Test Series: March, 2022

MOCK TEST PAPER 1

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

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

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Time Allowed – 3 Hours **Maximum Marks – 100**

1. (a) H Limited having net worth of ` 250 crores is required to adopt Ind AS from 1st April, 20X2 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

Mr. R, the senior manager, of H Ltd. has identified following issues which need specific attention of CFO so that opening Ind AS balance sheet as on the date of transition can be prep ared:

Issue 1: As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The carrying value of land as on the date of transition was ` 5,00,000. The land was acquired for a consideration of ` 5,00,000. However, the fair value of land as on the date of transition was ` 8,00,000.

Issue 2: Under Ind AS, the Company has designated mutual funds as investments at fair value through profit or loss. The value of mutual funds as per previous GAAP was ` 4,00,000 (at cost). However, the fair value of mutual funds as on the date of transition was ` 5,00,000.

Issue 3: Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is ` 1,80,000 as against the carrying amount of loan which at present equals ` 2,00,000.

Issue 4: The company has declared dividend of ` 30,000 for last financial year. On the date of transition, the declared dividend has already been deducted by the accountant from the company's 'Reserves & Surplus' and the dividend payable has been grouped under 'Provisions'. The dividend was only declared by board of directors at that time, and it was not approved in the annual general meeting of shareholders. However, subsequently when the meeting was held it was ratified by the shareholders.

Issue 5: The company had acquired intangible assets as t rademarks amounting to ` 2,50,000. The company assumes to have indefinite life of these assets. The fair value of the intangible assets as on the date of transition was ` 3,00,000. However, the company wants to carry the intangible assets at ` 2,50,000 only.

Issue 6: After consideration of possible effects as per Ind AS, the deferred tax impact is computed as ` 25,000. This amount will further increase the portion of deferred tax liability. There is no requirement to carry out the separate calculation of deferred tax on account of Ind AS adjustments.

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding.

Prepare Ind AS Impact Analysis Report (Extract) for H Limited for presentation to the management wherein you are required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue and its impact there upon for preparation of transition date balance sheet. Also pass journal entry for each of the issues mentioned above.

(12 Marks)

(b) The following information is available relating to Space India Limited for the Financial Year 20X1-20X2.

Net profit attributable to equity shareholders	` 90,000
Number of equity shares outstanding	16,000
Average fair value of one equity share during the year	` 90

Potential Ordinary Shares:

Options	900 options with exercise price of ` 75
Convertible Preference Shares	7,500 shares entitled to a cumulative dividend of ` 9 per share. Each preference share is convertible into 2 equity shares.
10% Convertible Debentures of ` 100 each	` 10,00,000 and each debenture is convertible into 4 equity shares
Tax rate	25%

You are required to compute Basic and Diluted EPS of the company for the financial year 20X1-20X2. **(8 Marks)**

2. (a) (i) B Ltd. produces aircrafts. The length of time between first purchasing raw materials to make the aircrafts and the date the company completes the production and delivery is 9 months. The company receives payment for the aircrafts 7 months after the delivery.

(a) What is the length of operating cycle?

(b) How should it treat its inventory and debtors? **(2 Marks)**

(ii) On 1st April, 20X3, Charming Ltd issued 1,00,000 ` 10 bonds for ` 10,00,000. On 1st April, each year, interest at the fixed rate of 8% per year is payable on outstanding capital amount of the bonds (ie the first payment will be made on 1st April, 20X4). On 1st April each year (i.e from 1st April, 20X4), Charming Ltd has a contractual obligation to redeem 10,000 of the bonds at ` 10 per bond. In its statement of financial position at 31st March, 20X4. How should this be presented in the financial statements? **(2 Marks)**

(b) In the plant of PQR Ltd., there was a fire on 10th May, 20X1 in which the entire plant was damaged and the loss of ` 40,00,000 is estimated. The claim with the insurance company has been filed and a recovery of ` 27,00,000 is expected.

The financial statements for the year ending 31st March, 20X1 were approved by the Board of Directors on 12th June, 20X1. Show how should it be disclosed? **(4 Marks)**

(c) G Ltd. operates oil exploration and production facilities. It is preparing its transition date opening balance sheet as per Ind AS.

(i) There· is a significant decommissioning obligation in connection with several oil wells, but it's previous GAAP did not require the obligation to be recognized.

Discuss the treatment of decommissioning obligation as per relevant Ind AS. **(4 Marks)**

(ii) G Ltd. has four assets, each in a different class under property, plant & equipment.

Assets 1 and 2 are revalued under previous GAAP (AS). Assets 3 and 4 are not. Under previous GAAP, at 31st March 20X1, immediately prior to the entity's date of transition to Ind AS, it Balance Sheet (extract) is as follows:

	Asset 1	Asset 2	Asset 3	Asset 4	Total
	Valuation	Valuation	Cost	Cost	
	`	`	`	`	`
Cost or revaluation	5,000	2,000	4,000	4,500	15,500
Accumulated deprecation	(1,000)	(500)	(2,000)	(1,700)	(5,200)
Net book value	4,000	1,500	2,000	2,800	10,300
Revaluation surplus	2,500	500	-	-	3,000

On adoption of Ind AS, its management decides that, under Ind AS, it will:

– Continue to revalue asset 1. The fair value of asset 1 at the date of transition is not materially different from its carrying value under previous GAAP;

– Use the previous valuation of asset 2 as deemed cost, and adopt a policy of cost less depreciation under Ind AS;

– Adopt a policy of revaluation for asset 3. The fair value of asset 3 at the entity's date of transition is ` 5,000;

– Continue to use a policy of cost less depreciation for asset 4.

All depreciation methods are already in accordance with those required by Ind AS 16.

Discuss the treatment under Ind AS of valuation of assets 1, 2, 3 & 4, being part of property, plant & equipment? **(8 Marks)**

3. (a) Pacific Ocean Railway Ltd. has three Cash Generating units namely Train, Railway station and Railway tracks, the carrying amounts of which as on 31st March, 20X1 are as follows:

Cash Generating units	Carrying amount (` in crore)	Remaining useful life
Train	1,500	10
Railway station	2,250	20
Railway tracks	3,300	20

Pacific Ocean Railway Ltd. also has two Corporate Assets having a remaining useful life of 20 years.

	(` in crore)	
Corporate Assets	Carrying amount	Remarks
Land	1,800	The carrying amount of Land can be allocated on a reasonable basis (i.e., pro rata basis) to the individual cash generating units.
Buildings	600	The carrying amount of Buildings cannot be allocated on a reasonable basis to the individual cash-generating units.

Recoverable amount as on 31st March, 20X1 is as follows:

Cash Generating units	Recoverable Amount (` in crore)
Train	1,800
Railway station	2,700
Railway tracks	4,200
Company as a whole	9,600

Calculate the impairment loss, if any. Ignore decimals. **(10 Marks)**

(b) **EITHER**

As a part of its sales promotion activities, MIL distributes office utility articles along with its product catalogues to medical practitioners to familiarize & encourage them to prescribe medicines manufactured by it. No conditions are attached with the items distributed.

Whether the distribution of office utility articles to medical practitioners is covered by Ind AS 115 'Revenue from Contracts with Customers'? If not, how should the same be accounted by MIL? Give reasons. **(4 Marks)**

OR

A Company invested in Equity shares of another entity on 15th March for ` 20,000. Transaction Cost = ` 400 (not included in ` 20,000)

Fair Value on Balance Sheet date i.e. 31st March, 20X1 = ` 24,000. Pass necessary Journal Entries when Financial Asset is accounted as FVTPL. **(4 Marks)**

(c) On 1st April, 20X1, S Ltd. issued 30,000 6% convertible debentures of face value of ` 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31st March, 20X5 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is 1st April, 20X3. Suggest how should S Ltd. account for this compound financial instrument on the date of transition. The present value of ` 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

End of year	6%	10%
1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

(6 Marks)

4. (a) The Company has taken a particular application software of a supplier namely, Crystal Systems Limited, which is available on a cloud infrastructure managed and controlled by the Crystal Systems Limited. The Company contracts to pay a fee of ` 5,00,000 per month in exchange for a right to receive access to the Crystal Systems Limited's application software for 2 years. The Company accesses the software on need basis over the internet. The contract does not convey any rights to New Age Technology Limited over the tangible assets of the Crystal Systems Limited.

The Chief Accountant of New Age Technology Limited has sought your advice, whether the IT should account for this transaction for use of software with Crystal Systems Limited in terms of Ind AS 116 leases or an intangible asset in terms of Ind AS 38 'Intangible Assets'. Help him to understand your assessment. **(6 Marks)**

(b) During 20X1-20X2, XYZ Ltd. completed a large contract to supply a customized equipment for one customer for a total consideration of ` 5,00,000 received fully in cash. As a special arrangement and in order to procure the customer's order, XYZ Ltd agreed to maintain the equipment for three years from the date of installation. Had there been no maintenance requirement, the sale would have been for an amount of ` 4,85,500. If maintenance alone was required, it would have cost the customer ` 12,500 per annum.

Explain the requirements of Ind AS in relation to the XYZ Ltd.'s supply of customized contract and the maintenance that has been agreed to be provided to the customer. Ignore discounting and calculate the amounts to be recognized in the financial statements as at 31st March, 20X2.

(4 Marks)

(c) ABC Limited granted 500 stock appreciation rights (SAR) each to 80 employees on 1st April, 20X1 with a fair value ` 100 each. The terms of the award require the employee to provide service for four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the option. The fair value of each SAR at each reporting date is as follows:

31st March, 20X2 ` 110

31st March, 20X3 ` 120

31st March, 20X4 ` 115

31st March, 20X5 ` 130

Please present the journal entries in the books of ABC Limited over the entire life of the grants.

What would be the difference if at the end of the second year of service (i.e. at 31st March, 20X3), ABC Limited modifies the terms of the award to require only three years of total service? Please present with the revised journal entries. Answer on the basis of relevant Ind AS. **(10 Marks)**

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

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

1st year: 0.91

2nd year: 0.83

3rd year: 0.75

The shares (issued in the year 20X2-20X3) and deferred consideration have not yet been recorded by A limited.

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

	A Limited (` 000)	S Limited (` 000)
Non-current assets:		
Property, plant & equipment	5,500	1,500
Investment in S Limited at cost	1,000	

Current assets:		
Inventory	550	100
Receivables	400	200
Cash	200	50
	7,650	1,850
Equity:		
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	800
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

Further information:

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

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

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

You are required to prepare Consolidated Balance Sheet of A Limited as at 31st March, 20X3. (Notes to Account on Consolidated Balance Sheet is not required). **(14 Marks)**

(b) M Limited had constructed another factory few years ago with the assistance of yet another government grant, 'Innovative Product'. The grant is non-repayable and, following the construction of the factory, cannot be clawed back by the government. There are no further conditions attached to the grant that the Company is required to satisfy. The grant received has been treated as deferred income and is being credited to the income statement over the same period as the factory is being depreciated. Following an adverse change in the demand of the product the factory manufactures, during the year at the reporting date, the directors have concluded that the factory's carrying value is no longer recoverable in full and that a write down for impairment is required. The write down is more than covered by the amortized deferred income balance related to the grant.

Discuss, in the context of Ind AS framework and Ind AS 20, the impairment of the factory for which 'Innovative Product' government grant, has been received. Would your answer be different, if there are further conditions attached to grant beyond construction of factory?

(6 Marks)

6. (a) Wheel Co. Limited borrowed ` 50,00,00,000 from a bank on 1st April, 20X1. The original terms of the loan were as follows:

- Interest rate: 11%
- Repayment of principal in 5 equal instalments
- Payment of interest annually on accrual basis
- Upfront processing fee: ` 58,70,096
- Effective interest rate on loan: 11.50%

On 31st March, 20X3, Wheel Co. Limited approached the bank citing liquidity issues in meeting the cash flows required for immediate instalments and re-negotiated the terms of the loan with banks as follows:

- Interest rate 15%
- Repayment of outstanding principal in 10 equal instalments starting 31st March, 20X4
- Payment of interest on an annual basis

Record journal entries in the books of Wheel Co. Limited till 31st March, 20X4, after giving effect of the changes in the terms of the loan on 31st March, 20X3. **(14 Marks)**

(b) Diamond Pvt. Ltd, has a headcount of around 1,000 employees in the organisation in financial year 2X19-2X20. As per the company's policy, the employees are given 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave. Out of the total PL and SL, 10 PL and 5 SL can be carried forward to next year. On the basis of past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 days of PL and 5 days of SL.

Diamond Pvt. Ltd. has a post-employment benefit plan which is in the nature of defined contribution plan where contribution to the fund amounts to ` 200 crores which will fall due within 12 months from the end of the accounting period.

The company has paid ` 40 crore to this plan in financial year 2X19-2X20.

What would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of Diamond Pvt. Ltd.? **(6 Marks)**

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MOCK TEST PAPER 1

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWER

1. (a) Assessment of Preliminary Impact Assessment of Transition to Ind AS on H Limited's Financial Statements

Issue 1: Fair value as deemed cost for property plant and equipment:

Accounting Standards (Erstwhile IGAAP)	**Ind AS**	**Impact on Company's financial statements**
As per AS 10, Property, Plant and Equipment is recognised at cost less depreciation.	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, so the book value should be brought up to fair value. The resulting impact of fair valuation of land ` 3,00,000 should be adjusted in other equity (revaluation reserve).

Journal Entry on the date of transition

Particulars		Debit (`)	Credit (`)
Property Plant and Equipment (Land)	Dr.	3,00,000	
To Revaluation Surplus (OCI- Other Equity)			3,00,000

Issue 2: Fair valuation of Financial Assets:

Accounting Standards (Erstwhile IGAAP)	**Ind AS**	**Impact on Company's financial statements**
As per Accounting Standard, investments are measured at lower of cost and fair value.	On transition, financial assets including investments are measured at fair values except for investments in subsidiaries, associates and JVs' which are recorded at cost.	All financial assets (other than Investment in subsidiaries, associates and JVs' which are recorded at cost) are initially recognized at fair value. The subsequent measurement of such assets are based on its categorization either Fair Value through Profit & Loss (FVTPL) or Fair Value through Other Comprehensive Income (FVTOCI) or at Amortised Cost based on business model assessment and contractual cash flow characteristics. Since investment in mutual fund are designated at FVTPL, increase of ` 1,00,000 in mutual funds fair value would increase the value of investments with corresponding increase to Retained Earnings.

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Journal Entry on the date of transition

Particulars		Debit (`)	Credit (`)
Investment in mutual funds	Dr.	1,00,000	
To Retained earnings			1,00,000

Issue 3: Borrowings - Processing fees/transaction cost:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, such expenditure is charged to Profit and loss account or capitalised as the case may be	As per Ind AS, such expenditure is amortised over the period of the loan. Ind AS 101 states that if it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability.	Fair value as on the date of transition is ` 1,80,000 as against its book value of ` 2,00,000. Accordingly, the difference of ` 20,000 is adjusted through Retained Earnings.

Journal Entry on the date of transition

Particulars		Debit (`)	Credit (`)
Borrowings / Loan payable	Dr.	20,000	
To Retained earnings			20,000

Issue 4: Proposed dividend:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, provision for proposed divided is made in the year when it has been declared and approved.	As per Ind AS, liability for proposed dividend is recognised in the year in which it has been declared and approved.	Since dividend should be deducted from retained earnings during the year when it has been declared and approved. Therefore, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment

Journal Entry on the date of transition

Particulars		Debit (`)	Credit (`)
Provisions	Dr.	30,000	
To Retained earnings			30,000

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Issue 5 : Intangible assets:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
The useful life of an intangible asset cannot be indefinite under IGAAP principles. The Company amortised brand/trademark on a straight line basis over maximum of 10 years as per AS 26.	The useful life of an intangible asset like brand/trademark can be indefinite. Not required to be amortised and only tested for impairment. Company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.	Consequently, there would be no impact as on the date of transition since company intends to use the carrying amount instead of book value at the date of transition.

Issue 6: Deferred tax

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, deferred taxes are accounted as per income statement approach.	As per Ind AS, deferred taxes are accounted as per balance sheet approach.	On date of transition to Ind AS, deferred tax liability would be increased by ` 25,000.

Journal Entry on the date of transition

Particulars	Debit (`)	Credit (`)
Retained earnings Dr.	25,000	
To Deferred tax liability		25,000

(b) (i) Basic Earnings per share

		Year ended 31.3.20X2
Net profit attributable to equity shareholders	(A)	` 90,000
Number of equity shares outstanding	(B)	16,000
Earnings per share	(A/B)	` 5.625

(ii) Diluted earnings per share

Options are most dilutive as their earnings per incremental share is nil. Hence, for the purpose of computation of diluted earnings per share, options will be considered first. 10% convertible debentures being second most dilutive will be considered next and thereafter convertible preference shares will be considered (as per W.N.).

	Net profit attributable to equity shareholders `	*No. of equity shares*	*Net Profit attributable per share* `	
Net profit attributable to equity shareholders	90,000	16,000	5.625	
Options		150		
	90,000	16,150	5.572	Dilutive

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10% Convertible debentures	75,000	40,000		
	1,65,000	56,150	2.939	Dilutive
Convertible Preference Shares	67,500	15,000		
	2,32,500	71,150	3.268	Anti-Dilutive

Since diluted earnings per share is increased when taking the convertible preference shares into account (` 2.939 to ` 3.268), the convertible preference shares are anti-dilutive and are ignored in the calculation of diluted earnings per share for the year ended 31st March, 20X2. Therefore, diluted earnings per share for the year ended 31st March, 20X2 is ` 2.939.

Working Note:

Calculation of incremental earnings per share and allocation of rank

	Increase in earnings (1)	*Increase in number of equity shares (2)*	*Earnings per incremental share (3) = (1) ÷ (2)*	*Rank*
	`		`	
Options				
Increase in earnings	Nil			
No. of incremental shares issued for no consideration [900 x (90-75)/90]		150	Nil	1
Convertible Preference Shares				
Increase in net profit attributable to equity shareholders as adjusted by attributable dividend tax [(` 9 x 7,500) + 8% (` 9 x 7,500)]	67,500			
No. of incremental shares (2 x 7,500)		15,000	4.50	3
10% Convertible Debentures				
Increase in net profit [(` 10,00,000 x 10% x (1 – 0.25)]	75,000			
No. of incremental shares (10,000 x 4)		40,000	1.875	2

2. (a) (i) (a) **Calculation of operating cycle**

	Month
Period of manufacturing the aircraft	9
Credit period for settlement of delivery amount	7
	16

Hence, the length of the operating cycle will be 16 month.

(b) Since the inventory and debtors will be realised within normal operating cycle, i.e., 16 months, both the inventory as well as debtors should be classified as current.

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(ii) Charming Ltd must present ` 80,000 accrued interest and ` 1,00,000 current portion of the non-current bond (i.e. the portion repayable on 1st April, 20X4) as current liabilities. The ` 9,00,000 due later than 12 months after the end of the reporting period shall be presented as a non-current liability.

(b) In the instant case, since fire took place after the end of the reporting period, it is a non -adjusting event. However, in accordance with paragraph 21 of Ind AS 10, disclosures regarding material non-adjusting event should be made in the financial statements, i.e., the nature of the event and the expected financial effect of the same.

With regard to going concern basis followed for preparation of financial statements, the company needs to determine whether it is appropriate to prepare the financial statements on going concern basis, if there is only one plant which has been damaged due to fire. If the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, preparation of financial statements for the financial year 20X0-20X1 on going concern assumption may not be appropriate. In that case, the financial statements may have to be prepared on a basis other than going concern.

However, if the going concern assumption is considered to be appropriate even after t he fire, no adjustment is required in the financial statements for the year ending 31st March, 20X1.

(c) (i) De-commissioning Obligation of G Ltd. and recognition of decommissioning cost:

Retrospective application of Ind AS 37 requires management to recognise the provision for decommissioning cost on the opening Ind AS Balance Sheet. The provision should reflect the net present value of the management's best estimate of the amount required to settle the obligation.

Accounting Treatment:

The obligation should be capitalised as a separate component of property, plant and equipment, together with the accumulated depreciation from the date when the obligation was incurred to the transition date. The amount to be capitalised as part of the cost of the asset is calculated by discounting the liability back to the date when the obligation initially arose, using the best estimate of historical discount rate. The associated accumulated depreciation is calculated by applying the current estimate of the asset's useful life, using the entity's depreciation policy for the asset.

Any difference between the provision and the related component of the property, plant and equipment is adjusted against the retained earnings.

The entity could elect to apply the deemed cost exemption. Property, plant and equipment would be restated to fair value, with the corresponding adjustment to the retained earnings. Management would need to ensure that the fair value obtained was the gross fair value and not net of the decommissioning obligation. Management would recognise the provision for decommissioning costs in accordance with Ind AS 37. No cost in respect of provision should be added to property, plant and equipment but such cost should be recognised in the entity's opening retained earnings.

(ii) Measurement basis for valuation of PPE:

An entity has the following options with respect to measurement of its property, plant and equipment (Ind AS 16) in the opening Ind AS Balance Sheet:

- Measurement basis as per the respective standards applied retrospectively. This measurement option can be applied on an item-by-item basis. For example, Plant A can be measured applying Ind AS 16 retrospectively and Plant B can be measured applying the "fair value" or "revaluation" options mentioned below.

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- Fair value at the date of transition to Ind AS. This measurement option can be applied on an item-by-item basis in similar fashion as explained above.
- Previous GAAP revaluation, if such revaluation was, at the date of revaluation, broadly comparable to (a) fair value or (b) cost or depreciated cost in accordance with other Ind AS adjusted to reflect changes in general or specific price index. This measurement option can be applied on an item-by-item basis in similar fashion as explained above.

Analysis of given case:

	Asset 1	Asset 2	Asset 3	Asset 4
Basis used in previous GAAP	Revaluation Model	Revaluation Model	Cost Model	Cost Model
Intent of G Ltd. on transition	To continue with Revaluation model	Use previous valuation as deemed cost	Adopt a policy of revaluation	Continue to use a policy of cost less depreciation
Treatment at the time of transition to Ind AS	Since fair value at the transition date is not materially different from its carrying value under previous GAAP, G Ltd. can carry forward with revalued carrying value ` 4,000 as per previous GAAP in Ind AS books and continue to disclose a revaluation surplus of ` 2,500.	An entity may elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date. In Ind AS financial statements, asset will be carried forward at ` 1,500 and previously disclosed revaluation surplus is transferred to retained earnings or another component of equity.	Fair value at the date of transition to Ind AS is materially different from its carrying value under previous GAAP. The asset should be revalued and stated at its fair value of ` 5,000 on the date of transition to Ind AS. A revaluation surplus of ` 3,000 (5,000 – 2,000) will be transferred to revaluation reserve.	The entity is not availing any exemption given in Ind AS 101. The entity can measure applying Ind AS 16 retrospectively. It is assumed that measurement bases for cost of asset as per previous GAAP and Ind AS are same so asset will be shown in the Ind AS financial statements at ` 2,800.

3. (a) Allocation of corporate assets

The carrying amount of land is allocated to the carrying amount of each individual cash generating unit. A weighted allocation basis is used because the estimated remaining useful life

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of Train's cash-generating unit is 10 years, whereas the estimated remaining useful lives of Railway station and Railway tracks's cash-generating units are 20 years.

				(` in crore)
Particulars	Train	Railway station	Railway tracks	Total
Carrying amount (a)	1,500	2,250	3,300	7,050
Useful life	10 years	20 years	20 years	-
Weight based on useful life	1	2	2	-
Carrying amount (after assigning weight)	1,500	4,500	6,600	12,600
Pro-rata allocation of Land	12% (1,500/12,600)	36% (4,500/12,600)	52% (6,600/12,600)	100%
Allocation of carrying amount of Land (b)	216	648	936	1,800
Carrying amount (after allocation of Land) (a+b)	1,716	2,898	4,236	8,850

Calculation of impairment loss

Step I: Impairment losses for individual cash-generating units and its allocation:

(a) Impairment loss of each cash-generating units

			(` in crore)
Particulars	Train	Railway station	Railway tracks
Carrying amount (after allocation of land)	1,716	2,898	4,236
Recoverable amount	1,800	2,700	4,200
Impairment loss	-	198	36

(b) Allocation of the impairment loss

				(` in crore)
Allocation to	Railway station		Railway tracks	
Land	44	[198 x (648 / 2,898)]	8	[36 x (936 / 4,236)]
Other assets in cash-generating units	154	[198 x (2,250 / 2,898)]	28	[36 x (3,300/ 4,236)]
Impairment loss	198		36	

Step II: Impairment losses for the larger cash-generating unit, i.e., Pacific OceanRailway Ltd. as a whole

						(` in crore)
Particulars	Train	Railway station	Railway tracks	Land	Building	Pacific Ocean Railway Ltd.
Carrying amount	1,500	2,250	3,300	1,800	600	9,450

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Impairment loss (Step I)	-	(154)	(28)	(52)	-	(234)
Carrying amount (after Step I)	1,500	2,096	3,272	1,748	600	9,216
Recoverable amount						9,600
Impairment loss for the 'larger' cash-generating unit (company as a whole						Nil

(b) The term 'contract' is defined in Ind AS 115 as an agreement between two or more parties that creates enforceable rights and obligations.

In the given case:

- Gifts are distributed by MIL to doctors as a part of its sales promotion activities without there being an agreement between MIL and the doctors creating enforceable rights and obligations.
- The doctors to whom gifts are distributed are not 'customers' of MIL as they have not contracted with it to obtain goods or services in exchange for consideration.
- The items distributed as gifts are not an output of MIL ordinary activities.

In view of the above, the distribution of gifts to doctors does not fall under the scope of Ind AS 115.

As per Ind AS 38, sometimes expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In the case of the supply of goods, the entity recognises such expenditure as an expense when it has a right to access those goods.

Examples of expenditure that is recognised as an expense when it is incurred include expenditure on advertising and promotional activities (including mail order catalogues).

Items acquired by MIL to be distributed as gifts as a part of sales promotion acti vities have no other purpose than to undertake those activities. In other words, the only benefit of those items for MIL is to develop or create brands or customer relationships, which in turn generate revenue. Ind AS 38 requires an entity to recognise expenditure on such items as an expense when the entity has a right to access those goods. Ind AS 38 states that an entity has a right to access goods when it owns them, or otherwise has a right to access them regardless of when it distributes the goods.

In view of the above, MIL should recognise the cost of the items to be distributed as gifts as an expense when it owns those items, or otherwise has a right to access them, regardless of when it distributes the items to doctors.

(c) **EITHER**

The carrying amount of the debenture on the date of transition under previous GAAP, assuming that all interest accrued other than premium on redemption have been paid, will be ` 31,50,000 [(30,000 x 100) + (30,000 x 100 x 10/100 x 2/4)]. The premium payable on redemption is being recognised as borrowing costs as per para 4(b) of AS 16 ie under previous GAAP on straight-line basis.

As per para D18 of Ind AS 101, Ind AS 32, Financial Instruments: Presentation, requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 would involve separating two portions of equity. The first portion is recognised in retained earnings and represents the cumulative interest accreted on the liability component.

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The other portion represents the original equity component. However, in accordance with this Ind AS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Ind AS.

In the present case, since the liability is outstanding on the date of transition, S Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, we will first measure the liability component by discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

	(₹)
Interest payments p.a. on each debenture	6
Present Value (PV) of interest payment for years 1 to 4 (6 × 3.17) (Note 1)	19.02
PV of principal repayment (including premium) 110 × 0.68 (Note 2)	74.80
Total liability component per debenture	93.82
Equity component per debenture (Balancing figure)	6.18
Face value of debentures	100.00
Total equity component for 30,000 debentures	1,85,400
Total debt amount (30,000 x 93.82)	28,14,600

Thus, on the date of initial recognition, the amount of ₹ 30,00,000 being the amount of debentures will be split as under:

Debt	₹ 28,14,600
Equity	₹ 1,85,400

However, on the date of transition, unwinding of ₹ 28,14,600 will be done for two years as follows:

Year	Opening balance	Finance cost @ 10%	Interest paid	Closing balance
1	28,14,600	2,81,460	1,80,000	29,16,060
2	29,16,060	2,91,606	1,80,000	30,27,666

Therefore, on transition date, S Ltd. shall –

a. recognise the carrying amount of convertible debentures at ₹ 30,27,666;

b. recognise equity component of compound financial instrument of ₹ 1,85,400;

c. debit ₹ 63,066 to retained earnings being the difference between the previous GAAP amount of ₹ 31,50,000 and ₹ 30,27,666 and the equity component of compound financial instrument of ₹ 1,85,400; and

d. derecognise the debenture liability in previous GAAP of ₹ 31,50,000.

Notes:

1. 3.17 is present value of annuity factor of ₹ 1 at a discount rate of 10% for 4 years.
2. On maturity, ₹ 110 will be paid (₹ 100 as principal payment + ₹ 10 as premium)

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OR

Date	Particulars		(`)	(`)
15/3/20X1	Investment A/c	Dr.	20,000	
	Transaction Cost A/c	Dr.	400	
	To Bank			20,400
31/3/20X1	Investment A/c	Dr.	4,000	
	To Fair Value Gain A/c			4,000
31/3/20X1	P&L A/c	Dr.	400	
	To Transaction Cost A/c			400
31/3/20X1	Fair Value Gain A/c	Dr.	4,000	
	To P&L A/c			4,000

4. (a) Assessment of applicability of Ind AS 38 in the given scenario

As per Ind AS 38, to be an intangible asset the asset should meet following criteria:

- Identifiability;
- Control over a Resource (Asset); <u>and</u>
- Existence of Future Economic Benefits.

Crystal Systems Limited manages and controls the application software available on a cloud infrastructure and New Age Technology Limited has limited rights to use the same. Merel y right to access the application of Crystal Systems Limited, does not give New Age Technology Limited power to obtain future economic benefits flowing from the software itself. Hence, the application software should not be recognised as an asset under Ind AS 38.

<u>Assessment of applicability of Ind AS 116 in the given scenario</u>

At the inception of a contract, an entity shall assess whether the contract is or contains a lease. For the purpose, a lease is defined as a contract, or part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This right to control the asset throughout the period of use is emphasized ONLY if the customer has both (i) right to obtain substantially all the economic benefits from the use of the identified asset, and (ii) the right to direct the use of the identified asset.

In the given case, the contract gives the New Age Technology Limited only the right to access the Crystal Systems Limited's application software over the contract term, and hence the contract is not a lease contract within the meaning of Ind AS 116.

<u>Conclusion</u>

The right to access the Crystal Systems Limited's application software for a price over a specified period is a service contract. If the Crystal Systems Limited pays amounts for which the services are yet to be received, then the advance payment is a prepayment and an asset for the Crystal Systems Limited.

(b) As per para 81 of Ind AS 115

- a customer receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract.

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- except when an entity has observable evidence in accordance with paragraph 82 that the entire discount relates to only one or more, but not all, performance obligations in a contract, the entity shall allocate a discount proportionately to all performance obligations in the contract.
- the proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the underlying distinct goods or services.

Amount to be recognised:

In this case, there are two separately identifiable performance obligations one being sale of the equipment and second being maintenance contract for three years.

For recognition of revenue, relative stand-alone selling price of the individual components may be taken and the consideration allocated in proportion of relative fair values, i.e. 4,85,500: 37,500* (i.e. 12,500 x 3). Hence, the sale of equipment should be recognised at ` 4,64,149 [` 5,00,000 x {4,85,500 / (4,85,500 + 37,500)}] when all other conditions for sale of the equipment are fulfilled and the revenue from maintenance services of ` 35,851 [` 5,00,000 x {37,500 / (4,85,500 + 37,500)}] should be the service revenue recognised over a period of three years as per its stage of completion.

(c) Number of SARs = 80 Employees x 500 SARs = 40,000 SARs

1. When the term of the awards is 4 years of service

Period	Fair value	To be vested	Cumulative	Expense in proportion to the award earned	Cumulative expenses recognized
	a	b	c = 40,000 x a x b	d = [{(c / no. of total years) x years completed} – e of pvs year]	e
1st April, 20X1	100	100%	40,00,000	-	-
31st March, 20X2	110	100%	44,00,000	11,00,000	11,00,000
31st March, 20X3	120	100%	48,00,000	13,00,000	24,00,000
31st March, 20X4	115	100%	46,00,000	10,50,000	34,50,000
31st March, 20X5	130	100%	52,00,000	17,50,000	52,00,000

Journal Entries

			31st March, 20X2
Employee benefits expenses/Profit and Loss A/c To Share based payment liability (Fair value of SARs has been recognised)	Dr.	11,00,000	11,00,000
			31st March, 20X3
Employee benefits expenses/Profit and Loss A/c To Share based payment liability (Fair value of SARs has been re-measured)	Dr.	13,00,000	13,00,000

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31st March, 20X4		
Employee benefits expenses/Profit and Loss A/c Dr. To Share based payment liability (Fair value of SARs has been recognized)	10,50,000	10,50,000
31st March, 20X5		
Employee benefits expenses A/c Dr. To Share based payment liability (Fair value of SARs has been recognized)	17,50,000	17,50,000

2. When the term of the awards is modified to 3 years of service instead of 4 years of service

Period	Fair value a	%age of vesting b	Cumulative c = 40,000 x a x b	Expense in proportion to the award earned d = [{(c / no. of total years) x years completed} – e of pvs year]	Cumulative expenses recognized e
1st April, 20X1	100	100%	40,00,000	-	-
31st March, 20X2	110	100%	44,00,000	11,00,000	11,00,000
31st March, 20X3	120	100%	48,00,000	21,00,000	32,00,000
31st March, 20X4	115	100%	46,00,000	14,00,000	46,00,000

Journal Entries

31st March, 20X2		
Employee benefits expenses Dr. To Share based payment liability (Fair value of SARs has been recognised)	11,00,000	11,00,000
31st March, 20X3		
Employee benefits expenses Dr. To Share based payment liability (Fair value of SARs has been re-measured)	21,00,000	21,00,000
31st March, 20X4		
Employee benefits expenses Dr. To Share based payment liability (Fair value of SARs has been recognized)	14,00,000	14,00,000

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5. (a) Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd. as at 31st March, 20X3

Particulars	` in 000s
I. Assets	
(1) Non-current assets	
(i) Property Plant & Equipment (W.N.4)	7,120.00
(ii) Intangible asset – Goodwill (W.N.3)	1,032.00
(2) Current Assets	
(i) Inventories (550 + 100)	650.00
(ii) Financial Assets	
(a) Trade Receivables (400 + 200)	600.00
(b) Cash & Cash equivalents (200 + 50)	250.00
Total Assets	9,652.00
II. Equity and Liabilities	
(1) Equity	
(i) Equity Share Capital (2,000 + 200)	2,200.00
(ii) Other Equity	
(a) Retained Earnings (W.N.6)	1190.85
(b) Securities Premium	160.00
(2) Non-Controlling Interest (W.N.5)	347.40
(3) Non-Current Liabilities (3,000 + 400)	3,400.00
(4) Current Liabilities (W.N.8)	2,353.75
Total Equity & Liabilities	9,652.00

Working Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Accounting treatment for Government Grant:

Government grants, related to assets, including non-monetary grants at fair value should be presented in the Balance Sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the asset's carrying amount. (Para 24 of Ind AS 20)

Government grants should be recognised as income over the periods in which the entity recognises as expenses the related costs that they are intended to compensate, on a systematic basis. The outcome should be same in the Profit and Loss account statement regardless of whether grants are netted or deferred.

In case the grant had been offset against the acquisition cost of the factory and net carrying value is less than the recoverable amount, there would be no need for an impairment write-down. The Profit and Loss account would be charged with annual depreciation on the net acquisition cost.

Government grant relating to 'Innovative Product':

To match the same result for the grant 'Innovative Product' which has been shown as deferred income and the factory is initially recorded at its cost, it is reasonable to release an amount of deferred income to the Profit and Loss account to compensate for the impairment write-down.

Treatment in case of further conditions attached:

If there are further conditions attached to the grant beyond construction of the factory, it may not be appropriate to release an amount of the deferred income to compensate for the impairment write down. An entity would need to assess those further conditions to determine the amou nt, if any, of deferred income to release.

6. (a) On the date of initial recognition, the effective interest rate of the loan shall be computed keeping in view the contractual cash flows and upfront processing fee paid. The following table shows the amortisation of loan based on effective interest rate:

Date	Cash flows (principal)	Cash flows (interest and fee)	Amortised cost (opening + interest – cash flows)	Interest @ EIR (11.50%)
1 April, 20X1	(500,000,000)	5,870,096	494,129,904	
31 Mar 20X2	100,000,000	55,000,000	395,954,843	56,824,939
31 Mar 20X3	100,000,000	44,000,000	297,489,650	45,534,807
31 Mar 20X4	100,000,000	33,000,000	198,700,959	34,211,310
31 Mar 20X5	100,000,000	22,000,000	99,551,570	22,850,610
31 Mar 20X6	100,000,000	11,000,000	(0)	11,448,430

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a. 1st April, 20X1

Particulars	Dr. Amount (`)	Cr. Amount (`)
Bank A/c Dr.	494,129,904	
To Loan from bank A/c		494,129,904
(Being loan recorded at its fair value less transaction costs on the initial recognition date)		

b. 31st March, 20X2

Particulars	Dr. Amount (`)	Cr. Amount (`)
Loan from bank A/c Dr.	98,175,061	
Interest expense (profit and loss) Dr.	56,824,939	
To Bank A/c		155,000,000
(Being first instalment of loan and payment of interest accounted for as an adjustment to the amortised cost of loan)		

c. 31st March, 20X3 – Before Wheel Co. Limited approached the bank –

Particulars	Dr. Amount (`)	Cr. Amount (`)
Interest expense (profit and loss) Dr.	45,534,807	
To Loan from bank A/c		1,534,807
To Bank A/c		44,000,000
(Being loan payment of interest recorded by the Company before it approached the Bank for deferment of principal)		

Upon receiving the new terms of the loan, Wheel Co. Limited, re-computed the carrying value of the loan by discounting the new cash flows with the original effective interest rate and comparing the same with the current carrying value of the loan. As per requirements of Ind AS 109, any change of more than 10% shall be considered a substantial modification, resulting in fresh accounting for the new loan:

Date	Cash flows (principal)	Interest outflow @15%	Discount factor	PV of cash flows
31 Mar 20X3	(400,000,000)			
31 Mar 20X4	40,000,000	60,000,000	0.8969	89,686,099
31 Mar 20X5	40,000,000	54,000,000	0.8044	75,609,805
31 Mar 20X6	40,000,000	48,000,000	0.7214	63,483,092
31 Mar 20X7	40,000,000	42,000,000	0.6470	53,053,542
31 Mar 20X8	40,000,000	36,000,000	0.5803	44,100,068
31 Mar 20X9	40,000,000	30,000,000	0.5204	36,429,133
31 Mar 20Y0	40,000,000	24,000,000	0.4667	29,871,422
31 Mar 20Y1	40,000,000	18,000,000	0.4186	24,278,903
31 Mar 20Y2	40,000,000	12,000,000	0.3754	19,522,235
31 Mar 20Y3	40,000,000	6,000,000	0.3367	15,488,493

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Present Value (PV) of new contractual cash flows discounted at 11.50%	451,522,791
Carrying amount of loan	397,489,650
Difference	54,033,141
Percentage of carrying amount	13.59%

Note: Calculation above done on full decimal, though in the table discount factor is limited to 4 decimals.

Considering a more than 10% change in PV of cash flows compared to the carrying value of the loan, the existing loan shall be considered to have been extinguished and the new loan shall be accounted for as a separate financial liability. The accounting entries for the same are included below:

d. 31st March, 20X3 – Accounting for extinguishment

Particulars	Dr. Amount (`)	Cr. Amount (`)
Loan from bank (old) A/c Dr.	397,489,650	
Finance cost (profit and loss) Dr.	2,510,350	
To Loan from bank (new) A/c		400,000,000
(Being new loan accounted for at its principal amount in absence of any transaction costs directly related to such loan and correspondingly a de-recognition of existing loan)		

e. 31st March, 20X4

Particulars	Dr. Amount (`)	Cr. Amount (`)
Loan from bank A/c Dr.	40,000,000	
Interest expense (profit and loss) Dr.	60,000,000	
To Bank A/c		100,000,000
(Being first instalment of the new loan and payment of interest accounted for as an adjustment to the amortised cost of loan)		

(b) (i) Treatment of short term compensating absences: Diamond Pvt. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2X19-2X20 as short-term compensated absences.

(ii) Treatment of defined contribution plan: When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service.

Under Ind AS 19, the amount of ` 160 crore (200-40) will be recognised as a liability (accrued expense), after deducting any contribution already paid i.e. ` 40 crore (with contribution of ` 200 crore to the plan) and an expense in the statement of profit and loss.

It can also be seen that the contributions are payable within 12 months from the end of the year in which the employees render the related service; hence, they will not be discounted.

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