PAPER – 1 : FINANCIAL REPORTING

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

Working notes should form part of the answer.

Question 1

The Accountant Mr. Ramesh Kanna of 'H' Limited submitted to you the following Standalone Balance Sheet extracts as at 31st March 2024:

Amount in ₹

	H Ltd.		***S Ltd.***		***A Ltd.***	
Assets						
Non-current assets						
(a) Property, Plant and Equipment	*5,50,000*		*4,80,000*		*2,50,000*	
(b) Financial Assets						
Investments:				*4,80,000*		*2,50,000*
14,000 shares in S Ltd.	*5,60,000*					
4,000 shares in A Ltd.	*1,00,000*	*12,10,000*				
Current assets						
(a) Inventory	*4,85,000*		*3,82,500*		*2,45,500*	
(b) Financial Assets						
Cash and cash equivalents	*89,000*		*98,000*		*1,77,000*	
Trade receivables	*3,95,000*	*9,69,000*	*3,05,000*	*7,85,500*	*1,78,500*	*6,01,000*
Total Assets		***21,79,000***		***12,65,500***		***8,51,000***

Equity & Liabilities						
Shareholder's Equity						
(a) Equity Share Capital (₹ 10 per share)	*5,00,000*		*2,00,000*		*1,00,000*	
(b) Other Equity						
Retained earnings	*9,00,000*	*14,00,000*	*7,50,000*	*9,50,000*	*4,24,000*	*5,24,000*
Non-current liabilities						
(a) Financial Liabilities						
Borrowing–Term Loans		*4,00,000*		*1,50,000*		*1,00,000*
Current liabilities						
(a) Financial Liabilities						
Trade payables		*3,79,000*		*1,65,500*		*2,27,000*
Total Equity and Liabilities		***21,79,000***		***12,65,500***		***8,51,000***

The following additional information is made available in respect of these companies:

(i) H Limited purchased the shares in S Limited on 31st October 2023 when retrained earnings of S Limited was ₹ 500,000 and the shares in A Limited were acquired on 30th June 2023 when its retained earnings stood at ₹ 1,75,000.

(ii) Inventory of A Limited as on 31st March, 2024 include inventory valued at ₹ 60,000 which had been purchased from H Limited, on 1st January, 2024 at cost plus 20%.

(iii) Trade payable of H Limited includes ₹ 25,000 payable to A Limited, the amount receivable being recorded in the receivables of A Limited.

(iv) Goodwill in respect of the acquisition of S Limited has been fully impaired. The recoverable amount of the investment in A Limited exceeds its' carrying value at 31st March 2024. Non-controlling interest is valued at the proportionate share of the identifiable net assets.

(v) 10% dividends we declared by both H Limited and S Limited whereas A Limited declared 15% dividend for the year 2023-24.

(vi) On 31st March, 2024, S Limited made a bonus issue of one equity share for every two shares held by the shareholders of S Limited.

(vii) Dividends were declared but were not accounted for by all these companies in the books before the year end. Similarly, the bonus issued by S Limited was not reflected in the balance sheet as on 31st March, 2024.

You are required to take note of the above available information and draw the consolidated Balance Sheet of H Limited as at 31st March 2024. Notes to accounts are not required. ***(14 Marks)***

Answer

Note: Since adjustments (v) and (vii) of the question state that dividend has been declared by all the entities but no information is provided whether it has been paid or due. In this regard, it may be noted that since dividend is paid for the entire year 2023-2024, it is assumed as final dividend which is approved in the Annual General Meeting conducted at later point time from the reporting date.

Accordingly, following assumptions are possible based on which alternative solutions have been provided:

A. Ignored the adjustment for dividend completely as dividend has to be approved in the Annual General Meeting.

B. Considered dividend as declared but not paid.

C. Considered dividend as declared and paid.

Alternative A: Ignored the adjustment for dividend completely as it has to be approved in the AGM.

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. and Associate A Ltd. as at 31st March, 2024

	₹
Assets	
Non-current assets	
Property, plant and equipment (₹ 5,50,000 + ₹ 4,80,000)	10,30,000
Goodwill (₹ 70,000- Impaired ₹ 70,000)	Nil

Financial assets	
Investment in A Ltd. (W.N.1 (iii))	2,05,600
Current assets	
Inventory (₹ 4,85,000+ ₹ 3,82,500)	8,67,500
Financial assets	
Cash and cash equivalents (₹ 89,000 + ₹ 98,000)	1,87,000
Trade receivables (₹ 3,95,000+₹ 3,05,000)	7,00,000
Total	29,90,100
Equity and Liabilities	
Equity	
Share capital - Equity shares of ₹ 10 each	5,00,000
Other equity (W.N.4+ W.N.1(i))	11,10,600
Non-controlling interest (W.N.3)	2,85,000
Non-current liabilities	
Financial liabilities	
Borrowings-term loans (₹ 4,00,000 + ₹ 1,50,000)	5,50,000
Current Liabilities	
Financial liabilities	
Trade payables (₹3,79,000+₹ 1,65,500)	5,44,500
Total	29,90,100

Working Notes:

1. Computation of Investment in Associate A Ltd. as per Equity method

(i) Capital reserve on the date of acquisition

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

	₹
Cost of acquisition of investment H Ltd.'s share in fair value of net assets of A Ltd. on the date of acquisition [(1,00,000 + 1,75,000) x 40%] Capital Reserve	1,00,000 (1,10,000) 10,000

Capital reserve is recorded directly in equity.

(ii) Share in profit of A Ltd.

	₹
Share in post-acquisition profit of A Ltd. [(4,24,000 - 1,75,000) x 40%]	99,600

(iii) Closing balance of investment of Associate A Ltd. at the end of the year

	₹
Cost of acquisition of investment	1,00,000
Add: Capital reserve	10,000
Share in post-acquisition profit	99,600
Less: Unrealised gain on inventory [(60,000 x 20/120) x 40%]	(4,000)
Closing balance of investment	2,05,600

2. Analysis of Retained Earnings of S Ltd.

(i) Retained Earnings (RE) of S Ltd. ₹

Closing balance as on 31st March, 2024	7,50,000
Less: Pre-acquisition as on 31st October, 2023	(5,00,000)
Post-acquisition Profit	**2,50,000**

(ii) Computation of net worth (net identifiable assets) as on 31st October, 2023 ₹

Share Capital of S Ltd.	2,00,000
Pre-acquisition Retained Earnings	5,00,000
Net Identifiable assets	**7,00,000**

(iii) Computation of Goodwill on acquisition date of S Ltd. ₹

Purchase consideration	5,60,000	
NCI as per proportionate share method (7,00,000 x 30%)	2,10,000	7,70,000
Less: Net worth or Net Identifiable Assets		(7,00,000)
Goodwill		70,000

3. Non-Controlling Interest as on 31st March, 2024 ₹

NCI (by proportionate share method) as on 31st October, 2023	2,10,000
Post-acquisition Retained Earnings (W.N.4)	75,000
NCI as on 31st March, 2024	2,85,000

4. Consolidated Retained Earnings

Particulars	**H Ltd** ₹	**S Ltd.** ₹
Opening Balance of Retained Earnings	9,00,000	
Post-acquisition Retained Earnings (W.N.2(i))		2,50,000
Less: Unrealised gain on downstream transaction with Associate A Ltd.	(4,000)	
Less: Impairment of Goodwill on acquisition of S Ltd.	(70,000)	
Add: Share of profit and loss in Associate A Ltd.	99,600	
Less: Share of NCI in post-acquisition Retained Earnings [2,50,000 x 30%]		(75,000)
	9,25,600	**1,75,000**
Total Consolidated Retained Earnings		11,00,600

Note: Bonus issue by a subsidiary is a transaction with owner in their capacity as owner. Therefore, bonus issue is only a transfer from one component of equity to the other thereby not changing the equity. Accordingly, though bonus issue shall be accounted in the individual financial statements of subsidiary, the same shall not have any effect in consolidated financial statements of the Group.

Alternative B: Considered dividend as declared but not paid

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. and Associate A Ltd. as at 31st March, 2024

	₹
Assets	
Non-current assets	
Property, plant and equipment (₹ 5,50,000 + ₹ 4,80,000)	10,30,000
Goodwill (₹ 70,000- Impaired ₹ 70,000)	Nil
Financial assets	
Investment in A Ltd. (Refer W.N.1 (iii))	1,99,600
Current assets	
Inventory (₹ 4,85,000 + ₹ 3,82,500)	8,67,500
Financial assets	
Cash and cash equivalents (₹ 89,000+ ₹ 98,000)	1,87,000
Trade receivables (₹ 3,95,000+₹ 3,05,000)	7,00,000
Other Receivables	
(Dividend receivable from A Ltd. (₹ 15,000 x 40%)	6,000
Total	29,90,100
Equity and Liabilities	
Equity	
Share capital - Equity shares of ₹ 10 each	5,00,000
Other equity (W.N.4+W.N.1(i))	10,60,600
Non-controlling interest (W.N.3)	2,79,000

Non-current liabilities	
Financial liabilities	
Borrowings- term loans (₹ 4,00,000 + ₹ 1,50,000)	5,50,000
Current Liabilities	
Financial liabilities	
Trade payables (₹ 3,79,000+₹ 1,65,500)	5,44,500
Other payables [Dividend payable to NCI by S Ltd. (₹ 20,000 x 30%) ₹ 6,000+ Dividend payable by H Ltd. to its shareholders ₹ 50,000)	56,000
Total	29,90,100

Working Notes:

1. Computation of Investment in Associate A Ltd. as per Equity method

(i) Capital reserve on the date of acquisition

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

	₹
Cost of acquisition of investment	1,00,000
Less: H Ltd.'s share in fair value of net assets of A Ltd. on the date of acquisition [(1,00,000 + 1,75,000) x 40%]	(1,10,000)
Capital Reserve	10,000

Capital reserve is recorded directly in equity.

(ii) Share in profit of A Ltd.

	₹
Share in post-acquisition profit of A Ltd. [(4,24,000-1,75,000) x 40%]	99,600
Less: Dividend (1,00,000 x 15% x 40%)	(6,000)
Share in profit of A Ltd.	93,600

(iii) Closing balance of investment of Associate A Ltd. at the end of the year

	₹
Cost of acquisition of investment	1,00,000
Add: Capital reserve	10,000
Share in post-acquisition profit	93,600
Less: Unrealised gain on inventory [(60,000 x 20/120) x 40%]	(4,000)
Closing balance of investment	1,99,600

2. Analysis of Retained Earnings of S Ltd.

(i) Retained Earnings (RE) of S Ltd. ₹

Closing balance as on 31st March, 2024	7,50,000
Less: Pre-acquisition as on 31st October, 2023	(5,00,000)
Post-acquisition Profit	2,50,000

(ii) Computation of net worth (net identifiable assets) as on 31st October, 2023 ₹

Share Capital of S Ltd.	2,00,000
Add: Pre-acquisition Retained Earnings	5,00,000
Net Identifiable assets	7,00,000

(iii) Computation of Goodwill on acquisition date of S Ltd. ₹

Purchase consideration	5,60,000	
NCI as per proportionate share method (7,00,000 x 30%)	2,10,000	7,70,000
Less: Net worth or Net Identifiable Assets		(7,00,000)
Goodwill		70,000

3. Non-Controlling Interest as on 31st March, 2024 ₹

NCI (by proportionate share method) as on 31st October, 2023	2,10,000
Post-acquisition Retained Earnings (W.N.4)	69,000
NCI as on 31st March, 2024	2,79,000

4. Consolidated Retained Earnings

Particulars	**H Ltd.** ₹	**S Ltd.** ₹
Opening Balance of Retained Earnings	9,00,000	
Post-acquisition Retained Earnings (W.N.2(i))		2,50,000
Less: Unrealised gain on downstream transaction with Associate A Ltd.	(4,000)	
Less: Impairment of Goodwill on acquisition of S Ltd.	(70,000)	
Add: Share of profit and loss in Associate A Ltd.	93,600	
Less: Dividend payable by H Ltd.	(50,000)	(20,000)
Add: Dividend Income receivable from S Ltd.	14,000	
Add: Dividend income receivable from A Ltd.	6,000	
Less: Share of NCI in post-acquisition Retained Earnings [(2,50,000 - 20,000) x 30%]		(69,000)
	8,89,600	1,61,000
Total Consolidated Retained Earnings		10,50,600

Note: Bonus issue by a subsidiary is a transaction with owner in their capacity as owner. Therefore, bonus issue is only a transfer from one component of equity to the other thereby not changing the equity. Accordingly, though bonus issue shall be accounted in the individual financial statements of subsidiary, the same shall not have any effect in consolidated financial statements of the Group.

Alternative C: Considered dividend as declared and paid

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. and Associate A Ltd. as at 31st March, 2024

	₹
Assets	
Non-current assets	
Property, plant and equipment (₹ 5,50,000 + ₹ 4,80,000)	10,30,000
Goodwill (₹ 70,000- Impaired ₹ 70,000)	Nil
Financial assets	
Investment in A Ltd. (Refer W.N.1 (iii))	1,99,600
Current assets	
Inventory (₹ 4,85,000+ ₹ 3,82,500)	8,67,500
Financial assets	
Cash and cash equivalents [(₹ 89,000 - ₹ 50,000 + ₹ 14,000 + ₹ 6,000) + (₹ 98,000 - ₹ 20,000)]	1,37,000
Trade receivables (₹ 3,95,000+₹ 3,05,000)	7,00,000
Total	29,34,100
Equity and Liabilities	
Equity	
Share capital - Equity shares of ₹ 10 each	5,00,000
Other equity (W.N.4+W.N.1(i))	10,60,600
Non-controlling interest (W.N.3)	2,79,000
Non-current liabilities	
Financial liabilities	
Borrowings- term loans (₹ 4,00,000 + ₹ 1,50,000)	5,50,000
Current Liabilities	
Financial liabilities	
Trade payables (₹ 3,79,000+₹ 1,65,500)	5,44,500
Total	29,34,100

Working Notes:

1. Computation of Investment in Associate A Ltd. as per Equity method

(i) Capital reserve on the date of acquisition

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

	₹
Cost of acquisition of investment	1,00,000
Less: H Ltd.'s share in fair value of net assets of A Ltd. on the date of acquisition [(1,00,000 + 1,75,000) x 40%]	(1,10,000)
Capital Reserve	10,000

Capital reserve is recorded directly in equity.

(ii) Share in profit of A Ltd.

	₹
Share in post-acquisition profit of A Ltd. [(4,24,000 - 1,75,000) x 40%]	99,600
Less: Dividend (1,00,000 x 15% x 40%)	(6,000)
Share in profit of A Ltd.	93,600

(iii) Closing balance of investment of Associate A Ltd. at the end of the year

	₹
Cost of acquisition of investment	1,00,000
Add: Capital reserve	10,000
Share in post-acquisition profit	93,600
Less: Unrealised gain on inventory [(60,000 x 20/120) x 40%]	(4,000)
Closing balance of investment	1,99,600

2. Analysis of Retained Earnings of S Ltd.

(i) Retained Earnings (RE) of S Ltd. ₹

Closing balance as on 31st March, 2024	7,50,000
Less: Pre-acquisition as on 31st October, 2023	(5,00,000)
Post-acquisition Profit	2,50,000

(ii) Computation of net worth (net identifiable assets) as on 31st October, 2023 ₹

Share Capital of S Ltd.	2,00,000
Pre-acquisition Retained Earnings	5,00,000
Net Identifiable assets	7,00,000

(iii) Computation of Goodwill on acquisition date of S Ltd. ₹

Purchase consideration	5,60,000	
NCI as per proportionate share method (7,00,000 x 30%)	2,10,000	7,70,000
Less: Net worth or Net Identifiable Assets		(7,00,000)
Goodwill		70,000

3. Non-Controlling Interest as on 31st March, 2024 ₹

NCI (by proportionate share method) as on 31st October, 2023	2,10,000
Post-acquisition Retained Earnings (W.N.4)	69,000
NCI as on 31st March, 2024	2,79,000

4. Consolidated Retained Earnings ₹

Particulars	H Ltd.	S Ltd.
Opening Balance of Retained Earnings	9,00,000	
Post-acquisition Retained Earnings (W.N.2(i))		2,50,000

Less: Unrealised gain on downstream transaction with Associate A Ltd.	(4,000)	
Less: Impairment of Goodwill on acquisition of S Ltd.	(70,000)	
Add: Share of profit and loss in Associate A Ltd.	93,600	
Less: Dividend paid	(50,000)	(20,000)
Add: Dividend Income received from S Ltd.	14,000	
Add: Dividend income received from A Ltd.	6,000	
Less: Share of NCI in post-acquisition Retained Earnings [(2,50,000 - 20,000) x 30%]		(69,000)
	8,89,600	1,61,000
Total Consolidated Retained Earnings		10,50,600

Note: Bonus issue by a subsidiary is a transaction with owner in their capacity as owner. Therefore, bonus issue is only a transfer from one component of equity to the other thereby not changing the equity. Accordingly, though bonus issue shall be accounted in the individual financial statements of subsidiary, the same shall not have any effect in consolidated financial statements of the Group.

Question 2

(a) *Dark Limited is engaged in the construction and operation of thermal power plants in the country. It has entered into a purchase contract for USD 2,00,000 with Bright Limited, on 1st October, 2023 for purchase of power plant equipment on 31st March 2024. It is pertinent to note that the functional currency of both companies is INR. Dark Limited and Bright Limited are listed companies in India and prepare their financial statements on a quarterly basis as per Ind AS.*

Spot Rate as on 1st October, 2023 ₹/USD	*75*
Spot Rate as on 31st December ,2023 ₹/USD	*82*

Three month forward rate on 31st December, 2023 ₹/USD	*70*
Six month forward rate on 1st October, 2023 ₹/USD	*80*
Spot Rate on31st March, 2024 ₹/ USD	*85*

Assume that this contract has an embedded derivative that is not closely related and requires separation. You are required to pass the necessary Journal Entries in the books of Bright Limited from the inception of the contract till the actual sale of equipment. ***(10 Marks)***

(b) *In December, 2022, X Limited entered into a loan agreement with a Bank. The loan is repayable in five annual instalments commencing from 1st October, 2024. One of the material provisions of the loan agreement is that X limited should create an equitable mortgage on its assets in favour of the Bank by 31st March, 2023 failing which the loan would become payable on demand. X Limited is not able to create the equitable mortgage by 31st March, 2023. In April, 2023, X Limited started negotiation with the Bank and requested it not to demand payment due to non-creation of the equitable mortgage.*

Meanwhile the financial statements of X Limited for the year ended 31st March, 2023 were approved for issue on 30th May, 2023. In the month of June, 2023, the Bank agreed that the payment would not be demanded immediately as a consequence of breach of the material provision. How would the loan liability be classified by X Limited as at 31st March, 2023?

(4 Marks)

Answer

(a) The contract should be separated using the 6-month USD / ₹ forward exchange rate, as at the date of the contract (1 USD = ₹ 80). The two components of the contract are therefore:

- A sale contract for USD 2,00,000
- A six-month currency forward to purchase USD 2,00,000 at ₹ 80
- This gives rise to a gain or loss on the derivative, and a corresponding derivative asset or liability.

On delivery

1. Bright Ltd. records the sales at the amount of the host contract = ₹ 1,60,00,000
2. The embedded derivative is considered to expire.
3. The derivative asset or liability (i.e. the cumulative gain or loss) is settled by becoming part of the financial asset on delivery.
4. In this case, the carrying value of the currency forward at 31st March 2024 on maturity is = ₹ 2,00,000 (85 – 80) = ₹ 10,00,000 (profit/asset)

Below is the table summarising the computation of gain/ loss to be recorded at every period end

Date	Transaction	Sales	Debtors	Derivative Asset (Liability)	(Profit) Loss
		₹	₹	₹	₹
1st Oct. 2023	Embedded Derivative	Nil Value			
31st Dec. 2023	Change in Fair Value of Embedded Derivatives MTM (80 - 70) x 2,00,000			(20,00,000)	20,00,000
31st Mar. 2024	Change in Fair Value of Embedded Derivatives (85 - 70) x 2,00,000			30,00,000	(30,00,000)
31st Mar. 2024	Recording sales at forward rate	(1,60,00,000)	1,60,00,000		
31st Mar. 2024	Embedded derivative-settled against debtors		10,00,000	(10,00,000)	

Journal Entries to be recorded at every period end

1st October, 2023 – No entry to be made

31st December, 2023

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Profit and loss A/c Dr.	20,00,000	
To Derivative financial liability A/c		20,00,000
(Being loss on mark to market of embedded derivative booked)		

31st March, 2024

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Derivative financial asset A/c Dr.	10,00,000	
Derivative financial liability A/c Dr.	20,00,000	
To Profit and loss A/c		30,00,000
(Being gain on embedded derivative based on spot rate at the date of settlement booked)		

31st March, 2024

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Trade Receivable A/c Dr.	1,60,00,000	
To Sales A/c		1,60,00,000
(Being sale booked at forward rate on the date of transaction)		

31st March, 2024

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Trade Receivable A/c Dr.	10,00,000	
To Derivative financial asset A/c		10,00,000
(Being derivative asset re-classified as a part of trade receivables, bringing it to spot rate on the date of sale)		

(b) As per Ind AS 1 "Presentation of Financial Statements", 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.

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

In the given case, bank (the lender) agreed for not to demand payment but only after the reporting date and the financial statements were approved for issuance. The financial statements were approved for issuance on 30th May 2023 and the Bank agreed for not to demand payment in the month of June 2023 although negotiation started in the month of April 2023 but could not agree before May 2023 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement as at 31st March, 2023.

Question 3

(a) *Sun Limited has entered into a Lease Agreement with Moon Limited for taking on lease an office building of 1000 square feet at the rate of ₹ 500 per square feet per annum for a period of 10 years. The annual lease payments are payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Sun Limited's incremental rate of borrowing at the commencement date is 6% per annum. At the beginning of the year 7, the lessor and the lessee agree to amend the original lease by extending the contractual lease term by another four years. The annual lease payments are unchanged for the extended period also. Sun Limited's incremental rate of borrowing at the commencement of Year is 7% per annum.*

How should the said modification be accounted for in the books of Sun Limited? Give your calculation by adopting the Present Value factor as under:

Year	1	2	3	4	5	6	7	8	9	10	Cumul.
7%	0.935	0.873	0.816	0.763	0.713	0.666	0.623	0.582	0.544	0.508	7.023
6%	0.943	0.890	0.840	0.792	0.747	0.705	0.665	0.627	0.592	0.558	7.359

(8 Marks)

(b) *The CFO of GOLD Limited, a manufacturing company, provided you the following information for your valuable opinion.*

The Company had issued 8% convertible debentures amounting to ₹ 320 Lakhs on 1st April, 2022 and repayable on 31st March, 2026 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 250 Lakhs ordinary shares in the company. On 1st April, 2022, the prevailing market interest rate for four-year convertible debentures which had no right of conversion was 10%. Using an annual discount rate of 10%, the present value of ₹ 1 payable in 4th year is 0.683 and the cumulative present value of ₹ 1 payable at the end of years one to four is 3.169. From the above information you are required to calculate the finance cost of convertible debentures and its closing balance as on 31st March, 2024 to be presented in the financial statements. ***(6 Marks)***

Answer

(a) At the effective date of the modification (at the beginning of Year 7), Sun Ltd. (Lessee) remeasures the lease liability based on:

(a) An eight-year remaining lease term

(b) Annual payments of ₹ 5,00,000 and

(c) Lessee's incremental borrowing rate of 7% p.a.

1. Calculation of Lease liability as at commencement date

Year	Lease Payment (A)	Present value factor @ 6% (B)	Present value of lease payments (A x B = C)
	₹	₹	₹
1	5,00,000	0.943	4,71,500
2	5,00,000	0.890	4,45,000
3	5,00,000	0.840	4,20,000
4	5,00,000	0.792	3,96,000
5	5,00,000	0.747	3,73,500
6	5,00,000	0.705	3,52,500
7	5,00,000	0.665	3,32,500
8	5,00,000	0.627	3,13,500
9	5,00,000	0.592	2,96,000
10	5,00,000	0.558	2,79,000
Lease liability as at commencement date			36,79,500

Alternatively, Present Value of lease liability may be calculated as follows:

= ₹ 5,00,000 x 7.359 = ₹ 36,79,500.

2. Calculation of Lease liability immediately before modification date

Year	Opening lease liability (A)	Interest @ 6% (B) =[A x 6%]	Lease payments (C)	Closing liability (D) = [A+B-C]
	₹	₹	₹	₹
1	36,79,500 (W.N.1)	2,20,770	5,00,000	34,00,270
2	34,00,270	2,04,016	5,00,000	31,04,286
3	31,04,286	1,86,257	5,00,000	27,90,543
4	27,90,543	1,67,433	5,00,000	24,57,976
5	24,57,976	1,47,479	5,00,000	21,05,455
6	21,05,455	1,26,327	5,00,000	17,31,782
	Lease liability as at modification date			17,31,782

3. Calculation of modified lease liability

Year	Lease Payment (A)	Present value factor @ 7% (B)	Present value of lease payments (A x B=C)
	₹		₹
7	5,00,000	0.935	4,67,500
8	5,00,000	0.873	4,36,500
9	5,00,000	0.816	4,08,000
10	5,00,000	0.763	3,81,500
11	5,00,000	0.713	3,56,500
12	5,00,000	0.666	3,33,000
13	5,00,000	0.623	3,11,500
14	5,00,000	0.582	2,91,000
Modified lease liability			29,85,500

Alternatively, Present Value of lease payment of modified lease term may be calculated as follows:

= ₹ 5,00,000 x 5.971 = ₹ 29,85,500.

4. Adjustment to ROU asset ₹

Modified Lease liability (W.N.3)	29,85,500
Original Lease liability as at modification date (W.N.2)	(17,31,782)
Adjustment to ROU asset	12,53,718

The modified lease liability equals ₹ 29,85,500 (W.N. 3). The lease liability immediately before the modification (including the recognition of the interest expense until the end of Year 6) is ₹ 17,31,782 (W.N.2). Sun Ltd. (Lessee) recognises the difference between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification (i.e., ₹ 12,53,718) (W.N.4) as an adjustment to the ROU Asset.

The ROU asset will be increased by ₹ 12,53,718 on the date of modification.

(b) This instrument has two components –

(1) Mandatory annual interest to be paid by the issuer on convertible debentures of ₹ 3,20,00,000 @ 8% till 4 years, and

(2) Payment of the principal amount at the end of 4th year.

However, since the holder has the option to convert the debentures into shares on maturity, as per Ind AS 32, the instrument is a compound financial instrument which carries elements of both liability and equity.

Statement showing computation of liability and equity component in the compound financial instrument.

	₹
Present value of interest payable during 4 years discounted at 10% (i.e. ₹ 3,20,00,000 x 8% x 3.169)	81,12,640
Present value of principal payable at the end of 4^{th}year discounted at 10% (₹ 3,20,00,000 x 0.683)	2,18,56,000

Liability component of the compound financial instrument	2,99,68,640
Equity component of the financial instrument (Balancing Figure)	20,31,360
Total proceed	3,20,00,000

Computation of finance cost to be charged to the financial instrument

Date	Opening balance a	Finance cost b =a x 10%	Interest outflow 3,20,00,000 x 8%	Outstanding balance at the end of the year d = (a+b-c)
	₹	₹	₹	₹
31.3.2023	2,99,68,640	29,96,864	25,60,000	3,04,05,504
31.3.2024	3,04,05,504	30,40,550	25,60,000	3,08,86,054
31.3.2025	3,08,86,054	30,88,605	25,60,000	3,14,14,654
31.3.2026	3,14,14,654	31,45,346	25,60,000	3,20,00,000

₹ 31,45,346 - ₹ 31,41,466 = ₹ 3,880 is due to approximation and rounding off.

According to the above table, finance cost to be charged in the Statement of Profit and Loss = ₹ 30,40,550.

The closing balance of liability component of convertible debentures to be presented in the balance sheet would be ₹ 3,08,86,054 and equity component would be ₹ 20,31,360.

Question 4

(a) Based on the advice from actuaries regarding contribution levels and overall liabilities of the defined benefit retirement plan to pay benefits to past and present employees, the Accountant Mr. Krishna of TUNA Limited provides the following information:

(i) On 1st April, 2023, the actuaries of the company advised that the present value of the defined obligation was ₹ 2,88,420. On the same date, the fair value of the assets of the defined benefit plan was ₹ 2,49,670 and the annual market yield on government bonds was 8%.

(ii) During the year ended 31st March, 2004, TUNA Limited made contributions of ₹ 33,650 into the plan and the plan paid out benefits of

₹ 20,160 to retired members. Both these payments were made on 31st March 2024

(iii) *The actuaries advised that the current service cost for the year ended 31st March, 2024 was ₹ 29,760. On 28th February 2024, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined obligation was increased by ₹ 7,280 from that date.*

(iv) *During the year ended 31st March, 2024, TUNA Limited was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 38,390. Before 31st March, 2024, TUNA Limited made payments of ₹ 36,270 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.*

(v) *On 31st March, 2024, the actuaries advised that the present value of the defined benefit obligation was ₹ 3,26,480. On the same date, the fair value of the assets of the defined benefits plan were ₹ 2,68,340.*

Examine and present how the above events would be reported in the financial statements of TUNA Ltd. for the year ended 31st March, 2024 as per Ind AS. Please note that the finance cost is to be computed on the opening balance.

(8 Marks)

(b) *ABC Limited has received the following grants for its newly started venture of manufacturing defense equipment in the defense corridor:*

(i) *₹ 25 lakhs received as an incentive for setting up industry in the defense corridor without any further condition.*

(ii) *₹ 50 lakhs received for carrying out research and development in the field of innovation of defense equipment.*

(ii) *Besides ABC Limited is awarded a government grant of ₹ 6 lakhs payable over three years (₹ 4 lakhs in the first year, ₹ 1 lakh each in year 2 and 3), on the condition of creating 10 new jobs and maintaining them for 3 years. The employees are recruited at a cost of ₹ 3,60,000 and the wage bill for the first year is ₹ 8,00,000, rising by ₹ 80,000 in each of the next*

2 years. ABC Limited has a reasonable assurance that it will comply with the conditions. attached to them and the grants will be received.

How should ABC Limited account for the above grants including the deferred income if any in its books of account? ***(6 Marks)***

Answer

(a) Remeasurement of gain or loss

	₹
Liability at the start of the year (₹ 2,88,420 -₹ 2,49,670)	38,750
Current service cost	29,760
Past service cost	7,280
Net finance cost	3,100
Gain on settlement	(2,120)
Contributions to plan	(33,650)
Benefits paid	NIL
Remeasurement loss (balancing figure)	15,020
Liability at the end of the year (₹ 3,26,480 - ₹ 2,68,340)	58,140

On 31st March 2024, Tuna Ltd. will report a net pension liability in the balance sheet. The amount of the liability will be ₹ 58,140 (₹ 3,26,480 – ₹ 2,68,340).

For the year ended 31st March 2024, Tuna Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be ₹ 29,760. The same treatment applies to the past service cost of ₹ 7,280.

For the year ended 31st March 2024, Tuna Ltd. will report a finance cost in profit or loss at the start of the year of ₹ 38,750 (₹ 2,88,420 - ₹ 2,49,670).

The amount of the finance cost will be ₹ 3,100 (₹ 38,750 x 8%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of ₹ 2,120 (₹ 38,390 – ₹ 36,270) will be reported in the statement of profit and loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March, 2024, the remeasurement loss will be ₹ 15,020 (Refer above table).

In the Statement of Profit and loss, the following will be recognised:

	₹
Current service cost	29,760
Net interest on net defined liability (₹ 23,074 – ₹ 19,974)	3,100
Gain on settlement (₹ 38,390 – ₹ 36,270)	2,120

Defined benefit re-measurements recognised in Other Comprehensive Income:

	₹
Loss on defined benefit obligation	(36,496)
Gain on plan assets	21,476
Gain on remeasurement	(15,020)

In the Balance Sheet, the following will be recognised:

	₹
Net defined benefit liability (₹ 3,26,480 – ₹ 2,68,340)	58,140

(b) ABC Ltd. should recognise the grants in the following manner:

(i) ₹ 25 lakhs have been received as an incentive for setting up industry in the defence corridor. This should be recognised in Statement of Profit and Loss immediately as there are no further conditions attached to the grant.

(ii) ₹ 50 lakhs should be recognised in profit or loss immediately assuming that no further conditions are attached to the grant.

Alternatively, in case it is assumed that grant for carrying out research and development in the field of innovation of defense equipment has conditions attached to it, then ₹ 50 lakhs should be recognised in profit or loss on a systematic basis over the periods in which ABC Ltd. recognises as expense the Research and Development costs for which the grant is intended to compensate.

(iii) Since there is reasonable assurance that the entity will comply with the conditions attaching to them and the grant will be received, the grant of ₹ 6,00,000 should be recognised at the beginning of the first year as receivable and will be compensated for the related costs over three years.

Therefore, grant income to be recognised in the Statement of Profit and Loss for the years 1,2 and 3 would be ₹ 2,32,000, ₹ 1,76,000 and ₹ 1,92,000 respectively. (Refer W.N 1 below)

The amount of grant that has not yet been credited to the statement of profit and loss i.e. deferred income is to be shown on the balance sheet. Hence, deferred income balance as at end of year 1, 2 and 3 are ₹ 3,68,000, ₹ 1,92,000 and Nil respectively. (Refer W.N.1 below)

Working Note:

Calculation of grant income and deferred income:

Year	Labour Cost	Grant Income	Computation of Grant Income	Deferred Income at the end of the year	Computation of deferred income at the end of the year
	₹	₹	₹	₹	₹
1	11,60,000	2,32,000	6,00,000 x (1,160/3,000)	3,68,000	(6,00,000 – 2,32,000)
2	8,80,000	1,76,000	6,00,000 x (880/3,000)	1,92,000	(3,68,000 – 1,76,000)
3	9,60,000	1,92,000	6,00,000 x (960/3,000)	Nil	(1,92,000 – 1,92,000)
	30,00,000	6,00,000			

Question 5

(a) Q Limited offers a new product X for sale to its customers at a price of ₹ 1,500. As a part of the Scheme, Q Limited gives the customers a discount voucher which entitles them a 30% discount on any future purchases up to ₹ 1,500 in the next 30 days. Q Limited intends to offer a 5% discount on all sales during the next 30 days as a part of the seasonal promotion. The 5% discount cannot be used in addition to the 30% discount voucher. Q Limited

believes that there is 80% likelihood that a customer will redeem the voucher and on an average, a customer will purchase ₹ 1,000 of additional products.

Find out is there any performance obligation on the part of Q Limited and if so calculate the stand alone and allocated transaction price. ***(5 Marks)***

(b) A Limited has chosen to elect the deemed cost exemption for carrying value of its property, plant and equipment as per previous GAAP in accordance with Ind AS 101. However, it does not wish to select the exemption available as per Ind AS 101 of capitalising exchange fluctuation on long-term foreign currency monetary items to property, plant and equipment and accordingly, it did not opt to avail the exemption available as per Ind AS 101 for previous GAAP policy of capitalizing exchange fluctuation to PPE.

In such a case, how would the company be required to treat the foreign exchange fluctuation already capitalised to the cost of property, plant and equipment under previous GAAP and also what will be the treatment of fluctuation on long-term foreign currency monetary items on transition date and after the transition date to Ind AS by the company in light of the above options exercised by the company? ***(5 Marks)***

(c) EITHER

Explain the criteria in the Conceptual Framework for Financial Reporting for the recognition and de-recognition of an asset.

OR

List out the entities which were covered under Phase I & II under the Companies (Indian Accounting Standards) Rules 2015 as notified by the MCA along with the specific date of coverage with its exclusions, if any. ***(4 Marks)***

Answer

(a) Since all customers will receive a 5% discount on purchases during the next 30 days, the only additional discount that provides the customer with a material right is the incremental discount of 25% on the products purchased. The entity accounts for the promise to provide the incremental discount as a separate performance obligation in the contract for the sale of Product X.

The entity believes there is 80% likelihood that a customer will redeem the voucher and, on an average, a customer will purchase ₹ 1,000 worth of

additional products. Consequently, the entity's estimated stand-alone selling price of the discount voucher is ₹ 200 (₹ 1,000 average purchase price of additional products x 25% incremental discount x 80% likelihood of exercising the option). The stand-alone selling prices of Product X and the discount voucher and the resulting allocation of the ₹ 1,500 transaction price are as follows:

Performance obligations	**Stand-alone selling price ₹**
Product X	1,500
Discount voucher	200
Total	1,700

Performance obligations	**₹**	**Allocated transaction price ₹**
Product X	(1,500 ÷ 1,700 × 1,500)	1,324
Discount voucher	(200 ÷ 1,700 × 1,500)	176
Total		1,500

The entity allocates ₹ 1,324 to Product X and recognizes revenue for Product X when control transfers.

The entity allocates ₹ 176 to the discount voucher and recognizes revenue for the voucher when the customer redeems it for goods or services or when it expires.

(b) Ind AS 101 permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS. Accordingly, the carrying value of property, plant and equipment as per previous GAAP as at the date of transition need not be adjusted for the exchange fluctuations capitalized to property, plant and equipment.

Separately, it allows a company to continue with its existing policy for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for

the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

Accordingly, given that Ind AS 101 provides these two choices independent of each other, it may be possible for an entity to choose the deemed cost exemption for all of its property, plant and equipment and not elect the exemption of continuing the previous GAAP policy of capitalising exchange fluctuation to property, plant and equipment.

In such a case, a harmonious interpretation of the two exemptions would require the company to recognise the property, plant and equipment at the transition date at the previous GAAP carrying value (without any adjustment for the exchanges differences capitalized under previous GAAP)

But, for the purposes of the first (and all subsequent) Ind AS financial statements, foreign exchange fluctuation on all long-term foreign currency borrowings that arose after the transition date would be recognised in the statement of profit and loss.

(c) **Either**

Recognition of assets

The Conceptual Framework for Financial Reporting defines an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Assets should be recognized if they meet the Conceptual Framework definition of an asset and such recognition provides users of financial statements with information that is useful i.e. with(a)relevant information; and(b)a faithful representation of the asset.

(i) Relevance

Information about assets is relevant to users of financial statements. However, recognition of a particular asset may not always provide relevant information like when:

(i) it is uncertain whether an asset exists; or

(ii) an asset exists, but the probability of an inflow or outflow of economic benefits is low

It may be a combination of factors and not any single factor that determines whether recognition provides relevant information.

Whether or not the asset is recognised, explanatory information about the uncertainties associated with it, may need to be provided in the financial statements.

(ii) Faithful representation

Recognition of a particular asset is appropriate if it provides not only relevant information, but also a faithful representation of that asset and of any resulting income, expenses or changes in equity. Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset or by other factors.

Faithful representation of a recognised asset involves not only recognition of that item, but also its measurement as well as presentation and disclosure of information about it.

Derecognition of assets

Derecognition is the removal of all or part of a recognised asset from an entity's balance sheet.

Derecognition normally occurs when that item no longer meets the definition of an asset i.e. when the entity loses control of all or part of the recognised asset.

In some cases, an entity might appear to transfer an asset but derecognition of that asset is not appropriate. For example, if an entity has apparently transferred an assetbut retains exposure to significant positive or negative variations in the amount of economic benefits that may be produced by the asset, this sometimes indicates that the entity might continue to control that asset. If an entity has transferred an asset to another party that holds the asset as an agent for the entity, the transferor still controls the asset.

(c) **Or**

MCA has notified the Companies (Indian Accounting Standards) Rules, 2015. Accordingly, it has notified 39 Ind AS and has laid down mandatory Ind AS transition roadmap for companies and non- banking finance companies excluding banking companies and insurance companies under following two phases:

Phase I

Following companies were covered under Phase I for accounting periods beginning on or after 1st April 2016, with the comparatives for the periods ending on 31st March 2016:

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) above and having net worth of rupees five hundred crore or more;

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) and sub-clause (b) as mentioned above.

Phase II

Following companies were covered under Phase II for accounting periods beginning on or after 1st April 2017, with the comparatives for the periods ending on 31st March 2017:

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;

(b) companies other than those covered in sub-clause (a) above i.e. unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.

(c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) and sub-clause (b) as mentioned above.

Exclusions:

The roadmap shall not be applicable to companies whose securities are listed or are in the process of being listed on SME without initial public offering in accordance with the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

Ind AS would not be applicable to companies other than listed companies whose net worth is less than ₹ 250 Crores and they will continue to follow AS. However, they can voluntary adopt Ind AS any time.

Question 6

(a) *Discuss how "Cloud Computing" has positively impacted the accounting function and list out the challenges faced by the users of it in cloud computing environment.* ***(5 Marks)***

(b) *Y Limited purchased a building for ₹ 30,00,000 on 1st April, 2021. The useful life of the building is estimated at 15 years. On 31st March, 2023, Y Limited classified the said building as held for sale. The impairment testing provides the estimated recoverable amount as ₹ 23,50,000.*

The fair value less cost to sell on 31st March, 2023 was ₹ 23,00,000. On 31st March, 2024 the management of Y Limited changed the plan, as the building no longer met the criteria of held for sale. The recoverable amount as at 31st March, 2024 is ₹ 25,00,000.

You are required to recommend the accounting treatment of events for the year ending 31st March, 2023 and 31st March, 2024 and value the property at the end of 31st March, 2023 and 31st March, 2024. ***(5 Marks)***

(c) *Dhruv Limited, a production company, sells television to various companies all over India. Company's financial year ends on 31st March. For the financial year 2022-2023, the company had a net profit after taxes of ₹ 2.4 crores. It prepares and publishes an interim financial report for each quarter of the year. The net profit of the company for the second quarter of 2023-2024 is ₹ 56 Lakhs.*

Following adjustments are to be made while computing the net profit of second quarter:

(i) *The company has a practice of declaring bonus of 5% of its profit after taxes of previous financial year. It has a history of doing so and the amount is recognised equally in each quarter. It declared bonus on 1st June 2023 but recognised the full amount in second quarter.*

(ii) *The company intends to incur major repair and renovation expense for the office building. For this purpose, it has started seeking quotations from vendors. It also has tentatively identified a vendor and expected costs are ₹ 34 lakhs. It provided for the same in this quarter.*

(iii) Exceptional loss of ₹4.2 Lakhs incurred during the second quarter due to workers' strike. 50% of exceptional loss has been deferred to next quarter.

Ascertain the correct net profit with reasons to be shown in the Interim Financial Report of second quarter to be presented to the Board of Directors.

(4 Marks)

Answer

(a) Cloud computing refers to the delivery of computing services over the internet. It allows accountants to access their data and software from any device with an internet connection.

Following are some of the ways in which Cloud Computing has positively impacted accounting:

1. **Improved accessibility:** Cloud-based accounting software allows users to access their financial data from any location with an internet connection. This has increased accessibility and flexibility for accountants and business owners, allowing them to work remotely and collaborate in real-time.
2. **Enhanced security:** Cloud-based accounting software providers typically offer advanced security features such as encryption, firewalls, and multi-factor authentication helping in the protection of sensitive financial data from cyber threats and data breaches.
3. **Increased scalability:** Cloud-based accounting software allows businesses to easily scale up or down based on their changing needs. As a business grows, it can easily add new users and features without having to invest in additional hardware or software.
4. **Reduced costs:** Cloud-based accounting software typically requires less upfront investment in hardware and software, as well as ongoing maintenance costs. This can help businesses save money on IT expenses and redirect those funds to other areas of the business. For example, the costs of installing Microsoft Office Suite on a laptop or desktop is far more expensive than subscribing to the Office 365 Suite, which is a web-based download. Further, the web-based download also provides the options of continuous free updates unlike its Office Suite offline counterpart.

5. **Streamlined collaboration:** Cloud-based accounting software allows multiple users to collaborate in real-time, reducing the need for manual data entry and communication. This can help to streamline workflows and reduce errors caused by miscommunication.

6. **Improved reporting and analytics:** Cloud-based accounting software often includes powerful reporting and analytics tools that allow businesses to gain deeper insights into their financial performance. This can help businesses make more informed decisions and identify areas for improvement.

Challenges in Cloud Computing

Following are the potential challenges which may emerge in cloud computing:

1. Since cloud-based software are completely online, they could be prone to hackers who could 'steal' data or passwords or compromise the integrity of the processed data, thereby causing disruptions to the businesses.

2. Strong net connectivity is a must for cloud-computing to be a success. Though there has been a huge surge in network and mobile connectivity in the past decade, connectivity in non-metros, tier-2 or tier-3 cities is not well-developed, which could create accessibility issues to the users of the cloud-based accounting software.

(b) 1. Value of property immediately before the classification as held for sale, as per Ind AS 16, as on 31st March, 2023

	₹
Purchase Price	30,00,000
Less: Accumulated Depreciation (for two years i.e. ₹ 2,00,000 per year)	(4,00,000)
	26,00,000
Less: Impairment loss (₹ 26,00,000 – ₹ 23,50,000)	(2,50,000)
Carrying Amount	23,50,000

On initial classification as held for sale on 31st March, 2023, the value will be lower of:

Carrying amount after impairment	₹ 23,50,000
Fair Value less Cost to sell	₹ 23,00,000

On 31st March, 2023, non-current asset classified as held for sale will be recorded at ₹ 23,00,000.

Depreciation of ₹ 2,00,000 (for the year) and Impairment Loss of ₹ 3,00,000(₹ 2,50,000 +₹ 50,000) is charged in profit or loss for the year ended 31st March, 2023.

2. **On 31st March, 2024, held for sale property is reclassified as criteria is not met. The value will be lower of:**

Carrying amount immediately before classification on 31st March, 2023	₹ 23,50,000
Less: Depreciation based on 13 years balance life	(₹ 1,80,769)
Carrying amount had the asset is not classified as held for sale	₹ 21,69,231

Recoverable Amount ₹ 25,00,000

Property will be valued at ₹ 21,69,231on 31st March, 2024.

Adjustment to the carrying amount of ₹ 1,30,769 (₹ 23,00,000 – ₹ 21,69,231) is charged to the profit or loss.

(c) 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) A liability for bonus may arise out of legal agreement or constructive obligation because of which it has no alternative but to pay the bonus and accordingly, needs to be accrued in the annual financial statements. Bonus liability is accrued in interim financial statements on the same basis as they are accrued for annual financial statements.

In the given case, since the company has past record of declaring annual bonus every year, the same may be accrued using a reasonable

estimate (applying the principles of Ind AS 19, Employee Benefits) while preparing its interim results.

Accordingly, Bonus amount to be charged in the second quarter would be ₹ 2,40,00,000 x 5% x ¼ = ₹ 3,00,000.

Bonus of ₹ 9,00,000 (₹ 12,00,000 – ₹ 3,00,000) must be reversed.

(ii) The cost of a planned major repair and renovation that is expected to occur in later part of the year is not considered for interim reporting purposes unless an event has caused the entity to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

Hence, ₹ 34,00,000 provided in the second quarter must be reversed.

(iii) Treatment of exceptional loss is not as per the principles of Ind AS 34, as the entire amount of ₹ 4,20,000 incurred during the second quarter should be recognized in the same quarter.

Hence, ₹ 2,10,000 which was deferred should be deducted from the profits of second quarter only.

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

₹ 96,90,000 (₹ 56,00,000 + ₹ 9,00,000 + ₹ 34,00,000 - ₹ 2,10,000).