PAPER – 1 : FINANCIAL REPORTING

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

Working notes should form part of the respective answers.

Question 1

(a) *Given below are the balance sheets of a group of companies comprising X Ltd., Y Ltd. and Z Ltd. as on 31st March, 2022:* *(₹ in Lakhs)*

	X Ltd.	Y Ltd.	Z Ltd.
Assets			
Non-current Assets			
Property, plant and equipment	1,120	1,260	1,050
Investment:			
112 lakh shares in Y Ltd.	1,190		
84 lakh shares in Z Ltd.		980	
Current assets			
Inventories	770	245	175
Financial assets:			
Trade receivables	910	350	770
Bills receivables	252	-	105
Cash in hand and at bank	798	140	140
	5,040	2,975	2,240
Equity and Liabilities			
Shareholder's equity			
Share capital (₹ 10 per share)	2,100	1,400	1,120
Other equity:			
Reserves	630	350	280
Retained earnings	560	175	210
Current liabilities			
Financial liabilities:			
Trade payables	1,645	805	630
Bills payable			
X Ltd.	-	245	-

Y Ltd.	105	-	-
	5,040	2,975	2,240

The following additional information is available:

(i) X Ltd. holds 80% shares in Y Ltd. and Y Ltd. holds 75% shares in Z Ltd. Their holdings were acquired on 30th September, 2021.

(ii) The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

(iii) On 1st April 2021, the following balances stood in the books of Y Ltd. and Z Ltd.

(₹ in lakhs)

	Y Limited	Z Limited
Reserve	280	210
Retained earnings	70	105

(iv) ₹ 35 lakhs included in the inventory figure of Y Ltd. is inventory which has been purchased from Z Ltd. at cost plus 25%.

(v) The parent company has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume that market price of the shares of Y Ltd. and Z Ltd. are the same as their respective face values.

(vi) Y Ltd. purchased goods from Z Ltd. after acquiring the shares of Z Ltd.

You are required to prepare consolidated balance sheet, as at 31st March 2022, of the group of companies X Limited, Y Limited and Z Limited. ***(15 Marks)***

(b) Silver Ltd. is in the process of acquiring shares of Blue Ltd. as a part of business reorganization plan. The projected free cash flow of Blue Ltd. for the next 5 years is as follows: *(₹ in crores)*

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	280.65	281.40	182.70	403.50	518.20
Terminal value					5,945

The weighted average cost of capital of Blue Ltd. is 10%. The total debt as on measurement date is ₹ 2,195 crore and the surplus cash and cash equivalent is ₹ 159.21 crore.

The total number of shares of Blue Ltd. as on the measurement date is 12.80 crore.

You are required to determine the value per share of Blue Ltd. as per Income Approach of Ind AS 113.

(Present value factor of ₹ 1 should be taken upto 4 decimals for the purpose of calculation) ***(5 Marks)***

Answer

(a) Consolidated Balance Sheet of the Group as on 31st March, 2022

Particulars	*Note No.*	*₹ in lakh*
ASSETS		
Non-current assets		
(a) Property, Plant and Equipment	1	3,430.00
Current Assets		
(a) Inventories	2	1,183.00
(b) Financial assets		
(i) Trade receivables	3	2,142.00
(ii) Cash and Cash equivalents	4	1,078.00
Total assets		7,833.00
EQUITY & LIABILITIES		
Equity attributable to owners of parent		
(a) Share Capital		2,100.00
(b) Other Equity	5	1,966.30
Non-controlling interests (W.N.4)		581.70
Total equity		4,648.00
LIABILITIES		
Non-current liabilities		Nil
Current liabilities		
(a) Financial Liabilities		
(i) Trade payables	6	3,185.00
Total liabilities		3,185.00
Total Equity and Liabilities		7,833.00

Notes to Accounts (₹ in lakh)

1.	**Property, Plant & Equipment**		
	X Ltd.	1,120.00	
	Y Ltd.	1,260.00	
	Z Ltd.	1,050.00	3,430.00
2.	**Inventories**		
	X Ltd.	770.00	
	Y Ltd. (245 – 7)	238.00	
	Z Ltd.	175.00	1,183.00
3.	**Trade Receivables**		
	X Ltd.	910.00	
	Y Ltd.	350.00	
	Z Ltd.	770.00	
	(A)	2,030.00	
	Bills Receivables		
	X Ltd. (252 – 245)	7.00	
	Z Ltd.	105.00	
	(B)	112.00	
	Total Trade Receivables (A+B)		2,142.00
4.	**Cash & Cash equivalents**		
	X Ltd.	798.00	
	Y Ltd.	140.00	
	Z Ltd.	140.00	1,078.00
5.	**Other Equity**		
	Reserve (W.N.5)	679.00	
	Retained Earnings (W.N.5)	629.30	
	Capital Reserve (W.N.3)	658.00	1,966.30
6.	**Trade Payables**		
	X Ltd.	1,645.00	
	Y Ltd.	805.00	
	Z Ltd.	630.00	
	(A)	3,080.00	

	Bills payable		
	X Ltd.	105.00	
	Y Ltd. (245 - 245)	-	
	(B)	105.00	
	Total Trade Payables (A+B)		3,185.00

*__Note:__ Bills Payable of X Ltd. is not reflecting as Bills Receivable of Y Ltd. This may happen since Y Ltd. may have discounted/endorsed the same to the bank/third party.

Working Notes:

1. Analysis of Reserves and Surplus **(₹ in lakh)**

		Y Ltd.		Z Ltd.
Reserves as on 31.3.2021		280.00		210.00
Increase during the year 2021-2022	70.00		70.00	
Increase for the half year till 30.9.2021		35.00		35.00
Balance as on 30.9.2021 (A)		**315.00**		**245.00**
Total balance as on 31.3.2022		350.00		280.00
Post-acquisition balance of Reserves		**35.00**		**35.00**
Retained Earnings as on 31.3.2021		70.00		105.00
Increase during the year 2021-2022	105.00		105.00	
Increase for the half year till 30.9.2021		52.50		52.50
Balance as on 30.09.2021 (B)		**122.50**		**157.50**
Total balance as on 31.3.2022		175.00		210.00
Post-acquisition balance of RE		52.50		52.50
Less: Unrealised Gain on inventories [(35 ÷ 125) x 25]		-		(7.00)
Post-acquisition balance of RE for CFS		**52.50**		**45.50**
Total balance on the acquisition date ie.30.9.2021 (A+B)		**437.50**		**402.50**

2. Calculation of Effective Interest of X Ltd. in Z Ltd.

Acquisition by X Ltd. in Y Ltd. = 80%

Non-controlling Interest of Y Ltd.	= 20%
Acquisition by Y Ltd. in Z Ltd.	= 75%
Acquisition by Group in Z Ltd. (80% x 75)	= 60%
Non-controlling Interest of Z Ltd	= 40%

3. **Calculation of Goodwill / Capital Reserve on acquisition of subsidiaries**

₹ in lakhs

	Y Ltd.	**Z Ltd.**
Investment or consideration	1,190.00	(980 x 80%) 784.00
Add: NCI at Fair value		
(1,400 x 20%)	280.00	
(1,120 x 40%)	-	448.00
	1,470.00	1,232.00
Less: Identifiable net assets (Share Capital + Increase in the Reserves and Surplus till acquisition date)	(1,400+437.50) (1,837.50)	(1,120+402.50) (1,522.50)
Capital Reserve	367.50	290.50
Total Capital Reserve (367.50 + 290.50)	658.00	

4. **Calculation of Non-controlling Interest** **₹ in lakhs**

	Y Ltd.	**Z Ltd.**
At Fair Value (See Note 3)	280.00	448.00
Add: Post Acquisition Reserves (See Note 1)	(35 x 20%) 7.00	(35 x 40%) 14.00
Add: Post-acquisition retained earnings (See Note 1)	(52.50 x 20%) 10.50	(45.50 x 40%) 18.20
Less: NCI share of investment in Z Ltd.	(980 x 20%) (196.00)*	-
	101.50	480.20
Total (101.50 + 480.20)	581.70	

*Note: The non-controlling interest in Y Ltd. will take its proportion in Z Ltd. So, they have to bear their proportion in the investment by Y Ltd. (in Z Ltd.) also.

5. Calculation of Consolidated Other Equity **₹ in lakhs**

	Reserves	Retained Earnings
X Ltd.	630.00	560.00
Add: Share in Y Ltd.	(35 x 80%) 28.00	(52.50 x 80%) 42.00
Add: Share in Z Ltd.	(35 x 60%) 21.00	(45.50 x 60%) 27.30
	679.00	629.30

In the above solution, it is assumed that profits of Z Ltd. has been earned evenly throughout the year irrespective of post-acquisition sale of goods to Y Ltd.

Alternatively, profit on sale of goods to Y Ltd. is deducted from total profit of Z Ltd. before distribution of total profit of Z Ltd. into pre-acquisition and post-acquisition. In such a case, the solution will be as follows:

Consolidated Balance Sheet of the Group as on 31st March, 2022

Particulars	Note No.	₹ in lakh
ASSETS		
Non-current assets		
(a) Property, plant and equipment	1	3,430.00
Current assets		
(c) Inventory	2	1,183.00
(d) Financial assets		
(i) Trade receivable	3	2,142.00
(ii) Cash and cash equivalents	4	1,078.00
Total assets		7,833.00
EQUITY & LIABILITIES		
Equity attributable to owners of parent		
Share Capital		2,100.00
Other Equity	5	1,964.90
Non-controlling interests (W.N.4)		583.10
Total equity		4,648.00

LIABILITIES		
Non-current liabilities		Nil
Current liabilities		
(b) Financial Liabilities		
(i) Trade payables	6	3,185.00
Total liabilities		3,185.00
Total equity and liabilities		7,833.00

Notes to Accounts **(₹ in lakh)**

1.	**Property, plant & equipment**		
	X Ltd.	1,120.00	
	Y Ltd.	1,260.00	
	Z Ltd.	1,050.00	3,430.00
2.	**Inventories**		
	X Ltd.	770.00	
	Y Ltd. (245 – 7)	238.00	
	Z Ltd.	175.00	1,183.00
3.	**Trade receivable**		
	X Ltd.	910.00	
	Y Ltd.	350.00	
	Z Ltd.	770.00	
	(A)	2,030.00	
	Bills receivable		
	X Ltd. (252 – 245)	7.00	
	Z Ltd.	105.00	
	(B)	112.00	
	Total Trade Receivables (A+B)		2,142.00
4.	**Cash & cash equivalents**		
	X Ltd.	798.00	
	Y Ltd.	140.00	
	Z Ltd.	140.00	1,078.00

5.	**Other equity**		
	Reserve (W.N.5)	679.00	
	Retained Earnings (W.N.5)	631.40	
	Capital Reserve (W.N.3)	654.50	1,964.90
6.	**Trade payable**		
	X Ltd.	1,645.00	
	Y Ltd.	805.00	
	Z Ltd.	630.00	
	(A)	3,080.00	
	Bills payable		
	X Ltd.	105.00	
	Y Ltd. (245 - 245)	-	
	(B)	105.00	
	Total of Trade payable (A+B)		3,185.00

*Note: Bills Payable of X Ltd. is not reflecting as Bills Receivable of Y Ltd. This may happen since Y Ltd. may have discounted / endorsed the same to the bank/third party.

Working Notes:

1. Analysis of Reserves and Surplus **(₹ in lakh)**

		Y Ltd.		Z Ltd.
Reserves as on 31.3.2021		280.00		210.00
Increase during the year 2021-2022	70.00		70.00	
Increase for the half year till 30.9.2021		35.00		35.00
Balance as on 30.9.2021 (A)		315.00		245.00
Total balance as on 31.3.2022		350.00		280
Post-acquisition balance of Reserves		**35.00**		**35.00**
Retained Earnings as on 31.3.2021		70.00		105.00
Increase during the year 2021-2022 for Y Ltd.	105.00			
Increase during the year 2021-22 for Z Ltd. 105.00				
Less: Unrealised gain [(35/125)x25] (7.00)				
Profit of the year earned evenly for Z Ltd. 98.00			98	

Increase for the half year till 30.9.2021		52.50		49.00
Balance as on 30.9.2021 (B)		**122.50**		**154.00**
Total balance as on 31.3.2022		(175.00)		(210.00)
Post-acquisition balance		52.50		56.00
Less: Unrealised gain on inventories [(35/125)x25]		-		(7.00)
Post-acquisition balance for CFS		52.50		49.00
Total balance on the acquisition date ie. 30.9.2021 (A+B)		437.50		399.00

2. Calculation of Effective Interest of X Ltd. in Z Ltd.

Acquisition by X Ltd. in Y Ltd. = 80%

Non-controlling Interest of Y Ltd. = 20%

Acquisition by Y Ltd. in Z Ltd. = 75%

Acquisition by Group in Z Ltd. (80% x 75%) = 60%

Non-controlling Interest of Z Ltd = 40%

3. Calculation of Goodwill / Capital Reserve on the acquisition (₹ in lakhs)

	Y Ltd.	Z Ltd.
Investment or consideration	1,190	(980 x 80%) 784
Add: NCI at Fair value		
(1,400 x 20%)	280	
(1,120 x 40%)	-	448
	1,470	1,232
Less: Identifiable net assets (Share Capital + Increase in the Reserves and Surplus till acquisition date)	(1,400+437.50) (1,837.50)	(1,120+399) (1,519.00)
Capital Reserve	367.50	287.00
Total Capital Reserve (367.50 + 287.00)	654.50	

4. Calculation of Non-controlling Interest (₹ in lakhs)

	Y Ltd.	Z Ltd.
At Fair Value (See Note 3)	280.00	448.00

Add: Post-acquisition Reserves (See Note 1)	(35 x 20%) 7.00	(35 x 40%) 14.00
Add: Post-acquisition Retained Earnings (See Note 1)	(52.50 x 20%) 10.50	(49.00 x 40%) 19.60
Less: NCI share of investment in Z Ltd.	(980 x 20%) (196.00)*	-
	101.50	481.60
Total (101.50 + 481.60)	583.10	

*Note: The non-controlling interest in Y Ltd. will take its proportion in Z Ltd. So, they have to bear their proportion in the investment by Y Ltd. (in Z Ltd.) also.

5. Calculation of Consolidated Other Equity (₹ in lakhs)

	Reserves	Retained Earnings
X Ltd.	630.00	560.00
Add: Share in Y Ltd.	(35 x 80%) 28.00	(52.50 x 80%) 42.00
Add: Share in Z Ltd.	(35 x 60%) 21.00	(49.00 x 60%) 29.40
	679.00	631.40

(b) Determination of Equity Value of Blue Ltd. (₹ in crore)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	280.65	281.40	182.70	403.50	518.20
Terminal value					5,945
	280.65	281.40	182.70	403.50	6,463.20
Discount rate @ 10%	0.9091	0.8264	0.7513	0.6830	0.6209
Free cashflow available to the firm	255.14	232.55	137.26	275.59	4,013.00
Total of all years					4,913.54
Less: Debt					(2,195.00)
Add: Cash & cash equivalent					159.21
Equity value of PT Ltd.					2,877.75
No. of shares (in crore)					12.80 Cr.
Per share value (₹ 2,877.75 Cr. / 12.80 Cr)					₹ 224.82

Question 2

(a) *On 1st April, 2021, Mohan Ltd. has sold goods to Hari Ltd. at a consideration of ₹ 7,50,000. The receipt of this is receivable in three equal instalments of ₹ 2,50,000 each over a two-year period (receipts on 1st April, 2021; 31st March 2022 and 31st March 2023).*

The company is offering a discount of 5% (i.e. ₹ 37,500), if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.358% p.a.

The total consideration to be received from such sale is at ₹ 7,50,000 and hence, the management has recognized the revenue from sale of goods for ₹ 7,50,000.

You are required to analyse whether the above accounting treatment made by the accountant is in compliance of Ind AS. If not, advise the correct treatment alongwith journal entries and extracts of Statement of Profit & Loss and Balance Sheet. ***(6 Marks)***

(b) *A Ltd. is in the business of infrastructure and has two divisions. The brief details of its business and underlying project details are as follows:*

Project 1: Ludhiana - Chandigarh Expressway Toll Project

The Company has commenced the construction of the project in the current year. The brief details of the Concession Agreement are given below:

- *Total expenses incurred ₹ 100 crore as on 31st March, 2022.*
- *Under IGAAP, the company has recorded such expenses as intangible assets in the books of account. Total expenses estimated to be incurred on the project are ₹ 200 crore;*
- *Fair value of the construction service is ₹ 220 crore;*
- *Total cash flow guaranteed by the government under the concession agreement is ₹ 350 crore;*
- *Finance revenue over the period of operation phase is ₹ 30 crore;*
- *Other income relates to the services provided during the operation phase.*

Project 2: Bengaluru - Chennai Expressway Toll Project

The Company has also entered into another Concession Agreement with Government of Karnataka in the current year. The said concession agreement is Toll Based Project and the Company needs to collect the toll from the users of the expressway. The construction cost for the said project will be ₹ 150 crore. The fair value of such construction cost is approximately ₹ 200 crore. Under IGAAP, the company has recorded the expenses incurred on the said project as an intangible asset.

You are required to answer the following:

(i) What would be the classification of Ludhiana - Chandigarh Expressway Toll Project as per applicable Ind AS? Give brief reasoning.

(ii) What would be the classification of Bengaluru – Chennai Expressway Toll Project as per applicable Ind AS? Give brief reasoning.

(iii) What should be the accounting entries for the preparation of financial statements as per relevant Ind AS for the above 2 projects? ***(10 Marks)***

(c) An entity enters into a contract for the sale of Product A for ₹ 10,000. As part of the contract, the entity gives the customer a 40% discount voucher for any future purchases upto ₹ 8,000 in the next 30 days. The entity intends to offer a 10% discount on all sales during the next 30 days as a part of seasonal promotion. The 10% discount cannot be used in addition to the 40% discount voucher.

The entity believes that there is 75% likelihood that a customer will redeem the voucher and, on an average, a customer will purchase ₹ 5,000 of additional products.

You are required to determine how many performance obligations does the entity have with their stand-alone selling price and allocated transaction price? ***(4 Marks)***

Answer

(a) The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue. Hence, the accounting treatment of recognizing revenue of ₹ 7,50,000 by the accountant is not correct.

The fair value of consideration (cash price equivalent) of the sale of goods to be recognised on the date of sale should be calculated as follows:

Period	Consideration (Installment)	Present value factor	Present value of consideration
	₹		₹
Time of sale	2,50,000	-	2,50,000
End of 1st year	2,50,000	0.949	2,37,250
End of 2nd year	2,50,000	0.901	2,25,250
	7,50,000		7,12,500

Mohan Ltd. will recognise the revenue from sale of goods and finance income as follows:

Particulars		₹	₹
Initial recognition of sale of goods			
Cash / Bank A/c	Dr.	2,50,000	
Trade Receivable A/c	Dr.	4,62,500	
To Sale A/c			7,12,500
Recognition of interest expense and receipt of second installment			
Cash / Bank A/c	Dr.	2,50,000	
To Interest Income A/c (4,62,500 x 5.358%)			24,781
To Trade Receivable A/c			2,25,219
Recognition of interest expense and payment of final installment			
Cash / Bank A/c	Dr.	2,50,000	
To Interest Income A/c (Balancing figure)			12,719
To Trade Receivable A/c (4,62,500 – 2,25,319)			2,37,281

Statement of Profit and Loss (Extracts)

for the year ended 31st March, 2022 and 31st March, 2023

	As at 31st March, 2022	As at 31st March, 2023
	₹	₹
Income		
Sale of Goods	7,12,500	-
Other Income (Finance income)	24,781	12,719

Balance Sheet (extracts) as at 31st March, 2022 and 31st March, 2023

	As at 31st March, 2022	As at 31st March, 2023
	₹	₹
Assets		
Current Assets		
Financial Assets		
Trade Receivables	2,37,281	XXX

(b) (i) Project 1 : Ludhiana - Chandigarh Expressway Toll Project

Here the operator has a contractual right to receive cash from the grantor. The grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator. Hence, the operator recognizes a financial asset to the extent it has a contractual right to receive cash.

(ii) Project 2 : Bengaluru - Chennai Expressway Toll Project

Here the operator has a contractual right to charge users of the public services. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. Therefore, the operator shall recognise an intangible asset to the extent it receives a right (a license) to charge users of the public service.

(iii) Accounting Entries for preparation of financial statements

Ludhiana-Chandigarh Expressway Toll Project

Journal Entries

	Particulars	**Dr. (₹ in crore)**	**Cr. (₹ in crore)**
	During construction:		
1	Financial asset A/c Dr.	220	
	To Construction revenue		220
	(To recognise revenue relating to construction services, to be settled in cash)		
2	Cost of construction (profit or loss) Dr.	200	
	To Bank A/c (As and when incurred)		200
	(To recognise costs relating to construction services)		
	During the operation phase:		
3	Financial asset Dr.	30	
	To Finance revenue (As and when received or due to receive)		30
	(To recognise interest income under the financial asset model)		

4	Financial asset Dr. To Revenue [(350-220) – 30] (To recognise revenue relating to the operation phase)	100	 100
5	Bank A/c Dr. To Financial asset (To recognise cash received from the grantor)	350	 350

Bengaluru-Chennai Expressway Toll Project

Journal Entries

	Particulars	**Dr. (₹ in crore)**	**Cr. (₹ in crore)**
	During construction:		
1	Cost of construction (profit or loss) Dr. To Bank A/c (As and when incurred) (To recognise costs relating to construction services)	150	 150
2	Intangible asset Dr. To Revenue (To recognise revenue relating to construction services provided for non-cash consideration)	200	 200
	During the operation phase:		
3	Amortisation expense Dr. To Intangible asset (accumulated amortisation) (To recognise amortisation expense relating to the operation phase over the period of operation)	200	 200
4	Bank A/c Dr. To Revenue (To recognise revenue relating to the operation phase)	?	 ?

Note: Amount in entry 4 is kept blank as no information in this regard is given in the question.

(c) Since all customers will receive a 10% discount on purchases during the next 30 days, the only additional discount that provides the customer with a material right is the incremental discount of 30% on the products purchased. The entity accounts for the promise to provide the incremental discount as a separate performance obligation in the contract for the sale of Product A.

The entity believes there is 75% likelihood that a customer will redeem the voucher and on an average a customer will purchase ₹ 5,000 of additional products. Consequently, the entity's estimated stand-alone selling price of the discount voucher is ₹ 1,125 (₹ 5,000 average purchase price of additional products x 30% incremental discount x 75% likelihood of exercising the option). The stand-alone selling prices of Product A and the discount voucher and the resulting allocation of ₹ 10,000 transaction price are as follows:

Performance obligations	Stand-alone selling price
Product A	₹ 10,000
Discount voucher	₹ 1,125
Total	₹ 11,125

Performance obligations		**Allocated transaction price (to nearest ₹)**
Product A	[(₹ 10,000 ÷ ₹ 11,125) × ₹ 10,000]	₹ 8,989
Discount voucher	[(₹ 1,125 ÷ ₹ 11,125) × ₹ 10,000]	₹ 1,011
Total		₹ 10,000

The entity allocates ₹ 8,989 to Product A and recognises revenue for Product A when control is transferred. The entity allocates ₹ 1,011 to the discount voucher and recognises revenue for the voucher when the customer redeems it for goods or services or when it expires.

Question 3

(a) Violet Limited is a beverages manufacturing company having various plants across India. There is Machinery A in the Surat plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also be sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with Machinery A it cannot

produce output as well. The company considers this group of assets as a Cash Generating Unit and an Inventory amounting to ₹ 1.65 lakhs and Goodwill amounting to ₹ 1.50 lakhs is included in such CGU.

Machinery A was purchased on 1st April 2016 for ₹ 12 lakhs and residual value is ₹ 60 thousand. Machinery B was purchased on 1st April, 2018 for ₹ 5 lakhs with no residual value. The useful life of both Machinery A and B is 10 years. The company expects following cash flows in the next 5 years pertaining to Machinery A. The incremental borrowing rate of company is 10% p.a.

Year	*Cash Flows from Machinery A*
1	*2,00,000*
2	*1,50,000*
3	*1,00,000*
4	*1,50,000*
5	*1,00,000 (Excluding Residual Value)*
Total	*7,00,000*

On 31st March, 2021, the professional valuers have estimated that the current market value of machinery A is ₹ 8.5 lakhs. There is a need to dismantle the machinery before delivering it to the buyer. Dismantling cost is ₹ 1.60 lakhs. Specialized packaging cost would be ₹ 30,000 and legal fees would be ₹ 68,000.

The inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is ₹ 10 lakhs as on 31st March, 2021. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is ₹ 11 lakhs i.e. on 31st March, 2022. The recoverable value of Machinery A is ₹ 5,50,000 and combined for Machinery A and Machinery B is ₹ 8,00,000 as on 31st March, 2022.

You are required to:

(i) Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2021 by providing all the relevant working notes to arrive at such calculation.

(ii) Compute the carrying value after considering prospective depreciation for the year 2021-2022 on the above assets.

(iii) Compute the carrying value of CGU as at 31st March, 2022.

(Note: Present value factor of ₹ 1 should be taken upto 4 decimals for the purpose of calculation) ***(8 Marks)***

(b) Following is the summarized Statement of Profit and Loss of New Age Ltd. as per Ind AS for the year ended 31.3.2022:

Particulars	*₹ in lakhs*
Revenue from operations	*1,450.00*
Other income	*70.00*
(A) Total income	*1,520.00*
Purchase of stock in trade	*50.00*
Changes in inventories of stock in trade	*20.00*
Employee benefit expenses	*145.00*
Finance costs	*180.00*
Other expenses	*375.00*
(B) Total expenses	*770.00*
(C) Profit before tax (A - B)	*750.00*
(D) Current tax expense	*211.65*
(E) Profit after tax (C - D)	*538.35*

Additional information:

(1) Consider that Income tax rate applicable to New Age Ltd. in India is 30%.

(2) 'Other expenses' include the following expenses which are not deductible for income tax purposes:

(i) Penalties ₹ 1.50 lakh

(ii) Donations ₹ 55.00 lakhs

(iii) Impairment of goodwill ₹ 7.00 lakhs

(3) 'Other expenses' also include expenditure on Scientific Research amounting to ₹ 10 lakhs in respect of which a 150% weighted deduction is available under income tax laws.

(4) 'Other income' includes:

(i) Dividends of ₹ 5 lakhs, which is exempt from tax.

(ii) Long term capital gains of ₹ 12 lakhs which are taxable at the rate of 10%.

(5) 'Profit before tax of ₹ 750 lakhs' includes:

(i) Agriculture income of ₹ 65 lakhs which is exempt from tax; and

(ii) Profit of ₹ 75 lakhs earned in USA on which New Age Ltd. has paid tax at the rate of 20%.

During review of financial statements of New Age Ltd., the CFO multiplied profit before tax by the income tax rate and arrived at ₹ 225 lakhs as the tax expenses. However, the actual income tax expenses appearing in the summarized Statement of Profit and Loss is ₹ 211.65 lakhs.

You are required to help the CFO of the company in reconciling the difference between the tax expense amount. ***(6 Marks)***

(c) Explain the criteria in the Conceptual Framework for Financial Reporting for the recognition of an asset and discuss whether there are inconsistencies with the criteria in Ind AS 38. ***(6 Marks)***

OR

State the categories of capital as defined in the Integrated Reporting Framework. Can an integrated reporting be done in compliance to the requirements of the local laws to prepare a management commentary or other reports? ***(6 Marks)***

Answer

(a) (i) Computation of impairment loss and carrying value of each of the asset in CGU after impairment loss

(a) Calculation of carrying value of Machinery A and B before impairment

<u>Machinery A</u>		
Cost	(A)	₹ 12,00,000
Residual value		₹ 60,000
Useful life		10 years
Useful life already elapsed		5 years
Yearly depreciation	(B)	₹ 1,14,000
WDV as at 31st March 2021 [A- (B x 5)]		₹ 6,30,000
<u>Machinery B</u>		
Cost	(C)	₹ 5,00,000
Residual value		-
Useful life		10 years
Useful life already elapsed		3 years
Yearly depreciation	(D)	₹ 50,000
WDV as at 31st March 2021 [C- (D x 3)]		₹ 3,50,000

(b) Calculation of Value-in-use of Machinery A

Period	Cash Flows (₹)	PVF@10%	PV
1	2,00,000	0.9091	1,81,820
2	1,50,000	0.8264	1,23,960
3	1,00,000	0.7513	75,130
4	1,50,000	0.6830	1,02,450
5	1,00,000	0.6209	62,090
5	60,000	0.6209	37,254
Value in use			5,82,704

(c) Calculation of Fair Value less cost of disposal of Machinery A

	₹
Fair Value	8,50,000
Less: Dismantling cost	(1,60,000)
Packaging cost	(30,000)
Legal Fees	(68,000)
Fair value less cost of disposal	5,92,000

(d) Calculation of Impairment loss on Machinery A

	₹
Carrying Value	6,30,000
Less: Recoverable Value ie higher of Value-in-use (₹ 5,82,704) and Fair value less cost of disposal (₹ 5,92,000)	(5,92,000)
Impairment Loss	38,000

(e) Calculation of Impairment loss of CGU

1. First goodwill will be impaired fully and then the remaining impairment loss of CGU will be allocated to Machinery A and Machinery B.
2. After deduction of value of goodwill ₹ 1,50,000 from total impairment loss of CGU of ₹ 2,95,000, remaining impairment loss would be ₹ 1,45,000. If we allocate remaining impairment loss to Machinery A and B on pro-rata basis, it will come to ₹ 93,214 on Machinery A. However, the impairment loss of Machinery A cannot exceed ₹ 38,000 since its recoverable value is ₹ 5,92,000. Hence, impairment loss to CGU will be as follows:

	Carrying value before impairment loss	Impairment loss	Carrying value after impairment loss
	₹	₹	₹
Machinery A	6,30,000	38,000	5,92,000
Machinery B	3,50,000	1,07,000*	2,43,000
Inventory	1,65,000	-	1,65,000
Goodwill	1,50,000	1,50,000	-
Total	12,95,000	2,95,000	10,00,000

* Balancing figure.

(ii) Carrying value after adjustment of depreciation of 2021-2022

	₹
Machinery A [5,92,000 – {(5,92,000 - 60,000)/5}]	4,85,600
Machinery B [2,43,000 – (2,43,000/7)]	2,08,286
Inventory	1,65,000
Goodwill	-
Total	8,58,886

(c) Calculation of carrying value of CGU as on 31st March 2022

The revised value of CGU is ₹ 11 lakh. However, impaired goodwill cannot be reversed. Further, the individual assets cannot be increased above the lower of recoverable value or carrying value as if the assets were never impaired.

Accordingly, the carrying value as on 31st March 2022 assuming that the impairment loss had never incurred, will be:

	Carrying Value	Recoverable Value	Final CV as at 31st March 2022
Machinery A	[12,00,000 - (1,14,000 x 6)] 5,16,000	5,50,000	5,16,000
Machinery B	[5,00,000 – (50,000x4)] 3,00,000	(8,00,000 – 5,50,000) 2,50,000	2,50,000
Inventory	1,65,000*	1,65,000*	1,65,000*
Goodwill	-	-	-
Total	9,81,000	9,65,000	9,31,000

Hence, the impairment loss to be reversed will be limited to ₹ 72,114 only (₹ 9,31,000 – ₹ 8,58,886).

*Note: The question required valuation of CGU at the year-end 31st March 2022, for which value of inventory was required. In the absence of the value of inventory for the year ended 31st March 2022, it is assumed that the value of inventory for the year ended 31st March 2022 is same as it was for the year ended 31st March, 2021.

(b) Reconciliation of income tax expense and current tax as per accounting profit for the year ended 31st March 2022

Particulars		₹ in lakhs
Accounting profit		750.00
Tax at the applicable tax rate of 30%		225.00
Tax effect of expenses that are not deductible in determining taxable profits:		
Penalties (1.5 x 30%)	0.45	
Impairment of goodwill (7 x 30%)	2.10	
Donations (55 x 30%)	16.50	19.05
Tax effect of expenses that are deductible in determining taxable profits:		
Expenditure on scientific research (10.00 x 50% x 30%)		(1.50)
Tax effect of income that are exempted in determining taxable profits:		
Dividend income (Exempt) (5.00 x 30%)	1.50	
Agriculture income (Exempt) (65.00 x 30%)	19.50	(21.00)
Tax effect of income on which different tax rates are used for determining taxable profits:		
Differential income tax on long term capital gain [12.00 x (30% - 10%)]	2.40	
Foreign income in USA [75.00 x (30% - 20%)]	7.50	(9.90)
Income tax expense (Current) reported in the Statement of Profit and Loss for the current year		211.65

(c) Either

The Conceptual Framework defines an asset as a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Assets should be recognized if they meet the

Conceptual Framework definition of an asset and such recognition provides users of financial statements with information that is useful i.e. it is relevant as well as results in faithful representation. However, the criteria of a cost-benefit analysis always exists i.e. the benefits of the information must be sufficient to justify the costs of providing such information. The recognition criteria outlined in the Conceptual Framework allows for flexibility in the application in amending or developing the standards.

Para 8 of Ind AS 38 'Intangible Assets', defines an intangible asset as an identifiable non-monetary asset without physical substance. Further, Ind AS 38 defines an asset as a resource:

(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the entity.

Furthermore, Para 21 of Ind AS 38 states that an intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.

This requirement is applicable both in case of an externally acquired intangible asset or an internally generated intangible asset. The probability of expected future economic benefits must be based on reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. Further, as per Para 33 of Ind AS 38, the probability recognition criterion is always considered to be satisfied for intangible assets acquired in business combinations. If the recognition criteria are not satisfied, Ind AS 38 requires the expenditure to be expensed as and when it is incurred.

It is notable that the Conceptual Framework does not prescribe a 'probability criterion'. As long as there is a potential to produce economic benefits, even with a low probability, an item can be recognized as an asset according to the Conceptual Framework. However, in terms of intangible assets, it could be argued that recognizing an intangible asset having low probability of generating economic benefits would not be useful to the users of financial statements given that the asset has no physical substance.

The recognition criteria and definition of an asset under Ind AS 38 are different as compared to those outlined in the Conceptual Framework. To put in simple words, the criteria in Ind AS 38 are more specific, but definitely do provide information that is relevant and a faithful representation. When viewed from the prism of relevance and faithful representation, the requirements of Ind AS 38 in terms of recognition appear to be consistent with the Conceptual Framework.

(c) **Or**

The Integrated Reporting Framework has categorised the capital into 6 main forms. However, at the same time, it stresses upon that not necessary the same categorisation of capital be followed by the entities in their integrated reporting.

1. **Financial Capital:** The pool of funds available to an organization for use in the production of goods or the provision of services obtained through financing, such as debt, equity or grants; or generated through operations or investments.
2. **Manufactured Capital:** Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including buildings, equipment and infrastructure (such as roads, ports, bridges, and waste and water treatment plants).
3. **Intellectual Capital:** Organizational, knowledge-based intangibles, including intellectual property, such as patents, copyrights, software, rights and licences and organizational capital such as tacit knowledge, systems, procedures and protocols.
4. **Human Capital:** People's competencies, capabilities and experience, and their motivations to innovate, including their loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.
5. **Social and Relationship Capital:** The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being.
6. **Natural Capital:** All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current, or future prosperity of an organization.

An integrated report may be prepared in response to existing compliance requirements. For example, an organization may be required by local law to prepare a management commentary or other report that provides context for its financial statements. If that report is also prepared in accordance with this Framework, it can be considered an integrated report. If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.

Question 4

(a) *On 1st April, 2021 "Fortunate Bank" has provided a loan of ₹25,00,000 to Mohan Limited for 4 years at 10% p.a. and the loan has been guaranteed by Surya Limited, which is a holding company for Mohan Limited. Interest payments are made at the end of each year and the principal is repaid at the end of the loan term. If Surya Limited had not issued a guarantee, 'Fortunate Bank' would have charged Mohan Limited an interest rate of 14% p.a. Surya Limited does not charge Mohan Limited for providing the guarantee.*

On 31st March 2022, there is 2% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited.

On 31st March 2023, there is 4% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited.

On 31st March 2024, there is 5% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited.

You are required to provide accounting treatment of financial guarantee as per Ind AS 109 in the books of Surya Limited on initial recognition and in subsequent periods till 31st March, 2024. ***(12 Marks)***

(b) *Lessee enters into a 10 years lease for 6000 square metres of office space. The annual lease payments are ₹1,00,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 8% p.a. At the beginning of the 6th year, lessee and lessor agree to amend the original lease to reduce the space to only 3,000 square metres of the original space starting from the first quarter of year 6. The annual fixed lease payments (from year 6 to year 10) are ₹ 60,000. Lessee's incremental borrowing rate at-the beginning of year 6 is 6% p.a.*

You are required to analyse the effect of the said modification and give journal entries for the same in the books of Lessee.

Note: Give your calculation by adopting the present value factor as:

Year	1	2	3	4	5	6	7	8	9	10
8%	0.9259	0.8573	0.7938	0.7350	0.6806	0.6302	0.5835	0.5403	0.5002	0.4632
6%	0.9434	0.8900	0.8396	0.7921	0.7473	0.7050	0.6651	0.6274	0.5919	0.5584

(8 Marks)

Answer

(a) 1st April 2021

A financial guarantee contract is initially recognised at fair value. The fair value of the guarantee will be the present value of the difference between the net contractual cash flows required under the loan, and the net contractual cash flows that would have been required without the guarantee.

Particulars	**Year 1 (₹)**	**Year 2 (₹)**	**Year 3 (₹)**	**Year 4 (₹)**	**Total (₹)**
Cash flows based on interest rate of 14% (A)	3,50,000	3,50,000	3,50,000	3,50,000	14,00,000
Cash flows based on interest rate of 10% (B)	2,50,000	2,50,000	2,50,000	2,50,000	10,00,000
Interest on differential rate (C) = (A-B)	1,00,000	1,00,000	1,00,000	1,00,000	4,00,000
Discount factor @ 14%	0.877	0.769	0.675	0.592	
Interest on differential rate discounted @ 14%	87,700	76,900	67,500	59,200	2,91,300
Fair value of financial guaranteed contract (at inception)					2,91,300

Alternative manner of presentation for the calculation of fair value of financial guaranteed contract (at inception)

(i) Interest on loan @ 10% = ₹ 2,50,000

Present value of cash flow of loan at concessional rate with guarantee @ 14%

= ₹ 2,50,000 x 2.9138 + ₹ 25,00,000 x 0.5921

= ₹ 7,28,450 + ₹ 14,80,250 = ₹ 22,08,700

(ii) Interest on loan at normal rate of 14% = ₹ 3,50,000

Present Value of Cash flow of loan at 14%

= ₹ 3,50,000 x 2.9138 + ₹ 25,00,000 x 0.5921

= ₹ 25,00,080 or ₹ 25,00,000

Difference (ii) – (i) = ₹ 25,00,000 - ₹ 22,08,700

Fair value of financial guaranteed contract (at inception) = ₹ 2,91,300

Journal Entry

Particulars	Debit (₹)	Credit (₹)
Investment in subsidiary Dr.	2,91,300	
To Financial guarantee (liability)		2,91,300
(Being financial guarantee initially recorded)		

31st March 2022

Subsequently at the end of the reporting period, financial guarantee is measured at the higher of:

- the amount of loss allowance; and
- the amount initially recognised less cumulative amortization, where appropriate.

At 31st March 2022, there is 2% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited. The 12-month expected credit losses are therefore ₹ 50,000 (₹ 25,00,000 x 2%).

The initial amount recognised less amortisation is ₹ 2,32,082 (Refer table below). The unwound amount is recognised as income in the books of Surya Limited, being the benefit derived by Mohan Limited not defaulting on the loan during the period.

Year ended on 31st March	Opening balance (a) ₹	EIR @ 14% (b) = (a x 14%)	Benefits provided (c) ₹	Closing balance (d) = (a) + (b) -(c) ₹
2022	2,91,300	40,782	(1,00,000)	**2,32,082**
2023	2,32,082	32,491	(1,00,000)	1,64,573
2024	1,64,573	23,040	(1,00,000)	87,613
2025	87,613	12,387*	(1,00,000)	-

* Difference of ₹ 121 (₹ 12,387 – ₹ 12,266) is due to approximation.

The carrying amount of the financial guarantee liability after amortisation is therefore ₹ 2,32,082, which is higher than the 12-month expected credit losses of ₹ 50,000. The liability is therefore adjusted to ₹ 2,32,082 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	59,218	
To Profit and loss		59,218
(Being financial guarantee subsequently adjusted)		

31st March 2023

At 31st March 2023, there is 4% probability that Mohan Limited will default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited. The 12-month expected credit losses are therefore ₹ 1,00,000 (₹ 25,00,000 x 4%).

The carrying amount of the financial guarantee liability after amortisation is ₹ 1,64,573, which is higher than the 12-month expected credit losses of ₹ 1,00,000. The liability is therefore adjusted to ₹ 1,64,573 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	67,509	
To Profit and loss		67,509
(Being financial guarantee subsequently adjusted)		

31st March 2024

At 31st March 2024, there is 5% probability that Mohan Limited will default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited. The 12-month expected credit losses are therefore ₹ 1,25,000 (₹ 25,00,000 x 5%).

The initial amount recognised less accumulated amortisation is ₹ 87,613, which is lower than the 12-month expected credit losses (₹ 1,25,000). The liability is therefore adjusted to ₹ 1,25,000 (the higher of the two amounts) as follows:

Particulars	Debit (₹)	Credit (₹)
Financial guarantee (liability) Dr.	39,573*	
To Profit and loss (Refer Note below)		39,573*
(Being financial guarantee subsequently adjusted)		

* Note: The carrying amount at the end of 31st March 2023 will be ₹ 1,25,000 (i.e. ₹ 1,64,573 less 12-month expected credit losses of ₹ 39,573).

(b) In the books of Lessee

Calculation of ROU asset and lease liability before modification: (in ₹)

Year	Lease Liability				ROU asset		
	Initial value	Lease payments	Interest expense @ 8%	Closing balance	Initial Value	Depreciation	Closing balance
	a	b	c = a x 8%	d = a-b + c	e	F	g
1	6,71,000 (Refer W.N.)	1,00,000	53,680	6,24,680	6,71,000	67,100	6,03,900
2	6,24,680	1,00,000	49,974	5,74,654	6,03,900	67,100	5,36,800
3	5,74,654	1,00,000	45,972	5,20,626	5,36,800	67,100	4,69,700
4	5,20,626	1,00,000	41,650	4,62,276	4,69,700	67,100	4,02,600
5	4,62,276	1,00,000	36,982	3,99,258	4,02,600	67,100	3,35,500
6	3,99,258				3,35,500		

At the effective date of the modification (at the beginning of Year 6), Lessee remeasures the lease liability based on:

(a) A five-year remaining lease term,

(b) Annual payments of ₹ 60,000 and

(c) Lessee's incremental borrowing rate of 6% p.a.

Year	Lease Payment(A)	Present value factor @ 6% (B)	Present value of lease payments (A x B = C)
6	60,000	0.9434	56,604
7	60,000	0.8900	53,400
8	60,000	0.8396	50,376
9	60,000	0.7921	47,526
10	60,000	0.7473	44,838
Total			2,52,744

Alternative manner of above calculation:

Annual lease payments x Sum of PVF from year 6th year to 10th year @ 6% discount rate

= ₹ 60,000 x 4.2124 = ₹ 2,52,744

Lessee determines the proportionate decrease in the carrying amount of the ROU Asset on the basis of the remaining ROU Asset (i.e., 3,000 square metres corresponding to 50% of the original ROU Asset).

50% of the pre-modification ROU Asset (₹ 3,35,500) is ₹ 1,67,750.

50% of the pre-modification lease liability (₹ 3,99,258) is ₹ 1,99,629.

Consequently, lessee reduces the carrying amount of the ROU Asset by ₹ 1,67,750 and the carrying amount of the lease liability by ₹ 1,99,629 and recognises the difference between the decrease in the lease liability and the decrease in the ROU Asset (₹ 1,99,629 – ₹ 1,67,750 = ₹ 31,879) as a gain in profit or loss account at the effective date of the modification (at the beginning of Year 6).

Journal Entry

Particulars		Debit (₹)	Credit (₹)
Lease Liability	Dr.	1,99,629	
To ROU Asset			1,67,750
To Profit & Loss			31,879

Lessee recognises the difference between the reduced 50% lease liability of ₹ 1,99,629 and the modified lease liability of ₹ 2,52,744 (which equals ₹ 53,115) as an adjustment to the ROU Asset reflecting the change in the consideration paid for the lease and the revised discount rate.

Journal Entry

Particulars		Debit (₹)	Credit (₹)
ROU Asset	Dr.	53,115	
To Lease Liability			53,115

Working Note:

Calculation of Initial value of ROU asset and lease liability:

Year	Lease Payment(A)	Present value factor @ 8% (B)	Present value of lease payments (A x B = C)
1	1,00,000	0.9259	92,590
2	1,00,000	0.8573	85,730
3	1,00,000	0.7938	79,380
4	1,00,000	0.7350	73,500
5	1,00,000	0.6806	68,060

6	1,00,000	0.6302	63,020
7	1,00,000	0.5835	58,350
8	1,00,000	0.5403	54,030
9	1,00,000	0.5002	50,020
10	1,00,000	0.4632	46,320
			6,71,000

Alternative manner of above calculation:

Annual lease payments x Sum of PVF from year 1 to 10 @ 8% discount rate

= ₹ 1,00,000 x 6.71 = ₹ 6,71,000

Note: It is assumed that even after modification, annual lease payment will continue to be made at the end of the year as mentioned under the original terms of the lease.

Question 5

(a) A herd of 15, 4 year old cows valued at ₹ 500 thousands per cow were held in 'M Dairy Farm' as at 1st April 2021. The following transactions took place on 1st October, 2021:

(A) One cow aged 4.5 years was purchased for ₹ 520 thousands.

(B) One calf was born.

No cow was sold or disposed off during the year.

The per cow/calf fair value less cost to sell was as follows: *₹ in thousands*

4 year old cow on 1st April 2021	*500*
New born calf on 1st October 2021	*400*
4.5 year old cow on 1st October 2021	*520*
New born calf on 31st March, 2022	*410*
0.5 year old calf on 31st March, 2022	*440*
4 year old cow on 31st March, 2022	*516*
4.5 year old cow on 31st March, 2022	*540*
5 year old cow on 31st March, 2022	*560*

You are required to:

(i) Calculate change in fair value less costs to sell showing:

(a) The portion attributable to physical changes

(b) The portion attributable to price changes.

(ii) Calculate the carrying cost of the herd as on 31st March, 2022.

(iii) Prepare an extract of the livestock account for the year ended 31st March, 2022.

(6 Marks)

(b) Jackson Limited is engaged in manufacturing and trading activities. It is in the process of preparation of consolidated financial statements of the group for the year ended on 31st March 2022. During the year 2021-2022, the company made a profit (after tax) of ₹ 2,10,00,000 of which ₹ 10,00,000 is attributable to Non-Controlling Interest (NCI).

The long-term finance of the company comprises the following:

(A) 10 crore equity shares of ₹ 1 each at the beginning of the year and the company has further issued 2,50,00,000 shares on 1st October 2021 at full market value.

(B) 40 lakh irredeemable preference shares of ₹ 10 each. These shares were in issue for the whole of the year ended 31st March 2022. The payment of dividend on these preference shares is discretionary.

(C) ₹ 9 crore of 6% convertible debentures issued on 1st April, 2020 and repayable on 31st March, 2025 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 5 crore ordinary shares in the company. On 1st April, 2021 the prevailing market interest rate for 5 yearly convertible debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of ₹ 1 payable in five years is 0.68 and the cumulative present value of ₹ 1 payable at the end of years one to five is 3.99.*

In the year ended 31st March, 2022 Jackson Limited declared a dividend of ₹ 0.10 per share on the irredeemable preference shares.

You are required to:

(i) Compute the finance cost of convertible debentures and its closing balance as on 31st March, 2022 to be presented in the consolidated financial statements.

(ii) Compute the basic and diluted earnings per share for the year ended 31st March, 2022. Assume that applicable income tax rate is 30% for Jackson Limited and its subsidiaries. ***(8 Marks)***

* **PS:** Read '1st April, 2021' as '1st April, 2020'.

(c) *On 1st April, 2019, Sun Ltd. issued share-based option to one of its key managerial personnel (employee) which can be exercised either in cash or equity and it has following features:*

Option I

No. of cash settled shares	*70,000*
Service condition	*3 years*

Option II

No. of equity settled shares of face value of ₹ 100 each	*80,000*

Conditions:

Service	*3 years*
Restriction to sell	*2 years*

Fair Values

Share alternative fair value (with restriction)	*₹ 125*
Fair value at grant date	*₹ 136*
Fair value on 31st March, 2020	*₹ 141*
Fair value on 31st March, 2021	*₹ 143*
Fair value on 31st March, 2022	*₹ 146*

You are required to pass the journal entries if the key managerial employee exercises cash option at the end of 31st March, 2022 and also if he exercises equity option at the end of 31st March, 2022. ***(6 Marks)***

Answer

(a) (i) Change in fair value less costs to sell, due to physical change and price change:

₹ in thousand

Fair value less costs to sell of herd at 1st April 2021 (15 × 500)			7,500
Purchase on 1st October 2021 (1 x 520)			520
(a)	**Increase in fair value less costs to sell due to price change:**		
	15 cows x (516 – 500)	240	
	1 cows x (540 – 520)	20	
	1 calf x (410 – 400)	10	270

(b)	**Increase in fair value less costs to sell due to physical change:**		
	15 cows x (560 – 516)	660	
	1 cows x (560 – 540)	20	
	1 calf x (440 – 410)	30	
	1 calf x 400 (Gain on initial recognition)	400	1,110
			9,400

(ii) Calculation of carrying cost of herd as on 31st March 2022 i.e.

Fair value less costs to sell of herd at 31st March 2022

16 × 560	8,960	
1 × 440	440	9,400

(iii) Extract of Livestock Account for the year 31st March 2022

Particulars	Amount (₹ in 000)	Particulars	Amount (₹ in 000)
To Opening Stock	7500	By Closing Balance	9,400
To Purchases (1x520)	520		
To Increase in fair value (Price Changes)	270		
To Increase in fair value (Physical Changes)	1,110		
Total	9,400	Total	9,400

(b) (i) Calculation of the liability and equity components on 6% Convertible debentures:

Present value of principal payable at the end of 5th year (₹ 90,000 thousand x 0.68)

= ₹ 61,200 thousand

Present value of interest payable annually for 5 years (₹ 90,000 thousand x 6% x 3.99)

= ₹ 21,546 thousand

Total liability component = ₹ 82,746 thousand

Therefore, equity component = ₹ 90,000 thousand – ₹ 82,746 thousand

= ₹ 7,254 thousand

Calculation of finance cost and closing balance of 6% convertible debentures

Year	Opening balance ₹ in '000	Finance cost @ 8% ₹ in '000	Interest paid @ 6% ₹ in '000	Closing balance ₹ in '000
	a	b = a x 8%	c	d = a + b - c
31.3.2021	82,746	6,620	5,400	83,966
31.3.2022	83,966	6,717	5,400	85,283

Finance cost of convertible debentures for the year ended 31.3.2022 is ₹ 6,717 thousand and closing balance as on 31.3.2022 is ₹ 85,283 thousand.

(ii) (a) Calculation of Basic EPS **₹ in '000**

Profit for the year attributable to parent company	20,000
Less: Dividend on preference shares (4,000 thousand x ₹ 0.10)	(400)
Profit attributable to equity shareholders	19,600

Weighted average number of shares = 10,00,00,000 + {2,50,00,000 x (6/12*)}

= 11,25,00,000 shares or 1,12,500 thousand shares

Basic EPS = ₹ 19,600 thousand / 1,12,500 thousand shares

= ₹ 0.174

(b) Calculation of Diluted EPS **₹ in '000**

Profit for the year		20,000
Less: Dividend on preference shares (4,000 x 0.10)		(400)
		19,600
Add: Finance cost (as given in the above table)	6,717.00	
Less: Tax @ 30%	(2,015.10)	4,701.90
		24,301.90

Weighted average number of shares = 10,00,00,000 + {2,50,00,000 x (6/12)*} + 5,00,00,000

= 16,25,00,000 shares or 1,62,500 thousand shares

Diluted EPS = ₹ 24,301.90 thousand / 1,62,500 thousand shares = ₹ 0.150

(c)

	1st April 2019 (₹)	**31st March 2020 (₹)**	**31st March 2021 (₹)**	**31st March 2022 (₹)**
Equity alternative (80,000 x 125)	1,00,00,000			
Cash alternative (70,000 x 136)	95,20,000			
Equity option (1,00,00,000 – 95,20,000)	4,80,000			
Cash option (cumulative) (using period end fair value		(70,000 x 141 x 1/3) 32,90,000	(70,000 x 143 x 2/3) 66,73,333	(70,000 x 146 x 3/3) 1,02,20,000
Equity option (cumulative)		(4,80,000 x 1/3) 1,60,000	(4,80,000 x 2/3) 3,20,000	(4,80,000 x 3/3) 4,80,000

Expense for the period			
Equity option	1,60,000	(3,20,000 – 1,60,000) 1,60,000	(4,80,000 – 3,20,000) 1,60,000
Cash Option	32,90,000	(66,73,333 – 32,90,000) 33,83,333	(1,02,20,000 – 66,73,333) 35,46,667
Total	34,50,000	35,43,333	37,06,667

Journal Entries

(i) If Cash alternative is chosen:		₹	₹
Share based payment liability	Dr.	1,02,20,000	
To Bank/ Cash			1,02,20,000
(Settlement in cash)			
Share based payment reserve (equity)*	Dr.	4,80,000	
To Retained earnings			4,80,000
(Being transfer of equity from one account to another one)			

(ii) If Equity alternative is chosen:		
Share based payment liability Dr. To Share based payment reserve (equity) (Being transfer of liability account to equity)	1,02,20,000	 1,02,20,000
Share based payment reserve (equity) Dr. To Capital To Securities Premium (Being settlement made in equity)	1,07,00,000	 80,00,000 27,00,000
Alternative entries under equity settlement:		
(ii) If Equity alternative is chosen:		
Share based payment liability Dr. To Share Capital To Securities Premium (Being settlement made in equity)	1,02,20,000	 80,00,000 22,20,000
Share based payment reserve (equity)* Dr. To Retained earnings (Being transfer of equity from one account to another one)	4,80,000	 4,80,000

*The equity component recognized (₹ 4,80,000) shall remain within equity.

Question 6

(a) *Orange Ltd. is going to prepare its annual financial statements for the year ending 31st March, 2022, in the process it discovered that a provision for constructive obligation for payment of bonus to selected employees in the corporate office (material in amount) which was required to be recognized in the annual financial statements for the year ended 31st March, 2020 was not recognized due to oversight of facts. The bonus was paid during the financial year ended 31st March, 2021 and was recognized as an expense in the annual financial statements for the said year.*

As a finance manager of the company, you are required to analyse whether the situation relating to constructive obligation for payment of bonus is an error requiring retrospective restatement of comparatives considering that the amount is material. ***(5 Marks)***

(b) *ENG Ltd. has developed model to measure the expected credit loss based on the lifetime expected credit loss model. Accordingly, the company has estimated the following provisioning matrix:*

	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
Default Rate	0.3%	1.6%	3.6%	6.6%	10.6%

The Company has a portfolio of trade receivables of ₹ 6 crores as on 31st March, 2022 and operates in only one geographical region. The customer base of the company consists of large number of small clients and trade receivables are categorized by common risk characteristics that are representative of customer's abilities to pay all amounts due as per the contractual terms.

The trade receivables do not have significant financing component. The above provision matrix is based on its historically observed default rate over the expected life of the trade receivables and is adjusted for forward looking estimate.

The company has asked you to suggest whether the above system of making the provision for the expected credit loss is in accordance with the applicable Ind AS? If yes, then determine the expected credit loss for the Trade Receivables outstanding as on 31st March, 2022 on the following basis:

	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
% of Trade Receivables	50%	25%	13%	8%	4%

(5 Marks)

(c) *Pharmaceuticals Limited has 5 operating segments namely K, L, M, N and O. The profit/ loss of respective segments for the year ended 31st March, 2022 are as follows:*

Segment	Profit / (Loss) (₹ in crore)
K	1,560
L	3,000
M	(4,600)
N	(9,000)
O	12,000
Total	2,960

Based on the quantitative thresholds, you are required to determine that which of the above segments would be considered as reportable segments for the year ending 31st March, 2022. ***(5 Marks)***

(d) *On 1st April 2021, Honey Limited acquired 40% interest in another entity, Smart Limited. Honey Limited determines that it is able to exercise significant influence over Smart Ltd. Honey Limited has paid total consideration of ₹ 95,00,000 for acquiring the interest in Smart Ltd. On the date of acquisition, the book value of Smart Ltd.'s net assets was ₹ 1,80,00,000 and their fair value was ₹ 2,20,00,000. Honey Ltd. has determined that the difference of ₹ 40,00,000 pertains to an item of property, plant and equipment which has remaining useful life of 10 years.*

During the year 2021-2022, Smart Ltd. made a profit of ₹ 16,00,000. Smart Limited paid a dividend of ₹ 24,00,000 on 31st March, 2022. Smart Limited also holds a long-term investment in equity securities. Under Ind AS, investment is classified as at FVTOCI in accordance with Ind AS 109 and Smart Ltd. recognized an increase in value of investment by ₹ 4,00,000 in OCI during the year. Ignore deferred tax implications, if any.

You are required to ascertain the closing balance of Honey Limited' s investments in Smart Limited as at 31st March, 2022 as per the relevant Ind AS. (Use equity method)

(5 Marks)

Answer

(a) As per paragraph 41 of Ind AS 8, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

As per paragraph 40A of Ind AS 1, an entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements if, inter alia, it makes a retrospective restatement of items in its financial statements and the retrospective restatement has a material effect on the information in the balance sheet at the beginning of the preceding period.

In the given case, expenses for the year ended 31st March, 2020 and liabilities as at 31st March, 2020 were understated because of non-recognition of bonus expense and related provision. Expenses for the year ended 31st March, 2021, on the other hand, were overstated to the same extent because of recognition of the aforesaid bonus as expense for the year. To correct the above errors in the annual financial statements for the year ended 31st March, 2022, the entity should:

(a) restate the comparative amounts (i.e., those for the year ended 31st March, 2021) in the statement of profit and loss; and

(b) present a third balance sheet as at the beginning of the preceding period (i.e., as at 1st April, 2020) wherein it should recognise the provision for bonus and restate the retained earnings.

(b) To determine the expected credit losses for the portfolio, ENG Ltd. should use a provision matrix. The provision matrix will be based on its historical observed default rates over the expected life of the trade receivables and shall be adjusted for forward-looking estimates. At every reporting date the historical observed default rate shall be updated and changes in the forward-looking estimates shall be analysed. In this case, it is forecast that economic conditions will deteriorate over the next year. Therefore, as per para 5.5.15 of Ind AS 109, the loss allowance for trade receivables shall be measured at an amount equal to lifetime expected credit losses. On that basis, ENG Ltd. estimates the provision matrix.

The trade receivables from the large number of small customers amount to ₹ 6,00,00,000 and are measured using the provision matrix:

	Provision % age	**Gross carrying amount**	**Default rate**	**Lifetime expected credit loss allowance (Gross carrying amount x lifetime expected credit loss rate)**
a	**b**	**C = ₹ 6 crore x b**	**d**	**e = c x d**
		₹		**₹**
Current	50%	3,00,00,000	0.3%	₹ 90,000
1–30 days past due	25%	1,50,00,000	1.6%	₹ 2,40,000
31–60 days past due	13%	78,00,000	3.6%	₹ 2,80,800
61–90 days past due	8%	48,00,000	6.6%	₹ 3,16,800
More than 90 days past due	4%	24,00,000	10.6%	₹ 2,54,400
		6,00,00,000		₹ 11,82,000

(c) With regard to quantitative thresholds to determine reportable segment relevant in context of instant case, paragraph 13(b) of Ind AS 108 'Operating Segments' may be noted which provides as follows:

"The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss."

In compliance with Ind AS 108, the segment profit/loss of respective segment will be compared with the greater of the following:

(i) All segments in profit, i.e., K, L and O – Total profit ₹ 16,560 crores.

(ii) All segments in loss, i.e., M and N – Total loss ₹ 13,600 crores.

Greater of the above – ₹ 16,560 crores.

Based on the above, reportable segments will be determined as follows:

Segment	Profit/(Loss) (₹ in crore)	% age of ₹ 16,560 crore*	Reportable segment
K	1,560	9.42%	No
L	3,000	18.12%	Yes
M	(4,600)	27.78%	Yes
N	(9,000)	54.35%	Yes
O	12,000	72.46%	Yes
Total	2,960		

Hence, L, M, N, O are reportable segments.

(d) Calculation of Honey Ltd.'s investment in Smart Ltd. under equity method:

	₹	₹
Cost of investment		
Share in book value of net assets of Smart Limited (40% x 1,80,00,000)	72,00,000	
Share in fair valuation of net assets of Smart Limited (40% of (2,20,00,000-1,80,00,000)	16,00,000	

Goodwill on Investment in Smart Limited (95,00,000-72,00,000-16,00,000) (Balancing Figure)	7,00,000	95,00,000
Profit during the year		
Share in the profit reported by Smart Ltd. (40% of ₹ 16,00,000)	6,40,000	
Adjustment to reflect effect of fair valuation [40% of (₹ 40,00,000/10 years)]	(1,60,000)	
Share of profit in Smart Ltd. recognised in income by Honey Ltd.		4,80,000
Long term equity investment		
FVTOCI gain recognised in OCI (40% of ₹ 4,00,000)		1,60,000
Dividend received by Honey Ltd. during the year [40% of ₹ 24,00,000]		(9,60,000)
Closing balance of Honey Ltd.'s investment in Smart Ltd.		91,80,000