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Answer Paper	
Financial Reporting	**Duration**: 80
Details:Test- 1 (Chapter- 4, 5 & 7)	**Marks**: 40

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material.Attempt as much as you know to fairly judge your performance.

Solution-1:

The accounting for the share-based payment for the SARs would be:

Year	Calculation	Dr. Expense	Cumulative expense	Cr. Equity	Cr. Liability
2017-18	[200 employees*200 SARs* INR 20*1/4] (period of service provided)	200,000	200,000		2,00,000
2018-19	Re-measurements before the modification [200 employees*200 SARs*INR24*2/4] (period of service provided)-200000 already booked	280,000	280,000	4,80,000	

(2 Marks)

At the modification date (31 March 2019), company A applies paragraph B44A, accordingly:

- From the date of the modification, the share options are measured by reference to their modification date fair value and, at the modification date, the share options are recognized in equity to the extent to which the employees have rendered services
- The liability for the SARs is derecognized at the modification date and
- The difference between the carrying amount of the liability derecognized and the equity amount recognized at the modification date is recognized immediately in profit or loss.

In this case study, the entity compares the fair value of the equity-settled replacement award for services provided through to the modification date (INR 1056,000*2/4 =528,000) with the fair value for the cash-settled original award for those services (INR 960,000*2/4 = 480,000). The difference (INR 48,000) is recognized immediately in profit or loss at the date of modification.

The remainder of the equity-settled share-based payment (measured at its modification-date fair value) is recognized in profit or loss over the remaining two-year vesting period from the date of the modification.

(3 Marks)

Year	**Calculation**	**Dr Expense**	**Cumulative expense**	**Cr Equity**	**Cr Liability**
2018-19	Balances carried forward		480000		480000
2018-19	De-recognition of the liability recognition of the modification date fair value amount in equity and recognition of the effect of settlement.	48000	528000	528000	(480000)
2019-20	200 employees * 200 share option * INR 26.4*3/4 (period of service provided)- 528000 (expense already recognized)	264000	792000	264000	-
2020-21	200employees*200 share*26.4*4/4 (period of	264000	1056000	264000	-

	service provided)- 792000				
Total				1056000	-

(3 Marks)

Solution- 2:

Building would have been recognized on 1 January 2016 at a cost of 90 lakh (purchase price + legal cost). Recoverable sales tax is excluded from the cost of PPE. General administrative cost of 6 lakhs will have been expensed to profit or loss as incurred.

Depreciation of 3.6 lakhs (90 lakhs/25 years) would have been charged to P&L in each of years ended 31 December 2016, 2017, 2018, 2019.

(1 Mark)

Prior to the revaluation on 31dec 19, carrying amount of the building was (90 lakhs*21/25)= 75.6 lakhs. In the year ended 2019 a gain on revaluation of 29.4 lakh would have been recognized in other comprehensive income and held within equity.

(1 Mark)

In the year ended 2020, building would have been depreciated over its remaining useful life of 21 years. The depreciation charge in the year ended 31 dec 2020 would therefore have been 5 lakh leaving a carrying amount at the disposal date 1 crore.

On 31 Dec 2020, a profit on disposal of 25 lakh would be recorded in the statement of P&L.

(1 Mark)

The revaluation gain previously recognized within OCI and held within equity are not reclassified to P&L on the disposal of the asset. However Radhika could do a transfer within equity as follows:

OCI	Dr.	29.4 lakhs
To retained earnings		29.4 lakhs

(1 Mark)

Solution- 3:

A) The lease contract technically specified variable payments in that rental payments can be either USD 1000 or USD 500,000. However, it is not realistically possible that the Mr. Ram will have less than USD 1,0000 in sales per annum given its history with past retail locations. In this case, there is no true variability in the lease payments as only one outcome is realistically probable to occur. The lessee would include the lease payments of USD 500,000 per annum in its initial measurement of the lease contract.

(1.5 Marks)

B) Although there is a high degree of certainty that the lessee will incur a lease expense of at least USD 6,250 (125,000 x 5%) per annum, variable lease payments that are linked to the future performance or use of an underlying asset are excluded from the definition of lease payments. Consequently, no liability is recognised for those variable lease payments.

(1.5 Marks)

Solution- 4(1):

Properties described under items (a), (b), and (e) would qualify as investment properties under IND AS 40. With respect to item (e), it is to be noted that Ind AS-40 requires that when the ancillary services are provided by the entity and they are considered relatively insignificant component of the arrangement then the property is considered an investment property. These properties qualify as investment properties because they are being held for rental or for capital appreciation as opposed to actively managed properties that are used in the production of goods. Whereas properties described under C is treated as inventory and Properties described in column in D shall treated as PPE under IND AS 16.

(3 Marks)

Solution- 4(2):

As per the definition of 'Events after the Reporting Period' and paragraph 8 of Ind AS 10, Events after the Reporting Period, financial statements should be adjusted for events occurring after the reporting period that provide evidence of conditions that existed at the end of the reporting period. In the instant case, the earthquake took place in February 20X1 (i.e. before the end of the reporting period). Therefore, the condition exists at the end of the reporting date though the debtor is declared insolvent after the reporting period. Accordingly, full provision for bad debt amounting to Rs 2 lakhs should be made to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended 31st March, 20X1. In this case, assuming that the financial statements are approved by the approving authority after April, 20X1, XYZ Ltd should provide for the remaining amount as a consequence of declaration of this debtor as bankrupt.

In case, the earthquake had taken place after the end of the reporting period, i.e., after 31stMarch, 20X1, and XYZ Ltd. had not made any specific provision for the debtor who was declared bankrupt later on, since the earthquake occurred after the end of the reporting period no condition existed at the end of the reporting period. The company had made only general provision for bad debts in the ordinary business course – without taking cognizance of the catastrophic situation of an earthquake. Accordingly, bankruptcy of the debtor in this case is a non-adjusting event.

As per para 21 of Ind AS 10, if non-adjusting events after the reporting period are material, their non-disclosure could influence the economic decisions that users make based on the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made."

If the amount of bad debt is considered to be material, the nature of this non-adjusting event, i.e., event of bankruptcy of the debtor should be disclosed alongwith the estimated financial effect of the same in the financial statements.

(5 Marks)

Solution- 5(i):

Ind AS 38 requires an entity to recognize an intangible asset, when purchased or self-created if, and only if: it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably. If an intangible item does not meet both the definition of and the criteria for recognition as an intangible asset, Ind AS 38 requires the expenditure on this item to be recognized as an expense when it is incurred

However, you won't account for all of them as for intangible assets under Ind AS 38. Instead:

1. 200 is used by your own employees are intangible assets; and

(1.5 Marks)

2. 300 licenses to be sold are your inventories under Ind AS 2, because you hold them for sale in the ordinary course of business.

(1.5 Marks)

Solution-5(ii):

As per Ind AS 38, Intangible assets shall be recognized if future economic benefits is expected from same. In case of purchase of intangible assets, all direct expense shall also be capitalised. The tax which is recoverable from income tax shall not be captialised.

Cash paid	11,00,000
Deferred payment	4,54,454.5
Purchase fee	180,000.0
Entry Fee	67,000.0
Legal Fee	110000
Total amount to be capitalized	19,11,454.5

The payment of 5,00,000 to made in end of year shall books as current liability for amounting 4,54,454.5

(5 Marks)

Solution – 6(i):

Company Tesla would need to evaluate the factors that led to the decrease in value of the assetbetween its classification as held for sale and the determination of the actual sales price. Iffacts and circumstances related to the value of the asset changed after the end of Tesla'sreporting period to cause the decrease in value, Tesla should not adjust the value of the assetas of the end of the reporting period. However, if facts and circumstances related to the asset remained unchanged between the time Tesla classified the asset as held for sale and the determination of the final sales price, and the sales price determined after the end of the reporting period provided additional evidence of conditions that existed at the end of the reporting period, which were indicative of the true estimate of the fair value, then Tesla should write down the fair value of the asset to the price determined by the sales agreement, lesscosts to sell the asset, as of the end of the reporting period.

(4 Marks)

Solution – 6(ii):

The fair value of Entity A's holding in Entity B is CU660,000 (i.e. 120,000 x CU5.5). The blockage factor (described above) is not taken into account. The unit of account and the unit of valuation are the individual shares held, not the 12% shareholding (Ind AS 113.14).

Further, Ind AS 113 requires the use of Level 1 inputs (i.e. quoted prices that are unadjusted) if they are available, because a quoted price on an active market represents the most reliable available information. Therefore, where Level 1 inputs are available, the fair value is equal to price x quantity (Ind AS 113.69,77, and 88). The blockage factor equal to CU80,000 (i.e.CU660,000-CU580,000) results as a specific attribute of Entity A's overall 12% holding, rather than the nature of each individual share. Therefore, the blockage factor should not be incorporated as a discount in determining the fair value measurement.

(4 Marks)

Solution- 7:

At December 31, 2018 the asset's recoverable amount was only 64,000, so that an 16,000 adjustment must be made. For simplicity, assume this was added to accumulate depreciation, so that at December 31, 2018, the asset cost remains 100,000 and accumulated depreciation is stated as 36,000.

At December 31, 2019, before any adjustments are posted, the carrying amount of this asset is 64,000. Depreciation for 2019 would be 16,000 (= 64,000 carrying amount ÷ 4 years remaining life), which would leave a net carrying amount, after current period depreciation, of 48,000. However, a determination is made that the asset's recoverable amount at this date is 74,000. Before making an adjustment to reverse some or all of the impairment loss previously recognized, the carrying amount at December 31, 2019, as it would have existed had the impairment not been recognized in 2018 must be computed.

December 31, 2018 pre-impairment carrying amount 80,000

2019 depreciation based on above 20,000

Indicated December 31, 2019 carrying value 60,000

The December 31, 2019 carrying value would have been 60,000; this is the maximum carrying value which can be reflected in the December 31, 2019 statement of financial position. Thus, the full recovery cannot be recognized; instead, the 2019 statement of profit or loss will reflect (net) a negative depreciation charge of 16,000- 12,000 = 4,000, which can be recorded as follows:

Actual December 31, 2018 carrying amount 64,000

2019 depreciation based on above 16,000 (a)

Indicated December 31, 2019carrying amount 48,000

Actual December 31, 2019 carrying amount 60,000

Recovery of previously recognized impairment 12,000 (b)

Thus, the net effect in 20XX profit or loss is (a) (b) = (4,000). The asset cannot be restored to its indicated recoverable amount at December 31, 2019, amounting to 74,000, as this exceeds the carrying amount that would have existed at this date had the impairment in 2018 never been recognized. In other Reversal of revaluation is allowed only upto 4,000.

(6 Marks)