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The Institute of Chartered Accountants of India
(Set up by an act of Parliament)

The Chartered Accountant STUDENT

Your monthly guide to CA news, information and events

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My Dear Students,

I wholeheartedly appreciate your spirit and patience with which you are managing your studies despite disruption in your study regime due to COVID-19 and subsequent lockdown. As advised, you all must be taking all precautions as per advisory issued by the government from time to time and making a huge contribution to prevent the further spread of this disease. I am sure with the positive attitude and collective efforts against the unprecedented crisis, we all will overcome this difficult time. Till now India has done remarkably well in our fight against the virus and let us continue to respond with same fighting spirit.

We at ICAI are mindful of your predicament and apprehensions regarding preparation of the forthcoming CA examination in July 2020. Recently we have announced many relaxations with regard to ICITSS, AICITSS including allowing completion of MCS Course and Advanced IT Course through Virtual Mode with certain conditions. In addition to this, the last date for registration in article-ship has been extended to and condonation fee has also been waived till **June 30, 2020** to alleviate your problems and enable you to single-mindedly focus towards exam preparation.

BOS: Your facilitator, Your Learning Partner

In an attempt to support you during these tough times, the Board of Studies (BOS) of ICAI commenced **Free Live Revision Classes** for the CA Intermediate and Final students from April 22, 2020. These classes deliver knowledge at your door-step, not only providing intensive revision sessions in subjects but also include motivational sessions rendered live by renowned experts and eminent members like ICAI Past President Padamshri CA. T.N. Manoharan, ICAI Past President CA. Amarjit Chopra and also CA. (Dr.) Girish Ahuja. You can view these classes on your hand-held devices in the comfort of your homes from 7 to 10 AM in the morning and from 7 to 9 PM in evening. At the end of every class, you may also post questions to clarify your doubts and seek answers to your queries. These classes are receiving an encouraging response from all of you and I am sure that you shall join these classes in huge numbers to make the most of this initiative to maintain a steady pace of learning.

Besides these classes, the BOS has facilitated a wide spectrum of online learning resources to enrich your knowledge and supplement your learning. These include:

- **E-Books:** Available for all the subjects across all levels, these e-Books are a quality blend of audio video lectures with detailed text content replete with comprehensive illustrations. Those of you who have not received the study material should judiciously utilize these for regular studies.
- **Referencer for quick Revision:** We have compiled the group-wise capsules for CA Intermediate and Final that have been published in this booklet and uploaded the same on the BoS Knowledge Portal. These capsules depict the essence of topics through vivid visuals including comprehensive illustrations, diagrams and flow-charts for easy retention and recall.
- **Mock Tests, June 2020:** The BOS of ICAI will be uploading the question papers for all subjects on the website in due course. I exhort you to attempt these in real time to assess your preparation, identify learning gaps and improve your performance in forthcoming exams.

All these are important learning tools that should be used appropriately to support and enhance your learning. These will serve as vital learning supplements during and after self-study sessions.

Make each day count!

We all have the same amount of time to ourselves i.e. 24 hours in a day. But how we allocate our time to tasks/activities and how earnestly we engage in the activity determines our productivity and ultimately our success. It is rightly said, ***"Don't think about what can happen in a month. Don't think about what can happen in a year. Just focus on the 24 hours in front of you and do what you can to get closer to where you want to be."*** You can devise an everyday **plan or a *To Do*** list of study tasks that guides you throughout the day. This will help you to self-assess your discipline, focus and commitment besides enabling you to identify flaws in your time management. Analyzing how you spent your time on a particular day gives you an idea where to cut down on time and where to allocate more time. This way you can fine tune your time management skill and start to make the most of your time which inculcates a good habit of **valuing your time.**

Current issue comprises inclusive capsules for **Business Mathematics in Foundation, Accounting & Advanced Accounting for Intermediate and Global Financial Reporting Standards (Elective) for Final.** I advise you to refer to these capsules regularly not only for revision purposes but also to get an insight to present your answers with utmost clarity, precision and conciseness using visual illustrations.

It is time to muster all our positive energy, faith and hope and instill the same in our peers, family and friends to strengthen our community. We should also express/demonstrate gratitude towards all the people providing essential services to ensure our well-being.

As responsible citizens, it is our duty to contribute whatever we can to help those in need. We stand united with our **Hon'ble Prime Minister Sh. Narendra Modi ji** in our battle against this deadly pandemic COVID-19. I urge you to make generous contributions towards the **ICAI COVID-19 Relief Fund.**

Be Strong! Because things will get better, It may be stormy now, but it never rains forever!

Stay Home Stay Safe,

CA. ATUL K. GUPTA
PRESIDENT, ICAI, NEW DELHI

The secret of getting ahead is getting started. - Mark Twain

VICE PRESIDENT'S COMMUNICATION

My Dear Students,

I hope that all of you are safe and are strictly adhering to the directives of Centre/State Governments issued from time to time to deal with COVID- 19 situation. Please note that each life is precious and important. Extreme care should be taken of our future generation, including the one's currently studying with us. We do understand the difficulties which you may be facing due to present lockdown and considering the constant rise in Corona Positive cases being reported across the country, the lockdown has been extended. We are leaving no stone unturned and trying to do hand holding in all respects.

Your interest is paramount to us. At this critical juncture, Board of Studies is providing all possible assistance in academics to all of you. The Board of Studies has adopted different methodologies to reach out to students and provide quality education. It has lately started Free Live Revision Classes for Intermediate and Final Students appearing in July 2020 exams so that students can attend them sitting in their homes. The classes are being offered directly to the students on their mobile phones, laptops, etc. Besides, the subject related sessions, there are special and motivational sessions by eminent speakers like CA Girish Ahuja, Padma Shree CA T N Manoharan and CA Amarjeet Chopra. The Central Council Members are also summarizing and sharing their thoughts in the beginning of each session in their respective area of expertise. Question Answer Sessions are also conducted for each subject by BOS Faculty after completion of the Live Revision Classes. These virtual revision classes will provide strong impetus to learning efforts of the students and enable them to revise their syllabi sitting at their homes. Do make best use of these classes and pass your exams with flying colours.

It is my firm belief that the present day youth is highly motivated, ambitious and well-informed. With proper approach, you can ink a strong future for yourself and make all your well-wishers very proud.

> ***Never stop fighting until you arrive at your destined place - that is, the unique you. Have an aim in life, continuously acquire knowledge, work hard, and have perseverance to realise the great life.***
>
> ***DR. A. P. J. Abdul Kalam***

Those of you who are appearing in the forthcoming Examinations must be putting in their best efforts to improve their preparations to get better marks. Single minded devotion, confidence and rigorous study will help you to not only pass the examination but also succeed in your future professional lives. As a CA student, it is very important that you keep abreast with the latest developments in the core areas of accounting, finance, auditing, corporate and tax laws. You should have comprehensive understanding of standards and guidance notes in the areas of accounting and auditing.

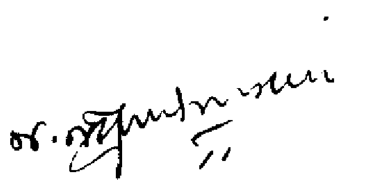
With COVID – 19 outbreak, frustrations and stress levels are high due to our circumstances. Friends, stress level before and during the examination are always on a higher side but time management can help you lower the stress and achieve success. Our brain is like a garden, we can plant and tend all sorts of beautiful thoughts in it, but some people let weeds sprout to such a degree that they literally crowd out the potential of their gardens. Success and accomplishment are not limited to those who are lucky. They are available to anyone who is disciplined, focused, committed, positive and enthusiastic. I hope that you might have started doing revision of your respective courses. Be regular, disciplined and resolute towards your set objectives. Do not develop the habit of procrastination, it can dwindle your professional growth.

> ***"Thinking should become your capital asset, no matter whatever ups and downs you come across in your life."***
>
> ***– DR. A. P. J. Abdul Kalam***

While concluding, I would like to convey my sincere best wishes to the students appearing in the forthcoming examinations. I wish that students pass the examinations and join the realms of the profession at the earliest.

Stay safe and healthy.

Yours sincerely



CA. NIHAR NIRANJAN JAMBUSARIA
VICE PRESIDENT, ICAI, NEW DELHI

My Dear Students,

I extend my heart felt wishes to you all! The prevailing situation worldwide demands that we keep calm, are patient and stay indoors as much as possible. In these challenging times, when the entire world is in the grip of this pandemic COVID-19, together we have to devise ways and means to ensure that you, our students are able to utilize your time in studies. We at ICAI stand with you, trying to explore possibilities to provide best learning resources for you, even as you have to remain home bound. Further, you should ensure that there is no group learning activity in person that puts your wellbeing at risk.

BoS: With you, for you always!

We at BOS acknowledge that you are managing your studies at home without complete set of resources. Rest assured, we are seized of your problems/issues and have already taken measures to safeguard your interests. Some of them are as under:

- **Free Live Revision Classes** have commenced from April 22, 2020 for CA Intermediate and Final to keep you engaged and maintain the momentum of learning. You may access the schedule and other details at the Link: https://www.icai.org/new_post.html?post_id=16451&c_id=240. It is heartening to note that the initiative is gradually getting popular by the day.
- The entire study material has been digitized as **E-Books**, available for all our students at all levels enriched with audio-video lectures and annotations for convenience and complete agility and mobility. In current times, when the study material cannot be delivered, you can study through E-Books. You may even download the complete study material available in **PDF** at the BOS Knowledge Portal for studies.
- Compilation of Subject Capsules featured till date for CA Intermediate and Final, groupwise are available in booklets titled **Referencer for Quick Revision** uploaded at the BoS Knowledge Portal at the Links: https://www.icai.org/post.html?post_id=16431 and https://www.icai.org/post.html?post_id=16430 for CA Intermediate and Final respectively. These present important concepts with brevity and coherence along with vital cues to frame answers in examination.
- Mock Test Papers (Series-1) for July 2020 attempt will be held from May 11 till 27, 2020 and conducted virtually. These will be followed by live **Special Counselling Sessions** to resolve your queries and provide specific guidance with respect to each subject test paper.

For complete details you may view the announcement at https://www.icai.org/new_post.html?post_id=16498&c_id=347. You must attempt the test series within stipulated time in solitary environment to gauge your preparedness for exams. Thereafter, you can examine your answers with respect to the answer keys that will be uploaded within 48 hours from the date of release of mock test papers. This exercise will enable you to self-assess your performance, determine the lapses and improve your presentation skills.

While you are home bound, this time period can be best utilized by making optimum use of these online resources along with Revision Test Papers, Suggested Answers and Guidance Notes, all webhosted at the BOS Knowledge Portal and Cloud Campus. You can also practice past question papers in real time environment to fine tune your expression and presentation skills.

Connect with your Peers

As you avoid going out, you can still connect with your friends through study groups on what's App, video conferencing, where your entire group can join and discuss study strategies, exchange important information/announcements, notes and solve problems together. You can post important problems/solutions and evaluate each other's answers. This will help you to break free of your monotonous regime and enable you to motivate each other to do better.

Keep your Spirits high!

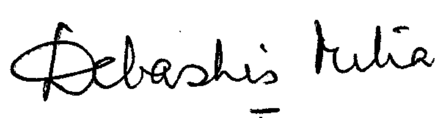
You can read/listen/view motivational lectures on the internet by eminent speakers world-wide to keep your positive energies flowing. This will give you the much needed strength and focus to tide through present times and motivate you to persistently follow your daily regimen to meet your daily targets. This will further boost your confidence and exhort you to devote more time towards studies thus helping to build your capacity gradually with each passing day.

This issue includes comprehensive capsules **in Foundation for Business Mathematics, in Intermediate for Accounting & Advanced Accounting, in Final for Elective paper on Global Financial Reporting Standards (GFRS).** These provide valuable cues and tips regarding how to attempt questions with brevity, coherence and completeness.

As responsible citizens you must spread hope by helping the needy. I urge you to make generous contributions towards the **COVID-19 Relief Fund.** You may refer to the details at the Link: https://www.icai.org/new_post.html?post_id=16403&c_id=240

I exhort you to be persistent with your studies and make efforts to strengthen your strengths and work around your shortcomings to achieve your target. Remember the words of Robert Half: ***Persistence is what makes the impossible possible, the possible likely and the likely definite!***

Stay home, Stay healthy!



CA. (DR.) DEBASHIS MITRA
CHAIRMAN, BOARD OF STUDIES (ACADEMIC), ICAI

FINAL (NEW) ELECTIVE PAPER 6E: GLOBAL FINANCIAL REPORTING STANDARDS

The objective of this elective paper is to develop an understanding of the key concepts and principles of International Financial Reporting Standards and to acquire the ability to apply such knowledge to address issues and make computations in practical case scenarios.

In a pursuit to provide quality academic inputs to the students to help them in grasping the intricate aspects of the subject and practising the case studies, the Board of studies has decided to bring forth a crisp and concise capsule. The four capsules of Final Paper 1 Financial Reporting published in July, 2018, May, 2019, August, 2019 and October, 2019 are also relevant for this paper. For a comprehensive revision, students should refer to these capsules along with the amendments notified after their release, if any. However, those capsules should be read with reference to IFRS. Also students are advised to refer the announcement webhosted on the website at the link https://resource.cdn.icai.org/58128bos47461.pdf for understanding the applicability of IFRS in this paper.

In this Journal, we have provided three case studies on IFRS for practice purpose. Each case study deals with more than one IFRS. These case studies should be solved under examination conditions to evaluate your understanding and preparation level.

GFRS CASE STUDY 1

Buildwell Ltd. is a diversified business group operating in multiple business segments across Europe, United States and Asia Pacific. It maintains its books of accounts and publishes its annual consolidated financial statements as per under International Financial Reporting Standards.

The Central Finance team has been working on closing the books of accounts and generating consolidated financial statements for the year ended 31st March 2019. You are the Finance Controller and your assistants want your views on the follwing transactions for finalization of financial statements .

On 1 April 2018, Buildwell Ltd. completed the manufacture of some inventory at a total cost of ₹ 8,00,000. In order to be suitable for sale in the ordinary course of business, the completed inventory needed to be stored in controlled conditions for a two-year period. The inventory is expected to sell for ₹ 12,00,000 after the two-year storage period. On the same day, Buildwell Ltd. sold the inventory to Black Ltd., a bank for ₹ 8,10,000. For this sale, Black Ltd. charged Buildwell Ltd. an administration fee of ₹ 10,000. Buildwell Ltd. retained physical custody of the inventory and ensured that the inventory is stored in the appropriate conditions.

As per the agreement with Black Ltd., Buildwell Ltd. would indemnify Black Ltd against any losses caused by theft or inappropriate storage of the inventory. Buildwell Ltd. has the option to repurchase the inventory on 31 March 2020 for ₹ 9,33,120. On 1 April 2018, Black Ltd .would have required an annual return of 8% on loans made to customers such as Buildwell Ltd.

On 1 April 2017, Buildwell Ltd. had granted share appreciation rights to 200 senior executives. Each executive will receive 2,000 rights on 31 March 2020 provided he or she continues to be employed by Buildwell Ltd. on 31 March 2020

On 1 April 2017, the directors estimated that all the executives would remain employed by Buildwell Ltd. for the three-year period ending on 31 March 2020. However, 10 executives left in the year ended 31 March 2018. On 31 March 2018, the directors believed that a further 10 executives would leave in the following two years.

Five executives actually left in the year ended 31 March 2019 and the directors now believe that seven more directors will leave in the year ended 31 March 2020. Since 1 April 2017, the fair value of the share appreciation rights has fluctuated as follows:

Date	Fair value of one right ₹
1 April 2017	1.60
31 March 2018	1.80
31 March 2019	1.74

One of the directors of Buildwell Ltd., Mr. Ben Jones has informed Central Finance team that on 1 January 2019, his spouse acquired a controlling interest in one of Buildwell Ltd.'s major suppliers, Candour Ltd.

Mr. Jones seemed to think that this would have implications on the financial statements of Buildwell Ltd. However, your assistant in Central Finance team is not clear about its implications/ treatment while finalizing the financial statements.

Buildwell Ltd. has been purchasing goods from Candour Ltd. ₹ 1.5 million per month of the year ended 31 March 2019. As per the financial statements of Buildwell Ltd., this is a significant amount. While checking all the purchase transactions it was found that all the purchases from Candour Ltd. were made at normal market rates.

Buildwell Ltd. intends to open a new retail store under its Retail division at a new location in the next few weeks. As per the financial records of the Company, a substantial sum of money has been spent on a series of television advertisements to promote this new store.

Buildwell Ltd. paid for advertisements costing ₹ 8,00,000 before 31 March 2019 out of which ₹ 5,00,000 relates to advertisements shown before 31 March 2019 and ₹ 3,00,000 to advertisements shown in April 2019. Since 31 March 2019, Buildwell Ltd. has paid ₹ 4,00,000 for further advertisements.

The assistant of Central Finance team felt that all these expenses should be written off as expenses in the year ended 31 March 2019. While going through the profitability projections of the Division presented to the Board, it becomes evident that a charge of ₹ 1.2 million would adversely affect the profitability against 2019 projected profits.

In your weekly finance meeting, one of your new assistants, a newly qualified Chartered Accountant says that these costs can be carried forward as intangible assets. On getting this idea you connect with the Marketing Director and he shares with you the market research report related to this store. According to the market research report, the new store is supposed to be highly successful.

On 1 April 2018, Buildwell Ltd. had also leased a machine from Donovan Ltd. on a three-year lease. The expected future economic life of the machine on 1 April 2018 was eight years. If the machine breaks down, then under the terms of the lease, Donovan Ltd. would be required to repair the machine or provide a replacement.

Donovan Ltd. agreed to allow Buildwell Ltd. to use the machine for the first six months of the lease without the payment of any rental as an incentive to Buildwell Ltd. to sign the lease agreement. After this initial period, lease rentals of ₹ 2,10,000 were payable six-monthly in arrears, the first payment falling due on 31 March 2019.

On 1 June 2018, Buildwell Ltd. decided to dispose of the business and current and non-current assets of one of its divisions related to Speciality chemicals business which it had acquired several years ago. This disposal does not involve Buildwell Ltd. withdrawing from a particular market sector. The carrying values on 1 June 2018 of the assets to be disposed of were as follows:

Particulars	₹ Million
Goodwill	10.0
Property, Plant and Equipment	20.0
Patents and trademarks	8.0
Inventories	15.0
Trade Receivables	10.0

None of the assets of the business had suffered impairment as at 1 June 2018. At that date the inventories and trade receivables of the business were already stated at no more than their recoverable amounts.

Buildwell Ltd. offered the business for sale at a price of ₹ 46.5 million, which was considered to be reasonably achievable. Buildwell Ltd. estimated that the direct costs of selling the business would be ₹ 5,00,000. These estimates have not changed since 1 June 2018 and Buildwell Ltd. estimates that the business will be sold by 31 March 2019 at the latest.

One of the subsidiaries of Buildwell Ltd. submitted to Central Finance team its Summarized Statement of Profit or Loss and Statement of Financial Position.

Summarized Statement of Profit or Loss

Particulars		Amount (₹)
Net sales		2,52,00,000
Less:	Cash cost of sales	(1,92,00,000)
	Depreciation	(6,00,000)
	Salaries & wages	(24,00,000)
	Operating expenses	(14,00,000)
	Provision for taxation	(8,80,000)
Net Operating Profit		7,20,000
Non-recurring income – profit on sale of equipment		1,20,000
		8,40,000
Retained earnings and profit brought forward		15,18,000
		23,58,000
Dividends declared and paid during the year		(7,20,000)
Profit & loss balance as on 31st March 2019		16,38,000

Summarized Statement of Financial Position

Assets	31st March 2018	31st March 2019
Non Current Assets		
Property, Plant and Equipment:		
Land	4,80,000	9,60,000
Buildings and Equipment	36,00,000	57,60,000
Current Assets		
Cash	6,00,000	7,20,000
Inventories	16,80,000	18,60,000
Trade Receivables	26,40,000	9,60,000
Advances	78,000	90,000
Total Assets	90,78,000	1,03,50,000
Liabilities & Equity		
Share capital	36,00,000	44,40,000
Surplus in profit & loss	15,18,000	16,38,000
Trade Payables	24,00,000	23,40,000
Outstanding expenses	2,40,000	4,80,000
Income tax payable	1,20,000	1,32,000
Accumulated	12,00,000	13,20,000
Total	90,78,000	1,03,50,000

The original cost of equipment sold during the year 2018-2019 was ₹ 7,20,000.

Analyze the transactions mentioned above and show the treatment in line with relevant IFRS .

I. Multiple Choice Questions

1 Calculate the current liability of leased machine from Donovan Ltd to be shown in the Statement of Financial Position as at 31 March 2019.
(a) ₹ 70,000
(b) ₹ 1,40,000
(c) ₹ 3,50,000
(d) ₹ 4,20,000

2. Compute the value of Speciality chemical division's Goodwill at the date of classification after re-measurement.
(a) ₹ 7.3 million
(b) ₹ 10 Million
(c) ₹ Nil
(d) ₹ 8 million

3. Calculate the closing balance of Speciality chemical division's asset – Property, Plant and Equipment at the period end.
(a) ₹ 21 million
(b) ₹ 17.36 million
(c) ₹ 6 million
(d) ₹ 15 million

4. Suppose financial statements of Buildwell Ltd. included an investment in associate at ₹ 66,00,000 in its consolidated statement of financial position at 31 March 2018. At 31 March 2019, the investment in associate had increased to ₹ 67,50,000. Buildwell Ltd.'s pre-tax share of profit in the associate was ₹ 4,20,000, with a related tax charge of ₹ 1,80,000. The net amount was included in the consolidated income statement for the year ended 31 March 2019.
There were no impairments to the investment in associate, or acquisitions or disposals of shares during the financial year.
What is the amount of the cash flow related to investment in associate for inclusion in the Consolidated Statement of cash flows for the year ended 31 March 2019?
(a) Cash inflow of ₹ 90,000
(b) Cash inflow of ₹ 2,40,000
(c) Cash outflow of ₹ 90,000
(d) Cash inflow of ₹ 4,20,000

5. Buildwell Ltd.'s another subsidiary reported net income of ₹ 25 million, which equals the company's comprehensive income. The company has no outstanding debt. Using the following information from the comprehensive statement of financial position (₹ in millions), what cashflow should the Buildwell Ltd.'s subsidiary report, as financing activity in the statement of cash flows?

Extract of Statement of Financial Position

	31.03.2018 (₹)	31.03.2019 (₹)
Equity share capital	100	100
Further issue of equity shares	100	140
Retained earnings	100	115

	31.03.2018 (₹)	31.03.2019 (₹)
Total shareholders' equity	300	357

(a) Issuance of equity shares ₹ 240 million; dividends paid ₹ 10 million
(b) Issuance of equity shares ₹ 100 million; dividends paid ₹ 10 million
(c) Issuance of equity shares ₹ 140 million; dividends paid ₹ 10 million
(d) Issuance of equity shares ₹ 40 million; dividends paid ₹ 10 million

II. Descriptive Questions

6. With respect to 'sale of inventory by Buildwell Ltd. to Black Ltd.', how much amount should be recognized in the Statement of profit or loss and Statement of financial position for the year ended 31 March 2019. Also show the classification of calculated amount as current or non-current in the Statement of financial position.
7. With respect to 'Grant of share appreciation rights by Buildwell Ltd. to its executives', how much amount should be recognized in the Statement of profit or loss and Statement of financial position for the year ended 31 March 2019. Also show the classification of calculated amount as current or non-current in the Statement of financial position.
8. How the effect of acquisition of controlling interest in Candour Ltd. by Mr. Ben Jones is to be reflected in the financial statements for the year ending 31 March 2019.
9. What would be the treatment of expenditure incurred by Buildwell Ltd. against the advertisements or opening a new retail store?
10 Work out a cash flow statement for the year ended 31 March 2019.

ANSWER TO CASE STUDY 1

I. Answers to Multiple Choice Questions

1 Option (a)

Justification:

In accordance with the principles of IFRS 16 – Leases – the lease of the machine is an operating lease because the risks and rewards of ownership of the machine remain with Donovan Ltd. The lease is for only three years of the eight-year life and Donovan Ltd is responsible for breakdowns, etc.

Therefore, Buildwell Ltd will recognize lease rentals as an expense in the statement of profit or loss. IFRS 16 stipulates that this should normally be done on a straight-line basis.

The total lease rentals payable over the whole lease term are ₹ 10,50,000 (₹ 2,10,000 x 5). Therefore the charge for the current year is ₹ 3,50,000 (₹ 10,50,000 x 1/3).

The difference between the charge for the period (₹ 3,50,000) and the rent actually paid (₹ 2,10,000) will be shown as a liability in the statement of financial position at 31 March 2019. This amount will be ₹ 1,40,000.

₹ 70,000 (2 x ₹ 2,10, 000 – ₹ 3,50, 000) of this liability will be current and ₹ 70,000 non-current.

2 Option (c)

3 Option (d)

Justification for 2 & 3:

Pursuant to the provisions of *IFRS 5, Non-current Assets Held for Sale and Discontinued Operations* the business would be regarded as held for sale from 1 June 2018. The held for sale criteria apply because the business is being actively marketed at a reasonable price and the sale is expected to be completed within one year of the date of classification. Given this classification, IFRS 5 requires that the assets be separately classified under current assets in the statement of financial position. No further depreciation would be charged on these assets.

The assets will be measured at the lower of their current carrying amounts at the date of classification and their fair value less costs to sell. In this case, the total carrying amount after re-measurement will be ₹ 46 million (₹ 46.5 million – ₹ 0.5 million).

The impairment loss of ₹ 17 million (₹ 63 million – ₹ 46 million) will first be allocated to goodwill taking its carrying amount to nil.

None of the remaining impairment loss will be allocated to inventories or trade receivables since their recoverable amounts are at least equal to their existing carrying amounts.

The remaining impairment loss of ₹ 7 million (₹ 17 million – ₹ 10 million) will be allocated to the property, plant and equipment and the patents on a pro-rata basis.

The closing carrying amounts of the property, plant and equipment and the patents will be ₹ 15 million and ₹ 6 million respectively.

4 Option (a)

Justification:

Statement of investment in associates

Particulars	Amount (₹)
Opening balance of investment in Associate	66,00,000
Add: Share of profit in Associate [4,20,000-1,80,000]	2,40,000
Less: Cash flow (dividend paid by Associate) (balancing figure)	(90,000)
Closing balance of investment in Associate	67,50,000

5 Option (d)

Justification:

Issuance of equity shares including further issue of equity shares (240 – 200) = ₹ 40 million

Dividends paid worked out as under:

Particulars	₹ in million
Opening retained earnings	100
Add: Net income	25
Less: Cash dividend paid (balancing figure)	(10)
Closing retained earnings	115

Hence, cash dividend paid ₹ 10 million.

II. Answers to Descriptive Questions

6 The transaction related to revenue is governed by the principles of IFRS 15 – *Revenue from contracts with customers.*

One of the conditions imposed by IFRS 15 for recognizing the revenue from the sale of goods is that the control of ownership has to be passed to the 'buyer'.

Since Buildwell Ltd. continue the custody of the goods and the fact that it has the option to repurchase it on 31 March 2020 makes the probability high that the control is to be continued with Buildwell Ltd. only. Accordingly, based on the circumstances of the case, it is apparent that this is a financing transaction.

Therefore, the goods will remain in inventory at cost – being their manufactured cost of ₹ 8,00,000 plus one year's storage costs (or their net realisable value, whichever is lower). The net proceeds of ₹ 8,00,000, being a financial liability, is accounted for under the principles of IFRS 9 'Financial Instruments'.

Under IFRS 9, most financial liabilities are measured at amortized cost using the effective interest method. The finance cost for the period would be ₹ 64,000 (₹ 8,00,000 x 8%). This would be shown in the Statement of profit or loss.

The closing financial liability would be ₹ 8,64,000 (₹ 8,00,000 + ₹ 64,000). This would be shown as a current liability since the 'repurchase' occurs on 31 March 2020 – 12 months after the reporting date.

7 Under the principles of IFRS 2 – Share-based Payment – granting of share appreciation rights (SARs) to executives is a cash-settled share-based payment. Cash-settled share-based payments create a liability in the statement of the financial position as they will ultimately be redeemed in cash. The liability is recognised based on the fair value of the SAR at the reporting date and the expected number of rights which will vest. Under the principles of IFRS 2, this liability is built up over the vesting period.

Therefore the liability at 31 March 2019 would be ₹ 4,12,960 (2000 x (200 – 10 – 5 – 7) x ₹ 1.74 x 2/3).

Since the rights are not exercisable until after 31 March 2020, the liability would be shown as a non-current liability.

The charge to profit or loss would be ₹ 1,96,960 ie the difference between the closing liability (₹ 4,12,960) and the opening liability (₹ 2,16,000). This charge would be shown as an operating cost.

Note: The liability at 31 March 2018 would have been ₹ 2,16,000 (2,000 x (200 – 10 – 10) x ₹ 1.80 x 1/3).

8 In accordance with *IAS 24 'Related Party Disclosures',* effective 1 January 2019, Candour Ltd. would be regarded as a related party of Buildwell Ltd. This is because Candour Ltd. is controlled by the close family member of one of Buildwell Ltd.'s key management personnel (Refer para 9 of IAS 24).

This means that from 1 January 2019, the purchases from Candour Ltd. would be regarded as related party transactions.

As per the provisions of para 18 of IAS 24, transactions with related parties need to be disclosed in the notes to the financial statements, together with the nature of the relationship. It is irrelevant whether or not these transactions are at normal market rates. As per para 23 of the standards, disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

The disclosure is required to state that Candour Ltd., controlled by the spouse of a director, supplied goods to the value of ₹ 4.5 million (3 x ₹ 1.5 million) in the current accounting period.

9 Under *IAS 38* 'Intangible Assets', intangible assets can only be recognised if they are identifiable and have a cost which can be reliably measured.

These criteria are very difficult to satisfy for internally developed intangibles.

For these reasons, IAS 38 specifically prohibits recognizing advertising expenditure as an intangible asset.

The fact that how successful the store is likely to be, does not affect this prohibition.

Therefore, your assistant in Central Finance team is correct in principle that such costs should be recognised as an expense.

However, the costs would be recognised on an accruals basis based on the satisfaction of the performance obligation.

Therefore, out of ₹ 8,00,000 of the advertisements paid for before 31 March 2019, ₹ 5,00,000 would be recognised as an expense and ₹ 3,00,000 as a pre-payment in the year ended 31 March 2019.

₹ 4,00,000 of advertisement cost paid since 31 March 2019 would be charged as expenses in the year ended 31 March 2020.

10 Cash Flow statement for the year ended 31st March 2019

(Indirect method)

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

Working Notes:

1. Building & Equipment Account

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

2. Building & Equipment Accumulated Depreciation Account

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

3. Computation of sale price of Equipment

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

4. (Provision for tax Account)

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

GFRS CASE STUDY 2

Bean Ltd is a diversified group having multiple business interests in many countries. The group publishes its financial statements as per International Financial Reporting Standards.

During closure of books for the year ended 31st March 2019, certain transactions were highlighted by the group finance team. The Finance Controller is confused on the treatment of these transactions under International Financial Reporting Standards and needs your assistance.

On 1 October 2017, Bean Ltd purchased 8 million of Charlie Ltd.'s 12 million equity shares. The acquisition was financed by a cash payment of ₹ 2.00 per share. Out of this ₹ 2 per share, ₹ 1.20 per share being payable on 1 October 2017 and ₹ 0.80 being payable on 30 September 2018. Any discounting calculations should be performed using a cost of capital of 8% per annum.

A share exchange took place of 1 equity share in Bean Ltd for every 2 shares acquired in Charlie Ltd. The market value of Charlie Ltd.'s share was ₹ 3.90 per share on 1 October 2017. The market value of Bean Ltd.'s per share was ₹ 4 on 1 October 2017 and ₹ 4.20 on 31 March 2018.

On 30 September 2018, Bean Ltd further issued 1 share for every 8 shares acquired in Charlie Ltd provided the profits after tax of Charlie Ltd exceeds ₹ 5 million. The fair value of this consideration on 1 October 2017 is 4 million. Estimates indicate that this share issue is likely to be made.

Bean Ltd incurred acquisition costs of ₹ 6,00,000. ₹ 3,50,000 of these costs were external due diligence costs, ₹ 1,00,000 were spent on Bean Ltd.'s best estimate of management time spent in negotiating the acquisition and ₹ 1,50,000 were costs incurred in connection with the issue of Bean Ltd's shares.

The directors of Bean Ltd carried out a fair value exercise on 1 October 2017 and the following matters emerged:

- The net assets of Charlie Ltd that were recognized in Charlie Ltd's own financial statements were ₹ 30 million based on their carrying values in the individual financial statements of Charlie Ltd.
- On 1 October 2017, the carrying value of Charlie Ltd's freehold property was ₹ 15 million. The property had been purchased on 1 October 2007 for ₹ 17.5 million and the building element of the property (allocated cost ₹ 10 million) was being depreciated over its estimated useful economic life of 40 years.
- On 1 October 2017, the market value of the property was ₹ 22 million, of which ₹ 12 million related to the buildings element. The original estimate of the useful economic life of the buildings is still considered valid.
- On 1 October 2017, Charlie Ltd was engaged in contracts with three different customers under which they supplied goods to each customer for a five year period from 1 October 2017. The directors of Bean Ltd believe that this creates an intangible asset with a fair value of ₹ 7.5 million.
- In addition the directors of Bean Ltd believe that the fair value of the assembled workforce of Charlie Ltd creates an intangible asset with a fair value of ₹ 15 million. The average remaining working life of the employees of Charlie Ltd at 1 October 2017 is 15 years. None of these intangible assets has been recognised in the individual financial statements of Charlie Ltd.
- At 1 October 2017 Charlie Ltd was engaged in a legal dispute with a customer. The directors of Charlie Ltd consider that the case can be successfully defended and have made no provision for legal costs in its financial statements. The directors of Bean Ltd estimated that the fair value of the claim at 1 October 2017 was ₹ 6,00,000. Events since 1 October 2017 have reduced this estimate to ₹ 5,00,000 by 31 March 2018.

Due to the acquisition of Charlie Ltd the directors of Bean Ltd intend to reorganise the group, starting in June 2019. The estimated cost of this reorganisation is ₹ 20 million.

For the year ended 31 March 2018, Charlie Ltd reported a post-tax profit of ₹ 6 million (accruing evenly over the period) and paid a dividend of ₹ 1.5 million on 31 December 2017 out of post-acquisition profits.

The retained earnings of Bean Ltd at 31 March 2018 were ₹ 18 million. This figure includes the dividend received from Charlie Ltd but does not include any other adjustments to its own earnings that are required as a result of the acquisition of Charlie Ltd.

The acquisition costs of ₹ 6,00,000 referred above have been charged to retained earnings by Bean Ltd. Bean Ltd has no subsidiaries other than Charlie Ltd and no associates or joint venture entities.

The goodwill on acquisition of Charlie Ltd had not suffered any impairment at 31 March 2018.

On 1 April 2018, Bean Ltd began joint construction of a pipeline with another investor. Bean Ltd and the other investor have signed a contract that provides for joint operation and ownership of the pipeline. All of the ongoing expenditure, comprising maintenance plus borrowing costs, was to be shared equally. The pipeline was completed and ready for use on 1 October 2018, at which date its estimated useful economic life was 20 years.

The pipeline was first used on 1 January 2019. The total cash cost of constructing the pipeline was ₹ 40 million. This cost was partly financed by a loan of ₹ 10 million taken out on 1 April 2018.The loan carries interest at an annual rate of 10% with interest payable in arrears on 31 March each year. Between 1 January 2019 and 31 March 2019, it was necessary to spend ₹ 400,000 on maintenance costs.

On 1 April 2018, Bean Ltd purchased some land for ₹ 10 million (including legal costs of ₹ 1 million) in order to construct a new factory. Construction work commenced on 1 May 2018. Bean Ltd incurred the following costs in connection with its construction:

- Preparation and leveling of the land – ₹ 3,00,000.
- Purchase of materials for the construction – ₹ 6.08 million in total.
- Employment costs of the construction workers – ₹ 2,00,000 per month.
- Overhead costs incurred directly on the construction of the factory – ₹ 1,00,000 per month.
- Ongoing overhead costs allocated to the construction project using Bean Ltd's normal overhead allocation model – ₹ 50,000 per month.
- Income received during the temporary use of the factory premises as a car park during the Construction period – ₹ 50,000.
- Costs of relocating employees to work at the new factory – ₹ 3,00,000.
- Costs of the opening ceremony on 31 January 2019 – ₹ 1,50,000.

The factory was completed on 30 November 2018 (which is considered as substantial period of time) and production began on 1 February 2019. The overall useful life of the factory building was estimated as 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 30% of the total cost of the building.

At the end of the 40-year period, Bean Ltd has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The directors estimate that the cost of demolition in 40 years' time (based on prices prevailing at that time) will be ₹ 20 million. An annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of Re.1 payable in 40 years' time at an annual discount rate of 8% is 4.6 paise.

The construction of the factory was partly financed by a loan of ₹ 17.5 million taken out on 1 April 2018. The loan was at an annual rate of interest of 6%.

During the period 1 April 2018 to 31 August 2018 (when the loan proceeds had been fully utilised to finance the construction), Bean Ltd received investment income of ₹ 1,00,000 on the temporary investment of the proceeds.

On 1 April 2018, Bean Ltd raised loan finance from European investors. The investors subscribed for 50 million €1 loan notes at par. Bean Ltd incurred incremental issue costs of €1 million. Interest of €4 million is payable annually on 31 March, starting on 31 March 2019. The loan is repayable in € on 31 March 2028 at a premium and the effective annual interest rate implicit in the loan is 10%. The appropriate measurement basis for this loan is amortized cost. Bean Ltd uses INR as its functional currency. Relevant exchange rates are as follows:

- 1 April 2018 – €1 = ₹ 82.00.
- 31 March 2019 – €1 = ₹ 85.00
- Average for year ended 31 March 2019 – €1 = ₹ 83.00

On 1 April 2017, Bean Ltd granted share options to 200 senior executives. The options will vest on 31st March 2020 subject to the following conditions:

- Each executive will be entitled to 1,000 options if the cumulative profit in the three-year period from 1 April 2017 to 31st March 2020 exceeds ₹ 30 million. If the cumulative profit for this period is between ₹ 35 million and ₹ 40 million, then 1,500 options will vest. If the cumulative profit for the period exceeds ₹ 40 million, then 2,000 options will vest.
- If an executive leaves during the three-year vesting period, then management would forfeit any rights of share options to those executives.
- Notwithstanding the above, no options will vest unless the share price at 31st March 2020 exceeds ₹ 5.

Details of the fair value of the shares and share options at relevant dates are as follows:

Date	Fair value of Bean Ltd.'s each share (₹)	Fair value of each option (₹)
1 April 2017	4.00	0.50
31 March 2018	4.00	0.60
31 March 2019	4.00	0.75

The estimate of the cumulative profit for the three-year period was revised each year as follows:

Date	Expected profit for the three-year period ₹ million
1 April 2017	32
31 March 2018	39
31 March 2019	45

On 1 April 2017, none of the senior executives were expected to leave in the three-year period from 1 April 2017 to 31 March 2020 and none left in the year ended 31 March 2018. However, 10 executives left unexpectedly on 31 December 2018. None of the other executives are expected to leave before 31 March 2020. Bean Ltd correctly reflected this arrangement in its financial statements for the year ended 31 March 2018.

I. Multiple choice questions

1. Computation of goodwill under full goodwill method follows:
   (a) Fair value of net assets on acquisition plus Fair value of consideration minus fair value of non-controlling interest
   (b) Fair value of consideration plus fair value of non-controlling interest minus fair value of net assets
   (c) Fair value of consideration plus fair value of non-controlling interest plus fair value of net assets on acquisition
   (d) Fair value of consideration minus fair value of non-controlling interest minus fair value of net assets.
2. At the end of the 40-year period, Bean Ltd. has a legally enforceable obligation to demolish the factory and restore the site to its original condition. Cost of demolition recognised as a provision would be:
   (a) ₹ 20.0 million
   (b) ₹ 9.2 million
   (c) ₹ 0.92 million
   (d) ₹ 10.0 million.
3. Pursuant to IAS 21, which of the following factors will not be used in determining the entity's functional currency?
   (a) The currency that primarily influences the prices at which goods and services are sold
   (b) The currency in which the costs of the entity are mainly denominated
   (c) The currency which is used mostly for international trading in that industry
   (d) The currency in which funds from financing are generated.
4. Calculate the closing balance of loan finance at period end which the Bean limited has raised from European investors.
   (a) ₹ 4,241.5 million
   (b) ₹ 4,141.7 million
   (c) ₹ 4,165.0 million
   (d) ₹ 4,084.7 million.
5. Calculate the exchange difference of loan finance from European investors to be recognized in profit or loss for the given period.
   (a) Gain-₹ 156.8 million
   (b) Loss-₹ 156.8 million
   (c) Loss-₹ 223.5 million
   (d) Gain-₹ 223.5 million.

II. Descriptive Questions

6 Compute the fair value of consideration related to acquisition of Charlie Ltd and thereon Compute the goodwill on acquisition of Charlie Ltd as initially measured at 1 October 2017.

7 Compute the balance of retained earnings that will be shown in the consolidated Statement of financial position of Bean Ltd at 31 March 2018.

8 Show treatment on Joint Arrangement with respect to borrowing cost, cost of asset, its depreciation and Statement of Profit or Loss for the year ending 31 March 2019.

9 Compute the carrying amount of the factory as at 31 March 2019, depreciation and carrying amount as at 31 March 2019.

10 Compute treatment related to share based payment to be included under Statement of Profit & Loss, comprehensive income and statement of financial position at 31 March 2019.

Note: Your figures should be supported by appropriate explanations and workings.

ANSWER TO CASE STUDY 2

Answers to Multiple Choice Questions

1 **Option (b)**

2 **Option (c)**

Justification:

Demolition cost recognised as a provision - Where an obligation must recognize as part of the initial cost.

The present value of Re.1 payable in 40 years' time at an annual discount rate of 8% is 4.6 paise. Hence, the working is as under:

USD 20 Million x 4.6/100 = ₹ 0.92 million

3 **Option (c)**

4 **Option (a)**

5 **Option (b)**

Justification for 4 & 5:

The initial measurement of the loan in € is €49 million (€50 million – €1 million).

The finance cost in € is €4•9 million (€49 million x 10%).

The closing balance of the loan in € is €49.9 million (€49 million + €4•9 million – €4 million).

IAS 21, 'The Effect of Changes in Foreign Exchange Rates', stipulates that foreign currency transactions are initially recorded at the rate of exchange in force when the transaction was first recognized.

Therefore, the loan would initially be recorded at ₹ 4,018 million (€49 million x ₹ 82).

The finance cost would be recorded at an average rate for the period since it accrues over a period of time.

The finance cost would be ₹ 406.7 million (€4.9 million x ₹ 83).

The actual payment of interest would be recorded at ₹ 340 million (€4 million x ₹ 85).

The loan balance is a monetary item so it is translated at the rate of exchange at the reporting date. So the closing loan balance is ₹ 4,241.5 million (€49.9 million x ₹ 85).

The exchange differences that are created by this treatment are recognized in profit or loss.

In this case, the exchange difference is

((₹ 4,018 million + ₹ 406.7 million – ₹ 340 million) – ₹ 4,241.5 million) = ₹ 156.8 million. This exchange loss is taken to Statement of profit or loss.

Answers to Descriptive Questions

6. **Statement of computation of original goodwill on acquisition of Charlie Ltd**

Particulars	₹ in million
Fair value of consideration given (W.N.1)	35.88
Share of fair value of net assets acquired (8/12 x 43.9) (W2)	(29.27)
Goodwill	6,61

Working Notes:

1. Computation of purchase consideration

Particulars	₹ in million
Immediate cash payment – actual amount paid (8 million x ₹ 1.20)	**9.6**
Deferred cash payment – present value of actual amount payable (8 million x Re.0.80 x 0.9259)	**5.93**
Share exchange – 4 million shares issued at a market value of ₹ 4 per share (4 million x ₹ 4 per share)	**16.00**
Contingent consideration – included as share issue is probable. Present value is implied in the share price.	**4.00**
Acquisition costs – direct costs of the acquisition other than the costs of issuing shares	**0.35**
Total	**35.88**

2. Computation of fair value of net assets acquired

Particulars	₹ in million
As per financial statements of Charlie Ltd	**30.00**
Adjustment for property – Market value exceeds carrying value	**7.00**
Adjustment for customer relationships – an identifiable intangible asset with a measurable fair value	**7.50**
Adjustment for workforce – as per IAS 38, 'Intangible assets' assembled workforce fails the control test	**Nil**
Adjustment for re-organization – as per IFRS 3 'Business combinations' it must be treated as post acquisition items	**Nil**
Adjustment for contingency claim (fair value as on 1 October 2017)	**(0.60)**
Fair value of net assets acquired	**43.90**

7. **Statement of computation of retained earnings as at 31st March 2018:**

Particulars	₹ in million
Bean Ltd – as given	18.00
Interest charge on deferred cash consideration (5.93 x 8% x 6/12)	(0.2372)
Re organisation provision – Per IAS 37, Provisions, Contingent Liabilities and Contingent Assets- an intention is not an obligation	Nil
Add back acquisition costs – In accordance with IFRS 3, 350 included in cost of investment and 150 deducted from share premium	0.50
Total (A)	**18.2628**
Charlie Ltd (6.00 x 6/12) – only post-acquisition earnings included	3.00
Dividend paid out of post-acquisition profits	(1.50)
Extra depreciation on building (W.N.1))	(0.075)
Amortization of customer relationship asset : 7.5 x 1/5 x 6/1	(0.75)
Reduction in fair value of contingency claim	0.10
A post acquisition item	0.775
Total (B) (0.775 x 8/12)	0.517
Total consolidated retained earnings (A+B)	**18.78**

Working Note:

Statement showing excess depreciation on building at 31st March 2018

Particulars	₹ in million
New depreciation on revised value (12.00 x 1/30 x 6/12)	0.200
Depreciation charge on previous value (10.00 x 1/40 x 6/12)	(0.125)
Excess depreciation charge	0.075

8. As provided in IFRS 11 'Joint Arrangements' this is a joint arrangement, because two or more parties have joint control of the pipeline under a contractual arrangement.

The arrangement will be regarded as a joint operation because Bean Ltd and the other investor have rights to the assets and obligations for the liabilities of this joint arrangement.

This means that Bean Ltd and the other investor will each recognize 50% of the cost of constructing the asset in property, plant and equipment.

The borrowing cost incurred on constructing the pipeline should, under the principles of IAS 23, 'Borrowing Costs,' be included as part of the cost of the asset for the period of construction.

In this case, the relevant *borrowing cost* to be included is ₹ 5,00,000 (₹ 1,00,00,000 x 10% x 6/12).

The total cost of the asset is ₹ 4,05,00,000 (₹ 4,00,00,000 + ₹ 5,00,000).

₹ 2,02,50,000 is included in the property, plant and equipment of Bean Ltd and the same amount in the property, plant and equipment of the other investor.

The depreciation charge for the year ended 31 March 2019 will therefore be ₹ 10,12,500 (₹ 4,05,00,000 x 1/20 x 6/12).

₹ 5,06,250 will be charged in the Statement of profit or loss of Bean Ltd and the same amount in the Statement of profit or loss of the other investor.

The other costs relating to the arrangement in the current year totaling ₹ 9,00,000 (finance cost for the second half year of ₹ 5,00,000 plus maintenance costs of ₹ 4,00,000) will be charged to the Statements of profit or loss of Bean Ltd and the other investor in equal proportions – ₹ 4,50,000 each.

9. Computation of the cost of the factory

Particulars	₹ in million
Purchase of land - both the purchase of the land and the associated legal costs are direct costs of constructing the factory	**10.00**
Preparation and leveling - A direct cost of constructing the factory	**0.300**
Cost of materials - A direct cost of constructing the factory	**6.08**
Employment costs of construction workers - A direct cost of constructing the factory for a seven-month period	**1.40**
Direct overhead costs - A direct cost of constructing the factory for a seven-month period	**0.70**
Allocated overhead costs - Not a direct cost of construction	**Nil**
Income from use as a car park - Not essential to the construction so recognised directly in profit or loss	**Nil**
Relocation costs - Not a direct cost of construction	**Nil**
Opening ceremony - Not a direct cost of construction	**Nil**
Finance costs - Capitalize the interest cost incurred in an eight-month period (purchase of land would not trigger off capitalization since land is not a qualifying asset. Infact, the construction started from 1 May 2018)	**0.6125**
Investment income on temporary investment of the loan proceeds - Must offset against the amount capitalized	**(0.10)**
Demolition cost recognised as a provision - Where an obligation must recognize as part of the initial cost	**0.92**
Total	**19.9125**

Computation of accumulated depreciation

Particulars	₹ in million
Total depreciable amount 9.9125 All of the net finance cost of 0.5125 (0.6125-0.10) has been allocated to the depreciable amount	
Depreciation of roof : 9.9125 x 30% x 1/20 x 4/12	0.04956
Depreciation of remainder : 9.9125 x 70% x 1/40 x 4/12	0.05782
Total depreciation	**0.10738**

Computation of carrying amount

Particulars	₹ in million
Total depreciable amount	19.9125
Depreciation	0.10738
Carrying amount	**19.80512**

10 In accordance with IFRS 2, 'Share based payment' amount included in Statement of financial position as at 31 March 2019

Particulars	₹ in million
Number of executives - Expected to continue till 31.3.2020	190 Nos
Options vesting for each executive - Used expected number based on latest estimates as a non-market vesting condition	2000
Impact of expected share price - This is a market-based vesting condition and is ignored for this purpose	**None**
Fair value of option - Used fair value on grant date as per IFRS 2	**₹ 0.50**
Proportion of vesting	**2/3**
Included in equity – (190 x 2,000 x ₹ 0.50 x 2/3)	**₹ 1,26,667**

Amount included in Statement of profit or loss and other comprehensive income for the year ended 31 March 2019

Particulars	₹ Amount
Cumulative amount recognised in equity at 31 March 2019	1,26,667
Amount recognised in previous years – (200 x 1,500 x ₹ 0.50 x 1/3)	(50,000)
Included in current year's profit or loss	76,667

GFRS CASE STUDY 3

RK Super Markets Ltd. owns a chain of retail stores across 16 different locations in the twin cities of Hyderabad and Secunderabad. For the year ended 31st March 2019, your firm of chartered accountants has been engaged for the stock audit assignment which comprises of the following:

(a) Physical stock take at all store locations
(b) Verification of inventory valuation reports submitted by each store-in-charge and approval of the same
(c) Report to management regarding the final inventory value as on 31st March 2019 and
(d) Report to the statutory auditors based on the final inventory valuation report after the changes as surfaced during the stock audit

A team of 32 articled assistants and four chartered accountants have been deployed by your firm to carry out the assignment. The physical stock take began at store location at 6 am and went on till 10 pm, as the management couldn't afford to close the stores for more than one working day. The assignment was executed well on the day of physical stock take and the team along with the CAs gathered for the queries and observations for the next 3 days.

Retail method of valuation is applied to most of the stock items except for the items mentioned below which have been valued on the basis of FIFO or Weighted Average Cost.

Following observations were made by the team:

Store No. E004

I - Expired items:

Personal care category – Hand wash packs containing 20 units each (15 packs) had an expiry date of February, 2019. Cost-to-company (CTC) of each pack (20 units each) is ₹ 1,200. The same has been valued as inventory at net realisable value (NRV) from the respective supplier with 2% more than the cost, because the supplier has an obligation to take back the expired stock.

The similar observation was made in the following stores which had the stock from the same lot:

Store No.	No. of packs
E001	14
S003	18
W002	17
N001	11
N002	13
N003	09

II – Quantity mismatch: (compiled across all the stores)

Item code	Category	Description	Reported Qty	Actual Qty	₹ Cost per UoM*
R-510101	Snacks	Biscuits	1,689 boxes	1,589 boxes	1,190
R-511012	Snacks	Namkeen	851 boxes	681 boxes	1,890
R-522104	Beverages	Coke	1,809 cases	1,691 cases	1,300
S-144109	Grains	Wheat	1851 gunny bags	1681 gunny bags	630
S-143118	Cooking Oil	Soyabean 5 Ltr	5,140 cans	5,014 cans	585
D-189107	Hygiene	Detergent Soap	2,018 boxes	1,973 boxes	705
D-125109	Hygiene	Dishwash Bars	1,619 boxes	1,508 boxes	647
D-119120	Hygiene	Sanitary Pads	1,819 boxes	1,718 boxes	1,200
P-121113	Kitchenware	NS Kadhai	561 units	516 units	329
P-713114	Baby care	Diapers	819 packs	759 packs	490

*Unit of measurement

III – Valuation policies and actual observations (compiled for each test case based on samples)

1. Stock held under safe custody for free items to be claimed by customers (on offers) have been valued at zero. Customers have a right to claim the free item within 14 days from date of invoice. If the time limit of 14-day exceeds, the claim is foregone by the customer. Majority of the free items require online registration by the buyers for participation in the contest conducted by the respective brand which needs to be done by the buyers within 3 days from the date of invoice.

   Observations:

   (a) Few items were found written "Not for sale. This item needs to be given free along with ……". The cost of such items was included in the list of miscellaneous goods with a value of ₹ 5.8 Lacs.

   (b) Few items under this category were found damaged. The replacement cost of such items would be ₹ 1.5 Lacs.

2. Grains and pulses are valued at cost on FIFO basis except for rice which is valued on weighted average cost basis.

   Observations:

   (a) Following discrepancies were observed in the valuation of rice –

Quantity (gunny bags)	Weighted avg. cost per Unit	Value of inventory as per WAC formula	Value of inventory as reported
156	₹ 719	1,12,164	1,25,174
107	₹ 926	99,082	1,02,182
101	₹ 1,139	1,15,039	1,29,017
114	₹ 2,619	2,98,566	3,19,105

   (b) Discrepancies pertaining to other grains and pulses were as follows:

Quantity (gunny bags)	Cost per Unit based on FIFO calculation	Value of inventory as per FIFO	Value of inventory as reported
162	₹ 2019	3,27,078	3,41,658
171	₹ 1630	2,78,730	2,94,975
139	₹ 2618	3,63,902	3,77,941
181	₹ 1325	2,39,825	2,58,649
152	₹ 2214	3,36,528	3,51,880

3. Snacks and Beverages are valued at weighted average cost.
Observations:
(a) Following discrepancies were noted in the valuation of snacks

Quantity (boxes)	Weighted avg. cost per box	Value of inventory as per WAC formula	Value of inventory as reported
166	₹ 703	1,16,698	1,20,018
167	₹ 653	1,09,051	1,13,727
171	₹ 813	1,39,023	1,42,443
169	₹ 809	1,36,721	1,40,101
170	₹ 715	1,21,550	1,24,270

(b) Valuation of beverages also had the following deviations

Quantity (12-bottles pack)	Weighted avg. cost per pack	Value of inventory as per WAC formula	Value of inventory as reported
301	₹ 612	1,84,212	1,87,523
315	₹ 615	1,93,725	1,98,765
319	₹ 627	2,00,013	2,04,798
325	₹ 630	2,04,750	2,10,925
311	₹ 633	1,96,863	2,03,705

IV – Other observations:

Two items of inventory belong to the own brand of the company. They get the items manufactured from various housewives on per unit cost basis. Following process is followed in respect of such own-brand items:

1. Daliya (broken wheat) is procured from housewives who process the whole wheat given by the company. Cost of tools required for the same are borne by the housewives which is a nominal investment of ₹ 3,000 each.
2. Turmeric powder is also procured in the similar manner where raw turmeric is given to housewives who process the same to return in powder form.
3. Packaging of both these products is done at company's central packing location in Kondapur village near Hyderabad.
4. The stock of wheat with housewives on the date of valuation was 1200 kgs and that of raw turmeric 150 kgs. The stage of completion of process at the place of housewives can't be determined.
5. The payment of housewives' work is done based on return of goods, after the process and quality check at the central packing location on daily basis, at the rate of ₹ 6 / kg of Daliya and ₹ 25 / kg of turmeric powder.
6. Goods that are packed for final sale from the stores are despatched on weekly basis to the respective stores.
7. Rent of ₹ 60,000 per month paid for the packing location is amortised over the number of units packed during the month. A normal capacity per day is 150 kgs of turmeric powder packed into 200 grams each and 1200 kgs of daliya packed into 500 grams and 1 kg in the ratio of 2:1 of total stock produced. No. of working days in a year should be assumed as 300 days, though the total days of the year should be considered as 360 days.
8. The packing unit has 20 workers and a quality manager. The average salary cost of the packing unit is ₹ 3,25,000 per month. Depreciation of packing tools and other miscellaneous assets at the packing unit is ₹ 1,80,000 per annum.
9. Direct cost of packaging works out to ₹ 1.5 per packing unit of turmeric powder and ₹ 2.15 and ₹ 3.25 of Daliya packing units of 500 grams and 1 kg pack respectively.

On the date of physical verification, the packing unit had a stock of five days as per normal capacity of each product.

I. Multiple Choice Questions

Choose the best option from the given choices for each of the question or statement below:

1. In personal care category, hand-wash item has been ____________ by ___________ keeping in view the valuation principles in IFRS.
   (a) Undervalued, ₹ 2,328
   (b) Undervalued, ₹ 2,823
   (c) Overvalued, ₹ 2,328
   (d) Overvalued, ₹ 1,18,728
2. Since the company has a right to return the expired goods to respective suppliers, it will be treated as
   (a) Expense
   (b) Loss of inventory
   (c) Other Current Asset – Receivables from the Suppliers
   (d) Income
3. The replacement cost of goods that need to be given as free items to customers shall be treated as _________ as per the principles of IFRS.
   (a) Provision
   (b) Contingent liability
   (c) Loss of inventory
   (d) Expense
4. The inventory cost of turmeric powder and daliya of RK brand shall not include the following:
   (a) Cost of manpower at the packing unit
   (b) Cost of tools used by the housewives in processing the goods
   (c) Depreciation of packing tools and other assets at the packing centre
   (d) Rent of the packing centre.
5. During the year, the packing unit was closed for a month due to unforeseen circumstances. Due to which the normal capacity utilisation for the year was 11 months /12 months instead of 100%. Will it have any impact of the amount of depreciation allocated to packed units? How will the depreciation amount be allocated during the year?
   (a) No. Total depreciation of ₹ 1,80,000 will be allocated to the packed units
   (b) Yes. Depreciation of ₹ 1,65,000 will be allocated to the packed units and ₹ 15,000 will be recognised as expenses
   (c) Yes. Total depreciation of ₹ 1,80,000 will be recognised as expenses
   (d) No. Depreciation of ₹ 1,62,000 will be allocated to the packed units and ₹ 18,000 will be recognised as expenses

II. Descriptive Questions

6. Based on the deviations observed during the physical stock take, calculate the amount by which closing inventory is overvalued at RK Super Markets Ltd. Exclude the stock of own-brand goods.
7. News of health threat in particular brand noodles were going viral on social media since 29th March 2019. On 2nd April 2019, the Supreme Court ordered a ban on the sale of such noodles with immediate effect until the investigations are complete which in all probability would take around 6 months' time. However, the existing stock will not be useful for sale. Line no. 2 and 3 in snacks category given in 3(a) refer to two different varieties of the noodles of that brand. What will be the treatment of that stock if the NRV is zero and the cost of safe disposal is ₹ 20,000? As per the agreement with the supplier the goods once sold by the supplier will be under the risk of the retailer.
8. If the average cost of raw material for daliya and turmeric powder is ₹ 27.25 per kg and ₹ 105.50 per kg what is the value of inventory of turmeric powder and daliya of RK brand assuming that the cost of packing material in stock on the valuation date was ₹ 21,907 and ₹ 14,148 respectively for daliya and turmeric powder and allocation of fixed overheads is done in the ratio of 2:1 for daliya and turmeric?

ANSWER TO CASE STUDY 3

Answers to Multiple Choice Questions

1. Option (d)

Justification:
As per para 6 of IAS 2, inventories are assets:
(a) Held for sale in the ordinary course of business;
(b) In the process of production for such sale; or
(c) In the form of materials or supplies to be consumed in the production process or in the rendering of services.
Expired items are held for return to respective vendors and does not fit into any criteria above for recognition as inventory.
Hence, the entire valuation done at NRV is overvalued inventory calculated as below:
Total expired stock of Hand wash packs is (15 + 14 +18 +17+ 11 +13 +9) = 97 packs
Total cost of 97 packs = ₹ 1,200 per pack x 97 packs = ₹ 1,16,400
Valuation done at NRV = ₹1,16,400 x 102% = ₹ 1,18,728

2. Option (c)

Justification:
Since the company has a contractual right to return the expired goods at cost + 2%, the entire amount of expired stock in the category at the NRV shall be recognised as receivables from supplier.

3. Option (a)

Justification:
As per para 10 of IAS 37, a provision is a liability of uncertain timing or amount. Further, para 14 says, a provision shall be recognised when:

a) An entity has a present obligation (legal or constructive) as a result of a past event;
b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
c) A reliable estimate can be made of the amount of the obligation.

In the instant case, it is not clear as to how many customers will actually do the needful to claim the free item and within the prescribed time limit. However, the maximum amount of liability that may arise assuming all customers will do the needful can be estimated reliably. Hence a provision should be recognised.

4. Option (b)

Justification:
Para 10 of IAS 2 specifies that the cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Further, para 12 also elaborates on the examples of cost of conversion. Accordingly, in the instant case the cost of tools owned by the housewives does not fit in since the cost is not incurred by the company hence not forming part of the cost of inventory.

5. Option (b)

Justification:

Para 13 of IAS 2 clarifies that the amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred.

Accordingly, the rate of allocation per unit will remain same based on the normal capacity. Any unallocated depreciation due to idle plant is to be recognised as an expense during the year.

In the instant case depreciation for the whole year is ₹ 1,80,000 and hence the per unit allocation cost of depreciation would be:

Particulars		
Depreciation per annum	(given) (a)	₹ 1,80,000
Normal capacity	Refer Working Note (b)	8,25,000 packs
Depreciation per packing unit	(a) / (b) = (c)	0.21818
Actual production units	(8,25,000 / 12) x 11 (d)	7,56,250
Depreciation allocated	(c) x (d) = (e)	1,65,000 (approx.)
Unallocated depreciation recognised as expense	(a) – (e) = (f)	15,000

Calculation of normal capacity:
Turmeric powder – (150 kg x 1,000 grams) / 200 grams each = 750 packs
Daliya 1,200 kg in the ratio of 2:1 = 800 kg and 400 kg
500 grams packs = (800 kg x 1,000 grams) / 500 grams each = 1,600 packs
1 kg packs = (400 kg x 1,000 grams) / 1,000 grams each = 400 packs
Total no. of packed units = 2,750 per day x 300 days = 8,25,000 packs

II. Answers of Descriptive Questions

6. As per para 9 of IAS 2, inventories shall be measured at the lower of cost and net realisable value.

Based on the audit observations, below is the calculation of overvaluation of inventory of RK Super Market Ltd. of all stores in toto:

Category/Item	Valuation as per IFRS principles	Valuation done by the company	Over-valuation (in ₹)
Personal care – hand-wash	Zero (Refer MCQ 1)	1,18,728	118,728
Due to quantity mismatch		(W.N.1)	10,43,457
Not-for-sale items (free)	Zero	580,000	5,80,000
Rice (W.N.2)	624,851	675,748	50,627
Grains & pulses (W.N.3)	15,46,063	16,25,103	79,040
Snacks (W.N.4)	623,043	640,559	17,516
Beverages (W.N.5)	979,563	10,05,716	26,153
Total			**19,15,521**

Working Notes:

1. Valuation difference due to quantity mismatch:

Item code	Category	Description	Reported Qty (1)	Actual Qty (2)	Difference	₹ Cost per UoM (3)	Difference [(1) – (2)] x (3)
R-510101	Snacks	Biscuits	1,689 boxes	1,589 boxes	100 boxes	1,190	1,19,000
R-511012	Snacks	Namkeen	851 boxes	681 boxes	170 boxes	1,890	3,21,300
R-522104	Beverages	Coke	1,809 cases	1,691 cases	118 cases	1,300	1,53,400
S-144109	Grains	Wheat	1,851 gunny bags	1,681 gunny bags	170 gunny bags	630	1,07,100
S-143118	Cooking Oil	Soyabean 5 Ltr	5,140 cans	5,014 cans	126 cans	585	73,710
D-189107	Hygiene	Detergent Soap	2,018 boxes	1,973 boxes	45 boxes	705	31,725
D-125109	Hygiene	Dishwash Bars	1,619 boxes	1,508 boxes	111 boxes	647	71,817
D-119120	Hygiene	Sanitary Pads	1,819 boxes	1,718 boxes	101 boxes	1,200	1,21,200
P-121113	Kitchenware	NS Kadhai	561 units	516 units	45 units	329	14,805
P-713114	Baby care	Diapers	819 packs	759 packs	60 packs	490	29,400
						Total	**10,43,457**

2. Overvaluation of Rice gunny bags

Valuation of Rice gunny bags as per IFRS principles (1,12,164 + 99,082 + 1,15,039 + 2,98,566) = ₹ 6,24,851

Valuation of Rice gunny bags done by the company (1,25,174 + 1,02,182 + 1,29,017 + 3,19,105) = ₹ 6,75,478

Overvaluation = Valuation done by the company - Valuation as per IFRS = ₹ 6,75,478 – ₹ 6,24,851 = ₹ 50,627

3. Overvaluation of Grains and pulses gunny bags

Valuation of Grains and pulses gunny bags as per IFRS principles (3,27,078 + 2,78,730 + 3,63,902 + 2,39,825 + 3,36,528) = ₹ 15,46,063

Valuation of Grains and pulses gunny bags done by the companies (3,41,658 + 2,94,975 + 3,77,941 + 2,58,649 + 3,51,880) = ₹ 16,25,103

Overvaluation = Valuation done by the company - Valuation as per IFRS
= ₹ 15,46,063 – ₹ 16,25,103 = ₹ 79,040

4. Overvaluation of Snacks boxes

Valuation of Snacks boxes as per IFRS principles (1,16,698 + 1,09,051 + 1,39,023 + 1,36,721 + 1,21,550) = ₹ 6,23,043

Valuation of Snacks boxes done by the companies (1,20,018 + 1,13,727 + 1,42,443 + 1,40,101 + 1,24,270) = ₹ 6,40,559

Overvaluation = Valuation done by the company - Valuation as per IFRS
= ₹ 6,40,559 – ₹ 6,23,043 = ₹ 17,516

5. Overvaluation of Beverages packs

Valuation of Beverages packs as per IFRS principles (1,84,212 + 1,93,725 + 2,00,013 + 2,04,750 + 1,96,863) = ₹ 9,79,563

Valuation of Beverages packs done by the companies (1,87,523 + 1,98,765 + 2,04,798 + 2,10,925 + 2,03,705) = ₹ 10,05,716

Overvaluation = Valuation done by the company - Valuation as per IFRS
= ₹ 10,05,716 – ₹ 9,79,563 = ₹ 26,153

7. Para 3 of IAS 10 defines Events after the reporting period as those events that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company. Further it identifies two types of events –

(a) Adjusting events – those that provide evidence of conditions that existed at the end of the reporting period; and

(b) Non-adjusting events – those that are indicative of conditions that arose after the reporting period.

Further, para 8 states that an entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period.

Since news for health threat in noodles brand went viral on 29th March, 2019 and Supreme Court ordered ban on 2nd April, 2019 ie before the authorisation of the financial statements, this is an adjusting event. Therefore, the item of inventory shall be written down to NRV which is zero.

Also, a liability should be recognised for safe disposal of such item to the tune of ₹ 20,000.

So, the carrying amount of inventory should be reduced by ₹ 2,48,074 (1,09,051 + 1,39,023) assuming that correction is done as per principles of valuation laid down in IAS 2.

8. Inventory valuation of own-brand products – RK (in ₹)

Particulars	Working / reference	Daliya	Turmeric Powder
Raw material for processing with housewives (1 day stock)	1,200 kg x 27.25 150 kg x 105.5	32,700	15,825
Finished Goods (5 days stock)	(W.N.2)	2,23,200	1,03,500
Packing material	(Given)	21,907	14,148
Allocation of fixed overhead ₹ 69,167 (W.N.3)	2:1	46,111	23,056
	Total	**3,23,918**	**1,56,529**

Working Notes:

1. Stock of finished goods (in ₹)

Particulars	Stock per day	Stock of 5 days
Turmeric powder (200 gms pack)	750	3,750
Daliya (500 gms pack)	1,600	8,000
Daliya (1 kg pack)	400	2,000
	2,750	13,750

2. Raw material, processing cost (paid to housewives) and packing material cost for finished goods (in ₹)

Particulars	Working/ reference	Per day		For 5 Days	
		Daliya	Turmeric	Daliya	Turmeric
Raw material for Daliya	1,200 x 27.25	32,700		1,63,500	
Raw material for Turmeric powder	150 x 105.5		15,825		79,125
Processing cost for Daliya	1,200 x 6	7,200		36,000	
Processing cost for Turmeric powder	150 x 25		3,750		18,750
Packing material for Daliya	(1,600 x 2.15) + (400 x 3.25)	4,740		23,700	
Packing material for Turmeric powder	750 x 1.5		1,125	5,625	
				2,23,200	1,03,500

So, raw material and processing cost of Daliya for 5 days is ₹ 2,23,200 and

Raw material and processing cost of Turmeric Powder for 5 days is ₹ 1,03,500

3. Calculation of fixed overheads

a. Rent of packing centre = ₹ 60,000 per month

Number of units packed in a year = 8,25,000 packs (as computed for MCQ 5)

Number of units packed in a month = 8,25,000 / 12 months = 68,750 packs

Number of units packed in 5 days = (68,750 packs / 25 days) x 5 days = 13,750 packs

Rent for 5 days = (₹ 60,000 / 68,750 packs) x 13,750 packs = ₹ 12,000

b. Direct labour = (3,25,000/30 days) x 5 days = ₹ 54,167

c. Depreciation of miscellaneous assets
= 13,750 packs x 0.21818 (as computed for MCQ 5)
= ₹ 3,000

Total fixed overheads to be allocated = ₹ 12,000 + ₹ 54,167 + ₹ 3,000
= ₹ 69,167

CROSSWORD SOLUTION – APRIL 2020

[1]S	[2]T	[3]R	I	P	[4]P	I	N	[5]G		[6]D	[7]G	[8]E	
[9]A	R	E	A		A			[10]S	M	A	R	T	
[11]G	A	S		[12]I	R	[13]S		T		[14]G	A	A	[15]P
	[16]I	T	R			[17]L	I				[18]P	L	Y
[19]L	T			[20]W	[21]T	O		[22]I			H		T
A		[23]F	[24]I	R	E	W	[25]A	L	[26]L		[27]I	[28]S	H
[29]W	[30]A	R	P	I	N		L		O		[31]C	O	O
	[32]L	I	S	T			[33]S	[34]I	A		[35]S	I	N
[36]N	A	N	O	S	[37]E	[38]C	O	N	D			L	
[39]E	R	G			[40]T	O	R	T		[41]I	S	E	E
[42]O	M	E	[43]N		[44]A	N	A	L	[45]Y	S	E	D	
			O		[46]I	T	N		E	M			[47]D
[48]T	[49]W	[50]O		[51]S	L	R		[52]D	A		[53]A	[54]L	E
[55]R	I	N	S	E		[56]O	N	E	R		[57]R	U	B
[58]I	F	Y		[59]A	I	L		[60]N	N	P		L	U
[61]P	I	X	E	L	S		[62]P	T			[63]B	U	G

CAPSULE ON ACCOUNTING STANDARDS AND FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

It has always been the endeavour of Board of Studies to provide quality academic inputs to the students. Considering this objective in mind, it has been decided to bring forth a crisp and concise capsule for the topic on Accounting Standards and Framework covered in Intermediate Accounting Papers (Paper 1 "Accounting" and Paper 5 "Advanced Accounting"). The significant provisions of AS 13, AS 16, AS 17, AS 22 and Framework on Preparation and Presentation of Financial Statements have been gathered and presented through pictorial presentations in this capsule which will help the students in grasping the intricate practical aspects of each Accounting Standard. The Capsules containing provisions of AS 1, AS 2, AS 3, AS 4, AS 5, AS 7, AS 9, AS 10, AS 11, AS 12, AS 14, AS 18, AS 19, AS 20, AS 24, AS 26 and AS 29 have already been published and the students are advised to access them at https://www.icai.org/post.html?post_id=16431. Although, the capsule has been prepared keeping in view the new and revised scheme of Education and Training of ICAI, the students of earlier scheme may also be benefitted from it. This capsule, though, facilitates the students in undergoing quick revision, under no circumstances, such revisions can substitute the detailed study of the material provided by the Board of Studies.

AS 13 "ACCOUNTING FOR INVESTMENTS"

AS 13 deals with accounting for investments in the financial statements of enterprises and related disclosure requirements.

AS 13 does not deal with

- Basis for recognition of interest, dividends and rentals earned on investments which are covered by AS 9
- Operating or finance leases
- Investments on retirement benefit plans and life insurance enterprises
- Mutual funds, venture capital funds and/ or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 2013

DEFINITION OF INVESTMENTS

Investments are assets held by an enterprise

- for earning income
  - Dividends
  - Interests
  - Rentals
- for capital appreciation or for other benefits

Assets held as Stock-in-trade are not 'Investments'.

Fair value	• Amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. • Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.
Market value	• Amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.

CLASSIFICATION OF INVESTMENTS

Classification of Investments

- Current Investments: By nature readily realisable; intended to be held for not more than one year from the date on which such investment is made.
- Long Term Investments: Other than a current investment

Type of acquisition	Cost of investments
In Cash/ bank	Cash price including charges such as brokerages, fees and duties
By Issue of shares/ other securities	Fair value of securities issued
In exchange for another asset	Fair value of asset given up or fair value of investment acquired, whichever is more clearly evident

Accounting for
Interest accrued/Dividend declared

- **Pre-acquisition period**: ***Deducted from cost of investment***
- **Post-acquisition period**: ***Recognized as an income***

Accounting for

- Right shares
  - **Subscribed**
    Cost of shares added to carrying amount
  - **Not subscribed, but sold**
    Sale proceeds taken to P&L A/c
    - If acquired on cum-right basis & the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value.
- Bonus
  - No amount is entered in the capital column of investment account.

CARRYING AMOUNT OF INVESTMENTS

Carrying Amount

- Current investments
  - Lower of cost and fair value.
    - Any reduction to fair value is debited to profit and loss account, however, if fair value of investment is increased subsequently, the increase in value of current investment up to the cost of investment is credited to the profit and loss account (and excess portion, if any, is ignored).
  - Valuation
    - on overall (or global) basis is not considered appropriate; prudent method is to carry investment individually.
- Long term investments
  - carried
    - at cost.
      - Where there is a decline, other than temporary,in the carrying amounts of long term valued investments, the resultant reduction in the carrying amount is charged to the profit and loss statement. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.
  - Valuation
    - Determined on an individual investment basis.

INVESTMENT PROPERTIES

- An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.
- An investment property is accounted for in accordance with cost model as prescribed in AS 10 (Revised), 'Property, Plant and Equipment'.
- The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.

DISPOSAL OF INVESTMENTS

- Difference between the carrying amount and the disposal proceeds, net of expenses, is recognised in the P & L statement.
- When part of investment is disposed, carrying amount is allocated to that part on the basis of average carrying amount of total investment.
- If investments held as stock-in-trade, cost of stocks disposed calculated as per cost formula as per AS 2.

RECLASSIFICATION OF INVESTMENTS

Reclassification of Investments

- Current to Long-term
  - Transfer at Lower of cost & fair value at the date of transfer
- Long-term to Current
  - Transfer at lower of cost & carrying amount at the date of transfer

DISCLOSURE

- Accounting policies followed for valuation of investments;
- Amounts included in profit and loss statement for:
  - Interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments.
  - Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid.
  - Profits and losses on disposal of current investments and changes in carrying amount of such investments.
  - Profits and losses on disposal of long term investments and changes in carrying amount of such investments.
- Significant restrictions on the right of ownership, realizability of investments or remittance of income and proceeds of disposal.
- Aggregate amount of quoted and unquoted investments, giving aggregate market value of quoted investments.
- Other disclosures as specifically required by relevant statute governing enterprise.

AS 16 "BORROWING COSTS"

The objective of AS 16 is to account for borrowing costs. It does not deal with the actual or imputed cost of owners' equity, including preference share capital not classified as a liability.

Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

BORROWING COSTS MAY INCLUDE

Borrowing Costs

- Interest & commitment charge on Borrowings
- Amortisation of ancillary costs relating to Borrowings
- Exchange Differences*
- Amortisation of Discount / Premium on Borrowings
- Finance charges for assets acquired on Finance Lease

*To the extent they are regarded as an adjustment to interest cost

A QUALIFYING ASSET

An asset when acquired for its intended use or sale.

- Necessarily takes a substantial period of time to get ready for its intended use or sale → Qualifying asset
  - Manufacturing plants
  - Power generation facilities
  - Inventories that require a substantial period of time to bring them to a saleable condition
  - Investment property
- Is ready for use → Not qualifying asset
  - Other investment and those inventory that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time

SUBSTANTIAL PERIOD OF TIME

Substantial period of time depends on the facts and circumstances of each case

Unless a shorter or longer period can be justified on the basis of the facts and circumstances of the case.

A period of twelve months is considered as substantial period of time

In estimating the period, time which an asset takes technologically and commercially to get it ready for its intended use or sale should be considered

EXCHANGE DIFFERENCES ON FOREIGN CURRENCY BORROWINGS

Exchange differences arising from foreign currency borrowing and considered as borrowing costs are those exchange differences which arise on the amount of principal of the foreign currency borrowings to the extent of the difference between interest on local currency borrowings and interest on foreign currency borrowings.

Amount of exchange difference not exceeding the difference between interest on local currency borrowings and interest on foreign currency borrowings is considered as borrowing cost to be accounted for under this Standard and the remaining exchange difference, if any, is accounted for under AS 11, 'The Effects of Changes in Foreign Exchange Rates'.

Interest rate for the local currency borrowings is considered as that rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings.

BORROWING COSTS ELIGIBLE FOR CAPITALISATION

Treatment of Borrowing Costs

Borrowing Costs

Directly related* for:
- acquisition
- construction
- production of

- Qualifying Assets → Capitalized
- Assets other than Qualifying assets → Revenue Expenditure

*or that could have been avoided if the expenditure on qualifying assets had not been made.

Thus, borrowing costs are capitalised as part of the cost of a qualifying asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowings

Specific borrowings

- Borrowed funds specifically for the purpose of obtaining a particular qualifying asset
- Borrowing costs that directly relate to that qualifying asset can be readily identified.
- If funds temporarily invested .
  - Capitalised borrowing costs= borrowing costs less any income earned on the temporary investment of those borrowings

General borrowings

- No Direct relationship between particular borrowings and a qualifying asset
- Amount of borrowing costs eligible for capitalisation determined by applying a capitalisation rate to the expenditure on that asset.
  - The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.
- The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

EXCESS OF THE CARRYING AMOUNT OF THE QUALIFYING ASSET OVER RECOVERABLE AMOUNT

When the carrying amount or the expected ultimate cost of the qualifying asset

Exceeds its recoverable amount or net realisable value,

Carrying amount is written down or written off in accordance with the requirements of other Accounting Standards.

In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Accounting Standards.

COMMENCEMENT OF CAPITALISATION

The capitalisation of borrowing costs as part of the cost of a qualifying asset should commence when all the following conditions are satisfied

- **Expenditure for the acquisition, construction or production of a qualifying asset is being incurred:**
- **Borrowing costs are being incurred.**
- **Activities that are necessary to prepare the asset for its intended use or sale are in progress:**

Expenditure on a qualifying asset includes only such expenditure that has resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditure is reduced by any progress payments received and grants received in connection with the asset. The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditure to which the capitalisation rate is applied in that period.

The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

SUSPENSION OF CAPITALISATION

Capitalisation of borrowing costs

Suspended

- during extended periods in which active development is interrupted.

Not suspended

- during a period when substantial technical and administrative work is being carried out.
- when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

CESSATION OF CAPITALISATION

Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

DISCLOSURE

The financial statements should disclose:

- The accounting policy adopted for borrowing costs; and
- The amount of borrowing costs capitalised during the period.

AS 17 "SEGMENT REPORTING"

The objective AS 17 is to establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates. Information about segments helps users of financial statements to:

- Better understand the performance of the enterprise;
- Better assess the risks and returns of the enterprise; and
- Make more informed judgements about the enterprise as a whole.

For Companies - AS 17 is not mandatory for SMCs.
For Non-companies - AS 17 is not mandatory for entities falling in Level II and Level III.

SCOPE

- AS 17 should be applied in presenting general purpose financial statements.
- An enterprise should comply with the requirements of this Standard fully and not selectively.
- If a single financial report contains both consolidated financial statements and separate financial statements of parent, segment information need to be presented only on basis of the consolidated financial statements.

DEFINITION OF THE TERMS USED IN THE ACCOUNTING STANDARD

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products or services are related include:

- The nature of the products or services
- The nature of the production processes
- The type or class of customers for the products or services
- The methods used to distribute the products or provide the services
- If applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:

- Similarity of economic and political conditions;
- Relationships between operations in different geographical areas;
- Proximity of operations;
- Special risks associated with operations in a particular area;
- Exchange control regulations; and
- The underlying currency risks.

A **reportable segment** is a business segment or a geographical segment identified on the basis of definitions of business segment and geographical segment for which segment information is required to be disclosed by this Standard.

Identifying Reportable Segments as Primary Segment or Secondary Segment

If the risks and returns of an enterprise are affected predominantly by the differences in the products and services, its primary segment will be business segment and geographic segment will be secondary.

If the risks and returns of an enterprise are affected predominantly by the fact that it operates in different geographical areas, its primary segment will be geographical segment and business segment will be secondary.

A single geographical segment does not include operations in economic environments with significantly differing risks and returns. A geographical segment may be a single country, a group of two or more countries, or a region within a country.

The risks and returns of an enterprise are influenced both by the geographical location of its operations (where its products are produced or where its service rendering activities are based) and also by the location of its customers (where its products are sold or services are rendered).

The definition allows geographical segments to be based on either:

- Location of production or service facilities and other assets of an enterprise; or
- Location of its customers.

CRITERIA FOR IDENTIFYING REPORTABLE SEGMENTS

Revenue Test Segment revenue >= 10% of all segment revenues

Result Test Segment result >= 10% of higher of segments in profit or loss

Assets Test Segment assets >= 10% of total assets of all segments

Management choice- Management may designate any segment as reportable segment despite its size even if tests are not satisfied

75% Test- Is external revenue of reportable segment < 75% of enterprise revenue

- Previous year's segment information to continue in current year
- If inconsistent, previous year figures to be regrouped to fall in line with current year

In the last test (75% Test), if total external revenue attributable to reportable segments constitutes less than 75 per cent of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10 per cent thresholds in other tests, until at least 75 per cent of total enterprise revenue is included in reportable segments.

SEGMENT REVENUE

Segment revenue

Is aggregate of

- Portion of enterprise revenue that is directly attributable to a segment,
- Relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, and
- Revenue from transactions with other segments of the enterprise.

Does not include

- Extraordinary items as defined in AS 5.
- Interest or dividend income, including interest earned on advances or loans to other segments unless the operations of the segment are primarily of a financial nature; and
- Gains on sales of investments or on extinguishment of debt unless the operations of the segment are primarily of a financial nature.

SEGMENT EXPENSE

Segment expense

Is aggregate of

- Expense resulting from the operating activities of a segment that is directly attributable to the segment, and
- Relevant portion of enterprise expense that can be allocated on a reasonable basis to the segment,
- Expense relating to transactions with other segments of the enterprise.

Does not include

- Extraordinary items as defined in AS 5.
- Interest expense, including interest incurred on advances or loans from other segments, unless the operations of the segment are primarily of a financial nature.
- Losses on sales of investments or losses on extinguishment of debt unless the operations of the segment are primarily of a financial nature.
- Income tax expense.
- General administrative expenses, head-office expenses, and other expenses that arise at the enterprise level and relate to the enterprise as a whole. However, costs are sometimes incurred at the enterprise level on behalf of a segment. Such costs are part of segment expense if they relate to the operating activities of the segment and if they can be directly attributed or allocated to the segment on a reasonable basis.

SEGMENT RESULT

is segment revenue → less → segment expense.

SEGMENT ASSETS

Segment assets

Operating assets

- that are employed by a segment in its operating activities and
- that either are directly attributable to the segment or
- can be allocated to the segment on a reasonable basis.

Include

- If the segment result of a segment includes interest or dividend income, its segment assets include the related receivables, loans, investments, or other interest or dividend generating assets.

Do not include

- income tax assets;
- assets used for general enterprise or head-office purposes.

Segment assets are determined after deducting related allowances/ provisions that are reported as direct offsets in the balance sheet of the enterprise.

SEGMENT LIABILITIES

Segment liabilities

- **Operating liabilities**: that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.
- **Include**: If the segment result of a segment includes interest expense, its segment liabilities include the related interest-bearing liabilities.
- **Examples**: trade and other payables, accrued liabilities, customer advances, product warranty provisions, and other claims relating to the provision of goods and services.
- **Does not include**:
  - income tax liabilities;
  - borrowings and other liabilities that are incurred for financing rather than operating purposes.

Assets and liabilities that relate jointly to two or more segments should be allocated to segments if, and only if, their related revenues and expenses also are allocated to those segments.

TREATMENT OF INTEREST FOR DETERMINING SEGMENT EXPENSE

The interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories.

In case interest is included as a part of the cost of inventories where it is so required as per AS 16, read with AS 2 (Revised), and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. In this case, the amount of such interest and the fact that the segment result has been arrived at after considering such interest should be disclosed by way of a note to the segment result.

ALLOCATION

There is a presumption that amounts that have been identified with segments for internal financial reporting purposes are directly attributable or reasonably allocable to segments for purpose of measuring the segment revenue, segment expense, segment assets, and segment liabilities of reportable segments.

Segment revenue, segment expense, segment assets and segment liabilities are determined before intra-enterprise balances and intra-enterprise transactions are eliminated as part of the process of preparation of enterprise financial statements, except to the extent that such intra-enterprise balances and transactions are within a single segment.

While the accounting policies used in preparing and presenting the financial statements of the enterprise as a whole are also the fundamental segment accounting policies, segment accounting policies include, in addition, policies that relate specifically to segment reporting, such as identification of segments, method of pricing inter-segment transfers, and basis for allocating revenues and expenses to segments.

PRIMARY AND SECONDARY SEGMENT REPORTING

Primary Reporting Format

An enterprise should disclose the following for each reportable segment identified as primary segment:

(a) segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;

(b) segment result;

(c) total carrying amount of segment assets;

(d) total amount of segment liabilities;

(e) total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);

(f) total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period; and

(g) total amount of significant non-cash expenses, other than depreciation and amortisation in respect of segment assets, that were included in segment expense and, therefore, deducted in measuring segment result.

An enterprise should present a reconciliation between the information disclosed for reportable segments and the aggregated information in the enterprise financial statements. In presenting the reconciliation:

segment revenue should be reconciled to enterprise revenue	segment result should be reconciled to enterprise net profit or loss	segment assets should be reconciled to enterprise assets	segment liabilities should be reconciled to enterprise liabilities.

SECONDARY SEGMENT INFORMATION

If primary format is business segment, it should also report the following information:

- segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue;
- the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments; and
- the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets) by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all segments.

If primary format is geographical segments (whether based on location of assets or location of customers), it should also report the following segment information for each business segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue or whose segment assets are 10 per cent or more of the total assets of all business segments:

- segment revenue from external customers;
- the total carrying amount of segment assets; and
- the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets).

If primary format of an enterprise for reporting segment information is geographical segments that are based on location of assets, and if the location of its customers is different from the location of its assets, then the enterprise should also report revenue from sales to external customers for each customer-based geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue.

If primary format of an enterprise for reporting segment information is geographical segments that are based on location of customers, and if the assets of the enterprise are located in different geographical areas from its customers, then the enterprise should also report the following segment information for each asset-based geographical segment whose revenue from sales to external customers or segment assets are 10 per cent or more of total enterprise amounts:

- the total carrying amount of segment assets by geographical location of the assets
- the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets) by location of the assets.

OTHER DISCLOSURES

Other Disclosures

- In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that the enterprise actually used to price those transfers.
- The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements.
- An enterprise should indicate the types of products and services included in each reported business segment and indicate the composition of each reported geographical segment, both primary and secondary, if not otherwise disclosed in the financial statements.

AS 22 "ACCOUNTING FOR TAXES ON INCOME"

AS 22 prescribes the accounting treatment of taxes on income and follows the concept of matching expenses against revenue for the period. Taxable income may be significantly different from the accounting income posing problems in matching of taxes against revenue for a period

DIVERGENCE BETWEEN TAXABLE INCOME AND ACCOUNTING INCOME

Differences between taxable income and accounting income

- Timing differences
  - For a period that originate in one period and are capable of reversal in one or more subsequent periods.
- Permanent differences
  - For a period that originate in one period and do not reverse subsequently

DEFINITIONS

Accounting income (loss)	Net profit or loss for a period, as reported in the statement of profit and loss, before deducting income-tax expense or adding income tax saving.
Taxable income (tax loss)	Amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income-tax payable (recoverable) is determined.
Tax expense (tax saving)	Aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.
Current tax	Amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.
Deferred tax	Tax effect of timing differences.

RECOGNITION

Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period.

Permanent differences do not result in deferred tax assets or deferred tax liabilities.
Taxes on income are considered to be an expense incurred by the enterprise in earning income and are accrued in the same period as the revenue and expenses to which they relate.
Such matching may result into timing differences.
Tax effects of timing differences are included in the tax expense in the statement of profit and loss and as deferred tax assets or as deferred tax liabilities, in the balance sheet.

While recognising the tax effect of timing differences, consideration of prudence cannot be ignored. Therefore, deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty of their realisation.

RE-ASSESSMENT OF UNRECOGNISED DEFERRED TAX ASSETS

- At each balance sheet date,
- an enterprise re-assesses unrecognised deferred tax assets.
- Recognises previously unrecognised deferred tax assets
- to the extent that it has become reasonably certain or virtually certain,
- as the case may be,
- that sufficient future taxable income will be available against which such deferred tax assets can be realised.

MEASUREMENT

Measurement

- Current tax
  - Amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws.
- Deferred tax assets and liabilities
  - Measured using the tax rates and tax laws that have been enacted by the balance sheet date.
  - should not be discounted to their present value.

REVIEW OF DEFERRED TAX ASSETS

The carrying amount of deferred tax assets should be reviewed at each balance sheet date.

Any such write-down may be reversed to the extent that it becomes reasonably certain or virtually certain, so that sufficient future taxable income will be available.

An enterprise should write-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, so that sufficient future taxable income will be available against which deferred tax asset can be realized.

DISCLOSURE

Statement of profit and loss

- Under AS 22, there is no specific requirement to disclose current tax and deferred tax in the statement of profit and loss.
- Considering the requirements under the Companies Act, 2013, the amount of income tax and other taxes on profits should be disclosed.
- AS 22 does not require any reconciliation between accounting profit and the tax expense.

Balance sheet

- The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balance should be disclosed in the notes to accounts.
- Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities.
- The nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws.

PRESENTATION

An enterprise should offset

Assets and liabilities representing current tax if the enterprise:
- has a legally enforceable right to set off the recognised amounts and
- intends to settle the asset and the liability on a net basis.

Deferred tax assets and deferred tax liabilities if
- enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and
- deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.

TRANSITIONAL PROVISION

On the first occasion that the taxes on income are accounted for in accordance with this Statement, the enterprise should recognise, in the financial statements, the deferred tax balance that has accumulated prior to the adoption of this Statement as deferred tax asset/ liability with a corresponding credit/charge to the revenue reserves, subject to the consideration of prudence in case of deferred tax assets.

The amount so credited/charged to the revenue reserves should be the same as that which would have resulted if this Statement had been in effect from the beginning.

FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The framework for preparation and presentation of financial statements (referred as Framework in this capsule) sets out the concepts underlying the preparation and presentation of general-purpose financial statements (financial statements which are prepared for general users) prepared by enterprises for external users. The framework explains components of financial statements, users of financial statements, qualitative characteristics of financial statements and elements of financial statements. The framework also explains concepts of capital, capital maintenance and determination of profit.*

The principal areas covered by the framework are :
- Components of financial statements;
- Objectives of financial statements;
- Assumptions underlying financial statements;
- Qualitative characteristics of financial statements;
- Elements of financial statements;
- Criteria for recognition of elements of financial statements;
- Principles of measurement of financial elements;
- Concepts of Capital and Capital Maintenance.

STATUS AND SCOPE

The framework applies to general-purpose financial statements (hereafter referred to as 'financial statements' usually prepared annually) for external users, by all commercial, industrial and business enterprises, whether in public or private sector. The special purpose financial reports, for example computations prepared for tax purposes are outside the scope of the framework. Nevertheless, the framework may be applied in preparation of such reports, to the extent not inconsistent with their requirements.

Nothing in the framework overrides any specific Accounting Standard. In case of conflict between an Accounting Standard and the Framework, the requirements of the Accounting Standard will prevail over those of the Framework.

COMPONENTS OF FINANCIAL STATEMENTS

A complete set of financial statements normally consists of a Balance Sheet, a Statement of Profit and Loss and a Cash Flow Statement together with notes, statements and other explanatory materials that form integral parts of the financial statements. All parts of financial statements are interrelated because they reflect different aspects of same transactions or other events. Although each statement provides information that is different from each other, none in isolation is likely to serve any single purpose nor can anyone provide all information needed by a user.

The major information contents of different components of financial statements are:

Balance Sheet	Statement of Profit and Loss	Cash Flow Statement	Notes and other statements
portrays value of economic resources controlled by an enterprise. It also provides information about liquidity and solvency of an enterprise which is useful in predicting the ability of the enterprise to meet its financial commitments as they fall due.	presents the result of operations of an enterprise for an accounting period, i.e., it depicts the performance of an enterprise, in particular its profitability.	shows the way an enterprise has generated cash and the way they have been used in an accounting period and helps in evaluating the investing, financing and operating activities during the reporting period.	present supplementary information explaining different items of financial statements. For example, they may contain additional information that is relevant to the needs of users about the items in the balance sheet and statement of profit and loss. per share, etc.

*The concepts of capital, capital maintenance and determination of profit will be discussed in next issue of Students' Journal.

OBJECTIVES AND USERS OF FINANCIAL STATEMENTS

The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users. The framework identifies seven broad groups of users of financial statements.

Users of Financial Statements

- Investors
- Employees
- Lenders
- Suppliers and Creditors
- Customers
- Govt.
- Public

FUNDAMENTAL ACCOUNTING ASSUMPTIONS

As per the framework, there are three fundamental accounting assumptions:

Fundamental Accounting Assumptions

Going concern

Financial statements are normally prepared on the assumption that an enterprise will continue in operation in the foreseeable future and neither there is an intention, nor there is a need to materially curtail the scale of operations.

Accrual

According to AS-1 Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

Consistency

It is assumed that accounting policies are consistent from one period to another. The consistency improves comparability of financial statements through time. According to Accounting Standards, an accounting policy can be changed if the change is required by statute or by an AS or for more appropriate presentation of financial statements.

TRUE AND FAIR VIEW OF FINANCIAL STATEMENTS

Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The framework does not deal directly with this concept of true and fair view, yet application of the principal qualitative characteristics (understandability, relevance, reliability and comparability) and appropriate accounting standards normally results in financial statements portraying true and fair view of information about an enterprise.

ELEMENTS OF FINANCIAL STATEMENTS

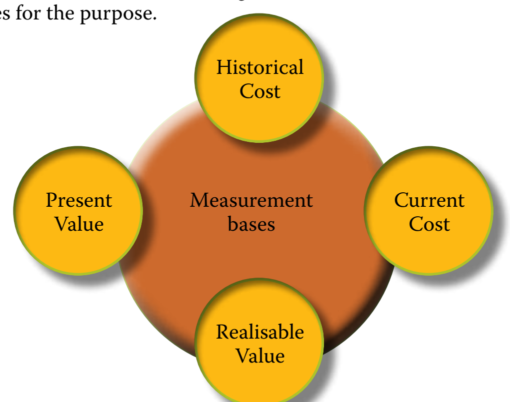
The framework classifies items of financial statements in five broad groups depending on their economic characteristics.

Elements of Financial Statements

- Asset
- Liability
- Equity
- Income
- Expenses

MEASUREMENT OF ELEMENTS OF FINANCIAL STATEMENTS

Measurement is the process of determining money value at which an element can be recognised in the balance sheet or statement of profit and loss. The framework recognises four alternative measurement bases for the purpose.



In preparation of financial statements, all or any of the measurement basis can be used in varying combinations to assign money values to financial items, subject to the requirement under the Accounting Standards.

1. Historical Cost: Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation. In some circumstances a liability is recorded at the amount of cash or cash equivalent expected to be paid to satisfy it in the normal course of business.

2. Current Cost: Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

3. Realisable (Settlement) Value: For assets, this is the amount of cash or cash equivalents currently realisable on sale of the asset in an orderly disposal. For liabilities, this is the undiscounted amount of cash or cash equivalents expected to be paid on settlement of liability in the normal course of business.

4. Present Value: Assets are carried at the present value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

CHAPTER 4 : TIME VALUE OF MONEY

At the foundation level with regards to Business Mathematics the topic Time Value of money is very important for students not only to acquire professional knowledge but also for examination point of view. Here in this capsule an attempt is made for solving and understanding the concepts of time value of money with the help of following questions with solutions.

Problems on Simple, Compound and Effective rate of interest

Simple interest = P.T.I., Where P = Principal, T = Time, I = Rate of Interest

1. A sum of money amount to ₹ 6,200 in 2 years and ₹ 7,400 in 3 years. The principal and rate of interest is

Solution: A sum of money in 2 years = P + P.2.I = ₹ 6200
A sum of money in 3 years = P + P.3.I = ₹ 7400
Interest in 1 year = ₹ 1200; Interest in 2 years = ₹ 2400
Amount = ₹ 6200, P= Principal = 6200-2400= ₹ 3800.

$2400 = 3800\times2\times\frac{I}{100}$, I = rate of interest = 31.58% .

2. A sum of money doubles itself in 10 years. The number of years it would triple itself is

Solution: $2P = P + \frac{PTR}{100}$, $P = \frac{PTR}{100}$; T = 10 then R = 10%
$3P = P + \frac{PTR}{100}$ then $2P = \frac{PTR}{100}$ and R= 10%
Time (T) = 20 years.

Amount =P $(1+i)^n$
Compound rate of interest = P(1+i)^n-P= A-P
where P = principle i= interest n =conversion period

3. The population of a town increases every year by 2% of the population at the beginning of that year. The number of years by which the total increase of population be 40% is

Solution: 1.4P = P(1+0.02)n
$(1.02)^n=1.4$, n = 17 years (app)

Depreciation (A)= $P(1-i)^n$
Where, A = Scrap Value, P = Original Cost, I =Depreciated at the rate, n = Number of years

4. A machine is depreciated at the rate of 20% on reducing balance. The original cost of the machine was ₹ 1,00,000 and its ultimate scrap value was ₹ 30,000. The effective life of the machine is

Solution: Here A = Scrap Value = 30,000 and
P = Original Cost = ₹ 1,00,000
$30000 = 100000\ (1-0.2)^n$
$3/10 = 0.3 = (0.8)^n$, n = 5.4 years .

5. The useful life of a machine is estimated to be 10 years and cost ₹ 10,000. Rate of depreciation is 10% p.a. The scrap value at the end of its life is

Solution: Here A = Scrap Value =?,
P= Original cost = 10,000 n= 10 , I = 10%
$A = 100000\ (1-0.1)^{10} = 10000(0.9)^{10}$
A = ₹ 3486.78

Effective rate of interest = $(1+i)^n-1$

6. The effective rate of interest corresponding a nominal rate of 7% p.a convertible quarterly is

Solution: Effective rate of interest = $(1+i)^n-1$, here n= 4,
i= 0.07/4 = 0.0175
= $(1+0.0175)^4-1=1.07186-1=7.19\%$

The difference between simple and compound interest for 2 years = $P.i^2$, where P =Principal, i= interest

7. The difference between the S.I and the C.I on ₹ 2,400 for 2 years at 5% p.a is

Solution: The difference between simple and compound interest for 2 years $=2400(0.05)^2=$ ₹ 6.

The difference between simple and compound interest for 3 years = $3P.i^2 + P.i^3$, where P = Principal i= Interest

8. The difference between the S.I and the C.I on a certain money invested for 3 years at 6% p.a is ₹ 110.16 the principle is

Solution: The differences between simple and compound interest for 3 years
$= 110.16 = P(3i^2+i^3)= P(3\times0.06^2+0.06^3)$
110.16 = P(0.0108+0.000216) =P(0.011016)
$P= \frac{110.16}{0.011016}$ = ₹ 10,000

9. The annual birth and death rates per 1,000 are 39.4 and 19.4 respectively. The number of years in which the population will be doubled assuming there is no immigration or emigration is

Solution: Here given, birth rate per 1,000 = 39.4 and death rates per 1,000 = 19.4
difference = 20 % per 1000 population

growth rate = $\frac{20}{1000}\times100=2\%$

Future population double
P =1000, A = 2000, r = 2%
$2000= 1000(1+0.02)^n$
$(1.02)^n = 2$
Number of years = n= 35

10. What annual rate of interest compounded annually doubles an investment in 7 years?
(Given that $2^{1/7}= 1.104090$)

Solution: If the principal be P, A_n = 2 p
Since $A_n = P(1+ i)^n$
2P = P (1+i)^7
$2^{1/7} = (1 + i)$
1.104090 = 1 + i
I = 0.10409, Required rate of interest = 10.41% per annum

11. Vidya deposited ₹ 60000 in a bank for two years with the interest rate of 5.5% p.a. How much interest she would earn? what will be the final value of investment?

Solution: Required interest amount is given by,
I = P × it = ₹ 60,000 × $\frac{5.5}{100}$ ×2 = ₹ 6,600

The amount value of investment is given by, A = P + I = ₹ (60,000 + 6600) = ₹ 66,600

12. Rajiv invested ₹ 75,000 in a bank at the rate of 8% p.a. simple interest rate. He received ₹ 135,000 after the end of term. Find out the period for which sum was invested by Rajiv.

Solution: We know A = P + Pit = P (1+it)

i.e. $135000 = 75000\ (1 + \frac{8}{100}\times t)$
$135000/75000 = \frac{100+8t}{100}$
1.8×100 – 100=8t
80 = 8 t
t (Time) = 10 years

13. Which is a better investment, 3.6% per year compounded monthly or 3.2% per year simple interest? Given that (1+0.003)^12 =1.0366.

Effective rate of interest E = $(1 + i)^n - i$

Solution: i=3.6/12 = 0.3% =0.003, n = 12

$E = (1 + i)^n - 1$

$= (1 + 0.003)^{12} - 1 = 1.0366 - 1 = 0.0366$ or = 3.66%

Effective rate of interest (E) 3.66% is more than the simple interest so the Effective rate of interest (E) is better investment than the simple interest 3.2% per year.

14. The C.I on ₹ 4,000 for 6 months at 12% p.a payable quarterly is

Solution: Here P = ₹ 4000, n = 6/3= 2 , r= 0.12/4= 0.03
Compound Interest = $[P(1+i)^n - P] = [4000(1+0.03)^2 - 4000]$ =₹ 243.60

Annuity *applications*

F = Future value = C.F. $(1 + i)^n$ Where C.F = Cash flow
i= rate of interest, n = time period

15. Ravi invest ₹ 5000 in a two-year investment that pays you 12% per annum. Calculate the future value of the investment

Solution: We know, F= Future value = C.F.$(1 + i)^n$, Where C.F= Cash flow =₹ 5000, i = rate of interest=0.12,n = time period=2

F= ₹ $5000(1+0.12)^2$=₹ 5000×1.2544 =₹ 6272.

Annuity regular means :First payment at the end of the period.
Future value of the annuity regular =A(n,i)= A. $\left[\frac{(1+i)^n - 1}{i}\right]$

Annuity regular: In annuity regular first payment/receipt takes place at the end of first period.

16. Find the future value of an annuity of ₹ 5000 is made annually for 7 years at interest rate of 14% compounded annually. [Given that $(1.14)^7$= 2.5023]

Solution: Here annual payment A=₹ 5000, n=7, i=14% = 0.14

Future value of the annuity=A(7,0.14)=5000. $\left[\frac{(1+0.14)^7 - 1}{(0.14)}\right]$ =

$5000\left[\frac{(2.5023 - 1)}{0.14}\right]$ = ₹ 53653.57

Future value of Annuity due or Annuity Immediate: When the first receipt or payment at the beginning of the annuity) it is called annuity due or annuity immediate.

17. ₹ 2000 is invested at the end of each month in an account paying interest 6% per year compounded monthly. What is the future value of this annuity after 10th payment? Given that $(1.005)^{10}$ = 1.0511

Solution: Here A= ₹ 2000, n= 10, i= 6% per annum= 6/12 % per month = 0.005

Future value of annuity after 10 months is given by

$$A(n,i) = A\left[\frac{(1+i)^n - 1}{i}\right]$$

$$A(10, 0.005)=2000\left[\frac{(1+0.005)^{10} - 1}{0.005}\right] = 2000\left[\frac{(1.0511)-1}{0.005}\right]$$

=2000×10.22 = ₹ 20440

Future value of the annuity regular or annuity due = $A\left[\frac{(1+i)^n - 1}{i}\right] \times (1 + i)$

18.Swati invests ₹ 20,000 every year starting from today for next 10 years. Suppose interest rate 8% per annum compounded annually. Calculate future value of the annuity. Given that $(1 + 0.08)^{10}$ = 2.158925)

Solution: Calculate future value as though it were an ordinary annuity.
Future value of the annuity as if it were an ordinary annuity

=₹ $20000\left[\frac{(1+0.08)^{10} - 1}{0.08}\right]$

=₹ 20000 × 14.486563 =₹ 289731.25

Multiply the result by (1 + i) =₹ 289731.25 × (1+0.08)

=₹ 312909.76

19. What is the present value of ₹ 100 to be received after two years compounded annually at 10%.

Solution: Here A_n = ₹ 100, i=10% = 0.1 , n= 2

Required present value= $\frac{A_n}{(1+i)^n} = \frac{100}{(1+0.1)^2} = \frac{100}{(1.21)}$ =82.64

Thus ₹ 82.64 shall grow to ₹ 100 after 2 years at 10% compounded annually.

20. Find the present value of ₹ 10000 to be required after 5 years if the interest rate be 9%. Given that $(1.09)^5$=1.5386.

Solution: Here i= 0.09 , n =5, An=10000

Required present value = $\frac{A_n}{(1+i)^n} = \frac{10000}{(1+0.09)^5} = \frac{10000}{(1.5386)}$=₹ 6499.42

Present Value of Annuity regular= A= P(n, i) =A. $\left[\frac{(1+i)^n - 1}{i(1+i)^n}\right]$,
P(n,i) = $\left[\frac{(1+i)^n - 1}{i(1+i)^n}\right]$

21.Soni borrows ₹ 5,00,000 to buy a car. If he pays equal instalments for 10 years and 10% interest on outstanding balance, what will be the equal annual instalment? Given [P(10,0.10) =6.14457]

Solution: We know, A = $\frac{V}{P(n,i)}$ Here V = ₹ 500000 , n = 10, I = 10% p.a.= 0.10

Annual Instalment= $\frac{V}{P(n,i)}$= ₹ $\frac{5,00,000}{P(10,0.10)}$= ₹ $\frac{5,00,000}{6,14457}$
= ₹ 8,1372.66

22. If ₹ 10,000 is paid every year for ten years to pay off a loan. What is the loan amount if interest rate be 14% per annum compounded annually? Given [P(10,0.14) =5.21611]

Solution: V = A.P(n,i) Here A = ₹ 10000 , n=10, i=0.14
V = 10000×P(10, 0.14)
= 10000×5.21611=₹ 52161.10
Therefore, the loan amount is ₹ 52161.10

23. Ram bought a Scooter costing ₹73000 by making a down payment of ₹ 3000 and agreeing to make equal annual payment for four years. How much would be each payment if the interest on unpaid amount be 14% compounded annually? Given [P(4 ,0.14) =2.91371]

Solution: In the present case we have present value of the annuity i.e. ₹ 70000 (73000-3000) and we have to calculate equal annual payment over the period of four years.

We know that, V = A. P (n , i) Here n = 4 and I = 0.14

A= $\frac{V}{P(n,i)} = \frac{70000}{P(4,0.14)} = \frac{70000}{2.91371}$

Therefore, each payment = ₹ 24024.35

24. Suppose your Father decides to gift you ₹ 20,000 every year starting from today for the next six years. You deposit this amount in a bank as and when you receive and get 10% per annum interest rate compounded annually. What is the present value of this annuity?

Solution: For calculating value of the annuity immediate following steps will be followed. Present value of the annuity as if it were a regular annuity for one year less i.e. for five years

= ₹ 20,000 × P(5, 0.10)

= ₹ 20, 000× 3.79079 = ₹ 75815.80

Add initial cash deposit to the value, ₹ (75815.80+20,000) = ₹ 95815.80

Sinking Fund: Interest is computed at end of every period with specified interest rate.

25.How much amount is required to be invested every year so as to accumulate ₹ 5,00,000 at the end of 10 years if interest is compounded annually at 10%? Given A. (10, 0.1)= 15.9374248

Solution: Here A = 500000, n = 10, $A(n,i) = \left[\frac{(1+i)^n - 1}{i}\right] = \left[\frac{(1+01)^{10} - 1}{0.1}\right] = 15.9374248$

since A = P. A. (n ,i)

500000 =P A. (10, 0.1) = P × 15.9374248

$$P = \left[\frac{500000}{15.9374248}\right] = ₹\ 31372.70$$

26. ABC Ltd. wants to lease out an asset costing ₹ 360000 for a five year period. It has fixed a rental of Rs.105000 per annum payable annually starting from the end of first year. Suppose rate of interest is 14% per annum compounded annually on which money can be invested by the company. Is this agreement favorable to the company?

Solution: First, we have to compute the present value of the annuity of ₹ 105000 for five years at the interest rate of 14% p.a. compounded annually.

The present value V of the annuity is given by

V =A.P (n ,i) = 105000 × P (5, 0.14)

= 105000 ×3.43308 = ₹ 360473.40

which is greater than the initial cost of the asset and consequently leasing is favourable to the lessor.

27.A company is considering proposal of purchasing a machine either by making full payment of ₹ 4000 or by leasing it for four years at an annual rate of ₹ 1250. Which course of action is preferable if the company can borrow money at 14% compounded annually?

Solution: The present value V of annuity is given by

V =A.P (n ,i) = 1250 × P (4,0.14)

= 1250× 2.91371 = ₹ 3642.11

which is less than the purchase price, and consequently leasing is preferable.

28.A machine can be purchased for ₹ 50000. Machine will contribute ₹ 12000 per year for the next five years. Assume borrowing cost is 10% per annum compounded annually. Determine whether machine should be purchased or not.

Solution: The present value of annual contribution

V = A.P. (n ,i)

= 12000 P(5,0.10) = 12000 × 3.79079

= ₹ 45489.48

which is less than the initial cost of the machine. Therefore, machine must not be purchased.

29.A machine with useful life of seven years costs ₹ 10000 while another machine with useful life of five years costs ₹ 8000. The first machine saves labour expenses of ₹ 1900 annually and the second one saves labour expenses of ₹ 2200 annually. Determine the preferred course of action. Assume cost of borrowing as 10% compounded per annum.

Solution: The present value of annual cost savings for the first machine = ₹ 1900.P (7, 0.10)

= ₹ 1900 × 4.86842 = ₹ 9250

cost of machine being Rs.10000 it costs more by ₹ 750 than it saves in terms of labour cost.

The present value of annual cost savings of the second machine = ₹ 2200.P (5,0.10)= ₹ 2200 x 3.79079 = ₹ 8339.74

Cost of the second machine being ₹ 8000, effective savings in labour cost is ₹ 339.74. Hence the second machine is preferable.

30.An investor intends purchasing a three year ₹ 1000 par value bond having nominal interest rate of 10%. At what price the bond may be purchased now if it matures at par and the investor requires a rate of return of 14%?

Solution: Present value of the bond $= \frac{100}{(1+0.14)^1} + \frac{100}{(1+0.14)^2} + \frac{100}{(1+0.14)^3} + \frac{1000}{(1+0.14)^3}$

= 100 × 0.87719 + 100 × 0.769467 + 100 × 0.674 972

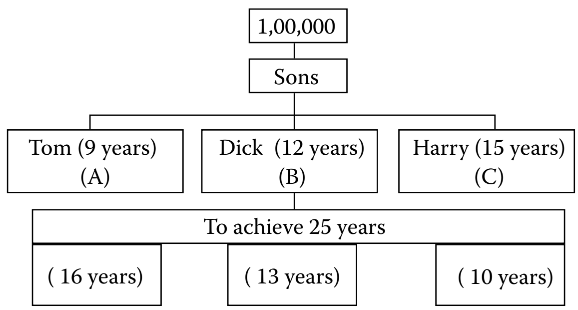
+ 1000 × 0.674972

= 87.719+ 76.947+ 67.497+ 674.972 = 907.125

Thus the purchase value of the bond is ₹ 907.125

31. Johnson left ₹ 1,00,000 with the direction that it should be divided in such a way that his minor sons Tom, Dick and Harry aged 9, 12 and 15 years should each receive equally after attaining the age 25 years. The rate of interest being 3.5%, how much each son receives after getting 25 years old?

Solution: Given problem can be explained as



$$A\left(1+\frac{3.5}{100}\right)^{16} = B\left(1+\frac{3.5}{100}\right)^{13} = +C\left(1+\frac{3.5}{100}\right)^{10}$$

$A(1.035)^{16} = B(1.035)^{13} = C(1.035)^{10}$

$A(1.035)^{6} = B(1.035)^{3} = C$------(I)

A : B : C = 1 : $(1.035)^3$: $(1.035)^6$

A + B + C= 100000

x + x $(1.035)^3$+ x $(1.035)^6$ = 100000

x [1+$(1.035)^3$+ $(1.035)^6$] = 10. 0000

x(3.337973) = 1,00,000 then x = ₹ 29958.30 (A' s share)

B' s share = 29958.30 (1.035)3= ₹ 33215.30

C' s share = 29958.30 (1.035)6= ₹ 36826.40

32. A machine costs ₹ 5,20,000 with an estimated life of 25 years. A sinking fund is created to replace it by a new model at 25% higher cost after 25 years with a scrap value realization of ₹ 25000. what amount should be set aside every year if the sinking fund investments accumulate at 3.5% compound interest p.a.?

Solution: Cost of new machine = $5,20,000 \times \frac{125}{100}$ = ₹ 6,50, 000, Scrap value = ₹ 25,000

For new machine = 650000-25000= ₹ 6,25, 000.

Here = ₹ 6,25, 000, n= 25 , i=3.5%=0.035

$$6,25,000 = P\left[\frac{(1+i)^n - 1}{i}\right] = P\left[\frac{(1+0.035)^{25} - 1}{0.035}\right]$$

$$6,25,000 = P[38.95] \text{ then } P = \frac{625000}{38.95} = ₹\ 16046.27$$

NEWS UPDATES

FINANCE UPDATES

BSE, NSE CEOs lead by example to keep business ticking

Capital markets are considered an integral component of essential services and have continued to remain functional despite the lockdown.

https://www.livemint.com/market/stock-market-news/bse-nse-ceos-lead-by-example-to-keep-business-ticking-11586723418097.html

Coronavirus outbreak seen dragging down Q4 earnings

Corporate earnings for the fourth quarter of FY20 are expected to decline as the slowing economy was further hit by weak business activity following the covid-19 outbreak and the subsequent nationwide lockdown.

https://www.livemint.com/market/stock-market-news/coronavirus-outbreak-seen-dragging-down-q4-earnings-11586715057156.html

Lockdown will hit credit profiles of India Inc, say rating firms

Business disruption because of the ongoing nationwide lockdown will lead to a near-term worsening of the credit quality at Indian companies, which were already under pressure in FY20 due to sluggish consumption and investment, ratings agencies said. The ability of companies to rebound from near-frozen demand will be critical in the post-lockdown period.

https://www.livemint.com/news/india/covid-19-ability-to-rebound-after-lockdown-key-to-india-inc-s-credit-quality-11585829301772.html

ECONOMIC UPDATES

India's unemployment rate shoots to 23.5% in April 2020: CMIE

After over five weeks of coronavirus lockdown, India's unemployment rate shot up 14.8% to reach 23.5% in the month of April, much higher than 8.7% reported in the previous month, according to data released by think-tank Centre for Monitoring Indian Economy (CMIE) .

https://www.businesstoday.in/current/economy-politics/india-unemployment-rate-april-cmie-highest/story/402589.html

IMF cuts India GDP growth to 1.9 %, project sharp contraction in global economy

Amid projection of sharp contraction in the global economy, the International Monetary Fund (IMF) cut India's GDP (Gross Domestic Products) growth rate to 1.9 per cent in fiscal year 2020-21 starting April 1. However, it expects economy to bounce back strongly in fiscal 2021-22.

https://www.thehindubusinessline.com/economy/imf-cuts-india-gdp-growth-to-19-projects-sharp-contraction-in-global-economy/article31340272.ece#

World economy bound to suffer 'severe recession': IMF

The world economy, already "sluggish" before the coronavirus outbreak, is now bound to suffer a "severe recession" in 2020, IMF said and warned current crisis posed "daunting challenges" for policymakers in many emerging markets and developing economies.

https://economictimes.indiatimes.com/news/international/business/world-economy-bound-to-suffer-severe-recession-imf/articleshow/75216380.cms

Govt unlocks ₹ 1.7 lakh crore relief for poor to fight Covid-19 lockdown

The Union government has announced a ₹ 1.7 lakh crore relief package to mitigate the impact of coronavirus. Finance Minister Nirmala Sitharaman also announced an insurance cover worth ₹ 50 lakh per person for sanitation workers, ASHA workers, doctors, nurses and paramedics. The package offers the following: additional 15 kg grain (rice or wheat) and 3 kg of dal free to 80 crore poor Indians; ex gratia ₹1,500 (₹500 over the next three months) to 20 crore Jan Dhan account-holding women; free liquefied petroleum gas (LPG) to 8.64 crore Ujjwala beneficiaries; addition support of an extra one-time ₹1,000 to the three crore senior citizens, widows and divyangs (differently abled). Besides, the five crore families of MGNREGA workers will received increased wage support of up to ₹2000.

https://government.economictimes.indiatimes.com/news/economy/govt-unlocks-rs-1-7-lakh-crore-relief-for-poor-to-fight-covid-19-lockdown/74830860

https://economictimes.indiatimes.com/news/economy/policy/view-govts-relief-measures-will-help-those-worst-affected-by-the-lockdown-but-will-it-do-the-trick/articleshow/74836029.cms?from=mdr

Announcement

Referencer for quick Revision comprising compiled subject capsules featured in this publication from 2017 onward for all subjects for CA Intermediate and Final can be accessed at:

Intermediate: **https://www.icai.org/new_post.html?post_id=16431**

Final: **https://www.icai.org/new_post.html?post_id=16430**

Director, BOS

Important Announcement

COVID -19

Due to ongoing period of lock down amid Covid-19 it has been observed that students are facing problems in online filing of various application forms related to practical training within prescribed time and such delay is causing levy of condonation fee up on them.

Considering hardship faced by the students it has been decided to waive off condonation fee on delay filing of all articled/industrial training related application forms till 30th June if transaction date in such application forms falls between 1st March 2020 to 30th May 2020. This period includes one-month prescribed time limit given in general.

Additional Secretary
M&C-MSS SECTION
ICAI, NOIDA

Announcement

Completion of MCS Course and Advanced IT Course through Virtual Mode for Final November, 2019 passed students and for the students whose result is withheld for November, 2019 Final Exam.

In view of the ongoing spurt of the COVID-19 virus pandemic and subsequent suspension of IT and Soft Skill classes all across the country, the Council at its 392nd Meeting, decided that students who have passed Final Examination in November, 2019 and the students whose result is withheld for November, 2019 Final Exam as one time measure can undergo MCS and Advanced IT Course through virtual mode https://virtualmcs.icai.org/ as per the following :

- The students who have partially undergone the Course shall be completing the balance hours of the Course though virtual mode. The students who are yet to start the course shall be undergoing the complete course.
- The students who have already paid the fees for physical classes through online portal www.icaionlineregistration.org need not pay fees again in virtual mode.
- The students who have not registered in any of the Course shall pay ₹ 7000 and ₹ 7500 for MCS Course and Adv. IT Course respectively at Virtual platform.

Virtual MCS Course is LIVE. Virtual Adv.IT Course will be LIVE from 12th May, 2020.

Students Skills Enrichment Board, BOS (Operations)

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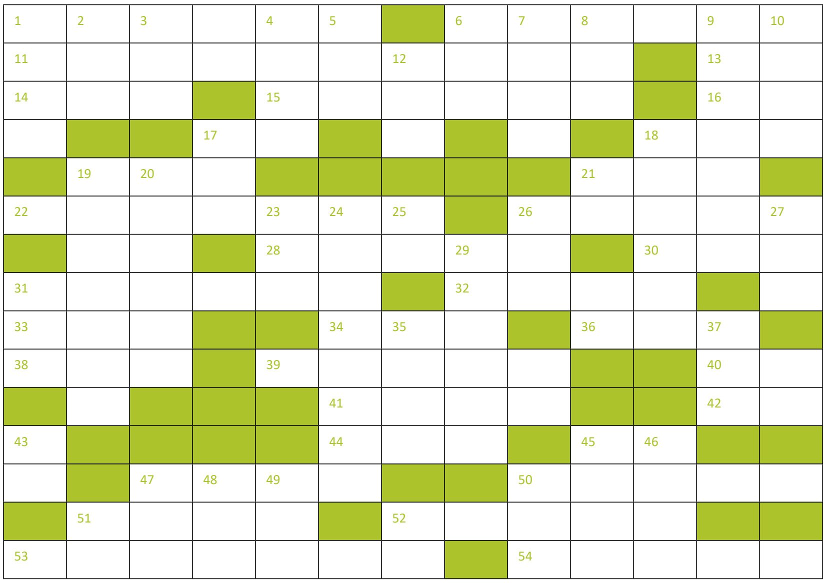
CROSSWORD - MAY 2020



ACROSS

1. In Database management system, a tuple is equivalent to ________
6. In a graph of cost-volume-profit relationships, _________ begins to the right of the break-even point.
11. Avoidable costs are __________ if a product or segment is discontinued.
13. Negation
14. An individual or HUF opting for new section 115BAC w.e.f. A.Y. 2021-22 will not be liable to pay ________
15. Ditched
16. A screen-oriented text editor created for the Unix operating system.
17. The HTML ___ element is used to represent an item in a list.
18. A politician
19. An enemy
21. A ratio between net profit and cost of investment.
22. Nils Nilsson headed a team at SRI that created a mobile robot named ________
26. Express opinion
28. Stupid
30. Glimpse
31. An individual who is a _________ resident would always be a resident but not ordinarily resident.
32. One time
33. An Indian state-owned insurance group and investment corporation owned by the Govt. of India.
34. A measure of an investment's rate of return.
36. A means of collecting income tax in India
38. A person or business authorized to work on other's behalf.
39. The term ____________ cost used to describe direct materials cost combined with direct labour cost.
40. Pronoun used for single male
41. Great enthusiasm
42. ___ MONEY: A type of mutual fund investment.
44. A Union Government owned engineering company based in India.
45. A kind of term deposit offered by banks
47. The manager of a ____________ centre is responsible for producing a quality product or service at reasonable but minimal cost.
50. Fast
51. Cradle
52. An input device which feeds information based on your movement and button presses directly to the computer.
53. Measures of customer complaints and warranty claims are used in tracking _________ performance.
54. A web application which provides speech to text transcription.

DOWN

1. The --------- function attempts to read nbyte bytes from the file associated with the open file descriptor.
2. A domain-specific programming language for declaratively creating web browser-based graphical user interfaces.
3. In accounting terms, ----------- is any item you record on your income statement that hasn't yet shown up on your bank statement.
4. Commute
5. A type of nucleic acid that carries genetic information
6. The international honour society of two-year colleges and academic programs, particularly state colleges and community colleges.
7. Atoll, Shoal
8. Numbers which cannot be divided by 2 are called ---- numbers.
9. Bill
10. Slave
12. One of the methods for finding elasticity in Economics.
17. _____ Tolstoy.
18. Composed, dignified.
19. From A.Y.2021-22, an individual who is a citizen of India, having total income (excluding Income from _______ sources) exceeding Rs.15 lakhs, shall be deemed as a resident, if he is not liable to pay tax in any other country by reason of his domicile or residence or any other criteria of similar nature.
20. A Java _______ is a self-contained component which consists of methods and properties to make certain type of data useful.
23. Equal
24. Supporting service departments costs have ____________ connection with products.
25. Prefix used by professional passing from the ICAI.
26. _____ is a representative digital currency.
27. A South American electric fish
29. A measure of expected average utilization of productive capacity over a span of years is ____________capacity.
31. A packet writing technology for CD and DVD media that uses the UDF file system.
35. Anger
37. Pronoun used for single female
43. An open programming language
45. A multi-paradigm programming language
46. Abstinence from food
47. A law to encourage depository institutions to meet the credit need of low-and moderate-income neighbourhoods.
48. One of the main items of imports of India.
49. An Indian multinational, public sector banking and financial services statutory body.
50. Quid Pro ---- : A favour or advantage granted in return for something.
52. The possessive form of I

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