SOLUTION FOR NOVEMBER 2020 PAPER
FINANCIAL REPORTING (NEW SYLLABUS)

1: (a) ....Marks 12 [Ind AS 109: Financial Instr. and Analysis of Accounts]

On 1st April, 2020, Star Ltd. has advance a loan for ₹15 lakhs to one of its employees for an interest rate at 6% per annum (market rate 10%) which is repayable in 5 equal annual installments along with interest at each year end. Employee is not required to give any specific performance against this benefit. The accountant of the company has recognised the staff loan in the balance sheet equivalent to the amount disbursed i.e. ₹15 lakhs. The interest income for the period is recognised at the contracted rate in the Statement of Profit and Loss by the company i.e. ₹90,000 (₹15 lakhs x 6%). Analyse whether the above accounting treatment made by the accountant is in compliance with the Ind AS. If not, advise the correct treatment alongwith working for the same as per Ind AS for the year 2020-2021.

Solution:

The Accountant of Star Ltd. has recognised the staff loan in the balance sheet at ₹15 lakhs being the amount disbursed and ₹ 40,000 as interest income for the period is recognised at the contracted rate in the statement of profit and loss which is not correct and not in accordance with Ind AS 109 and Ind AS 19.

Accordingly, the staff advance being a financial asset shall be initially measured at the fair value and subsequently at the amortised cost. The interest income is calculated by using the effective interest method. The difference between the amount lent and fair value is charged as Employee benefit expense in statement of profit and loss.

Step 1: Calculation of Fair value of loan:

Year	Cash flow	PVF	PVCF
2020-21	390000	0.909	3,54,510
2021-22	372000	0.826	3,07,272
2022-23	354000	0.751	2,65,854
2023-24	336000	0.683	2,29,488
2024-25	318000	0.621	1,97,478
			13,54,602

Step 2: Amortisation of loan:

Year	Opening balance	Effective interest	Cash flows recd.	Closing Balance
2020-21	13,54,602	135,460	-390,000	11,00,062
2021-22	11,00,062	110,006	-372,000	8,38,068
2022-23	8,38,068	83,807	-354,000	5,67,875
2023-24	5,67,875	56,788	-336,000	2,88,663
2024-25	2,88,663	#29,337	-318,000	0

approx..

Correct presentation: for 2020-2021

Assets: **Non-Current Assets:** *Financial Assets:* (i) Loan	8,38,068	Entries: ***Initial:*** Staff loan Dr. 13,54,602 Profit / loss Dr. 1,45,398

		To Bank 15,00,000
Current Assets: *Financial Assets:* (i) Loan (1100062-838068)	2,61,994	***Year end:*** Bank Dr. 3,90,000 To Interest 1,35,460 (P/L) To Staff cost 2,54,540 (balancing fig)

1. (b) ....Marks 8 : [Ind AS 33: Earnings per share]

The following information is available relating to Space India Limited for the Financial Year 2019-20.

Net profit attributable to equity shareholders	₹ 90,000
No. of equity shares outstanding	16,000
Average fair value of one equity during the year	₹ 90

Potential Ordinary Shares:

Options	900 options with exercise price of ₹ 75
Convertible Preference Shares	7,500 shares entitled to a cumulative dividend of ₹9 per share. Each preference share is convertible into 2 equity shares.
Applicable corporate dividend tax	8%
10% Convertible Debentures of ₹ 100 each	₹ 10,00,000 & each debentures is convertible into 4 equity shares
Tax rate	25%

You are required to compute Basic & Diluted EPS of the company for the financial Year 2019-20.

Solution:

	31.3.2020
Basic ESP = Net profit for equity / WANES	<u>90,000</u> 16,000 **₹5.63.**

For Diluted EPS (ranking for series of issue):

	Options	**CPS**	**Cov.Debn.**
Incremental EPS $= \dfrac{\text{Incremental earnings}}{\text{Incremental shares for no consideration}}$	$\dfrac{0}{150}$ **0**	$\dfrac{72900}{15000}$ **4.86**	$\dfrac{75000}{40000}$ **1.88**
Least ratio is most dilutive →	I	III	II

For options:
Incremental shares:
Gross shares to be issued = 900
Less: Shares for fair consideration (750) (900*75) / 90
Shares for no consideration = 150

For Conv. Preference shares:
Shares for no consideration = 7500*2 = 15,000
Savings post tax on conversion = 7500*9*1.08 (CDT) = 72,900

For Conv. Debentures:
Shares for no consideration = 10000*4 = 40,000
Savings post tax on conversion = 10000*100*10%*(1-0.25) = 75,000

Calculation of Diluted EPS:	**31.3.2020**
Basic ESP =	₹5.63
Options for dilution: 90000+0 / 16000+150 ;	₹5.57 Dilutive
Options + Convertible Debentures 90000+75000/16150 + 40000	₹2.94 Dilutive
Options + Convertible Debentures + Conv. Preference Shares 90000+75000+72900 / 16150 + 40000 + 15000	₹3.34 Anti -dilutive

Final reporting as per Ind AS 33:

Basic ESP =	**₹5.63**
Dilution:	**₹2.94**

2. (a) ....Marks 14 : [Ind AS 115: Revenue from contract with customers]

ABC Limited supplies plastic buckets to wholesaler customers. As per the contract entered into between ABC Limited & a customer for the financial year 2019-20, the price per plastic bucket will decrease retrospectively as sales volume increase within the stipulated time of one year. The price applicable for the entire sale will be based on sales volume bracket during the year.

Price per unit (INR)	**Sales volume**
90	0 – 10,000 units

80	10,001 – 35,000 units
70	35,001 units & above

All transactions are made in cash.

(i) Suggest how revenue is to be recognised in the books of accounts of ABC Limited as per expected value method, considering a probability of 15%, 75% & 10% for sales volumes of 9,000 units, 28,000 units & 36,000 units respectively. For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under expected value method for the financial year 2019-20.

(ii) In case ABC Limited decides to measure revenue, based on most likely method instead of expected value method, how will be the revenue recognised in the books of accounts of ABC Limited based on above available information? For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under most likely value method for the financial year 2019-20.

(iii) You are required to pass Journal entries in the books of ABC Limited if the revenue is accounted for as per expected value method for financial year 2019-20.

Solution:

(i) Revenue for 2019-2020:

As per Ind AS 115: The expected value - the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

As per expected value method the Revenue is calculated as weighted avg of all revenue. Hence probable Revenue = 9000*15% + 28000*75% + 36000*10% = 25,950 units.

Revenue in ₹ = 25,950 x 80 = ₹20,76,000.

(ii) Revenue for 2019-2020:

As per Ind AS 115: The most likely amount - the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract).

As per most likely method Revenue = 28,000 units.

Revenue in ₹ = 28000 x 80 = ₹22,40,000.

iii) Journal entry for Revenue for 2019-2020: (assuming expected value method)

Cash a/c. Dr. ₹20,76,000

To Revenue ₹20,76,000

Problem 2 (b) ....Marks 6 [Ind AS 34: Interim Financial Statement]

Lal Ltd provides following information for the financial year 2019-20:
Estimated annual income ₹16,50,000 (inclusive of estimated capital gains of ₹4,00,000).
Quarter I = ₹3,50,000 ; Quarter II = ₹4,00,000 ; Quarter III = ₹6,00,000 (including capital gains ₹4,00,000) ; Quarter IV = ₹3,00,000.

Assumed tax rates: Capital Gains: 12%, Other income: first 2,50,000 = 20% and balance income = 30%. Assuming there is no difference between taxable income and accounting income. Compute tax as per Ind AS 34.

Solution:
Other income = Total estimated income less capital gains = 1650000 – 400000 = ₹12,50,000.

Avg. Annual tax % under capital gain = 12%
Tax on other income based on slab =
20% on first 250000 and 30% on balance 1000000 = ₹3,50,000.
Avg. tax rate = 350000/1250000 = 28%
Tax expense for Q1 = 350000 x 28% = ₹98,000
Tax expense for Q2 = 400000 x 28% = ₹1,12,000
Tax expense for Q3= (200000 x 28% + 400000 x 12%) = ₹1,04,000
Tax expense for Q4 = 300000 × 28% = ₹84,000.

3. (a)......................Marks 8: [Ind AS 116: Lease]

Venus Ltd (Seller-lessee) sells a building to Mars Ltd (Buyer-lessor) for cash of ₹28,00,000. Immediately before the transaction, the building is carried at a cost of ₹13,00,000. At the same time, Seller -lessee enters into a contract with Buyer -lessor for the right to use the building for 20 years, with annual payments of ₹2,00,000 payable at the end of each year.
The terms and conditions of the transaction are such that the transfer of the building by Venus Ltd satisfies the requirements for determining when a performance obligation is satisfied in accordance with "Ind AS 115 Revenue from Contracts with Customers".

The fair value of the building at the date of sale is ₹25,00,000. The interest rate implicit in the lease is 12% p.a., which is readily determinable by (Seller-lessee). Mars Ltd. classifies the lease of the building as an operating lease. How should the said transaction be accounted by the Venus Ltd.? (Cum PVF 12% for 20 payments ₹14,94,000).

Solution:
Considering facts of the case, Venus Ltd. (Seller-lessee) and Mars Ltd. (Buyer-lessor) account for the transaction as a sale and leaseback.
Firstly, since the consideration for the sale of the building is not at fair value, Seller -lessee and Buyer - lessor make adjustments to measure the sale proceeds at fair value. .

Sale price	28,00,000

Less: FV on the date of sale	(25,00,000)
Additional financing provided by Buyer-lessor to Seller-lessee:	**3,00,000**

The off – market is: (which-ever is more reliable).
i) SP > FV = 2800000 – 2500000 = ₹3,00,000
ii) PV of [Actual rent – Fair rent] = Fair rent not given.

PV of Dedicated Lease payments = (1494000 – 300000) = ₹ 11,94,000.

As seller – lessee has not bought back entire asset but only the ROU Asset, the ROU Asset should be lower than the Carrying amount before sale.

Carrying amount	13,00,000
Fair value (on the date of sale)	25,00,000
PV of lease payments 20 years	11,94,000
Proportionate ROU asset: (1300000x 1194000 / 2500000)	**6,20,880**

$$\text{Proportionate ROU Asset} = \text{Carrying amt.} \times \frac{\text{PV of dedicated LP}}{\text{FV of asset}}$$

Books of Venus Ltd. (Seller / Lessee)		
Bank a/c. Dr. *(sale proceeds)*	28,00,000	
ROU Asset a/c. Dr. *(rights retained)*	6,20,880	
To Asset a/c. *(carrying amt)*		13,00,000
To Financial Liability a/c. *(addln. Finance)*		3,00,000
To Lease liability a/c. *(PV of dedicated lease)*		11,94,000
To Profit on sale a/c. *(bal. fig.)*		6,26,880
Year end 1:		
Depreciation a/c. Dr	31,044	
To ROU asset		31,044
(620880 / 20)		
Financial cost Dr.	1,79,280	
To Lease liability		1,43,280 (12% on 1194000)
To Financial liability		36,000 (12% on 300000)
Lease liability Dr.	40,161	
Financial liability Dr.	1,59,839	
To Cash		2,00,000
(200000 is divided in the ratio of 300000:1194000)		

3. (b) : ……………….Marks 8: [Ind AS 36 Impairment of assets]

Pacific Ocean Railway Ltd. has three Cash Generating units namely Train, Railway station & Railway tracks, the carrying amounts of which as on March 31st, 2020 are as follows :

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

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

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

Recoverable amount as on March 31st, 2020 is as follows :

Cash Generating units	**Recoverable amount (₹ in crore)**
Train	1,800
Railway station (RS)	2,700
Railway tracks (RT)	4,200
Company as a whole	9,600

Calculate the impairment loss, if any. Ignore decimals.

Solution:

Allocation of Corporate Asset: ***(₹ crores)***

	Train	RS	RT	Total
Carrying amount …………a	1500	2250	3300	7050
Useful life	10	20	20	
Weight based on useful life	15000	45000	66000	126000
	11.90%	35.71%	52.39%	100%
Allocated Land …………b	214	643	943	1800
Carrying amount (after allocation of building)	1714	2893	4243	8850
Calculation of impairment :				
Total Carrying amount	1714	2893	4243	
Recoverable amount	1800	2700	4200	
Impairment loss	-	193	43	
Allocation of impairment loss:				
RS = (193*2250 / 2893) =		150		
RT = (43*3300 / 4243) =			33	
Land = (193+43) – (150+33) = 53				

Now impairment loss for the unallocated Building

	Train	RS	RT	Land	Bldg.	Total
Carrying amount	1500	2250	3300	1800	600	
Impairment loss	-	(150)	(33)	(53)	-	
Revised carrying amount	**1500**	**2100**	**3267**	**1747**	**600**	**9214**
Recoverable value						9600
Impairment of R & D (larger CGU)						Nil

No impairment on building as the Recoverable Value of the entire Company is more than its Carrying amount.

3 (c) ……………………..Marks 4 [Ind AS 2 and 109 Inventory and Financial instruments]

Sophia Ltd. has fabricated special equipment (Inverter panel) during 2018-2019 as per drawing and design supplied by the customer. However, due to a liquidity crunch, the customer has requested the company for postponement in delivery schedule and requested the company to withhold the delivery of finished goods products and discontinue the production of balance items.

As a result of the above, the details of customer balance and the goods held by the company as work-in-progress and finished goods as on 31-03-2020 are as follows:

Inverter panel (WIP) = ₹255 lakhs

Inverter panel (finished products) = ₹165 lakhs

Sundry Debtors (inverter panel) = ₹195 lakhs

The petition for winding up against the customer has been filed during 2019-2020 by Sophia Ltd. Comment with explanation on provision to be made of ₹615 lakh included in Sundry Debtors, Finished goods and work-in-progress in the financial statement of 2019-2020.

Solution:

As the customer has postponed the delivery schedule due to liquidity crunch the entire cost incurred for inverter power panel which were to be supplied has been shown in Inventory. The inverter panel are in the possession of the Company which can be sold in the market. Hence company should value such inventory as per principle laid down in **Ind AS 2 i.e. lower of Cost or NRV.** Though, the goods were produced as per specifications of buyer the Company should determine the NRV of these goods in the market and value the goods accordingly. To the extent NRV is below Cost write off the inventories.

Alternatively, if it is assumed that there is no buyer for such fabricated Inverter panel, then the NRV will be Nil. In such a case, full value of finished goods and WIP will be provided for in the books.

As regards Sundry Debtors balance, since Sophia Ltd. has filed a petition for winding up against the customer in 2019-2020, it is probable that amount is not recoverable from the party. Hence, the Long term ECL (expected credit loss) for bad – debts (impairment loss) is to be provided i.e. ₹195 lakhs in accordance with Ind AS – 109.

4. (a)....................Marks 6: [Ind AS 32: Presentation of Financial instruments]

On April 2019 8% convertible loan with nominal value of ₹12,00,000 issued. The debentures are due for redemption on 31 March 2023 at par. Alternatively, the loan can be convertible into equity shares to the extent of 100 shares for ₹200 worth of loan.
Without conversion option interest rate is 10%. Interest of ₹96,000 has been paid.
The following present values of Re 1 at 8% and at 10% are provided:

Interest rate	Year 1	Year 2	Year 3	Year 4
8%	0.93	0.86	0.79	0.73
10%	0.91	0.83	0.75	0.68

How will the company present the loan notes in the financial statements for the year 31 st March 2020.

Solution:

PV of Redemption amount (1200000 * 0.68)	8,16000
PV of interest payments (96000*3.17)	3,04,320
PV of liability	**11,20,320**
Less: Cash received	12,00,000
Equity Component:	**79,680**

Balance sheet presentation for the year 31 st March 2020: **₹**

Equity: Conv. Loan	79,680
Financial liability:	
Loan (1120320+10%-96000)	11,36,352

Profit / loss presentation:

Interest expense	1,12,032

4. (b)...................Marks 6: [Ind AS 108: Operating Segment]

John Ltd has identified 4 segments for which revenue date is given:

Segment	External Sales ₹	Internal Sales ₹	Total Sales ₹
A	4,00,000	Nil	4,00,000
B	80,000	Nil	80,000
C	90,000	20,000	1,10,000
D	70,000	6,20,000	6,90,000
Total:	6,40,000	6,40,000	12,80,000

Additional information:
Segment C is a new business unit and management expect this segment to make a significant contribution to external revenue in coming years. Which of the segments would be reportable under the criteria identified in Ind AS 108 and why?

Solution:
Threshold amount is ₹1,28,000 (₹12,80,000 ×10%) based on Revenue criteria. Segment A exceeds the quantitative threshold (₹ 4,00,000 > ₹ 1,28,000) and hence reportable segment. Segment D exceeds the quantitative threshold (₹6,90,000 > ₹1,28,000) and hence reportable segment.

Segment B & C do not meet the quantitative threshold amount and may not be classified as reportable segment.

However, the total external revenue generated by these two segments A & D represent only 73.44% (₹470000/640000 x 100) of the entity's total external revenue. If the total external revenue reported by operating segments constitutes less than 75% of the entity total external revenue, additional operating segments should be identified as reportable segments until at least 75% of the revenue is included in reportable segments.
In case of John Ltd., it is given that Segment C is a new business unit and management expect this segment to make a significant contribution to external revenue in coming years. In accordance with the requirement of Ind AS 108, John Ltd. designates this start-up segment C as a reportable segment, making the total external revenue attributable to reportable segments 87.5% (470000+90000/ 640000 x 100) of total entity revenues.
Final Reportable segments: **A, C, D.**

4. (c) ....Marks 8: [Ind AS 103 Business Combination]

P Limited & S Limited are in business of manufacturing garments. P Limited holds 30% of equity shares of S Limited for last several years. P Limited obtains control of S Limited when it acquires further 65% stake of S Limited's shares, thereby resulting in a total holding of 95% on December 31st, 2019. The acquisition had the following features.

(i) P Limited transfers cash of ₹ 50,00,000 & issues 90,000 shares on December 31st, 2019. The market price of P Limited's shares on the date of issue was ₹ 10 per share. The equity shares issued as per this transaction will comprise 5% of the post-acquisition capital of P Limited.

(ii) P Limited agrees to pay additional consideration of ₹ 4,00,000, if the cumulative profits of S Limited exceeds ₹ 40,00,000 over the next two years. At the acquisition date, it is not considered probable that extra consideration will be paid. The fair value of contingent consideration is determined to be ₹ 2,00,000 at the acquisition date.

(iii) P Limited spent acquisition-related costs of ₹ 2,00,000.

(iv) The fair value of the NCI is determined to be ₹ 5,00,000 at the acquisition date based on market price. P Limited decided to measure non-controlling interest at fair value for this transaction.

(v) P Limited has owned 30% of the shares in S Limited for several years. At December 31st, 2019, the investment is included in P Limited's consolidated balance sheet at ₹ 8,00,000. The fair value of previous holdings, accounted for using the equity method is arrived at ₹ 18,00,000.

The fair value of S Limited's net identifiable assets at December 31st 2019 is ₹ 45,00,000, determined in accordance with Ind AS 103.

Analyse the transaction & determine the accounting under acquisition method for the business combination by P Limited.

Solution:

1) The acquirer is P Ltd as P Ltd is paying cash and other consideration.
2) Date of acquisition = 31 st December 2019.
3) Valuation of previously held 30% stake will be required: The difference between 18,00,000 and 8,00,000 will be transferred to Profit / loss account.

4) Purchase Consideration for 30% + additional 65% shares:

Cash transfer Shares issued 90000*10 FV of contingent consideration FV of investments (old lot)	50,00,000 9,00,000 2,00,000 18,00,000	5% shares post acquisition indicates that it is not a Reverse merger.
Total:	**79,00,000**	

5) Acquisition expenses will be transferred to P/L ₹2,00,000.

6) NCI = ₹5,00,000

7) Net Assets = ₹45,00,000.

Journal entry for acquisition:

Investments a/c. Dr. ₹10,00,000 (1800000 – 800000)

To Profit / Loss a/c. ₹10,00,000

(Revaluation of old lot of 30%)

Expenses a/c. Dr. (P/L) ₹2,00,000

To Cash ₹2,00,000

(Acquisition expenses paid)

Net assets a/c. Dr. ₹45,00,000

Goodwill a/c. Dr. ₹39,00,000 (balancing figure)

To Non – Controlling Interest ₹5,00,000

To Investments 30% ₹18,00,000

To Cash (fresh PC) ₹50,00,000

To Contingent consideration ₹2,00,000

To Equity Shares (fresh PC) ₹9,00,000

(Business acquisition recorded)

Authors note:

Contingent consideration will not be considered as it is not probable to achieve the target by the Target Co. As per ICAI solution contingent consideration is considered. But as it is not probable it could have been ignored.

5. (a) ……………Marks 6 [Ind AS 19 Employee benefits]

Diamond Pvt. Ltd. has a headcount of around 1,000 employees in the organisation in 2019-2020. As per the company policy, the employees are given 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave. Out of the total PL and sick leave, 10 and 5 can be carried forward to next year. On the basis of past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 as PL and 5 as SL.

Also the company has been incurring profits since 2010. It has decided in 2019-2020 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diamond Pvt. Ltd. is expected to be around 3.5%. The profits earned during 2019-2020 is ₹4,000 crores.

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

The company has paid ₹40 crores to its employees in 2019-2020. What is the treatment for the short-term compensating absences, profit-sharing plan and the defined contribution plan by Diamond Pvt. Ltd?

Solution:

(i) Diamond Pvt. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2019-2020.

Total provision = 9000 + 4400 = 13,400 days

PL =	200 x 5	=	1,000	SL =	200 x 2	=	400
	800 x 10	=	8,000		800 x 5	=	4,000
Total =			9,000 days	Total =			4,400 days

(ii) Diamond Pvt. Ltd. will recognise ₹ 140 crores (4,000 x 3.5%) as a liability and expense it books of account.

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

(a) Under Ind AS 19, the amount of ₹160 crores may be recognised as a liability (accrued expense), after deducting any contribution already paid (200-40). However, if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense); and

(b) Also, ₹200 crores will be recognised as an expense which will be disclosed as an expense in the statement of profit or loss.

It can also be seen that the contributions are payable within 12 months from the end of the year in which the employees render the related service, they will not be discounted. However, where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate.

5. (b)............Marks 8 [Ind AS 7: Cash flow Statement]

Entity A acquired a subsidiary, Entity B, during the year ended March 31st, 2020. Summarised information from the Consolidated Statement of Profit & Loss & Balance Sheet is provided, together with some supplementary information.

Consolidated Statement of Profit & Loss for the year ended March 31st, 2020.	**Amount (₹)**
Revenue Cost of sales	1,90,000 (1,10,000)
Gross profit	80,000
Depreciation Other operating expenses Interest cost	(15,000) (28,000) (2,000)
Profit before taxation	**35,000**
Taxation	(7,500)
Profit after taxation	27,500

Consolidated balance sheet	**March 31st 2020**	**March 31st 2019**
Assets	**Amount (₹)**	**Amount (₹)**
Cash & cash equivalents Trade receivables Inventories Property, plant & equipment Goodwill	4,000 27,000 15,000 80,000 9,000	2,500 25,000 17,500 40,000 -
Total assets	**1,35,000**	**85,000**
Liabilities		
Trade payables Income tax payable Long term debt	34,000 6,000 50,000	30,000 5,500 32,000
Total outside liabilities	**90,000**	**67,500**
Shareholders' equity	45,000	17,500
Total liabilities & shareholders' equity	**1,35,000**	**85,000**

Other information:

All of the shares of entity B were acquired for ₹ 37,000 in cash. The fair values of assets acquired & liabilities assumed were:

Particulars	Amount (₹)
Inventories	2,000
Trade receivables	4,000
Cash	1,000
Property, plant & equipment	55,000
Trade payables	(16,000)
Long term debt	(18,000)
Goodwill	9,000
Cash consideration paid	37,000

You are required to prepare the Consolidated Statement of Cash Flows for the financial year ended March 31st, 2020 in accordance with Ind AS 7.

Solution:

Cash flow Statement for 31 st March 2020 (Indirect method)

Cash from operating activities: Net profit after tax	 27,500
Adjustment for non-cash / non-operating items: Depreciation Interest Tax provision	 15,000 2,000 7,500
Adjustment for changes in working capital: Trade receivables (25000+4000-27000) Inventories (17500+2000-15000) Trade payables (30000+16000-34000)	52,000 2,000 4,500 (12,000)
Cash from operations Less: Tax paid (5500+7500-6000)	46,500 (7,000)
Cash from activities …………………(a)	39,500
Cash from investing activities: Business purchased i.e. subsidiary acquired (37000 – 1000)	 (36,000)
Cash from investing activities:…………….(b)	(36,000)
Cash from financing activities: Interest paid	 (2,000)
Cash from financing activities: ………………(c)	(2,000)
Net increase in cash and cash equivalents. (a+b+c) Opening balance of cash and cash equivalents	**1,500** 2,500

Closing balance of cash and cash equivalents	4,000

Entry for Business purchase:	**Notes:**
PPE Dr. 55,000	Purchase of PPE
Trade receivables Dr. 4,000	(40000+55000-15000-80000) = Nil
Cash Dr. 1,000	
Inventories Dr. 2,000	Loan
Goodwill Dr. 9,000	(32000+18000-50000) = Nil
To Trade payables 16,000	
To Loan 18,000	Increase in equity is only net profit and no
To Cash (PC) 37,000	cash flow arising out of share issue as
	such.

5. (c) ....Marks 6 [Ind AS 28: Investments in Associates]

Entity H holds a 20% equity interest in Entity S (an associate) that in turn has a 100% equity interest in Entity T. Entity S recognised net assets relating to Entity T of ₹ 10,000 in its consolidated financial statements. Entity S sells 20% of its interest in Entity T to a third party (a non-controlling shareholder) for ₹ 3,000 & recognises this transaction as an equity transaction in accordance with the provisions of Ind AS 110, resulting in a credit in Entity S's equity of ₹ 1,000.

The financial statements of Entity H & Entity S are summarised as follows before & after the transaction:

Before			
H's consolidated financial statements			
Assets	**(₹)**	**Liabilities**	**(₹)**
Investment in S	2,000	Equity	2,000
Total	2,000	Total	2,000
S's consolidated financial statements			
Assets	**(₹)**	**Liabilities**	**(₹)**
Assets (from T)	10,000	Equity	10,000
Total	10,000	Total	10,000
The financial statements of S after the transaction are summarised below:			
After			

S's consolidated financial statements				
Assets	**(₹)**	**Liabilities**	**(₹)**	
Assets (from T)	10,000	Equity	10,000	
Cash	3,000	Equity transaction Impact with non-controlling interest	1,000	
		Equity attributable to owners		11,000
		Non-controlling interest		2,000
Total	**13,000**	**Total**		**13,000**

Although Entity H did not participate in the transaction, Entity H's share of net assets in Entity S increased as a result of the sale of S's 20% interest in T. Effectively, H's share in S's net assets is now ₹ 2,200(20% of ₹ 11,000) i.e. ₹ 200 in addition to its previous share.

How this equity transaction that is recognised in the financial statements of Entity S reflected in the consolidated financial statements of Entity H that uses the equity method to account for its investment in Entity S?

Solution:

As per Ind AS 28 Investor company should apply Equity method. Any increase in the net worth of its Associate should be added to the carrying amount of investments as a percentage of its share. Accordingly following is the H Balance sheet after sale of shares by S Ltd.

H's consolidated financial statements (after sale of shares by S in T)			
Assets	**(₹)**	**Liabilities**	**(₹)**
Investment in S + share of profit 20% of 1,000.	2,000 200 2,200	Equity (2000+200) Equity will increase by 200.	2,200
Total	**2,200**	**Total**	**2,200**

Paragraph 27 of Ind AS 28, states, inter alia, that when an associate or joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income, and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies.

6. (a)........................Marks 5 [Ind AS 102: Share based payments]

Nest Limited issued 10,000 stock appreciation rights (SAR) that vest immediately on 1 st April 2017. SAR will be settled in cash. Using option pricing model SAR will have a fair value ₹ 100 each on that date. SAR will be exercised until 31 March 2020.

Expected exercise of SAR: 31 March 2018 : 94%, 31 March 2019 : 91%, and actually 85% employees exercised the option. The fair value of each SAR at each reporting date is as follows:

31st March, 2018 ₹132

31st March, 2019 ₹139

31st March, 2020 ₹ 141

You are required to pass the journal entries to show the effect of the above transaction.

Solution:

Fair value of the option at the beginning = 10,000*100 = ₹10,00,000

Particulars	**31 st March 2018**	**31 st March 2019**	**31 st March 2020**
Expected Numbers of employees to exercise SARs	9,400 (10000*94%)	9,100 (10000*91%)	8,500 (10000*85%)
Fair Value	132	139	141
PRODUCT	12,40,800	12,64,900	11,98,500
Less: Cost recognised	(10,00,000)	(12,40,800)	(12,64,900)
Cost for the year:	**2,40,800**	**24,100**	**66,400**

Journals

Date	**Particulars**	**Dr (₹)**	**Cr (₹)**
1st April 2017	Employee compensation A/C. Dr. To Provision for SAR A/C. (being employee compensation recognised)	10,00,000	10,00,000
31st March 2018	Employee compensation A/C. Dr. To Provision for SAR A/C. (being employee compensation recognised)	2,40,800	2,40,800
31st March 2019	Employee compensation A/C. Dr. To Provision for SAR A/C. (being employee compensation recognised)	24,100	24,100
31st March 2020	Provision for SAR A/C. To Employee compensation A/C. (being excess employee compensation reversed)	66,400	66,400

Note:

1) As the vested period is already expired, amortisation of employee cost is not applicable.
2) Employee compensation annually is transferred to Profit / loss account.
3) Provision for SAR (Stock Appreciation Right) is a liability and not Equity for the entity.

6. (b) ....Marks 6 [Ind AS 12: Deferred Tax]

Parent Limited, prepares consolidated financial statements of the group on 31st March every year. During the year ended March 31st,2020, the following events affected the tax position of the group:

(i) S Limited, a wholly owned subsidiary of Parent Limited, incurred a loss of ₹ 20,00,000 which is adjustable from future taxable profits of the company for tax purposes. S Limited is unable to utilize this loss against previous tax liabilities. Income Tax Act does not allow S Limited to transfer the tax loss to other group companies. However, it allows S Limited to carry forward the loss & utilize it against company's future taxable profits. The directors of Parents Limited estimate that S Limited will not make any taxable profits in the foreseeable future.

(ii) On April 1st, 2019, Parent Limited borrowed ₹ 50,00,000. The cost incurred by Parent Limited for arranging the borrowing was ₹ 1,00,000 on the said date & this expenditure is qualified for deduction under the Income Tax Act for the accounting year 2019-20. The loan was given for a three-year period. As per agreement, no principal or interest was payable on the loan during the tenure of loan but the amount repayable on March 31st,2022 will be by way of a bullet payment of ₹ 65,21,900. As per Parent Limited, this equates to an effective annual interest rate of 10% on loan. As per the Income-tax Act, a further expense of ₹ 15,21,900 will be claimable from taxable income till the loan is repaid on March 31st, 2022.

The rate of corporate income tax to be assumed @20%.

Explain & show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of Parent Limited as at March 31st, 2020 as per applicable Ind AS.

You are also required to examine whether the effective rate of interest arrived at by Parent Limited for the loan of ₹ 50,00,000 is in accordance with applicable Ind AS or not?

Solution:

Books of Parent Limited : (Consolidated Financial Statements):

Impact of Deferred tax:

(i) As per Ind AS 12 para 34, 35, 36: a deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. When an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition.

In the present case neither in stand lone financial statements nor in consolidated accounts **Deferred Tax Asset** can be provided for unabsorbed losses of ₹20,00,000 of S Ltd. as in future sufficient taxable profits are not possible.

(ii)

Step 1) Carrying amount of Loan liability =	₹53,90,000
(50,00,000 – 1,00,000 expense) x (1+0.10 interest)	
Step 2) Tax Base of Loan liability =	₹50,00,000
Step 3) Deductible temporary difference =	₹3,90,000
Step 4) Deferred Tax Asset 20%	= ₹ 78,000

It is assumed that Parent Ltd has sufficient profits in future to recover the Deferred tax asset.

Also the effective interest rate 10% is correctly arrived.

(5000000 – 100000) x 1.1 x 1.1 x 1.1 = ₹65,21,900 (tallies with the final loan repayment)

Assumption:

Entire interest cost accumulated will be deductible in the third year as per Income tax. This hint is given in the problem. But if we assume annual interest is equally spread over 3 years as per Income tax → Deferred tax would have been different.

6. (c)..................Marks 5: (CSR)

Royal Ltd. is a company which has a net worth of INR 200 crore, it manufactures rubber parts for automobiles. The sales of the company are affected due to pandemic during the financial year 2019- 2020:

Relevant financial details are as follows: (₹crore)

	March 2020 (Current year) estimated	**31 st March 2019**	**31 st March 2018**	**31 st March 2017**
Net profit	3.00	8.50	4.00	3.00
Sales (turnover)	850	950	900	800

During pandemic period (till March 2020) various commercial activities were undertaken with considerable concessions / discounts, along with the related affected area. The management intends to highlight the expenditure incurred on pandemic activities as CSR expenditure for 2019-2020.

You as a CFO of Royal Ltd. on the below points along with the reasons:

(i) Whether the Company has the obligation to form CSR committee since the applicability criteria is not met during the current financial year?

(ii) Is the expenditure incurred during pandemic period is eligible as CSR expenditure for the year?

Solution:

(i) As per the criteria to constitute CSR committee -

1) Net worth greater than or equal to INR 500 Crore: This criterion is not satisfied.

2) Sales greater than or equal to INR 1000 Crore: This criterion is not satisfied.

3) Net profit greater than or equal to INR 5 crore: This criterion is satisfied in financial year ended March 31, 2019 i.e. immediate preceding financial year.

Hence, the Company will be required to form a CSR committee for March 2020.

(ii) Yes, expenditure incurred for pandemic/COVID 19 disaster is eligible for CSR expenditure. **As per MCA circular, Schedule 7** of the Companies Act 2013 contribution to any fund set up for socio economic development and relief qualifies for CSR expenditure. Such expenses include preventive health care, sanitation expenses, ex – gratia paid to temporary workers over and above their daily wages will be covered. Also, the contribution to PM – CARE fund is also eligible as CSR expenditure.

6. (d)..................Marks 4: [(Ind AS 111 and Ind AS 28: Joint arrangements and Associates]

Entity K is owned by three institutional investors – M Limited, N Limited & C Limited – holding 40%, 40% & 20% equity interest respectively. A contractual arrangement between M Limited & N Limited gives them joint control over the relevant activities of Entity K. It is determined that Entity K is a joint operation (& not a joint venture). C limited is not a party to the arrangement between M Limited & N Limited. However, like M Limited & N Limited, C Limited also has rights to the assets, & obligations for the liabilities, relating to the joint operation in proportion of its equity interest in Entity K.

Would the manner of accounting to be followed by M Limited & N Limited on the one hand & C Limited on the other in respect of their respective interests in Entity K be the same or different? You are required to explain in light of the relevant provisions in the relevant standard in this regard.

Solution:

M Ltd and N Ltd are Venturers to the Joint arrangement as per Ind AS 111 as they jointly take relevant decisions. They will recognize their share of individual assets, liabilities, share of income, expenses from joint operation in accordance with Ind AS 111.

Party C Ltd is also holding 20% stake but C Ltd is not a party to joint operation. Hence C Ltd will not recognize its investments in accordance with Ind AS 111. C Ltd. will apply ***IND AS 28 "Investments in Associates".***

C Ltd. will apply Equity Method of accounting for its investments in Entity K. In stand-alone financial statement C Ltd has to apply Ind AS 27: *Cost or Ind AS – 109.*

OR

6. (d) ....Marks 4: (Revenue from Contract with Customers)

An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. The entity agrees to buy a specific number of tickets & will pay for those tickets even if it is not able to resell them. The reduced rate paid by the entity for each ticket purchased is negotiated & agreed in advance. The entity determines the prices at which the airline tickets will be sold to its customers. The entity sells the tickets & collects the consideration from customers when the tickets are sold; therefore, there is no credit risk to the entity.

The entity also assists the customers in resolving companies with the service provided by airlines.

However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

Determine whether the entity is a principal or an agent with suitable explanation in light with the provisions given in the relevant standard.

Solution:

To determine whether the entity's performance obligation is to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for another party to provide those goods or services (i.e. the entity is an agent), Entity considers the nature of its promise.

Entity concludes that its promise is to provide a ticket (i.e. a right to fly) to the customer. On the basis of the indicators, Entity concludes that it controls the ticket before it is transferred to the customer. Thus, the entity concludes that it is a principal in the transaction and recognises revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred.

Any Query in FR (New Syllabus) contact: 9967619173