt until 31<sup>st</sup> March 2024, by which time the customer is confident that the cash flow problems will be resolved.

Though Sea-link Limited currently expects that an annual interest of 6% (i.e., effective interest rate) can be received against any money lent out, yet it allowed this customer an interest free payment period.

Sea-link Limited acquired 25% share capital of Boat Limited on 1<sup>st</sup> April 2022 for ₹ 1,40,000. The carrying value of net assets of Boat Limited was ₹ 4,00,000 and fair value was ₹ 5,00,000 on the date of acquisition.

**ELB1**



(5)

**ELB1**

at Limited which became an Associate company of Sea-link Limited provided the following information relating to Boat Limited for the year ended 31<sup>st</sup> March 2023 :

Particulars	(₹ in lakhs)
Net Income after taxes	200
Decrease in accounts receivables	40
Depreciation	25
Increase in inventory	20
Tax charge for the year (including deferred tax liabilities)	10
Profit from sale of land	5

Sea-link Limited holds a financial asset that is actively traded in two different markets. The company transacts in both markets equally. The price of the asset in market A is ₹ 60 lakhs. If the company sells the asset in market A, it incurs a transaction cost of ₹ 4 lakhs. The price of the asset in market B is ₹ 58 lakh. If the company sells the asset in market B, it incurs a transaction cost of ₹ 1 lakh.

Sea-link Limited also deals in and sells the satellite communication software license for ships, perform its installation, provide software updates and technical support activities separately and so each performance obligation has a direct selling price and item-wise orders can be procured from the buyers based on their requirements.

**ELB1**

(6)

**ELB1**

Particulars	(₹ in lakhs)
Software license	250
Installation service	50
Software updates	60
Technical support	40
<b>Total</b>	<b>400</b>

The customer wanted to place a composite contract for all the activities but did not agree to pay installation service charges. Sea-link Limited finally, after negotiations, agreed to waive installation service charges in full. Sea-link Limited enters into a contract with a customer to provide all above goods and services at a lumpsum amount of ₹ 350 lakhs transaction price for all the four performance obligations as part of the contract during the financial year 2022-23. You are required to assist Mr. Lalit on account of the above transaction for the year ended 31<sup>st</sup> March 2023 by

**Analyzing the transactions mentioned above and choose the correct option in the below questions 1 to 6 in line with the relevant Ind AS : (6 × 2 = 12)**

1. Calculate the company's Associate Boat Ltd.'s cash flow from operations ?  
(A) ₹ 230 lakhs  
(B) ₹ 250 lakhs  
(C) ₹ 255 lakhs  
(D) ₹ 240 lakhs

**ELB1**



**@DIVYESH\_VAGHELA**

(7)

**ELBI**

What is the amount of purchase consideration of acquisition of Sea Hawk Limited by Sea-link Limited in the business combination ?

- (A) ₹ 315 lakhs
- (B) ₹ 385 lakhs
- (C) ₹ 615 lakhs
- (D) ₹ 390.60 lakhs

3. How shall the Goodwill and investment in Boat Limited be recorded on the date of acquisition by Sea-link Limited in the books of the company ?

- (A) Goodwill ₹ 40,000 and investment ₹ 1,00,000.
- (B) Goodwill ₹ 15,000 and investment ₹ 1,25,000.
- (C) Goodwill of ₹ 15,000 will be shown separately along with carrying amount of investment of ₹ 1,40,000.
- (D) Goodwill of ₹ 15,000 will not be shown separately and will be recorded as part of carrying amount of investment of ₹ 1,40,000.

4. What amount shall be allocated as the transaction price of installation service as per the provisions of the relevant Ind AS ?

- (A) ₹ 50 lakhs
- (B) Nil
- (C) ₹ 43.75 lakhs
- (D) ₹ 90 lakhs

**ELBI**



**@DIVYESH\_VAGHELA**

(8)

**ELB1**

Sea-link Limited holds a financial asset that is actively traded in two different markets. The company transacts in both markets equally. The selling price of the financial asset and transaction cost to be incurred are different in both the markets which have already been given in above narration. You are required to determine the fair value of the financial asset ?

- (A) ₹ 56 lakhs
- (B) ₹ 57 lakhs
- (C) ₹ 58 lakhs
- (D) ₹ 60 lakhs

6. Which Ind AS are applicable for accounting treatment for the year ended 31<sup>st</sup> March 2023, in transaction of ship vessel components delivery to a customer as on December 2022 ?

- (A) Ind AS 37 / Ind AS 109
- (B) Ind AS 10 / Ind AS 32
- (C) Ind AS 109 / Ind AS 32
- (D) Ind AS 109 / Ind AS 10

**ELB1**

+

(9)

**ELB1**

7. Which of the following common characteristics of derivative financial instruments distinguishes them from other types of financial instruments ? **2**
- (A) They impose a contractual obligation by one entity to deliver cash to another entity, to convey a contractual right.
  - (B) They are financial investments in stocks, bonds, or other securities that are marketable.
  - (C) They have a notional amount or payment provision that is based on the changes in one or more underlying variables.
  - (D) Most financial instruments are valued on the balance sheet at fair value, but derivatives are valued on the balance sheet at cost.
8. When applying conceptual framework, the Chartered Accountant shall : **2**
- (I) Exercise professional judgment.
  - (II) Remain alert for new information and to changes in facts and circumstances.
  - (III) Use the reasonable and informed third party test.
- (A) (I) & (III)
  - (B) (II) & (III)
  - (C) (I) & (II)
  - (D) (I), (II) & (III)

**ELB1**

(10)

ELB1

9. The Fancy Store inventory records, at March 31, revealed the following :

2

Particulars	₹
Inventory on hand, March 31 <sup>st</sup>	3,00,000
Inventory purchased F.O.B. shipping point, shipped by vendor on March 25 <sup>th</sup> , expected delivery date – April 1 <sup>st</sup>	1,00,000
Inventory shipped to customers on March 28, F.O.B. destination, expected delivery date – April 2 <sup>nd</sup>	50,000
Goods held on consignment by Fancy Store, not included in inventory on hand	30,000

What is the value of Fancy Store's closing inventory at March 31<sup>st</sup> ?

- (A) ₹ 3,30,000
- (B) ₹ 3,00,000
- (C) ₹ 4,80,000
- (D) ₹ 4,50,000

ELB1

+



@DIVYESH\_VAGHELA



(11)

ELB1

**Case Scenario – II :**

The financial statements of Brown Limited for the year ended 31<sup>st</sup> March 2024 are being prepared and the accountant has requested you to share your views on the following issues.

Brown Limited is engaged in agricultural plantation and farming on a large scale.

On 1<sup>st</sup> April, 2023, the company received a government grant for ₹ 10 lakhs subject to a condition that it will continue to engage in plantation of eucalyptus tree for a forthcoming period of four years. Eucalyptus trees are not considered as bearer plant in this case. The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus tree for specified period of four years.

Brown Limited started construction of a godown on 1<sup>st</sup> October 2022 and had taken a loan of US \$ 10,000 on 1<sup>st</sup> April, 2023, specifically for construction of the godown at an interest rate of 5% per annum for a tenure of one year. The exchange rate on 1<sup>st</sup> April 2023 was ₹ 75 per US \$. The exchange rate on 31<sup>st</sup> March 2024 was increased to ₹ 80 per US \$. The same amount could have been borrowed by Brown Limited on 1<sup>st</sup> April, 2023 in the local currency Rupee at an interest rate of 10% per annum for the same tenure. No other loan was taken by the company for construction of the godown and the construction of the godown was completed on 31<sup>st</sup> March, 2024.

ELB1

+

(12)

ELBI

Brown Limited Purchased an office building on 1<sup>st</sup> April, 2021 and recorded it in the books at value of ₹ 5,00,000, under cost model, based on the IND AS 16 Property, Plant and Equipment. The building is being depreciated over a period of 20 years. Brown Limited no longer needs the office building space and on 1<sup>st</sup> April 2023, it entered into an agreement to lease the building to another company for 20 years. The valuation of the building was not changed and it stands at ₹ 4,25,000 in the books of the company after depreciation as at 31<sup>st</sup> March, 2024. The fair market value of the office building is pegged at ₹ 6,00,000 as on 31<sup>st</sup> March 2024.

Brown Limited acquired 10% additional shares in its existing subsidiary company namely, Black Limited at closing of the financial year 2023-24. As at the close of 31-03-2023, Brown Limited held 60% in Black Limited. The following relevant information is available in respect of the change in non-controlling interest in the subsidiary on the basis financial statements.

<b>Separate Financial Statements</b>		₹
Investment in subsidiary (60% interest) - at cost as on 31 <sup>st</sup> March 2023		1,20,000
Purchase price for additional 10% interest paid in financial year 2023-24		30,000
<b>Consolidated Financial Statements</b>		₹
Non-controlling interests (40%) as on 31 <sup>st</sup> March 2023		84,000
Other Equity		2,00,000

ELBI

+

(13)

**ELB1**

Brown Limited has opened a new office in Gangtok under a lease. A specific requirement of the lease is that the asset is returned in good condition. The directors agreed for the same at a cost of ₹ 1.30 crores based on current price levels. The lease agreement was signed on 31<sup>st</sup> March 2024 and will last for five years. Due to severe cold weather, Brown Limited will have to spend ₹ 45,00,000 at the end of next year on renovating the building. In the directors' opinion, this expenditure will be reduced, by an equivalent amount, against the overall refurbishment costs payable at the end of the lease term. Relevant discount rate applicable in this case is 10%.

**Analyze the transactions mentioned above and choose the correct option in the below questions 10 to 15 in line with the relevant Ind AS :** (6 × 2 = 12)

10. What is the amount of the revaluation surplus that will be recognised by the company in respect of the building used as office and now given under lease as per applicable Ind AS ?

- (A) ₹ 1,00,000
- (B) ₹ 1,75,000
- (C) ₹ 75,000
- (D) Nil

11. How much amount of provision should be recognized as at 31<sup>st</sup> March 2024 for the office held on lease in Gangtok ?

- (A) ₹ 93,69,000
- (B) ₹ 52,78,500
- (C) ₹ 1,30,00,000
- (D) ₹ 40,90,500

**ELB1**

12. What amount would be capitalized as borrowing cost of godown as per Ind AS-23 ?

- (A) ₹ 37,500
- (B) ₹ 40,000
- (C) ₹ 90,000
- (D) ₹ 75,000

13. What is the amount if any that would be considered as the exchange difference to be accounted for against the loan taken for construction of godown as per Ind AS-21 "The Effects of Changes in Foreign Exchange Rates" for the financial year 2023-24 ?

- (A) ₹ 15,000
- (B) ₹ 50,000
- (C) ₹ 25,000
- (D) Nil

14. At what value non-controlling interest and other equity will be shown in consolidated financial statements immediately after the change in the non-controlling interest in Black Limited ?

- (A) ₹ 1,05,000 and ₹ 2,00,000 respectively
- (B) ₹ 54,000 and ₹ 2,00,000 respectively
- (C) ₹ 63,000 and ₹ 1,91,000 respectively
- (D) ₹ 84,000 and ₹ 2,00,000 respectively

(15)

ELB1

15. What is the correct accounting treatment by the company for the Government grant and is in accordance with the applicable Ind AS provisions ?

- (A) Recognise proportionate grant for ₹ 2.50 lakhs in Statement of Profit and Loss for the year ending 31<sup>st</sup> March 2024 as income following the principles laid down under Ind AS 20.
- (B) Recognise the grant for ₹ 10 lakhs in Statement of Profit and Loss for the year ending 31<sup>st</sup> March 2024 as income following the principles laid down under Ind AS 20.
- (C) Government grant for ₹ 10 lakhs shall be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met i.e., after the expiry of specified period of four years of continuing engagement in the plantation of eucalyptus tree following the principles laid down under Ind AS 41.
- (D) Recognise proportionate grant for ₹ 2.50 lakhs in Statement of Profit and Loss for the year ending 31<sup>st</sup> March 2024 as income following the principles laid down under Ind AS 41.

ELB1

+



@DIVYESH\_VAGHELA