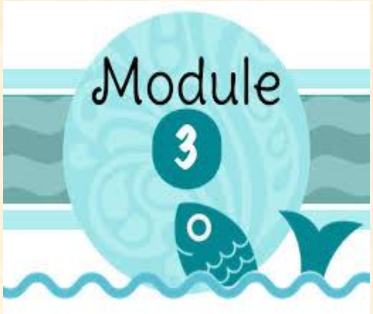

CA-Final

New Syllabus May-2021 Onwards Module-3

The Handwritten Notes

Key Benefits of Handwritten Notes:-

1) *To Complete the Financial Reporting in a comprehensive Manner with short duration*
2) *At the time of watching lecture focus only on Concept*
3) *Multiple Charts and summary prepared for better linkage of the provision and to facilitate its proper understanding*
4) *Boost the confidence to crack the CA-Final Exam.*

CA. PARVEEN JINDAL

As Per ICAI Syllabus Applicable From May 2021 Exam Onwards

Module 3

Index

Thank You

Best of Luck…..!!!!!!

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CA Parveen Jindal Classes

Ind AS 103 : Business Combination *V.V.V.Imp

(Lost Amendment made by MCA in Ind AS 103 on 24.07.2020)

Part 1

Unit I : Important Definitions

Definitions

- A. Meaning of Business
- B. Meaning of Assets Acquisition
- C. Meaning of Business Combination

A. Meaning of Business *V.V.Imp

As per the Provisions of Ind AS 103, A Business is an Integrated Set of Activities & Assets that is capable of being conducted or managed for the purpose of Providing goods or services to customers, Generating Investment Incomes or other Incomes during ordinary Course of Business.

"In Bare Act : 3 Elements have been defined"

Explanation : A Business has four Elements as follows :

Inputs + Processes + Application of Process = Outputs

These Elements are mandatory to classify a Set Of Activities as "Business"

It is not required to classify A set of Activities as Business

"Although, Businesses usually have Outputs", but "Ability to generate Outputs is also considerable "

i. Inputs : As per the Provisions of Ind AS 103, It is an " Economic Resource" Which creates output or has ability to contribute to the creation of Outputs when one or more Processes are applied to it.
(i.e. Inputs may include Tangible & Intangible Assets in the form of L&B, P&M, Patents, Copy Rights etc.)

ii. Processes : It is a System, Protocol, Rule, Standard when applied to Inputs then It creates output or has ability to create outputs.
(i.e., Strategic Management Process, Operational Process, Resource Management Process)

iii. Application of Process : For Implementation of Process on Inputs, we held Intellectual Capacity which is "Skilled Work Force" in a Business
These are knowledgable & Expert Persons who know, how to Create Outputs.

iv. Outputs : These are the results of implementation of Process on Inputs in the Form of Providing Goods or services to customers or Investment Incomes.

"Revenue From Business"

"Further Assessment as per Amendments in Ind AS"

As per Recent Amendments in business Combination, An Acquirer should Further Assets the Given Transaction on Acquisition date whether it is a Business Combination or Assets Acquisition. There may be two situations for this Assessment as follows :-

Situation I : If Acquire does not have "Outputs" on Acquisition date.

No Customers/ No Sale

In the Given case, the following Elements should Exist in the Transaction to classify it as "Business" :-

I. There should be a "Substantive Process" which is critically required for Conversion of Inputs into outputs.

II. There should be "Skilled workforce" & "other Inputs" that have ability to Generate outputs.

Tangible & I. Assets

Substantive Process + Skilled Workforce + Other Inputs

Situation II : If Acquires has "outputs" on Acquisition date

i. There should be a Substantive Process which is required for continuation of Production.

\+

ii. There should be *skilled workforce & Other Input

Exception

If an Entity has already outputs on Acquisition date then Skill workforce may not be required if Process is Unique/Rare/ Cannot be replaced.

Solution of Q.2, Q3, Q.4, Q.5, Q.6, Q.7

(Discussed in Class)

Part 2

Important Note on "Concentration Test"

As per Amendments made by MCA on 24.7.2020, Acquirer may conduct an Optional Test to identify the acquisition whether it is an Asset acquisition or Business Acquisition we will discuss it in Last video of this Topic for Better understanding.

B. Meaning of Assets Acquisition

As per the provisions of Ind AS 103, An Acquisition, which cannot be considered as Business Acquisition, should be classified as Assets acquisition. The following 2 Rules Should be considered under Assets Acquisition :-

Rule 1 : Under Acquisition, there will be no Recognition of Goodwill or capital Reserve For the difference between Purchase consideration & fair value of Assets.

Rule 2 : The Amount of Purchase consideration which has been paid for Acquisition of Assets, will be allocated over the acquired Assets in the ratio of fair value of Acquired Assets.

Solution of Q.8

In the Given Case, It is clearly mentioned that the Given Acquisition does not Constitute Business due to which it will be considered as Assets Acquisition. As per the Provisions, initial Recognition of these Assets shall be made in the ratio of fair Values as follows :-

Statement Showing Allocation of Price

Assets (Acquired)	Fair Value	Price Allocation
P&M	200	228.57 (200/350)
Furniture	30	34.29 (30/350)
Equipment	50	57.14 (50/350)
Intangibles	70	80 (70/350)
	350	400

Solution of Q.9 (Discussed in Class)

C. Meaning of Business Combination *Imp

As per the Provisions of Ind AS 103, Business Combination occurs when An Entity acquires control over the other Entity "by acquiring Net Assets" or "by Acquiring significant Equity Interest"

Important Note : Ind AS 103 provides Guidance on Accounting in the books of Acquire Only. There is no Explanation on Accounting in the books of Acquire.

We can classify Business Combination under the following headings :-

Business Combination

By Acquiring N. Assets	By Acquiring Equity Interest	*Special Transactions

Case I : Acquisition of Control by Acquiring N. Assets

A. If and Existing Company takes over Net Assets of one or more Existing Companies

Acquirer — Acquiree

E.g. X ltd — Y Ltd

X Ltd. Takes over N. Assets of Y Ltd.

Comments : The Given transaction is a Business Combination because X ltd. Has Acquired N. Assets of Y Ltd.

Acquiree — Acquiree

E.g. X Ltd. — Y Ltd — Z Ltd.

Acquirer

X Ltd. Takes over N. Assets of Y Ltd. & Z Ltd.

Comments : In the Given Case, X Ltd. Should be considered as an acquirer because It is acquiring control over Y Ltd. & Z Ltd. By acquiring N. Assets.

B. If Newly Formed company acquires N. Assets from two or more Existing Companies

Acquiree — Acquiree

E.g. X Ltd. — Y Ltd.

XY Ltd. (New Co.

Acquirer

XY Ltd. Acquires N. Assets of X Ltd. & Y Ltd.

Comments : The Given Transaction is a Business combination because XY Ltd. is Acquiring N. Assets of X Ltd. & Y Ltd.

Case II : Acquisition of control by acquiring Significant Equity Interest

E.g. X Ltd . acquires 60% Equity Shares in Y Ltd. is it Business Combination ?

Comments : Yes, the Given case is a Business combination because X Ltd (Acquirer) has Obtained control over Y Ltd. by acquiring Significant Equity Interest

Important Points to be considered on control by Equity Interest

A. Under Significant Equity Interest, we will discuss the relationship between Holding & Subsidiary.

B. For Detailed Discuss on meaning of control by shares, we need to refer Ind AS 110. in this Topic we will Assume that control by shares means Acquisition of more than 50% of Equity shares by Acquirer in Acquiree

C. Ind AS 103 (Business Combination) & Ind AS 110, (Consolidation) Both Covers different Accounting Aspects which are as follows :-

Consolidation

Ind AS 103 — Ind AS 110

It deals with all Accounting Aspects — It deals with Post acquisition

Related to Consolidated financial Statements "On the date of Acquisition of Shares"	Period of Holding/Subsidiary Relationship in CFS

Case III : Special Transactions

A. Reverse Acquisition

B. Common Control Transactions

(Mergers, Demergers etc : Appendix C)

*We will Start discussion on these Topics after understanding Normal Business Combination.

Part 3

Unit II: Accounting for "Business Combination"

We need to learn Accounting for Business Combination for Different Type of Transaction Separately. There are 4 Types of Transactions under Business Combination as follows :-

Part A : Accounting for "Acquisition by Net Assets"

Part B : Accounting for "Acquisition by Significant Equity Interest"

Part C : Accounting for "Reverse Acquisition"

Part D : Accounting for "Common Control Transactions" (i.e. Mergers, Demergers)

PART A : Accounting for Business Combination by acquiring Net Assets

If an Entity acquires N. Assets of other Entity then Accounting for Such Combination will be done as per "Acquisition method" (It is called as Purchase method in AS-14). There are 6 Steps under Acquisition method :-

Step I :Identify the Acquirer

Step II : Identify the Acquisition date

Step III : Identify the Purchase Consideration

Step IV : Identify the Assets & Liab. Acquired

Step V : Identify the Goodwill/ Bargain Purchase

Step VI : Identify Special Adjustments *V.V.V.V.Imp

Step I : Identification of Acquirer

As per the Provisions of Ind AS 103, Identification of Acquirer is very important because Application of Ind AS 103 can be made on Acquirer only. There is no Guidance on Acquire Books in this statement. It means that Identification of Acquirer is very Critical for this statement.

As per the provisions of Ind AS 103, there are following situations where we need to identify the Acquirer :

Case I : If Purchase Consideration is a paid in cash : "Acquirer will be the entity which pays cash"

X Ltd Pays Cash to Y Ltd. in PC

E.g. X Ltd. Y Ltd.

X Ltd. acquires N. Assets from Y Ltd.

Comments : In the Given Case, X Ltd. will be assumed as an acquirer because It is Paying cash to y Ltd in settlement of Purchase consideration.

Case II : If Purchase consideration is settled by "Transfer of other Assets" : Acquirer will be the Entity "which transfers its other Assets in Settlement of PC"

X Ltd. Transfers Land of 10 Crores to Y Ltd. in PC

E.g. X Ltd. Y Ltd.

X Ltd. acquired N. Assets of Y Ltd.

Comments : In the Given Case, X Ltd. will be assumed as Acquirer because it is Transferring its Land in PC.

Case III : If Purchase Consideration is Settled by incurring Liabilities : Acquirer will be the Entity "Which incurs Liab."

X Ltd. issued Debentures to Y in Settlement of PL

E.g. X Ltd. Y Ltd.

X Ltd. acquired N. Assets from Y Ltd.

Comments : In the Given Case, X Ltd. will be assumed as on Acquirer because It has incurred Liab. In the form of "Debentures"

Case IV : If Purchase Consideration is Settled by issuing Equity Shares : Acquirer will be the Entity "Which issues Equity Shares"

↓

Subject to Exceptions

X Ltd. issues Equity Shares in PL Settlement

E.g. X Ltd. Y Ltd.

X Ltd. acquires N. Assets from Y Ltd.

Comments : X Ltd. will be assumed as Acquirer in " Normal Cases" because It has issued its Equity shares.

Exceptions to Case IV

Normally, we assume the Entity as an Acquirer which issues its Equity shares in Settlement of PC. Sometimes, It does not happen. It means that Accounting

Acquirer can be different from Legal Acquirer. It happens because of Capital Structure in Post Combination Entity. There are following cases which are covered in Exceptions :-

Exception I : Reverse Acquisition

If an acquirer issues Equity Shares to Acquiree but in Post Combination B/s Acquiree Obtains control over acquirer because Acquirer issued high Number of Shares than its Existing Capital held by Former members then we will assume Acquirer as Legal Acquirer only, but from Accounting Point of View, we consider Acquiree as an Accounting Acquirer.

Comments : The Case of Reverse Acquisition takes place where a small Entity takes Over the Net Assets of Large Entity

Note : we will Apply Ind AS 103 on Acquiree in this Case

E.g. X Ltd. Y Ltd

X Ltd. acquires N. Assets from Y ltd.

i. X Ltd issued 15000 New Shares to Y Ltd in PL.

ii. X Ltd. has 10,000 Shares in its Pre Combination B/s as Share Capital

Solution : In the Given Case, members of Y Ltd shall have 60% Voting Power in Post Combination Balance sheet (15000/25000 x 100) which indicates that y Ltd. Will obtain control over X Ltd in Post Combination Business. So, we can take X Ltd. as Legal Acquirer only, but for the Application of Ind AS 103, Acquirer Will be Y Ltd.

Exception II : If Two or more Entities combines their Businesses by Forming New Company then Accounting Acquirer will be the Entity which will have Control in New Company. It can also be said that New Company will be taken as "Legal Acquirer" Only.

E.g. X Ltd. Y Ltd.

XY Ltd. (New Company)

i. XY Ltd. acquired Net Assets of X Ltd. & Y Ltd.

ii. XY Ltd. will issue 20,000 Shares to X Ltd. and 30,000 Shares to Y Ltd. in PC.

Solution :

In the Given case, It is Clearly indicated that Y Ltd. will have control in XY Ltd due to 60% share in voting Power. So, Y Ltd. will be considered as an "Accounting Acquirer" for the Purpose of Ind AS 103. It can also be said that XY Limited is Just a Legal Acquirer & X Ltd. will be considered as an Acquiree.

Exception III : If 3 or more Entities combine their Businesses by transferring N. Assets to a newly formed company and All the Entities are in Minority then larger Group of minority will be taken as an Acquirer.

E.g. X Ltd. Y Ltd. Z Ltd.

XYZ Ltd. (New Co.)

i. XYZ Ltd. takes over N. Assets of all 3 Companies
ii. XYZ Ltd. issues 40,000 Shares to X Ltd, but 30,000 Shares to Y & Z.

Solution :

In the Given Case, No company will Exercise control in XYZ Ltd. because All are in minority Interest. In Post combination Entity, X Ltd. will have 40% shares and Y & Z shall have 30% shares in XYZ Ltd. So, X ltd will be considered as Accounting Acquirer because It is the largest minority holder.

- Legal Acquirer = XYZ Ltd., Acquiree = Y & Z

Exception IV : If all Entities have Equal voting Power in Post Combination B/s then Accounting Acquirer will be the Entity "which will have dominance in Management"

E.g. X Ltd. Y Ltd. Z Ltd.

XYZ Ltd. (New Co.)

i. XYZ Ltd. takes over X, Y, Z
ii. XYZ will issue equal shares to all 3 companies
iii. X Ltd. BOD shall have dominance in BOD of XYZ

Solution : In the Given Case, X Ltd. will be taken as "Accounting Acquirer". There is no Large minority Group, but X ltd will have dominance in management.

Solution of Q.11, Q.12, Q.13, Q.14 (Discussed in Class)

Step II : Identification of "Acquisition Date"

As per the provisions of Ind AS 103, Identification of Acquisition date is very Important because Assets & Liab. of Acquiree are measured on this date for Recognition in Acquirer Books. It is the date on which Acquirer obtains control over Acquiree"

- In Normal Cases, Acquisition date is considered as payment date at which Purchase consideration is settled by Purchasing Co./Acquirer.

Note : In Practical question, Payment date will be considered as Acquisition date if It is not mentioned that Acquirer has obtained control from which date.

- If control is obtained by Acquirer over Acquiree on an Earlier date or Later date than Payment of PC then we may analyse the circumstances to identify date.

Note : If Approval of Transaction is substantive then Approval Date will be considered as an acquisition date. In this Case, Earlier or Later Acquisition is not allowed Refer Q.19.

Solution of Q.15, Q.17, Q.18, Q.19 (Discussed in Class)

Part 4

Step III : Identification of Purchase Consideration

As per the Provisions of Ind AS 103, Purchase consideration is the aggregate Of payments which is made by An Acquirer to An Acquirer in Consideration of Acquisition of Business. The following statement may be prepared for the calculation Of PC :-

Payment in Cash	xxxx
Fair Value of :	
i. Other Assets transferred	xxxx
(i.e., Land, P&M, Investments etc)	
ii. Liabilities Incurred	xxxx
(i.e., Debentures issued etc)	
iii. Issue of New Equity Shares	xxxx
PC	xxxx

It should be taken which Prevails on "Acquisition Date"

Important Notes

i. The Difference between fair value of Assets Transferred & Carrying Amount of Assets transferred in the books of Acquirer shall be transferred to P&L A/c Assuming Profit or Loss on sale of Assets.

ii. The Difference between fair value of Newly issued shares and face value of Newly issued shares shall be transferred to "Securities Premium" and It will be disclosed under other Equity in B/s.

Step IV : Identification of Assets & Liabilities (Subject to Step VI)

As per the provisions of Ind AS 103, Acquirer will take over Assets & Liabilities From Acquiree at "Fair value" Which Prevails on Acquisition Date

Exception to above Rule : Measurement Period *Imp

As per the Provisions of Ind AS 103, It may be possible that Recognition of Acquired Assets & Liabilities has been made on Provisional fair value on Acquisition date because confirmed fair value may not Prevail sometimes in relation to An Asset Or Liability on Acquisition date. In this case, Ind AS 103 has been Given measurement Period of 1 year."If any Change takes place within one year in Provisional fair values then such change will be adjusted against Goodwill assuming that we are adjusting it On Acquisition date." But changes beyond one year shall be adjusted in SOPL and there

Will be no adjustment in Goodwill on Acquisition date.

Solution of Q.22, Q.23 (Discussed in Class)

Step V : Identification of Goodwill or Bargain Purchase

Concept 1 : Goodwill

If Purchase Consideration Exceeds Net Assets acquired on Acquisition date then It will be transferred to Goodwill. It will be assumed that Acquirer will recover this Extra Payment in future by running Business of Acquiree.

E.g. Fair value of Assets acquired : ₹ 50,00,000
Fair Value of Liab. acquired : ₹ 20,00,000
PC : 1) Cash Paid : ₹ 10,00,000
2) Equity Shares Issued : ₹ 60,00,000
(30,000 Shares of 100 each @200)

Pass Journal Entry

Solution : Journal Entry

Assets a/c	Dr	50,00,000	
Goodwill (Bal. fig) a/c	Dr	40,00,000	
To Liabilities			20,00,000
To Cash			10,00,000
To E.S. Cap. (30,000 x 100)			30,00,000
To Sec. Premium (30,000 x 100)			30,00,000
(Being Assets & liab. Acquired)			

Concept 2 : Bargain Purchase

If Purchase Consideration becomes Lower than N. Assets acquired then Difference will be considered as Bargain Purchase and It will be transferred to "Capital Reserve". The following points should also be considered in this relation :-

i. The Situation of Bargain Purchase is considered very Rare in Practical Life by Ind AS 103. So, it suggests Re-Assessment of acquired Assets & Liab.
ii. The Entity should identify reasons for such Bargain Purchase i.e., Acquisition Of an Entity under Govt. Restrictions, Loss making venture etc. If Entity can Prove the reasons of Bargain Purchase then Capital Reserve will be disclosed in "OCI"
iii. If Reasons cannot be disclosed, Capital Res. will be disclosed directly in other Equity but other than under the heading of OCI.

E.g. i) N. Assets (fv) = ₹ 20,00,000
ii) Cash Paid = ₹ 15,00,000

Solution : N. Assets a/c	Dr	20,00,000	
To Cash			15,00,000
To capital Reserve			500,000 (Bal. Fig)

Part 5

Step VI : Recognition of Special Items on Acquisition date *V.V.Imp

Concept 1 : Treatment of Acquiree's Contingent Liabilities

At the time of Acquisition of Acquiree Assets & Liab. on Acquisition date, It may be possible that acquire has some contingent Liabilities. In the Given Case, Acquirer Can Recognise Acquiree's Contingent Liabilities in its Books On Acquisition date as Present Obligation/ Actual Liab. Only if A Reliable Estimate in Amount can be made for Such Liability whether Outflow is Probable or not on Such date.

Contingent Liab.

- Outflow is Probable
  - Reliable Estimate Can be made → *Recognise a Liability
  - Reliable Estimate cannot be made → Do not Recognise a Liab.
- Outflow is not Probable
  - Reliable Estimate can be made → Recognise a Liab.
  - Reliable Estimate cannot be made → Do not Recognise a Liab.

❖ Summary : Whether there is a Reliable Estimate of the Liability then we will Provide For it

If fair value of Liab. is available

Solution of Q.30, Q.31 (Discussed in Class)

Solution of Q.32

As per the Provisions of Ind AS 103, Contingent Liab. of Acquiree can be regonised in the books of Acquirer as a Liability only if there is a reliable Estimate of Such Liab.

In the Given case, X Ltd. (Acquirer) has Assessed 5 million for 20 cases & 1 million For other 2 cases. This Assessment can be taken as a Reliable Estimate.

So, X Ltd. shall recognise a Liability of 6 million on Acquisition date.

Concept 2 : Indemnification *V.V.Imp

Indemnification

- Unit I : Indemnification on Liabilities
- Unit II : Indemnification on Assets

Unit I : Indemnification on Liabilities

If an Acquiree Provides Guarantee to the Acquirer for Loss on Uncertain Liabilities in future beyond a limit then Acquirer should recognise " An Indemnified Asset" due to such Guarantee because Acquirer can Recover the Excess Losses from Acquiree if it faces Losses due to Excess Payment of Obligation beyond the Guaranteed Amount of Liabilities.

(i.e., Uncertain Liabilities may be in the form of warranty Provisions, Prov. For cases/ Compensations etc.)

The following Steps may be considered in the books of Acquirer on Acquisition date and on subsequent date of settlement :-

Step I : Acquisition Date

i. Acquirer will recognise liability on fair value as per its "Own Estimation"

ii. Acquirer will also recognise an "Indemnified Asset" against the above Recognised Liab. as follows:

Indemnified Asset = Fair value of Liab. (Acquirer) – Guaranteed Limit of Liab. (Acquiree)

Beyond this Limit Acquiree will bear the Losses

iii. Journal : Indemnified Assets a/c Dr xxxx (Recoverable)
To Liabilities xxxx (fair Value)

Step II : Subsequent Settlement

Case I : If payment of Liab. remains below or Equal to Guaranteed Limit

i. Cancel the indemnified Assets due to low Payments :

Liabilities a/c Dr	xxxx	
To Indemnified Assets		xxxx

❖ We cannot Recover any Amount from Acquiree because there is no Loss to Acquirer Beyond Guaranteed Amount

ii. Payment should be Recorded for Actual Settlement : * Liab. a/c Dr xxxx
To Bank xxxx

❖ If any Balance Remains in Liab. A/c → if Settlement is made within Measurement period then It will be Adjusted in Goodwill Otherwise It will be Reversed in PL

Liab. a/c Dr	xxxx	
To Goodwill		xxxx OR
To PL		xxxx

E.g. i) Guaranteed Liability Limit by Acquiree : 20,00,000
ii) Fair value Estimated by Acquirer : 22,00,000
iii) Actual Payment within 6 months of Acquisition : 19,80,000

Show Indemnification Entries.

Solution :

i. Indemnified Assets a/c Dr 22,00,000
To Liabilities 22,00,000

ii. Liabilities a/c Dr 22,00,000
To Bank 19,80,000
To Indemnified Assets 200,000
To Goodwill 20000
(Being Liab. Settled within measurement Period)

Measurement period rule

Case II : If payment is made beyond the Guaranteed Limit

Settlement : i) Actual Payment will be recorded as follows :-
Liabilities a/c Dr xxxx
To Bank xxxx

ii) Recover the amount that goes beyond the limit as per Guarantee from Acquiree
Bank a/c Dr xxxx
To Indemnified Asset xxxx

iii) Reverse the Balance in Indemnified Asset (if any)
Liabilities a/c Dr xxxx
To Indemnified Asset xxxx

E.g.

i. Guaranteed Limit of Liab. : ₹ 50,00,000
ii. Fair valuation made by Acquirer : ₹ 60,00,000
iii. Actual Payment within 6 months : ₹ 55,00,000

Solution :

Journal Entries

i. Indemnified Asset a/c Dr 10,00,000
To Liab. 60,00,000

ii. Liabilities a/c Dr 60,00,000
To Bank 55,00,000
To Indemnified Assets 500,000
(Being Settlement of Liab. made & Indemnified Assets Cancelled)

iii. Bank a/c Dr 500,000
To Indemnified Assets 500,000
(Being Indemnified Assets Recovered)

Solution of Q.26, Q.27, Q.28

Unit II : Indemnification on Assets (Trade Receivables)

If Acquiree Guarantees minimum Collection from Debtors which is more than Fair value Estimated by Acquirer then Difference will be debited as Indemnified Assets. The following Steps should be followed :-

Step I : Recognition on Acquisition date

Trade Receivables a/c Dr xxxx → Fair value Estimated by Acquirer
Indemnified Assets a/c Dr xxxx
[Guaranteed collection – fair value estimates by Acquirer]

:_________________________:
:_________________________:
:_________________________:

Step II : Subsequent Collection

Case I : If collection remains Less than Guarantee

Bank a/c Dr	xxxx	
To Debtors		xxxx
To Indemnified Assets		xxxx

Case II : If collection remains above Guarantee

Bank a/c Dr	xxxx	
To Debtors		xxxx
To Indemnified Assets		xxxx
To GW/PL		xxxx

If collection made during measurement Period

If Collection made beyond measurement period

E.g.
i. Fair value of Debtors (Acquirer) : 20,00,000
ii. Guaranteed collection : 28,00,000
iii. Actual Collection : 27,00,000

Pass Collection Entries.

Solution :

i.	Trade Receivable a/c Dr	20,00,000	
	Indemnified Assets a/c Dr	800,000	

:_______________________________:
:_______________________________:

ii.	Bank a/c Dr	27,00,000	
	To Trade Receivable		20,00,000
	To Indemnified Assets		700,000

(Being Actual Collection made)

iii. Bank a/c Dr 100,000

To Indemnified Assets 100,000

(Being Amount Recovered from Acquiree as per Guarantee)

E.g. if Actual Collection is made of 30,00,000 in above Example beyond measurement Period then what will be the Entry for collection ?

Solution :

Bank a/c Dr 30,00,000

To trade Receivable 20,00,000

To Indemnified Assets 800,000

*To Gain on Collection 200,000

(Being Actual Collection made)

❖ It will be transferred to PL because collection is made beyond measurement Period

Part 6

Concept 3 : Items Not to be included in business combination

Items not to be included in Business Combination

Unit I : Acquisition Cost

Unit II : Future Services

Unit III : Pre-Existing Relationship *Imp

Unit I : Acquisition Cost

As per the Provisions of Ind AS 103, Acquirer should write off "Acquisition Costs" in P&L A/c as an Expense if there costs are incurred at the time of Business Combination for Acquisition of Business of Acquiree. "These Expenses shall not be Considered as a part of Business combination due to which there will be no impact on Goodwill/ Bargain Purchase due to these Expenses." As per Ind AS 103, these Expenses do not increase future cash flows from Business, so these Expenses should be Expensed immediately.

These Expenses may be in the form of Legal fees, Accounting fees, Investment Banker fees, finder fees, Advisory fees, Stamp Duty for Registration of Assets, Govt. fees for transfer of titles of I. Assets etc.

Journal Entry (Acquirer Books)

i. Acquisition Cost a/c Dr xxxx

To Bank xxxx

(Being Expenses Paid)

ii. P&L a/c Dr xxxx

To Acquisition Cost xxxx

(Being Expenses written off)

Conclusion : On the Basis of above Explanation, It can be said that Treatment of Acquisition cost will be separately from Business Combination Entries.

Solution of Q.33, Q.34 (Discussed in Class)

Unit II : Future Services

If any Payment is made by Acquirer to Any Person or persons of Acquiree in Lieu of their Guidance/ Services for Running the Acquired Business in future/ Post Combination Period then Such Payment shall not be considered as a part of Business Combination. There will be no impact on Assets/ Liab or Goodwill/ Bargain Purchase on Acquisition Date due to such contractual Payments for future Services. "The Acquirer Shall write off these payments in future as Remuneration" in P&L A/c as Normal Employee Benefit Expense is written off.

Journal Entries

i. Remuneration Exp. a/c Dr xxxx
To Bank xxxx
(Being Remuneration Paid)
At the time, it will become due

ii. P&L a/c Dr xxxx
To Remuneration xxxx
(Being Exp. written off)

Conclusion : On the basis of above Explanation, It can be said that future Services are Settled Separately from Business combination.

Solution of Q.25

No, there will be no recognition of any Liability for this contract on Acquisition date because 10 million shall be paid for future services of Acquiree management. So, we will Write off this amount in P&L A/c as Normal Remuneration is written off when it will become due.

Unit III : Pre- Existing Relationships

Pre- Existing Relationships

Part A : Non – Contractual

Part B : Contractual

Part A : Non Contractual

(i.e., Court Cases etc.)

As per the Provisions of Ind AS 103, Non Contractual Pre- Existing Relationship should be considered Separately from Business combination. The Settlement of these relationship shall be routed through P&L A/c instead of any Adjustment in Goodwill/ Capital Reserve. The following steps shall be followed while

Making Accounting Entries on Acquisition date :-

Step I : First of all, "Fair value" should be identified for these Non contractual Relationships

Step II : Reduce the Amount of Purchase consideration by fair value of Non Contractual Liab.

Net PC = Gross Purchase consideration X – fair value of Non Contractual Relationships

It's Not PC for Business combination

It will be considered as PC while Computing GW/ Capital Res.

Step III : Calculate Gain/ Loss on Settlement of Pre-Existing Relationship as follows :-

*Gain/ Loss = Fair value of Non contractual Liab – Carrying Amount in Books (if any Provision) is already created by Acquirer

It will be transferred to P&L A/c

❖ If there is no carrying amount of provision in acquirer books then fair value Of Non contractual Liab. will be considered as full Loss.

Observation : The Amount of Actual loss/ Gain will depend on carrying Amount of Related Relationship.

Solution of Q.35

In the Given Case, X Ltd is paying 40 crores to Y ltd. for its Business, but there is a Pre-Existing Relationship in the form of court case which should not be Considered as a part of Business combination. It should be accounted for separately From Business combination. So, PC for Business of Y Ltd. should be taken as follows :

Net PC = Gross PC – Fair value of court case
= 40 crores – 30 Lacs
= 39.70 Crores

Journal Entries for Business Combination

i.	Provision for Court case a/c	Dr	40 Lacs (carrying Amount)
	To Bank		30 Lacs (Fair value)
	To Gain on settlement		10 Lacs (Bal fig.)
	(Being Settlement of Pre- Existing Relationship made)		
ii.	Gain on Settlement a/c	Dr	10 Lacs
	To P&L a/c		10 Lacs
	(Being gain transferred to P&L)		

iii. Assets a/c Dr 45 crore
Goodwill a/c Dr 5.7 crore (Bal fig)
To Liab. 10 Crores
To DTL 1 Crore
To Bank (PC) 39.70 Crore
(Being Net Assets acquired from y Ltd)

Solution of Q.36 (Discussed in Class)

Part B : Contractual Pre-Existing Relationship *Imp
(Re-acquired Rights)

If Acquirer has distributed its rights to sell its Goods or Services or use of Technology to other Entities in the form of Franchise Agreement/ Licence Agreement/ Distributorship etc. in lieu of some fees, but takes over the same Entity later on before Expiry of Such contract then It will be Accounted for Separately from Business Combination if some compensation is payable for Early Termination. "The Acquirer will compute Gain/ Loss on settlement on such Pre-Existing contract and will route it through P&L A/c". It means that there will be no impact of these settlement on Goodwill/ Bargain Purchase. The following steps Should be followed :-

Step I : First of all, Calculate the Amount which can be reduced from PC

It will be lower of

(Fair value of Re acquired right - Carrying Amount of Given Rights) or Actual Amount to be paid as compensation

Net PC = Gross Pc – Lower of above Explained values

It will be considered as PC for Business combination

Step II : Calculation Gain/ Loss on Settlement of Pre- Existing Relationship as follows :-

Lower of above values – carrying Amount of Unamortised fees (if any) = Gain/ Loss (Actual Payment)

Step III : Recognition of Re- acquired Rights :- *Imp

An Intangible Asset equal to fair value of Re-acquired Rights will be recognised and It will be amortised over remaining contractual Life. It means that I. Asset in the form of Re- acquired Right will be considered as a Part of Business combination.

Note : No Loss/ No Gain on settlement will be computed if there is no payment for Settlement of these Rights, but I. Asset will be recognised at market terms.

Solution of Q.38 *V.V.Imp

Step I : Calculation of Amount to be deducted from PC

a) Fair value of right – Carrying Amount 300,000
(450,000 – 150,000)
(250,000/10 x 6)

Or

b) Actual Amount to be paid as per contract whichever is lower = 180,000

Step II : Calculation of Net PC

Net PC = ₹ 100,00,000 – ₹ 180,000 = ₹ 98,20,000

Step III : Loss on Settlement of Re- acquired Right

Loss on settlement in P&L A/c = ₹ 180,000 – ₹ 150,000 = 30,000

Journal :	Unamortised fees a/c (unexpired)	Dr	150,000	
	PL a/c	Dr	30,000	
	To Bank			180,000

Step IV : Recognition of Re-Acquired Right

An Intangible Asset will be recognised at ₹ 450,000 on Acquisition date.

Solution of Q.37 (Discussed in Class)

Part 7

Concept 4: Acquisition of Intangible Assets from Acquire *Imp

As per the Provisions of Ind AS 103, Acquirer will recognise Intangible Assets Separately from goodwill which are held by Acquiree on Acquisition date only if Any Criteria is fulfilled as Specified below :-

Criteria for Recognition of I. Assets

Legal Criteria or Separability Criteria

i. Legal Criteria : If Acquiree has Permissions or Approvals from Govt. to Conduct any Special Activity then we can recognise such Licences as I. Assets Separately from Goodwill Even if these Licences are not saleable or Exchangeable Or Giveable on Rent.

OR

ii. Separability criteria : If Acquiree has any I. Asset in the form of patent, Copyrights, Trademarks etc. which can be sold, can be Exchanged or can be Given

On Rent then It will be considered as a Separate I. Asset from Goodwill.

Exceptions to Separability Rules

i. Customer Lists/ Data : If Acquiree has some Customer List or Registered User Date on its Website/ App then It may not be an Intangible for Acquiree because It is Generated during Normal Course of Business & No Separate Cost is Incurred for it.

As per the Provisions of Ind AS 103, the Specified List/Data can be Considered as a Separate Asset at the time of Acquisition of Business if Acquirer Measures its fair value. If Acquirer can take Benefits from using it or selling it then Fair value of Such an Asset can be recorded as a Separate Asset.

ii. In Process Research Projects : If Acquiree has some Projects in research then It cannot consider research work as an intangible in its books as per Ind AS 38. But Acquirer can recognise it as a separate Asset at the time of Business Acquisition if Acquirer Estimates that the Specified Research will be developed in future & there are Economic Benefits in it.

Solution of Q.39, Q.40 (Discussed in Class)

Solution of Q.41 *V.V.Imp

In the Given Case, KK limited recognise Patents & Licences as a Separate Intangible Asset because It has an Estimation of future cash flows from these Assets and fair value can also be measured for these Asset on Acquisition Date. On Acquisition date, we will follow Ind AS 103 for Recognition of Intangible Assets which are acquired by Acquirer from Acquiree but subsequent measurements shall be made as Per Ind AS 38. The following Entry shall be passed on Acquisition date :-

Patents a/c	Dr	30 crores (20 + 10)	
Licence a/c	Dr	10 crores	
N. Assets a/c	Dr	15 Crores	
To Cash/ ESC			35 Crores
To Capital Res. (Bal)			20 Crores

(Being Assets & Liab acquired on Acquisition date)

Concept 5: Contingent Consideration *V.V.Imp

If any Purchase consideration is promised by Acquirer to Acquire in future On achievements of some Targets** in Post Combination Period then It will be Considered as " Contingent Consideration" on Acquisition date.

(**Targets : Increase in sales, Profits, Increase in EPS or Retaining the customers etc.)

As per the Provisions of Ind AS 103, Acquirer should Assess "fair value of Contingent consideration" on Acquisition date. If fair value can be measured reliably On Acquisition date then It will be recognised as a Liability, but will be considered as "PC"

"Subsequent measurement of contingent Consideration"

As per the provisions, Subsequent measurement will be made at each B/s date For Pending/ O/s Liability of Contingent consideration. If any changes take place in Fair value of contingent consideration then "It will be transferred to P&L A/c"

Note : The concept of measurement period will not be considered for change in fair Value of contingent consideration. It means that changes in fair value of Contingent consideration will not have any impact on GW/ C. Res on Acquisition date.

Exception to above Rule

If contingent consideration is promised by Acquirer in fixed number of Equity Shares then It will be considered as an Equity instrument under Ind AS 109. This Promise will not re-measured at any B/s date but It will remain same as it was recorded on Acquisition date It can also said that there will be no change Subsequently in such Promise and It will be recorded once on Acquisition date fair value of shares.

Important Note

Promise for variable Number of shares shall be considered as a financial Liability and It will be re-measured at each B/s date and Changes shall be transferred to P&L A/c.

When Amount is fixed for shares instead of numbers

Solution of Q.43 *V.V.Imp

Case I : If contingent Consideration is promised in fixed No. of Equity Shares

A. Initial Recognition on Acquisition Date :-

On Acquisition date, fair value of contingent consideration is ₹ 25,00,000 Which will be satisfied by issue of 200000 shares. So, Calculation of PC (Total) will be made as follows :-

Actual PC (10,00,000 Shares @20)	200,00,000
Fair value of Contingent Consideration	25,00,000
Total PC	2,25,00,000

B. Subsequent Measurement (31.3.x2) : In the Given Case, consideration was promised in fixed number of shares on Acquisition date to which Re-measurement is not Allowed. So, we should ignore fair value per share of 25/- on 31.3.x2, but shares shall be issued at 25,00,000 as follows :-

Issue Price = $\frac{250,000 \text{ (fixed)}}{20,000 \text{ Shares}}$ = 12.50

SC 10 SPR 2.5

Case II : Variable Number of shares in contingent consideration

Initial Recognition (1.4.x1)

- Same as in Case I -

Subsequent measurement of contingent consideration :-

In the Given case, variable No. of shares have been promised on Acquisition date due to which Re-measurement is required. At the time of changes in fair value of Contingent consideration, we will transfer it to P&L A/c.

I. Changes in fair value on 31.2.x2 = 40,00,000 – 25,00,000 = 15,00,000 (P&L)

II. No. of shares to be issued = $\frac{₹\ 40,00,000}{25 \text{ Per share}}$ = 16000 Shares

Solution of Q.42

i. In the Given Case, Acquirer has Promised 20,00,000 shares to Acquiree on Expected Profits of 100 crores in future. It will be considered as a contingent Consideration and should be classified as an Equity Instrument as per Ind AS 109 due to fixed No. of Shares. It will be recorded on Acquisition date fair value.

ii. Computation of Goodwill :

Actual PC (1 Crore share x 100)	100 Crores
Contingent Consideration (20L Share x 100)	20 Crore
PC	120 Crores
N. Assets (100 -20)	80 Crores
Goodwill	40 Crores

iii. The Given Contract is for fixed No. of shares due to which subsequent Measurement is not allowed.

Part 8

Solution of Q.44, Q.45 (Discussed in Class)

Concept 6 : Contingent Consideration to Employees Shareholders *Imp

As per the Provisions of Ind AS 103, Contingent Consideration will not be Considered as purchase consideration as we discussed in concept 5 if continuous Employment is mandatory for former owners in Post combination Period. If such Consideration will be forfeited in case former owners do not continue with Acquirer for the Specified minimum Period. In concept 5, there was no condition of Employment for the payment of contingent consideration, but performance Targets Were Specified only.

In concept 6, we will consider contingent consideration as a Remuneration Payable to employees in post combination period for future services, but It will not be treated as PL on Acquisition date. It means that such contingent payment will

not form a part of Business combination. It will have no Impact on goodwill or capital Reserve, but such consideration will be written off as salary to Employees in Post Combination Period.

Refer Q.44 & Q.45 for this concept

Concept 7 : Share Based Payment Plans of Acquiree *V.V.V.Imp

SBP Plans

Unit I : Replacement of Awards | Unit II : Non Replacement of Awards

Unit I : Replacement of Awards

If Acquiree has share Based Payment Plan (ESOP') in its B/s on Acquisition date and Acquirer Replaces such plan with a new plan in its shares then the following Steps/ Points shall be considered while making Entries for Business Combination on Acquisition date :-

A. As per Ind AS 103, there plans shall be divided into two Separate headings on Acquisition date as follows :-

SBP Plans

(i) Pre combination Obligation (Expired Services)	(ii) Post Combination Obligation (future Services)
↓ It will be considered on Acquisition date & will be credited on such date	↓ It will be considered as future Services & will be written of as Employees Expense in Post Period
↓ It will have impact on Recognition Of GW/ C. Res.	↓ It will have impact on P&L A/c in Post combination Period

B. Steps to find out Pre & Post Combination Obligation :-

Step I : Identify New Vseting Period under Acquirer Plan

New V.P = Expired Period + Further Period as per Acquirer Plan

Step II : Identify fair value of original Plan on Acquisition date which was announced by Acquiree

Step III : Calculate Pre- combination Obligation as follows :-

$$\text{Pre – Combination Obligation} = \frac{\text{fair value of original plan on Acquisition date}}{\text{New vesting Period or Old Vesting Period (Higher)}} \times \text{Expired Period}$$

Step IV : Post Combination Obligation = fair value of New Plan on Acq. Date - Pre Combination obligation

Solution of Q.48 *Imp

Calculation of Pre Combination Obligation

$$\text{Pre combination Obligation} = \frac{\text{fair value of Original plan on Acquisition date}}{\text{New VP or Old VP (Higher)}} \times \text{Expired Period}$$

$$= \frac{500}{\text{4 years or 5 years (5 Y)}} \times \text{2 years}$$

= 200

Comments : The Amount of Pre-Combination obligation will be recorded on Acquisition date as a Liab. and It will have direct impact on GW/ C. Res.

Calculation of Post Combination Obligation

Post combination Obligation = fair value of New plan on Acq. Date – Pre comb Obligation

= 600 – 200

= 400

Comments : The Post comb. Obligation will be written off in P&L over the remaining Vesting period of 2 years (400/2 = 200 p.a

Solution of Q.47

$$\text{Pre- comb. Obligation} = \frac{\text{9 million}}{5\text{ y}} \times 2\text{ y} = 3.6$$

Post- Comb. Obligation = 10 million – 3.6 million = 6.4

Solution of Q.46

$$\text{Pre Combination obligation} = \frac{\text{Fair value of original plan on Acquisition date}}{\text{New vesting period or Old VP (Higher)}} \times \text{Expired Period}$$

$$= \frac{\text{9 million}}{(5y + 2y)\text{ or }5y} \times \text{5 years} = 6.43\text{ million}$$

Higher : 7 years

Post combination obligation = fair value of new plan – Pre comb obligation

= 10 million – 6.43 million

= 3.57 (It will be amortised over 2 years)

Unit II : Non replacement of Awards

(Relevant for Holding/ Subsidiary only)

If Acquirer does not replace the share Based Awards and Employees of Acquiree shall Get receive shares from Acquire itself then Acquirer will consider these Awards as No Controlling Interest. The pre- combination obligation for Expired period will be Considered as NCI on Acquisition date, but Post combination obligation will be added to NCI in future over Expired Period.

Solution of Q.49

Calculation of Pre- Combination Obligation

Pre- Combination = $\frac{500 \text{ million}}{4 \text{ y or } 5\text{y}} \times 2 \text{ y} = 200$ million

5 y

Comments : It will be added to NCI on Acquisition Date

Calculation of Post Comb. Obligation

Post Comb. = 500 million – 200 million = 300

Comments : It will be amortised over a Period of 2 years in future in PL & will be added to NCI

Part 9

Solution of Q.50

A. Calculation of PC

i.	Fair value of retail Division		360 million
ii.	Fair value of shares to be issued		350 million
	(10,00,000 Shares x 350 Per share)	PC	710 million

B. Calculation of Goodwill/ Bargain Purchase on Acquisition Date

Purchase Consideration	710 million
Fair value of Net Assets Acquired (Given)	700 million
GW	10 million

C. Journal Entries

(In the books of X Ltd.)

i.	Land & building a/c	Dr 50	
	Plant & machinery a/c	Dr 600	
	Equipment a/c	Dr 10	
	Inventory a/c	Dr 80	
	Trade Receivable a/c	Dr 80	
	Cash a/c	Dr 10	
	Goodwill (Bal Fig.) a/c	Dr 10	
	To Loans		100
	To Trade Payable		30
	To Liquidator of X Ltd. (PC)		710
	(Being Assets & Liab. Acquired from y Ltd. at fair value)		
ii.	Liquidator of Y Ltd a/c	Dr 350 million	
	To Eq. Share capital (10L x 10)		10 million
	To Sec. Premium (10L x 340)		340 million
	(Being 10 Lac Shares issued @ 350 in settlement of PC)		
iii.	Payable a/c	Dr 30	
	Liquidator of y ltd a/c	Dr 360 million	
	To Equipment		120
	To Inventory		120
	To Receivables		110
	To Gain on Disposal of N. Assets (Bal fig)		40 (360 -320)
	(Being Purchase consideration settled by transferring Retail Division)		
iv.	Gain on Disposal of N. Assets a/c	Dr 40	
	To SOPL		40
	(Being Gain transferred to other Incomes)		

Solution of Q.52

A. Calculation of Net Assets Acquired (millions)

Fair Value of PPE	220
Fair value of Intangible Assets : Brand value	20
Customer List	10
Fair value of Trade Receivables	24
Indemnified Debtors	6
Assets held for Earning Rentals	100
Inventory	40
Indemnified Assets against warranty	1
Total Assets (A)	420
Debentures	100

Trade Payables	30
Retirement Benefits	50
Deferred Tax Liab.	20
Fair Value of warranty Obligation	2
Total (B)	202

(A-B) Net Assets Acquired (421 - 202) = 219

B. Calculation of Purchase Consideration

1) Current Promised Payment	250 million
2) Contingent consideration	50 million
PC	300 million

Goodwill = Purchase consideration – N. Assets acquired
(Acquisition date) (Acquisition Date)
= 300 million – 219 million
= 81 million

Note on Future Services: In the Given case, we have ignored payment of 5 million to Managing director because It will be paid by Acquirer for has future services. This Amount will not be considered as a part of Business combination, but It will be Written off in P&L in post combination Period.

Solution of Q.51 *V.V.Imp

In the Given case, Bx Ltd. will be the Larger Entity in the Group. It means that Bx Ltd. will have control over New Entity ABx Ltd. which indicates that Bx Ltd. Will be taken as an Accounting Acquirer and ABx Ltd. will be considered as a Legal Acquirer, but Ax Ltd will be taken as an Acquiree in this transaction. The following Points shall be considered due to consequence of Difference in Legal Acquirer & Accounting Acquirer :-

A. All the Accounting Entries shall be recorded in the books of ABx Ltd. which is a Newly incorporated Entity.

B. Bx Ltd is the Real Acquire in the Given transaction due to which we will not apply Acquisition method on its B/s. It means that there will be no Change in its B/s. Its Assets, Liab, reserves & capital will be shifted to New Entity at same value as it was Existed in its Original B/s.

C. Ax Ltd. is an acquire in Given transaction due to which we will Apply Acquisition Method on its Assets & liab. Its Assets & Liab shall be taken on fair value and it will be issued PL at fair value Per share of Acquirer (Bx). We will also identify GW and capital reserve for Ax Ltd.

A. Calculation of N. Assets & Goodwill for Acquire (Ax Ltd)

Fair Value of Assets : Fixed Assets (PPE)	9500
Investments	1050
Inventory	1300

Receivables		1800
Cash		450
Fair Value of Liab : Borrowings		(3000)
Trade payables		(1000)
N. Assets		10100
Value of Business (PC)		11000
Goodwill (Bal)		900
(PC Exceeds N. Assets)		
B. Calculation of Value Per share of Acquirer (Bx Ltd)		
Value of Business of Bx Ltd (Given)		14,000
No. of shares in Bx Ltd (7000/10)		700
Fair Value Per share		20
C. Payment of Purchase consideration to AX ltd.		
No. of shares = Value of Ax Ltd / Value per share of Bx Ltd		= 11000 / 20 = 550
		5500 (Capital) 5500 (Premium)
D. Journal Entries		
(In the Books of ABX Ltd)		
i. Acquisition of Ax Ltd :-		
Property, Plant & Equip. a/c	Dr	9500
Investments a/c	Dr	1050
Inventory a/c	Dr	1300
Receivables a/c	Dr	1800
Cash & Cash Equivalents a/c	Dr	450
Goodwill a/c	Dr	900 (Bal fig)
To Borrowings		3000
To Trade Payables		1000
To E. S. Capital		5500
To Sec . Premium		5500
(Being Business Acquired from Ax Ltd)		
ii. Acquisition of Bx Ltd. (Book values without any change) :-		
Property, Plant & Equip. a/c	Dr	7500
Investments a/c	Dr	550
Inventory a/c	Dr	2750
Receivables a/c	Dr	4000
Cash & Cash Equivalents a/c	Dr	400
To Borrowings		4000
To Trade Payables		1500
To R& S (Other Equity)		2750
To E. S. Capital (New Issue)		7000

(Being Business Acquired from Accounting Acquirer at Book values)

Balance sheet of ABX Ltd. (post combination)

	Notes	₹
Non Current Assets :		
i. Property, Plant & Equipment	1	17,000
ii. Goodwill	-	900
iii. Financial Assets : Investments	2	1600
Current Assets :-		
1) Inventory	3	4050
2) Financial Assets :		
Trade Receivables	4	5800
Cash	5	850
	Total	30200
Equity :		
E.S Capital	6	12500
Other Equity	7	8200
Non current Liab :		
Borrowings	8	7000
Current Liab :		
Payables	9	2500
	Total	30200

Part 10

Concept 8 : Skilled workforce

Assembled Workforce

As per the provisions of Ind AS 103, there will be No recognition of Any Asset Or liability in relation to continuation of Employment of Skill workforce of Acquiree in Post Combination Period with Acquirer. They will be paid by Acquirer in future for Their services as Remuneration in post combination period, but there will be no Accounting on Acquisition date in this Regard.

Concept 9 : Employees "Retirement Benefits"

As per the Provisions of Ind AS 103, Retirement Benefits held by Acquiree shall be recognised in the books of Acquirer on Acquisition Date only if Employees of Acquiree are continuing their jobs with Acquirer. The retirement obligation will be Measured as per Ind AS 19 on Acquisition date (Exception to fair value Rule).

Concept 10 : Assets Held for sale with Acquiree

As per the Provisions of Ind AS 103, Non current Assets held for sale of Acquirere shall be recognised in the books of Acquirer as per Ind AS 105 : Fair value Less cost to Sell on Acquisition date.

Concept 11 : Lease Contracts held by Acquiree *V.V.Imp

If Acquiree

is a "Lessee" (Unit I)   is a "Lessor" (Unit II)

Unit I : If Acquiree is a Lessee

Lessee

A. Exempted Lease   B. Non Exempted Lease

A. If Acquiree is a Lessee in an Exempted Lease then there will be No RoU or Lease Liability in its books. In this case, Acquirer will recognise Nothing in its books on Acquisition date, but Acquirer will make payments for Lease Rentals if it continue the Exempted Lease in future. These Rentals shall be Expensed in future, but there Will be no Accounting on Acquisition date for Exempted Lease.

B. If Acquiree is a Lessee in Non Exempted Lease then It will have ROU Assets & Lease Liability in its books. In this case, Acquirer will take over ROU Assets and Lease Liab. from Acquirer on Acquisition Date. *Imp

Step I : Acquirer will compute Lease Liab. on Acquisition date as it is a new contract For it.

(Present value of future payments)

Current Rate

Step II : Acquirer will recognise ROU Asset Equal to Lease Liab as per Step I

Unit II : If Acquiree is a Lessor

Lessor

Operating Lease   Finance Lease

A. Operating Lease : Under operating Lease, Acquirer will not Recognise future Rentals on Acquisition date but It will acquire "Assets Given operating Lease at Fair value" on Acquisition Date. The Acquirer will recognise Earning from Rentals in Future on SLM Basis.

B. Finance Lease: Under Finance Lease, Acquirer cannot recognise Assets on Lease On Lease on Acquisition date because Assets do not Prevail Acquiree Books. In this

Case, Acquirer can recognise "Lease Receivable" on Acquisition date in its books.

"Lease Receivables shall be computed on Acquisition date assuming a New contract for Acquirer"

Lease Receivables = Future Lease collections x PVF at Current Rate on Acquisition Date

Concept 12 : Deferred Tax on Acquisition Date

(Refer Ind AS 12 for Detailed Discussion)

As per the provisions of Ind AS 103, Acquirer will compute Deferred Tax on Acquisition date for the difference in fair values of Net Assets & Tax Base of Net Assets which are Acquired by Acquirer from Acquiree.

Deferred Tax = Fair value of Net Assets acquired – Tax Base of Net Assets acquired
(Acquisition Date)

Fair value of Net Assets acquired → Acquisition Method; Tax Base of Net Assets acquired → Acquiree Tax Returns

i. If fair value of N. Assets Exceeds Tax Base = DTL (Diff x rate)
ii. If Net Assets under Tax Base Exceeds fair value of N.Assets = DTA (Diff x Rate)

Notes : 1) GW/ Bargain Purchase shall be recognised after recognising Deferred Tax
2) Rate will be taken which is applicable on Acquiree

Solution of Q.53

i. Calculation of Deferred Tax

Fair value of N. Assets Acquired	1070
Tax Base of N. Assets Acquired	(920)
Difference	150
Tax Rate (S Ltd)	40%
DTL	60

ii. Goodwill on Acquisition Date

Journal : N. Assets a/c	Dr	1070 (fair value)
Goodwill a/c	Dr	490 (Bal. fig)
To D.T Liab.		60
To Cash		1500 PL

(Being Business Acquired from S)

Alternatively

Purchase consideration	1500
Net Assets acquired (1070 – 60)	(1010)
GW	490

Part II

Part B : Business Combination by way of "Significant Equity Interest"

(Holding/ Subsidiary Relationship)

As per the provisions of Ind AS 103, Acquisition of controlling Interest by One company into other company is also a type of Business combination. The following Flow chart should be understood capacity before Learning Accounting Aspects in this Case :-

Acquirer (if Acquirer controlling Interest in other Entity)

Acquirer stand Alone financial Statements (Separate financial Statements) → Ind AS 109

Acquirer consolidated financial Statements (holding + Sub = CFS)

- CFS on Date of Acquisition Of Shares by Acquirer → Ind AS 103
- CFS in Post Acquisition Period (Updation of CFS) → (Ind AS 110)

A. Accounting in Separate financial Statements of Acquirer

Step I : On the date of Acquisition of Shares

The Acquirer will debit Investment in Equity Instruments are we record Normal Purchase of Investments. These Investments shall be recorded as per Ind 109 as follows :-

Investment in Shares a/c	Dr	xxxx	
To Bank			xxxx

(Being Investments Acquired)

Step II : At each B/s, fair value measurement will be made as per Given choices in Ind AS 109 :-

i. FVPL
ii. FVOCI (Irrevocable)

Comments : At each B/s date, Changes in fair value of Investments shall be transferred to PL or OCI as per Opted model.

Ind AS 103 has No Guidance for Accounting in SFS of Acquirer in this Regard

B. Accounting Treatment in CFS of Acquirer

(We will Discuss Accounting on D.O.A only)

- Refer Ind AS 110 for Accounting in CFS for Post acquisition Period
- Refer Ind AS 110 for detailed discussion on meaning of "Controlling Interest"

"Acquisition method in CFS on D.O.A"

Aspect I : Identify fair value of Assets & Liab. of Subsidiary on date of Acquisition of Shares which are to be incorporated in CFS in the books of Acquirer

Aspect II : Identify the value of Non controlling Interest which is held by outside Shareholders in subsidiary company.

NCI

Method I : Proportionate method

"NCI = N. Assets in Subsidiary Co. x % of shares held by outside shareholders

Method II : Fair value method

"NCI = No. of shares held by outsiders x fair value per share in subsidiary co.

Note : In study material of ICAI, All questions have been solved by proportionate Method due to which we will prefer it in the absence of any specific Information

Aspect 3 : Identify Goodwill/ Capital Reserve on D.O.A of shares by the following Entry :-

Journal

Proportionate GW

Assets a/c	Dr	xxxx	(fair value)
Goodwill a/c	Dr	xxxx	(bal fig)
To liabilities		xxxx	(fair value)
To NCI		xxxx	(Method I)
To Investments		xxxx	(PC)
To Cap. Res.		xxxx	(Bal fig)

(Being Assets/ Liab. acquired on Acquisition Date)

If NCI is computed by proportionate method then GW will belong to Holding only

Full Goodwill

Assets a/c	Dr	xxxx	(fair value)
Goodwill a/c	Dr	xxxx	(bal fig)
To liabilities		xxxx	(fair value)
To NCI		xxxx	(Method I)
To Investments		xxxx	(PC)
To Cap. Res.		xxxx	(Bal fig)

(Being Assets/ Liab. acquired on Acquisition Date)

If NCI is computed at fair value then It will belong to Holding & NCI

Statement Showing calculation of GW/ C. res.

Cost of Investments made in Acquiree (PC)	xxxx
NCI	xxxx
Total	xxxx

Net Assets	(xxxx)
GW/ C. Res.	xxxx

[GW/ C. Res = (PC + NCI) – N. Assets]

Solution of Q.54

Journal

Full Goodwill

N. Assets a/c　Dr　130 crores
Goodwill a/c　Dr　20 crores　(Bal fig.)
　To Investments　120 crores
　To NCI　30 Crores　(fair value)
(Being Acquisition of B Ltd recorded in CFS on DOA)

Solution of Q.55

Journal

Assets a/c　Dr　130 crores
Goodwill a/c　Dr　16 crores (Proportionate GW)
　To Investments　130 crores
　To NCI (130 x 20%)　26 Crores
(Being Acquisition made of B Ltd on Acquisition Date)

Solution of Q.56

Journal

Assets a/c　Dr　130
　To Investments　90
　To NCI (130 x 20%)　26
　To Capital Res. (Bal fig)　14
(Being Acquisition made of B Ltd on Acquisition Date)

Solution of Q.57

Calculation of Goodwill / Capital Reserve

Method I		Method II	
Purchase consideration	15,00,000	Purchase consideration	15,00,000
NCI (500,000 x 40%)	200,000	NCI (fair value)	10,00,000
Net Assets　Total	17,00,000	Total	25,00,000
Net Assets	(500,000)	Net Assets	(500,000)
Goodwill	12,00,000	Goodwill	20,00,000

Question 58, 59, 60 (H.W)

Solution of Q.61

Calculation of Goodwill

Purchase consideration	525	
NCI (100,000 shares x 40% x 775)	310	
Total	835	
Net Assets	(590)	
Goodwill	245	(full)

Solution of Q.62

Method I : NCI by Proportionate Method

NCI = N. Assets (fair value) x % of shares held by NCI in Subsidiary

= 100 crores x 10%

= 10 crores

Method II : NCI by fair value method

It is already Given in question at 15 crores

Question 63, 65 (H.W)

Part 12

Solution of Q.86

i. Calculation of GW/ Bargain Purchase

Purchase Consideration	300
Fair value of NCI	84
Total	384
N. Assets on Acquisition date (500 – 100)	400
Bargain Purchase	16

Journal : Assets a/c	Dr	500	
To Liabilities			100
To Investments			300
To NCI (fv)			84
To Bargain Purchase			16 (Bal fig)

(Being consolidation made on D.D.A of shares in Beeta)

ii. NCI (Proportionate method) :-

NCI = (500 – 100) 20% = 80

Bargain Purchase = (300 + 80) – 400 = 20

PC NCI N. Assets (Bal fig)

Solution of Q.87 *V.V.Imp

I. Calculation of Purchase Consideration

Payment in shares $\left(\frac{120,00,000 \times 75\%}{3} \times 2 \times 6.50\right)$	₹ 3,90,00,000
Payment in Liabilities Assumed $\left(\frac{7150000}{110} \times 100\right)$	₹ 65,00,000
Fair value of contingent consideration on 1.7.x1	₹ 2,50,00,000
PC	₹ 7,05,00,000

II. Calculation of NCI (25%)

NCI at fair value : Shares held by NCI in JKL Ltd. x Value Per share of JKL

= 30,00,000 Shares x 6/-

= ₹ 1,80,00,000

NCI at Proportionate method : Net Assets at fair value (jkl) x % of NCI

= (₹ 7,00,00,000 – *20,00,000) x 25%

= ₹ 1,70,00,000

❖ We have assumed that carrying Amount of N. Assets & Tax Base are same in jkl. So We have created a DTL on Diff. in fair value & Tax Base of N. Assets

Calculation of Goodwill

	Fair value NCI	Proportionate NCI
Purchase consideration	7,05,00,000	7,05,00,000
NCI	180,00,000	170,00,000
Total	₹ 8,85,00,000	₹ 8,75,00,000
N. Assets	(₹ 6,80,00,000)	(₹ 6,80,00,000)
Goodwill	₹ 2,05,00,000	₹ 195,00,000
Impairment @ 10%	2050,000	₹ 1950,000

Additional Concepts under PART B : Significant Equity Interest

Concept 1 : Step by Step Acquisition *V.V.Imp

Step by Step Acquisition

- Case I : If Previous Equity Interest Was 20% or more in Acquiree
- Case II : If Previous Equity Interest was Less than 20% in Acquiree

Case I : If Previous Equity Interest was 20% or more in Acquiree *Imp

If Acquirer obtains control over Acquiree through multiple Acquisitions then It Will be considered as step by Step Acquisition. In this case, % of Earlier Investment is very Important which were held by Acquirer before the Establishment of Holding/ Subsidiary Relationships.

If Earlier Investments in Equity shares were for 20% or more then Consolidated financial statements would have been prepared by the Acquirer with its Acquire as per Ind AS 28 (Associates).

On Acquisition date, the Acquirer will have to De-recognise Investment in Associate. The following Points should be considered :-

I. Investment in Associates in CFS shall be de-recognised at "fair value" which Prevails on "Acquisition date"

II. Gain/ Loss on De-Recognition will also be computed as follows :-

Gain/ Loss = Fair value of Investment in Associate - Carrying Amount of Investment in Associate in CFS

Journal Entry

Assets a/c Dr	xxxx (fair value)	
Goodwill a/c Dr	xxxx (Bal fig)	
To Liabilities		xxxx (fair value)
To NCI		xxxx
To PC		xxxx (Current Acquisition)
To Investments in Associates		xxxx (carrying Amount)
To Gain on De- Recog.		xxxx (FV – C. Amt)
To Bargain Purchase		xxxx (Bal fig)

(Being De- recognition of Associate, but Recognition of subsidiary made at fair value)

Notes :

1. If fair value becomes Less than carrying Amount of Associates then Loss on De- Recognition will be debited before computing GW/C. Res
2. Gain or Loss on De-recognition of Associate will be transferred to consolidated P&L A/c.

Observation on Concept

If An associate becomes subsidiary due to increase in Investment of Equity Interest of company then we will De-Recognise Investment in Associate in CFS at Fair value before computing GW/CR on Acquisition of subsidiary.

Solution of Q.69

Journal Entry

i. Net Assets a/c Dr 880 Lacs
Goodwill a/c Dr 120 Lacs (Bal Fig)
To Cash 600 Lacs (60%)
To Invest. In E 40 Lacs (carrying Amount in CFS)
(Associate)
To Gain on De-Recog. 360 Lacs (400 – 40)
(Being Acquisition of Subsidiary & De-Recognition of Associate made)

ii. Gain on De- Recognition of Associate a/c Dr 360
To P&L A/c 360
(Being Gain Recognised)

Solution of Q.70

Accounting in the books of A Ltd.

i. Net Assets a/c Dr	60,00,000		
Goodwill (Bal fig) a/c Dr	39,50,000		
To NCI		750,000	
To Cash (PC)		59,00,000	PC (65%)
To E. S. Capital (1L x 10)		10,00,000	
To Contingent consideration		300,000	
To Investments		600,000	(25%)
To Gain on Invest		14,00,000	

(Being Recognition of Subsidiary made)

ii. Gain on Investments a/c Dr 14,00,000
To P&L 14,00,000
(Being Gain on De-Recognition recognised)

Note : Acquisition Cost will be written off in P&L A/c as per Ind AS 103

Case II : If % of Investments (Earlier) are below 20% in Acquiree

In the Given Case, Accounting Entries shall be quite similar as we passed in Case I Except De-recognition of Investments. We will De- recognise the carrying Amount of Earlier Investments which is disclosed in Separate financial statements Of Acquirer on Acquisition Date as per Ind AS 109. The Difference between the Carrying Amount of De- recognised Investments & fair value on these Investments On Acquisition Date will be considered as " Gain/ Loss on De-Recognition of Investments"

We will Transfer the above Gain/Loss on De-Recognition to P&L/OCI as per Opted model of Accounting under Ind AS 109.

Assets a/c Dr xxxx (fair value)
Goodwill a/c Dr xxxx (Bal fig.)
To Liabilities xxxx (fair value)
To PC xxxx (Current Payment)

To NCI xxxx
To Investments (109) xxxx → (FV – C Amt)
To Gain xxxx

PL or OCI

Opted model

Solution of Q.84 *Imp (Discussed in class)

Part 13

Concept 2 : Investments in Associates with "OCI"
(Extra Concept in Step by Step)

In Case An Acquirer has share in OCI Reserves of an Associate in CFS (Ind As 28 : Equity method) then the share of Acquirer in OCI Reserves of the Associate will also be De-Recognised by transferring it to P&L or retained Earning according to Nature of OCI reserve on Acquisition Date (i.e., Revaluation Res. to R.E/ FCTR to P&L Etc).

There will be no change in rest of Accounting as we discussed in concept I.

Journal :

1) Assets a/c Dr xxxx (F.V)
Goodwill a/c Dr xxxx (Bal. fig)
To Liabilities xxxx
To NCI xxxx
To PC xxxx (Current)
To Invest. In Associates xxxx (carrying Amount)
To Gain on Invest. xxxx
(fair value – carrying Amt)
(Being Acquisition of Subsidiary Recognised)

2) Gain on Investments a/c Dr xxxx
OCI Reserves a/c Dr xxxx
To P&L xxxx
To R.E xxxx
(Being Profits recognised)

Solution of Q.71 *V.V.Imp

Journal

1) N. Assets a/c Dr 30,000 Crores
Goodwill a/c Dr 4000 Crores (Bal fig)
To Cash 25000 crores (PC : 70%)
To Investment in

Associates 8850 Crores (carrying Amount)

To Gain on Invest. 150 (9000 – 8850)

(Being Acquisition of Subsidiary made)

2) Gain on Investment a/c Dr 150 Crores

OCI Reserves : FCIR a/c Dr 100 Crores

R. res a/c Dr 50 Crores

To P&L (150 + 100) 250

To R.E (Rev. Res) 50

(Being OCI Res. & Gain on Invest. Recognised)

Solution of Q.72

Journal Entry

i. Assets a/c Dr 1200

Goodwill a/c Dr 104 (Bal fig.)

To Liabilities 200

To D.T Liab. 40

To NCI (960 x 40%) 384

To Cash (30% :New) 350

To Invest. in Associate 300 (carrying Amount)

To Gain on Invest 30 (330 – 300)

(Being Acquisition of Subsidiary made)

ii. Gain on Invest. a/c Dr 30

OCI Res. a/c Dr 100 (CFS : FVOCI)

To P&L 130

(Being profit recognised on Derecognition)

Concept 3 : Acquisition control over an Enterprise "without acquisition of shares" *Imp

It may be possible that An Acquirer obtains control over the other Enterprise due to Buy back of shares by other Enterprise. If an Acquirer has significant influence before Buy Back of shares by that Entity, but after Buy Back of shares, significant Influence converts into controlling Interest then Acquisition method will be applicable even if Acquirer has not made any further Investment for Acquisition of controlling Interest.

All Entries shall remain same as be we recorded in case of step by step Method as follows :-

Assets a/c Dr xxxx (F.v)

To Liab. xxxx (f.v)

To NCI xxxx

To Invest in Asso. xxxx (carrying)

To Gain on Inves. Xxxx (FV – CA)

Solution of Q.73

1) Calculation of % of Controlling Interest after Buy Back

Total No. of Issued shares by Y Ltd	100 million
Buy Back of shares	(10 million)
No. of shares issued after Buy Back	90 million

No. of shares held by X Ltd in Y Ltd	41 million

% of controlling Interest $= \frac{46}{90} \times 100 = 51.11\ \%$

% of NCI $= 100 - 51.11\% = 48.89\ \%$

2) Accounting under Acquisition method

Assets a/c	Dr	14,000	
Cash a/c	Dr	1800	
To Liab.			2000
To NCI (13800 x 48.89%)			6747
To Invest in Asso.			6900 (carrying Amount)
To Bargain Purchase (Bal)			153

(Being Acquisition of Subsidiary made)

Note : In the Given question, fair value of Associate is not Given due to which we have not computed Gain/ Loss on De-Recognition of Associate. We cannot not Use 110 Per share value for fair valuation of Associate because its Buy Back Price which is normally offered at higher value than fair value to make the offer Attractive.

Question 67 (H.W)

Solution of Q.66 (Discussed in Class)

Part 14

PART C : Common control Transactions

(Appendix C : Pooling Interest Method)

Units

- Unit I : Identification of Common Control
- Unit II : Accounting Rules for Merger
- Unit III : Accounting Rules for De-mergers

Unit I : Identification of Common control *Imp

As per the Provisions of Ind AS 103 (Appendix C), Acquisition method will be Exempted for Accounting if Business combination has taken place under common

Control. It can also be said that common control Transactions are not covered by Acquisition method. " Ind AS 103 has Prescribed Application of Pooling Interest method for Accounting of common control Transactions". The following Examples may be noted for common control Transactions :-

i. Merger of fellow subsidiaries
ii. Acquisition of one fellow subsidiary by other fellow subsidiary
iii. Split off of one company into 2 or more companies

"Change in control Structure"

Mergers — Demergers

Under Common control

❖ Note : If Controlling Authority remains same before and after Business Combination then It will be considered as common control Transaction and Pooling Interest method will be Applied.

Solution of Q.74

Yes, the Given case is a Common Control Transaction because X is the Controlling Authority before & after Business combination.

Before the Given Acquisition, X was controlling the company y directly, but after Acquisition X will control the company y indirectly through Z ltd.

Solution of Q.75

Yes, the Given case is of common control. There is a contractual Agreement between B, C & D in relation to control company ABC & XYZ. It indicates that controlling Authority is same for Both companies.

Solution of Q.76

No, there is no contract between shareholders in relation to controlling the Companies. The Given case cannot be considered as common control Transaction Because controlling Authority is not same.

(Note : If there is a voting Pattern even though we cannot consider it as common control Transaction without contract.)

Solution of Q.85 *Imp

No, the Given transaction cannot be considered as common control transaction Because controlling Authority is not same in Pre combination and post combination Period. Before Acquisition, control of Entity A was in hands of group of shareholders, but after Acquisition, Entity A is controlled by Mr. Ram. So, Acquisition method will be applicable in this case.

Unit II : Accounting Rules for Mergers

i. It should be under common control
ii. Apply : Pooling Interest method

Step I : Acquire All the Assets & All the liabilities of Acquiree at " Carrying Amount"
Note : we will Ignore fair value of Assets & Liabilities under Pooling Int. method

Step II : Acquire All the Reserves of Acquiree at carrying Amount and maintain the Identify of each reserve.
Note : G. Res of Acquiree will be added to G. res of Acquirer....... Same Rule will be followed for other reserves as well

Step III : Difference between Purchase consideration & Share capital of Acquiree will be considered as Given or Loss on merger and will be transferred to "Capital Reserve".
Note : If there is no capital Reserve for writing off Loss on merger then we can use Other reserves i.e., G. Res, PL etc.

Important Note

New shares shall be issued in settlement of PC at "Par value" only

Face value

"No Security Premium can be booked"

Journal : Assets a/c	Dr	xxxx (Book value)	
Cap Res/ GR/ PL a/c	Dr	xxxx (Bal Fig)	
To Liabilities		xxxx (Book value)	
To Reserves		xxxx (Book Value)	
To S. Capital		xxxx (PC)	
To capital Res.		xxxx (Bal Fig)	

i. No Goodwill will be debited Here
ii. No New Asset or Liab. can be recognised in merger

Solution of Q.77

Calculation of PC
(pooling Interest method)

	AX Ltd.	BX Ltd	Total
P.P.E	8500	7500	16,000
Investments	1050	550	1600
Inventory	1250	2750	4000
Trade Receivables	1800	4000	5800
Cash	450	400	850
Total A	13050	15200	28250

Reserves	3050	2700	5750
Borrowings	3000	4000	7000
Trade Payable	1000	1500	2500
Total B	7050	8200	15250
(A-B) PC	6000	7000	13000

"New shares of ₹ 13000 at Par value shall be issued"

B/S of ABX Ltd.

Non Current Assets :		
1) P.P.E		16000
2) Financial Assets : Investments		1600
Current Assets :		
1) Inventory		4000
2) Financial Assets : Trade Receivable		5800
Cash		850
	Total	28250
Equity :		
Equity Share capital		13000
Other Equity		5750
Non Current Liab : Borrowings		7000
		2500
Current Liab : Payables	Total	28250

Unit III : Accounting for De- Mergers *V.V.Imp

(Special Accounting Treatment)

If any loss making segment/ Division is transferred by one company to Another New company which is incorporated by transferor company itself to improve Overall profits then It will be considered as a case of De- merger. The following Conditions should be satisfied if Exemption from Acquisition method is to be availed :

I. All Assets & Liab which are related with Loss making Division shall be transferred to New co./ resulting co. at carrying Amount.

(Note : S. Capital & Reserves shall not be transferred because Equity does not Belong to division, but It belongs to company)

II. New co. will issue new shares in PL to the members of Transferor company at Par value.

Notes

1. It means that Transferor will Transfer its division without PC because PC will be Given directly to its members.
2. In Practical questions Given by ICAI in study material, shares have been issued at Premium by New Co. So, we will follow wrong Treatment to match our with S.M.
3. When N. Co will issue shares to members of old co. then common control condition Will be satisfied.

III. In the books of Transferor & Transferee, Difference in Entries will be taken to "Capital Reserve" assuming Loss or Profit on De-Merger.

No Goodwill/ No New Asset/ No new Liab can be recognised.

Journal Entry

Transferor	Transferee
Liab . a/c Dr xxxx	Assets a/c Dr xxxx
Cap Res. a/c Dr xxxx (Bal)	Cap Res. (Bal) a/c Dr xxxx
To Assets xxxx	To Liab. xxxx
To Cap Res xxxx (Bal)	To S. Capital xxxx
	To S. Premium xxxx
	To Cap Res (Bal Fig) xxxx

In the absence of Cap Res, other Reserves can be used

Solution of Q.79

In the books of Enterprise Limited

Current Liab . a/c	Dr	400	
Loans a/c	Dr	300	
To Fixed Assets (WDV)			100
To current Assets			500
To capital Res. (Bal fig)			100
(Being mobile division transferred to Turnaround Ltd.)			

B/S of Enterprise Ltd.

Non Current Assets :		
Fixed Assets		25
Current Assets		200
	Total	225
Equity :		
Share capital		25
Other Equity (75 + 100)		175
Current Liab		25
	Total	225

In the books of Turnaround

Fixed Assets a/c	Dr	100	
C. Assets a/c	Dr	500	
Cap. Res (Bal Fig) a/c	Dr	125 (Loss)	
To C. Liab.			400
To Loans			300
To S. Capital			10 (1 x 10)
To S. Premium			15 (1 x 15)

Balance sheet

Non Current Assets :		
Fixed Assets		100
Current Asset		500
		600
Equity share capital		10
Other Equity [15 + (125)]		(110)
N. C. Liab : Loans		300
Current Liab		400
		600

Part 15

Solution of Q.78 *Imp

i. Accounting in the books of Companies

A. In the books of mini ltd ⟶ New Co.

Fixed Assets a/c	Dr	200	
Current Assets a/c	Dr	500	
To Loans			100
To Current Liab.			100
To E.S. Capital			50 (5 x 10) (PC)
To Cap. Res (Bal Fig)			250

(Being mini division acquired)

Balance sheet of mini Ltd.

Non Current Assets : PPE		200
Current Assets		300
	Total	500

Equity :		
E.S. Capital		50
Other Equity : Capital Res.		250
Non Current Liab : Loan funds		100
Current Liab		100
	Total	500

B. In the books of Maxi mini Ltd.

Loan funds a/c	Dr	100	
L. Liab a/c	Dr	100	
*Loss on Demerger a/c	Dr	300 (Bal fig)	
To Fixed Assets			200
To Current Assets			300
(Being mini division transferred to mini Ltd)			

Capital Reserve a/c	Dr	300	
* To Loss on Demerger			300
(Being Losses written off)			

Balance sheet of maxi mini Limited

	Pre- Demerger	Post Demerger
Non Current Assets : P.P.E	300	100
Current Assets	700	400
Total Assets	1000	500
Equity :		
Equity share capital	50	50
Other Equity	650	350
		(650 – 300)
Non Current Liab : Loans	100	-
Current Liab	200	100
Total Equity & Liab	1000	500

ii. Calculation of Intrinsic value Pre & Post Demerger

	Pre- Demerger	Post Demerger	
	Maxi mini ltd	Maxi mini ltd	Mini ltd
PPE	300	100	200
C. Assets	700	400	300
C. Liab	(200)	(100)	(100)
Loans	(100)	-	(100)
Net Assets	700	400	300
No. of Shares	5	5	5
I.Value	140	80	60

iii. Comments on Impact on Shareholders wealth

In the Given case, there is no impact on the shareholders wealth in pre Demerger & Post Demerger situation because value Per share Pre- Demerger was 140 per share, but Post Demerger it is 80 & 60 Per share in two different Entries.

PART D : Accounting for Reverse Acquisition in "Consolidated financial statements" *Imp

If A small company Acquires controlling Interest in Large company then It will be a case of "Reverse Acquisition". In the Given case, Legal Acquirer and Accounting Acquirer shall be different. It can also be said that consolidated financial statements Shall be prepared from the point of Accounting Acquirer. These type of Transactions are undertaken to obtain Listing Licence which is held by small company. Sometimes, SEBI denies a large Group from providing listing in stock market due to Bad practices in past. So these large Entities acquire small listed companies to acquire Listing licence. It is called Back Door Listing. The following steps should be followed while preparing CFS on D.O.A under Ind AS 103 in Reverse Acquisition :-

Step I : Identify Post Combination control structure whether Legal Acquiree has Obtained control in Legal Acquirer or Not.

Notes : 1) If Answer is "Not" in Step I then It will not be considered as Reverse Acquisition. No further Discussion will be made.

2) If Answer is "yes" in step I then It will be considered as a Case of Reverse Acquisition and we will move to Step II.

Step II : Calculate No. of shares to be issued from the Point of view Legal Acquiree to Legal Acquirer assuming the Legal Acquiree as Accounting Acquirer and Legal Acquirer as Accounting Acquiree.

Note : It means that Reverse Swap ratio will be applied on Legal Acquirer/ Accounting Acquiree No. of shares

Step III : Pass Entry for Acquisition in CFS of Accounting Acquirer on Date of Acquisition :-

Assets (Legal Acquirer) a/c	Dr	xxxx (FV)
Goodwill a/c	Dr	xxxx (Bal Fig)
To Liab. (Legal Acquirer)		xxxx (fair Value)
To NCI (If any : N.A x 1 %)		xxxx
To S. Capital (Step II)		xxxx

Solution of Q.80 *V.V.Imp

i. Identification of Accounting Acquirer

In the Given Case, A Ltd is Legal Acquirer because it is issuing its shares to Members of B Ltd. in the ratio of 2.5 shares for 1 share. On the basis of Given Swap Ratio, A ltd will issue 150 shares (60 x 2.5/1) to B Ltd. In Post combination Entity, A

Will have Total shares 250 (100 + 150) in which 60% of Total capital will be held by members of B limited which indicates that they will become the controlling Authority in A Ltd. It Clearly indicates that A ltd is ot acquiring control over B Ltd, but It is Giving its control to B Ltd. The Given case should be considered as reverse Acquisition and we need to calculate No. of shares to be issued from the point of B ltd as follows :-

No. of shares to be issued from the point of B Ltd $= \frac{\text{100 shares in A ltd.}}{2.5} \times 1 = 40$ shares

(B will issue its one share for 2.5 shares in A)

Post Combination control structure in B Ltd $= \underbrace{60 \text{ Shares} + 40 \text{ Shares} = 100}_{60\%}$

(Members of B are still Excercising control)

ii. Journal Entry (CFS) (In the books of B)

PPE a/c Dr	1500		
C.Assets a/c Dr	500		
To Current Liab		300	
To Non current Liab		400	
To E. S. Capital (40 shares x 10)		400	40 x 40 = 1600
To Sec. Premium (40 Shares x 30)		1200	
To NCI		0	

(Being Accounting for Reverse Acquisition made)

Consolidated B/s of B Ltd with its subsidiary A ltd.

Non current Assets :		
i. P.P.E (3000 + 1500)		4500
ii. Goodwill		300
Current Assets (700 + 500)		1200
		6000
E.S Capital (600 + 400)		1000
Other Equity (1400 + 1200)		2600
Non Current Liab (1100 + 400)		1500
Current Liab (600 + 300)		900
		6000

"Explanation on optional Concentration Test"

(Added by MCA in Ind AS 103 dated 24.7.2020)

Amendment

As per the Amendments made by MCA on 24.7.2020, An Acquirer may conduct Optional concentration Test at initial stage whether it is an Asset Acquisition or Business Acquisition. The following flow chart may be noted as a Summary for understanding of the Amendments :-

"Optional" Concentration Test (Acquirer)

If Acquirer conducts this optional Test

- If Test meets the conditions as Specified in Rules
  - Assume the Given Acquisition as Assets Acquisition & "No Need to Refer Ind AS 103 for Further Assessment"
- If Test fails the conditions as Specified in Rules
  - It's a Business Acquisition & further Assessment will be made to identify substantive process

If Acquirer does not conduct this Optional Test

- Detailed Assessment will be required as Given in Ind AS 103 whether Acquisition is an Asset Acquisition or Business combination

Understanding of Application of Optional Concentration Test *Imp

(Less chances from Examination Point of view)

Step I : Calculate Value of Gross Assets Acquired by the following Statement :-

Consideration paid for current Acquisition	xxxx
+ Fair value of Previously held Interest	xxxx
+ Fair value of NCI	xxxx
+ Fair value of Liabilities Acquired (Excluding DTL)	xxxx
	xxxx
- Cash & Cash Equivalents	(xxxx)
- D.T Assets	(xxxx)
Value of Loss Assets Acquired	xxxx

Step II : If value of Gross Assets Acquired is concentrated in single Identifiable Asset then It will be Assumed that optional concentration Test has been Passed and It will be taken as an Asset Acquisition Case.

Value of Gross Assets Acquired = Single Identifiable Asset

P.P.E I.A Debtors Stock

(If value of Single Identifiable Asset is not equal to gross value of Assets Acquired
Only then It will be considered as Business Acquisition)

Summary : value of Individual Asset should be less than value of Gross Assets

Solution of Q.10

Calculation of value of Gross Assets Acquired

Fair value of :	Consideration Paid	300
	NCI	120
	Previously held Interest	80
+ fair value of Liab (Given) (excluding DTL)		800
- Cash & Cash Equivalent		(200)
	Fair value of Gross Assets	1100

Comments : i) In Exams as per S.M

Fair value of Gross Assets Acquired is 1100 which is concentrated on single Asset (Building) which has fair value of 1000. It means fair value of Gross Assets acquired 91% of single Asset which is Approx. equal. So the Given Case should be considered as an Asset Acquisition.

ii) Practical Life :

Fair value of Gross Assets is not concentrated in single Asset because 1100 is not equal to fair value of Building which is 1000. So, It is not a Case of Asset acquisition.

Thank You 😊

Best of Luck.....!!!!!!

CA. Parveen Jindal

Ind AS -37

(Provisions, Contingent Assets & Liab.)

Part 1

Concept 1 : Coverage of Ind AS 37

Coverage

Provisions | Contingent Liab. | Contingent Assets | Additional Issues

Concept 2 : Provisions

A. Out of Scope : The following Provisions out of scope of Ind AS-37 :-

i. Provisions under Ind AS-12 (Taxes)
ii. Provisions under Ind AS-17 (Lease)
iii. Provisions under Ind AS-19 (Emp. Benefits)
iv. Provisions under Ind AS-104 (Insurance contracts)
v. Provision for contingent consideration (103)
vi. Provision created under 109 financial Instruments

B. All other Provisions are covered under Ind AS-37

C. Meaning of Provision & its Recognition :- *Imp

As per the provisions of Ind AS-37, Provision is a liability. It can be recognised in the books only if the following 4 conditions are satisfied :-

Condition I : There should be some present obligation whether Legal or constructive.

- Legal : Legislation or Operation of Law
- Constructive : Based on Past Practice or own Commitments or Promises

+

Condition II : It should be a result from Past transactions

+

Condition III : The outflow from the Transaction should be Probable (Probable means likely to occur means more than 50% chance/ Probability to Face obligation)

+

Condition IV : A Reliable Estimate can be made for outflow

D. Use of Provision : As per the Provisions of Ind AS-37, Provisions can be used for Netting off the payment of Liab. In future. In case there is some difference Between Provision & Actual Payment then It will be Treated as change in Estimates and It will be dealt under Ind AS-8.

E. Measurement of Provisions : As per the provisions of Ind AS-37, Provisions Should be measured at each B/s date and changes in provisions may be in the form of Increase or Reversal of Provisions.

F. Present value of Provisions :- If Time value of money has Significant Effect on Provisions then we should create (material) Provisions at Present value : At each B/s date, we will increase such provision by Borrowing cost/ Interest cost on O/s Liability.

G. Best Estimate :- As per the Provisions of Ind AS-37, Liability to create Provisions should be based on best Estimation. It should cover all risks & Uncertainities.

Concept 3 : Contingent Liabilities

As per the provisions of Ind AS-37, contingent Liability is a Possible obligation Which is not probable (Less than likely to occur) from the point of view of outflows. These Liabilities are not provided for in books of A/cs, but these are disclosed in Notes to A/Cs. (If chances of occurance of an obligation is 5% to 50% then It will be Considered as contingent Liability)

Note : If Probability of occurance of any obligation is Less than 5% then It will not be Provided or disclosed in Notes to A/cs.

Concept 4 : Contingent Assets *Imp

As per the Provisions of Ind AS-37, Contingent Assets can be recognised as an Income and receivables only if It is Probable that It will be collected in future (Probable means chances are more than 50%). If chances are not more than 50% then we should ignore these Assets in books of A/cs as well as in Notes to A/Cs.

ILLustration 1, 2, 3, 4, 5, 6, 7, 8 (Discussed in Class)

ILLustration 9 (H.W)

Concept 5 : Additional Issues

A. Operating Losses : If any Business is incurring Losses and It is Expected that It will continue its business Losses in future as well then we cannot create Provisions for the Expected Losses. It means that Provisions are not allowed for Operating Losses.

B. Onerous Contracts:- If any contract has unavoidable cost which are Expected to be met in future then It is recognised as an Onerous contract. It should be Provided For in the books of A/cs.

C. Re- Structuring Cost :- As per the Provisions of Ind AS-37, Re-structuring means Discontinuation of a Business, Business line etc. We can provide for Re-Structuring Cost if the following 2 conditions are met :

I. A Formal Plan has been announced about Re-structuring

II. There are some Probable outflows due to Such Plans.
(i.e., Compensation to staff etc.)

Illustration 10, 11 (Discussed in Class)

Part 2

Solution of Q.1, Q.2, Q,3,Q.4, Q.5

Part 3

New Questions on Ind AS 37

Solution of Q.2

Calculation of Provision to be made at 31.3.X1

Prov. For Re-storation Cost = 10,00,000 x .907 = 907,000
@ 5% for 2 years

Comments : As per the provisions of Ind AS 37, Provision for liabilities is required to be made if there is a Present obligation due to past Events with Reliable Estimate whether It is a Legal obligation or constructive obligation. In the Given case, there is a Legal obligation to re-store Sea bed due to past Events due to which we have created a Provision of Rs. 907000. In Subsequent years, Provision will get increased by unwinding Cost.

Solution of Q.6 *Imp

Calculation of Provision to be made for Re-storation Cost

Provision for I[st] Phase ending on 31.3.x3 (20,00,000 x .909)	18,18,000
Provision for II[nd] Phase ending on 31.3.x6 (35,00,000 x .683)	23,90,500
Provision Required	42,08,500

Comments :

1) There is an obligation on company to Re-store the land due to which we have created a provision for Re-storation cost.

2) There will be a Tax Relief on such Provision in future under Income Tax Act due to Which DTA can be created on Such Amount .
(4208500 x 30%)

Solution of Q.5

As per the Provisions of Ind AS-37, Onerous contracts are the contracts which Cannot be cancelled without unavoidable Cost. In the Given case, the Given contract is an Onerous contract because It can be cancelled on a Payment of compensation of Rs. 25 Lacs only.

Further, the company should create a Provision for at least25 Lacs because Cost Of Input is higher than the amount of compensation. The cost of input Exceeds Revenues by 50 Lacs, but compensation is required at 25 Lacs. So, Provision should be Made for 25 Lacs.

Solution of Q.3

As per the Provisions of Ind AS 37, Provision is required to be made for present Obligation (whether Legal/ Constructive) due to past Events with a Reliable Estimate. In the Given Case, Termination Benefits to Employees & Penalty for cancellation of Operating Lease are to be considered for creating Provisions as per Definition Given In Ind AS 37. There is no present Obligation for Relocation cost of Employees and for operating Losses due to which No Provision is required for these items on B/s Date.

As per the Provisions of Ind AS 10, Events after B/s date, which were in the Knowledge of Entity on B/s date, can be adjusted in previous year Even if these items occurred after b/s date. But the last date for adjustment is Approval on Statements by BOD which 15.5.x2 in this case. So, payment to Employees and Payment for Penalty can be provided on 31.3.x2 because these payments were made before Approval.

Provision Required on 31.3.x2 = 520 + 410 = 930 lacs

Solution of Q.1

In the Given case, there is no Present Obligation because there is no delay in Delivery of material on 31.3.x1 due to past Events. So there is no Liab for creating Provisions. If delay is Expected in same then It will attract Liab. In july.

Thank You ☺

Best of Luck.....!!!!!!

CA. Parveen Jindal

Ind AS : 115

Revenue from Contracts with Customers

Part 1

Message

Part 2

Concept 1 : Applicability & Nature

i. Applicability : 1.4.2018 onwards
ii. Nature : Mandatory for all companies which are applying Ind AS

(Note : After issuance of Ind AS 115, ICAI & MCA have withdrawn the application of Ind AS 18, Ind AS 11 & Guidance Note on Real Estate Business)

Concept 2 : Objective of Ind AS 115

As per the Provisions of Ind AS 115, The following Aspects will be covered under the Statement :-

i. Nature of Revenue
ii. Timing of Revenue
iii. Amount of Revenue
iv. Uncertainties attached to Revenues
v. Accounting for revenues

Concept 3 : Important Definitions

1) Meaning of Contract :- As per the Provisions, contract is an agreement that creates Enforceable Rights & Obligation to the Parties. It can be written, oral or Implied as per Customers business Activities.

It is a matter of Law

*Imp

2) Meaning of Customer :- As per the Provisions, customer is a Party that has contracted with Entity to obtain Goods/Services for consideration.

Note 1 : Ind AS 115 shall be applied on contract only if Good/ Service is a outcome of Ordinary business Activities. It can be said that goods/ Services under the Contract shall be ordinary in nature as per the nature of business.

Note 2 : If any Revenue is Received but It is not Received from customer then It will be dealt by other Ind AS.

i. Revenue from sale of PPE : Ind AS 16
ii. Revenue from sale of property : Ind AS 40
iii. Revenue from Dividend Income or Interest Income : Ind AS 109 etc.

3) Meaning of Revenues :- Revenue means Income which arises in ordinary course of Business. "Income means increase in Equity"

Concept 4 : Contracts which are out of scope of Ind AS 115

As per the provisions of Ind AS 115, the following contracts are out of scope From this statement :-

- Insurance Contracts (Ind AS 104)
- Lease contracts (Ind AS 17)
- Financial Assets (Ind AS 109)
  Instruments
- Contracts with subsidiary, Associates & joint ventures (Ind AS 110, 28, 111)
- Non monetary Exchanges between the Entities in similar nature of business to Facilitates sale to the customers

(These transactions are not Barter Transactions because Barter Transactions are Always done at fair value, we will discuss these transactions Later.)

*V.V.Imp

Part 3

Concept 5 : "5 Step Model"

As per the provisions of Ind AS 115, There are 5 steps which are to followed before the understanding of Revenue Recognition :-

Steps

Step I :	Step II :	Step III :	Step IV :	Step V :
Identifying the Contract	Identifying the "Performance Obligation"	Identifying the Transaction Price	Identifying the Allocation of Transaction Price	Satisfying the Performance Obligation

Step I : Identifying the Contract

As per the provisions of Ind AS 115, the following conditions should be satisfied to Identify a contract with customer :-

Condition I : It should be approved by all the concerned Parties (Seller & Buyer) & Parties are committed to fulfil their Obligations.

\+

Condition II: The Entity can identify each party's rights in the contract.

\+

Condition III: The Entity can identify the payment Terms.

\+

Condition IV: The Entity can identify that the transaction has some commercial Substance.

+

Condition V : The Entity can identify that ultimate collection will be made from Customer.

Additional Points to be considered under "Step I" of Ind AS 115 :-

a) Combination of Contracts

As per the Provisions of Ind AS 115, we can combine multiple contracts as a Single contract if the following conditions are satisfied :-

i. The contracts are negotiated as a Package in single commercial Activity

+

ii. The Price of one contract affects the Price of other contract

+

iii. All the contracts are like a Single Performance Obligation

Solution of Q.4, Q.5, Q.6 (Discussed in Class)

b) Duration of Contract :- *Imp

As per the Provisions if Ind AS 115, Revenue shall be recognised on the basis Of Duration of Contract. An Entity can identify the duration of contract on the basis of Termination clause in the contract as follows :-

Termination

Case I

If Both Parties have Unilateral right to terminate unformed Performance Obligation without any Penalty

Case II

Without penalty → Prefer shorter Duration

with Penalty → Prefer Long Duration

Solution of Q.7, Q.8, Q.9, Q.10 (Discussed in Class)

c) Modification in contract :- *V.V.Imp

As per the Provisions of Ind AS 115, modification in contract can be made in the original contract . It can be made in the following ways :-

Modification : Type I

If Additional Goods or Services are added in the original contract at stand Alone selling Price "SSP" then It will be assumed as a Separate contract and It will not be treated as modification.

"SSP"= It is the Price at which Goods can be sold in the Open market and It will be charged from new customer.

Solution of Q.11 (Discussed in class)

Modification : Type 2

If Additional Goods or Services are added to the Original contract, but at a Price other than Stand alone Price then It will be assumed that Transaction has Negotiated as a Package. In the Given Case, we will consider the accounting on Prospectively basis.

Prospectively : "Allocate remaining Revenue over the remaining Performance obligation"

Solution of Q.14 (Discussed in Class)

Modification : Type 3

If Additional Goods/ Services are not added in Original Contract, but price is Revised for Original Contract then "Cumulative catch up adjustment" will be Considered.

Cumulative catch up Adjustment :

Revenue will be adjusted with retrospectively Effect

Solution of Q.15, Q.13*Imp, Q.12 (Discussed in Class)

Step II : Identifying the Performance Obligation

As per the Provisions of Ind AS 115, Performance Obligation has been defined as a Promise in the contract with customer to deliver :-

i. A Good or A Service which is "Distinct"

OR

ii. A Service of Goods or services which are same in nature

- Meaning of Distinct Good/Service :- As per the Provisions of Distinct Good/ Service is a Good/ Service which is separable from other Goods or Services. The Following conditions should be satisfied to identify distinct Goods or Services :-

I. If Integration is not required then all Goods or Services are distinct.

+

II. If Goods/Services are not highly inter related then All Goods or Services are Distinct.

+

III. If Goods/Services are not Customised/ modified then all Goods or Services Are distinct.

Note : Identification of Separate Performance Obligation is mandatory because Allocation of transaction value over distinct Goods/Services will be made for Adequate Presentation of Revenues.

Solution of Q.18, Q.19, Q.20, Q.21, Q.22, Q.16, Q.17 (Discussed in Class)

Part 4

Solution of Q.12, Q.13, Q.11, Q.14 (Discussed in Class)

Part 5

Step III : Identifying the Transaction Price *V.V.Imp

As per the Provisions of Ind AS 115, Transaction Price is the Price which an Entity Expects to be Entitled in Exchange of Goods/Services, but Excluding Amount Collected on behalf of 3rd Party (i.e., GST or other Taxes which are collected from Customer but Payable to Govt.

The Estimation of Transaction Price may Get Effected by the following 4 Items as follows :-

I. Variable Consideration
II. Financing Component
III. Non Cash Consideration
IV. Amount Payable to Customer

Case I : Variable Consideration *Imp

If variable consideration is a Part of the Transaction Price then we should Estimate variable consideration while Estimating Transaction Price. It may be in the Form of Discounts, Rebates, Refunds, Price concession, Performance Bonus, Incentives, Penalties etc.

There are 2 methods to Estimate the value of variable consideration as follows :-

Methods

Expected value Method	Most likely Amount method
↓	↓
Apply Probability weight if we have Different Ranges of Revenue	Under this method, There will be 2 options only (i.e., Yes or No) Either It will be a Revenue or It Will not be Revenue

Solution of Q.23, Q.24, Q.25*Imp, Q.42, Q.26*V.V.Imp (Discussed in Class)

Case II : Financing Component *Imp

As per the Provisions of Ind AS 115, An Entity should find out financing component in the Transaction Price. It means that Ind AS 115 considers the Time value of money

Concept. The following 3 Points should be considered while computing financing Component :-

I. The Difference between Transaction Price for promised Goods & Cash Selling Price.

Hint : If Difference is insignificant then financing component may be ignored

II. The Duration between transfer of control of Goods/Services & Actual Payment by Customer.

Hint : If collection is made within 1 year then financing component may be ignored

III. The Entity should consider market Rate of Interest

Hint : IRR may also be considered if market rate is not available

Note : We should not identify Interest in all contract If customer pays Advance money or customer does not pay according to nature of Transaction then we will Ignore financing component

Solution of Q.28, Q.29, Q.32, Q.33, Q.34, Q.35, Q.36, Q.37, Q.47 (Discussed in Class)

Case III : Non Cash Consideration

It may be possible that An Entity has received Non Cash consideration in Exchange of Goods or Services. In the Given Case, transaction Price will be computed as follows :-

a) Fair value of received consideration will be taken as Revenue on the date of Exchange of consideration.

❖ Subsequent changes in Revenue will not be made after initial Recognition

b) In the absence of fair value of Received consideration, we can consider fair value Of Given Goods/Services.

Solution of Q.38, Q.39, Q.40, Q.45*Imp, Q.46 (Discussed in Class)

Case IV : Consideration Payable to Customer

As per the Provisions of Ind AS 115, consideration which is paid to customer (i.e., Voucher, Coupen etc.) should be reduced from Transaction Price.

Solution of Q.44, Q.41 (Discussed in Class)

Part 6

Case V : Sales with Right to Return → Exceptional Case

If an Entity Sells its Goods with Right to Return then the following Steps should be Applied :-

Step I : The Entity should create refund Liability for the Expected returns instead Of Recognition of Revenue as follows :-

Cash/ Customer a/c Dr xxxx
To Revenues xxxx
To Refund Liab xxxx
Expected to be returned
(Being Goods Sold)

Step II : The Entity Should debit Returnable Inventory instead of Debiting Goods as Follows :-

Returnable Inventory a/c Dr xxxx
P&L a/c Dr xxxx
To Cost of Sales xxxx
(Being Expenses Charged)

Solution of Q.27 (Discussed in class)

Step IV : Allocation of Transaction Price over the Performance Obligation

As per the Provisions of Ind AS 115, Transaction Price shall be allocated over all the performance obligations in the ratio of their stand alone Selling Price "SSP". In Case SSP of any Performance obligation is not available then It will be find out by any Of the following methods :-

Method I : Market Assessment Approach
(We consider market Prices which are offered by other Entities for similar Goods/Services)

Method II : Cost Plus Reasonable margin
(We consider Cost Plus Margin as SSP)

Method III : Residual Method
SSP = Total Transaction Price – Observable SSP for other Goods

Solution of Q.48 (Discussed in Class)

Important Points to be considered :-

If Discounts/ Variable consideration is related with a Particular range of Goods or services then allocation of such discount/ variable consideration will be made on the related Products/ Services. It means that full SSP will be allocated to those Goods/Services which are not related with discounts/Variable consideration.

Solution of Q.49, Q.50, Q.51 (Discussed in Class)

Part 7

Solution of Q.26, Q.27, Q.47, Q.29, Q.31, Q.28, Q.33 , Q.34, Q.35, Q.30 (Discussed & Doubts Solving)

Part 8

Step 5 : Revenue Recognition

As per the Provisions of Ind AS 115, An Entity can recognise revenue when It delivers/ transfers the Promised Goods/ Services to Customer. The delivery of Goods/Services is assumed to be completed when control of Goods/Services is Transferred to customer. Under the Provisions of Ind AS 115, the following indicators May be noted to identify transfer of control :-

- The customer has accepted Goods/Services
- The Goods/Services are under Physical Possession of customer.
- The Legal title has been transferred to customer.
- The customer will Enjoy the remaining Benefits from the Goods/Services and Customer can restrict others from taking benefits from Goods/Services.

Additional points to be considered :-

Point 1 : Methods of Transferring the control

As per the Provisions, Control can be transferred by 2 methods as follows:-

Method I : Over the period of contract
Method II : At a Point of time of contract

Point 2 : Revenue Recognition Methods

Methods

Input Method	Output Method
If Performance Obligation is satisfied Over the Period then It will be Applied	If Control is transferred at a Point of time then It is applied
Under this method, Revenue is booked on the basis of Proportion of Actual Cost to Total Estimated Cost	Under this method full Revenue is Recognised for delivered Items

Point 3 : Indicators for "Over the Period"

a) The Entity transfers Service to consumer and consumer takes Benefits Immediately.

OR

b) The Entity Constructs/ Creats an Asset which is under the control customer

OR

c) The Entity creates an Asset without any alternative use and has right to seek Payment for completed work.

Solution of Q.56, Q.55, Q.53, Q.52

Part 9

Concept 6 : Various Situations

Case I : Repurchase Agreement

If an Entity sells its Goods under Repurchase Agreement then the following Points should be considered :-

A. Types of Re- Purchase Agreement

Types

Future Contract	Call Option	Put Option
Entity is bound to Re-purchase the sold Asset	Entity has a right to Re-purchase the sold the Asset	Customer has a right to Return the Asset

B. Accounting Treatment

As per the Provisions of Accounting Treatment will not change whether it is a future contract, call option or Put option contract. The Accounting Treatment will be different in following situation :-

i. If Re-Purchase Price is higher than Original selling Price then Difference will be considered as a financing component as follows :-

Bank a/c	Dr	xxxx	(Original Selling Price)
Finance cost a/c	Dr	xxxx	(Diff.)
To Financial Liab.		xxxx	(Re-Purchase Price)

(Being Re-Purchase Agreement Entered into with customer)

ii. If re-Purchase price is Less than Original Selling Price in the contract then this Agreement will be considered as a Lease Agreement under Ind AS 17 and Difference in Prices will be taken as Lease Income.

Solution of Q.57, Q.58 (Discussed in Class)

Case II : Bill & Hold

If Delivery of Goods is Pending at Buyer Request then Seller can recognise Revenue assuming that Seller has delivered the Promised Goods or Services. The Following conditions should be satisfied to identify the Bill & Hold Situation :-

I. The Goods should be identifiable Separately from other Goods in warehouse.
II. The Goods cannot be transferred to any other Party.

III. The Goods should be ready for delivery at any time at the Request of Customer.

Solution of Q.59 (Discussed in Class)

Case III : Service Concession Arrangement

(Build – Operate – Transfer) or (Private to Public)

Under these Arrangements, Public Properties are Granted to Private companies to construct & maintain for Public Benefits. These Arrangements may be for Hospitals, Airports, Roads, Bridges, Tunnels etc. These Arrangements may be entered into by 2 methods as follows :-

Method I : Recovery from Public

If Private companies have to recover their invested money from Public then the following steps for Accounting shall be considered :-

Step I : During construction Phase

Capital WIP a/c Dr xxxx
To Bank xxxx
(Being Const. Exp. incurred)

Step II : At the time of Completion of Const.

Intangible Asset a/c Dr xxxx (fair value)
To Capital WIP xxxx (Actual Cost)

i. PPE will not be debited (Ownership Clause)
ii. I. Asset will be debited at fair value
iii. Diff. between fair value & Actual Cost incurred will be transferred to P&L

Step III : During Operation of Agreement

Bank a/c Dr xxxx
To Revenues xxxx
(Being Revenue Collected from Public)

Note : I. Asset will be amortised over the period of licence under the Guidance of Ind AS 38.

Method II : Guaranteed Recovery from Govt.

Under this Arrangement, Entity shall have contractual right to collect a fixed Amount from Govt. The following steps should be considered for Accounting :-

Step I : During Const. Phase

Capital WIP a/c Dr xxxx
To Bank xxxx
(Being Expenditure Incurred on Construction)

Step II : When Asset becomes ready for use

Financial Asset a/c Dr xxxx (Fair value)

To Capital WIP xxxx (Actual Cost)

❖ Diff. will be transferred to P&L

Step III : During Operation Phase

1) Financial Asset a/c Dr xxxx

To Finance Income xxxx

(Being Int. Income made due at IRR)

2) Finance Income a/c Dr xxxx

To Finance Income xxxx

(Being Income Recognised)

Step IV : At the time of final collection

Bank a/c Dr xxxx

To financial Assets xxxx

To Other Income xxxx (Bal Fig.)

(Being Collection made)

Solution of Q.62

i. Bhilwara to Jabal Pur Toll Road :-

Under this Arrangement, Entity has contractual Right to collect the cash From Govt. It cannot recover its invested funds from Public due to which the Given Arrangements cannot be classified as an Intangible Asset, but It will be recognised as a financial Asset.

ii. Kohlapur to Nagar Toll Road :-

Under this arrangement, Entity can recover its invested funds from public Due to which we can recognise I. Asset for the Given Agreement.

iii. Accounting Treatment :-

a) Bhilwara- Jabal Pur :-

1) Financial Asset a/c Dr 110 Crores (fair value)

To Capital WIP 100 Crores (Const. Exp)

To P&L (Diff) 10 Crores

(Being financial Assets debited due to contractual right to Receive the cash)

2) Financial Asset a/c Dr 15 Crores

To Finance Income 15 Crores

(Being F. Income recognised)

3) Finance Income a/c Dr 15 crore

To Other Revenues 15 Crore

(Being Int. Income transferred to P&L)

4) Bank a/c Dr 200

To financial Asset 125

To Other Income 75

(Being Collection made)

b) Kohlapur – Nagpur :-

1) I. Asset a/c Dr 200 (fair value)
To capital WIP 100 (Actual Cost)
To P&L (Diff) 100
(Being I. Asset recognised)

2) Bank a/c Dr xxxx
To revenues xxxx
(Being Revenue Collected from Public)

3) P&L a/c Dr xxxx
To I. Asset xxxx
(Being Asset amortised)

Case IV : Consignment Sales

If consignor Deliver Goods to Consignee then It will not e treated as Revenue because consignee does not Enjoy control the Goods. As per the Provisions of Ind AS 115, Revenue can be Recognised only if Goods are delivered by consignee to customer means 3rd Party.

Solution of Q.63 (Discussed in Class)

Case V : Upfront fees (Joining fees/ File charges/ Registration fees etc)

If any Upfront fees (Non Refundable) is collected by an Entity from a Customer then It will not be treated as a Separate Performance Obligation It will be Recognised as a Revenue when Promised Goods or Services are delivered to Customer.

Case VI : Allocation of Cost over the contract *Imp

Contract Cost

Contract Acquisition Cost

- Capitalised cost
  - Commission Paid for Acq. Of Contract
- Expensed Amount
  - Legal fees, Stamp duty, Staff Salary, Staff Travel Exp etc. During Acquisition Phase

Contract Fulfilment Cost

- D. Material
- D. wages
- Allocated OH
- G.OH
- A.OH
- S.OH

❖ If any Asset is acquired during fulfilment of contract then It will be dealt under Relevant Ind AS.

Solution of Q.60 (Discussed in Class)

Part 10

Solution of Q.50, Q.51, Q.62 (Discussed & Doubts Solving)

Part 11

Ind AS 115 Vs AS-7 & AS-9

Ind AS 115	AS-7 & AS-9
1) It does not cover Revenue from Int. & Dividend	1) AS-9 Covers Interest & Dividend Income
2) It deals with Transaction Price & its Allocation over Performance obligations	2) It deals with Gross inflows whether Received or Receivable
3) It Explains Revenue Recognition on the basis of Transfer of control in Step 5	3) It Explains different Rules for different Revenues
4) It Explains service concession Arrangements	4) It does not deal with Service concession arrangements

Part 12

Extra Question on Ind AS 115

Construction Contracts

Issue I : Balance sheet (Extracts) under Const. Contract in the books of Contractor

As per the Provisions of Ind AS 115, the following statement should be Prepared at the end of financial year to show Amount Due from/ to customers :-

Actual Cost incurred till date	xxxx
(±) Profits/ Losses recognised till date	± xxxx
Amount to be Billed	xxxx
Amount Received till date	(xxxx)
+	Due from Custo.
-	Due to Custo.

Solution of Q.1

Accounting for 2015

i. % of completion of Contract = A. Cost to date x 100

T.E Cost

= 2750 / (2750 + 7750) x 100

= 26.19%

ii. Cont. Revenue = Cont. Price x % of Completion

= 12000 x 26.19%

= 3142.8 or 3143 (rouded off)

iii. Cont. Profit = Cont. Rev. – Cont. Cost

= 3143 -2750

= 393

iv. Amount Due from/ to Customers :-

A. Cost to date	2750
Profit	393
Amount billed	3143
Received Amount	(3000)
Due from Cust.	143

Accounting for 2016

a) % of Completion = A. Cost to date / T.E. Cost x 100

= (2750 + 3000) / (5750 + 7750) x 100

A.Cost to date

= 5750 / 13500 x 100

= 42.59%

b) Cont. Rev. = 12000 x 42.59% = 5111 – 3143 = 1968

Already Booked

c) Cont. Profit/Loss = 1968 – 3000 = (1032)

(Rev) (Cost)

d) Amount Due to/Due from Customer :

Actual Cost to date (2750 + 3000)		5750
Profit/ Loss Recognised to date :	2015	393
	2016	(1032)
Total Billed Amount		5111
Received Amount to date		(5000)
Due from Cust.		111

Accounting for 2017

i. % of Completion = (2750 + 3000 + 4200) / (9950 + 1550) x 100

= 86.52%

Recognised

ii. Cont. Rev = 12000 x 86.52% = 10382 – 5111 = 5271

iii. Cont. Profit = 5271 – 4200 = 1071

iv. Due from/to Customer :-

A. Cost to date (2750 + 3000 + 4200) 9950
P/L Recognised (393 – 1032 + 1071) 432
Billed Amount 10382
Received Amount 11000
Due to Customer 618

Accounting for 2018

Cont. Rev = 12000 – 10382 = 1618
Cont. Profit = 1618 – 1150 = 468
Due from customer = A. Cost to date (9950 + 1150) 11100
Profit (432 + 468) 900
Billed 12000
Received 12000
Dues Nil

Issue 2 : Cumulative Catch up Adjustment *Imp

If Contract Price and Contract cost are revised without adding any distinct Goods or services then we should consider application of cumulative catch up Adjustment on Earlier booked Revenues as follows (Retrospective Adjust) :-

Step I : Calculate Revised % of completion till the date of such changes in prices as Follows :-

$$\frac{\text{Actual Cost till date}}{\text{Revised T.E Cost}} \times 100 = \text{Revised \% of Completion}$$

Step II: Revenue Adjust.

$$\underbrace{(\text{Revised cont. Price} \times \text{Revised \% of Completion}) - \text{Earlier Booked Revenue}}_{\text{Cumulative Catch up Adj. in Rev. with Retrospective Adjust.}}$$

Solution of Q.3 *Imp

Statement Showing Cumulative Catch up Adjustment

i. Revised Transaction Price in the beginning of 2nd Year :-

Original Transaction Price	80,00,000
Increase in Price	15,00,000
Bonus (Probable)	500,000
Revised Price	100,00,000

ii. Revised Contract Cost :-

Original Estimation	60,00,000
Increase in Cost	10,00,000
Revised Est.	70,00,000

iii. Revised % of Completion in the beginning of 2nd Year :-

$$\% \text{ of Completion} = \frac{\text{A. Cost}}{\text{T.E Cost}} \times 100$$

$$= \frac{45{,}00{,}000}{70{,}00{,}000} \times 100$$

$$= 64.286\%$$

iv. C. Rev. as per Revised % = 100,00,000 x 64.286%
= 6428600

v. Cumulative Catch up = 6428600 – 6000000 = 428600

(6428600: Revised Rev.; 6000000: Already Booked Rev.; 428600: Cumulative Catch up)

Solution of Q.7 *Imp

Assumption : We have assumed that there is no doubt regarding on time completion of Const. work.

A. Accounting at 31.3.2018 (without modification) :-

Contract Price	20,00,000	
Bonus (Assumption)	400,000	
Trans. Price	24,00,000	
% of Completion	60%	
Cont. Rev	14,40,000	
A.Cost	840000	(14L x 60%)
Profit	600,000	

B. Cumulative catch up Adjust :-

1) $\% \text{ of Completion (Revised)} = \frac{840000}{1640000} \times 100$
= 51.22 %

2) Revised Cont. Rev = 2700,000 x 51.22% = 1382940

3) Cumulative Catch up = 1382940 – 1440000 = (57060)

Rev. Should be Reversed

Assumption : It is not Probable at contract date that contract will not be completed On time

a) Accounting at the end of 2017-18 :-

Transaction Price	20,00,000
% of Completion	60%
Cont. Rev.	12,00,000
A. Cost	(840,000)
Profit	360,000

b) Cumulative Catch up Adj :-

Revised Rev. = 2700,000 x 51.22% = 1382940

C.C. Adj. = 1382940 – 12,00,000 = 182940

Issue 3 : Survey Method/ Sales Method

It may be possible that completion stage of the project is certified by an Independent surveyor. In the Given case, we will recognise Revenue according to % of work certified by Surveyor. The following Additional Points should also be considered :-

I. Actual Expenses shall be recognised in P&L A/c under this method as follows :-
"Total Estimated Cost x % of Work Certified "

Note : It can be said that Revenue & Expenses shall be booked at equal % due to Matching Rule.

II. If there is a difference between A. Cost to date & Recognised Cost to date then It will be treated as WIP Work.

Matching Rule

Solution of Q.6

Calculation of Profit/ Loss for the Current year

i. Survey method/ Sales method :-

a) % of Completion = $\frac{1800}{3200} \times 100 = 56.25\%$

b) Calculation of Profit or Loss for C.Y :-

Cont. Rev. to date = 3200 x 56.25%		1800
Cont. Rev Recog. in Earlier years		(1200)
Revenue for Current year		600
Cont. Cost for C. year		(456)
[(2500 x 56.25%)- 950]	Profit	144

c) WIP work not certified :-

A.Cost to date	1500
Certified Cost	(1406)
Cost incurred but not certified	94

ii. Cost method/ Input method

a) % of Completion = $\frac{1500}{2500} \times 100 = 60\%$

b) Cont. Rev (3200 x 60%) - 1200 = 720
Cont. Cost (1500 – 950) = (550)
Profit 170

Solution of Q.2

Accounting for 1st Contract

i. Calculation of P/L upto 31.3.18 :-	
Contract Revenue (36,00,000 x 40%)	14,40,000
Contract Cost: Normal (30,00,000 x 40%)	(12,00,000)
Additional Exp.	(100,000)
Cont. Profit	140,000
ii. Amount Due from Customer :-	
A. Cost incurred during 17-18	13,00,000
Profit	140,000
Amount Billed	14,40,000
Received Amount	(12,00,000)
Due from Cust.	240,000
iii. WIP Inventory :-	
A. Cost till B/s adte (Assumed : Normal)	15,00,000
Certified Normal Exp.	(12,00,000)
(Uncertified Exp.) WIP	300,000
Accounting for 2nd Contract :-	
i. Cont. revenue (60000 x 30%)	18000
Cont. Cost : i) Normal (48000 – 8000) 30%	(12000)
ii) N. C. Asset (Exp)	(8000)
Loss	2000
ii. Amount Due to Customer :-	
A. Csot incurred till B/ s date	20000
(12000 + 8000)	
Losses incurred	(2000)
Billed Amount	18000
Received	(21000)
Due to Customer	3000
Accounting for 3rd Contract :-	
a) Calculation of P/L for 17-18 :-	
Cont. Revenue (24,00,000 x 25%)	600,000
Cont. Cost (20,00,000 x 25%)	(500,000)
Profit	100,000
b) Due from Customer/ to Customer :-	
Cont. Cost (Certified)	500000
Profit	100000
Billed Amount	600000
Received Amount	10,00,000
Due to Cust.	400,000
c) WIP Inventory (Uncertified Cost) :-	

A. Exp. till date	700,000
Certified Cost	(500,000)
Uncertified work	200,000

Solution of Q.5 *V.V.Imp

Statement Showing Calculation of Total Cost for All Performance Obligation (2018-19)

	Design & Tech. Assistance	Const. Contract
Material	-	4000
Labour	-	1000
Insurance	-	2
Technical	25	-
Designs	25	-
Depreciation	-	10
Other Exp.	-	100
Specific Cost	50	5112
Common Exp. :		
i. Exp. for Cont.	21	21.79
(22L in the ration of 50:5112)		
ii. B. Cost	.48	49.52
(50L in the ratio of 50:5112)		
T. Cost in 18-19	50.69	5183.31

Statement showing calculation of T. Cost in 19-20

	Design & Tech.	Const. Contract
Material	-	5000
Labour	-	1300
Insurance	-	-
Technical	15	-
Designs	-	-
Depreciation	-	10
Other Exp.	-	100
Specific Cost	15	6411
B. Cost	13	54.87
(55L in the ration of 15 : 6411)	15.13	6465.87

Calculation of P/L for Different Performance Obligations

a) Total Cost for Designs & Tech.

	18-19	19-20	Total
T. Cost	50.69	15.13	65.82
% of Completion	77%	23%	100%

$\left(\frac{50.69 \times 100}{65.82}\right)$ (100% - 77%)

b) Cont. Rev. for Designs & Tech

18-19 = 81.25L x 77% = 62.5625

19-20 = 81.25L – 62.5625L = 18.6875

c) Cont. P/L for Designs & tech.

18-19 = 62.5625 – 50.69 = 11.8725

19-20 = 18.6875 – 15.13 = 3.5575

d) Due from Customer (18-19)

Billed Amount	62.5625
Received	50.000
Dues	12.5625

II Const. Cont.

	18-19	19-20	Total
T. Cost	5183.31	6465.87	11649.18
% of Comp.	44.50%	55.5%	
	$\left(\frac{5183.31 \times 100}{11649.18}\right)$	(Bal)	

Cont. revenue :

18-19 = (15000 – 81.25) x 44.5% = 6638.84

19-20 = (15000 – 81.25) x 55.5% = 8279.91

Cont. Profit

18-19 = 6638.84 – 5183.31 = 1455.53

19-20 = 8279.91 – 6465.87 = 1814.04

Dues from Customer (18-19)

Billed Amount	6638.84
Received Amount	(6100)
	538.84

Dues from Customer (19-20)

Billed Amount to date	14918.75 (15000 – 81.25)
Received Amount till date	(14918.75)
	Nil

Solution of Q.4

In the Given case, Sun Ltd. has an Expected Profit margin of 25% on Estimated Cost because It Expects total cost of Rs.80L in a Contract of 100L. So, Sun Ltd. can raise a bill of Rs.12.5L at the time of termination of contract by moon ltd. for total Incurred cost of 10 Lacs

Part 13

New Questions

Solution of Q.1, Q.2, Q.3, Q.4, Q.5, Q.6, Q.7 (Discussed in Class)

Solution of Q.8 *Imp

Statement showing calculation of Revenue & Liab. in I[st] Year

i. Total Collection Expected over the period of 3 years = (7500 x 100) + (6000 x 50) + (6000 x 25)
= 12,00,000

ii. Avg. revenue Per customer = 12,00,000/175 = 6857

iii.

Bank a/c Dr	750,000 (7500 x 100)		
To Revenues from Customer		685700	(6857 x 100)
To Adv. From Customer		64300	(Bal fig)

(Being Revenue & Liab. recognised in Ist year)

Subsequent years (Not required in question, but only for understanding)

2[nd] year :

Bank a/c Dr	300,000 (6000x 50)	
Advance a/c Dr	42850 (Bal . fig)	
To Revenues		342850 (6857 x 50)

3[rd] year :

Bank a/c Dr	150,000 (6000 x 25)	
Advance a/c Dr	21450	
To Revenues		171450 (6857 x 25)

Question 9 (H.W)

Solution of Q.10 *Imp

Journal Entries

i.

Bank a/c Dr	36000	
To Revenues		32000
To Contract Liab.		4000 (Extended Liab)

(Being Transaction Price Allocated in the ration of SSP of Performance Obligation)

ii.

P&L a/c Dr	2000	
To Prov. For warranty		2000

(Being Prov. Created for fee warrants period based on Experience)

iii.

COGS a/c Dr	14400	
To Opening Stock		14400

(Being Opening Stock Derecognised & Added to COGS)

Question 11 (H.w)

Part 14

Solution of Q.26, Q.25 *Imp (Discussed in Class)

Solution of Q.24 *Imp

In the given case, there are 3 outcomes due to which Expected value method Should be applied. The following statement may be referred for Transaction Price in the Given Transaction:

Transaction Price : (5000 – 0) x 70% = Rs.3500
(5000 – 500) x 20% = Rs.900
(5000 – 1000) x 10% = Rs.400
Rs.4800

In the Given case, Television have been sold out for Rs.5000 Per unit, but Transaction Price is 4800 due to which a liability is required to be created for difference between 5000 & 4800 because reversal of revenue is Possible. If No reversal is made within 6 months then It will be transferred to Revenue.

Journal

Bank a/c	Dr	50,00,000 (100 x 5000)	
To Revenues			48,00,000 (100 x 4800)
To Contract Liab.			200,000 (100 x 200)

(Being Revenue recognised as per expected value method)

Solution of Q.23, Q.22 (Discussed in Class)

Solution of Q.21

In the Given case, Supplier (J) Estimates the annual sales of 2.8 million Containers to the customer which clearly indicates that Price would 90 per container, But 700,000 containers have been sold against a consideration of 100 per container in the first Qtr. It means that there may be a reversal of Rs.10 Per container in future Which should be considered as a Liability at the time of delivery of 700000 containers. So, the transaction Price would be 100 – 10 = 90 Per container

Journal

Bank a/c	Dr	700,00,000 (7L x 100)	
To revenues			630,00,000 (7L x 90)
To Contract Liab.			70,00,000 (7L x 10)

(Being Revenues & liab. recognised)

Solution of Q.20, Q.19, Q.16, Q.15, Q.14, Q.13, Q.12 (Discussed in Class)

Question 18 (H.w)

Thank You ☺

Best of Luck.....!!!!!!

CA. Parveen Jindal

Ind AS : 34
Interim Financial Reporting (IFR)

Part 1

Discussion about Topic

Part 2

Concept 1 : Legal Status

As per the Provisions of Ind AS 34, IFR is not mandatory under Ind AS Rules. In an Entity Prepares (Legally or voluntary) IFR then It should apply Ind AS 34.

❖ In India, Listed companies are bound to prepare its financial statement on Quarterly basis as per SEBI Guidelines. So, these companies should consider Rules as Specified in Ind AS 34.

Concept 2 : Forms & Content

a) Form of IFR : Condensed form

b) Content of IFR :

i. Condensed B/S
ii. Condensed P&L
iii. Condensed cash flow
iv. Condensed Notes to A/Cs
v. Condensed changes in Equity

c) Manner of Reporting :

i. B/s : Interim Period with comparative B/s in Preceding year
ii. P&L : a) Interim Period with comparatives
b) Cumulative year to date with comparative
iii. Cash flow : Cumulative year to date with comparatives
iv. Changes in equity : Cumulative year to date with comparatives

Concept 3 : Rules to be followed while preparing IFR

Rule 1 : Accounting Policies

All the Accounting Policies should remain same while preparing IFR which are used For Annual Reporting. It means that Policies cannot be changed for IFR Purpose only.

Rule 2 : Revenues (Seasonally, Cyclically, Occasionally)

If any Exceptional revenue arises in any Interim Period due to seasonal nature Of Business then we cannot defer or anticipates any revenue over any other period. It means that Revenue should be booked on Actual Basis.

Rule 3 : Expenses :

As per the Provisions of Ind AS 34, Exp. should not be deferred over other Periods, but Expenses should be charged in the same period in which these are Incurred. However, Provision can be created for Expected losses or Expenses only if there is constructive obligation for such loss.

Rule 4 : Income tax :

- Refer Guidance Note on Income Tax in IFR -

(Weighted Avg. Tax rate)

Rule 5 : Dividend Paid : (New Point)

If any Dividend is paid in any Qtr then It should also be reported in Aggregate & per share.

Rule 6 : Extra-ordinary Items : (New Point)

- Deleted from Ind AS 34 -

Rule 6 : Explanation on significant & material Items :-

(New Point) (Notes to A/C's)

i. If Inventories are written down to NRV or Reversal of Such written Down
ii. Impairment Loss & Reversal of Such Loss
iii. Acquisition or Disposal of PPE
iv. Any Loan default or Breach of contract
v. Related Party Transactions
vi. Change in contingent Liab. & Contingent Assets
vii. Any other material fact which can improve presentation of statements

Rule 7 : Other Disclosures (New Concept) :-

i. A note should be given that Accounting Policies are same in IFR and AFR
ii. A Note should be given on Seasonality, Cyclical of Revenue.
iii. Issue or Buy Back of Securities
iv. Operating Segment information as per Ind AS 108

Part 3

Guidance Note on Calculation of Tax in Interim financial Reporting

As per the Provisions of Guidance Note Calculation of Income Tax for the Purpose of IFR should be based on "weighted Avg. Tax Rate" instead of Actual Tax For respective Qtr. This concept is based on Accrual concept which Explains the Allocation of Annual Exp. & Incomes over the period of 12 months. The following Equation may be considered for the computation of "WATR" :-

$$WATR = \frac{\text{Annual Estimated Tax}}{\text{Annual Estimated Income}}$$

E.g.

i. Annual Income (Estimated) : 400,000

ii. Qtr. wise : I 150,000

II 50,000

III 100,000

IV 100,000

iii. Tax : First 2L = 20%

Net Bal. = 30%

Calculate Qtr. wise Tax.

Solution:

I. Calculation of WATR

a) Total Annual Income (Est.) : 400,000

b) Total Annual Tax (Est.) :

First 2 L @ 20% 40,000

Next 2 L @ 30% 60,000

100,000

c) WATR = $\frac{100,000}{400,000} \times 100 = 25\%$

II. Calculation of Qtr. Wise tax

	I	II	III	IV
Est. Income	150,000	50,000	100,000	100,000
WATR @ 25%	37,500	12,500	25,000	25,000

Note on Capital Gain Tax

As per the Provisions of Guidance Note, WATR should not include capital gain Taxes because these Taxes are calculated on Specific Transactions. It can also be said that these Taxes can be dealt on respectively/ Actual Basis.

E.g.

i. Estimated Annual Income : 400,000

(Including 20,000 capital Gain in 3rd Qtr)

ii. Qtr. wise : I 120,000

II 60,000

III 120,000 (including C.G)

IV 100,000

iii. Tax on Capital Gain @ 20%

iv. Normal Tax : First 1L = 10%

Next 1L = 20%

Bal. = 30%

Calculate Taxes for IFR.

Solution : Calculation of WATR

a) Annual Estimated Income (4L - 2L) 380,000

(other than C. Gain)

b) Annual Estimated Taxes :

First 1L @ 10%	10,000
Next 1L @ 20%	20,000
Bal 1.8L @ 30%	54000
3.8L	84000

c) $WATR = \frac{84,000}{380,000} \times 100 = 22.11\%$

Calculation of Qtr Wise Tax

Q1 = 120,000 x 22.11% = 26532

Q2 = 60,000 x 22.11% = 13266

Q3 = (20,000 x 20%) + (100,000 x 22.11%) =26110

C.G Normal

Q4 = 100,000 x 22.11% = 22110

Solution of Q.1

Calculation of WATR

$WATR = \frac{(40,000 \times 30\%) + (60,000 \times 40\%)}{100,000} \times 100$

$= 36\%$

Calculation of Qtr. Wise Tax

	Q1	Q2	Q3	Q4
Est. Income	25,000	25,000	25,000	25,000
Tax @ 36%	9000	9000	9000	9000

Solution of Q.2

Calculation of WATR

$WATR = \frac{(40,000 \times 30\%) + (40,000 \times 40\%)}{80,000} \times 100$

$= \frac{12000 + 16000}{80,000} \times 100$

$= 35\%$

Calculation of Qtr. Wise Tax

Q1 = 25000 x 35% = 8750

Q2 = (20,000 x 10%) + (5000 x 35%) = 3750

Q3 = 25000 x 35% = 8750

Q4 = 25000 x 35% = 8750

Part 4

Solution of Q.5 *Imp

Statement showing Results for I[st] Qtr ending on 31.3.2020

Sales		50 Crores
Expenses : Salaries	30 Crores	
Advert.	2 Crores	
Adm. & Selling Exp.	8 Crores	(40 Crores)
Profits		10 Crores

Comments : As per the Provisions of Ind AS 34, An Entity cannot defer its incomes or Expenses. In the Given case, company wants to defer Expenses of Rs.21 crores without any reason which is not allowed. So, the company's Point of view to defer its Expenses is not correct and all Expenses shall be charged in Q1 itself.

Solution of Q.8 *Imp

Calculation of Correct Income

Profit (Given)	720,000	
Bad debts (deferment is not allowed)	(20,000)	(40,000 x 50%)
Correct Income	700,0000	

Comments :

1) In the Given case, we have ignored any adjustment relating to Extra-ordinary Loss because there is no concept of Extra-ordinary Items under Ind AS Rules. The Loss of Rs.35,000 is to be charged in Q.3 which is correctly recorded.

2) In the Given case, Adjustment of Rs.45000 is also correct because change in method of Depreciation is treated as change in Estimation which is considered Prospectively.

Solution of Q.2, Q.3 *Imp, Q.6 (Discussed in Class)

Solution of Q.9

As per the Provisions of Ind AS 34, All incomes & Expenses should be recorded in the Period in which these are incurred or Earned. We cannot defer any Income or Expense.

In the given case, Dividend Income of Rs.100 crores has been received by the Entity in 3[rd] Qtr. Which should be recognised in 3[rd] Qtr.

Conclusion : on the basis of above discussion, It can be said that company point of view of recognising Income of 25 crores in each Qtr. is not correct.

Solution of Q.10 *Imp

In the Given case, Company overall Profit is 'Zero', but we cannot avoid Tax calculations because we are preparing Quarterly Reports. So, calculation of Tax should Be made on the basis of Qtrly Profits or Losses as follows :-

Statement Showing Qtrly Taxes

	Q1	Q2	Q3	Q4	Total
Profits	150	(50)	(50)	(50)	NIL
Tax Rate	35%	35%	35%	35%	35%
Tax Liab. (Saving)	52.5	(17.5)	(17.5)	(17.5)	0

Solution of Q.11 *V.V.Imp

In the Given question, Accounting year is 1.10.2019 – 30.9.2020, but Tax Laws are based On Normal financial year (Apr – march). So, Different Tax Rates can be applied in Different financial years as per Tax Laws. We will compute Tax Exp. for IFR on Actual basis as follows :-

	Q1	Q2	Q3	Q4
PBT	200	200	200	200
Tax Rate	20%	20%	30%	30%
Taxes	40	40	60	60

Solution of Q.4 (H.w)

Solution of Q.7

Calculation of Qtrly Income

Net Income (Given)	102,000
i. Extra-ordinary Income	(20,000)
(Related to Second Qtr, but Deferred in 3rd Qtr)	
ii. Changes in Inventory valuation	10,000
(related to Earlier Qtrs)	
Correct Income	92000

Comments : The Entity should re-state IFR for Earlier Periods due to deferment of Extra- ordinary Gain & Change in Accounting Policy.

Part 5

New Questions

Solution of Q.1

Adjustments relating to fixed OH in IFR

I. Basic Information :	QI	QII	QIII	QIV
A. Fixed OH per Qtr.	2500	2500	2500	2500
B. Recovery Rate per unit (2500/ 500 Units)	5/-	5/-	5/-	5/-
C. Actual Output (units)	400	600	500	400
D. Normal Output	500	500	500	500

II. Adjustment in I^{st} Qtr.

i. Fixed OH in I^{st} Qtr.	Rs.2500
Recovered OH in I^{st} Qtr (400 x5)	(Rs.2000)
Under- Recovery	Rs.500

ii. As per the provisions of Ind AS-2, unabsorbed fixed OH shall be written off in SOPL due to which we will debit Rs.500 in Qtrly P&L as Unabsorbed Expenses.

III. Adjustments in 2^{nd} Qtr :-

As per the Provisions of Ind AS 34, Qtrly Reports should reflect Annual Results, So we may need to adjust change in Estimations on prospectively basis. In Second Qtr, we should compute cumulative figures in relation to fixed OH as follows :-

Cumulative Fixed OH (I^{st} Qtr. + II^{nd} Qtr.)	Rs.5000
Cumulative Recovered OH (1000 x 5)	(Rs.5000)
Under- Recovery	NIL

Comments : As per cumulative figures, there is no under Recovery till 2^{nd} Qtr. due to Which we should have to Reverse 500 in PL of 2^{nd} Qtr. which was charged in I^{st} Qtr as a result of change in Estimation.

IV. Adjustment in 3^{rd} Qtr

Cumulative F.OH for 3 Qtrs.	Rs.7500
Recovered OH on Actual Production	(Rs.7500) (1500 x 5)
Diff	NIL

- There will be no adjustment relating to under Recovery in 3^{rd} Qtr.

V. Adjustment in 4^{th} Qtr

Cumulative F.OH for 4 Qtrs	10,000
Recovered OH (1900 x 5)	(9500)
Under Recovered	500

Comments :We will charge under Recovery of Rs.500 in statement of P&L.

Thank You 😊

Best of Luck.....!!!!!!

CA. Parveen Jindal

Ind AS-21 : Foreign Currency Transactions *Imp

Part 1

Concept 1 : Coverage

Coverage

- Unit I : Foreign Currency Transactions
- Unit II : Foreign Operations

(Note : Accounting for forward contracts & long term Loans is out of Scope of Ind As -21 : Refer Last Concept of this statement for better understanding.)

Concept 2 : Important Definitions

1. Meaning of Exchange Rate :- As per the Provisions of Ind AS 21, Exchange Rate is the rate at which Single Unit of Foreign Currency can be Exchanged into Indian Currency. In Practical Life, Exchange Rate can be Classified into the Following headings :-

   I. Buying Rate
   II. Selling Rate

❖ Buying Rate is the rate at which foreign currency is purchased by an Entity to Repay its Liabilities but selling Rate is the rate at which foreign Currency sold to Recover the Assets. Normally, Buying Rate remains higher in the market. While Applying Ind AS 21, It will be assumed that Both the rates are similar.

Under the rules of this statement Exchange Rate should be classified under 4 headings as follows :-

i. Opening Rate : It Prevails in the beginning of year
ii. Closing Rate : It Prevails at the end of year
iii. Actual Rate/ Daily Rate / Spot Rate/ Transaction Rate : It Prevails on daily Basis (Date wise Rate)/ It Prevails on the date of Transaction.
iv. Average Rate : It Prevails during the year on Average Basis

$$\left(\frac{\text{Aggregation of 365 Rates}}{\text{365 days}}\right)$$

2. Meaning of Monetary & Non-Monetary Items

a) Monetary Items are the Assets & Liabilities which are fixed in foreign currency From the point of view of Receivables & Payables. These Items may be in the form of Debtors, Creditors, B/R, B/P, Loan, Bank Balances etc.

b) Non-monetary Items are the Assets & Liab. Which are not fixed in foreign Currency from the Point of view of foreign Currency. These Items may be in the form of fixed Assets, Inventories, Investment in Equity shares, ESC, R&S etc.

3. <u>Meaning of functional Currency :-</u>

As per the provisions of Ind AS-21, functional Currency is the currency in <u>Which Business is operated under Legal Economic Environment</u>. It is the currency in Which sales, Purchases, Loans, Investments etc. are recorded Prominently.

(In India, Functional Currency is INR)

4. <u>Meaning of Reporting Currency :-</u>

As per the Provisions of Ind AS 21, Reporting Currency is the currency in Which financial Statements are Prepared. In India, Reporting Currency is INR.

(It means that functional & Reporting Currency will be same in India. These currencies may be different in other countries (China/ Hongkong)

5. <u>Meaning of Foreign Currency :-</u>

As per the Provisions, Foreign Currency is the currency which is other than Indian currency whether It is USD, GBP, EURO etc.

<u>Concept 3 : Accounting for Monetary Items</u>

Unit I : F.C. Transactions

Accounting for Monetary Items (Concept 3)	Accounting for Non Monetary Items (Concept 4)

Monetary Items

Case I : Settlement in same year	Case II : Settlement in Next year

<u>Case I : Settlement in Same Year</u>

<u>Step I : Initial Recognition</u>

As per the Provisions of Ind AS 21, Initial Recognition will be made at Actual Rate which Prevails on the date of Transaction.

<u>Step II : Settlement</u>

As per the Provisions of Ind AS 21, Settlement should also be recorded at Actual rate. Which Prevails on the date of Settlement.

Note : Difference between Step I & Step II will be considered as Exchange Gain/Loss and It will be transferred to P&L A/c.

E.g.

a) Export : USD 10,000

b) Export Date (1.5.17) : 60 = 1 USD

c) Collection (1.7.17) : 61.50 = 1 USD
   (5000 USD)
   Collection (1.8.17) : 61.60 = 1 USD
   (5000 USD)

Pass Journal Entries.

Solution :

Journal Entries

1.5.17 F.C. Debtors a/c Dr 600,000
To F.C. Sales 600,000
(Being Export sales of 10,000 USD recorded @ 60)

1.7.17 Bank a/c Dr 307500 (USD 5000 x 61.50)
To F.C. Debtors 300,000 (5000 x 60)
To E. Gain (Bal) 7500 [(61.50 – 60) x 5000]
(Being Settlement of 5000 USD made)

1.8.17 Bank a/c Dr 308000 (USD 5000 x 61.60)
To F.C. Debtors 300,000 (5000 x 60)
To E. Gain 8000 (61.6 – 60) x 5000
(Being Settlement of 5000 USD made)

31.3.18 E. Gain a/c Dr 15500
To P&L 15500
(Being Income Recognised)

E.g.

i. Import : 5000 USD
ii. Date : 1.6.17 (1 USD= 68)
iii. Payment : 1.8.17 (1 USD = 67.80)

Pass Journal Entries

Solution

Journal

1.6.17 F.C. Purchases a/c Dr 340,000
To F.C. Creditors 340,000
(Being Import recorded of 5000 USD @ 68)

1.8.17 F.C Creditors a/c Dr 340,000
To Bank (5000 x 67.80) 339000
To E. Gain (Bal fig) 1000
(Being Payment made)

31.2.18 E. Gain a/c Dr 1000
To P&L 1000
(Being Income recognised)

Case II : Settlement after B/s date

(Settlement in Next year)

Step I : Initial Recognition

Initial Recognition should be made at Actual Rate which Prevails on the date Of Transaction.

Step II : B/S date

At B/S date, Disclosure of O/s monetary Items will be made at Closing Rate For True & fair Presentation.

(Difference between Step I & Step II will be transferred to P&L A/c assuming Exchange fluctuation on monetary Items)

Step III : Settlement date

At the time of settlement, we consider Actual rate.

(Difference between Step II & Step III will be transferred to P&L A/c assuming Exchange fluctuation)

E.g.

i. Export : USD 5000 (1.2.17)
ii. B/s date : 31.3.17
iii. Settlement : 1.6.17
iv. Exchange Rate :-

1.2 =61 , 31.3 = 63, 1.6 = 61.50

Pass Journal Entries.

Solution

Journal Entries

1.2.17 F.C. Debtors a/c Dr 305000 (5000 x 61)
To F.C. Sales 305000
(Being Goods Sold)

31.3.17 F.C Debtors a/c Dr 10,000 (63-61) x 5000
To E. Gain 10,000
(Being monetary Items reported at closing)

31.3.17 E. Gain a/c Dr 10,000
To P&L 10,000
(Being Income Recognised)

1.6.17 Bank a/c Dr 307500 (5000 x 61.50)
E. Loss a/c Dr 7500 (Bal. fig)
To F.C Debtors 315000
(Being Settlement made)

31.3.18 P&L a/c Dr 7500
To E. Loss 7500
(Being Losses written off)

E.g.

a) Import : 4000 USD
b) Date of Import : 1.3.17 (60)
c) B/S : 31.3.17 (61)
d) Payment : 1.5.17 (62)

Pass Journal Entries.

Solution:

Journal Entries

1.3 F.C. Purchases a/c Dr 240,000 (4000 x 60)
To F.C Creditors 240,000
(Being Goods imported)

31.3 E. Loss a/c Dr 4000 (61-60) x 4000
To F.C Creditors 4000
(Being monetary Items reported at Closing Rate)

31.3 P&L a/c Dr 4000
To E. Loss 4000
(Being Losses written off)

1.5 F.C. Creditors a/c Dr 244000 (61)
E. Loss a/c Dr 4000 (1)
To Bank 248000 (4000 x 62)
(Being Settlement made)

E.g. (short Term Loans/ Borrowings)

i. F.C. Loan : 100,000 USD
ii. Date of Loan : 1.8.17 (62)
iii. B/S : 31.3.18 (63)
iv. Repayment : 1.5.18 (64)

Pass Journal Entries

Solution :

1.8.17 Bank a/c Dr 6200,000
To S.T.B 62,00,000
(Being S.T.B of 100,000 USD taken @ 62)

31.3.18 E. Loss a/c Dr 100,000 [(63-62) x 100,000]
To S.T.B 100,000
(Being monetary Items reported at Closing Rate)

31.3.18 P&L a/c Dr 100,000
To E. Loss 100,000
(Being Losses written off)

1.5.18 S.T.B a/c Dr 63,00,000 (63)
E. Loss a/c Dr 100,000 (Bal)
To Bank 64,00,000 (64)
(Being o/s Liab. Settled)

31.3.19 P&L

Concept 4 : Accounting for Non Monetary Items

(i.e., Inventory, PPE, Invest. in Equity shares)

As per the provisions of Ind AS 21, Non monetary Items should be Accounted For in the books of A/c on the basis of following Rates :-

Step I : Initial Recognition

As per the Provisions of Ind AS 21, Non monetary Items should be recognised

Initially at "Actual Rate" which Prevails on the date of transaction.

Step II : B/S date

We will not consider Closing rate at B/s date for these Items, but we will Consider Step I value in B/s without any fluctuation.

Step III : Disposal :

At the time of Disposal of NMI, we will consider Actual Rate which Prevails at the time of sale.

[Step I – Step III = Exchange fluctuation to be transferred to P&L]

Exception to above Rule *V.V.Imp

If Non monetary Items are valued at fair value at B/S date under Relevant Ind AS then Presentation of Non Monetary can be made at closing Rate.

Case I : Non monetary Items in the form of Inventory

E.g.

i. Cost of Inventory : 10,000 USD (62)
ii. NRV at B/.s date : 11,000 USD (62.50)

Apply Ind AS 21

Solution:

In the Given Case, there is no Loss on Inventories under Ind AS 2 because NRV is higher than Cost of Inventory. So, we will ignore fair value of stock.

Under Ind AS 21, we will not change Actual value of Inventory (10000 x 62) Because Non monetary Items are normally reported at Actual Rate in B/s.

E.g.

i. Cost of Inventory : 10,000 USD (60)
ii. NRV at B/s date : 9800 USD (61)

Solution :

Step I : Valuation Loss under Ind AS 2

(10,000 – 9800) x 60 = 12,000

Step II : Exchange fluctuation under Ind AS 21

E. Gain = 9800 x (61 -60) = 9800

a) Fair value Loss a/c	Dr	12000	
To Inventory			12000
b) Inventory a/c	Dr	9800	
To E. Gain			9800

Case II : Impairment Loss in PPE

i. P&M = 10,000 USD (60)

ii. Fair value B/s date = 9800 USD (58)

Apply Ind AS 16,36 & 21.

Solution :

a) I. Loss = (10,000 – 9800) x 60 = 12,000

b) Exchange Loss = 9800 x (60 - 58) = 19600

1) Impairment Loss a/c	Dr	12000	
E. Loss a/c	Dr	19600	
To PPE			31600
2) P&L a/c	Dr	31600	
To I. Loss			12000
To E. Loss			19600

E.g.

i. PPE : 10,000 USD (60)

ii. F.V at B/s date : 11,000 USD (61)

Apply Ind AS 16, 21 assuming Revaluation model can be applied.

Solution :

Revaluation Res. = (10,000 – 11,000) x 60 = 60,000

Ex. Gain = 11,000 x (61-60) = 11,000

1) PPE a/c	Dr	71,000	
To Gain on Rev.			60,000
To E. Gain			11,000
2) Gain on Rev. a/c	Dr	60,000	
E. Gain a/c	Dr	11,000	
To OCI			71,000

Note :

1) If fair value fluctuation is transferred to P&L then Exchange Fluctuation will also be transferred to P&L.

2) If fair value fluctuation is transferred to OCI and Exchange fluctuation will also be transferred to OCI.

E.g.

i. Investment in Equity shares : 10,000 USD (58)

ii. Fair value at B/s date : 11,000 USD (59)

Under 109, Investments are valued at B/s date at fair value. Apply Ind AS 21.

Solution :

a) F.V Changes = (11,000 – 10,000) x 58 = 58,000

b) Exchange Gain = 11000 x (59-58) = 11000

FVTPL			FVOCI		
1) Invest in Shares a/c Dr 69000					
To F.V Gains		58,000			
To E. Gain		11,000			
2) F.V Gain a/c	Dr	58,000	2) FV Gain a/c	Dr	58,000
E. Gain a/c	Dr	11,000	E. Gain a/c	Dr	11,000
To P&L		69000	To OCI		69,000

Part 2

Concept 5 : Foreign Operations

a) As per the Provisions of Ind AS 21, foreign Operation means a business which is Carried by an Enterprise outside India.

b) A foreign can be run outside India in the form of an Associate, A Subsidiary, a Joint venture or a branch.

c) Before making any consolidation of foreign operation with an Indian Investor, It is mandatory to translate F.C. Trial Balance into Indian Currency. The Following Rules should be considered while translating Trial Balance :-

Particulars	Debit	Credit	Working
Assets	xxxx	-	Closing Rate
Liabilities	-	xxxx	Closing Rate
Incomes	-	xxxx	Actual Rate (Avg. Rate may be Preferred if Actual Is not Given)
Expenses	xxxx	-	Actual Rate [Avg rate may be Preferred if Actual is not Given)
S. Capital	-	xxxx	
Other Equity :			Actual Rate on DOA
Upto DOA	-	xxxx	
Post acq.	-	xxxx	Avg. Rate
	xxxx	xxxx	

Difference : FCTR

(Foreign Currency Translation Reserve)

"OCI"

Question 2 (H.W)

d) Disposal of Investments in Foreign Operation :- *Imp

If Investment in Foreign Operation is disposed off then FCTR will be Transferred to P&L A/c. It means that OCI will be recognised as Actual Profit.

Solution of Q.1

Journal :P

NCI a/c	Dr	100	
Bank a/c	Dr	1500	
FCTR a/c	Dr	180	
To Assets		1000	
To P&L		780	(Bal)

(Being Investment Sold)

- Holding Company will De-recognise Assets, Liab, NCI & FCTR at the time of Disposal of Invest.

Concept 6 : Long Term Borrowings

Long Term Borrowings

If LTB were made by Entity before Application of Ind AS-21 (Case I)	If LTB are taken after application of Ind AS-21 (case II)

Explanation on Case I

- If any LTB were made before the Application of Ind AS 21 then It will still be Treated under Para 46 of AS-11

(Ind AS 21 will not work Here)

Explanation on Case II

- If any LTB is taken recently then It will be treated as a simple monetary Item & Closing Rate will be applied at each B/S date

Part 3

Solution of Q.1 *Imp, Q.2 *Imp, Q.3, Q.4 (Discussed in Class)

Part 4

Solution of Q.1 , Q.2, Q.3, Q.4, Q.5 (Discussed in Class)

Part 5

New Questions

Solution of Q.3

i. In the Given Case, Advance form Customer has been received on 1.1.18, but Revenue will be recognised on 31.3.18 because performance obligation is satisfied By company (A ltd.) on such date as per Ind AS 115

ii. Total Contract is for 50 million USD out of which 30 million is Still Recoverable After adjusting Advance of 20million. The Amount of advance will be translated on Rate which prevails on 1.1.18, but Receivables should be considered as a monetary Item due to which It will be translated at closing rate at B/s date & at Settlement Rate on collection date.

iii. Calculation of Revenue to be Recognised on 31.3.2018

Advance from B Ltd. (20m x 72)	1440
Receivables on revenue Recog. (30m x 75)	2250
	3690

Journal :

1)	1.1.18	Bank a/c	Dr	1440	
		To Advance from B Ltd.			1440
		(Being Advances Received from Customer)			
2)	31.3.18	Advance from B ltd. a/c	Dr	1440 (72)	
		Trade Receivable (B) a/c	Dr	2250 (75)	
		To Sales			3690
		(Being Sales Recognised)			

Solution of Q.2

As per the Provisions of Ind AS 21, monetary Items shall be reported at closing Rate on B/S date, but Non monetary Items shall be reported at Acquisition Rate until these are items are measured at fair value. In the Given case, fair value of machine at B/s date is not Given due to which It can be said that machine is not Revalued and It can be shown at Acquisition Rate. But Payables for machinery are Monetary Items and shall be reported at closing rate.

So, there may be Exchange fluctuation at B/s date on monetary Items which Should be transferred to P&L A/c. The following adjustments are required to be made in the financial statements ending 31.3.18 :-

i. Gain on Reduction in Payables = (68-65) x 200,000 USD = Rs.600,000

Comments : There is a Gain on Reduction in Payables which should be transferred to P&L A/c.

ii. Dep. On Machine = $ 200,000 x 68 = $\frac{136,00,000}{4 \text{ years}} \times \frac{3}{12}$ = 850,000

Journal Entries

1.1.18 Machine a/c Dr 136,00,000
To Payables 136,00,000
(Being machine acquired on credit for 200,000 USD @ 68 Per USD)

31.3.18 Payables a/c Dr 600,000
To Exchange Gain (PL) 600,000
(Being Liab. Reduced due to decline in USD Rate)

31.3.18 Depreciation a/c Dr 850,000
To Machine 850,000
(Being Dep. Charged for 3 months)

Solution of Q.1

Journal Entries

A. Accounting for Payables

30.1.x1 Machinery a/c Dr 300,000 (5000x 10)
To Payables 300,000
(Being machinery acquired on Credit)

31.3.x1 Exchange Loss (PL) a/c Dr 25,000 (65-60) x 5000
To Payables 25,000
(Being Liab. increased due to increase in Rate)

31.3.x2 Exchange Loss (PL) a/c Dr 10,000 (67-65) x 5000
To Payables 10,000
(Being Liab. increased due to increase in Rate on settlement date)

31.3.x2 Payables a/c Dr 335000
To Bank 335000
(Being Liab. Settled)

B. Accounting for Payables

30.1.x1 Machinery a/c Dr 300,000
To Payables 300,000
(Being machinery acquired for 5000 USD on Credit @ 60 Per USD)

31.3.x1 Machinery a/c Dr 30,000 (5500 – 5000) x 60
To Revaluation Res (OCI) 30,000
(Being fair value measurement of Asset has been made)

31.3.x1 Machinery a/c Dr 27500 (65-60) x 5500
To Exchange Gain (OCI) 27500
(Being Exchange fluctuation recorded on Non Monetary Items due to fair Value measurement)

31.3.x1 OCI a/c Dr 17250 (57500 x 30%)
To DTL 17250
(Being DTL Created)

Refer *Ind AS 12

Thank You 😊

Best of Luck.....!!!!!!

CA. Parveen Jindal

Ind AS : 7
Cash Flow Statements (CFS)

Part 1

Concept 1 : Meaning & Presentation of CFS

As per the Provisions of Ind AS-7, Cash flow statement is the summary of Cash & Bank Balances. It is prepared to disclose the Position of Cash balance during the year. It is Prepared under the 3 headings as follows :-

Classification

↓

CFS

↓

Cash from Operating Activities | Cash from Investing Activities | Cash from financing Activities

Cash from Operating Activities ↓ Direct Method | Indirect Method

Concept 2 : Explanation of C.F. Activities

I. C.F.F.A (Financing Activities)

As per the Provisions of Ind AS-7, Cash from financing Activities should include all transactions in C&B A/c which are related with share capital & Loans. The Following Transactions may be considered under this heading :-

Loans: Long Term | Short Term

i. Issue of shares/ Debentures
ii. Redemption or Buy Back of Shares/ Debentures
iii. Receiving/ Repayment of Loans
iv. Interest/ Dividend Paid
v. C.D Tax Paid
vi. Proceeds from Calls in Arrear
vii. Premium on Issue/ Redemption/ Buy Back of Securities etc.

II. C.F.I.A (Investing)

As per the Provisions of Ind AS-7, CFIA should include all transactions in C&B A/c which are related with fixed Assets (TA & IA) & Investments (LT & ST). The Following Transactions may be covered :-

i. Sale of F. Assets/ Purchase of F. Assets
ii. Sale of Investments/ Purchase of Investments
iii. Dividend Received, Interest Received, Rental Received
iv. Capital Gain Tax Paid etc.

III. CFOA (Operating Activities)

Unit I : Direct method

(Ind AS -7 Encourages this method)

As per the Provisions of Ind AS 7, All the Transactions, which are not financing Or Investing in nature, should be reported under Operating Activities. It can also be Said that All the Transactions which are related to nature of Business should be Reported under this heading. under Direct Method, All transactions are taken directly from cash & Bank A/c as follows :-

i. Cash Sales/ Cash Purchases
ii. Collection from Debtors/ payment to creditors
iii. Expenses paid (Salaries, wages etc)
iv. Tax Paid
v. Collection from B/R & B/P
vi. Interest from customers
vii. Interest to Suppliers etc.

Unit II : Indirect Method

Under Indirect method, we use P&L for reporting of CFOA. The following format is Normally Applied :-

CFOA

Non Cash		
Net Profit after Tax	xxxx	
Tax Expenses for Current year	xxxx	
PBT	xxxx	
C.T DTL DTA		
Non Cash Items :		
i. Depreciation on PPE	xxxx	
ii. Amortisation on I.A	xxxx	
iii. Loss on sale of Assets	xxxx	
iv. Impairment Loss written off	xxxx	
Non Operating Items :-		
i. Interest Income	(xxxx)	
ii. Interest Exp.	xxxx	
iii. Profit on sale of Assets	(xxxx)	
Working Capital Adjust :-		
Increase in C. Assets	(xxxx)	
Decrease in C. Assets	xxxx	
Increase in C. Liab.	xxxx	
Decrease in C. Liab.	(xxxx)	± xxxx
Tax Paid (including Advance Tax Paid)		(xxxx)
CFOA		xxxx

Concept 3 : Other Important Points to be considered

i. Cash & Cash Equivalents

As per the provisions of Ind AS-7, Cash & Cash Equivalents are the Opening & Closing Balances in CFS. These Balances may be in the form of Cash Balance, Bank Balance & Investments which are Expected to be realised within 90 days.

- If any Bank Overdraft is repayable on Demand then It will also be considered as a part of Cash & Cash Equivalents. All other overdrafts shall be disclosed under Financing Activities.

ii. Net Cash Flows

As per the Provisions of Ind AS-7, cash flow reporting should not be made on net Basis. All cash flows should be reported on Gross Basis.

iii. Cash Equivalents in foreign Currency

If any cash Equivalent is held in foreign currency then we will consider it at Actual Rate instead of Closing Rate. If any Exchange fluctuation was booked at B/s date due to change in Exchange Rate then such difference should also be dominated from NP.

Illustration 2 (Discussed in Class)

iv. CFS for Banking & NBFC

If CFS is prepared by Banking Co. & NBFC then Interest on Loans & Deposits shall be Considered under Operating Activities.

Illustration 5

Direct Method :

W.N I Debtors A/c

To Bal	7000	By Cash	497000
To Sale	500,000	(Bal Fig.)	
		By Bal C/d	10,000

W.N. II Calculation of Purchases

COGS = OS + P – CS

350,000 = 13000 + P – 12,000

P = 349,000

W.N III Creditors A/c

To Cash (Bal)	345000	By Bal	8000
To Bal	12,000	By P	349000

W.N IV Exp. A/c

To Cash (Bal)	52000	By Bal	7000
To Bal	10,000	By P	55000

CFOA

Collection from Debtors (W.N I)	497,000
Payment to Creditors (W.N II)	(345000)
Exp. paid (W.N V)	(52,000)
Tax Paid	(30,000)
CFOA	70,000

Indirect Method

PBT	83000
Dep	7000
Loss on Sale	3000
Int. Paid	2000

WC Adj.

Debtors	(3000)
Stock	1000
Crs	4000
Exp.	3000
Tax Paid	(30,000)
CFOA	70,000

Part 2

Illustration 1, 6, 7, 8 (Discussed in Class)

Test Your Knowledge

Solution of Q.1

Cash Flow Statement
(Indirect Method)

Cash From Operating Activities :-		
Net Profit	1000	
Non Cash Items :-		
Depreciation on Fixed Assets	15,000	
Working Cap. Adjust. :		
Decrease in A/R	7500	
Decrease in Insurance	2000	
Increase in Stock	(3000)	
Increase in Creditors	2000	
Decrease in o/s Wages	(3000)	21500

Cash from Investing Activities :-		
Purchase of F. Assets	(46000)	(46,000)
Cash from financing Activities :-		
Dividend Paid	(2500)	
Increase in Debentures	1300	
Increase in ESC	4000	14500
O + I + F		(10,000)
Add: OB		14,000
CB		4000

Cash Flow Statement
(Direct Method)

CFOA		
Collection from Debtors (W.N I)	207500	
Payment to Creditors (W.N III)	(124000)	
Wages Paid (W.N.V)	(53000)	
Insurance Paid (W.N.IV)	(9000)	21500
CFIA : Purchase of FA	(46000)	(46000)
CFFA : Dividend Paid	(2500)	
Debentures	13000	
ESC	4000	14500
		(10000)
	OB	14000

W.N I Debtors A/c

To Bal	32500	By Cash (Bal Fig.)	207500
To Sale	200,000	By Bal C/d	25,000
	232500		232500

W.N. II Calculation of Purchases

COGS = OS + P – CS

123,000 = 34000 + P – 37,000

P = 126,000

W.N III Creditors A/c

To Bank (Bal)	124000	By Bal	8000
To Bal c/d	18,000	By Purchases (W.N II)	126000
	142000		142000

W.N IV Insurance A/c

To Bal b/d	7000	By PL	11000
To Bank	9,000	By Bal C/d	5000
	16000		16000

W.N V Wages A/c

To Bank (Bal)	53000	By Bal b/d	7000
To Bal b/d	4000	By PL	50,000
	57000		57000

Part 3

Solution of Q.1

Cash Flow Statement

CFOA :- Profit after Tax	4450	
Tax Paid	105	
Profit before Tax	4555	
Depreciation (500 + 20)	520	
Profit on sale of PPE	(10)	
Decrease in financial Assets	25	
Increase in DTA	(105)	
Increase in other N.C Assets	(30)	
Decrease in other N.C. Liab.	(875)	4080
Working Cap. Adjust. :		
Increase in C. Assets	(110)	
Increase in Trade payables	60	
Increase in O.C Liab	100	50
Tax Paid		(105)
		4025
CFIA : Sale of PPE	70	
Purchase of PPE (W.N #1)	(1060)	
Purchase of I. Asset (W.N. #2)	(40)	
Decrease in Investments	200	(830)
CFFA: Interim Dividend Paid	(450)	
Repayment of Long Term Borrowings	(3000)	(3450)
		(255)
OB		400
(460 – 60)		
CB		
(220 – 75)		145

W.N #1 P.P.E A/c

To Bal b/d	12500	By Dep	500
To P&L (Profit)	10	By Bank	70
To Cash (Bal)	1060	By Bal C/d	13000
	13570		13570

W.N #2 I. Assets A/c

To Bal b/d	30	By Amort.	20
To P&L (Profit)	40		
		By Bal C/d	50
	70		70

Solution of Q.2 (Discussed in Class)

Part 4

Concept on Investments & Changes in Invest in Subsidiary

If changes in Interest in Subsidiary Company takes place, but without any Impact on relationship of Holding & Subsidiary then It will be reported under financing Activities. Such Changes may include further Acquisition of shares in subsidiary or Disposal of shares in subsidiary, but Holding co. will continue the Exercise of control over subsidiary.

Note : As per the provisions of Ind AS-7, Investments which are made originally to Establish control over subsidiary shall be reported under Investing Activities. If any Disposal of subsidiary is made during the period due to which holding ceases to Exercise control then such Disposal shall also be reported under Investing Activities.

Solution of Q.2

In the books of A Ltd. (SFS)

i. Treatment of original Investments (70%)

As per the Provisions of Ind AS-7, Acquisition or Disposal of Investments in Subsidiary which effect Holding/ Subsidiary Relationship should be reported under "Investing Activities". In the Given Case, A Ltd. acquires control over B Ltd. by Acquiring 70% shares which will be considered as an Investing Activity. So, Payment of 15,00,000 shall be disclosed as an outflow under Investing Activity. But issuance of shares will be ignored in cash flow statement because it's a non cash Activity.

Treatment for changes in Interest in Subsidiary :-

As per the rules, changes in Interest in subsidiary shall be reported as Financing Activity, but these should not be any impact on holding subsidiary Relationships. In the Given case, A ltd acquires further 10% interest in B Ltd and pays 800,000/- for it. So we will report this outflow under financing Activity.

Thank You

Best of Luck.....!!!!!!

CA. Parveen Jindal

Ind AS : 10
Events after B/s date

Part 1

Concept 1 : Events after B/s date

As per the Provisions of Ind AS-10, Events after B/s date, but Upto date of Approval by BOD on financial statements can be classified under 2 different headings as follows :-

a) Adjustment Events
b) Non Adjusting Events

a) Adjusting Event :- If any Event which was known to the enterprise at B/s date, but It occurred after B/s date then It will be considered as an adjusting Event. It will be adjusted in the financial statements at B/s date Even if It occurs after B/s date. It will be assumed that It is related with previous year even if It occurs in Current year. The following Examples may be considered for the Understanding of Adjusting Events :-

i. If decision of any "Pending" Court case comes after B/s date but upto date Of Approval on statements then It will be adjusted in financial statements at B/s date.
(It is irrelevant whether decision is favourable or unfavourable.)

ii. If any Asset is Purchased/ Sold prior to B/s date, but Actual collection or Payment is settled after B/s date then we can adjust settlement at B/s date.

iii. If Insolvency of customer is confirmed after B/s date, for which Entity had Created PFDD at B/s date then we can adjust Bad debts at B/s date.

iv. If valuation of stock has been made at cost at B/s date, but It is sold at NRV which is lower than cost after B/s date then we can consider such NRV at B/s date for valuation Purpose.

v. If Provision has been created for the Expenses of March, but Actual Bills are Received after B/s date then we can adjust Provision against Actual Bills at B/s Date.
(i.e., Electricity Bills, water Bills, Telephone Bills etc.)

b) Non Adjusting Events :- If any Event which was not in the knowledge of Entity at B/s date and It is not related with B/s date then It will be considered as Non Adjusting Event. It will be considered as a part of financial statements of Next Year and there will be no adjustment in B/s or P&L of previous year, but we can Disclose these Events in Notes to A/cs of Previous year if Amount is Significant. These Events shall be considered as New Events.

Examples of Non Adjusting Events :-

I. If any Business combination takes place after B/s date.
II. If any announcement has been made after B/s date regarding Discontinuation of an Operation

III. If any Asset or Group of Assets are declared after B/s date as held for sale (105)

IV. Any Abnormal Losses i.e., Loss by fire, Assets destroyed etc.

V. Abnormal changes in Tax Rates

VI. Abnormal changes in foreign Exchange Rate

VII. Changes in Guarantees after B/s date etc.

Concept 2 : Other Cases

Case I : Dividend Proposed after B/s date

If any Dividend is Proposed by BOD after B/s date but before Approval on financial Statements then It will be considered as Non Adjusting Event because It cannot be treated as a Liability. It can be cancelled by members in AGM.

"we can show it in Notes to A/cs only"

Case II : Going Concern

As per the provisions of Ind AS-10, Events will be classified under the heading Of Adjusting or Non Adjusting only if Assumption of Going concern still prevails.

In case Entity wants to Liquidate its Business in Near future then All Events Would be adjusting Events because we will merge all the reporting Periods of current Year & Next year as a single Reporting Period.

Case III : Approving Authority

We will consider Approval by BOD only under Ind AS-10

(Shareholder Approval or any other approval is not considerable)

Part 2

Solution of Q.1, Q.2, Q.3, Q.4 (Discussed in Class)

Test your Knowledge

Solution of Q.1, Q.2, Q.3, Q.4 (Discussed in Class)

Part 3

Extra Question

Solution of Q.1, Q.2, Q.3, Q.4, Q.5*Imp, Q.6 *Imp, Q.7 , Q.8, Q.9, Q.10, Q.11 *Imp, Q.12, Q.13, Q.14

Thank You ☺

Best of Luck.....!!!!!!

CA. Parveen Jindal

Ind AS: 102
Share Based Payments

Part 1

Concept 1 : Meaning of S.B Payments

As per the Provisions of Ind AS 102, share Based Payments are the contractual Arrangements whereby An Entity makes Payment in shares* in lieu or goods or services acquired from External Parties including Employees.

❖ Payment in cash may also be made, but computation of cash Payment will be made On the basis of Prices of shares.

Goods/ Services

Entity ⟵ External Party (including Emp.)

Entity ⟶ External Party

Payment in shares

(or Payment in cash but equivalent to shares)

As per the Provisions, the following Payment in shares are out of scope of this Statement :-

1. If a company issues shares in lieu of acquisition of N. Assets under the scheme of Business combination (103)
2. If a company acquires Significant Equity Interest in another company in lieu of Issue of its own shares (103)
3. If an Entity issues shares to outside Parties in the capacity of shareholders as Right issue instead of in consideration of Goods or Services.

Concept 2 : Coverage of Topic

Coverage

- If SBP are made to External Parties
  - Goods
  - Services
- *V.V.Imp- If SBP are made to "Employees"
  - Services

Concept 3 : If SBP are made to External Parties (Excluding Employees)

Situation I : SBP for Goods/ Assets

As per the Provisions of Ind AS 102, the following Points should be considered While accounting for these transactions :-

a) Recognition of Goods acquired & SBP should be made on Acquisition date of Goods.
b) We should consider the value of goods acquired first. In the absence of value of Goods acquired, we can consider the fair value of shares.

Journal Entries

Ist Case : If fair value of Goods acquired is known

Assets a/c	Dr	xxxx (fair value)	
To ESC			xxxx (face value)
To SPR			xxxx (Bal fig.)

(Being shares issued)

IInd Case : If fair value of Goods Acquired is not Known

Assets a/c	Dr	xxxx (Bal fig.)	
To ESC			xxxx ⎤ fair value
To SPR			xxxx ⎦

(Being shares issued)

E.g Case I : Fair value of Assets : ₹ 500,000
Shares Issued : 1000 (fair value 100)
Case II : fair value of Assets : ?
Shares Issued : 10,000 shares of 10 each at 25/-
Case III : fair value of Assets : 500,000
Cash Given : 100,000
Shares issued : 1000 of 100 each

Solution :

Journal Entries

Case I : Assets a/c	Dr	500,000	
To ESC (100)			100,000
To SPR (Bal fig.)			400,000

(we have ignored MP of shares @800 because fair value of Assets acquired in Given)

Case II : Assets a/c	Dr	250,000	
To ESC (10)			100,000
To SPR (15)			150,000

(we have considered MP of shares because fair value of Assets acquired is not Given)

Case III : Assets a/c Dr 500,000

To Cash 100,000

To ESC (100) 100,000

To SPR (Bal) 300,000

(Being Assets acquired)

Solution of Q.4

Journal Entries

Case I : Building a/c Dr 200,000

To ESC (100) 99,500

To SPR (Bal fig.) 100,500

(Being Building acquired)

Situation II : If SBP are made for services from External Parties (Excluding Employees)

If an Entity has to issue its shares to External Parties in lieu of their services then the following steps should be applied while making accounting for these transactions :-

Step I : As per the Provisions, we should recognise Expense for Services only if the Entity has received services from 3rd Party.

Step II: we should recognise Expense from Services at fair value of Services received. In case fair value of services cannot be Estimated then we can consider fair Value of shares to be issued as well.

Step III : We should amortise the fair value of services received on SLM Basis over the period of Service (Monthly Basis) as follows :-

Monthly Exp. = $\dfrac{\text{fair Value of Services}}{\text{No. of months of Service Period}}$

Journal : *Emp. Benefit Exp. a/c Dr xxxx

To Share Based Payments Res. (Equity) Xxxx

(Being monthly Exp. charged)

*Emp. Benefit Exp. will be written off in P&L A/c as an Exp.

Step IV : At the end of Service Period :-

Share Based Payment Reserve a/c Dr xxxx

To ESC (face value) xxxx

To SPR (bal Fig) xxxx

(Being shares issued)

Solution of Q.1

Date	Particulars		Dr	Cr
30.4.x1	Emp. Benefit Exp. a/c	Dr	33,333 (100,000/3)	
	To SBP Res			33,333
	(Being monthly Service charged)			
31.5.x1	Emp. Benefit Exp. a/c	Dr	33,333 (100,000/3)	
	To SBP Res			33,333
	(Being monthly Service charged)			
30.6.x1	Emp. Benefit Exp. a/c	Dr	33,334	
	To SBP Res			33,334
	(Being monthly Service charged)			
1.7.x1	SBP Res. a/c	Dr	100,000	
	To SC (10)			10,000
	To SPR (Bal fig)			90,000
	(Being SBP made)			

Part 2

Concept 4 : SBP to Employees *V.V.Imp

Employees

Unit I :
SBP without any consideration
(100% Free)

Unit II :
SBP with same consideration

Unit II : SBP without consideration

Types of SBP

Case I : SBP in shares

Case II : SBP in cash

Case I : SBP in Shares

As per the Provisions of Ind AS 102, Payment in shares (100% free) can be Made in the following 2 situations :-

Situation I : without vesting condition

Situation II : With Vesting condition

Situation I : without vesting condition

(ESPP : Employees stock Purchase Plans)

Under these Plans, company vests its shares at fair value to its Employees immediately without any vesting condition. There may be some Post vesting condition. There may be some Restriction on sale of shares upto some specified period after vesting. The following Steps should be applied while making Entries

For these Plans :-

Step I : The company should debit Entire Expense immediately on the date of Issue Of shares.

Step II : The company should Pass the following Journal Entry :

a) Emp. Benefit Exp. a/c Dr xxxx (Face value)
To ESC xxxx (Face value)
To SPR xxxx (FV – Fv)
(Being shares Allotted without consideration)

b) P&L a/c Dr xxxx
To Emp. Benefit Exp. xxxx
(Being Exp. written off)

E.g.

i. SBP in Shares : 10,000 Shares
ii. Vesting Condition : No Condition
iii. Fair value Per share : 190/-
iv. Face value Per share : 100/-
v. Exercise Price :0
vi. Restriction to Sell upto 2 years
vii. Fair value due to restriction : 160/-

Solution :

Journal Entry

Emp. Benefit Exp. a/c Dr (10,000 x 160) 1600,000
To ESC (10000 x 100) 10,00,000
To SPR (10000 x 60) 600,000
(Being 10,000 shares Allotted without any consideration)
P&L a/c Dr 16,00,000
To Emp. Benefit Exp. 16,00,000
(Being Exp. written off)

Situation II : Vesting Conditions

Vesting Conditions

Case I : Service Condition
(a)

Case II : Performance Condition

Market Related
(b)

Non Market Related
(c)

Case I : Service Vesting condition

(ESOP : Emp. Stock Option Plans)

Under these Plans, There is some Pre vesting condition regarding some Continuous Service Period. It means that Employees cannot leave the company upto Some specified period and they have to keep themselves in service to get Benefit of Shares. The following steps should be applied while making the Accounting Entries for these Plans :-

Step I : Calculate Emp. Benefit Exp. for each year on SLM Basis over the vesting Period as follows :-

$$\text{E.B. Exp. (P.a)} = \frac{\text{No. of shares x fair value Per share}}{\text{Vesting Period}}$$

*Fair value should be taken which Prevails on Grant date of Plan

Step II : Journal Entries

(At the end of each year)

a) Emp. Benefit Exp. a/c Dr xxxx
 To SBP Reserve xxxx
 (Being Exp. debited on SLM Basis)

b) P&L a/c Dr xxxx
 To Emp. Benefit Exp. xxxx
 (Being Exp. written off)

Step III : On Expiry date of vesting Period

SBP Reserve a/c Dr xxxx
 To ESC (Fv) xxxx
 To SPR (Bal) xxxx
(Being Shares Issued)

E.g.

i. SBP in shares : 1000
ii. Fair value : 150
iii. Face value : 10
iv. Vesting Condition : 2 years service

Pass Journal Entries

Solution :

$$\text{Emp. Benefit Exp. (P.a)} = \frac{1000 \times 150}{2Y} = 75000 \text{ P.a}$$

Journal Entries

At the end of 1st Year

a) Emp. Benefit Exp. a/c Dr 75,000
To SBP Res. 75,000
(Being Exp. debited)

b) P&L a/c Dr 75,000
To Emp. Benefit Exp. 75,000
(Being Exp. written off)

At the end of 2nd Year

a) Emp. Benefit Exp. a/c Dr 75,000
To SBP Res. 75,000
(Being Exp. debited)

b) P&L a/c Dr 75,000
To Emp. Benefit Exp. 75,000
(Being Exp. written off)

c) SBP Res. a/c Dr 150,000
To ESC (10) 10,000
To SPR (140) 140,000
(Being Shares Issued)

E.g. (If Employees Left during the year)

a) No. of Employees : 200
b) Shares Per Emp. : 20
c) Fair value Per share : 150
d) Face value Per share : 10
e) Employees Left : Y1 = 15
Y2 = 18
Y3 = 5
f) Service Period : 3 Y
g) Exercise Price : 0

Calculate Emp. Benefit Exp. for each year & also prepare SBP Res. A/c

Solution

Calculation of Emp. Benefit Exp. Amount

At the end of Y1

$$E.B.\ Exp. = \frac{(200-15) \times 20 \times 150}{3Y} \times 1Y = 185,000$$

At the end of Y2

$$\left(\frac{(185-18) \times 20 \times 150}{3Y} \times 2Y\right) - 185000$$

= 149,000

At the end of y3

$$\left[\frac{(167-5) \times 20 \times 150}{3Y} \times 3y\right] - (185000 + 149000)$$

= 152000

SBP Res. A/c

		Y1	
To Bal c/d	185000	By Emp. B. Exp.	185000
		Y2	
		By Bal b/d	185000
To Bal c/d	334000	By Emp. B. Exp.	149000
		Y3	
To ESC (10)	32400	By Bal b/d	334000
To SPR (140)	453600	By E.B. Exp.	152000
	486000		486000

162 x 20 Shares = 3240 x 10 = 32400

E.g.

i. No. of Employees : 500
ii. Shares Per Emp. : 10
iii. Fair value of shares : 120/-
iv. Face value : 10/-
v. Service condition : 3y
vi. Exercise Price : 0
vii. Employee left :

	Actual	Estimated Departure Rate
At the end of 1st year	20	5% P.a
At the end of 2nd year	15	5% P.a
At the end of 3rd year	20	-

Calculate Expense for each year & Prepare SBP Reserve A/c.

Solution

Calculation of E.B. Exp

1st Year :-

$$\text{Exp.} = \frac{(100 - 20 - 5\% - 5\%) \times 10 \times 120}{3} \times 1 = 28,880$$

2nd Year :-

$$\text{Exp.} = \frac{(100 - 20 - 15 - 5\%) \times 10 \times 120}{3} \times 2 = 49400 - 28880 = 20,520$$

3rd year :-

$$\text{Exp.} = \frac{(100 - 20 - 15 - 20) \times 10 \times 120}{3} \times 3 = 54,000 - 49,400 = 4600$$

SBP Res. A/c

		1	
To Bal c/d	28880	By Emp. B. Exp.	28880
		2	
		By Bal b/d	28880
To Bal c/d	49400	By Emp. B. Exp.	20520
		3	
To ESC (10)	4500	By Bal b/d	49400
To SPR (140)	49500	By E.B. Exp.	4600

Solution of Q.1

Calculation of Emp. Benefit Exp.

31.3.20x1 :-

Exp. = $\frac{₹\ 500{,}000 \times 91\%}{3} \times 1 = 151667$

31.3.20x2 :-

Exp. = $\frac{(₹\ 500{,}000 \times 89\%)}{3} \times 2 = 296667 - 151667 = 145{,}000$

31.3.20x3 :-

Exp. = $\frac{(₹\ 500{,}000 \times 82\%)}{3} \times 3 = 410000 - 296667 = 113{,}333$

Journal Entries

31.3.x1

Emp. Benefit Exp. a/c Dr 151667
To SBP Res. 151667
P&L a/c Dr 151667
To Emp. Benefit Exp. 151667

31.3.x2

Emp. Benefit Exp. a/c Dr 145000
To SBP Res. 145000
P&L a/c Dr 145000
To Emp. Benefit Exp. 145000

31.3.x3

Emp. Benefit Exp. a/c Dr 113333
To SBP Res. 113333
P&L a/c Dr 113333
To Emp. Benefit Exp. 113333
SBP Res. a/c Dr 410000
To SC 410000

Test Your Knowledge

Solution : **Calculation of Emp. B. Exp.**

1st Year :-

$$\text{Exp.} = \frac{(1000 \times 97\%) \times 100 \times 195}{2} \times 1 = 94{,}57{,}500$$

2nd Year :-

$$\text{Exp.} = \frac{(1000 \times 91\%) \times 100 \times 195}{2} = 17745000 - 9457500 = 8287500$$

Emp. B. Exp. A/c

I			
To SBP Res.	9457500	By PL	9457500
II			
To SBP Res	8287500	By PL	8287500

SBP Res A/c

		I	
To Bal c/d	9457500	By E. B. Exp.	9457500
		II	
To SC	17745000	By Bal	9457500
		By E.B. Exp.	8287500

Case II : Performance condition

Condition

Market Based → External Performance → Market Price Target

Non Market Based → Internal Performance → Target : 1) Sales
2) Net Profit
3) Cost control
4) EPS etc.

It may be possible that the Entity has imposed Performance condition in addition to Service addition. In this case, Vesting of shares will be based on Such Performance Condition.

Solution of Q.7

Calculation of Emp. Benefit Exp.

20x1

$$\text{Exp.} = \frac{(500 - 29 - 31) \times 100 \times 122}{2Y} \times 1Y = 2684000$$

20x2

Exp. = $\frac{(500 - 29 - 29 - 23) \times 100 \times 122}{3Y} \times 2y = 3407867 - 2684000 = 723867$

20x3

Exp. = $\frac{(500 - 29 - 29 - 21) \times 100 \times 122}{3Y} \times 3y = 5136200 - 3407867 = 1728333$

SBP Res. A/c

To Bal c/d	2684000	By E.B. Exp.	2684000
		By Bal b/d	2684000
To Bal c/d	3407867	By E.B. Exp.	723867
To SC	5136200	By Bal b/d	3407867
		By E.B. Exp.	1728333

Part 3

Solution of Q.7

Calculation of Emp. Benefit Exp.

Y1

Exp. = $\frac{(1000 \times 97\%) \times 10 \text{ Shares} \times 100}{3Y} \times 1y = 323333$

Y2

Exp. = $\frac{(1000 \times 95\%) \times 10 \text{ Shares} \times 100}{3Y} \times 2y = 633,333 - 323333 = 310,000$

20x3

Exp. = $\frac{(1000 \times 93\%) \times 10 \text{ Shares} \times 100}{3Y} \times 3y = 930,000 - 633,333 = 296,667$

SBP Res. A/c

		Y1	
To Bal c/d	323333	By E.B. Exp.	323333
		Y2	
		By Bal b/d	323333
To Bal c/d	633333	By E.B. Exp.	310000
		Y3	
To SC (Bal fig.)	930000	By Bal b/d	633333
		By E.B. Exp.	296667

Solution of Q.6

Calculation of Emp. Benefit Exp.

Annual Exp. = $\frac{100 \times 25}{4 \text{ years}} = 625$ P.a

Treatment in I^{st} Case : If options are vested in 3 years

Total Emp. Benefit Exp. (100 x 25) 2500
I^{st} Year : Expense to be written off (625)
II^{nd} Year : Expense to be written off (625)

III^{rd} Year : Remaining Exp. to be written off 1250

Comments : If condition is satisfied in 3^{rd} Year then Entire remaining Expense will be Written off in 3^{rd} Year.

Treatment in II^{nd} Case : If condition is satisfied in 5 Years

Total Emp. Benefit Exp. (100 x 25) 2500
I^{st} Year : Expense to be written off (625)
II^{nd} Year : Expense to be written off (625)
III^{rd} Year : Expense to be written off (625)
IV^{th} Year : Expense to be written off (625)

Comments : There will be no Expense in V^{th} year because we have already written off the entire Expense during 4 years.

Solution of Q.8 *Imp

Calculation of Emp. Benefit Exp.

I^{st} Year

Exp. = $\frac{10,000 \times 95}{3Y}$ = 316667

II^{nd} Year (Reversal) :-

Exp. = $\frac{10,000 \times 95}{3}$ x 2 = 633333 – 316667 = 316667

Reversal = 633333 (Plan is not Expected to be vested)

III^{rd} (Entire Exp.) :-

Exp. = 10,000 x 95 = 950,000 (It will be written off at once as condition is satisfied

Journal Entries

I	II
1) Emp. Benefit Exp. a/c Dr 316667	1) Emp. Benefit Exp. a/c Dr 316667
To SBP Res. 316667	To SBP Res. 316667
(Being Exp. debited)	(Being Exp. debited)
2) P&L a/c Dr 316667	2) P&L a/c Dr 316667
To Emp. Benefit Exp. 316667	To Emp. Benefit Exp. 316667
(Being Exp. written off)	(Being Exp. written off)
	3) SBP Res a/c Dr 633333
III	To P&L 633333
1) Emp. Benefit Exp. a/c Dr 950000	(Being Reversal made)
To SBP Res. 950000	OR

(Being Exp. debited)	SBP Res. a/c Dr 316667
2) P&L a/c Dr 950000	To P&L 316667
To Emp. Benefit Exp. 950000	(Being I^{st} year Res. reversed)
(Being Exp. written off)	

3) SBP Res. a/c Dr 950000	
To SC 950000	
(Being issue made)	

Solution of Q.9

In the Given case, there is no hint about the cancellation/ Reversal of Plan due to which we cannot discontinue the Plan. So, we will write off the Expense over the period of 3 years as follows :-

Annual Exp. = $\frac{10,000 \times 120}{3Y}$ = 400,000/-

Unit I : SBP without consideration

(Case II : SBP in cash)

→ SAR (Stock Appreciation Rights)

Under these Plans, the following features should be noted :-

1) Under these Plans, Payment in cash is made at the end of vesting period instead Of payment in shares.
2) The calculation of Cash Payment will be made on the basis of Current market Price.
3) Journal Entries :-

At the end of each year

i. Emp. Benefit Exp. a/c Dr xxxx
   To SBP Liab. xxxx
ii. P&L a/c Dr xxxx
   To Emp. Benefit Exp. xxxx

At the end of Vesting Period

SBP Liab. a/c Dr xxxx
   To cash xxxx

E.g.

i. Service condition : 3 years
ii. Options (SAR) : 10,000
iii. Fair value (Grant date) : 110/-
iv. Fair value at the end :
   I 115
   II 125
   III 140

Prepare SBP Liab A/c.

Solution :

Y1

Exp. = $\frac{10,000 \times 115}{3} \times 1 = 383,333$

Y2

Exp. = $\frac{10,000 \times 125}{3} \times 2 = 833,333 - 383,333 = 450,000$

Y3

Exp. = $\frac{10,000 \times 140}{3} \times 3 = 1400,000 - 833,333 = 566,667$

SBP Liab. A/c

		I	
To Bal c/d	383333	By E.B. Exp.	383333
		II	
		By Bal b/d	383333
To Bal c/d	833333	By E.B. Exp.	450000
		III	
To Bank (Bal fig.)	1400000	By Bal b/d	833333
		By E.B. Exp.	566667

Solution of Q.2

Calculation of Emp. B. Exp

Y1

Exp. = $\frac{50 \times 170 \times 80}{2} \times 1 = 340,000/-$

Y2

Exp. = $\frac{50 \times 170 \times 90}{2} \times 2 = 765000 - 340,000 = 425000$

Payment : SBP Liab a/c Dr 765000

To Cash 765000

(Being Liab. Settled)

Solution of Q.2

Calculation of Emp. B. Exp

1.4.x0

10,000 x 95 = 950,000

31.3.x1

10,000 x 112 x 95%= 1064000 – 950000 = 114000

31.3.x2

10,000 x 109 x 92%= 1002800 - 1064000 = (61200)

31.3.x3

10,000 x 114 x 89%= 1014600 - 1002800 = 11800

Journal

1.4.x0 E.B. Exp. a/c Dr 950,000
To SBP Liab 950,000
(Being Exp debited without any condition)

31.3.x1 E.B. Exp. a/c Dr 114000
To SBP Liab 114000
(Being Exp. debited due to Appreciation)

31.3.x1 P&L a/c Dr 1064000
To E.B Exp. 1064000
(Being Exp. written off)

31.3.x2 SBP Liab. a/c Dr 61200
To P&L 61200
(Being Liab. reversed)

31.3.x3 Emp. B. Exp a/c Dr 11800
To SBP Liab. 11800

P&L a/c Dr 11800
To E.B. Exp. 11800

SBP Liab. a/c Dr 1014600
To Cash 1014600

Part 4

Unit II : SBP with Some consideration

(Intrinsic Value Method)

As per the Provisions of Ind AS 102, the following Points may be considered under this heading :-

i. Under these Plans, Employees are Given ESOP with some Exercise Price. It means that Employees have to pay some consideration if they want to Exercise the Options.

ii. The company should write off Employees Benefit Expenses Equal to difference between fair value Per share and Exercise Price Per share.

Emp. B. Exp. = Fair value Per share – Exercise Price Share

↓

Intrinsic Value Per Option

iii. The Accounting Procedure is almost same as in Earlier questions.

Solution of Q.12

Calculation of Emp. Benefit Exp.

2006-07

Exp. = $\frac{(525 - 15 - 2\% - 2\%) \times 100 \times (149 - 125)}{3Y} \times 1/Y = 391843$

2007-08

$$\text{Exp.} = \frac{(525 - 15 - 10 - 3\%) \times 100 \times (149 - 125)}{3Y} \times 2y = 776000 - 391843 = 384157$$

2008-09

$$\text{Exp.} = \frac{(525 - 15 - 10 - 8) \times 100 \times (149 - 125)}{3Y} \times 3y = 1180800 - 776000 = 404800$$

Emp. Benefit Exp. A/c

31.3.07			
To SBP Res.	391843	By PL	391843
31.3.08			
To SBP Res	384157	By PL	384157
31.3.09			
To SBP Res.	404800	By PL	404800

SBP Res. A/c

31.3.07		31.3.07	
To Bal c/d	391843	By E.B. Exp.	391843
		1.4.07	
		By Bal b/d	391843
31.3..08		31.3.08	
To Bal c/d	776000	By E.B. Exp.	384157
		1.4.08	
31.3.09		By Bal b/d	776000
		31.3.09	
To Bal c/d	1180800	By E.B. Exp.	404800
31.3.10		1.4.09	
To S. Capital	4800000	By Bal b/d	1180800
(480 x 100 x 100)		31.3.10 – Exercise date	
To S.P Res	2352000	By Bank	6000000
(480 x 100 x 49)		(480 x 100 x 125)	
To P&L (Reversal)	28800	↓ ↓ ↓	
(12 x 100 x 24)		Emp shares Excercise	
		Per Emp Price	
	7180800		7180800

Solution of Q.13

Calculation of Emp. Benefit Exp.

31.3.07

$$\text{Exp.} = \frac{474 \times 100 \times 25}{2Y} \times 1y = 592500$$

2Y → Expected to vest in next year

31.3.2008

$$\text{Exp.} = \frac{465 \times 100 \times 25}{3Y} \times 2Y = 775000 - 592500 = 182500$$

31.3.2009

$$\text{Exp.} = \frac{450 \times 100 \times 25}{3Y} \times 3Y = 1125000 - 775000 = 350000$$

Ans : 592500, 182500, 350000

Solution of Q.14

Calculation of Emp. Benefit Exp.

31.3.2007

Exp. $= \frac{48 \times 1000 \times 9}{3Y} \times 1y = 144000$

31.3.2008

Exp. $= \frac{47 \times 1000 \times 9}{3Y} \times 2y = 282000 - 144000 = 138000$

31.3.2009

Exp. $= \frac{45 \times 1000 \times 9}{3Y} \times 3y = 405000 - 282000 = 123000$

SBP Res. A/c

		I	
To Bal c/d	144000	By E.B. Exp.	144000
		II	
		By Bal b/d	144000
To Bal c/d	282000	By E.B. Exp.	138000
		III	
To P&L (Reversal)	405000	By Bal b/d	282000
		By E.B. Exp.	123000

Solution of Q.15

Journal

Bank a/c Dr 16,00,000 (400 x 100 x 40)
E.B. Exp. a/c Dr 320000 (400x 100 x 8)
To S. Capital (400 x 100 x 10) 400,000
To S.P. Res. (400 x 100 x 38) 1520,000
(Being Shares issued without any vesting condition)

P&L a/c Dr 320000
To E.B. Exp. 320000
(Being Exp. written off)

Note : In the Given question, we have considered ₹ 48 as fair value instead of ₹ 50 Because there is a Post Vesting restriction to sell upto 3 years.

Concept 5 : Cash & Cash Equity settled Options *V.V.Imp (8-10 marks)

Step I : Calculate Equity component on Grant date under these Plans as follows :-

Fair value of ESOP	"Grant date"	xxxx
Fair value of SAR		(xxxx)
	Equity component	xxxx

Step II : The Equity component will be treated as ESOP and It will be amortised over

the vesting Period as we do in normal questions.

Step III: The fair value of SAR component will be treated as Liab. component as we deal in Normal questions of SAR.

E.g.

i. Vesting Condition : 3 years
ii. Option I : SBP in shares = 10,000
iii. Option II : SBP in cash = 8,000
iv. Fair value per share on Grant date of Plan = 120
v. Fair value at the end of :
   Ist year = 135
   IInd year = 142
   IIIrd year = 148

Assuming all Emp. Are Interested in Cash, show the Accounting Treatment.

Solution

Calculation of Equity Component

Fair value of ESOP	(10,000 x 120)	1200,000
Fair value of SAR	(8000 x 120)	960,000
Equity component		240000

Calculation of Emp. B. Exp

1st Year

a) ESOP = $\frac{240000}{3} \times 1$ = 80,000

b) SAR = $\frac{8000 \times 135}{3} \times 1$ = 360,000

440,000

2nd year

a) ESOP = $\left(\frac{240000}{3} \times 2\right)$ - 80000 = 80,000

b) SAR = $\frac{8000 \times 142}{3} \times 2$ = 757333 - 360000 = 360,000

477333

3rd Year

a) ESOP = $\left(\frac{240000}{3} \times 3\right)$ = 240000 – 80000 - 80000 = 80,000

SAR = $\frac{8000 \times 148}{3} \times 3$ = 1184000 - 757333 = 426667

506667

Journal Entries

1st Year

a) E.B. Exp. a/c Dr 440000

To SBP Res.		80,000	
To SBP Liab.		360,000	
(Being Exp. debited)			
b) P&L a/c	Dr	440000	
To E.B. Exp.		440000	
(Being Exp. written off)			
2nd Year			
a) E.B. Exp. a/c	Dr	477333	
To SBP Res.		80,000	
To SBP Liab.		397333	
(Being Exp. debited)			
b) P&L a/c	Dr	477333	
To E.B. Exp.		477333	
(Being Exp. written off)			
3rd Year			
a) E.B. Exp. a/c	Dr	506667	
To SBP Res.		80,000	
To SBP Liab.		426667	
(Being Exp. debited)			
b) P&L a/c	Dr	506667	
To E.B. Exp.		506667	
(Being Exp. written off)			
c) SBP Liab a/c	Dr	1184000	
To Cash		1184000	
(360000 + 397333 + 426667)			
(Being Liab. repaid)			
d) SBP Res. a/c	Dr	240000	
To P&L		240000	
(Being Reserve Reversed)			
If all Emp. Are Interested in shares :-			
SBP Liab. a/c	Dr	1184000	
SBP Res. a/c	Dr	240000	
To SC		1424000	
(Being Shares issued)			
E.g.			
i.	No. of Emp. : 500		
ii.	Vesting condition : 3y		
iii.	Option in shares : 100 shares per Emp		
iv.	SAR in cash : 80 shares Per emp		
v.	Fair value of Grant date : 110		
vi.	Fair value at the end of : 1 = 120		
	2 = 145		
	3 = 148		

vii. Employees left : Actual Est.

1	10	20
2	11	19
3	15	-

Show all calculations for these hybrid options.

(50% Emp. are interested in cash, but remaining opted for shares)

Solution :

Calculation of Equity Component

Fair value of ESOP	(500 x 100 x 110)	5500,000
Fair value of SAR	(500 x 80 x 110)	(4400000)
Equity component		1100000

Calculation of Emp. B. Exp

1st Year

a) ESOP = $\frac{(500 - 10 - 20) \times 20 \times 110}{3} \times 1 = 344667$

b) SAR = $\frac{(500 - 10 - 20) \times 80 \times 120}{3} \times 1 = 1504000$

1848667

2nd Year

a) ESOP = $\frac{(500 - 10 - 11 - 19) \times 20 \times 110}{3} \times 2 = 674667 - 344667 = 330000$

b) SAR = $\frac{(500 - 10 - 11 - 19) \times 80 \times 145}{3} \times 2 = 3227333 - 1504000 = 2053333$

2383333

3rd Year

a) ESOP = $\frac{(500 - 10 - 11 - 15) \times 20 \times 110}{3} \times 3 = 1020800 - 674667 = 346133$

SAR = $\frac{(500 - 10 - 11 - 15) \times 80 \times 148}{3} \times 3 = 5493760 - 3557333 = 1936427$

2282560

Journal Entries

1st Year

E.B. Exp. a/c	Dr	1848667	
To SBP Res.			344667
To SBP Liab.			1504000

P&L a/c	Dr	1848667	
To E.B. Exp.			1848667

2nd Year

E.B. Exp. a/c Dr 2383333
 To SBP Res. 330000
 To SBP Liab. 2053333

P&L a/c Dr 2383333
 To E.B. Exp. 2383333

3rd Year

E.B. Exp. a/c Dr 2282560
 To SBP Res. 346133
 To SBP Liab. 1936427

P&L a/c Dr 2282560
 To E.B. Exp. 2282560

SBP Liab a/c Dr 2746880
 To Cash 2746880
 (1504000 + 2053333 + 1936427) x 50%

SBP Liab. a/c Dr 2746880
SBP Res. a/c Dr 1020800
 To SL 3767680

Solution of Q.3

Calculation of Equity Component

Fair value of ESOP	(1500 x 102)	153000
Fair value of SAR	(1000 x 113)	(113000)
Equity component		40000

Calculation of Emp. B. Exp

31.12.x1

a) ESOP = $\frac{40000}{2} \times 1 = 20000$

b) SAR = $\frac{1000 \times 120}{2} \times 1 = 60000$

80,000

31.12.x2

a) ESOP = $\left(\frac{40000}{2} \times 2\right) - 20000 = 20000$

b) SAR = $\left(\frac{1000 \times 132}{2} \times 2\right) - 60000 = 72000$

92,000

Journal Entries

31.12.x1

E.B. Exp. a/c Dr 80000
To SBP Res. 20000
To SBP Liab. 60000

P&L a/c Dr 80000
To E.B. Exp. 80000

31.12.x2

E.B. Exp. a/c Dr 92000
To SBP Res. 20000
To SBP Liab. 72000

P&L a/c Dr 92000
To E.B. Exp. 92000

SBP Liab a/c Dr 132000
To Cash 132000

SBP Res. a/c Dr 40000
To P&L 40000

Part 5

Solution of Q.6

Calculation of Equity component (Hybrid Option)

Total value of Equity component (90000 x 115)	103,50,000
Total value of cash Options (74000 x 135)	(99,90,000)
Equity Component	360,000

Calculation of SBP Exp.

20x0

a) SAR $\frac{74000 \times 138}{3Y}$ 3404000

b) Equity (360000/ 3y) 120000

3524000

20x1

a) SAR $\frac{74000 \times 140}{3Y} \times 2 = (6906667 - 3404000) =$ 3404000

b) Equity ($\frac{360000}{3}$ x 2y) = 240000 − 120000 = 120000

3622667

20x2 :

a) SAR (74000 x 147) - 6906667 = 397133

b) Equity (360000 – 240000) = 120000

409133

Journal Entries

20x0

a) SBP Exp. a/c Dr 3524000

To SBP Liab. 340,4000

To SBP Res. 120,000

(Being Exp. debited)

b) P&L a/c Dr 3524000

To E.B. Exp. 3524000

(Being Exp. written off)

20x1

a) SBP Exp. a/c Dr 3622667

To SBP Liab. 3502667

To SBP Res. 120,000

(Being Exp. debited)

b) P&L a/c Dr 3622667

To E.B. Exp. 3622667

(Being Exp. written off)

20x2

a) SBP Exp. a/c Dr 409133

To SBP Liab. 397133

To SBP Res. 120,000

(Being Exp. debited)

b) P&L a/c Dr 409133

To E.B. Exp. 409133

(Being Exp. written off)

Comments : In the Given case, It is not specified that Employees are interested in Cash or shares due to which we cannot Pass Journal Entries related with Settlement.

Solution of Q.8

Calculation of Equity component (Hybrid Option)

Equity (990 x 212) = 209880

Cash (800 x 213) = (170400)

Equity Component 39480

20x0

SAR (800 x 220) x 1 = 88000

2 Y

Equity (39480/ 2y) = 19740

107740

20x1

SAR $\frac{(800 \times 232)}{2Y}$ x 2 = (185600 – 88000) = 97600

Equity (39480/ 2y) = 19740

117340

Journal :

20x0 (a)	SBP Exp. a/c Dr	107740	
	To SBP Liab.		88000
	To SBP Res.		19740
	PL a/c Dr	107740	
	To SBP Exp.		107740
20x1 (b)	SBP Exp. a/c Dr	117340	
	To SBP Liab.		97600
	To SBP Res.		19740
	PL a/c Dr	117340	
	To SBP Exp.		117340

Settlement

SBP Liab a/c Dr	185600 (800 x 232)	
To Cash		185600
SBP Res. a/c Dr	39480	
To P&L		39480
(Reversal)		

Concept 6 : Modification in ESOP *Imp

As per the Provisions of Ind AS -102, Plan can be modified if fair value of shares Declines during the vesting Period. Under modifications, company may reduce Exercise Price. The following steps may be considered while modifying the plan :-

Step I : There will be no change in the Accounting for original Expense which relates to Original Plan.

Step II : At the time of modification in Plan, we should calculate Additional Expense Due to Reduction in Exercise Price as follows :-

Fair value of shares at the time of modification	xxxx
Exercise Price at the time of modification	(xxxx)
Additional Exp.	xxxx

Step III : The amount of Additional Exp. will be amortised over the remaining vesting Period.

Solution of Q.10

Calculation of Employees Benefit Expenses

At the end of year I :

Total Loss = 150 x 129 x (1000 – 35 – 60) = 17511750

Loss for year I = $\frac{17511750}{3}$ x 1 = 5837250

At the end of year II :

a) Original Plan = 150 x 129 x (1000 – 35 – 30 – 36) = 17395650

Loss upto 2^{nd} year = $\frac{17395650}{3}$ x 2 = 11597100

Loss for 2^{nd} Year = 11597100 – 5837250 = 5759850

b) **Modified Plan**

Loss = $\frac{150 \times 30 \times (1000 - 35 - 30 - 36)}{2}$ x 1 = 2022750 II

Emp. B. Exp. = 5759850 + 2022750 = 7782600

At the end of year III :

a) Original Plan =1 50 x 129 x (1000 – 35 – 30 – 39) = 1733760

Loss = 17337600 – 11597100 = 5740500

b) Modified Plan = 150 x 30 x (1000 – 35 – 30 – 39) = 4032000

Loss = 4032000 - 2022750 = 2009250

Emp. B. Exp. = 5740500 + 2009250 = 7749750

Emp. B. Exp. : Y1 = 5837250
Y2 = 7782600
Y3 = 7749750

Concept 7 : Cancellation of Plan *Imp

If plan is cancelled due to heavy decline in values of shares then the following Steps should be applied while making Accounting Adjustments :-

Step I : The Entity should write off Emp. B. Expense for the remaining Period at once in P&L on the date of cancellation of plan. It means that E.B. Exp. which is related with future years shall also be written off in advance at the time of Cancellation of Plan.

Step II : If any compensation is paid to Employees in lieu of cancellation of plan then such compensation will be written off from SBP Res. (reduction in Equity).

Exception

If compensation Exceeds fair value of cancelled options on such date then Excess Payment will be written off in P&L A/c.

Solution of Q.11 *Imp

Calculation of Emp. B. Exp.

At the end of year I :

$$\text{Loss} = \frac{2000 \times 8 \times 130}{3Y} \times 1Y = 693333$$

At the end of year II :

Loss = 2000 x 9 x 130 = 2340000 – 693333 = 1646667

Accounting for Compensation

Compensation Paid (2000 x 9 x 95)	1710000
Payment from SBP Res (2000 x 9 x 90)	(1620000)
Excess payment from P&L	90000

1) Compensation a/c	Dr	1710000	
To Bank			1710000
2) SBP Res. a/c	Dr	1120000	
PL a/c	Dr	90000	
To Compensation			1710000

2340000 – 1620000 = 720000

Question 4 & 5 (H.W)

Part 6

Accounting for shares issued by Holding co. to Employees of Subsidiary co.

As per the Ind AS 102, Holding co, will consider it as an Investment in subsidiary, but subsidiary will consider it as capital contribution by parent. The following journal Entries shall take place :-

Holding CO.	Subsidiary CO.
Invest. in subsidiary a/c Dr xxxx	Emp B. Exp. a/c Dr xxxx
To ESC xxxx	To Capital contribution by parent xxxx
(Being shares issued to Emp. Of Subsidiary)	(Being cap. Contributed by parent)

Solution of Q.3

Holding CO.	Subsidiary CO.
Invest. in subsidiary a/c Dr 217500	Emp. B. Exp. a/c Dr 217500
To ESC 217500	To Capital contribution by parent 217500
(Being shares issued to Emp. Of Subsidiary)	(Being cap. Contributed by parent)

Part 7

Solution of Q.6, Q.8, Q.9, Q.11 (Discussed in Class)

Test your Knowledge

Solution of Q.4, Q.5, Q.2 (Discussed in Class)

Part 8

New Question

Solution of Q.1

Calculation of Employees Expenses

(Assuming Vesting Period 4 years)

31.3.x2

Expense for C.Y = $\frac{400 \times 75 \times 210}{4} \times 1$ = ₹ 1575000

31.3.x3

Expense for C.Y = $\left(\frac{400 \times 75 \times 220}{4} \times 2\right) - 1575000$ = ₹ 1725000

31.3.x4

Expense for C.Y = $\left(\frac{400 \times 75 \times 215}{4} \times 3\right)$ – ₹ 1575000 - 1725000 = ₹ 1537500

31.3.x5

Expense for C.Y = $\left(\frac{400 \times 75 \times 218}{4} \times 4\right) - 1575000 - 1725000 - 1537500$ = ₹ 1702500

Calculation of Employees Expenses

(Assuming Vesting Period 3 years)

31.3.x2

Expense for C.Y = $\frac{400 \times 75 \times 210}{4} \times 1$ = ₹ 1575000

31.3.x3

Expense for C.Y $= \left(\frac{400 \times 75 \times 220}{3} \times 2\right) - 1575000 =$ ₹ 2825000

31.3.x4

Expense for C.Y $= \left(\frac{400 \times 75 \times 215}{3} \times 3\right) - 1575000 - 2825000 =$ ₹ 2050000

Solution of Q.3

Journal Entries

Company P	Company S
Investment in S a/c Dr 3750	Remuneration Exp. a/c Dr 15000
Bank a/c Dr 11250	(30 x 100 x 5)
To Equity 15000	To Bank (.75) 11250
(Being Shares issued under ESOP to	To Capital Contribution by P 3750
Employees of S)	(Being Accounting for ESOP Granted by P
	made)

Thank You 😊

Best of Luck.....!!!!!!

CA. Parveen Jindal

Ind AS 1: Presentation of Financial Statements

Part 1

Coverage

Roadmap of Application Of Ind AS	Guidance IInd Division of Schedule III	Additional concepts related with financial statements
Already Done	Already Done	

Additional Concepts

As per the Provisions of Ind AS 1, the following Additional Points should be considered While preparing financial statements :-

1. Going Concern : As per the Provisions of Ind AS-1, financial statements should be Prepared on the basis of Assumption of Going concern. It means that Entity will Continue its business in near future. In case Business is to be liquidated in near Future then facts should be disclosed. (Near future is not limited upto 12 months, but It is a matter of Judgement)

2. Accrual Concept : As per the Provisions of Ind AS 1, financial statements should be prepared on Accrual Concept.

3. Consistency : The financial statements should be prepared on the basis of Rule of Consistency. It means that Accounting Policies should be same for all reporting Periods.

4. Comparatives : As per the Provisions of Ind AS 8, Entity should present comparative financial statements in addition to current year' financial Statements. It means that 2 Lets are Prepared for Presentation Purpose.

❖ If any Accounting Policy is revised retrospectively then 3 sets of B/s shall be Presented while other statements shall be in 2 sets.

3 sets of B/s

C.Y — P.Y (comparative) — Beginning of comparative Period

(2 Sets = P&L, Cash flow, changes in Equity, Notes)

5. Off- Setting : As per the Provisions of Ind AS 1, Incomes or Expenses, Assets or Liab. should not be net off. All Items should be reported separately. We can consider off Set of Items only if It is Permitted by any other Ind AS (Trade Discount can be set off against sales Ind AS 18)

6. Explicit & Unreserved statement :- The financial statement should include the specified statement that Entity has applied all Ind AS.

Solution of Q.1, Q.3, Q.4, Q.5, Q.6, Q.7, Q.8, Q.9, Q.10, Q.11, Q.2 (Discussed in Class)

Solution Q.12 H.W

Part 2

Extra Question

Solution of Q.1, Q.2, Q.3, Q.4, Q.5*Imp, Q.6

Part 3

New Question

Solution of Q.4

A. Yes, the treatment of company regarding Presentation of Debtors under current Assets is correct because collection is Expected within Operating Cycle Period.

B. No, the treatment of company regarding Presentation of payables under Non Current Liab. is not correct because Payment is due within 14 months which falls Within operating Cycle Period. So, It should be treated as a current Liability.

C. No, the Given Deposit should be treated as a Non Current Asset because It is Refundable after 24 months from B/s date which is outside the scope of 18 months Operating cycle of company.

D. No, the received Deposit should not be considered as a Non current Liability Because Deposit is Refundable at the time of completion of contract which is 18 Months. It means that Deposit id Refundable within the Period of Operating Cycle. So, It should be reported as Current Liability.

Solution of Q.3

A. No, the company does not require the presentation of 3rd B/s because there is no Impact on financial statements of Earlier Period than the Preceding year.

B. No, The contention of company is not correct because Rectification of Errors Can not be made Prospectively. So, correction is required in the comparatives for the year 20x1-x2.

Solution of Q.2

A. Yes, the company can provide Additional Disclosures for better understanding of Financial statements. The Given disclosures in schedule 3 are minimum and these Can be Extended if required.

B. Yes, the additional disclosures shall also be as per Ind AS Rules.

C. Yes, the company can disclose additional P&L in comparatives without Presenting B/s, Cash flows or SOCE because there is no rule for additional disclosures these

are made on Entity' choice.

Solution of Q.1

A. As per the Provisions of Ind AS 1, company is required to mention an Explicit & Unreserved statement in financial statements that company has Applied Ind AS While Preparing financial statements. But As per Given qualification by Auditor, it Indicates that company has not applied Ind AS adequately. So, Proper disclosure is Required on this.

B. No, the company is not required to Attach "stand Alone word" with B/s, PL, CFS or Notes, but It needs to Present in Notes that the Given statements are individual financial statements.

C. Yes, It is mandatory to mention Presentation currency as per Ind AS 21. So, Company is required to mention "₹ " in financial statements

D. Yes, company can Present figures in absolute Amounts because it is allowed as per Schedule III.

E. No, Company cannot Alter the comparatives on the basis of Given Grounds.

Thank You 😊

Best of Luck.....!!!!!!

CA. Parveen Jindal

Ind AS-8
Accounting Policy, Estimates & Errors

Part 1

Concept 1 : Coverage

Coverage

Unit I: Accounting Policy	Unit II : Errors	Unit III: Estimates

Concept 2 : Accounting Policies *Imp

As per the Provisions of Ind AS 8, Accounting Policies are the Accounting Principles or Rules which are considered by an Entity while Preparing financial statements. Generally, Accounting Policies are discussed in various Ind AS. However in some cases, we need to apply our judgement while selecting Accounting Policies.

The following Policies are discussed by various Ind AS :-

i. Depreciation by SLM/ WDV (16)
ii. Inventory by FIFO or Weighted Avg (2)
iii. Accounting on cash Basis, Accrual Basis or Hybrid basis
iv. Inclusions/ Exclusions in cash Equivalents
v. Valuation of Investments through P&L or OCI etc.

If any Accounting Policy is not readymade then we need to consider the following Factors while selecting Accounting Policy :

i. It should be Prudent
ii. It should be Neutral
iii. It should be on the basis of Substance over form
iv. It should be reliable
v. It should be Transparent

In addition to above It should also be considered that Application of Accounting Policy should be on consistent basis. We cannot change Accounting Policies after Making their selection. If any Policy is required to be changed then It should be the Requirement of any New Ind AS or to improve the presentation of financial statements. The following procedure should be Applied while making change in Policy :-

Step I : Calculate Total Accounting Effects by Existing Policy from the date of its First Application till the date in its change.

Step II : Calculate Total Accounting Effects by New Policy for the same Period as in Step I

Step III : Difference between Step I & Step II should be adjusted in previous year Retained Earnings & Assets/ Liab so that Opening Balances in current year May be taken correctly.

(Note : It means that financial statements for Previous year should be restated)

Important Notes

i. If Transitional Provisions are mentioned in New Ind AS then change in policy will be made as per those provisions.

ii. If Retrospective Adjustment in all financial years is Impracticable then we Can consider Adjustments from the year It is Practicable.

Concept 3 : Accounting Estimates

As per the Provisions of Ind AS 8, we use different types of Estimates while Preparing financial statements. The following Estimates are used in statements :_

i. Estimation of NRV for valuation of stock
ii. Estimation of PFDD
iii. Estimation of Useful life of PPE
iv. Estimation of Departure rate for ESOP'
v. Estimation of fair value under different Ind AS
vi. Estimation of warranty Liab. Provisions etc.

In case any change takes place in Accounting Estimates of Earlier year/years then we will adjust it in current year profit and there will be no retrospective Adjustment.

Concept 4 : Errors in Prior Period

If any mistake is discovered in current year in relation to financial statements of Prior Period/ Periods then these mistakes are known Prior Period Errors. These Mistakes may be in the form of Errors of Omissions, Commissions, misinterpretation Of facts, misapplication of Accounting Policy etc.

The rectification of Errors should also be made retrospectively in the retained Earnings of Previous comparative statements.

Except

If mistakes are relating to previous year which are discovered in current year then financial statement of previous year should be Restated. (i.e., P&L, B/s etc.)

Illustration 3 (Discussed in class)

Part 2

Extra Question

Solution of Q.1, Q.2, Q.3, Q.4 *Imp, Q.5, Q.6, Q.7, Q.8 *Imp, Q.9 *Imp, Q.10 *Imp, Q.11,
(Discussed in Class)

Solution of Q.12 *V.V.Imp

Re-statement in 3rd B/s as at 1.4.x2 :-
(in the beginning of Preceding year)

Non Current Assets

Investment Property (100,000 – 10,000)→ upto 31.3.x1 90,000

Other Equity : Retained Earnings	xxxx	
Dep. Upto 31.3.x1	(10,000)	xxxx

Re-statement in comparatives as at 31.3.x3 (x2-x3)

I. Re-stated P&L Statement

Depreciation & Amortisation *10,000

*It will dilute Previous year Net Profit

II. Re-stated B/s

Non Current Assets

Invest. Property (90,000 – 10,000) 80,000

Re-statement in Current Year (31.3.x4)

I. P&L Statement

Dep. & Amort. 10,000

II. B/S

Non Current Assets

Invest. Property (80,000 – 10,000) 70,000

Part 3

New Question

Solution of Q.2, Q.1 (Discussed in class)

Thank You ☺

Best of Luck.....!!!!!!

CA. Parveen Jindal