CORRECTIONS NEEDED IN Qs

X Ltd. acquired an additional 25% interest in V Ltd. for ₹ 2,00,000 on 1st April, 20X7 and achieved significant influence. The fair value of V Ltd.'s net assets was ₹ 2,50,000 at June, 20X6 and had increased to ₹ 4,00,000 on 1st April, 20X7. V Ltd. recorded profits after dividends of ₹ 1,00,000 between 1st June, 20X6 and 1st April, 20X7.

How should X Ltd. account for an investment in V Ltd. on account of piecemeal acquisition when such investment provides X Ltd. significant influence over V Ltd.? Pass necessary journal entries for the same.

Ind AS 109 "Financial Instruments"

① Question should mention Bond liability to be measured at FV

12. On 1st April, 20X1, ABC Ltd. issues a 10- year bond with a par value of ₹ 15,00,000 and an annual fixed coupon rate of 8%, which is consistent with market rates for bonds with similar characteristics. ABC Ltd. uses Secured Overnight Financing Rate (SOFR) as its benchmark interest rate. At the date of inception of the bond, SOFR is 5%. At the end of the first year:

- SOFR has decreased to 4.75%; and
- The fair value of bond is ₹ 15,38,110. This value is consistent with an interest rate of 7.6%.
- The remaining cash flows on bond are ₹ 1,20,000 per year for nine years and ₹ 15,00,000 at the end of nineth year. These cash flows discounted at 7.6% equals ₹ 15,38,110.

ABC Ltd. assumes a flat yield curve, that all changes in interest rates result from a parallel shift in the yield curve, and that the changes in SOFR are the only relevant changes in market conditions.

② In solution there is rounding off error in FV amounting to few hundred

Following discounting factors may be considered

Discount rate @7.75%	Present value of ₹ 1 payable
At the end of year 9	51.1 paise
Cumulatively for the years 1–9	6.312
At the end of year 10	47.4 paise
Cumulatively for the years 1–10	6.786

Required

What is the amount transferred to the OCI at the end of Year 1 ?

Ind AS 32 "Financial Instruments: Presentation"

13. On 1^{st} April, 2X01, A Ltd. issued a 10% convertible debenture with a face value of ₹ 1,000 maturing on 31^{st} March, 2X11. The debenture is convertible into equity share of A Ltd. at a conversion price of ₹ 25 per share. Interest is payable half-yearly in cash. At the date of issue, A Ltd. could have issued non-convertible debt with a ten-year term bearing a coupon interest rate of 11%.

3
This date to be 1.04.20X6

On 1^{st} January, 2X06, the convertible debenture has a fair value of ₹ 1,700.

A Ltd. makes a tender offer to the holder of the debenture to repurchase the debenture for ₹ 1,700, which the holder accepts. On the date of repurchase, A Ltd. could have issued non-convertible debt with a five-year term bearing a coupon interest rate of 8%.

Required

How does A Ltd. account for the repurchase?

Ind AS 103 "Business Combinations"

14. On 1^{st} April, 20X1, PQR Ltd. acquired 30% of the shares of XYZ Ltd. for ₹ 8,000 crores. At 31^{st} March, 20X2, PQR Ltd. recognised its share of the net asset changes of XYZ Ltd. using equity accounting as follows:

(Amounts ₹ in crores)

Share of profit or loss	700
Share of exchange difference in OCI	100
Share of revaluation reserve of PPE in OCI	50

On 1^{st} April, 20X2, PQR Ltd. acquired the remaining 70% of XYZ Ltd. for cash of ₹ 25,000 crores. The following additional information is relevant at that date. **(Amount ₹ in crores)**

Fair value of the 30% interest already owned	9,000
Fair value of XYZ Ltd's identifiable net assets	30,000

Required

How should such business combination be accounted for?

Ind AS 103 "Business Combinations"

15. On 1st January, 20X1, H Ltd. acquired all of the share capital of S Ltd. for ₹ 15,00,000. The book values and the fair values of the identifiable assets and liabilities of S Ltd. at the date of acquisition are set out below, together with their tax bases in S Ltd.'s tax jurisdictions. Any goodwill arising on the acquisitions is not deductible for tax purposes. The tax rates in H Ltd.'s and S Ltd.'s tax jurisdictions are 30% and 40% respectively.

Net assets acquired	**Book values ₹ '000**	**Tax base ₹ '000**	**Fair values ₹ '000**
Land and buildings	600	500	700
Property, plant and equipment	250	200	270
Inventory	100	100	80
Accounts receivable	150	150	150
Cash and cash equivalents	130	130	130
Total assets	1,230	1,080	1,330
Accounts payable	(160)	(160)	(160)
Retirement benefit obligations	(100)	-	(100)
Net assets before deferred tax liability	970	920	(1070)
Deferred tax liability on diiferences between book values and tax bases (₹ 50 @40%)	(20)		
Net assets at acquisition	950	920	1,070

Calculate deferred tax arising on acquisition of S Ltd. and goodwill based on the above information.

Ind AS 21 "The Effects of Changes in Foreign Exchange Rates"

16. P Ltd., incorporated in India owns 70% interest in foreign entity, S Ltd. P Ltd. has INR (₹) as its functional currency while S Ltd. has US dollars as its functional currency. P Ltd. sells its entire investment in S Ltd. for ₹ 3,200 thousand. The following information is provided:

(₹ in thousand)

Particulars	**S's Total**	**P's share (70%)**	**NCI (30%)**
Net assets	4,000	2,800	1,200
Foreign currency translation reserve gain	900	630	270

Required:

How does an entity account for cumulative translation adjustment (CTA) on disposal of a foreign subsidiary?

Ind AS 2 "Inventories"

17. Following information have been provided for A Ltd. which account for its inventories by using FIFO cost formula:

a) Full capacity is 10,000 labour hours in a year.

b) Normal capacity is 7,500 labour hours in a year.

c) Actual labour hours for current period are 6,500 hours.

d) Total fixed production overhead is ₹ 1,500,

e) Total variable production overhead is ₹ 2,600.

f) Total opening inventory is 2,500 units.

g) Total units produced in a year are 6,500 units.

h) Total units sold in a year are 6,700 units.

i) Total closing inventory is 2,300 units.

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Solution provides COGS though not asked in Q

Required

How will the overhead cost be allocated to inventory at normal capacity and at less than normal production for the current year based on the above information?

Ind AS 7 "Statement of Cash Flows"

18. The opening balance sheet at 1st April, 20X6 of an Indian company (which account for its transactions in INR (₹), which consists of cash of ₹ 1,00,000 and share capital of ₹ 100,000. The Company borrows a long term loan on 30th September, 20X6 for US $ 2,200 when the rate of exchange is 1 US $= ₹ 87. There are no other transactions during the year. The exchange rate at the balance sheet date of 31st March, 20X7 is 1 US $ = ₹ 85.

The summarized balance sheet at 31st March, 20X7 is as follows:

	₹	₹
Assets		
Cash (1,00,000+1,91,400)		2,91,400
		2,91,400
Equity and liabilities		
Capital and reserves		
Share capital	1,00,000	
Other Equity		
Foreign Currency Translation Reserves	4,400	1,04,400
Non- current liabilities		
Long -term loan		1,87,000
Total equity and liabilities		2,91,400

5

Wrong A/c as FCTR is not created for such forex differences

Required:

How the foreign exchange difference arising from unsettled transactions will reflect in the Statement of Cash Flows?

Ind AS 24 "Related Party Disclosures"

6

In Ans. para reference 18A may not be apt.

19. Mr. Y's father owns 100% of the shares in A Ltd. Mr. Y and Mrs. Y own 100% of the shares in B Ltd. Ms. Z who is Mrs. Y's sister, provides