FINAL PAPER 1: FINANCIAL REPORTING

Part I : Amendments applicable for November, 2023 Examination

I. Amendments to the Companies (Indian Accounting Standards) Rules, 2015 made by MCA on 31st March, 2023 (applicable for November, 2023 examination)

MCA has issued the Companies (Indian Accounting Standards) (Amendment) Rules, 2023 to amend Companies (Indian Accounting Standards) Rules, 2015 vide notification G.S.R. 242(E) dated 31st March, 2023. These amendments come into effect from 1st April, 2023 and is applicable for the financial year 2023-2024 onwards for the financial statements prepared on the basis of Ind AS. Following are the areas in which the amendments have been brought in by the MCA through this notification:

- Amendment to Ind AS 1 'Presentation of Financial Statements' by replacing significant account policy disclosure to material accounting policy disclosures'
- Amendment to Ind AS 8 'Accounting Policies, Change in Accounting Estimates and Errors' by replacing the definition of 'change in accounting estimate' to 'accounting estimates' and also mentioning the manner to develop and accounting estimates by an entity.
- Amendments to Ind AS 12 'Income Taxes' by adding exception to the recognition of deferred tax liability or deferred tax assets on taxable temporary difference or deductible temporary difference respectively.
- Amendment to Ind AS 101 'First Time Adoption of Indian Accounting Standards' by narrowing the scope of Initial Recognition Exemption with regard to leases and decommissioning obligations.
- Annual improvements to Ind AS (2022) in Ind AS 102 'Share-based Payments', Ind AS 103 'Business Combinations' Ind AS 107 'Financial Instruments-Disclosures', Ind AS 109 'Financial Instruments', Ind AS 15 'Revenue from Contracts with the Customers' and Ind AS 34 'Interim Financial Reporting'.

The key amendments to Ind AS pursuant to the Companies (Indian Accounting Standards) (Amendments) Rules, 2023 are explained below:

Ind AS	Significant amendment made in 2022
Ind AS 1, 'Presentation of Financial Statements'	Para 10 and para 114 of Ind AS 1 have been modified by replacing 'significant accounting policies' with 'material accounting policies'. Further, disclosure of accounting policies has been modified and have discussed which accounting policy information should be considered as material.

Ind AS	Significant amendment made in 2022
	According to the amendment 'Accounting policy information' is material when it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. An entity is required to disclose, along with material accounting policy information or other notes, the judgements that management has made in the process of applying the entity's accounting policies which have the most significant effect on the amounts recognised in the financial statements.
Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'	Definition of 'Change in Accounting Estimate' given in para 5 has been replaced with the definition of 'Accounting Estimates'. The revised definition states as follows: *"Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty."* As per the amendment, the company develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Earlier examples have been replaced by the following examples of accounting estimates: (a) a loss allowance for expected credit losses, applying Ind AS 109; (b) the net realisable value of an item of inventory, applying Ind AS 2; (c) the fair value of an asset or liability, applying Ind AS 113; (d) the depreciation expense for an item of property, plant and equipment, applying Ind AS 16; and (e) a provision for warranty obligations, applying Ind AS 37.

Ind AS	Significant amendment made in 2022
	To develop an accounting estimate, an entity has to use measurement techniques and inputs. Measurement techniques include estimation techniques and valuation techniques.
Ind AS 12, 'Income Taxes'	As per the amendment, paragraphs 15 and 24 have been modified by adding an exception to the recognition of deferred tax liability or deferred tax assets on taxable temporary difference or deductible temporary difference respectively, arising on account of the initial recognition of an asset or liability in a transaction which at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.
Ind AS 101, 'First Time Adoption of Indian Accounting Standards'	Amendment has narrowed the scope of Initial Recognition Exemption with regard to leases and decommissioning obligations. According to it, the entity will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on transactions such as initial recognition of a lease and a decommissioning provision. As per the amendment, despite Paragraphs 15 and 24 of Ind AS 12 exempt an entity from recognising a deferred tax asset or liability in particular circumstances, at the date of transition to Ind AS, a first-time adopter shall recognise a deferred tax asset — to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised — and a deferred tax liability for all deductible and taxable temporary differences associated with: (a) right-of-use assets and lease liabilities; and (b) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

II. Amendments to the Companies (Corporate Social Responsibility) Rules, 2014 (issued on 20th September, 2022) is applicable for November, 2023 Examination

The Ministry of Corporate Affairs (MCA), vide a notification dated 20th September 2022 issued the Companies (Corporate Social Responsibility) Amendment Rules, 2022. These amendments are effective from the date of their publication in the official gazette i.e., 20th September 2022. Some of the significant amendments notified therein are:

- **Constitution of a CSR Committee by a company having any amount in its unspent CSR account**

  As per the amendment, a proviso has been added under Rule 3(1), stating that <u>a company that has any amount outstanding in its unspent CSR account should constitute a CSR Committee</u> and comply with the relevant provisions of Section 135 of the Companies Act, 2013.

- **Omission of Rule 3(2) of the Companies (Corporate Social Responsibility) Rules, 2014**

  Rule 3(2) required that every company that ceases to fulfil the criteria prescribed under Section 135(1) of the Companies Act, 2013 for three consecutive financial years is not required to constitute a CSR Committee. Now as per the amendment, this <u>Rule 3(2) of the Companies (Corporate Social Responsibility) Rules, 2014 has been omitted</u>.

- **Inclusion in the list of entities that can be engaged as implementation agencies**

  Rule 4(1) of the Companies (Corporate Social Responsibility) Rules, 2014 provides that the Board of Directors must ensure that CSR activities can be undertaken by a company itself or through certain implementation agencies which were listed therein. As per the amendment, in addition to the class of companies listed under Rule 4(1) of the Companies (Corporate Social Responsibility) Rules, 2014, new class of entities exempted under Section 10 of Clause (23C), which may be approved by the Principal Commissioner or Commissioner, have been included as implementation agencies. These entities are:

  - Any fund or institution established for charitable purposes having regard to the objects of the fund or institution and its importance throughout India, or throughout any State or States,

  - Any trust (including any other legal obligation), or institution wholly for public religious purposes, or wholly for public religious and charitable purposes, having regard to the manner in which the affairs of the trust or institution are administered and supervised for ensuring that the income accruing thereto is properly applied for the objects thereof,

- Any university or other educational institution existing solely for educational purposes and not for purposes of profit, other than those mentioned in sub-clause (iiiab) or sub-clause (iiiad) of Clause 23(C) of the Income Tax Act, 1961, and
- Any hospital or other institution for the reception and treatment of persons suffering from illness or mental defectiveness, or for the reception and treatment of persons during convalescence, or of persons requiring medical attention or rehabilitation, existing solely for philanthropic purposes and not for purposes of profit, other than those mentioned in sub-clause (iiiac) or sub-clause (iiiae) of Clause 23(C) of the Income Tax Act, 1961.

♦ **Change in the limits of expenses incurred towards impact assessment studies**

Earlier Rule 8 of the Companies (Corporate Social Responsibility) Rules, 2014 provides that every company having an average CSR obligation of ₹ 10 crore or more in pursuance of Section 135(5) of the Companies Act, 2013 in the three immediately preceding financial years, should undertake an impact assessment, through an independent agency, of their CSR projects having outlays of ₹ 1 crore or more, and which have been completed not less than one year before undertaking the impact study.

Such a company may book an expenditure towards CSR for that financial year, which should not exceed five per cent of the total CSR expenditure for that financial year or ₹ 50 lakh, whichever is less.

As per the amendment, the limit to book expenditure towards impact assessment has now been reduced to two per cent (earlier five percent) of the total CSR expenditure for that financial year or ₹ 50 lakh, whichever is higher (earlier whichever is lower).

♦ **Revisions in Annexure II and e-form of the Companies (Corporate Social Responsibility) Rules, 2014.**

Annexure II of the Companies (Corporate Social Responsibility) Rules, 2014 prescribes a format for the annual report on CSR activities included in the company's board report. Some of the significant amendments in the format are:

- **Executive summary:** As per the amendment in the Annexure II, companies are required to provide an executive summary along with the weblinks of impact assessment of CSR projects, which have been carried out.
- **Disclosure on CSR spent:** As per the amendment, companies are required to disclose only the total amount spent on on-going and other CSR projects. Earlier, the format required disclosures of details of each project undertaken by the company (both ongoing projects as well as other projects).

- **Additional disclosure on unspent CSR amount:** In disclosure of unspent CSR amount for the preceding three financial years, companies are also required to disclose the balance amount in unspent CSR account, and deficiency, if any, in accordance with Section 135(6) of the Companies Act, 2013.

III. Amendments to the Companies (Indian Accounting Standards) Rules, 2015 made by MCA on 23rd March, 2022 (applicable for November, 2023 examination)

MCA has issued Companies (Indian Accounting Standards) (Amendment) Rules, 2022 to amend Companies (Indian Accounting Standards) Rules, 2015 vide notification G.S.R. 255(E) dated 23rd March, 2022. These amendments are generally brought by MCA to keep uniformity between Ind AS and IFRS. However, this time MCA has come out with a carve out in Ind AS 16. These amendments come into effect from 1st April, 2022 and is applicable for the financial year 2022-2023 onwards for the financial statements prepared on the basis of Ind AS. Following are the areas in which the amendments have been brought in by the MCA through this notification:

- Amendment to Ind AS 16 'Property, Plant and Equipment' on accounting of proceeds from sale of items produced during testing and carve out in this regard from IAS 16
- Amendment to Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' on determination of cost of fulfilling a contract for measurement of provision for an onerous contract.
- Amendments to Ind AS 103 'Business Combinations' with reference to Conceptual Framework for Financial Reporting and insertion of certain paragraphs under exceptions to recognition principle on liabilities, contingent liabilities and contingent assets
- Annual improvements to Ind AS (2021) in Ind AS 101 'First Time Adoption of Indian Accounting Standards', Ind AS 109 'Financial Instruments' and Ind AS 41 'Agriculture'.

The key amendments to Ind AS pursuant to the Companies (Indian Accounting Standards) (Amendments) Rules, 2022 are explained below:

Ind AS	Significant amendments made in 2022
Ind AS 16, 'Property, Plant and Equipment'	Para 17(e) of Ind AS 16 has been amended by adding a clarification that the excess of net proceeds from sale of items produced during testing will not be credited to Profit or loss i.e. it will be deducted from the cost of an item of property, plant and equipment.

	However, amendment made in IAS 16 by IASB prohibited deduction of proceeds of items produced during testing from cost of an item of property, plant and equipment. This differential treatment in IAS 16 and Ind AS 16 has led to a carve out, which will have consequential impact on depreciation, impairment and deferred tax.
Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets'	Paragraph 68A has been inserted which clarifies which cost needs to be considered in the costs to fulfil a contract while determining whether the contract is onerous. As per the amendment made in 2022, both the incremental costs to fulfil a contract and allocation of directly attributable costs will form part of the cost used for determination of onerous contract. Para 69 has been amended by replacing **'assets dedicated to the contract'** to **'assets used in fulfilling the contract'.** This amendment requires to take into consideration the impairment loss on all the assets whose cost will be considered in assessing the contract is onerous. These amendments are prospective from 1st April, 2022 with cumulative effect recognised in the opening balance of retained earnings or other component of equity, as appropriate on 1st April, 2022. Comparative period financials not to be restated.
Ind AS 103 'Business Combinations'	In March, 2018, IASB revised Conceptual Framework for Financial Reporting. Accordingly, ICAI in August, 2020 came out with the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) under Ind AS. The amendments made in Ind AS 103 is due to change in reference to Conceptual Framework without change in the accounting requirements for business combinations. Due to revision in the Conceptual Framework, there were certain accounting implications to contingent liabilities and levies within the scope of Ind AS 37 and Appendix C 'Levies'. As per it, the assets and liabilities in a business combination are recognised if they meet the definition of

	an asset or liability as per the Conceptual Framework. The timing of recognition of a levy may sometimes be different due to specific guidance given in Appendix C. Therefore, while recognizing levies at the acquisition date, an acquirer might recognise at the acquisition date a liability to pay a levy that it would not recognise subsequently when applying Appendix C 'Levies'. This difference would arise because an entity might recognise a liability earlier by applying the Conceptual Framework. This liability would be derecognized immediately afterwards when principles of Appendix C are applied. Therefore, to resolve this implication, Ind AS 103 has been amended with regards to recognition exception for contingent liabilities and levies by inserting para 21A to 21C. An exception has been added to the requirements of para 11 of Ind AS 103 for liabilities and contingent liabilities that would be within the scope of Ind AS 37 or Appendix C if incurred separately, rather than assumed in a business combination. Further, Ind AS 103 prohibited the recognition of contingent assets even prior to the 2022 amendments. However, prohibition was not stated explicitly in Ind AS 103 itself. Therefore, para 23A has been inserted in Ind AS 103 to explicitly prohibit recognition of contingent asset.
Ind AS 101 'First time adoption of Indian Accounting Standards'	Para D13 of Ind AS 101 provides an exemption to a first-time adopter of Ind AS with regard to cumulative translation differences on the date of transition to Ind AS. According to it, first time adopter of Ind AS are permitted to deem all cumulative translation differences for all foreign operations to be zero on the date of transition to Ind AS. Para D13A has been inserted in Ind AS 101 which removes the conflict between the requirements of paragraph D16(a) of Ind AS 101 which provides exemption where a subsidiary adopts Ind AS later than its parents and the exemptions on cumulative translation differences at the carrying amount included in the parent's consolidated financial statements. Similar exemption is available to joint venture and an associate that uses the exemption in para D16(a) of Ind AS 101. Para D16(a) of Ind AS 101 provides that a subsidiary can

	measure its assets and liabilities at the carrying amounts in parent's consolidated financial statements.
Ind AS 109 'Financial Instruments'	As per Ind AS 109, a financial liability is derecognised when it is extinguished, which includes exchange between an existing borrower and lender due to different or substantial modification in terms of the contract. Further, Ind AS 109 clarified that terms are considered to have been substantially modified when the net present value of the cash flows under the new terms **(including any fees paid net of any fees received)** and discounted using the original EIR differs by atleast 10% from the present value of the remaining cash flows under the original terms. Earlier what is to be included in the **fees paid and fees received** was not mentioned in the standard. Now the amendment has been made in 2022 by substituting para B3.3.6 and inserting para B3.3.6A in Ind AS 109 which clarify that the **fees paid** (for the above purpose) includes amount paid by the borrower to or on behalf of the lender and **fees received** includes fees amounts paid by the lender to or on behalf of the borrower. The above amendment will be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.
Ind AS 41 'Agriculture'	Earlier para 22 of Ind AS 41 prescribed certain cash flows that would not be considered for the purpose of assessing the fair values. Out of those cash flows, the amendment made in 2022 deleted the cash flows for taxation from the exclusion list for measurement of fair value. This implies that tax cash flows must be included in the fair value measurement of biological assets as per Ind AS 41.

PART II : QUESTIONS AND ANSWERS

QUESTIONS

Ind AS 103

1. Mini Limited is a manufacturing entity in textile industry. Mini Limited decided to reduce the cost of manufacturing by setting up its own power plant for their captive consumption. As per market research report, there was non-operational power plant in nearby area. Hence, it decided to acquire that power plant which was having capacity of 80MW along with all entire labour force. This Power entity was owned by another entity Max Limited. Mini Limited approached Max Limited for acquisition of 80MW power plant at following terms:

   (i) Mini Limited will seek an independent valuation for determining fair value of 80MW power plant.

   (ii) Value of other Non-current assets acquired, and Non–current financial liabilities assumed is ₹ 11.10 million and ₹ 32 million respectively.

   (iii) Consideration agreed between both the parties is at ₹ 51 million.

   Both the parties agreed to the terms and entered into agreement on 1st April, 20X1 with immediate effect.

   Due to unavoidable circumstances, valuation could not be completed by the time Max Limited finalizes its financial statements for the year ending 31st March, 20X1. Max Limited's annual financial statements records the fair value of 80 MW Power Plant at ₹ 46.90 million with remaining useful life at 40 years.

   Max Limited also has license to operate that power plant unrecorded in books. As on 31st March, 20X1, it has fair value of ₹ 5 million.

   Six months after acquisition date, Mini Limited received the independent valuation, which estimated the fair value of 80MW Power Plant as ₹ 54.90 million.

   CFO of Mini Limited, wants you to work upon following aspects of the transaction:

   (a) Determine whether transaction should be accounted as asset acquisition or business combination.

   (b) Calculate Goodwill / Bargain Purchase due to the above acquisition.

   (c) Pass necessary journal entities in the books of Mini Limited as per Ind AS 103 and prepare balance sheet as on date of acquisition.

(d) Determine whether any adjustment is required in case of valuation received subsequent to acquisition. If yes, pass the necessary entries in the books of Mini Limited.

Balance Sheet of Mini Limited as at 31st March, 20X1

Particulars	(₹ in Million)
ASSETS	
Non-current assets	
Property, plant and equipment	2,158
Capital work-in-progress	12
Deferred Tax Assets (Net)	324
Other non-current assets	25
Total non-current assets	**2,519**
Current assets	
Inventories	368
Financial assets	
(i) Investments	45
(ii) Trade Receivables	762
(iii) Cash and Cash Equivalents	110
(iv) Bank balances other than (iii) above	28
(v) Other financial assets	267
Total current assets	**1,580**
Total assets	**4,099**
EQUITY AND LIABILITIES	
Equity	
Equity Share Capital	295
Other equity	
Equity component of compound financial instruments	717
Reserves and surplus	2,481
Total equity	**3,493**

Liabilities	
Non-current liabilities	
Financial Liabilities	
Borrowings	268
Total non-current liabilities	**268**
Current liabilities	
Financial Liabilities	
(i) Trade payables	302
Other current liabilities	36
Total current liabilities	**338**
Total liabilities	**606**
Total equity and liabilities	**4,099**

Ind AS 21

2. Infotech Global Ltd. (a stand-alone entity) has a functional currency of USD and needs to translate its financial statements into the presentation currency (INR). The following is the draft financial statements of Infotech Global Ltd. prepared in accordance with its functional currency.

Balance Sheet

Particulars	31st March, 20X3	31st March, 20X2
	USD	USD
Property, plant and equipment	50,000	55,000
Trade Receivables	68,500	56,000
Inventory	8,000	5,000
Cash	40,000	35,000
Total assets	**1,66,500**	**1,51,000**
Share Capital	50,000	50,000
Retained earnings	29,500	18,000
Total Equity	**79,500**	**68,000**
Trade payables	40,000	38,000
Loan	47,000	45,000
Total liabilities	**87,000**	**83,000**
Total equity and liabilities	**1,66,500**	**1,51,000**

Statement of Profit and Loss

Particulars	USD
Revenue	1,77,214
Cost of sales	1,13,100
Gross Profit	**64,114**
Distribution costs	2,400
Administrative expenses	18,000
Other expenses	11,000
Finance costs	12,000
Profit before tax	**20,714**
Income tax expense	6,214
Profit for the year	**14,500**

Extracts from Statement of Changes in Equity

Particulars	31st March, 20X3 (USD)
Retained earnings at the beginning of the year	18,000
Profit for the year	14,500
Dividends	(3,000)
Retained earnings at the end of the year	29,500

- Share capital was issued when the exchange rate was USD 1 = INR 70.
- Retained earnings on 1st April, 20X1 was INR 4,00,000.
- At 31st March, 20X2, a cumulative gain of INR 4,92,000 has been recognised in the foreign exchange reserve, which is due to translation of entity's financial statements into INR in the previous years.
- Entity paid a dividend of USD 3,000 when the rate of exchange was USD 1 = INR 73.5
- Profit for the year 20X1-20X2 of USD 8,000, translated in INR at INR 5,72,000.
- Profit for the year 20X2-20X3 of USD 14,500, translated in INR at INR 10,72,985.

For the sake of simplicity, items of income and expense are translated at weighted average monthly rate as there has been no significant exchange rate fluctuation during the entire year and the business of the entity is not cyclical in nature.

Relevant exchange rates are as follows:

- Rate at 31st March, 20X2 USD 1= INR 73
- Rate at 31st March, 20X3 USD 1= INR 75

Prepare financial statements of Infotech Global Ltd. translated from functional currency (USD) to presentation currency (INR).

Ind AS 27 and Ind AS 110

3. Entity A owns all the share capital of Entity B and controls Entity B. On 1st April, 20X2, Entity A acquired a building from Entity B, for ₹ 600 lakhs, that the group plans to use as its new head office. Entity B had purchased the building from a third party on 1st April, 20X1 for ₹ 525 lakhs. At that time, the building was assessed to have a useful life of 21 years and a residual value of Nil. On 1st April, 20X2, the carrying amount of the building was ₹ 500 lakhs in Entity B's individual financial statements. The estimated remaining useful life of the building measured from 1st April, 20X2 is 20 years and the residual value of the building is still Nil. The method of depreciation followed is straight-line.

   Pass necessary Journal Entries for recording the above transactions in the books of Entity B, Entity A and the Group's general ledger.

Ind AS 110

4. Ishwar Ltd. holds investments in Vinayak Ltd. The draft balance sheets of two entities at 31st March, 20X4 were as follows:

Particulars	**Ishwar Ltd. ₹ in '000s**	**Vinayak Ltd. ₹ in '000s**
Assets		
Non-current Assets		
Property, Plant and Equipment	26,20,000	18,50,000
Investment	21,15,000	NIL
Total non-current assets	47,35,000	18,50,000
Current Assets		
Inventories	6,00,000	3,75,000
Trade Receivables	4,50,000	3,30,000

Cash and Cash Equivalents	75,000	60,000
Total current assets	11,25,000	7,65,000
TOTAL ASSETS	**58,60,000**	**26,15,000**
Equity and Liabilities		
Equity		
Share Capital (₹ 1 shares)	7,00,000	5,00,000
Retained Earnings	28,65,000	10,50,000
Other Components of Equity	12,50,000	50,000
Total Equity	48,15,000	16,00,000
Non-current Liabilities		
Provisions	6,250	NIL
Long-term Borrowings	4,13,750	4,50,000
Deferred Tax	2,25,000	1,40,000
Total Non-current Liabilities	6,45,000	5,90,000
Current Liabilities		
Trade and Other Payables	3,00,000	2,50,000
Short-term Borrowings	1,00,000	1,75,000
Total Current Liabilities	4,00,000	4,25,000
TOTAL EQUITY AND LIABILITIES	**58,60,000**	**26,15,000**

Additional Information:

Ishwar Ltd.'s investment in Vinayak Ltd.

On 1st April, 20X1, Ishwar Ltd. acquired 400 million shares in Vinayak Ltd. by means of a share exchange of one share in Ishwar Ltd. for every two shares acquired in Vinayak Ltd. On 1st April, 20X1, the market value of one share of Ishwar Ltd. was ₹ 7.

Ishwar Ltd. appointed a professional firm for conducting due diligence for acquisition of Vinayak Ltd., the cost of which amounted to ₹ 15 million. Ishwar Ltd. included these acquisition costs in the carrying amount of the investment in Vinayak Ltd. in the draft balance sheet of Ishwar Ltd. There has been no change to the carrying amount of this investment in Ishwar Ltd.'s own balance sheet since 1st April, 20X1.

On 1st April, 20X1, the individual financial statements of Vinayak Ltd. showed the following balances:

- Retained earnings ₹ 750 million
- Other components of equity ₹ 25 million

The directors of Ishwar Ltd. carried out a fair value exercise to measure the identifiable assets and liabilities of Vinayak Ltd. at 1st April, 20X1. The following matters emerged:

- Property having a carrying amount of ₹ 800 million (land component ₹ 350 million, buildings component ₹ 450 million) had an estimated fair value of ₹ 1,000 million (land component ₹ 400 million, buildings component ₹ 600 million). The buildings component of the property had an estimated useful life of 30 years at 1st April, 20X1.
- Plant and equipment having a carrying amount of ₹ 600 million had an estimated fair value of ₹ 700 million. The estimated remaining useful life of this plant at 1st April, 20X1 was four years. None of this plant and equipment had been disposed of between 1st April, 20X1 and 31st March, 20X4.
- On 1st April, 20X1, the notes to the financial statements of Vinayak Ltd. disclosed contingent liability. On 1st April, 20X1, the fair value of this contingent liability was reliably measured at ₹ 30 million. The contingency was resolved in the year ended 31st March, 20X2 and no payments were required to be made by Vinayak Ltd. in respect of this contingent liability.
- The fair value adjustments have not been reflected in the individual financial statements of Vinayak Ltd. In the consolidated financial statements, the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary differences is 20%.

The directors of Ishwar Ltd. used the proportion of net assets method when measuring the non-controlling interest in Vinayak Ltd. in the consolidated balance sheet.

<u>Impairment review of goodwill on acquisition of Vinayak Ltd.</u>

No impairment of the goodwill on acquisition of Vinayak Ltd. was evident when the reviews were carried out on 31st March, 20X2 and 20X3. On 31st March, 20X4, the directors of Ishwar Ltd. carried out a further review and concluded that the recoverable amount of the net assets of Vinayak Ltd. at that date was ₹ 2,000 million. Vinayak Ltd. is regarded as a single cash generating unit for the purpose of measuring goodwill impairment.

<u>Provision</u>

On 1st April, 20X3, Ishwar 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. Ishwar Ltd. has a legal obligation to restore the site on which the non-current asset is located on

31st March, 2X43. The estimated cost of this restoration work, at 31st March, 2X43 prices, is ₹ 125 million. The directors of Ishwar Ltd. have made a provision of ₹ 6.25 million (1/20 x ₹ 125 million) in the draft balance sheet at 31st March, 20X4.

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 31.2 paise.

Prepare the consolidated balance sheet of Ishwar Ltd. at 31st March, 20X4. Consider deferred tax implications.

Ind AS 20

5. An entity opens a new factory and receives at the beginning of the year a government grant of ₹ 15,000 in respect of capital equipment costing ₹ 1,00,000. It depreciates all plant and machinery at 20% p.a. using straight-line method. Assume that there is reasonable assurance that the conditions attached to the grant will be fulfilled.

   For year 1, pass the necessary Journal Entries and show the presentation of the effect of this grant in both Balance Sheet and Statement of Profit and Loss under both methods permitted under paragraph 24 of Ind AS 20?

Ind AS 8

6. In its financial statements for the year ended 31st March, 20X2, Y Ltd. reported ₹ 73,500 revenue (sales), ₹ 53,500 cost of sales, ₹ 6,000 income tax expense, ₹ 20,000 retained earnings at 1st April, 20X1 and ₹ 34,000 retained earnings at 31st March, 20X2.

   In 20X2-20X3, after the 20X1-20X2 financial statements were approved for issue, Y Ltd. discovered that some products sold in 20X1-20X2 were incorrectly included in inventories at 31st March, 20X2 at their cost of ₹ 6,500.

   In 20X2-20X3, Y Ltd. changed its accounting policy for the measurement of investments in associates after initial recognition from cost model to the fair value model as per Ind AS 109. It acquired its only investment in an associate for ₹ 3,000 many years ago. The associate's equity is not traded on a securities exchange (that is, a published price quotation is not available). The fair value of the investment was determined reliably using an appropriate equity valuation model on 31st March, 20X3 at ₹ 25,000 (20X1-20X2: ₹ 20,000 and 20X0-20X1: ₹ 18,000).

   At 31st March, 20X3, as a result of usage of improved lubricants, Y Ltd. reassessed the useful life of Machine A from four years to seven years. Machine A is depreciated on the straight-line method to a Nil residual value. It was acquired for ₹ 6,000 on 1st April, 20X0.

Inventories of the type manufactured by Machine A were immaterial at the end of each reporting period.

Y Ltd.'s accounting records for the year ended 31st March, 20X3, before accounting for change in accounting policy and change in accounting estimate, record ₹ 1,04,000 revenue (sales), ₹ 86,500 cost of sales (including ₹ 6,500 for the error in opening inventory and ₹ 1,500 depreciation for Machine A) and ₹ 5,250 income tax expense.

Y Ltd. presents financial statements with one year of comparative information.

For simplicity, the tax effect of all items of income and expenses should be assumed to be 30% of the gross amount.

Draft an extract showing how the correction of the prior period error, change in accounting policy and change in accounting estimate could be presented in the Statement of Profit and Loss and Statement of Changes in Equity (Retained Earnings) and disclosed in the Notes of Y Ltd. for the year ended 31st March, 20X3.

Ind AS 12

7. On 1st April, 20X1, an entity paying tax at 30% acquired a non-tax-deductible office building for ₹ 1,00,000 in circumstances in which Ind AS 12 prohibits recognition of the deferred tax liability associated with the temporary difference of ₹ 1,00,000. The building is depreciated over 10 years at ₹ 10,000 per year to a residual value of zero. The entity's financial year ends on 31st March.

   On 1st April, 20X2, the carrying amount of the building is ₹ 90,000, and it is revalued upwards by ₹ 45,000 to its current market value of ₹ 1,35,000. There is no change to the estimated residual value of zero, or to the useful life of the building after revaluation.

   Determine the carrying amount, depreciation for the year ended 31st March, 20X3 and defer tax thereafter till the useful life of the building. Further analyse the treatment and impact of defer tax since 31st March, 20X3 till the useful life of the building.

Ind AS 38

8. A company engaged in the provision of Information Technology Products and Services incurred following expenditure during the development phase of its software product that is to be offered to its customers. The entity also purchases software from third parties for incorporating into its end software product offered to its customers. The company is in the process of launching it in the market for licensing to customers. The company also takes services of external professional software developers for such software development purpose. Costs incurred in relation to the development of its software product for the year ended 31st March, 20X2 are as follows:

Particulars	**Amount (₹ thousands)**
Purchase price of imported software	600
Employment costs (Note 1)	1,200
Testing costs	1,800
Other costs directly related to customization (Note 2)	450
Professional fees paid for external software developers	220
Costs of training provided to staff to operate the asset	195
Costs of advertising in market	1,560
Administrative and general overheads	825

Note 1: The software was developed in nine months ended 31st December, 20X1 and was capable of operating in the manner intended by the entity. It was brought into use on 31st March, 20X2. The employment costs are for the period of twelve months (i.e. up to 31st March, 20X2). The employees were engaged in developing the software and related activities.

Note 2: Other costs directly related to development include an abnormal cost of ₹ 50,000 in respect of repairing the damage which resulted from a security breach.

What will be the amount of the software development costs that can be capitalized by explaining the reason for each element of cost?

Ind AS 109

9. On 1st April, 20X1, a bank provides an entity with a four-year loan of ₹ 5,000 on normal market terms, including charging interest at a fixed rate of 8% per year. Interest is payable at the end of each year. The figure of 8% is the market rate for similar four-year fixed-interest loans with interest paid annually in arrears. Transaction cost of ₹ 100 is incurred on originating the loan. Effective interest rate in this case is 8.612%.

   In 20X1-20X2, the entity experienced financial difficulties. On 31st March, 20X2, the bank agreed to modify the terms of the loan. Under the new terms, the interest payments in 20X2-20X3 to 20X4-20X5 will be reduced from 8% to 5%. The entity paid the bank a fee of ₹ 50 for paperwork relating to the modification.

   Analyse whether the modification of the loan terms constitutes an extinguishment of the original financial liability or not.

Ind AS 7

10. One of the subsidiaries of Buildwell Ltd. submitted to Central Finance its Summarized Statement of Profit and Loss and Balance Sheet.

Summarized Statement of Profit and Loss for the year ended 31st March, 20X3

Particulars	Amount (₹)
Net sales	2,52,00,000
Less: Cash cost of sales	(1,92,00,000)
Depreciation	(6,00,000)
Salaries & wages	(24,00,000)
Operating expenses	(14,00,000)
Provision for taxation	(8,80,000)
Net Operating Profit	7,20,000
Non-recurring income – profit on sale of equipment	1,20,000
	8,40,000
Retained earnings and profit brought forward	15,18,000
	23,58,000
Dividends declared and paid during the year	(7,20,000)
Profit & loss balance as on 31st March, 20X3	16,38,000

Summarized Balance Sheet

Assets	31st March, 20X2	31st March, 20X3
Property, Plant and Equipment:		
Land	4,80,000	9,60,000
Buildings and Equipment	36,00,000	57,60,000
Current Assets		
Cash	6,00,000	7,20,000
Inventories	16,80,000	18,60,000
Trade Receivables	26,40,000	9,60,000
Advances	78,000	90,000
Total Assets	90,78,000	1,03,50,000

Liabilities & Equity		
Share capital	36,00,000	44,40,000
Surplus in profit & loss	15,18,000	16,38,000
Trade Payables	24,00,000	23,40,000
Outstanding expenses	2,40,000	4,80,000
Income tax payable	1,20,000	1,32,000
Accumulated depreciation on buildings and equipment	12,00,000	13,20,000
Total	90,78,000	1,03,50,000

The original cost of equipment sold during the year 20X2-20X3 was ₹ 7,20,000.

Prepare a statement of cashflows the year ended 31st March 20X3.

Ind AS 105

11. Company X has identified one of its division (disposal group) to be sold to a prospective buyer and the Board has approved the plan to sell the division on 30th September, 20X1. The sale is expected to complete after one year but it still qualifies to be held for sale under Appendix B of Ind AS 105. Costs to sell the division is estimated to be ₹ 10 crores (to be incurred in March, 20X3). The fair value of the division is ₹ 400 crores (on 30th September, 20X1 and 31st March, 20X2) and carrying value is ₹ 500 crores.

    How shall such a division (disposal group) be measured under Ind AS 105 on following reporting dates:

    A. 30th September, 20X1

    B. 31st March, 20X2

    Consider the discounting factor @ 10% for 1 year to 0.909 and for 1.5 years to be 0.867.

Ind AS 2

12. A Ltd. began operations in the year 20X1-20X2. In 20X1-20X2, it incurred the following expenditures on purchasing the raw materials for its product:

    a. Purchase price of the raw materials = ₹ 30,000;

    b. Import duty and other non-refundable purchase taxes = ₹ 8,000;

    c. Refundable purchase taxes = ₹ 1,000;

    d. Freight costs for bringing the goods from the supplier to the factory's storeroom for raw materials = ₹ 3,000;

e. Costs of unloading the materials into the storeroom for raw materials = ₹ 20; and

f. Packaging = ₹ 2,000.

On 31st March, 20X2, A Ltd. received ₹ 530 volume rebate from a supplier for purchasing more than ₹ 15,000 from the supplier during the year.

A Ltd. incurred the following additional costs in the production run:

i. Salary of the machine workers in the factory = ₹ 5,000;

ii. Salary of factory supervisor = ₹ 3,000;

iii. Depreciation of the factory building and equipment used for production process = ₹ 600;

iv. Consumables used in the production process = ₹ 200;

v. Depreciation of vehicle used to transport the goods from the storeroom for raw materials to the machine floor = ₹ 400;

vi. Factory electricity usage = ₹ 300;

vii. Factory rental = ₹ 1,000; and

viii. Depreciation of the entity's vehicle used by the factory supervisor is ₹ 200.

During 20X1-20X2, A Ltd. incurred the following administrative expenses:

1. Depreciation of the administration building = ₹ 500;
2. Depreciation and maintenance of vehicles used by the administrative staff = ₹ 150; and
3. Salaries of the administrative personnel = ₹ 3,050.

Of the administrative expenses, 20% is attributable to administering the factory. Remaining expenses are attributable, in equal proportion, to the sales and other non-production operations (eg financing, tax and corporate secretarial functions).

In 20X1-20X2, A Ltd. incurred the following selling expenses:

a) Advertising costs = ₹ 300;

b) Depreciation and maintenance of vehicles used by the sales staff = ₹ 100; and

c) Salaries of the administrative personnel = ₹ 6,000.

Pass necessary journal entries to record the cost of inventory in the books of A Ltd.

Ind AS 40 and Ind AS 16

13. Besides manufacturing plants, A Ltd. has various other assets, not used for operational activities, e.g., freehold land, townships in different locations, excess of office space

rented to ABC, etc. Also, A Ltd. has some land, which are kept vacant as per the government regulations which require that a specified area around the plant should be kept vacant.

The details of these assets are as under:

Property	**Details**
A Ltd.'s office building (registered office)	A Ltd.'s registered office in Delhi, is a 15 storey building, of which only 3 floors are occupied by A Ltd., whereas remaining floors are given on rent to other companies. These agreements are usually for a period of 3 years. According to A Ltd., such excess office space will continue to be let out on lease to external parties and have no plans to occupy it, at least in near future.
Flats in Township located in location 1	As regards township in Location 1, there are approximately 2,000 flats in the said township. It was built primarily for A Ltd.'s employees, hence, approximately 80% of the flats are allotted to employees and remaining flats are either kept vacant or given on rent to other external parties. A lease agreement is signed between A Ltd. and an individual party for every 12 months being 1st April to 31st March. The lease entered is a cancellable lease (cancellable at the option of any of the parties). Also, besides monthly rent, additional charges are levied by A Ltd. on account of electricity, water, cable connection, etc. According to A Ltd., there is no intention of selling such excess flats or allotting it to its employees.
Flats in township located in location 2	There are 1,000 flats in location 2 township, of which: • 400 flats are given to employees for their own accommodation. • 350 flats are given on rent to Central Government and State Government for accommodation of their employees. Average lease period being 12 months with cancellable clause in lease agreements. • 250 flats are kept vacant.
Hostel located in location 1	60 rooms in the hostel have been let out to G Ltd., to give accommodation to their personnel. Lease agreement is prepared for every 11 months and renewed thereafter. Besides the monthly rent amount, some charges are levied towards water, electricity and other amenities, e.g., cable connection, etc.

Land in location 1	In 20X4, A Ltd. purchased a plot of land on the outskirts of a major city. The area has mainly low-cost public housing and very limited public transport facilities. The government has plans to develop the area as an industrial park in 5 years' time and the land is expected to greatly appreciate in value if the government proceeds with the plan. A Ltd. has not decided what to do with the property.
Land in location 1	A portion of land has been leased out to C Ltd. for its manufacturing operations. Land has been given on lease on a lease rental of ₹ 10 lacs p.a. with a lease term of 25 years.
Land in location 2	A portion of the land has been given on rent to D Ltd. which has constructed a petrol pump on such land. It has been leased for a period of 40 years and renewed for a further period of 40 years.

Determine the classification of properties which are not held for operational purposes, with suitable reasoning in the financial statements of A Ltd.

Ind AS 111

14. Entities A and B establish a 50:50 joint operation in the form of a separate legal entity, Entity J, whereby each operator has a 50% ownership interest and takes 50% of the output.

    On formation of the joint operation, Entity A contributes a property with fair value of ₹ 110 lakhs and intangible asset with fair value of ₹ 10 lakhs whereas Entity B contributes equipment with a fair value of ₹ 120 lakhs.

    The carrying amounts of the assets contributed by Entities A and B are ₹ 100 lakhs and ₹ 80 lakhs, respectively.

    What will be the amount of any gain or loss to be recognised by Entity A and Entity B in its separate financial statements as well as consolidated financial statements?

Ind AS 36

15. On 31st March, 20X1, Jackson Ltd. purchased 80% of the equity of Kaplan Ltd. for ₹ 190 million. The fair values of the net assets of Kaplan Ltd. that were included in the consolidated balance sheet of Jackson Ltd. at 31st March, 20X1 were measured at ₹ 200 million (their fair values at that date). It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at its proportionate share of the fair value of the subsidiaries' identifiable net assets.

    On 31st March, 20X4, Jackson Ltd. carried out its annual review of the goodwill on consolidation of Kaplan Ltd. for evidence of impairment. No impairment had been evident when the reviews were carried out on 31st March, 20X2 and 31st March, 20X3. The review involved allocating the assets of Kaplan Ltd. into three cash-generating units and computing the value in use of each unit. The carrying values of the individual units before any impairment adjustments are given below:

	Unit A ₹ in million	Unit B ₹ in million	Unit C ₹ in million
Intangible assets	30	10	-
Property, Plant and Equipment	80	50	60
Current Assets	60	30	40
Total	170	90	100
Value in use of unit	180	66	104

It was not possible to meaningfully allocate the goodwill on consolidation to the individual cash generating units but all the other net assets of Kaplan Ltd. are allocated in the table shown above.

The intangible assets of Kaplan Ltd. have no ascertainable market value but all the current assets have a market value that is at least equal to their carrying value. The value in use of Kaplan Ltd. as a single cash-generating unit on 31st March, 20X4 is ₹ 350 million.

Recommend the treatment for impairment of goodwill.

Ind AS 19

16. Arunachalam Ltd. operates a Defined Retirement Benefits Plan for its current and former employees. Given the large size of the company, it engaged a firm of Actuaries for advice on the Contribution Levels and overall Liabilities of the Plan to pay benefits. Following details are given:

    (a) On 1st April, 20X1, the actuarial valuation of the present value of the defined benefit obligation was ₹ 15 crores. On the same date, the fair value of the assets of the Defined Benefit Plan was ₹ 13 crores. On 1st April, 20X1, the annual market yield based on Government Bonds was 5%.

    (b) During the year ended 31st March, 20X2, Arunachalam made contributions of ₹ 1.75 crore into the Plan and the Plan paid out benefits of ₹ 1.05 crore to retired members. Assume that both these payments were made on 31st March, 20X2.

    (c) The Actuarial Firm estimated that the current service cost for the year ended 31st March, 20X2 would be ₹ 1.55 crores. On 28th February, 20X2, the rules of the Plan were amended with retrospective effect which led to an increase in the present value of the defined benefit obligation by ₹ 37.5 lakhs from that date.

(d) During the year ended 31st March, 20X2, Arunachalam was in negotiation with employee representatives regarding planned redundancies. These negotiations were completed shortly before the year end and the redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 2 crores. Before 31st March, 20X2, Arunachalam made payments of ₹ 1.875 crores to the employees affected by the redundancies in compensation for a curtailment of their benefits. These payments were made out of the assets of the Retirement Benefits Plan.

(e) On 31st March, 20X2, the present value of the defined benefit obligation was ₹ 17 crores and the fair value of the assets of the Defined Benefit Plan was ₹ 14 crores.

Discuss how the above will be accounted in the books of Arunachalam Ltd. for the year 20X1-20X2. Also give the extracts of financial statements affected due to above transactions.

Ind AS 115

17. On 1st April, 20X1, Entity X enters into a contract with Entity Y to sell mobile chargers for ₹ 100 per charger. As per the terms of the contract, if Entity Y purchases more than 1,000 chargers till March 20X2, the price per charger will be retrospectively reduced to ₹ 90 per unit. Till September 20X1, Entity X sold 95 chargers to Entity Y. Entity X estimates that Entity Y's purchases by March 20X2 will not exceed the required threshold of 1,000 chargers.

    In October 20X1, Entity Y acquires another Entity C and from October 20X1 to December 20X1, Entity X sells an additional 600 chargers to Entity Y. Due to these developments, Entity X estimates that purchases of Entity Y will exceed the 1,000 chargers threshold for the period and therefore, it will be required to retrospectively reduce the price per charger to ₹ 90. Analyse the above scenario in light of Ind AS 115 and state how the revenue should be recognised in such a situation.

Ind AS 41

18. M. Chinnaswamy & Brothers Ltd. is a company that is engaged in growing and maintaining coconut palms and selling their output in various forms. The company has a farmland having 2,00,000 coconut palms in the coastal area of Karnataka near Mangalore.

    The fair value of each coconut palm is derived based on the average realisable price of ₹ 30 per nut (fruit). Each coconut palm grows 80 nuts per annum on an average basis. Each coconut palm can generate revenue for as long as 80 years and the current palms are only 20-year-old. The management thinks that considering the risk factors in business, the valuation of each palm can be considered at 5 times its annual revenue.

During August, 20X5, the Ooty Hotels Association (OHA) chairman and his team visited the corporate office of the company at Mangalore. The deal was to supply tender coconuts to Ooty Hotels at an agreed price throughout the year. The agreement came into effect from 1st September, 20X5 whereby the company shall reserve 15,000 coconut palms (out of 2,00,000 coconut palms) for OHA and will charge a concessional rate of ₹ 15 only per nut supplied to OHA. OHA will in turn supply the tender coconuts to each Ooty Hotel at the same price. This contract price is applicable irrespective of the ownership of palm trees (it is not an entity-specific restriction). All tender coconuts of these 15,000 coconut palms were used by OHA irrespective of the agreement being effective from 1st September, 20X5.

What will be the valuation of 2,00,000 coconut palms in the company's farm for the quarter ended 30th September, 20X5?

Ind AS 19

19. On 1st January, 20X2, the directors of Johansen Ltd. decided to terminate production at one of the company's divisions. This decision was publicly announced on 31st January, 20X2. The activities of the division were gradually reduced from 1st April, 20X2 and closure is expected to be complete by 30th September, 20X2.

    At 31st January, 20X2, the directors prepared the following estimates of the financial implications of the closure:

    (i) Redundancy costs were initially estimated at ₹ 2 million. Further expenditure of ₹ 8,00,000 will be necessary to retrain employees who will be affected by the closure but remained with Johansen Ltd. in different divisions. This retraining will begin in early July 20X2. Latest estimates are that redundancy costs will be ₹ 1.9 million, with retraining costs of ₹ 8,50,000.

    (ii) Plant and equipment having an expected carrying value at 31st March, 20X2 of ₹ 8 million will have a recoverable amount ₹ 1.5 million. These estimates remain valid.

    (iii) The division is under contract to supply goods to a customer for the next three years at a pre- determined price. It will be necessary to pay compensation of ₹ 6,00,000 to this customer. The compensation actually paid, on 31st May, 20X2, was ₹ 5,50,000.

(iv) The division will make operating losses of ₹ 3,00,000 per month in the first three months of 20X2-20X3 and ₹ 2,00,000 per month in the next three months of 20X2-20X3. This estimate proved accurate for April, 20X2 and May, 20X2.

(v) The division operates from a leasehold premise. The lease is a non-cancellable operating lease with an unexpired term of five years from 31st March, 20X2. The annual lease rentals (payable on 31st March in arrears) are ₹ 1.5 million. The landlord is not prepared to discuss an early termination payment.

Following the closure of the division it is estimated that Johansen Ltd. would be able to sub-let the property from 1st October, 20X2.

Johansen Ltd. could expect to receive a rental of ₹ 3,00,000 for the six-month period from 1st October, 20X2 to 31st March, 20X3 and then annual rentals of ₹ 5,00,000 for each period ending 31st March, 20X4 to 31st March, 20X7. All rentals will be received in arrears.

Any discounting calculations should be performed using a discount rate of 5% per annum. You are given the following data for discounting at 5% per annum:

Present value of ₹ 1 received at the end of year 1 = ₹ 0.95

Present value of ₹ 1 received at the end of year 1–2 inclusive = ₹ 1.86

Present value of ₹ 1 received at the end of year 1–3 inclusive = ₹ 2.72

Present value of ₹ 1 received at the end of year 1–4 inclusive = ₹ 3.54

Present value of ₹ 1 received at the end of year 1–5 inclusive = ₹ 4.32

Compute the amounts that will be included in the Statement of Profit and Loss for the year ended 31st March, 20X2 in respect of the decision to close the division of Johansen Ltd.

Ind AS 116

20. Entity X, a utility company enters into a contract for twenty years with Entity Y, a power company, to purchase all of the electricity produced by a new solar power station. The solar power station is explicitly specified in the contract and Entity Y has no substitution rights. Entity Y owns the solar power station and will receive tax credits relating to the construction and ownership of the solar power station, and Entity X will receive renewable energy credits that accrue from use of the solar power station.

Whether Entity X has the right to obtain substantially all of the economic benefits from the solar power station during the period of arrangement?

ANSWERS

1. (a) Ind AS 103 defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods and services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

In the given scenario, acquisition of power plant along with its labour force will be considered as integrated set of activity as it is capable of being generating power. Hence, transaction will be considered as business combination and not asset acquisition and acquisition method of accounting will be applied.

Thus, following will be the case:

(i) Acquirer – Mini Ltd;

(ii) Acquiree – Max Ltd;

(iii) Acquisition date – 1st April, 20X1

(b) Calculation of Goodwill:

Particulars		₹ in Million
Purchase consideration	(A)	51
Fair Value of Power Plant – PPE		46.90
Fair Value of other non-current assets		11.10
Fair Value of Intangible Asset (License) – Refer Note 1 below		5
Non-Current Liabilities assumed		(32)
Value of net assets acquired	(B)	31
Goodwill		20

Note 1: The licence to operate power plant is an intangible asset that meets the contractual-legal criterion for recognition separately from goodwill though acquirer cannot sell or transfer it separately from the acquired power plant. Intangible Assets needs to be recorded by the acquirer at the time of accounting for acquisition though not recorded by the acquiree in its book.

(c) Journal Entries for acquiring power plant

Particulars		₹ in Million	₹ in Million
Fair Value of Power Plant	Dr.	46.90	
Fair Value of other assets	Dr.	11.10	

Fair Value of License acquired	Dr.	5	
Goodwill	Dr.	20	
To Liabilities assumed			32
To Bank (PC paid)			51

Balance Sheet of Mini Limited as at 1st April, 20X1

Particulars	Notes to Accounts	₹ in Million
ASSETS		
Non-current assets		
Property, plant and equipment	1	2,204.90
Intangible Asset (License acquired in business combination)		5.00
Capital work-in-progress		12.00
Goodwill on acquisition		20.00
Deferred Tax Assets (Net)		324.00
Other non-current assets	2	36.10
Total non-current assets		**2,602.00**
Current assets		
Inventories		368.00
Financial assets		
(i) Investments		45.00
(ii) Trade Receivables		762.00
(iii) Cash and Cash Equivalents	3	59.00
(iv) Bank balances other than (iii) above		28.00
(v) Other financial assets		267.00
Total current assets		**1,529.00**
Total assets		**4,131.00**
EQUITY AND LIABILITIES		
Equity		
Equity Share Capital		295.00
Other equity		
Equity component of compound financial instruments		717.00

Reserves and surplus		2,481.00
Total equity		**3,493.00**
Liabilities		
Non-current liabilities		
Financial Liabilities		
Borrowings	4	300.00
Total non-current liabilities		**300.00**
Current liabilities		
Financial Liabilities		
(i) Trade payables		302.00
Other current liabilities		36.00
Total current liabilities		**338.00**
Total liabilities		**638.00**
Total equity and liabilities		**4,131.00**

Notes to Accounts

1. Property, Plant and Equipment

Particulars	**₹ in Million**
PPE value as on 1st April, 20X1	2,158.00
Add: Fair Value of Power Plant acquired	46.90
Total	2,204.90

2. Other Non-current Assets

Particulars	**₹ in Million**
Other non-current assets value as on 1st April, 20X1	25.00
Add: Fair Value of Non-current assets acquired	11.10
Total	36.10

3. Cash and Cash equivalents

Particulars	**₹ in Million**
Cash and Cash equivalents as on 1st April, 20X1	110
Less: Payment of Purchase consideration transferred	(51)
Total	59

4. **Non-current Liabilities**

Particulars	₹ in Million
Non-current Liabilities value as on 1st April, 20X1	268
Add: Non-current liabilities assumed in acquisition	32
Total	300

(d) Subsequent Accounting: Ind AS 103 provides a measurement period window, wherein if all the required information is not available on the acquisition date, then entity can do price allocation on provisional basis. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as on the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. Any change i.e. increase or decrease in the net assets acquired due to new information available during the measurement period which existed on the acquisition date will be adjusted against goodwill.

Accordingly, in the financial statements for half year ending 30th September, 20X1, Mini Limited will retrospectively adjusts the prior year information as follows:

(i) the carrying amount of PPE (including power plant) as of 1st April, 20X1 is increased by ₹ 8 million (i.e. ₹ 54.90 million minus ₹ 46.90 million). The adjustment is measured as the fair value adjustment at the acquisition date less the additional depreciation that would have been recognised if the asset's fair value at the acquisition date had been recognised from that date [(80,00,000/40) x (6/12) = 0.1 million]

(ii) the carrying amount of goodwill as of 1st April, 20X1 is decreased by ₹ 8 million; and

(iii) depreciation expense for the period ending 30th September, 20X1 will increase by ₹ 0.1 million

(iv) disclose in its financial statements of 1st April, 20X1, that the initial accounting for the business combination has not been completed because the valuation of property, plant and equipment has not yet been received;

(v) disclose in its financial statements of 30th September, 20X1, the amounts and explanation of the adjustments to the provisional values recognised during the current reporting period. Therefore, Mini Limited discloses that comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by ₹ 8 million, offset by decrease in goodwill of ₹ 8 million.

Journal Entries

(1)	PPE (Power Plant)	Dr.	₹ 8 Million	
	To Goodwill			₹ 8 Million
(2)	Depreciation	Dr.	₹ 0.1 Million	
	To Provision for Depreciation			₹ 0.1 Million

2. As per paragraph 39 of Ind AS 21, all assets and liabilities are translated at the closing exchange rate, which is USD 1 = INR 73 on 31st March, 20X2 and USD 1 = INR 75 on 31st March, 20X3.

In the given case, share capital is translated at the historical rate USD 1 = INR 70. The share capital will not be restated at each year end. It will remain unchanged.

Accordingly, the translated financial statements will be as follows:

Note 1: Retained earnings at 31st March, 20X3 and 31st March, 20X2:

Particulars	31st March, 20X3	31st March, 20X2
	INR	INR
Opening retained earnings	9,72,000	4,00,000
Profit for the year	10,72,985	5,72,000
Dividends paid (USD 3,000 x INR 73.5)	(2,20,500)	-
Closing retained earnings	**18,24,485**	**9,72,000**

Balance Sheet

Particulars	31st March, 20X3			31st March, 20X2		
	USD	Rate	INR	USD	Rate	INR
Property, plant and equipment	50,000	75	37,50,000	55,000	73	40,15,000
Trade Receivables	68,500	75	51,37,500	56,000	73	40,88,000
Inventory	8,000	75	6,00,000	5,000	73	3,65,000
Cash	40,000	75	30,00,000	35,000	73	25,55,000
Total assets	**1,66,500**		**1,24,87,500**	**1,51,000**		**1,10,23,000**

Share Capital	50,000	70	35,00,000	50,000	70	35,00,000
Retained earnings (Refer note 1)	29,500		18,24,485	18,000		9,72,000
Foreign Exchange reserve (Balancing figure)			6,38,015	-		4,92,000
Total Equity	**79,500**		**59,62,500**	**68,000**		**49,64,000**
Trade payables	40,000	75	30,00,000	38,000	73	27,74,000
Loan	47,000	75	35,25,000	45,000	73	32,85,000
Total liabilities	**87,000**		**65,25,000**	**83,000**		**60,59,000**
Total equity and liabilities	**1,66,500**		**1,24,87,500**	**1,51,000**		**1,10,23,000**

The foreign exchange reserve is the exchange difference resulting from translating income and expense at the average exchange rate and assets and liabilities at the closing rate.

Other Comprehensive Income

Exchange differences on translating from USD to INR (6,38,015 - 4,92,000)	INR 1,46,015

Statement of Changes in Equity (INR)

Particulars	**Share capital**	**Retained Earnings**	**Foreign exchange reserve**	**Total**
Balance at 1st April, 20X2	35,00,000	9,72,000	4,92,000	49,64,000
Dividends	-	(2,20,500)	-	(2,20,500)
Profit for the year	-	10,72,985	-	10,72,985
Exchange difference (transferred to OCI)	-	-	1,46,015	1,46,015
Balance at 31st March, 20X3	35,00,000	18,24,485	6,38,015	59,62,500

3. Journal Entries in the books of Entity B

	₹ in lakhs	₹ in lakhs
1st April, 20X1		
Building A/c (Property, plant and equipment) Dr.	525	
To Bank A/c		525
(To recognise the purchase of the building for cash)		
31st March, 20X2		
Depreciation (Refer W.N.) Dr.	25	
To Building A/c (Property, plant and equipment)		25
(To recognise depreciation on building for its use in the year 20X1-20X2)		
1st April, 20X2		
Bank A/c Dr.	600	
To Building A/c (Property, plant and equipment)		500
To Profit on sale of Building		100
(To recognise the sale of the building for cash)		

Journal Entries in the books of Entity A

	₹ in lakhs	₹ in lakhs
1st April, 20X2		
Building A/c (Property, plant and equipment) Dr.	600	
To Bank A/c		600
(To recognise the purchase of a building for cash from Entity B)		
31st March, 20X3		
Depreciation A/c (Refer W.N.) Dr.	30	
To Building A/c (Property, plant and equipment)		30
(To recognise depreciation on building for its use in the year 20X2-20X3)		

Journal Entries in the books of Group

	₹ in lakhs	₹ in lakhs
31st March, 20X3		
Profit on sale of Building Dr.	100	
To Building A/c (Property, plant and equipment)		100
(To eliminate the effects of the intragroup transaction)		
Building A/c (Property plant and equipment) Dr.	5	
To Depreciation A/c (W.N.)		5
(To eliminate the effects of the intragroup transaction)		

Working Note:

Computation of Depreciation and its Adjustment in the Group's Financial Statements

	In Individual financial statements of Entity B/Entity A	**For adjustment in the books of Group**
Particulars	**₹ in lakhs**	**₹ in lakhs**
Cost of Building on 1st April, 20X1 **for Entity B**	525	
Useful life	21 years	
Depreciation per year (₹ 525 lakhs / 21 years)	25	25
Cost of Building on 1st April, 20X2 **for Entity A**	600	
Useful life	20 years	
Depreciation per year (₹ 600 lakhs / 20 years)	30	30
Reversal of depreciation in the books **of Group**		(5)

4. Consolidated Balance Sheet of Ishwar Ltd. at 31st March, 20X4

Particulars	**₹ in '000s**
Assets	
Non-current Assets:	
Property, Plant and Equipment	
[(26,20,000 + 18,50,000) + {(2,00,000 (W.N.1) – 15,000 (W.N.1)) + (1,00,000 (W.N.1) – 75,000 (W.N.1)) + (39,000 – 1,950) (WN 7)}]	47,17,050
Investment (21,15,000 – 14,00,000 – 15,000)	7,00,000
Goodwill (W.N.2)	1,85,600
Total non-current assets	**56,02,650**
Current Assets:	
Inventories (6,00,000 + 3,75,000)	9,75,000
Trade Receivables (4,50,000 + 3,30,000)	7,80,000
Cash and Cash Equivalents (75,000 + 60,000)	1,35,000
Total current assets	**18,90,000**
TOTAL ASSETS	**74,92,650**
Equity and Liabilities	
Equity attributable to equity holders of the parent	
Share Capital	7,00,000
Retained Earnings (W.N.5)	30,31,960
Other Components of Equity (W.N.6)	12,70,000
	50,01,960
Non-controlling Interest (W.N.4)	3,53,600
Total equity	**53,55,560**
Non-current Liabilities	
Provisions (39,000 + 2,340 (W.N.7))	41,340
Long-term Borrowings (4,13,750 + 4,50,000)	8,63,750
Deferred Tax (W.N.8)	4,07,000
Total non-current liabilities	**13,12,090**

Current Liabilities	
Trade and Other Payables (3,00,000 + 2,50,000)	5,50,000
Short-term Borrowings (1,00,000 + 1,75,000)	2,75,000
Total Current Liabilities	**8,25,000**
TOTAL EQUITY AND LIABILITIES	**74,92,650**

Working Notes:

1. Computation of Net Assets of Vinayak Ltd.

	1st April, 20X1 (Date of acquisition) ₹ in '000s	**31st March, 20X4 (Date of consolidation) ₹ in '000s**
Share Capital	5,00,000	5,00,000
Retained Earnings:		
Per accounts of Vinayak Ltd.	7,50,000	10,50,000
Fair Value Adjustments:		
Property (10,00,000 – 8,00,000)*	#2,00,000	$2,00,000
Extra depreciation due to Buildings appreciation* ((6,00,000 – 4,50,000) x 3/30)		$(15,000)
Plant and Equipment (7,00,000 – 6,00,000)*	#1,00,000	$1,00,000
Extra depreciation due to Plant and Equipment appreciation* (1,00,000 x ¾)		$(75,000)
Contingent Liability*	#(30,000)	$NIL
Other Components of Equity	25,000	50,000
Deferred Tax on Fair Value Adjustments*:		
Date of acquisition (20% x #2,70,000 (from above))	(54,000)	
Date of Consolidation (20% x $2,10,000 (from above))		(42,000)
Net Assets for Consolidation	14,91,000	17,68,000

The post-acquisition increase in Net Assets is ₹ 2,77,000 (₹ 17,68,000 – ₹ 14,91,000). ₹ 25,000 of this increase is due to changes in Other Components of Equity and the remaining ₹ 2,52,000 due to changes in retained earnings.

2. Computation of Goodwill on Consolidation

	Vinayak Ltd. ₹ in '000s
Cost of Investment:	
Shares issued to acquire Vinayak Ltd. (4,00,000 x ½ x ₹ 7)	14,00,000
Non-controlling Interests at the date of acquisition:	
Vinayak Ltd. – 20% x ₹ 1,491,000 (from W.N.1)	2,98,200
	16,98,200
Net Assets at the date of acquisition:	
Vinayak Ltd. (W.N.1)	(14,91,000)
Goodwill before Impairment	2,07,200
Less: Impairment of Goodwill (refer W.N.3)	(21,600)
Goodwill reported in Consolidated Balance Sheet	1,85,600

3. Impairment of Goodwill on acquisition of Vinayak Ltd.

	Vinayak Ltd. ₹ in '000s
Net Assets of Vinayak Ltd. at 31st March, 20X4 (W.N.1)	17,68,000
Grossed up Goodwill on acquisition (100/80 x ₹ 2,07,200) (Refer Note 1 below)	2,59,000
	20,27,000
Recoverable amount of Vinayak Ltd. as a CGU	(20,00,000)
Therefore, gross impairment will be	27,000
Impairment attributed to Parent (refer Note 2 below)	21,600

Note 1: Grossing up of Goodwill

As per **Para C4 of Appendix C to Ind AS 36 *Impairment of Assets*** – If an entity measures non-controlling interests at its proportionate interest in the net identifiable assets of a subsidiary at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related Cash Generating Unit but is not recognised in the parent's consolidated financial statements. As a consequence, an **entity shall gross up the carrying amount of goodwill allocated to the unit** to include the goodwill attributable to the non-controlling interest. This **adjusted carrying amount is then compared with the recoverable amount of the unit** to determine whether the cash-generating unit is impaired.

Note 2: Allocation of Impairment of Goodwill

Since the non-controlling interests of Vinayak Ltd. are measured at proportionate share of identifiable net assets of Vinayak Ltd., the goodwill computed is entirely attributable only to the parent of Vinayak Ltd. Accordingly, the impairment also would be attributed entirely to the parent of Vinayak Ltd., and not to the non-controlling interest.

4. Computation of Non-controlling Interest (NCI)

	Vinayak Ltd. **₹ in '000s**
NCI at the date of acquisition (W.N.2)	2,98,200
Share of post-acquisition increase in net assets (20% x ₹ 2,77,000 (from W.N.1))	55,400
	3,53,600

5. Computation of consolidated Retained Earnings

	₹ in '000s
Balance as per accounts of Ishwar Ltd.	28,65,000
Adjustments:	
Acquisition costs	(15,000)
Restoration Provision (W.N.7)	1,960
Share of Vinayak Ltd.'s post-acquisition profits (80% x ₹ 2,52,000 (W.N.1))	2,01,600
Impairment of Goodwill (W.N.3)	(21,600)
	30,31,960

6. Other Components of Equity

	₹ in '000s
Balance as per accounts of Ishwar Ltd.	12,50,000
Share of Vinayak Ltd.'s post-acquisition balance (80% x ₹ 25,000 (W.N.1))	20,000
	12,70,000

7. Computation of Restoration Provision

		₹ in '000s
Provision for Restoration originally required (₹ 1,25,000 x 0.312)		39,000
One year's unwinding of discount (₹ 39,000 x 6%)	A	(2,340)
One year's depreciation of capitalized cost (₹ 39,000 x 1/20)	B	(1,950)
Original provision incorrectly made	C	6,250
So retained earnings adjustment equals [C -A – B]		1,960

8. Computation of Deferred Tax

	₹ in '000s
Ishwar Ltd. + Vinayak Ltd.	3,65,000
Fair value adjustments in Vinayak Ltd. (from W.N.1)	42,000
	4,07,000

5. Paragraph 24 of Ind AS 20 provides that government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

In accordance with the above, journal entries and presentation of grants related to assets under both the methods are as follows:

Method 1: When the deferred income account is set-up with the amount of government grant

(I) Journal Entries

S. No.	Particulars	Nature of Account	Dr./ Cr.	Amount (in ₹)	Amount (in ₹)
(i)	Bank A/c	Balance Sheet (Asset)	Dr.	15,000	
	To Government Grant Deferred Income A/c	Balance Sheet (Liability)	Cr.		15,000
	(Being grant received and deferred income set up)				

(ii)	Government Grant Deferred Income A/c	Balance Sheet (Liability)	Dr.	3,000	
	To Government Grant Income A/c	Income (P/L)	Cr.		3,000
	(Being amortisation of the grant in Profit and loss A/c for the current year)				
(iii)	Depreciation A/c	Expense (P/L)	Dr.	20,000	
	To Accumulated Depreciation A/c	Balance Sheet (Asset)	Cr.		20,000
	(Being depreciation charge of the asset for the current year)				
(iv)	Government Grant Income A/c	Income (P/L)	Dr.	3,000	
	To Profit and Loss A/c	P/L	Cr.		3,000
	(Being transfer of government grant income to profit and loss A/c)				
(v)	Profit and Loss A/c	P/L	Dr.	20,000	
	To Depreciation A/c	Expense (P/L)	Cr.		20,000
	(Being the charge of depreciation transferred to profit and loss A/c)				

(II) Presentation in Balance Sheet and Statement of Profit and Loss

Extract of Statement of Profit and Loss

Particulars	Amount (in ₹)
Income	
Government grant (Refer W.N.1)	3,000
Expenses	
Depreciation (1,00,000 x 20%)	(20,000)
Net effect on profit and loss	**(17,000)**

Presentation in Balance Sheet (Year 1)

Particulars	Amount (in ₹)
Non-current Assets	
Property, Plant and Equipment	
Plant & machinery	1,00,000
Accumulated depreciation (1,00,000 × 20%)	(20,000)
	80,000
Non-current liabilities	
Government grant (Refer W.N.1)	9,000
Current liabilities	
Government grant (Refer W.N.1)	3,000

Working Note 1: Presentation in Balance Sheet as current and non-current liability

Particulars	Amount (in ₹)
Portion to be amortised in next 12 months (15,000 x 20%)	3,000
Portion to be amortised after 12 months	9,000
Total Balance	12,000

Method 2: When the government grant is deducted from the cost of the asset

(I) Journal Entries

S. No.	Particulars	Nature of Account	Dr./ Cr.	Amount (in ₹)	Amount (in ₹)
(i)	Bank A/c	Balance Sheet (Asset)	Dr.	15,000	
	To Government Grant A/c	Balance Sheet (Liability)	Cr.		15,000
	(Being grant received)				
(ii)	Government Grant A/c	Balance Sheet (Liability)	Dr.	15,000	
	To Plant & Machinery A/c	Balance Sheet (Asset)	Cr.		15,000

	(Being cost of asset reduced with grant received)				
(iii)	Depreciation A/c (85,000 x 20%)	Expense (P/L)	Dr.	17,000	
	To Accumulated Depreciation A/c	Balance Sheet (Asset)	Cr.		17,000
	(Being depreciation charge of the asset for the current year)				
(iv)	Profit and Loss A/c	P/L	Dr.	17,000	
	To Depreciation	Expense (P/L)	Cr.		17,000
	(Being the charge of depreciation transferred to the profit and loss A/c)				

(II) Presentation in Balance Sheet and Statement of Profit and Loss

Extract of Statement of Profit and Loss (Year 1)

Particulars	**Amount (in ₹)**
Depreciation (₹ 85,000 x 20%)	(17,000)

Extract of Balance Sheet (Year 1)

Particulars	**Amount (in ₹)**
Non-current Assets	
Property, Plant and Equipment	
Plant & machinery	
Original cost	1,00,000
Less: Government Grant	(15,000)
Adjusted cost	85,000
Accumulated depreciation	(17,000)
Carrying amount	**68,000**

6. **Extract of Y Ltd.'s Statement of Profit and Loss for the year ended 31st March, 20X3**

	20X2-20X3	***Reference to W.N.***	***20X1-20X2 Restated***	***Reference to W.N.***
	₹		**₹**	
Revenue	1,04,000		73,500	
Cost of sales (20X1-20X2 previously ₹ 53,500)	(79,100)	1	(60,000)	4
Gross profit	24,900		13,500	
Other income — change in the measurement policy i.e. the value of investment in associate at FVTPL	5,000	2	2,000	5
Profit before tax	29,900		15,500	
Income tax expense	(8,970)	3	(4,650)	6
Profit for the year	20,930		10,850	

Extract of Y Ltd.'s Statement of Changes in Equity (Retained Earnings) for the year ended 31st March, 20X3

	20X2-20X3	***Reference to W.N.***	***20X1-20X2 Restated***	***Reference to W.N.***
	₹		**₹**	
Retained earnings, as restated, at the beginning of the year				
- as previously stated	34,000		20,000	
- effect of the correction of a prior period error	(4,550)	7	-	
- effect of a change in accounting policy	11,900	13	10,500	12
	41,350		30,500	

Profit for the year	20,930		10,850	
Retained earnings at the end of the year	62,280		41,350	

Y Ltd.

Extract of Notes to the Financial Statements for the year ended 31st March, 20X3

Note X : Change in Accounting Estimates

Due to usage of improved lubricants the estimated useful life of the machine used for production was increased from four years to seven years. The effect of the change in the useful life of the machine is to reduce the depreciation allocation by ₹ 900 in 20X2-20X3 and 20X3-20X4. The after-tax effect is an increase in profit for the year of ₹ 630 for each of the two years.

Depreciation expense in 20X4-20X5 to 20X6-20X7 is increased by ₹ 600 because of revision in the useful life of machinery, as under the initial estimate, the asset would have been fully depreciated at the end of 20X3-20X4. The after-tax effect for these three years is a decrease in profit for the year by ₹ 420 per year.

Note Y : Correction of Prior Period Error

In 20X2-20X3 the entity identified that ₹ 6,500 products that had been sold in 20X1-20X2 were included erroneously in inventory at 31st March, 20X2. The financial statements of 20X1-20X2 have been restated to correct this error. The effect of the restatement is ₹ 6,500 increase in the cost of sales and ₹ 4,550 decrease in profit for the year ended 31st March, 20X2 after decreasing income tax expense by ₹ 1,950. This resulted in ₹ 4,550 (decrease) restatement of retained earnings at 31st March, 20X2.

Note Z : Change in Accounting Policy

In 20X2-20X3 the entity changed its accounting policy for the measurement of investments in associates from cost model to fair value model as per Ind AS 109. Management judged that this policy provides reliable and more relevant information because dividend income and changes in fair value are inextricably linked as integral components of the financial performance of an investment in an associate and measurement at fair value is necessary if that financial performance is to be reported in a more meaningful way. This change in accounting policy has been accounted for retrospectively. The comparative information has been restated. A new line item, 'Other income — change in the fair value of investment in associate', has been added in the Statement of Profit and Loss and Retained Earnings. The effect of the restatement has been to add income of ₹ 2,000 as a result of the increase in value of the associate during the year ended 31st March, 20X2 which resulted in ₹ 1,400 increase in profit for the year (after including a resulting increase in income tax expense of ₹ 600). This, together with ₹ 10,500 (increase) restatement of retained earnings at 31st March, 20X1, resulted in a ₹ 11,900 increase in retained earnings at 31st March, 20X2. Furthermore, profit for the year ended 31st March, 20X3 was ₹ 3,500 higher (after deducting ₹ 1,500 tax effect) as a result of recording a further ₹ 5,000 (W.N.2) increase in the fair value of the investment in an associate.

Working Notes:

1. ₹ 86,500 (given) minus ₹ 6,500 correction of error (now recognised as an expense in 20X1-20X2) minus ₹ 900 (W.N.9) effect of the change in accounting estimate.
2. ₹ 25,000 fair value (20X2-20X3) minus ₹ 20,000 fair value (20X1-20X2) = ₹ 5,000 (the effect of applying the new accounting policy (fair value model) in 20X2-20X3).
3. ₹ 5,250 + ₹ 1,950 (W.N.8) + 30% (₹ 900 (W.N.9) reduction in depreciation resulting from the change in accounting estimate) + 30% (₹ 5,000 increase in the fair value of investment property — change in accounting policy) = ₹ 8,970.
4. ₹ 53,500 as previously stated + ₹ 6,500 (products sold and incorrectly included in closing inventory in 20X1-20X2) = ₹ 60,000 (that is, the prior period error is corrected retrospectively by restating the comparative amounts).
5. ₹ 20,000 fair value (20X1-20X2) minus ₹ 18,000 fair value (20X0-20X1) = ₹ 2,000 (the effect in 20X1-20X2 of the change in accounting policy for investments in associates from the cost model to the fair value model).
6. ₹ 6,000 as previously stated minus ₹ 1,950 (W.N.8) correction of prior period error + 30% (₹ 2,000 change in accounting policy) = ₹ 4,650.
7. ₹ 6,500 (products sold and incorrectly included in inventory in 20X1-20X2) – ₹ 1,950 (W.N.8) (tax overstated in 20X1-20X2) = ₹ 4,550.
8. ₹ 6,500 (products sold and incorrectly included in inventory in 20X1-20X2) x 30% (income tax rate) = ₹ 1,950.
9. ₹ 1,500 depreciation (using old estimate, that is, ₹ 6,000 cost ÷ 4 years) minus ₹ 600 (W.N.10) (using new estimate of useful life) = ₹ 900.
10. ₹ 3,000 (W.N.11) carrying amount ÷ 5 years remaining useful life = ₹ 600 depreciation per year.
11. [₹ 6,000 cost minus (₹ 1,500 depreciation x 2 years)] = ₹ 3,000 carrying amount at 31st March, 20X2.

12. (₹ 18,000 fair value of investment in associates at 31st March, 20X1 minus ₹ 3,000 carrying amount based on the cost model at the same date) x 0.7 (to reflect 30% income tax rate) = ₹ 10,500 (effect of a change in accounting policy (from cost model to fair value model)).

13. ₹ 10,500 (W.N.12) + [₹ 2,000 (W.N.5) x 0.7 (to reflect 30% income tax rate)] = ₹ 11,900.

7. Since there is no change to the estimated residual value of zero, or to the useful life of the building after revaluation, at the end of the 2nd year i.e. 31st March 20X3, the building will be depreciated over the next 9 years at ₹ 15,000 per year.

Following the revaluation, the temporary difference associated with the building is ₹ 1,35,000. Of this amount, only ₹ 90,000 arose on initial recognition, since ₹ 10,000 of the original temporary difference of ₹ 1,00,000 arising on initial recognition of the asset has been eliminated through depreciation of the asset. The carrying amount (which equals the temporary difference, since the tax base is zero) and depreciation during the year ended 31st March, 20X3 and thereafter may then be analysed as follows:

Year	Carrying amount a	Tax base b	Gross temporary difference (c= a-b)	Unrecognised temporary difference d	Recognised temporary difference (e=c-d)	Deferred tax liability f = e @ 30%
0	1,00,000	-	1,00,000	1,00,000	-	-
1	90,000	-	90,000	90,000	-	-
Reval	1,35,000	-	1,35,000	90,000	45,000	13,500
2	1,20,000	-	1,20,000	80,000	40,000	12,000
3	1,05,000	-	1,05,000	70,000	35,000	10,500
4	90,000	-	90,000	60,000	30,000	9,000
5	75,000	-	75,000	50,000	25,000	7,500
6	60,000	-	60,000	40,000	20,000	6,000
7	45,000	-	45,000	60,000	15,000	4,500
8	30,000	-	30,000	20,000	10,000	3,000
9	15,000	-	15,000	10,000	5,000	1,500
10	-	-	-	-	-	-

Note: The depreciation is allocated *pro rata* to the cost element and revalued element of the total carrying amount.

On 31st March, 20X3, the entity recognises a deferred tax liability based on the temporary difference of ₹ 45,000 arising on the revaluation (i.e., after initial recognition) giving a deferred tax expense of ₹ 13,500 (₹ 45,000 @ 30%) recognised in Other Comprehensive Income (OCI).

This has the result that the effective tax rate shown in the financial statements for the revaluation is 30% (₹ 45,000 gain with deferred tax expense of ₹ 13,500).

As can be seen from the table above, as at 31st March, 20X4 (year 3), ₹ 40,000 of the total temporary difference arose after initial recognition. The entity, therefore, provides for deferred tax of ₹ 12,000 (₹ 40,000 @ 30%), and a deferred tax credit of ₹ 1,500 (the reduction in the liability from ₹ 13,500 to ₹ 12,000) is recognised in profit or loss.

The deferred tax credit can be explained as the tax effect at 30% of the additional ₹ 5,000 depreciation relating to the revalued element of the building.

8. In the given fact pattern, the entity should apply the recognition and measurement principles relevant for an internally generated intangible asset. The entity has to ensure compliance with additional requirements relating to internally generated intangible assets in addition to general recognition criteria and initial measurement of intangible asset. In the instant case, for the measurement of software development cost, entity must evaluate the costs incurred for recognition of an intangible asset arising from development phase with reference to paragraphs 65 to 67 of Ind AS 38.

According to the said paragraphs, the initial carrying amount of the software will be computed as follows:

Particulars	**Amount (₹ in thousands)**	**Amount to be capitalised as Intangible Assets (₹ in thousands)**	**Remarks**
Purchase price of imported software	600	600	The cost of materials or / and services used or consumed in generating the intangible asset and any directly attributable cost of preparing the asset for its intended use.
Employment costs (Note 1)	1,200	900	Employment costs for the period of nine months are directly attributable costs. Therefore, the cost to be

			capitalized is ₹ 900 thousand (i.e., 9/12 x ₹ 1,200 thousand) for nine months as the asset was ready for its intended use by that time. It is assumed that ₹ 100 thousand is equally incurred each month. Capitalisation of eligible costs should cease when the asset is capable of operating in the manner intended by management.
Testing costs	1,800	1,800	The cost of testing whether the asset is functioning properly is a directly attributable cost. (Refer paragraph 59 of Ind AS 38)
Other costs directly related to development (Note 2)	450	400	Cost of identified inefficiencies deducted, i.e., ₹ 450 thousand – ₹ 50 thousand.
Professional fees paid for bringing the software to its working condition	220	220	The cost of materials or/and services used or consumed in generating the intangible asset
Costs of training provided to staff	195	Nil	Expenditure on training staff to operate the asset cannot be capitalised. (Refer paragraph 67 of Ind AS 38)
Costs of advertising in market	1,560	Nil	Selling, administrative and other general overhead expenditure cannot be capitalised. (Refer paragraph 67 of Ind AS 38)
Administrative and general overheads	825	Nil	
Total	6,850	3,920	

Accordingly, the initial carrying value of the software is ₹ 39,20,000. The remaining costs will be charged to profit or loss.

9. Since the interest was initially set at the market rate, on 1st April, 20X1 the entity on initial recognition will measure the loan at the transaction price, less transaction costs i.e. at ₹ 4,900.

The following is the original amortised cost calculation at 1st April, 20X1:

Time	Carrying amount at 1st April	Effective Interest @ 8.612%	Cash outflow	Carrying amount at 31st March
	(a)	(b=ax8.612%)	(c=5000x8%)	(d = a + b - c)
20X1-20X2	4,900.00	421.99	(400.00)	4,921.99
20X2-20X3	4,921.99	423.88	(400.00)	4,945.87
20X3-20X4	4,945.87	425.94	(400.00)	4,971.81
20X4-20X5	4,971.81	428.19	(5,400.00)	–

At 31st March, 20X2:

1. The present value of the remaining cash flows of the original financial liability is ₹ 4,921.99 discounted at the original effective interest rate of 8.612%.
2. The present value of the cash flows under the new terms discounted using the original effective interest rate is ₹ 4,537.25 (Refer W.N.). Including the ₹ 50 fee, the present value of the total cash flows is ₹ 4,587.25.
3. The difference between ₹ 4,921.99 and ₹ 4,587.25 is ₹ 334.74 which is only 6.8% (₹ 334.74 ÷ ₹ 4,921.99) of the present value of the remaining cash flows of the original financial liability.

The entity applies its judgement to decide whether the terms of the instruments exchanged are substantially different. Since the difference of the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is less than 10% of the present value of the remaining cash flows of the original financial liability, this modification should not be considered a substantial modification of the terms of the existing loan. Therefore, the modification would not be accounted for as an extinguishment of the original financial liability.

Working Note:

The calculation of the present value of the cash flows under the new terms discounted using the original effective interest rate is as follows:

Time	Cash outflow	Discounting factor @ 8.612%	Present value at 31st March
31st March, 20X3	250.00	0.921	230.25
31st March, 20X4	250.00	0.848	212.00
31st March, 20X5	5,250.00	0.780	4,095.00
Total present value			4,537.25

10. Statement of Cash Flows for the year ended 31st March, 20X3 (Indirect method)

Particulars	₹	₹
Cash flow from operating activities:		
Net Profit before taxes and extraordinary items (7,20,000 + 8,80,000)	16,00,000	
Add: Depreciation	6,00,000	
Operating profit before working capital changes	22,00,000	
Increase in inventories	(1,80,000)	
Decrease in trade receivables	16,80,000	
Advances	(12,000)	
Decrease in trade payables	(60,000)	
Increase in outstanding expenses	2,40,000	
Cash generated from operations	38,68,000	
Less: Income tax paid (Refer W.N.4)	(8,68,000)	
Net cash from operations		30,00,000
Cash from investing activities:		
Purchase of land	(4,80,000)	
Purchase of building & equipment (Refer W.N.2)	(28,80,000)	
Sale of equipment (Refer W.N.3)	3,60,000	
Net cash used for investment activities		(30,00,000)

Cash flows from financing activities:		
Issue of share capital	8,40,000	
Dividends paid	(7,20,000)	
Net cash from financing activities:		1,20,000
Net increase in cash and cash equivalents		1,20,000
Cash and cash equivalents at the beginning		6,00,000
Cash and cash equivalents at the end		7,20,000

Working Notes:

1. Building & Equipment Account

Particulars	₹	Particulars	₹
To Balance b/d	36,00,000	By Sale of assets	7,20,000
To Cash / bank (purchases)(bal. fig)	28,80,000	By Balance c/d	57,60,000
	64,80,000		64,80,000

2. Building & Equipment Accumulated Depreciation Account

Particulars	₹	Particulars	₹
To Sale of asset (acc. depreciation)	4,80,000	By Balance b/d	12,00,000
To Balance c/d	13,20,000	By Profit & Loss A/c (provisional)	6,00,000
	18,00,000		18,00,000

3. Computation of sale price of Equipment

Particulars	₹
Original cost	7,20,000
Less: Accumulated Depreciation	(4,80,000)
Net cost	2,40,000
Profit on sale of assets	1,20,000
Sale proceeds from sale of assets	3,60,000

4. **Provision for tax Account**

Particulars	₹	Particulars	₹
To Bank A/c	8,68,000	By Balance b/d	1,20,000
To Balance c/d	1,32,000	By Profit & Loss A/c (provisional)	8,80,000
	10,00,000		10,00,000

11. Paragraph 15 of Ind AS 105 states that an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

Further, paragraph 17 of Ind AS 105 states that when the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

Company X has identified a disposal group and is committed to sell the same. The sale is expected to be completed after a period of one year hence, it will measure the costs to sell such disposal group at present value as per paragraph 17 of Ind AS 105.

A. On 30th September, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	₹ 400.00 crores	
PV of costs to sell:	(₹ 8.67 crores)	(₹ 10 crores x 0.867)
Total:	₹ 391.33 crores	

B. On 31st March, 20X1

The disposal group will be measured at fair value less costs to sell which will be as follows:

Fair value:	₹ 400.00 crores	
PV of costs to sell:	(₹ 9.09 crores)	(10 x 0.909)
Total:	₹ 390.91 crores	

The increase in costs to sell the division by ₹ 0.42 crore (₹ 9.09 crores – ₹ 8.67 crores) will be recognised in profit and loss as financing cost in accordance with paragraph 17 of Ind AS 105.

12. Journal Entries for the year 20X1-20X2

		₹	₹
Inventory A/c (W.N.1)	Dr.	42,490	
To Cash/Bank A/c			42,490
(To recognise the cost of raw materials purchased)			
Inventory A/c (W.N.2)	Dr.	11,240	
To Cash/Bank A/c (cost of direct labour)			5,000
To Property, plant and equipment (accumulated depreciation-factory equipment)			600
To Property, plant and equipment (accumulated depreciation-raw-materials delivery vehicle)			400
To Cash/Bank A/c (cost of electricity used)			300
To Property, plant and equipment (accumulated depreciation-factory supervisor's vehicle)			200
To Cash/Bank A/c (factory management's salaries)			3,000
To Cash/Bank A/c (factory rental)			1,000
To Cash/Bank A/c (administrative salaries attributable to the factory)			610
To Property, plant and equipment (attributable portion of accumulated depreciation-administration building)			100
To Property, plant and equipment (attributable portion of accumulated depreciation-administration vehicles)			30
(To recognise the costs of conversion)			
Inventory A/c (W.N.2)	Dr.	200	
To Inventory A/c (consumable stores)			200
(To recognise the costs of consumable stores inventory consumed)			

The total cost of inventories = Costs of purchase + Costs of conversion

= ₹ 42,490 + ₹ 11,240 + ₹ 200

= ₹ 53,930

Working Notes:

1. Computation of costs of purchase

Description	₹
Purchase price	30,000
Import duty and other non-refundable purchase taxes	8,000
Freight costs for bringing the goods to the factory storeroom	3,000
Cost of unloading the raw materials into the storeroom	20
Packaging	2,000
Less: Trade discounts, rebates and subsidies	(530)
Cost of purchase	42,490

Note: Refundable taxes do not form part of the cost of inventories.

2. Computation of costs of conversion

Description	₹
Direct labour	5,000
Fixed production overheads	
Depreciation and maintenance of factory equipment	600
Depreciation of vehicle used for transporting the goods	400
Depreciation of vehicle used by factory supervisor	200
Factory electricity usage	300
Factory management	3,000
Factory rental	1,000
Other costs of administering the factory	
20% of depreciation of administration building	100
20% of depreciation of administration vehicles	30
20% of administrative staff costs	610
Variable production overheads	
Indirect material—consumables	200
Cost of conversion	**11,440**

13.

Property	Classification of properties not held for operational purpose
A Ltd.'s office building (registered office)	Excess portion of office space has been given on lease to earn rental income. Out of 15 storey building, only 3 floors are occupied by A Ltd. Such excess office space was constructed for the purpose of letting it out. According to A Ltd., such excess office space will continue to be let out on lease to external parties and have no plans to occupy it, at least in near future. Further, office space given on rent, although in same building, is separately identifiable from another owner-occupied portion and hence can be sold separately (if required). Hence, the excess space will qualify to be an investment property.
Flats in Township located in location 1	Excess flats have been given on lease to earn rental income. According to A Ltd., there is no intention of selling such excess flats or allotting it to its employees. Further, flats given on rent, can be sold separately from flats occupied by A Ltd.'s employees as they are separately identifiable. A Ltd. also charges its lessees on account of ancillary services, i.e., water, electricity, cable connection, etc., but the monthly charges in such cases are generally not significant as compared to rental payments. Hence, flats given on rent should qualify to be an 'investment property'. With regards to the flats kept vacant, A Ltd. has to evaluate the purpose of holding these flats, i.e., whether these would be kept for earning rentals or will it be allotted to its future employees. In case they are held for earning rentals, it would be classified as an investment property; and if they are held for allotment to future employees, it would form part of property, plant and equipment.
Flats in township located in location 2	350 flats are given on lease to earn rental income and assuming that management intends to let out these flats on rent in future, such flats should be classified as an 'investment property. With regards to the flats kept vacant, A Ltd. has to evaluate the purpose of holding these flats, i.e., whether these would

	be kept for earning rentals or will it be allotted to its future employees. In case they are held for earning rentals, it would be classified as an investment property; and if they are held for allotment to future employees, it would form part of property, plant and equipment.
Hostel located in location 1	Rooms in a hostel have been let out to G Ltd. to be used by its personnel. A Ltd. also charges G Ltd. on account of ancillary services, i.e., water, electricity, cable connection, etc., but the monthly charges in such cases are generally not significant as compared to rental payments. Hence, it should be classified as an 'Investment property'.
Land in location 1	Although management has not determined use for property after the development of park, yet in the medium-term the land is held for capital appreciation. As per Ind AS 40, if an entity has not determined that it will use the land either as owner-occupied property or for short term sale in the ordinary course of business, then it will be considered as land held for capital appreciation. Therefore, management should classify the property as an investment property.
Land in location 1	Since the land is held with an intention of giving it on lease and earning capital appreciation over a period, it should be classified as an 'Investment property'.
Land in location 2	Since the land is held with an intention of giving it on lease and earning capital appreciation over a period, it should be classified as 'Investment property'.

14. Paragraph B34 of Ind AS 111 states that when an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

The amount of gain or loss to be recognised by Entity A in its separate financial statements as well as consolidated financial statements will be computed as below:

(All amounts are ₹ in lakhs)

A's share of fair value of asset contributed by Entity B (50% x ₹ 120 lakhs)	60

Less: Asset contributed by Entity A to the joint operation – carrying amount of proportion ceded to Entity B (50% x ₹ 100 lakhs)	(50)
Gain to be recognised by Entity A	10

The gain can alternatively be calculated as:

Share acquired in fair value of net assets of joint operation (50% x ₹ 240 lakhs)	120
Less: Carrying amount of asset contributed	(100)
Less: Unrealised portion of gain on asset contributed (50% × (₹ 120 lakhs – ₹ 100 lakhs))	(10)
Gain to be recognised by Entity A	10

The amount of gain or loss to be recognised by Entity B in its separate financial statements as well as consolidated financial statements will be computed as below:

(All amounts are ₹ in lakhs)

B's share of fair value of asset contributed by Entity A (50% x ₹ 120 lakhs)	60
Less: Asset contributed by Entity B to the joint operation – carrying amount of proportion ceded to Entity A (50% x ₹ 80 lakhs)	(40)
Gain to be recognised by Entity B	20

The gain can alternatively be calculated as:

Share acquired in fair value of net assets of joint operation (50% x ₹ 240 lakhs)	120
Less: Carrying amount of asset contributed	(80)
Less: Unrealised portion of gain on asset contributed (50% × (₹ 120 lakhs – ₹ 80 lakhs))	(20)
Gain to be recognised by Entity B	20

15. The goodwill on consolidation of Kaplan Ltd. that is recognized in the consolidated balance sheet of Jackson Ltd. is ₹ 30 million (₹ 190 million – 80% x ₹ 200 million). This can only be reviewed for impairment as part of the cash generating units to which it relates. Since here the goodwill cannot be meaningfully allocated to the units, the impairment review is in two parts.

Units A and C have values in use that are more than their carrying values. However, the value in use of Unit B is less than its carrying amount. This means that the assets of unit B are impaired by ₹ 24 million (₹ 90 million – ₹ 66 million). This impairment loss will be charged to the Statement of Profit and Loss.

Assets will be written down on a pro-rata basis as shown in the table below:

₹ in million

Asset	Impact on carrying value		
	Existing	Impairment	Revised
Intangible assets	10	(4)	6
Property, plant and equipment	50	(20)	30
Current assets	30	Nil*	30
Total	90	(24)	66

*The current assets are not impaired because they are expected to realize at least their carrying value when disposed of.

Following this review, the three units plus the goodwill are reviewed together. The impact of this is shown in the following table, given that the recoverable amount of the business as a whole is ₹ 350 million. **₹ in million**

Component	Impact of impairment review on carrying value		
	Existing	Impairment	Revised
Goodwill (see below)	37.50	(23.50)	14.00
Unit A	170.00	Nil	170.00
Unit B (revised)	66.00	Nil	66.00
Unit C	100.00	Nil	100.00
Total	373.50	(23.50)	350.00

As per Appendix C of Ind AS 36, given that the subsidiary is 80% owned the goodwill must first be grossed up to reflect a notional 100% investment. Therefore, the goodwill will be grossed up to ₹ 37.50 million (₹ 30 million x 100/80). The impairment loss of ₹ 23.50 million is all allocated to goodwill, leaving the carrying values of the individual units of the business as shown in the table immediately above.

The table shows that the notional goodwill that relates to a 100% interest is written down by ₹ 23.50 million to ₹ 14.00 million. However, in the consolidated financial statements the goodwill that is recognized is based on an 80% interest so the loss that is actually recognized is ₹ 18.80 million (₹ 23.50 million x 80%) and the closing consolidated goodwill figure is ₹ 11.20 million (₹ 14.00 million x 80%) or (₹ 30 million – ₹ 18.80 million).

16. 1. Extract of Balance Sheet (Net Amount in the Balance Sheet) **(₹ in lakhs)**

	31.3.20X2	**1.4.20X1**
PV of Defined Benefit Obligation (given)	(1,700.00)	(1,500.00)
FV of Plan Assets (given)	1,400.00	1,300.00
Net Defined Benefit Liability (under Long-term Provision)	**(300.00)**	**(200.00)**

2. Extract of Statement of Profit and Loss

	(₹ in lakhs)
Current service cost (given)	155.00
Past service cost (given)	37.50
Gain on settlement (₹ 200 lakhs – ₹ 187.50 lakhs)	(12.50)
Net interest on net defined benefit liability [₹ 75 lakhs - ₹ 65 lakhs]	10.00
Total to Statement of Profit and Loss	**190.00**

3. Extract of Other Comprehensive Income (Remeasurements)

	(₹ in lakhs)
Actuarial loss on defined benefit obligation (W.N.1)	(237.50)
Return on plan assets other than expected return (W.N.2)	152.50
Total	**(85.00)**

Working Notes:

1. Defined Benefit Obligation Account

Particulars	**₹ in lakhs**	**Particulars**	**₹ in lakhs**
To Plan Assets (benefits paid)	105.00	By Balance b/f (given) [balance as on 1.4.20X1]	1,500.00
To Curtailment and Settlement	200.00	By Current Service Cost	155.00
		By Interest Cost [5% on Opening balance]	75.00
		By Past service cost	37.50

To Balance c/d (given) [balance as on 31.3.20X2]	1,700.00	By Actuarial Loss **(balancing figure)**	237.50
	2,005.00		**2,005.00**

2. Plan Assets Account

Particulars	**₹ in lakhs**	**Particulars**	**₹ in lakhs**
To Balance b/f (given) [balance as on 1.4.20X1]	1,300.00	By Defined Benefit Obligation [benefits paid]	105.00
To Expected Return [5% on Opening balance]	65.00	By Payments on curtailment and settlement	187.50
To Bank (contributions paid)	175.00	By Balance c/d (given) [balance as on 31.3.20X2]	1,400.00
To Actuarial Gain **(balancing figure)**	152.50		
	1,692.50		**1,692.50**

The above Defined Benefit Obligation Account and Plan Assets Account can alternatively be presented in a statement form as follows:

Defined Benefit Obligation		**Plan Assets**	
Particulars	**₹ in lakhs**	**Particulars**	**₹ in lakhs**
PV of Obligation b/f.	1,500.00	FV of Plan Assets b/f.	1,300.00
Interest Cost [₹ 1,500 x 5%]	75.00	Interest Income [₹ 1,300 x 5%]	65.00
Current Service Cost	155.00	Contribution during 20X1-20X2	175.00
Benefits paid during 20X1-20X2	(105.00)	Benefits paid during 20X1-20X2	(105.00)
Plan Curtailment and Settlement	(200.00)	Payment towards settlement	(187.50)
Past Service Cost	37.50		

Remeasurement Loss **(balancing figure)**	237.50	Remeasurement Gain **(balancing figure)**	152.50
PV of Obligation c/f.	**1,700.00**	FV of Plan Assets c/f.	**1,400.00**

17. Paragraph 56 of Ind AS 115 states that an entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Further, paragraph 57 of Ind AS 115 state that in assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

(a) the amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgement or actions of third parties, weather conditions and a high risk of obsolescence of the promised good or service.

(b) the uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

(c) the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.

(d) the entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.

(e) the contract has a large number and broad range of possible consideration amounts.

Entity X estimates that the consideration in the above contract is variable. Therefore, in accordance with paragraphs 56 and 57 of Ind AS 115, Entity X is required to consider the constraints in estimating variable consideration. Entity X determines that it has significant experience with this product and with the purchasing pattern of the Entity Y. Thus, if Entity X concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 100 per unit) will not occur when the uncertainty is resolved (i.e. when the total amount of purchases is known), then the Entity X will recognise revenue of ₹ 9,500 (95 chargers x ₹ 100 per charger) for the half year ended 30th September, 20X1.

Further, paragraphs 87 and 88 of Ind AS 115 that after contract inception, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

An entity shall allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes."

In accordance with the above, in the month of October 20X1, due to change in circumstances on account of Entity Y acquiring Entity C and consequential increase in sale of chargers to Entity Y, Entity X estimates that Entity Y's purchases will exceed the 1,000 chargers threshold till March 20X2 for the period and therefore, it will be required to retrospectively reduce the price per charger to ₹ 90.

Consequently, the Entity X will recognise revenue of ₹ 53,050 for the quarter ended December 20X1 which is calculated as follows:

Particulars	Amount in ₹
Sale of 600 chargers (600 chargers x ₹ 90 per charger)	54,000
Less: Change in transaction price (95 chargers x ₹ 10 price reduction) for the reduction of revenue relating to units sold till September 20X1.	(950)
Revenue recognised for the quarter ended December 20X1	53,050

18. Para 16 of Ind AS 41 says that entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract.

Moreover, the OHA contract represents just 7.5% [(15,000 / 2,00,000) x 100] of the total number of palms in the farm. Hence, the contract price can't be considered for fair valuation of the entire inventory of bearer plants.

The valuation in this case would be as follows:

Adding the fair value for 15,000 coconut palm (15,000 palm x 80 nuts x ₹ 15 x 5 times) and 1,85,000 coconut palm (1,85,000 palm x 80 nuts x ₹ 30 x 5 times), we get total valuation of 2,00,000 coconut palm as ₹ 231 crore.

19. As per *Ind AS 37* '*Provisions, Contingent Liabilities and Contingent Assets'***,** closure of a division is a restructuring exercise. Ind AS 37 states that a constructive obligation to proceed with the restructuring arises when at the reporting date the entity has:

– Commenced activities connected with the restructuring; or

– Made a public announcement of the main features of the restructuring to those affected by it. In this case a public announcement has been made and so a provision will be necessary at 31st March, 20X2.

This will result in the following charges to the Statement of Profit and Loss:

(i) Estimate of redundancy costs of ₹ 1.9 million is the best estimate of the expenditure at the date the financial statements are authorized for issue. Changes in estimates after the reporting date are taken into account for this purpose as an adjusting event after the reporting date. No charge is necessary for the retraining costs as these are not incurred in 20X1-20X2 and cannot form part of a restructuring provision as they are related to the ongoing activities of the entity.

(ii) Impairment of plant and equipment of ₹ 6.5 million is although not strictly part of the restructuring provision the decision to restructure before the year-end means that related assets need to be reviewed for impairment. In this case the recoverable amount of the plant and equipment is only ₹ 1.5 million. As per Ind AS 36 'Impairment of Assets', property, plant and equipment should be written down to this amount, resulting in a charge of ₹ 6.5 million to the income statement.

(iii) For compensation for breach of contract of ₹ 0.55 million, same principle applies here as applied to the redundancy costs.

(iv) No charge is recognized in 20X1-20X2 with respect to future operating losses of 20X2-20X3. Future operating losses relate to future events and provisions are made only for the consequences of past events.

(v) Ind AS 37 states that an onerous contract is one for which the expected cost of fulfilling the contract exceeds the benefits expected from the contract. Provision is made for the lower of the expected net cost of fulfilling the contract and the cost of early termination (not available in this case).

The net cost of fulfilling the contract is ₹ 4.51 million [₹ 1.5 million x 4.32 – ₹ 0.3 million x 0.95 – ₹ 0.5 million x (4.32 – 0.95)].

20. Paragraphs B21 of Ind AS 116 states that to control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or subleasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with third party.

In the given case, Entity X has the right to obtain substantially all of the economic benefits from the use of the solar power station over the 20-year period because it obtains:

– electricity produced by the power station i.e. the primary product from use of the asset over the lease term and

– renewable energy credits – i.e. the by-product from use of the asset.

Although Entity Y will receive economic benefits from the solar power station in the form of tax credits, those economic benefits relate to the ownership of the solar power station rather than the use of the power station. Thus, these credits are not considered in this assessment.