Dear Students,

ICAI has included 21 new questions in the amended study material released in January 2025 for the May 2025 exams. These questions have already been covered in our live classes. If any additional questions are introduced, they will be shared with you in PDF format.

Happy studying, happy learning!

Thank you!

Chapter 3 Unit-1: Ind AS 1
Presentation of Financial Statements

Question: 1 *Q-21/Ind AS-1*

Question: 2 *Q-22/Ind AS-1*

Question: 3 *Q-23/Ind AS-1*

Question: 4 *Q-24/Ind AS-1*

Question: 5 *Q-26/Ind AS-1*

Question: 6

As per the statutory requirements, exceptional items are required to be disclosed whereas Ind AS 1 requires separate disclosures of material items and how these are to be presented in the financial statements. Does that imply that 'exceptional' means 'material'? Give examples. How should these be presented in the financial statements?

Answer

Exceptional items have not been defined in Indian Accounting Standards (Ind AS). However, paragraph 97 of Ind AS 1 requires that when items of income or expense are material, an entity shall disclose their nature and amount separately.

As per Ind AS 1, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both and it could be the determining factor.

When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Generally, items of income or expense fulfilling the abovementioned criteria are classified as exceptional items and are disclosed separately.

From the above, it appears that all material items are not exceptional items. In other words, exceptional items are those items which meet the test of 'materiality' (size and nature) and the test of 'incidence'.

Following are some examples which may give rise to a separate disclosure of items as an 'exceptional item' in financial statements if they meet the test of 'materiality' and 'incidence':

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

Unit 2: Ind AS 34: Interim Financial Reporting

Question: 1 *Q-8/Ind AS-34*

Question: 2 *Q-9/Ind AS-34*

Question: 3 *Q-15/Ind AS-8*

Question: 4 *Q-7/Ind AS-8*

Unit 3: Ind AS 7: Statement of Cash Flows

Question: 1 *Q-17/Ind AS-7*

Question: 2 *Q-18/Ind AS-7*

Question: 3 *Q-19/Ind AS-7*

Question: 4 *Q-22/Ind AS-7*

Question: 5 *Q-26/Ind AS-7*

Question: 6 *Q-25/Ind AS-7*

Chapter 4 Unit-1: Ind AS 8:
Accounting Policies, Changes in Accounting Estimates and Errors

Question: 1 *Q-6/Ind AS-8*

Question: 2 *Q-7/Ind AS-8*

Question: 3 *Q-8/Ind AS-8*

Question: 4 *Q-9/Ind AS-8*

Question: 5 *Q-10/Ind AS-8*

Question: 6 *Q-11/Ind AS-8*

Question: 7 *Q-18/Ind AS-8*

Unit 2: Ind AS 10:
Events After the Reporting Period

Question: 1 *Q-18/Ind AS-37*

Question: 2 *Q-16/Ind AS-10*

Question: 3 *Q-17/Ind AS-10*

Question: 4 *Q-18/Ind AS-10*

Question: 5 *Q-19/Ind AS-10*

Question: 6 *Q-23/Ind AS-10*

Question: 7 *Q-26/Ind AS-10*

Unit 3: Ind AS 113: Fair Value Measurement

Question: 1 *Q-7/Ind AS-113*

Question: 2 *Q-8/Ind AS-113*

Question: 3 *Q-43/Ind AS-16*

Question: 4 *Q-165/Ind AS-109*

Chapter 5 Unit-1: Ind AS 2: Inventories

Question: 1 *Q-19/Ind AS-2*

Question: 2 *Q-21/Ind AS-2*

Question: 3

An entity has following details regarding cost and retail price of the goods purchased and unsold at the beginning of the year:

	Cost (₹)	Retail Price (₹)
Opening inventory	6,250	8,000
Purchases	19,500	34,000
Inventory on hand		(23,000)
Sales for the period		19,000

Applying the retail method, compute the following:

(a) Percentage of cost price over retail price;

(b) Cost of closing inventory;

(c) Value of cost of sales (at cost); and

(d) Profit earned during the year on sale of inventory

Ignore the impact of mark-ups or mark-downs on the selling price.

Answer

Table showing application of Retail method for calculation of the goods sold during the year and unsold inventory

S. No.	Particulars		₹
	Cost price of goods	6,250 + 19,500	25,750
	Retail price of goods	8,000 + 34,000	42,000
(a)	Cost percentage of retail price	25,750 / 42,000	61%
(b)	Closing inventory (at cost)	23,000 x 61%	14,030
(c)	Cost of sales for the period	[(6,250 + 19,500) - 14,030]	11,720
	Sales for the period		19,000
(d)	Profit earned on sale of goods during the year	19,000 – 11,720	7,280

Question: 4 *Q-24/Ind AS-2*

Question: 5 *Q-22/Ind AS-2*

Unit-2: Ind AS 16: Property, Plant and Equipment

Question: 1 *Q-21/Ind AS-16*

Question: 2 *Q-22/Ind AS-16*

Question: 3 *Q-23/Ind AS-16*

Question: 4 *Q-24/Ind AS-16*

Question: 5 *Q-32/Ind AS-16*

Question: 6

Company A incurred ₹ 20,000 as cost for restoring the site on which the item of PPE was located. This item was used for manufacturing goods and the requirement for restoring will arise due to manufacturing of goods.

What will the treatment of this ₹ 20,000 in the books of Company A? Analyse on the basis of the provisions of relevant Ind AS.

Answer

Paragraph 16 of Ind AS 16, Property, Plant and Equipment, *inter alia* states that the cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Further, paragraph 18 of Ind AS 16 states that an entity applies Ind AS 2 to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with Ind AS 2 or Ind AS 16 are recognised and measured in accordance with Ind AS 37,

Provisions, Contingent Liabilities and Contingent Assets.

Paragraph 16 of Ind AS 16 clarifies that decommissioning costs that meet the recognition criteria under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, for a provision are added to the cost of an item of property, plant and equipment if such costs are not incurred through the asset's use to produce inventories. Paragraph 18 fills the gap by clarifying where such costs are incurred through the asset's use to produce inventories, they are added to the cost of inventories.

Where the obligation to restore the asset arises due to the use of the asset to produce inventories but not due to the asset's installation, construction or acquisition, the costs are added to the costs of inventories.

Based on the above provisions and discussion, cost of restoring the site ₹ 20,000 incurred during the period of production as a consequence of having used the item to produce inventories during that period should be added to the cost of inventories. However, later the inventories are measured at the lower of cost and net realisable value in accordance with paragraph 9 of Ind AS 2.

Question: 7

Company X built a new plant that was brought into use on 1st April, 20X1. The cost to construct the plant was ₹ 1.5 crore. The estimated useful life of the plant is 20 years and Company X accounts for the plant using the cost model.

The initial carrying amount of the plant included an amount of ₹ 10 lakh for decommissioning, which was determined using a discount rate of 10%. On 31st March, 20X2, Company X remeasures the provision for decommissioning to ₹ 13 lakh.

Provide necessary journal entries at the end of the year i.e. 31st March, 20X2 for recording of depreciation and decommissioning provision.

Answer

Journal Entries in the books of Company X for the year ending ended 31st March, 20X2

		₹ in lakh	₹ in lakh
Depreciation (profit or loss)	Dr.	7.5	
To Accumulated depreciation (plant)			
(Being depreciation on plant recognised under straight-line method (1,50,00,000 x 1/20))			7.5

Interest expense (profit or loss) To Provision for decommissioning (Being unwinding of decommissioning provision # 10% recognised in the books)	Dr.	1.0	1.0
Plant To Provision for decommissioning (Being increase in decommissioning provision recognised [13,00,000 – (10,00,000 +1,00,000)] at the end of the year)	Dr.	2.0	2.0

Question: 8 *Q-44/Ind AS-16*

Unit-3: Ind AS 23: Borrowing Costs

Question: 1 *Q-18/Ind AS-23*

Question: 2 *Q-19/Ind AS-23*

Question: 3 *Q-22/Ind AS-23*

Question: 4 *Q-21/Ind AS-23*

Question: 5 *Q-25/Ind AS-23*

Question: 6 *Q-24/Ind AS-36*

Unit-4: Ind AS 36: Impairment of Assets

Question: 1 *Q-29/Ind AS-36*

Question: 2 *Q-30/Ind AS-36*

Question: 3 *Q-31/Ind AS-36*

Question: 4 *Q-32/Ind AS-36*

Question: 5 *Q-33/Ind AS-36*

Question: 6 *Q-34/Ind AS-36*

Question: 7 *Q-35/Ind AS-36*

Question: 8 *Q-45/Ind AS-36*

Question: 9 *Q-45/Ind AS-36*

Question: 10 *Q-48/Ind AS-36*

Unit-5: Ind AS 38: Intangible Assets

Question: 1 *Q-17/Ind AS-38*

Question: 2 *Q-18/Ind AS-38*

Question: 3 *Q-19/Ind AS-38*

Question: 4 *Q-20/Ind AS-38*

Question: 5 *Q-21/Ind AS-38*

Question: 6 *Q-22/Ind AS-38*

Question: 7 *Q-23/Ind AS-38*

Question: 8 *Q-24/Ind AS-38*

Question: 9 *Q-29/Ind AS-38*

Question: 10 *Q-31/Ind AS-38*

Question: 11

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?

Answer

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	1,580	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.

Question: 12

Unit-6: Ind AS 40: Investment Property

Question: 1 *Q-11/Ind AS-40*

Question: 2 *Q-13/Ind AS-40*

Question: 3

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.

Answer

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	350 flats are given on lease to earn rental income and assuming that management intends to let out

location 2	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'.

Unit-7: Ind AS 105: Non-Current Assets Held For Sale and Discontinued Operations

Question: 1 *Q-10/Ind AS-105*

Question: 2 *Q-13/Ind AS-105*

Question: 3 *Q-12/Ind AS-105*

Question: 4 *Q-18/Ind AS-105*

Unit-8: Ind AS 116: Leases

Question: 1 *Q-53/Ind AS-116*

Question: 2 *Q-54/Ind AS-116*

Question: 3 *Q-60/Ind AS-116*

Question: 4 *Q-72/Ind AS-116*

Question: 5 *Q-59/Ind AS-116*

Question: 6

How will Entity Y account for the incentive in the following scenarios:

Scenario A:

Entity Y (lessor) enters into an operating lease of property with Entity X (lessee) for a five- year term at a monthly rental of ₹ 1,10,000. In order to induce Entity X to enter into the lease, Entity Y provides ₹ 6,00,000 to Entity X at lease commencement for lessee improvements (i.e., lessee's assets).

Scenario B:

Entity Y (lessor) enters into an operating lease of property with Entity X (lessee) for a five- year term at a monthly rental of ₹ 1,10,000. At lease commencement, Entity Y provides ₹ 6,00,000 to Entity X for leasehold improvements which will be owned by Entity Y (i.e., lessor's assets). The estimated useful life of leasehold improvements is 5 years

Answer

Para 70 of Ind AS 116 state that at the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

(a) fixed payments (including in-substance fixed payments as described in para B42), less any lease incentives payable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in para B37); and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Further para 71 of the standard states that a lessor shall recognise lease payments from operating leases as income on either a straight-

line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished."

Scenario A

In accordance with above, in the given case, **at lease commencement**, Entity Y accounts for the incentive as follows:

To account for the lease incentive

Deferred lease incentive	Dr.	₹ 6,00,000
To Cash		₹ 6,00,000

Recurring monthly journal entries in Years 1 – 5

To record cash received on account of lease rental and amortisation of lease incentive over the lease term

Cash	Dr.	₹ 1,10,000
To Lease income		₹ 1,00,000
To Deferred lease incentive		₹ 10,000*

* This is calculated as ₹ 6,00,000 ÷ 60 months

Scenario B

Entity Y has provided lease incentive amounting to ₹ 6,00,000 to Entity X for leasehold improvements in the premises. As Entity Y has the ownership of the leasehold improvements carried out by the lessee, it shall account for the same as property, plant and equipment and shall depreciate the same over its useful life.

In accordance with above, in the given case, **at lease commencement**, Entity Y accounts for the incentive as follows:

To record the lease incentive

Property, plant & Equipment	Dr.	₹ 6,00,000
To Cash		₹ 6,00,000

Recurring monthly journal entries in Years 1 – 5

To record cash received on account of lease rental over the lease term

Cash	Dr.	₹ 1,10,000
To Lease income		₹ 1,10,000

To record depreciation on PPE over the lease term using straight line method

Depreciation	Dr.	₹ 10,000
To Accumulated Depreciation		₹ 10,000

Question: 7 *Q-71/Ind AS-116*

Chapter-6 Unit 1: Ind AS 19: Employee Benefits

Question: 1 *Q-22/Ind AS-19*

Question: 2 *Q-25/Ind AS-19*

Question: 3 *Q-24/Ind AS-19*

Question: 4 *Q-30/Ind AS-19*

Question: 5

From the following particulars, compute the net defined benefit liability and expense to be recognized in Profit and Loss account.

(₹ in lakhs)

Particulars	Defined benefit obligation		Plan Assets	
	31st Dec. 20X2	31st Dec. 20X1	31st Dec. 20X2	31st Dec. 20X1
Balance at the beginning of the year	63.25	47.08	21.80	14.65
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Changes in demographic assumptions	0.62	1.86	-	-
Changes in financial assumptions	3.58	1.93	-	-
Experience variance	(2.49)	4.46	-	-
Benefits paid	-	(0.61)	-	(0.61)
Investment income	-	-	1.47	1.12
Employers' contribution	-	-	8.00	7.00
Return on plan assets	-	-	2.12	(0.35)

Answer

Computation of defined benefit liability and expenses to be charged to Statement of Profit and Loss:

	Defined benefit obligation (₹ in lakhs)		Plan Assets (₹ in lakhs)	
	31st Dec 20X2	31st Dec 20X1	31st Dec 20X2	31st Dec 20X1
Balance at the beginning of year	63.25	47.08	21.80*	14.65
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Changes in demographic assumptions	0.62	1.86	-	-
Changes in financial assumptions	3.58	1.93	-	-
Experience variance	(2.49)	4.46	-	-
Benefits paid	-	(0.61)	-	(0.61)
Investment income	-	-	1.47	1.12
Employers' contribution	-	-	8.00	7.00
Return on plan assets	-	-	2.12	(0.35)
Balance at the end of year	75.07	63.25	33.39	21.81*

*Difference is due to approximation.

In the BALANCE SHEET, the following will be recognised:

Net defined liability to be recognised for the period ending 31st December, 20X1:

= ₹ 41.44 lakhs (₹ 63.25 lakhs - ₹ 21.81 lakhs)

Net defined liability to be recognised for the period ending 31st December, 20X2:

= ₹ 41.68 lakhs (₹ 75.07 lakhs - ₹ 33.39 lakhs)

In the STATEMENT OF PROFIT AND LOSS, the following will be recognised:

	Defined benefit obligation (₹ in lakhs)		Plan Assets (₹ in lakhs)	
	31st Dec., 20X2	31st Dec., 20X1	31st Dec., 20X2	31st Dec., 20X1
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Investment income	-	-	(1.47)	(1.12)
Total	10.11	8.53	(1.47)	(1.12)

Expense to be recognised in the Statement of Profit and Loss for the period ending 31st December, 20X1 = ₹ 7.41 lakhs (₹ 8.53 lakhs - ₹ 1.12 lakhs)

Expense to be recognised in the Statement of Profit and Loss for the period ending 31st December, 20X2 = ₹ 8.64 lakhs (₹ 10.11 lakhs - ₹ 1.47 lakhs).

Question: 6 *Q-32/Ind AS-19*

Unit 2: Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

Question: 1 *Q-20/Ind AS-37*

Question: 2 *Q-24/Ind AS-37*

Question: 3 *Q-26/Ind AS-37*

Question: 4 *Q-25/Ind AS-37*

Question: 5 *Q-28/Ind AS-37*

Chapter-7 Unit 1: Ind AS 12: Income Taxes

Question: 1 *Q-18/Ind AS-12*

Question: 2 *Q-19/Ind AS-12*

Question: 3 *Q-20/Ind AS-12*

Question: 4 *Q-23/Ind AS-12*

Question: 5 *Q-24/Ind AS-12*

Question: 6 *Q-27/Ind AS-12*

Question: 7 *Q-28/Ind AS-12*

Unit 2: Ind AS 21: The Effects of changes in Foreign Exchange rates

Question: 1 *Q-13/Ind AS-21*

Question: 2 *Q-14/Ind AS-21*

Question: 3 *Q-15/Ind AS-21*

Question: 4 *Q-20/Ind AS-21*

Chapter 8 Unit 1: Ind AS 24: Related Party Disclosures

Question: 1 *Q-11/Ind AS-24*

Question: 2 *Q-12/Ind AS-24*

Question: 3

Entity A owns 30% of the share capital of entity B and has the ability to exercise significant influence over it.

Entity B holds the following investments:

- 70% of the share capital of its subsidiary, entity C; and
- 30% of the share capital of entity D, with the ability to exercise significant influence. Entity A transacts with entities C and D. Should entity A disclose these transactions as related party transactions in its separate financial statements? Also explain the disclosure of such transactions in the financial statements of C and D as related party transaction.

Answer

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

Entity A's management is not required to disclose entity A's transactions with entity D in its financial statements.

Entity D is not a related party of entity A, because entity A has no ability to exercise control or significant influence over entity D.

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

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

Unit 2: Ind AS 33: Earnings Per Share

Question: 1 *Q-23/Ind AS-33*

Question: 2 *Q-32/Ind AS-33*

Question: 3 *Q-27/Ind AS-33*

Question: 4

Company P has both ordinary shares and equity-classified preference shares in issue. The reconciliation of the number of shares during Year 1 is set out below: *Number of shares*

Dates in Year 1	Transaction	Ordinary shares	Treasury shares	Preference shares
1st April	Balance	30,00,000	(5,00,000)	5,00,000
15th April	Bonus issue – 5% (no corresponding changes in resources)	1,50,000	(25,000)	-
1st May	Repurchase of shares for cash	-	(2,00,000)	-
1st November	Shares issued for cash	4,00,000	-	-
31st March	Balance	35,50,000	(7,25,000)	5,00,000

The following additional information is relevant for Year 1.

- Company P's net profit for the year is ₹ 46,00,000.

- On 15th February, non-cumulative preference dividends of ₹ 1.20 per share were declared. The dividends were paid on 15th March. Preference shares do not participate in additional dividends with ordinary shares.
- Dividends on non-cumulative preference shares are deductible for tax purposes. The applicable income tax rate is 30%.

The financial year of Company P ends on 31st March.

Determine the Basic EPS of the Company P for Year 1. Use the number of months or part of months, rather than the number of days in the calculation of EPS.

Answer

Determination of numerator for calculation of Basic EPS

The first step in the basic EPS calculation is to determine the profit or loss that is attributable to ordinary shareholders of Company P for the period.

Non-cumulative dividends paid on equity-classified preference shares are not deducted in arriving at net profit or loss for the period, but they are not returns to ordinary shareholders. Accordingly, these dividends are deducted from net profit or loss for the period in arriving at the numerator.

		(₹)
Net profit		46,00,000
Preference dividends (5,00,000 shares x 1.2)	(6,00,000)	
Related tax (₹ 6,00,000 x 30%)	1,80,000	(4,20,000)
Profit or loss attributable to P's ordinary shareholders		**41,80,000**
Accordingly, the numerator for calculation of Basic EPS is ₹ 41,80,000		

Determination of denominator for calculation of Basic EPS

The second step in the basic EPS calculation is to determine the weighted-average number of ordinary shares outstanding for the reporting period.

Number of shares	**Time weighting**	**Weight**	**Weighted average number of shares**
1st April – opening balance (30,00,000 – 5,00,000)	25,00,000	1	
15th April – bonus issue (1,50,000 – 25,000)	1,25,000		
1st April to 30th April	26,25,000	1/12	2,18,750
1st May – repurchase of shares	(2,00,000)		
1st May to 31st October	24,25,000	6/12	12,12,500
1st November – new shares issued	4,00,000		
1st November to 31st March	28,25,000	5/12	11,77,083
Weighted average number of shares for the year			**26,08,333**

The denominator for calculation of Basic EPS is 26,08,333 shares.

Basic EPS = ₹ 41,80,000 / 26,08,333 shares = ₹ 1.60 per share (approx.).

Unit 3: Ind AS 108: Operating Segments

Question: 1 *Q-13/Ind AS-108*

Question: 2 *Q-16/Ind AS-108*

Chapter 9 Ind AS 115: Revenue from Contracts with Customers

Question: 1 *Q-83/Ind AS-115*

Question: 2 *Q-80/Ind AS-115*

Question: 3 *Q-81/Ind AS-115*

Question: 4 *Q-82/Ind AS-115*

Question: 5

KK Ltd. runs a departmental store which awards 10 points for every purchase of ₹ 500 which can be discounted by the customers for further shopping with the same merchant. Unutilised points will lapse on expiry of two years from the date of credit. Value of each point is ₹ 0.50. During the accounting period 20X1-20X2, the entity awarded 1,00,00,000 points to various customers of which 18,00,000 points remained undiscounted. The management expects only 80% of the total award points during the year will be discounted of which

normally 60% - 70% are redeemed during the next year.

The Company has approached your firm with the following queries and has asked you to suggest the accounting treatment (Journal Entries) under the applicable Ind AS for these award points:

(a) How should the recognition be done for the sale of goods worth ₹ 10,00,000 on a particular day?

(b) How should the redemption transaction be recorded in the year 20X1-20X2? The Company has requested you to present the sale of goods and redemption as independent transaction. Total sales of the entity is ₹ 5,000 lakhs.

(c) How much of the deferred revenue should be recognised at the year-end (20X1-20X2) because of the estimation that only 80% of the outstanding points will be redeemed?

(d) In the next year 20X2-20X3, 60% of the expected outstanding points were discounted Balance 40% of the outstanding points of 20X1-20X2 still remained outstanding. How much of the deferred revenue should the merchant recognize in the year 20X2-20X3 and what will be the amount of balance deferred revenue?

(e) How much revenue will the merchant recognized in the year 20X3-20X4, if 3,00,000 points are redeemed in the year 20X3-20X4?

Answer

(a) Points earned on ₹ 10,00,000 @ 10 points on every ₹ 500 = [(10,00,000/500) x 10] = 20,000 points.

It is expected that 80% of the award points will only be redeemed. Hence, considering the likelihood of the variable consideration,

Value of points = 20,000 points x ₹ 0.5 each point x 80% = ₹ 8,000

Revenue recognized for sale of goods	₹ 9,92,063	[10,00,000 x (10,00,000/10,08,000)]
Revenue for points deferred	₹ 7,937	[10,00,000 x (8,000/10,08,000)]

Journal Entry

		₹	₹
Bank A/c To Sales A/c To Liability under Customer Loyalty programme	Dr.	10,00,000	 9,92,063 7,937

(b) Points earned on ₹ 50,00,00,000 @ 10 points on every ₹ 500 = [(50,00,00,000/500) x 10] = 1,00,00,000 points.

Value of points considering future likelihood = 1,00,00,000 points x ₹ 0.5 each point x 80% = ₹ 40,00,000

Revenue recognized for sale of goods = ₹ 49,60,31,746 [50,00,00,000 x (50,00,00,000 / 50,40,00,000)]

Revenue for points = ₹ 39,68,254 [50,00,00,000x (40,00,000 / 50,40,00,000)]

Journal Entry in the year 20X1

		₹	₹
Bank A/c To Sales A/c To Liability under Customer Loyalty programme (On sale of Goods)	Dr.	50,00,00,000	 49,60,31,746 39,68,254
Liability under Customer Loyalty programme To Sales A/c (On redemption of [(100 lakhs -18 lakhs) x 80% points]	Dr.	32,53,968	 32,53,968

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year 18,00,000 x 80% = 14,40,000 points

Total expected points to be redeemed within 2 years = 1,00,00,000 x 80% - 80,00,000

Points redeemed in the previous year = (1,00,00,000 – 18,00,000) x 80% = 65,60,000

Revenue to be recognised with respect to discounted point = 39,68,254 x (65,60,000/80,00,000) = 32,53,968

(c) Revenue to be deferred with respect to undiscounted point in 20X1-20X2 = 39,68,254 – 32,53,968= 7,14,286

(d) In 20X2-20X3, KK Ltd. would recognize revenue for discounting of 60% of expected outstanding points as follows:

Outstanding points = 18,00,000 x 80% x 60% = 8,64,000 points

Total points discounted till date = 65,60,000 + 8,64,000 = 74,24,000 points

Revenue to be recognized in the year 20X2-20X3 = [{39,68,254 x (74,24,000 /80,00,000)} – 32,53,968] = ₹ 4,28,572.

Liability under Customer Loyalty programme To Sales A/c (On redemption of further 8,64,000 points)	Dr.	4,28,572	 4,28,572

The Liability under Customer Loyalty programme at the end of the year 20X2-20X3 will be ₹ 7,14,286 – 4,28,572 = 2,85,714.

(e) In the year 20X3-20X4, the merchant will recognized the balance revenue of ₹ 1,84,873 irrespective of the points redeemed as this is the last year for redeeming the points. Journal entry will be as follows:

Liability under Customer Loyalty programme To Sales A/c (On redemption of further 5,76,000 points)	Dr.	2,85,714	 2,85,714

Question: 6

Question: 7 *Q-97/Ind AS-115*

Question: 8 *Q-92/Ind AS-115*

Question: 9 *Q-91/Ind AS-115*

Question: 10 *Q-104/Ind AS-115*

Chapter 10 Unit 1: Ind AS 41: Agriculture

Question: 1 *Q-14/Ind AS-41*

Question: 2

Fisheries Ltd. practices pisciculture in sweet waters (ponds, tanks and dams). The fishing activity of Fisheries Ltd. in such sweet waters consists only of catching the fish. Comment whether such fishing activity will be covered within the scope of Ind AS 41?

Answer

Paragraph 5 of Ind AS 41, defines agricultural activity as follows:

"Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

For fishing to qualify as agricultural activity, it must satisfy both of the below mentioned conditions:

(a) management of biological transformation of a biological asset; **and**

(b) harvesting of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Therefore, when fishing involves managed activity to grow and procreate fish in designated areas, such fishing is an agricultural activity as per the above definition. Managing the growth of fish for subsequent sale is an agricultural activity as per Ind AS 41.

In the aforementioned scenario, only fish harvesting is managed by Fisheries Ltd.

Therefore, mere fish harvesting without management of biological transformation cannot be termed as an agricultural activity as per Ind AS 41.

Hence, fishing in sweet waters (pond, tanks and dams) where only fishing (harvesting) is carried out without any management of biological transformation is outside the scope of Ind AS 41.

Question: 3 *Q-18/Ind AS-41*

Unit 2: Ind AS 20: Accounting for Government Grants and Disclosure of Government Assistance

Question: 1 *Q-17/Ind AS-20*

Question: 2 *Q-18/Ind AS-20*

Question: 3 *Q-24/Ind AS-20*

Question: 4 *Q-21/Ind AS-20*

Question: 5 *Q-20/Ind AS-20*

Unit 3: Ind AS 102: Share-Based Payment

Question: 1 *Q-20/Ind AS-102*

Question: 2 *Q-21/Ind AS-102*

Question: 3 *Q-22/Ind AS-102*

Question: 4 *Q-23/Ind AS-102*

Question: 5 *Q-29/Ind AS-102*

Question: 6 *Q-30/Ind AS-102*

Question: 7

Entity A runs a copper-mining business. Entity A has a year-end of 31st March.

Dividends declared on the shares accrue to the employees during the three-year period. If the condition is met, the employees will receive the shares together with the dividends that have been declared on those shares during the three years upto 31st March, 20X3.

The entity estimates that on 1st April, 20X0 its shares are valued at ₹ 10 each. The grant date fair amount of each share is ₹ 10.

Entity A prepares annual financial statements for the year ended 31st March and:

- on 1st April, 20X0 it estimates that 800 shares will vest;

- at the end of the first year (31st March, 20X1) it has revised this estimate to 780;
- at 31st March, 20X2 it has further revised this estimate to 750; and
- 750 shares vest on 31st March, 20X3 based on the number of employees still employed on that date.

On 1st April, 20X0 as part of a long-term incentive scheme, Entity A provisionally awards its sales employees 1,000 Entity A's shares receivable on 31st March, 20X3. Explain the accounting treatment for the above share-based awards based on satisfaction of the condition that the sales employees must remain in employment until 31st March, 20X3. The requirement to remain in employment is a service condition and would not be reflected in the fair value of the share awards.

Answer

The grant date fair value amount would be recognised as an expense over the three year service period adjusted by the number of shares expected to vest. Consequently, for each period, Entity A estimates how many eligible employees are expected to be employed on 31st March, 20X3 and this forms the basis for that adjustment. The journal entries would be:

Year 1 (Year ended 31st March, 20X1)

Employee benefit expenses A/c	Dr.	₹ 2,600	
To Share-based payment reserve			₹ 2,600
(To recognise the receipt of employee services in exchange for shares)			

Year 2 (Year ended 31st March, 20X2)

Employee benefit expenses A/c	Dr.	₹ 2,400	
To Share-based payment reserve			₹ 2,400
(To recognise the receipt of employee services in exchange for shares)			

Year 3 (Year ended 31st March, 20X3)

Employee benefit expenses A/c	Dr.	₹ 2,500	
To Share-based payment reserve			₹ 2,500
(To recognise the receipt of employee services in exchange for shares)			

Working Notes:

1. **Year 1**

   780 shares expected to vest x ₹ 10 grant date fair value of each share x 1/3 of vesting period elapsed = ₹ 2,600 recognised in Year 1.

2. **Year 2**

   (750 shares expected to vest x ₹ 10 grant date fair value of each share x 2/3 of vesting period elapsed) less ₹ 2,600 recognised in Year 1 = ₹ 2,400 recognised in Year 2.

3. **Year 3**

   (750 shares x ₹ 10 grant date fair value of each share) less ₹ 5,000 recognised in Years 1 and 2 = ₹ 2,500 recognised in Year 3.

Question: 8 *Q-35/Ind AS-102*

Chapter 11: Accounting and Reporting of Financial Instruments

Question: 1 *Q-151/Ind AS-109*

Question: 2 *Q-152/Ind AS-109*

Question: 3

State whether the following items meet the definition of Financial Asset or Financial Liability for an entity:

(i) A bank advances an entity a five-year loan. The bank also provides the entity with an overdraft facility for a number of years.

(ii) Entity A owns preference shares in Entity B. The preference shares entitle Entity A to dividends, but not to any voting rights.

(iii) An entity has a present obligation in respect of income tax due for the prior year.

(iv) In a lawsuit brought against an entity, a group of people is seeking compensation for damage to their health as a result of land contamination believed to be caused by waste from the entity's production process. It is unclear whether the entity is the source of the contamination since many entities operate in the same area and produce similar waste.

Answer

(i) The entity has two financial liabilities namely (a) the obligation to repay the five-year loan and (b) the obligation to repay the bank overdraft to the extent that it has borrowed using the overdraft facility. Both the loan and the overdraft result in contractual obligations for the entity to pay cash to the bank for the interest incurred and for the return of the principal.

(ii) For Entity B: The preference shares may be equity instruments or financial liabilities of Entity B, depending on their terms and conditions.

For Entity A: Irrespective of Entity B's treatment, the preference shares are a financial asset because the investment satisfies the definition of a financial asset.

(iii) An income tax liability is created as a result of statutory requirements imposed by the government. The rights and obligations are not created by a contract. Hence, the liability for income-tax dues is not a financial liability.

(iv) The fact that a lawsuit may result in the payment of cash does not create a financial liability for the entity because there is no contract between the entity and the affected group. The entity will need to consider providing for the payment as per Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Question: 4

In an arm's length transaction, Entity X buys 10,000 convertible preference shares in Company Z for cash payments of ₹ 40,000, with ₹ 25,000 payable immediately and ₹ 15,000 payable in two years. The market rate of annual interest for a two-year loan to the entity would be 6%.

Explain the accounting treatment for the said transaction.

Answer

Since payment of ₹ 15,000 is deferred for two years, the fair value of the consideration given for the shares is equal to ₹ 25,000 plus the present value of ₹ 15,000. The present value of ₹ 15,000 deferred payment is ₹ 13,350 (₹ 15,000 ÷ 1.06^2).

Entity X will initially measure the shares purchased at ₹ 38,350 (i.e., ₹ 25,000 + ₹ 13,350).

Since this transaction took place at an arm's length, this is considered to be fair value for initial recognition in the absence of evidence to the contrary.

The difference between the ₹ 40,000 cash paid out and the ₹ 38,350, i.e. ₹ 1,650, will be recognised as interest expense in profit or loss over the two-year period of deferred payment.

Question: 5

SEL has applied for a term loan from a bank for business purposes. As per the loan agreement, the loan required a personal guarantee of one of the directors of SEL to be executed. In case of default by SEL, the director will be required to compensate for the loss that bank incurs. Mr. Pure Joy, one of the directors had given guarantee to the bank pursuant to which the loan was sanctioned to SEL. SEL does not pay premium or fees to its director for providing this financial guarantee.

Whether SEL is required to account for the financial guarantee received from its director? Will there be any disclosures under Ind AS 24?

Answer

Ind AS 109 'Financial Instruments', defines a financial guarantee contract as 'a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Based on this definition, an evaluation is required to be done to ascertain whether the contract between director and Bank qualifies as a financial guarantee contract as defined in Appendix A to Ind AS 109. In the given case, it does qualify as a financial guarantee contract as:

- the reference obligation is a debt instrument (term loan);
- the holder i.e. Bank is compensated only for a loss that it incurs (arising on account of non-repayment); and
- the holder is not compensated for more than the actual loss incurred.

Ind AS 109 provides principles for accounting by the issuer of the guarantee. However, it does not specifically address the accounting for financial guarantees by the beneficiary. In an arm's length transaction between unrelated parties, the beneficiary of the financial guarantee would recognise the guarantee fee or premium paid as an expense.

It is also pertinent to note that the entity needs to exercise judgment in assessing the substance of the transaction taking into consideration relevant facts and circumstances, for example, whether the director is being compensated otherwise for providing guarantee. Based on such an assessment, an appropriate accounting treatment based on the principles of Ind AS should be followed.

In the given case, SEL is the beneficiary of the financial guarantee and it does not pay a premium or fees to its director for providing this financial guarantee. Accordingly, SEL will not be required to account for such financial guarantee in its financial statements considering the unit of account as being the guaranteed loan, in which case the fair value would be expected to be the face value of the loan proceeds that SEL received.

In the given case based on the limited facts provided, SEL will be required to make necessary disclosures of such financial guarantee in accordance with Ind AS 24 as follows:

(a) the amount of the transactions;

(b) the amount of outstanding balances, including commitments, and:

  (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

  (ii) details of any guarantees given or received;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Question: 6

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.

Answer

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

Chapter 12: Ind AS 103: Business Combinations

Question: 1 *Q-49/Ind AS-103*

Question: 2 *Q-50/Ind AS-103*

Question: 3 *Q-51/Ind AS-103*

Question: 4 *Q-52/Ind AS-103*

Question: 5 *Q-62/Ind AS-103*

Question: 6 *Q-68/Ind AS-103*

Question: 7

In October 20X1, IHL acquired 75% of Very Relevant Limited by paying cash consideration of ₹ 0.80 million. The fair value of non-controlling interest on the date of acquisition is ₹ 0.20 million. The value of Very Relevant Limited's identifiable net assets as per Ind AS 103 is ₹ 1.10 million.

With respect to acquisition of Very Relevant Limited, determine the value of gain on bargain purchases, when NCI is measured as per:

(a) Fair value method

(b) Proportionate share of net identifiable assets method.

Answer

.**(a) When NCI is measured as per fair value method**

	₹ in million
Fair value of consideration transferred	0.80
Fair value of non-controlling interest	0.20
	1.00
Value of Very Relevant Limited's identifiable net assets as per Ind AS 103	(1.10)
Gain on bargain purchase	0.10

(b) When NCI is measured as per proportionate share method

	₹ in million
Fair value of consideration transferred	0.80
Proportional share of non-controlling interest in the net identifiable assets of acquiree (1.10 x 25%)	0.275
	1.075
Value of Very Relevant Limited's identifiable net assets as per Ind AS 103	(1.10)

Gain on bargain purchase	0.025

Question: 8

An entity acquired two trade secrets (secret recipes) in a business combination. Recipe A is patented. Recipe B is not legally protected.

How the acquisition of Recipe A and Recipe B would be accounted for by the entity as per relevant Ind AS.

Answer

Para 11 and 12 of Ind AS 38 states that the definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in financial statements.

Further, an asset is identifiable if it either:

(a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

In the given case, Recipe A meets the contractual -legal criterion for identification as an intangible asset because it is protected by a patent. This recipe is identified a s recognised separately from goodwill while accounting the business combination.

Since Recipe B is not protected by a patent, it does not meet the contractual -legal criterion for identification as an intangible asset. However, Recipe B is identified as a separate intangible asset because it meets the separability criterion. Such recipes can be, and often are, exchanged, licensed or leased to others. Therefore, the unpatented Recipe B should be accounted for as a separate intangible asset acquired in the business combination.

Question: 9 *Q-80/Ind AS-103*

Question: 10 *Q-76/Ind AS-103*

Chapter 13 Consolidated and Separate Financial Statements of Group Entities

Question: 1 *Q-116/Ind AS-110*

Question: 2 *Q-24/Ind AS-110*

Question: 3 *Q-67/Ind AS-103*

Question: 4 *Q-26/Ind AS-110*

Question: 5 *Q-117/Ind AS-110*

Question: 6 *Q-74/Ind AS-103*

Question: 7 *Q-139/Ind AS-110*

Question: 8 *Q-140/Ind AS-110*

Question: 9 *Q-135/Ind AS-110*

Question: 10

'High Speed Limited' manufactures and sells cars. The Company wants to foray into the two-wheeler business and therefore it acquires 30% interest in Quick Bikes Limited for ₹ 5,00,000 as at 1st November, 20X1 and an additional 25% stake as at 1st January, 20X2 for ₹ 5,00,000 at its fair value.

Following is the Balance Sheet of Quick Bikes Limited as at 1st January, 20X2:

Liabilities	Carrying value	Fair value	Assets	Carrying value	Fair value
Share capital	1,00,000		Plant and equipment	3,50,000	7,50,000
Reserves	5,50,000		Investment in bonds	4,00,000	5,00,000
Trade payables	1,50,000	1,50,000	Trade Receivables	50,000	50,000
Total	8,00,000		Total	8,00,000	

Quick Bikes Limited sells the motorcycles under the brand name 'Super Start' which has a fair value of ₹ 3,50,000 as at 1st January, 20X2. This is a self- generated brand therefore Quick Bikes Limited has not recognized the brand in its books of accounts. Following is the separate balance sheet of High Speed Limited as at 1st January, 20X2:

Liabilities	Amount	Assets	Amount
Share capital	5,00,000	Plant and equipment	13,50,000
Reserves	15,00,000	Investment in Quick Bike	10,00,000

Short term loans	4,00,000	Trade Receivables	80,000
Trade payables	3,00,000	Cash and bank balances	5,20,000
Other liabilities	2,50,000		
Total	29,50,000	Total	29,50,000

In relation to the acquisition of Quick Bikes Limited, you are required to:

(i) Pass the necessary journal entries to give effect of business combination in accordance with Ind AS 103 as at acquisition date 1st January, 20X2. NCI is measured by the entity at fair value. Provide working notes, Ignore deferred tax implication; and

(ii) Prepare a consolidated balance sheet of High Speed Limited as at 1st January, 20X2.

Answer

(i) **Journal Entry**

		₹	₹
Plant and Equipment	Dr.	7,50,000	
Investment in bonds	Dr.	5,00,000	
Trade Receivables	Dr.	50,000	
Brand	Dr.	3,50,000	
Goodwill (balancing figure)	Dr.	5,00,000	
To Investment in Quick Bikes			10,00,000
To Profit or loss A/c (W.N.1)			1,00,000
To Trade Payables			1,50,000
To NCI (W.N.3)			9,00,000
(Being assets and liabilities acquired at fair value			
and previous investment considered at fair value on			
the acquisition date)			

Working Notes:

1. Calculation of fair value of shares on the acquisition date 1st January, 20X2

25% Shares purchase on 1st January, 20X2 (fair value)	₹ 5,00,000
30% Shares purchase on 1st November, 20X1 at ₹ 5,00,000	
Fair value = [(5,00,000 / 25%) x 30%]	₹ 6,00,000
Total consideration at fair value on acquisition date	₹ 11,00,000
Less: Cost of investment (5,00,000 + 5,00,000)	(₹ 10,00,000)
Gain recognised to Profit or Loss/OCI (as appropriate)	₹ 1,00,000

2. Computation of Net Identifiable Assets at fair value

	₹
Plant and Equipment	7,50,000
Investment in bonds	5,00,000
Trade Receivables	50,000
Self-generated Brand	3,50,000
	16,50,000
Less: Trade Payables	(1,50,000)
Net Identifiable Assets at fair value	15,00,000

3. Measurement of Non-controlling Interest (on fair value basis)

Share of NCI (100- 30-25)	45%
Taking fair value of shares on 1st January, 20X2 as a base	₹ 9,00,000
[(11,00,000/ 55%) x 45%]	

(ii) Consolidated Balance Sheet of High Speed Limited as at 1st January, 20X2

	Note No.	₹
Assets		
Non-current assets		
(a) Property, plant and equipment	1	21,00,000

	Note No.	₹
(b) Intangible asset	2	8,50,000
(c) Investment in bonds		5,00,000
Current Assets		
(a) Financial assets		
(i) Trade receivables	3	1,30,000
(ii) Cash and cash equivalents	4	5,20,000
		41,00,000
Equity and Liabilities		
Equity		
(a) Equity share capital		5,00,000
(b) Other Equity	5	16,00,000
Non-controlling Interest (W.N.3)		9,00,000
Current Liabilities (a) Financial liabilities (i) Borrowings (ii) Trade Payables (b) Other Current Liabilities	 6 7 8	 4,00,000 4,50,000 2,50,000 41,00,000

Notes to Accounts

S. No.		₹	₹
1.	Property, plant and equipment		
	High Speed Ltd.	13,50,000	
	Quick Bikes Ltd.	7,50,000	21,00,000
2.	Intangible asset		
	Goodwill	5,00,000	
	Brand value of Quick Bikes Ltd.	3,50,000	8,50,000
3.	Trade Receivables		
	High Speed Ltd.	80,000	
	Quick Bikes Ltd.	50,000	1,30,000
4.	Cash and cash equivalents		
	Quick Bikes Ltd.		5,20,000
5.	Other Equity - Reserves		
	High Speed Ltd.	15,00,000	
	Add: Gain on investment in Quick Bikes Ltd.	1,00,000	16,00,000
6.	Borrowings		
	Short term loans of High Speed Ltd.		4,00,000
7.	Trade Payables		
	High Speed Ltd.	3,00,000	
	Quick Bikes Ltd.	1,50,000	4,50,000
8.	Other Current Liabilities		
	High Speed Ltd.		2,50,000

Question: 11 *Q-28/Ind AS-110*

Question: 12 *Q-29/Ind AS-110*

Question: 13 *Q-30/Ind AS-110*

Question: 14 *Q-143/Ind AS-110*

Question: 15 *Q-144/Ind AS-110*

Chapter 14 Ind AS 101: First-Time Adoption of Ind As

Question: 1 *Q-14/Ind AS-20*

Question: 2 *Q-8/Ind AS-101*

Question: 3 *Q-16/Ind AS-8*

Question: 4 *Q-38/Ind AS-102*

Question: 5

ABC Ltd., a public limited company, is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India. It operates overseas projects directly and/or through subsidiaries, by participation in various joint arrangements and investment in associates. The company was following Accounting Standards as notified under the Companies (Accounting Standards) Rules until 31st March, 20X1. However, it has adopted Indian Accounting Standards (Ind AS) with effect from 1st April, 20X1.

The goodwill recognised in accordance with AS 21 and AS 27 was due to corporate structure and the line-by-line consolidation of subsidiaries'/proportionate consolidation of jointly controlled entities' financial statements which was prepared on historical costs convention. ABC Ltd. has not taken into consideration the valuation of underlying oil and gas reserves for which excess amount (i.e. goodwill calculated as per the relevant AS requirements) has been paid by the company at the time of acquisition. The company further considered that in oil and gas companies, the goodwill generated on acquisition of mineral rights either through jointly controlled entities or subsidiaries, inherently derives its value from the underlying mineral rights and, accordingly, value of such goodwill depletes as the underlying mineral resources are extracted.

Therefore, taking a prudent approach and considering the above substance, the company amortised the goodwill in respect of its subsidiaries / jointly controlled assets over the life of the underlying mineral rights using Unit of Production method. This allowed the company to utilise the value of goodwill over the life of mineral rights and completely charging off the goodwill over the life of the reserves.

For financial year 20X0-20X1, the company has availed transition exemption under Ind AS 101 and has not applied the principles of Ind AS 103.

ABC Ltd. considering the substance over form of the goodwill to be in the nature of 'acquisition costs' intends to continue amortisation of the goodwill recognised under AS in respect of its subsidiaries / joint ventures (jointly controlled entities under AS) over the life of the underlying mineral rights using Unit of Production method, under Ind AS also post transition date.

Comment on appropriateness of the accounting treatment, under Ind AS, for amortization of the goodwill by the company and state whether the accounting treatment in respect of amortisation of goodwill is correct or not.

Answer

Point (g) of para C4 of Ind AS 101 states that the carrying amount of goodwill or capital reserve in the opening Ind AS Balance Sheet shall be its carrying amount in accordance with previous GAAP at the date of transition to Ind AS after the two adjustments. One of the adjustment states that the standard requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill or capital reserve in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill or increase the carrying amount of capital reserve accordingly (and, if applicable, adjust deferred tax and non-controlling interests)

As per the facts given, the entity paid excess amount to avail the rights to use the underlying oil and gas reserves. However, since the rights was not recorded in the books at that time, the value of goodwill subsumed the value of that intangible asset which should be separately identified in the books. Hence, value of goodwill will be reduced accordingly and intangible asset for rights for using mine should be recognised.

Further, regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to Ind AS and in recognising any resulting impairment loss in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to Ind AS. No other adjustments (eg- previous amortisation of goodwill) shall be made to the carrying amount of goodwill /capital reserve at the date of transition to Ind AS.

However, once goodwill is recognised in the opening transition date balance sheet, the entity has to follow the provisions of Ind AS, which states that goodwill is not amortised but rather tested for impairment annually. Accordingly, the amortization of goodwill based on 'Unit of Production' method is not correct after implementation of Ind AS.