PAPER – 1: FINANCIAL REPORTING

QUESTIONS

Case Scenario I

D Ltd. prepares financial statements to 31st March each year. Following information on revenue transactions are relevant to the year ended 31st March 20X7.

(i) On 1st October 20X6, D Ltd. sold a product to a customer for ₹ 1,21,000. This amount is payable on 31st December, 20X8. The manufacturing cost of the product for D Ltd. was ₹ 80,000. The customer had a right to return the product for a full refund at any time up to and including 31st December 20X6. At 1st October 20X6, D Ltd. had no reliable evidence regarding the likelihood of the return of the product by the customer. The product was not returned by the customer before 31st December 20X6 and so the right of return for the customer expired. On both 1st October 20X6 and 31st December 20X6, the cash selling price of the product was ₹1,00,000. A relevant annual rate to use in any discounting calculations is 10%.

(ii) On 1st July 20X5 D Ltd. began an arrangement to sell goods to a third party B Ltd. The price of the goods was set at ₹100 per unit for all sales in the two-year period ending 31st June 20X7. However, if sales of the product to B Ltd. exceed 60,000 units in the two-year period ending 30th June 20X7, then the selling price of all units is retrospectively set at ₹90 per item.

Sales of the goods to B Ltd. in the nine-month period ending on 31st March, 20X6 totalled 20,000 units and this volume of sales per month was not expected to change before 30th June 20X7.

However, in the year ended 31st March, 20X7, total sales of the goods to B Ltd. were 35,000 and based on current orders from B Ltd., the estimate was revised. The directors of D Ltd. estimated that the total sales of the goods to B Ltd. in the two-year period ending 30th June 20X7 would be more than 60,000 units.

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).

1. When and by what amount the revenue be recognized with respect to sales made on 1st October, 20X6?

   (a) On 1st October, 20X6 by ₹ 1,21,000

   (b) On 1st October, 20X6 by ₹ 1,00,000

   (c) On 1st October, 20X6 by ₹ 80,000

   (d) On 1st December, 20X6 by ₹ 1,00,000

2. What will be the amount of finance income to be recognized with respect to sales in the year 20X6-20X7?

   (a) ₹ 5,000

   (b) ₹ 2,500

   (c) ₹ 10,000

   (d) ₹ 2,000

3. What will be the amount of Trade Receivable as on 31st March 20X7, against the sale made on 1st October 20X6?

   (a) ₹ 1,21,000

   (b) ₹ 1,00,000

   (c) ₹ 1,02,500

   (d) ₹ 1,05,000

4. What will be the amount of revenue to be recognized in the year 20X5-20X6 with respect to sales arrangement with B Ltd.?

   (a) ₹ 20,00,000

   (b) ₹ 18,00,000

   (c) ₹ 55,00,000

   (d) ₹ 49,50,000

5. What will be the amount of revenue to be recognized in the year 20X6-20X7 with respect to sales arrangement with B Ltd.?

   (a) ₹ 35,00,000

   (b) ₹ 29,50,000

   (c) ₹ 55,00,000

   (d) ₹ 49,50,000

Case Scenario II

M/s XYZ & Co. is an auditing firm. During his audit, the firm is facing difficulty in accounting of the following transaction for which, it seeks your answer:

(i) A Ltd. has established a defined benefit pension plan for its eligible employees. The balance sheet of A Ltd. at 31st March, 20X7 currently includes the estimated net liability at 31st March, 20X6 amounting ₹18.75 crore. The following matters relate to the plan for the year ended 31st March, 20X7:

– The estimated current service cost was advised by the actuary to be ₹6 crore.

– On 31st March, 20X7, A Ltd. paid contributions of ₹ 7 crore into the plan and charged this amount as an operating expense.

– The annual market yield on high quality corporate bonds on 1 April, 20X6 was 8%.

– The estimated net liability at 31st March, 20X7 was advised by the actuary to be ₹20.5 crore.

No benefits have been paid to date.

(ii) On 1st April 2XX0, E Ltd. completed the construction of a non-current asset with an estimated useful life of 20 years. The costs of construction were recognised in property, plant and equipment and depreciated appropriately. E Ltd. has a legal obligation to restore the site on which the non-current asset is located on 31st March 2X20. The estimated cost of this restoration work, at 31st March 2X20 prices is ₹2.5 crore. The directors of E Ltd. have made a provision of ₹ 0.125 crore (1/20 x ₹ 2.5 crore) in the draft balance sheet at 31st March, 2XX1. An appropriate annual discount rate to use in any relevant calculations is 6% and at this rate the present value of ₹ 1 payable in 20 years is 0.312.

On the basis of the facts given above, chose the most appropriate answer to Questions 6 to 10 below based on the relevant Indian Accounting Standards (Ind AS).

6. What is the amount of net adjustment to be made in the statement of profit and loss for the year 20X6-20X7 with respect to defined benefit pension plan?

   (a) ₹ 7 crore added back to the profit of the year 20X6-20X7

   (b) ₹ 6 crore deducted from the profit of the year 20X6-20X7

   (c) ₹ 5 crore deducted from the profit of the year 20X6-20X7

   (d) ₹ 15 crore deducted from the profit of the year 20X6-20X7

7. What is the amount of actuarial gain/(loss) on defined benefit pension plan for the year 20X6-20X7?

   (a) ₹ 1.5 crore

   (b) ₹ 1.25 crore

   (c) ₹ 1 crore

   (d) ₹ 0.5 crore

8. What is the original provision required to be made on account of restoration of non-current asset in the year 2XX0-2XX1?

   (a) ₹ 0.78 crore

   (b) ₹ 0.125 crore

(c) ₹ 0.039 crore

(d) No provision was required in the year 2XX0-2XX1 as it is the expense of the year 2X19-2X20

9. What will be the amount of adjustment to be made in the retained earnings on account of restoration provision?

(a) ₹ 0.0468 crore

(b) ₹ 0.0390 crore

(c) ₹ 0.0392 crore

(d) ₹ 0.125 crore

10. What will be the amount of one year's unwinding of discount on account of restoration provision?

(a) ₹ 0.0468 crore

(b) ₹ 0.0390 crore

(c) ₹ 0.0392 crore

(d) ₹ 0.125 crore

Ind AS 12 'Income Taxes'

11. X Ltd., an Indian company owns a freehold land with carrying value of ₹10,00,000 which is not depreciated for tax purposes but is indexed for inflation. Indexed value and fair value of such land is ₹ 15,00,000 and ₹22,00,000 respectively as of the reporting date. What will be the tax base for such freehold land for measurement of deferred tax if:

(i) X Ltd. intends to sell it as a part of slump sale of business eventually after using it for business purpose

(ii) X Ltd. intends to sell the land individually and not on a slump sale basis

(iii) X Ltd. has classified such land as investment property and intends to sell it individually and not on a slump sale basis

(iv) X Ltd. follows a revaluation model for freehold land and intends to sell it individually and not on a slump sale

As per the applicable tax laws in the jurisdiction, indexation benefit is not available if the freehold land is sold as a part of slump sale of business, but indexation benefit is available if freehold land is sold individually.

Ind AS 116 'Leases'

12. Case I

Scenario 1: The 'last mile' is a dedicated cable that connects Entity Y's network with the end customer's device. The use of this cable is at the discretion of the customer. Entity Y decides the location of end points and has right to replace the lines (dedicated cable), however it is not practical to replace the lines, since replacement would require additional costs to be incurred without any corresponding benefit. Whether the arrangement would be within the scope of Ind AS 116?

Scenario 2: If it is practical for Entity Y to replace the lines and Entity Y would benefit from this replacement, would the answer be different?

Case II

Customer X enters into a 10-year contract with a utility company, Entity Y, for the right to use three specified, physically distinct fibers within a larger cable connecting Mumbai to Delhi. Customer makes the decisions about the use of the fibers by connecting each end of the fibers to its electronic equipment. Entity Y owns extra fibers but can substitute those for Customer's fibers only for reasons of repairs, maintenance or malfunction. The useful life of fiber is 15 years. Whether this arrangement is covered under Ind AS 116?

Case III

Customer X enters into a 10-year contract with Entity Y for the right to use a specified amount of capacity within a cable connecting Mumbai to Delhi. The specified amount is equivalent to Customer X having the use of the full capacity of three fiber strands within the cable (the cable contains multiple fibers with similar capacities). Entity Y makes decisions about the transmission of data (i.e., Entity Y lights the fibers, makes decisions about which fibers are used to transmit Customer's traffic). The useful life of fiber is 15 years.

Whether this arrangement is covered under Ind AS 116?

Ind AS 41 'Agriculture'

13. ABC Ltd. is in the business of manufacturing an apple beverage and requires a large quantity of apples to manufacture such beverage. In order to satisfy its requirement of apples, it enters into 3 years lease contracts with owners of apple orchards. The lease contracts are mainly of two types:

    (1) Contract 1: The owner of the apple orchard (i.e. the lessor) raises the apple trees to produce apples. ABC Ltd. (i.e. lessee) makes a fixed annual payment to the owner of the apple orchard who is required to cultivate the produce as per the specifications of ABC Ltd. ABC Ltd. harvests the apples itself for fulfilling its requirement of apples.

    (2) Contract 2: ABC Ltd. obtains the apple orchard from owner (i.e. the lessor) to raise the apple trees for subsequent harvest of the apples to ensure that the apples are as per the requirements of ABC Ltd. ABC Ltd. makes a fixed annual payment to the owner of the apple orchards (i.e. the lessor).

    Whether ABC Ltd. is engaged in agricultural activity as per Ind AS 41 in both of the cases?

Ind AS 10 'Events After the Reporting Period'

14. H Ltd. constructed a warehouse at a cost of ₹10 lakhs in 20X1. It first became available for use by H Ltd. on 1st April, 20X2. On 29th April, 20X6, H Ltd. discovered that its warehouse was damaged. During early May 20X6, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely after heavy rainfall in the week ended 27th April 20X6. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at 31st March 20X6. This estimate was ₹ 6,00,000. Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30-year useful life.

Seepage of rain-water through the crack in the warehouse caused damage to inventory worth about ₹ 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31st March, 20X6. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st March, 20X6 were approved for issue by the Board of Directors on 28th May, 20X6.

You are required to :

(i) Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st March, 20X6. Kindly ignore tax impact.

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

(iii) Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31st March, 20X6?

Ind AS 36 'Impairment of Assets'

15. At 31st March, 20X1, the assets of a CGU are being reviewed for impairment. The carrying value of the CGU's net assets is ₹65 lakhs (excluding any restructuring provision), and remaining useful economic life of recognised asset is eight years.

Management's approved budgets at 31st March, 20X1 include restructuring costs of ₹ 3,50,000 to be incurred in 20X2; the restructuring is expected to generate cost savings of ₹ 1,00,000 per annum from 20X3 onwards. Formal budgets have been prepared for the three years to 31st March, 20X4. A zero-growth rate is assumed, because market conditions are extremely competitive, and this is expected to continue for the foreseeable future. The future cash flow estimates are as follows:

Year	With restructuring consideration	Without restructuring consideration
	₹	₹
20X1-20X2	5,20,000	8,70,000
20X2-20X3	10,00,000	9,00,000
20X3-20X4	10,50,000	9,50,000
20X4-20X5	10,50,000	9,50,000
20X5-20X6	10,50,000	9,50,000
20X6-20X7	10,50,000	9,50,000
20X7-20X8	10,50,000	9,50,000
20X8-20X9	10,50,000	9,50,000

In 20X2, the net cash flows without restructuring (₹ 8,70,000) exceed the net cash flows with restructuring (₹ 5,20,000) by the amount of the restructuring costs (₹ 3,50,000).

The future cash flows (which exclude inflation) have been discounted at a rate of 4%. For simplicity, it has been assumed that the cash flows arise at the end of each year.

Compute Impairment Loss at 31st March, 20X1 when-

(i) Restructuring costs is recognised in the financial statements at 31st March, 20X1

(ii) Restructuring costs is not recognised in the financial statements at 31st March, 20X1

Ind AS 38 'Intangible Assets'

16. SS Limited had the following transactions during the Financial Year 20X1-20X2.

(i) On 1st April 20X1, SS Limited purchased the net assets of M Limited for ₹ 13,20,000. The fair value of M Limited's identifiable net assets was ₹ 10,00,000. SS Limited is of the view that due to popularity of M Limited's product, the life of goodwill is 10 years.

(ii) On 4th May 20X1, SS Limited purchased a Franchisee to organize musical shows from A TV for ₹80,00,000 and at an annual fee of 2% of musical shows revenue. The Franchisee expires after 5 years. Musical shows revenue were ₹ 10,00,000 for financial year 20X1-20X2. The projected future revenues for financial year 20X2-20X3 is ₹ 25,00,000 and ₹ 30,00,000 p.a. for remaining 3 years thereafter.

(iii) On 4th July 20X1, SS Limited was granted a Copyright that had been applied for by M Limited. During the financial year 20X1-20X2, SS Limited incurred ₹2,50,000 on legal cost to register the Patent and ₹ 7,00,000 additional cost to successfully prosecute a copyright infringement suit against a competitor. The life of the Copyright is for 10 years.

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

You are required to prepare:

(i) A Schedule showing the intangible section in SS Limited Balance Sheet as on 31st March 20X2, and

(ii) A Schedule showing the related expenses that would appear in the Statement of Profit and Loss of SS Limited for the year ended 20X1-20X2.

Ind AS 16 'Property, Plant and Equipment'

17. On 1st October, 20X1, XY Ltd. completed the construction of a power generating facility. The total construction cost was ₹ 2 crore. The facility was capable of being used from 1st October, 20X1 but XY Ltd. did not bring the facility into use until 1st January, 20X2. The estimated useful life of the facility at 1st October, 20X1 was 40 years.

Under legal regulations in the jurisdiction in which XY Ltd. operates, there are no requirements to restore the land on which power generating facilities stand to its original state at the end of the useful life of the facility. However, XY Ltd. has a reputation for conducting its business in an environmentally friendly way and has previously chosen to restore similar land even in the absence of such legal requirements. The directors of XY Ltd. estimated that the cost of restoring the land in 40 years' time (based on prices prevailing at that time) would be ₹ 1 crore. A relevant annual discount rate to use in any discounting calculations is 5%. When the annual discount rate is 5%, the present value of ₹ 1 receivable in 40 years' time is approximately 0.142.

Explain and show how the above event would be reported in the financial statements of XY Ltd. for the year ended 31st March, 20X1. Ignore comments on potential future reclassification issues.

Ind AS 23 'Borrowing Costs'

18. X Ltd. commenced the construction of a plant (qualifying asset) on 1st September, 20X1, estimated to cost ₹ 10 crores. For this purpose, X Ltd. has not raised any specific borrowings, rather it intends to use general borrowings, which have a weighted average cost of 11%. Total borrowing costs incurred during the period, viz., 1st September, 20X1 to 31st March, 20X2 were ₹ 0.5 crore.

The other relevant details are as follows: (₹ in crore)

Month	Cost of construction accrued	Cash outflows (paid in advance at the start of each month)
September	1.50	3.00
October	0.50	1.70
November	1.50	2.50
December	0.50	—
January	1.80	1.00
February	0.70	—
March	3.00	1.50

What is the amount of interest that should be capitalised to the cost of the plant in the financial statements for the year ended 31st March, 20X2?

Ind AS 110 'Consolidated Financial Statements'

19. On 1st April 20X1, A Limited acquired 80% of the share capital of S Limited. On the acquisition date the share capital and reserves of S Ltd. stood at ₹ 5,00,000 and ₹ 1,25,000 respectively. A Limited paid initial cash consideration of ₹ 10,00,000. Additionally, A Limited issued 2,00,000 equity shares with a nominal value of ₹ 1 per share at current market value of ₹ 1.80 per share.

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

1st year: 0.91

2nd year: 0.83

3rd year: 0.75

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

Below are the Balance Sheet of A Limited and S Limited as at 31st March, 20X3:

	A Limited (₹ 000)	**S Limited (₹ 000)**
Non-current assets:		
Property, plant & equipment	5,500	1,500
Investment in S Limited at cost	1,000	
Current assets:		
Inventory	550	100
Receivables	400	200
Cash	200	50
	7,650	1,850

Equity:		
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	800
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

Further information:

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

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

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

You are required to prepare Consolidated Balance Sheet of A Limited as at 31st March, 20X3. (Notes to Account on Consolidated Balance Sheet is not required).

Ind AS 111 'Joint Arrangements'

20. P Limited and Q Limited enter into a contractual arrangement to buy a building that has 12 floors, which they will lease to other parties. P Limited and Q Limited are authorised to lease five floors each. P Limited and Q Limited can unilaterally make all decisions related to their respective floors and are entitled to all of the income from those floors. The remaining two floors will be jointly managed – all decisions concerning these two floors must be unanimously agreed to between P Limited and Q Limited who will share net profits or net losses in respect of these two floors equally, i.e. they both have the rights to the net assets of the arrangement. The leasing of property is determined to be the relevant activity.

Whether this arrangement is a joint operation or a joint venture?

SUGGESTED ANSWERS

Answer to Case Scenario I

1. **Option (d):** On 1st December, 20X6 by ₹ 1,00,000
2. **Option (b):** ₹ 2,500
3. **Option (c):** ₹ 1,02,500

Reason for 1 -3: Under the principles of Ind AS 115, revenue cannot be recognised on 1st October 20X6 because at that date the consideration is variable and the amount of the variable consideration cannot be reliably estimated.

However, on 1st October 20X6 ₹ 80,000 would be removed from inventory and included as a 'right to recover asset'.

Revenue of ₹ 1,00,000 (the present value of ₹ 121,000 receivable in two years) is recognised on 31st December, 20X6 when the uncertainty regarding potential returns is resolved.

On the same day, the 'right to recover asset' will be de-recognised and transferred to cost of sales.

D Ltd. will also recognise finance income of ₹ 2,500 (₹ 1,00,000 x 10% x 3/12) in the year ended 31st March 20X7.

At 31st March, 20X7, D Ltd. will recognise a trade receivable of ₹ 1,02,500 (₹ 1,00,000 + ₹ 2,500).

4. **Option (a):** ₹ 20,00,000
5. **Option (b)**: ₹ 29,50,000

Reason for 4 & 5

The consideration payable by the customer is variable as it depends on the volume of sales in the two-year period. However, D Ltd. can reliably estimate the outcome and that the volume discount threshold will not be exceeded (sales for 9 months: 20,000 x 24/9 = 53,333). The revenue included for the year ended 31st March, 20X6 will be booked at ₹ 100 per unit and will be ₹ 20,00,000 (20,000 x ₹ 100).

During the year ended 31st March, 20X7, actual sales volumes and estimates change such that the cumulative revenue should now be booked at ₹ 90 per unit. It is now expected that the volume discount threshold will be exceeded. This means that the cumulative revenue relating to these goods at 31st March, 20X7 will be ₹ 49,50,000 ((20,000 + 35,000) x ₹ 90).

The revenue which will actually be booked by D Ltd. for the year ended 31st March, 20X7 will be ₹ 29,50,000 (₹ 49,50,000 – ₹ 20,00,000 recognised in 20X5-20X6).

Answer to Case Scenario II

6. Option (c): ₹ 5 crore deducted from the profit of the year 20X6-20X7

Reason

Computation of net adjustment for defined benefit pension plan in the statement of profit and loss

	₹ in crore
Current service cost	6
Interest cost (8% x 18.75)	1.5
Contributions incorrectly charged to profit or loss	(7)
So adjustment equals	0.5

7. Option (b): ₹ 1.25 crore

Reason

Computation of actuarial gain/(loss) on defined benefit pension plan

	₹ in crore
Opening liability	18.75
Current service cost	6

Interest cost	1.5
Contributions paid into plan	(7)
	19.25
Actuarial loss on re-measurement (balancing figure)	1.25
Closing liability	20.5

8. **Option (a) :** ₹ 0.78 crore

9. **Option (c):** ₹ 0.0392 crore

10. **Option (a):** ₹ 0.0468 crore

Reason for 8-10

Adjustment for restoration provision

	₹ in crore
Originally required provision (2.5 crore x 0·312)	0.7800
One year's unwinding of discount (0.78 x 6%)	(0.0468)
One year's depreciation of capitalised cost (0.78 x 1/20)	(0.0390)
Original provision incorrectly made	0.1250
So retained earnings adjustment equals	0.0392

11. Paragraphs 51 and 51A of Ind AS 12, state that the measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

(a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and

(b) the tax base of the asset (liability).

In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement."

The expectation of the entity at the end of the reporting period with regard to the manner of recovery or settlement of its assets and liabilities will require exercise of judgement based on evaluation of facts and circumstances in each case. It may be relevant to consider that there is substance to management's expectation of the entity being able to recover the asset through slump sale or otherwise.

Depending on the facts and circumstances, it is generally assumed that the Company will act in the most economically advantageous way.

If a non-depreciable asset is measured using the revaluation model, then an entity is required to measure the DTA/DTL considering the tax consequences of recovering the carrying amount through sale.

Accordingly, based on assumption around supporting facts and circumstances to support management expectation around recovery or settlement, following will be the tax base for computing the deferred tax assets/ liability, in the given case:

(i) X Ltd. intends to sell it as slump sale eventually after using it for business purpose

If it is concluded based on evaluation of facts that the freehold land will be sold through slump sale, then the tax base of the land will be the same as the carrying amount of the land, as indexation benefit is not available in case of slump sale and hence there will not be any temporary difference.

(ii) X Ltd. intends to sell the land individually and not on a slump sale basis

In the given scenario, the company intends to sell the land individually and not on a slump sale such that the company would get indexation benefit.

Thus, book base of land, i.e. carrying amount of freehold land in the balance sheet is ₹ 10,00,000. As per paragraph 51A of Ind AS 12, the tax base (amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset) is the indexed valued of ₹ 15,00,000 since the company intends to sell the land individually and not on slump sale and thus get indexation benefit. Deferred tax assets will be set up, subject to recoverability, on a deductible tax difference of ₹ 5,00,000.

(iii) X Ltd. has classified such land as investment property and intends to sell it individually and not on a slump sale

Paragraph 56 of Ind AS 40, *Investment property*, requires that after initial recognition, an entity shall measure all of its investment properties in accordance with the requirement for cost model as per Ind AS 16, other than those that meet the criteria to be classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*. Ind AS 40 does not allow fair value model. Accordingly, freehold land classified as investment property will be measured at cost.

Thus, book base of land, i.e. carrying amount of freehold land in the balance sheet is ₹ 10,00,000. The Company intends to sell the land individually and not on a slump sale and thus get indexation benefit. Hence, as per paragraph 51A of Ind AS 12, the tax base (amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset) is the indexed valued of ₹ 15,00,000. Accordingly, deferred tax assets will be set up, subject to recoverability, on deductible tax difference of ₹ 5,00,000.

(iv) X Ltd. follows a revaluation model for freehold land and intends to sell it individually and not on a slump sale. If X Ltd. follows a revaluation model, carrying amount of freehold land in the balance sheet would be ₹ 22,00,000. Thus, book base of land is ₹ 22,00,000.

The Company intends to sell the land individually and not on a slump sale and thus get indexation benefit. Hence, as per paragraph 51A of Ind AS 12, the tax base (amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers the carrying amount of the asset) is the indexed valued of ₹ 15,00,000. Accordingly, deferred tax liability will be set up on taxable temporary difference of ₹ 7,00,000.

As per paragraph 39 of Ind AS 16, if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Accordingly, the effect of deferred tax liability should also be recognised in other comprehensive income as per paragraph 57 and 61A of Ind AS 12.

12. <u>Case I</u>

Scenario 1:

(i) As per paragraph B13 of Ind AS 116, 'Last mile' which is a dedicated cable is an identified asset since it is physically distinct.

(ii) There are no substantive substitution rights with Entity Y, as it does not have the practical ability to substitute alternative assets throughout the period of use.

Thus, this arrangement is within the scope of Ind AS 116.

Scenario 2:

If Entity Y has the practical ability to replace the lines and it would benefit from such replacement, Entity Y has substantive substitution rights. In such case, this arrangement for the 'last mile cable' will not be within the scope of Ind AS 116.

<u>Case II</u>

The fibers are specified in the contract and are physically distinct. Hence, in accordance with paragraph B13 and B20, the said three fibers are identified asset.

Paragraph B18, inter alia, states that, "the supplier's right or obligation to substitute the asset for repairs and maintenance, if the asset is not operating properly or if a technical upgrade becomes available does not preclude the customer from having the right to use an identified asset."

Further, paragraph B27 provides that although rights such as those to operate or maintain an asset are often essential to the efficient use of an asset, they are not rights to direct how and for what purpose the asset is used and can actually be dependent on the decisions about how and for what purpose the asset is used.

In accordance with the above, as Entity Y can substitute these three distinct fibers only for reasons of repairs, maintenance or malfunction, it does not preclude them from being an identified asset.

Further, the Customer X has right to control the use of the identified fibers for 10 year since it has -

(a) the right to obtain substantially all of the economic benefits from use of the identified fibers throughout the period of use, i.e., 10 years; and

(b) the right to direct the use of the fibers as it makes the decisions about the use of the fibers, i.e., it has right to direct how and for what purpose the fibers are used throughout the period of use.

Hence, this arrangement is within the scope of Ind AS 116.

Case III

Paragraph B20 specifically provides that a capacity or other portion of an asset that is not physically distinct (for example, a capacity portion of a fiber optic cable) is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset. In the given case, the capacity portion that will be provided to Customer X is not physically distinct from the remaining capacity of the cable and does not represent substantially all of the capacity of the cable, thus, it is not an identified asset. Further, Entity Y makes all decisions about the transmission of data, (i.e., supplier lights the fibers, makes decisions about which fibers are used to transmit customer's traffic).

Thus, the contract does not contain a lease and is therefore not within the scope of Ind AS 116.

13. **Contract 1:**

As per contract 1, during the 3 years of the contract, ABC Ltd. only harvests apples from the apple orchards whereas biological transformation is managed by the owners of the apple orchards (i.e. the lessor). Since ABC Ltd. is not involved in the biological transformation of the apple orchards and is only harvesting biological assets, it cannot be said to be an agricultural activity as per Ind AS 41. Hence, ABC Ltd. is not engaged in agricultural activity as per Ind AS 41.

Contract 2:

As per contract 2, ABC Ltd. obtains the apple orchards and is actively involved in the raising of apple trees in order to ensure that the apples are as per its requirements. Since, it is actively managing the biological transformation and harvest of biological asset. Hence, ABC Ltd. is engaged in agricultural activity as per Ind AS 41.

14. **(i)** **Journal Entries on 31st March, 20X6**

	₹	₹
Depreciation expense A/c (W.N.1) Dr. To Warehouse or Accumulated depreciation A/c (Being additional depreciation expense recognised for the year ended 31st March 20X6 arising from the reassessment of the useful life of the warehouse)	19,608	19,608
Impairment loss A/c (W.N.2) Dr. To Warehouse or Accumulated depreciation A/c (Being impairment loss recognised due to discovery of structural fault in the construction of warehouse at 31st March, 20X6)	2,47,059	2,47,059

(ii) (a) **The damage to warehouse is an adjusting event** (occurred after the end of the year 20X6-20X6) for the reporting period 20X5-20X6, since it provides evidence that the structural fault existed at the end of the reporting period. It is an adjusting event, in spite of the fact that fault has been discovered after the reporting date.

The effects of the damage to the warehouse are recognised in the year 20X5-20X6 reporting period. Prior periods will not be adjusted because those financial statements were prepared in good faith (eg. regarding estimate of useful life, assessment of impairment indicators etc.) and had not affected the financials of prior years.

(b) Damage of inventory due to seepage of rainwater ₹ 1,00,000 occurred during the year 20X5-20X6. **It is a non-adjusting event** after the end of the 20X5-20X6 reporting period since the inventory was in good condition at 31st March 20X6. Hence, no accounting has been done for it in the year 20X5-20X6.

H Ltd. must disclose the nature of the event (i.e. rain-damage to inventories) and an estimate of the financial effect (i.e. ₹ 1,00,000 loss) in the notes to its 31st March 20X6 annual financial statements.

(iii) If the damage to the warehouse had been caused by an event that occurred after 31st March 20X6 and was not due to structural fault, **then it would be considered as a non-adjusting event** after the end of the reporting period 20X5-20X6 as the warehouse would have been in a good condition at 31st March 20X6.

Working Notes:

1. Calculation of additional depreciation to be charged in the year 20X5-20X6

Original depreciation as per SLM already charged during the year 20X5-20X6 = ₹ 10,00,000/ 30 years = ₹ 33,333.

Carrying value at the end of 20X4-20X5 = 10,00,000 – (₹ 33,333 x 3 years) = ₹ 9,00,000

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

Additional depreciation to be recognised in the books in the year 20X5-20X6 = ₹ 52,941 – ₹ 33,333 = ₹ 19,608

2. Calculation of impairment loss in the year 20X5-20X6

Carrying value after charging depreciation for the year 20X5-20X6

= ₹ 9,00,000 – ₹ 52,941 = ₹ 8,47,059

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

Impairment loss = Carrying value - Recoverable value

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

15. Computation of present value of cash flows under both the following conditions: (Amount in ₹)

Year	Discount factor	With restructuring consideration		Without restructuring coordination	
		Future net cash flows	Present value	Future net cash flows	Present value
	(a)	(b)	(c)=(a)x(b)	(d)	(e)=(a)x(d)
20X1-20X2	0.962	5,20,000	5,00,000	8,70,000	8,36,000
20X2-20X3	0.925	10,00,000	9,25,000	9,00,000	8,32,000
20X3-20X4	0.889	10,50,000	9,33,000	9,50,000	8,45,000
20X4-20X5	0.855	10,50,000	8,98,000	9,50,000	8,12,000
20X5-20X6	0.822	10,50,000	8,63,000	9,50,000	7,81,000
20X6-20X7	0.790	10,50,000	8,30,000	9,50,000	7,51,000
20X7-20X8	0.760	10,50,000	7,98,000	9,50,000	7,22,000
20X8-20X9	0.730	10,50,000	7,67,000	9,50,000	6,94,000
Value in use			65,14,000		62,73,000

The impairment calculations at 31st March, 20X1 differ according to whether or not provision for the restructuring costs is recognised in the financial statements. This will depend on whether the requirements of Ind AS 37 have been met for recognition.

(i) Provision for restructuring costs recognised at 31st March, 20X1

If provision has been made for restructuring costs, the costs and benefits of the restructuring are taken into account in determining the CGU's value in use. Here, the post – restructuring value in use (₹ 6,514,000) exceeds the CGU's carrying value (₹ 6,500,000 less restructuring provision of ₹ 350,000). Hence, there is no impairment of the CGU's assets.

In the year to 31st March, 20X1, the financial statements reflect the following charges.

Restructuring provision	₹ 350,000
Impairment loss	Nil

(ii) No provision for restructuring costs recognised at 31st March, 20X1

If no provision for restructuring costs is permitted by Ind AS 37, the costs and benefits of the restructuring have to be stripped out of the projections in determining the CGU's value in use. Here, the CGU's carrying value (₹ 65,00,000) exceeds its pre-restructuring value in use (₹ 62,73,000). Therefore, there is an impairment loss of ₹ 2,27,000.

In the year to 31st March, 20X1, the financial statements reflect the following charges:

Restructuring provisions	Nil
Impairment loss	₹ 2,27,000

16. (i) SS Limited

Balance Sheet (Extract relating to intangible asset)
as at 31st March 20X2

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

(ii) SS Limited

Statement of Profit and Loss (Extract)
for the year ended 31st March 20X2

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

Notes to Accounts (Extract)

1. Intangible Assets

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

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

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

2.	**Amortization expenses**		
	Franchise (W.N.2)	16,00,000	
	Copyright (W.N.3)	25,000	16,25,000
3.	**Other expenses**		
	Legal cost on copyright	7,00,000	
	Fee for Franchise (10,00,000 x 2%)	20,000	7,20,000

Working Notes:

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

17. The facility is depreciated from the date it is ready for use, rather than when it actually starts being used. In this case, then, the facility is depreciated from 1st October, 20X1.

Although XY Ltd. has no legal obligation to restore the piece of land, it does have a constructive obligation, based on its past practice and policies.

The amount of the obligation will be ₹ 14,20,000 being the present value of the anticipated future restoration expenditure (1,00,00,000 x 0.142).

This will be recognised as a provision under non-current liabilities in the balance sheet of XY Ltd. at 31st March, 20X2.

As time passes the discounted amount unwinds. The unwinding of the discount for the year ended 31st March, 20X2 will be ₹ 35,500 (14,20,000 x 5% x 6/12).

The unwinding of the discount will be shown as a finance cost in the statement of profit and loss and the closing provision will be ₹ 14,55,500 (14,20,000 + 35,500).

The initial amount of the provision is included in the carrying amount of the non-current asset, which becomes ₹ 2,14,20,000 (2,00,00,000 + 14,20,000).

The depreciation charge in profit or loss for the year ended 31st March, 20X2 is ₹ 2,67,750 (2,14,20,000 x 1/40 x 6/12).

The closing balance included in non-current assets will be ₹ 2,11,52,250 (2,14,20,000 – 2,67,750).

18. Paragraph 14 of Ind AS 23, inter-alia, states that to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

In this context, a question arises whether such expenditure should be based on costs accrued or actual cash outflows. To contrast these two alternatives, presented below is the computation of borrowing costs based on both the alternatives:

Month	Costs accrued	Average capital expenditure	Cash outflows	Average capital expenditure
September	1.50	1.50x7/12 = 0.875	3.00	3.00x7/12=1.75
October	0.50	0.50x6/12 = 0.25	1.70	1.70x6/ 12 = 0.85
November	1.50	1.50x5/12 = 0.625	2.50	2.50x5/12 = 1.04
December	0.50	0.50x4/12 = 0.17	-	-
January	1.80	1.80x3/12 = 0.45	1.00	1x3/12 = 0.25
February	0.70	0.70x2/12 = 0.12	-	-
March	3.00	3.00x1/12 = 0.25	1.50	1.50x1/12 = 0.13
	9.50	2.74	9.70	4.02

If the average capital expenditure on the basis of costs accrued is taken, the borrowing costs eligible to be capitalised would be ₹ 2.74 crore x 11% = 0.30 crore. Whereas if average capital expenditure on the basis of cash flows is taken, the borrowing costs eligible to be capitalised would be ₹ 4.02 crore x 11% = 0.44 crore. Thus, there is a wide variance in the amount of borrowing cost to be capitalised, based on the accrual basis and on actual cash flows basis.

In this regard, paragraph 18 of Ind AS 23 states that expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.

Where cash has been paid but the corresponding cost has not yet accrued interest becomes payable on payment of cash. Therefore, the amount so paid should be considered for determining the amount of interest eligible for capitalisation, subject to the fulfillment of other conditions prescribed in paragraph 16 of Ind AS 23. Accordingly, in the present case, interest should be computed on the basis of the cash flows rather than on the basis of costs accrued. Therefore, the amount of interest eligible for capitalisation would be ₹ 0.44 crore.

Another important factor to be noted is that paragraph 14 requires, inter alia, that the amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

Thus, the amount of borrowing costs to be capitalised should not exceed the total borrowing costs incurred during the period, that is ₹ 0.5 crore.

19. **Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd.**

as at 31st March, 20X3

Particulars	**₹ in 000s**
I. Assets	
(1) Non-current assets	
(i) Property Plant & Equipment (W.N.4)	7,120.00
(ii) Intangible asset – Goodwill (W.N.3)	1,032.00
(2) Current Assets	
(i) Inventories (550 + 100)	650.00
(ii) Financial Assets	
(a) Trade Receivables (400 + 200)	600.00
(b) Cash & Cash equivalents (200 + 50)	250.00
Total Assets	9,652.00

II. Equity and Liabilities	
(1) Equity	
(i) Equity Share Capital (2,000 + 200)	2,200.00
(ii) Other Equity	
(a) Retained Earnings (W.N.6)	1190.85
(b) Securities Premium	160.00
(2) Non-Controlling Interest (W.N.5)	347.40
(3) Non-Current Liabilities (3,000 + 400)	3,400.00
(4) Current Liabilities (W.N.8)	2,353.75
Total Equity & Liabilities	9,652.00

Notes:

1. Since the question required not to prepare Notes to Account, the column of Note to Accounts had not been drawn.
2. It is assumed that shares were issued during the year 20X2-20X3 and entries are yet to be made.

Working Notes:

1. **Calculation of purchase consideration at the acquisition date i.e. 1st April, 20X1**

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

2. Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 20X1

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

3. Calculation of Goodwill at the acquisition date i.e. 1st April, 20X1 and 31st March, 20X3

	₹in 000s
Purchase consideration (W.N.1)	1,735.00
Non-controlling interest at fair value (as given in the question)	380.00
	2,115.00
Less: Net worth (W.N.2)	(825.00)
Goodwill as on 1st April 20X1	1,290.00
Less: Impairment (as given in the question)	(258.00)
Goodwill as on 31st March 20X3	1,032.00

4. Calculation of Property, Plant and Equipment as on 31st March 20X3

			₹in 000s
A Ltd.			5,500.00
S Ltd.		1,500.00	
Add: Net fair value gain not recorded yet	200.00		
Less: Depreciation [(200/5) x 2]	(80.00)	120.00	1,620.00
			7,120.00

5. Calculation of post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 20X3

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

6. Consolidated Retained Earnings as on 31st March 20X3

	₹in 000s
A Ltd.	1,400.00
Add: Share of post-acquisition loss of S Ltd. (W.N.5)	(130.40)
Less: Finance cost on deferred consideration (37.5 + 41.25) (W.N.7)	(78.75)
Retained Earnings as on 31st March 20X3	1,190.85

7. Calculation of value of deferred consideration as on 31st March 20X3

	₹in 000s
Value of deferred consideration as on 1st April 20X1 (W.N.1)	375.00
Add: Finance cost for the year 20X1-20X2 (375 x 10%)	37.50
	412.50

Add: Finance cost for the year 20X2-20X3 (412.50 x 10%)	41.25
Deferred consideration as on 31st March 20X3	453.75

8. **Calculation of current Liability as on 31st March 20X3**

	₹in 000s
A Ltd.	1,250.00
S Ltd.	650.00
Deferred consideration as on 31st March 20X3 (W.N.7)	453.75
Current Liability as on 31st March 20X3	2,353.75

20. Paragraphs 15-17 of Ind AS 111 state that a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

Further, a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Furthermore, an entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

In the given case, accounting by P Limited and Q Limited would be as follows:

(i) Five floors that P Limited controls

Five floors that are controlled by P Limited shall be accounted for by P Limited as investment property under Ind AS 40, Investment Property, which defines the term 'investment property' as property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

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

(b) sale in the ordinary course of business.

(ii) Five floors that Q Limited controls

Five floors that are controlled by Q Limited shall be accounted for by Q Limited as investment property under Ind AS 40.

(iii) Two floors that P Limited and Q Limited jointly control

For the two floors that are jointly controlled by P Limited and Q Limited, as per the contractual arrangement, both P Limited and Q Limited will share net profits or net losses equally i.e. they both have the rights to the net assets of the arrangement. Thus, the arrangement in respect of these two floors is a joint venture and shall be accounted for accordingly by P Limited and Q Limited.