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Answer Paper	
Financial Reporting	**Duration**: 180
Details: Full Test	**Marks**: 100

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.

Question No.1 is compulsory.

Candidates are required to answer any four questions from the remaining five questions.

ANS-1

(A) (i) Journal Entries on 31st December 2019

Particulars	Rs.	Rs.
Depreciation expense A/c (W.N.1) Dr.	19,608	
To Warehouse or Accumulated depreciation A/c		19,608
(Being additional depreciation expense recognised for the year ended 31st December 2019 arising from the reassessment of the useful life of the warehouse)		
Impairment loss A/c (W.N.2) Dr.	2,47,059	
To Warehouse or Accumulated depreciation A/c		2,47,059
(Being impairment loss recognised due to discovery of structural fault in the construction of warehouse at 31st December 2019)		

(ii) (a) The damage to warehouse is an adjusting event (occurred after the end of the year 2019) for the reporting period 2019, since it provides evidence that the structural fault existed at the end of the reporting period. It is an adjusting event, in spite of the fact that fault has been discovered after the reporting date.

The effects of the damage to the warehouse are recognised in the year 2019 reporting period. Prior periods will not be adjusted because those financial statements were prepared in good faith (eg. regarding estimate of useful life, assessment of impairment indicators etc) and had not affected the financials of prior years.

(b) Damage of inventory due to seepage of rainwater Rs.1,00,000 occurred during the year 2020. **It is a non-adjusting event** after the end of the 2019 reporting period since the inventory was in good condition at 31st December 2019. Hence, no accounting has been done for it in the year 2019.

H Ltd. must disclose the nature of the event (i.e. rain-damage to inventories)and an estimate of the financial effect (i.e. Rs.1,00,000 loss) in the notes to its31st December 2019 annual financial statements.

(iii) If the damage to the warehouse had been caused by an event that occurred after 31st December 2019 and was not due to structural fault, then it would be considered as anon-adjusting event after the end of the reporting period 2019 as the warehouse would have been in a good condition at 31st December 2019.

Working Notes:

1. Calculation of additional depreciation to be charged in the year 2019

Original depreciation as per SLM already charged during the year 2019

= Rs. 10,00,000/ 30 years = Rs. 33,333.

Carrying value at the end of 2018 = 10,00,000 – (Rs. 33,333 x 3 years) = Rs. 9,00,000

Revised depreciation = 9,00,000 / 17 years = Rs. 52,941

Additional depreciation to be recognised in the books in the year 2019

= Rs.52,941 – Rs. 33,333 = Rs. 19,608

2. Calculation of impairment loss in the year 2019

Carrying value after charging depreciation for the year 2019 = Rs. 9,00,000 – Rs.52,941 = Rs.8,47,059

Recoverable value of the warehouse = Rs.6,00,000

Impairment loss = Carrying value - Recoverable value = Rs. 8,47,059 –Rs.6,00,000 =Rs. 2,47,059

(12 marks)

(B) Identification Of An Acquirer: Since the Dor Company issued fewer shares (204,000) to the Dee Company than it had outstanding prior to the business combination (6,00,000), the shareholders of the Dor Company would be the majority shareholders in the combined company and the Dor Company would be identified as the acquirer.

Determination of Purchase Price: With a market value of Rs.25 per share, the 204,000 shares issued to effect the business combination would have a total market value in the amount of Rs.5,100,000. This would be the purchase price of the Dee Company.

Investment Analysis: The required investment analysis schedule for this example would be as follows:

Carrying Value Of Dee's Net Identifiable Assets (Rs.5,000,000 - Rs.700,000)	Rs.4,300,000
Fair Value Increase On Plant (Rs.2,700,000 - Rs.2,400,000)	300,000
Fair Value Of Dee's Net Identifiable Assets	Rs.4,600,000

Given the purchase price and the fair values, the Goodwill that will be recognized from this business combination can be calculated in the following manner:

Investment Cost (Consideration Transferred)[(204,000)(Rs.25)]	Rs.5,100,000
Fair Value Of Dee's Net Identifiable Assets	(4,600,000)
Goodwill To Be Recognized	Rs. 500,000

Journal Entry: Using the preceding investment analysis, we are now in a position to record the business combination. It would be recorded on the books of the Dor Company as a simple acquisition of assets and liabilities. Except for Dee's Plant and Equipment and the Goodwill to be recorded as a result of the business combination, the carrying values from the books of the Dee Company would be used. The entry is as follows:

Cash	Rs. 600,000	
Accounts Receivable	800,000	
Inventories	1,200,000	
Plant And Equipment (Fair Value)	2,700,000	
Goodwill (Arising From The Acquisition)	500,000	
To Liabilities		700,000
To Equity Share capital (Dor)		2,040,000
To Securities premium		3,060,000

Combined Balance Sheet

The resulting December 31, 2009 Balance Sheet for the Dor Company, which now includes all of the assets and liabilities of the Dee Company, would be as follows:

Dor Company

Balance Sheet As At December 31, 2009

Cash (Rs.1,200,000 + Rs.600,000)	1,800,000
Accounts Receivable (Rs.2,400,000 + Rs.800,000)	3,200,000
Inventories (Rs.3,800,000 + Rs.1,200,000)	5,000,000
Plant And Equipment (Rs.4,600,000 + Rs.2,700,000)	7,300,000
Goodwill	500,000
Total Assets	**17,800,000**
Liabilities (Rs.1,500,000 + Rs.700,000)	2,200,000
Common Stock - No Par (Rs.6,000,000 + Rs.2,040,000)	8,040,000
Retained Earnings (4,500,000+3,060,000)	7,560,000
Total Equities	**17,800,000**

(8 marks)

ANS-2

(A) Consolidated Balance Sheet of Ram Ltd. and its subsidiary, Krishan Ltd. as on 31st March, 20X2

Particulars	**Note No.**	**Rs.**
Assets		
Non-current assets		

Property, Plant & Equipment	1	17,20,000
Goodwill	2	1,65,800
Current Assets		
Inventories	3	3,42,800
Financial Assets		
Trade Receivables	4	1,99,600
Cash & Cash equivalents	5	45,000
Total Assets		24,73,200
Equity and Liabilities		
Equity		
Equity Share Capital	6	10,00,000
Other Equity	7	7,30,600
Non-controlling Interest (WN 5)		4,33,600
Current Liabilities		
Financial Liabilities		
Trade Payables	8	1,49,000
Short term borrowings	9	1,60,000
Total Equity & Liabilities		**24,73,200**

Notes to accounts

			₹
1	**Property Plant & Equipment**		
	Land & Building	8,60,000	
	Plant & Machinery	8,60,000	17,20,000
2	Goodwill		1,65,800
3	**Inventories**		
	Ram Ltd	2,40,000	
	Krishan Ltd.	1,02,800	3,42,800
4	**Trade Receivables**		
	Ram Ltd.	1,19,600	
	Krishan Ltd	80,000	1,99,600
5	**Cash & Cash equivalents**		
	Ram Ltd.	29,000	
	Krishan Ltd	16,000	45,000
8	**Trade Payables**		
	Ram Ltd.	94,200	
	Krishan Ltd	54,800	1,49,000
9	**Short-term borrowings**		

	Bank overdraft		1,60,000

Statement of Changes in Equity:

1. Equity share Capital

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
10,00,000	0	10,00,000

2. Other Equity

	Share application Money	Equity component	Reserves & Surplus			Total
			Capital reserve	Retained Earnings	Other Reserves	
Balance at the beginning of the reporting period				0	6,00,000	6,00,000
Total comprehensive income for the year			0	1,14,400		1,14,400
Dividends			0	(24,000)		(24,000)
comprehensive income attributable to parent			0	40,200		40,200

Gain on Bargain purchase				0		0
Balance at the end of reporting period				1,30,600	6,00,000	7,30,600

Working Notes:

1. Adjustments of Fair Value

The Plant & Machinery of Krishan Ltd. would stand in the books at Rs. 2,85,000 on 1st October, 20X1, considering only six months' depreciation on Rs. 3,00,000 total depreciation being Rs. 30,000. The value put on the assets being Rs. 4,00,000 there is an appreciation to the extent of Rs. 1,15,000.

2. Acquisition date profits of Krishan Ltd.

Reserves on 1.4. 20X1	2,00,000
Profit & Loss Account Balance on 1.4. 20X1	60,000
Profit for 20X1-20X2: Total (Rs. 1,64,000 less Rs. 20,000) x6/12 i.e. 72,000; upto 1.10. 20X1	72,000
Total Appreciation	3,25,000
	6,57,000
Holding Co. Share (60%)	3,94,200

3. Post-acquisition profits of Krishan Ltd.

Profit after 1.10. 20X1 [1,64,000-20,000]x 6/12	72,000

Less:10% depreciation on Rs. 4,00,000 for 6 months less depreciation already charged for 2nd half of 20X1-20X2 on Rs.3,00,000 (20,000-15,000)	(5,000)
Total	**67,000**
Share of holding Co. (60%)	40,200

4. Non-controlling Interest

Par value of 1600 shares	1,60,000
Add: 2/5 Acquisition date profits (6,57,000 – 40,000)	2,46,800
Add: 2/5 Post-acquisition profits [WN 4]	26,800
	4,33,600

5. Goodwill:

Amount paid for 2,400 shares		8,00,000
Par value of shares	2,40,000	
Acquisition date profits share of Ram Ltd.	3,94,200	(6,34,200)
Goodwill		**1,65,800**

6. Value of Plant & Machinery:

Ram Ltd.		4,80,000
Krishan Ltd.	2,70,000	
Add: appreciation on 1.10. 20X1	1,15,000	
	3,85,000	

Add: Depreciation for 2nd half charged on pre- revalued value	15,000	
Less: Depreciation on Rs. 4,00,000 for 6 months	(20,000)	3,80,000
		8,60,000

7. Profit & Loss account consolidated

Ram Ltd. (as given)	1,14,400	
Less: Dividend	(24,000)	90,400
Share of Ram Ltd. in post-acquisition profits		40,200
		1,30,600

(14 marks)

(B) Cash Flow Statement

Cash flows from operating activities		**(Rs. in lacs)**
Net profit		60,000
Less: Exchange gain		(8,000)
Less: Profit on sale of investments		(12,000)
		40,000
Add: Depreciation on assets		11,000
Change in current assets and current liabilities		51,000
(-) Increase in debtors	(8,000)	

(+) Decrease in stock	12,000	
(-) Decrease in creditors	(6,000)	(2,000)
Net cash from operating activities		**49,000**
Cash flows from investing activities		
Sale of investments	70,000	
Purchase of fixed assets	(65,000)	
Net cash from Investing activities		**5,000**
Cash flows from financing activities		
Issue of preference shares	9,000	
Loan raised	4,500	
Redemption of Debentures	(5,700)	
Interest paid	(945)	
Dividend paid	(1,400)	
Net cash from financing activities		5,455
Net increase in cash & cash equivalents		59,455
Add: Opening cash and cash equivalents		12,341
Closing cash and cash equivalents		71,796

(6 marks)

ANS-3

(A) Calculation of Cost of Fixed Asset (i.e. Machine)

Particulars		**Rs.**
Purchase Price	Given	52,78,000
Add: Sales Tax at 4%	Rs.52,78,000 x 4%	2,11,120
Site Preparation Cost	Given	47,290
Technician's Salary	Specific/Attributable overheadsfor 2 months (See Note)	30,000
Initial Delivery Cost	Transportation	18,590
Professional Fees for Installation	Architect's Fees	10,000
Total Cost of Asset		55,95,000

Note:

(i) Interest on Bank Overdraft for earlier payment of invoice is not relevant under AS 10. It may be noted that overdraft facility is generally used for working capital purpose.

(ii) Internally booked profits should be eliminated in arriving at the cost of Fixed Assets.

(iii) In the absence of information about excise, CENVAT credit has been ignored.

(iv) It has been assumed that the purchase price of Rs. 52,78,000 excludes amount of sales tax.

(5 marks)

(B) (i) According IND AS 19 “Employee Benefits”, actuarial gains and losses should be recognized immediately in the OCI. Therefore, surplus of Rs. 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the OCI of the current year. Hence, Kumar Ltd. Cannot spread the actuarial gain of Rs. 6 lakhs over the next 2 years by reducing the annual contributions to Rs. 2 lakhs instead of Rs. 5 lakhs. It has to contribute Rs. 5 lakhs annually for its pension schemes.

(2 marks)

(ii) The discontinuation of old defined pension plan is a curtailment event. Durable Industries is supposed to recognised gain or loss on settlement when the legally bind agreement has been reached, that eliminates all further legal or constructive obligations for the benefits provided under the pension plan in exchange for lump sum payment.

As per para 109 of IAS 19 ‘Employee Benefits’, the gain or loss on a settlement is the difference between:

(a) the present value of the defined benefit obligation being settled, as determined on the date of settlement

(b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

Accordingly, Durable Industries recognises a settlement gain of Rs. 2 crore (ie Rs. 7 crore – Rs. 5crore) in its financial statements for the year ended 31stMarch, 2019.

(3 marks)

(C) (i) Determination of how revenue is to be recognised in the books of ABC Ltd. as per expected value method

Calculation of probability weighted sales volume:

Sales volume(units)	Probability	Probability-weighted sales volume (units)
9,000	15%	1,350
28,000	75%	21,000
36,000	10%	3,600
		25,950

Calculation of probability weighted sales value

Sales volume (units)	Sales price per unit (Rs.)	Probability	Probability-weighted sales value (Rs.)
9,000	90	15%	1,21,500
28,000	80	75%	16,80,000
36,000	70	10%	2,52,000
			20,53,500

Average unit price = Probability weighted sales value/ Probability weighted sales volume= 20,53,500 / 25,950 = Rs. 79.13 per unit

Revenue is recognised at Rs. 79.13 for each unit sold. First 10,000 units sold will be booked at Rs.90 per unit and liability is accrued for the difference price of Rs.10.87 per unit (Rs. 90 – Rs. 79.13), which will be reversed upon subsequent sales of 15,950 units (as the question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the expected value method for the financial year 2019-2020). For, subsequent sale of 15,950 units, contract liability is accrued at Rs. 0.87 (80 – 79.13) per unit and revenue will be deferred.

(ii) Determination of how revenue is to be recognised in the books of ABC Ltd. as per most likely method

Note: It is assumed that the sales volume of 28,000 units given under the expected value method, with highest probability is the sales estimated under most likely method too.

Transaction price will be: 28,000 units x Rs. 80 per unit = Rs. 22,40,000

Average unit price applicable = Rs. 80

First 10,000 units sold will be booked at Rs. 90 per unit and liability of Rs. 1,00,000 is accrued for the difference price of Rs. 10 per unit (Rs. 90 – Rs.80), which will be reversed upon subsequent sales of 18,000 units (as question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the most likely method for the financial year 2019-2020).

Note: Alternatively, the question may be solved based on 25,950 units (as calculated under expected value method assuming that the targets were met) as follows:

Transaction price will be:

25,950 units x Rs. 80 per unit = Rs. 20,76,000

Average unit price applicable = Rs. 80.

First 10,000 units sold will be booked at Rs. 90 per unit and liability is accrued for the difference price of Rs. 10 per unit (Rs. 90 – Rs.80), which will be reversed upon subsequent sales of 15,950 units.

(iii) Journal Entries in the books of ABC Ltd.

(when revenue is accounted for as per expected value method for financial year 2019-2020)

	Particulars	Rs.	Rs.

1.	Bank A/c (10,000 x Rs. 90)Dr.	9,00,000	
	To Revenue A/c (10,000 x Rs. 79.13)		7,91,300
	To Liability (10,000 x Rs. 10.87)		1,08,700
	(Revenue recognised on sale of first 10,000 units)		
2.	Bank A/c [(25,950 x Rs. 80)-9,00,000] Dr.	11,76,000	
	Liability A/c Dr.	86,124	
	To Revenue A/c (15,950 x Rs.79.13)		12,62,124
	(Revenue recognised on sale of remaining 15,950 units (25,950 - 10,000). Amount paid by the customer will be the balance amount after adjusting the excess paid earlier since, the customer falls now in second slab)		
3.	Liability (1,08,700 – 86,124) Dr.	22,576	
	To Revenue A/c [25,950 x(80-79.13)]		22,576
	(On reversal of liability at the end of the financial year 2019-2020 i.e. after completion of stipulated time)		

Alternatively, in place of first two entries, one consolidated entry may be passed as follows:

Bank A/c (25,950 x Rs. 80) Dr.	20,76,000	
To Revenue A/c (25,950 x Rs. 79.13)		20,53,424
To Liability (25,950 x Rs. 0.87)		22,576
(Revenue recognised on sale of 25,950 units)		

Note: In 2nd journal entry, it is assumed that the customer had paid balance amount of Rs. 11,76,000 after adjusting excess Rs. 1,00,000 paid with first lot of sale of 10,000 unit. However, one can pass journal entry with total sales value of Rs. 12,76,000 (15,950 units x Rs. 80 per unit) and later on pass third entry for refund. In such a situation, alternatively, 2nd and 3rd entries would be as follows:

Bank A/c (15,950 x Rs. 80)Dr.	12,76,000	
To Revenue A/c (15,950 x Rs.79.13)		12,62,124
To Liability		13,876
(Revenue recognised on sale of remaining 15,950 units (25,950 - 10,000))		
Liability (1,08,700 + 13,876) Dr.	1,22,576	
To Revenue A/c [25,950 x(80-79.13)]		22,576
To Bank		1,00,000
(On reversal of liability at the end of the financial year 2019-2020 i.e. after completion of stipulated time and excess amount refunded)		

(10 marks)

ANS-4

(A) In the Books of Moon Ltd.

Statement of Profit and Loss	Rs.
Operating lease Income	2,60,000
Finance Income relating to finance leases	2,48,400
Balance Sheet	**Rs.**
Non-Current Assets	
Financial assets	
- Lease Receivable	25,92,100
Current Assets	
Financial assets	
- Lease Receivable	56,300
Non-Current Liabilities	
Other non- current liability	
- Pre received Lease Income	11,40,000
Current Liabilities	
Other Current liability	
- Pre received Lease Income	60,000

Explanation and supporting calculations:

Separate decisions are made for the land and buildings elements of the lease.

1) The land lease is an operating lease because land has an indefinite useful economic life and the lease term is 20 years.

The lease premium and annual rentals are apportioned 40% (3/7·5) to the land element. Therefore, the premium for the land element is Rs. 12,00,000 (Rs. 30,00,000 X 40%) and the annual rentals for the land element Rs. 200,000 (Rs. 500,000 X 40%). This makes the total lease payments Rs. 52,00,000 (Rs. 12,00,000 + 20 X Rs. 200,000).

The Lease Income for the current period is Rs. 2,60,000 (Rs. 52,00,000 X 1/20).The amount paid in the current period are: the land element is Rs. 14,00,000 (Rs.12,00,000 + Rs. 200,000). Therefore, there is a pre received Income of Rs. 1,140,000 (Rs.14,00,000 – Rs. 2,60,000) at the year end.

In the next 19 periods, the lease income will be Rs. 2,60,000 and the lease payment will be Rs. 200,000. Therefore Rs. 60,000 of the pre received lease income will reverse in each period. This means that Rs. 60,000 of the pre received lease income will be a current liability, and the balance a non-current liability.

2) The buildings element of the lease will be a finance lease because the lease term is for substantially all of the useful life of the buildings.

The premium apportioned to the building's element is Rs. 18,00,000 (Rs. 30,00,000 X60%) and the annual rental apportioned to the buildings is Rs. 300,000 (Rs. 500,000 X60%).

The initial carrying value of the lease receivable will be net investment ie., Rs. 45,00,000(Rs. 18,00,000 + Rs. 300,000 X 9).

Building will be derecognised at is Carrying amount (amount is not given in the question) and the difference between the carrion amount building and net investment in the assets will recognised as gain or loss on sale of building in PL

The finance income in respect of the finance lease and the closing non-current assets isshown in the working below.

The closing current assets is Rs. 56,300 (Rs. 26,48,400 – Rs. 25,92,100).

The closing non - current assets is Rs. 25,92,100

Lease liability profile – working

Year ended 31 March	Bal b/f Rs.	Finance Income @9.2% Rs.	Lease rental payment Rs.	Bal c/f Rs.
2018	27,00,000	2,48,400	(3,00,000)	26,48,400
2019	26,48,400	243,700	(3,00,000)	25,92,100

* Net of lease premium of Rs. 18,00,000 (Rs. 45,00,000 – Rs. 18,00,000 = Rs.27,00,000)

In the books of Jupiter Ltd.

Statement of Profit and Loss	**Rs.**
Depreciation on ROU Assets	3,75,000
Finance Expenses	4,14,000
Balance Sheet	**Rs.**
Property, plant and equipment	
- ROU assets (if classified as PPE)	71,25,000
Lease liability:	
In non-current liabilities	43,20,088
In current liabilities	93,912

Explanation and supporting calculations:

Separate decisions are not made for the land and buildings elements of the lease.

At the commencement date, Jupiter LTD would initially recognise ROU Asset and the corresponding Lease Liability of Rs. 75,00,000 which is calculated as follows:

The initial carrying value of the lease liability and ROU assets is Rs. 75,00,000 (Rs. 30,00,000 +Rs. 500,000 X 9).

Therefore, the annual depreciation charge is Rs. 3,75,000 (Rs. 75,00,000 X 1/20) and the closing balance of ROU assets is Rs. 71,25,000 (Rs. 75,00,000 – Rs. 3,75,000).

The finance cost in respect of the lease liability and the closing current and non-current liability is shown in the working below.

The closing current liability is Rs. 93,912 (Rs. 44,14,000 – Rs. 43,20,088).

The closing current liability is Rs. 43,20,088

Lease liability profile – working

Year ended 31 March	**Bal b/f**	**Finance Cost @9.2%**	**Lease rental payment**	**Bal c/f** Rs.
2018	*45,00,000	4,14,000	(5,00,000)	44,14,000
2019	44,14,000	4,06,088	(5,00,000)	43,20,088

* Net of lease premium of Rs. 45,00,000 (Rs. 75,00,000 – Rs. 30,00,000 = Rs. 45,00,000).

(10 marks)

(B) Computation of balance total equity as on April 1, 2017 after transition to IND AS

			Rs. in Crore

Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95-5-40)	50		
Add: Increase in value of land (10-4.5)	5.5		
Add: De recognition of proposed dividend (0.6 + 0.18	0.78		
Add: Increase in value of Investment	0.75	57.03	102.03
Balance total equity as on April 1, 2017 after transition to IND AS			**182.03**

Reconciliation between Total Equity as per existing GAAP and IND AS to be presented in the opening balance sheet as on 1st April, 2017

		Rs. in Crore
Equity share capital (80+25)		80
Redeemable Preference share capital		25
		105
Reserves and Surplus		95
Total Equity as per existing GAAP		200

Adjustment due to reclassification		
Preference share capital classified as financial liability		(25)
Adjustment due to de-recognition		
Proposed Dividend not considered as liability as on 1st April 2017		0.78
Adjustment due to re-measurement		
Increase in the value of Land due to re-measurement at fair value	5.5	
Increase in the value of investment due to re-measurement at fair value	0.75	6.25
Equity as on April 1, 2017 after transition to IND AS		**182.03**

(6 marks)

(C) 1. (a) If Mumbai Market is the principal market

If Mumbai Market is the principal market for the asset (i.e., the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transportation costs. Fair value will be:

Particulars	**Rs.**
Price receivable	290
Less: Transportation cost	(30)
Fair value of the asset	260

(b) If neither of the market is the principal market

If neither of the market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximizes the amount that would be received to sell the asset, after taking into account transaction costs and transportation costs (i.e., the net amount that would be received in the respective markets).

	Mumbai Market (Rs.)	**Kolkata Market (Rs.)**
Fair value of the asset as per the question	220	230

Since the entity would maximise the net amount that would be received for the asset in Kolkata Market i.e. Rs. 230, the fair value of the asset would be measured using the price in Kolkata Market. Fair value in such a case would be:

Particulars	**Rs.**
Price receivable	280
Less: Transportation cost	(30)
Fair value of the asset	250

2) Export prices are more than the prices in the principal market and it would give highest return comparing to the domestic market. Therefore, the export market would be considered as most advantageous market. But since the Government has capped the export, maximum up to 15% of total output, maximum sale activities are being done at domestic market only i.e. 85%. Since the highest level of activities with highest volume is being done at domestic market, principal market for asset would be domestic market. Therefore, the prices received in domestic market would be used for fair valuation of assets.

(4 marks)

OR

This is a compound financial instrument with two components – liability representing present value of future cash outflows and balance represents equity component.

Computation of Liability & Equity Component

Date	Particulars	Cash Flow	Discount Factor @20%	Net present Value
31-Mar-2009	Interest	80,000	0.8333	66,664
31-Mar-2010	Interest	80,000	0.6944	55,552
31-Mar-2011	Interest	80,000	0.5787	46,296
31-Mar-2011	Principal	11,00,000	0.5787	6,36,570
Total Liability Component				8,05,082
Total Proceeds				9,00,000
Total Equity Component (Bal fig)				94,918

(4 marks)

ANS-5

(A) If Ind AS is applicable to any company, and then Ind AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of set of standards on such companies.

In the given case it has been mentioned that the financials of Iktara Ltd. are prepared as per Ind AS. Accordingly the results of its subsidiary Softbharti Pvt. Ltd. should also have been prepared as per Ind AS. However, the financials of Softbharti Pvt. Ltd. have been presented as per accounting standards (AS).

Hence, it is necessary to revise the financial statements of Softbharti Pvt. Ltd. as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

The revised financial statements of Softbharti Pvt. Ltd. as per Ind AS and Division II to Schedule III of the Companies Act, 2013 are as follows:

STATEMENT OF PROFIT AND LOSS

for the year ended 31st March, 2020

Particulars	**Amount (Rs.)**
Revenue from operations	10,00,000
Other Income (1,00,000 + 20,000) (refer note -1)	1,20,000
Total Revenue	11,20,000
Expenses:	
Purchase of stock in trade	5,00,000
(Increase) / Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses	7,45,000

Profit before tax	3,75,000
Current tax	1,25,700
Deferred tax (W.N.1)	(1,200)
Total tax expense	1,24,500
Profit for the year (A)	2,50,500
OTHER COMPREHENSIVE INCOME	
Items that will not be reclassified to Profit or Loss: Re- measurements of net defined benefit plans	1,000
Tax liabilities relating to items that will not be reclassified to Profit or Loss Re-measurements of net defined benefit plans (tax) [1000 x 30%]	(300)
Other Comprehensive Income for the period (B)	700
Total Comprehensive Income for the period (A+B)	2,51,200

BALANCE SHEET

as at 31st March, 2020

Particulars	**Rs.**
Assets	
Non-current assets	
Property, plant and equipment	1,00,000

Financial assets	
Other financial assets (Long-term loans and advances)	40,000
Deferred tax asset (1200-300)	900
Other non-current assets (capital advances) (refer note-2)	50,000
Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -1)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable from trade receivables)	51,000
TOTAL ASSETS	**5,41,900**
EQUITY AND LIABILITIES	
Equity	
Equity share capital	1,00,000
Other equity	2,51,200
Non-current liabilities	
Provision (25,000 – 1,000)	24,000

Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 5)	15,000
Other current liabilities (Govt. statuary dues) (Refer note 3)	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	**5,41,900**

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2020

A. EQUITY SHARE CAPITAL

Particulars	**Rs.**
As at 31st March, 2019	-
Changes in equity share capital during the year	1,00,000
As at 31st March, 2020	1,00,000

B. OTHER EQUITY

	Reserves & Surplus
	Retained Earnings (Rs.)
As at 31st March, 2019	-
Profit for the year	2,50,500

Other comprehensive income for the year	700
Total comprehensive income for the year	2,51,200
Less: Dividend on equity shares (refer note – 4)	-
As at 31st March, 2020	2,51,200

DISCLOSURE FORMING PART OF FINANCIAL STATEMENTS:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance Sheet date. (refer note-4)

Notes:

1. Current investment are held for the purpose of trading. Hence, it is a financial asset classified as FVTPL. Any gain in its fair value will be recognised through profit or loss. Hence, Rs. 20,000 (50,000 – 30,000) increase in fair value of financial asset will be recognised in profit and loss.

2. Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.

3. Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.

4. As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.

5. Other current financial liabilities:

	(Rs.)
Balance of other current liabilities as per financial statements	45,000
Less: Dividend declared for FY 2019 - 2020 (Note – 4)	(15,000)
Reclassification of government statuary dues payable to ‘other current liabilities’	(15,000)
Closing balance	15,000

Working Note:

1. Calculation of deferred tax on temporary differences as per Ind AS 12 for financial year 2019 – 2020.

Item	**Carrying amount (Rs.)**	**Tax base (Rs.)**	**Difference (Rs.)**	**DTA / DTL @ 30% (Rs.)**
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
			Net DTA	1,200-DTA

(12 marks)

(B) (i) Basic Earnings per share

	Year ended 31.3.2020
Net profit attributable to equity shareholders (A)	Rs. 90,000
Number of equity shares outstanding (B)	16,000
Earnings per share (A/B)	Rs. 5.625

(ii) Diluted earnings per share

Options are most dilutive as their earnings per incremental share is nil. Hence, for the purpose of computation of diluted earnings per share, options will be considered first. 10% convertible debentures being second most dilutive will be considered next and thereafter convertible preference shares will be considered (as per W.N.).

Net profit attributable to equity shareholders (Rs.)		**No. of equity shares**	**Net Profit attributable per share(Rs.)**	
Net profit attributable to equity shareholders	90,000	16,000	5.625	
Options		150		
	90,000	16,150	5.572	Dilutive
10% Convertible debentures	75,000	40,000		
	1,65,000	56,150	2.939	Dilutive
Convertible Preferences shares	72,900	15,000		
	2,37,900	71,150	3.344	Anti-Dilutive

Since diluted earnings per share is increased when taking the convertible preference shares into account (Rs. 2.939 to Rs. 3.344), the convertible preference shares are anti- dilutive and are ignored in the calculation of diluted earnings per share for the year ended 31 March 2020. Therefore, diluted earnings per share for the year ended 31 March 2020 is Rs. 2.939.

Working Note:

Calculation of incremental earnings per share and allocation of rank

	Increase in earnings (1) Rs.	**Increase in number of equity shares (2) Rs.**	**Earnings per incremental share (3) = (1) ÷ (2)**	**Rank**
Options				
Increase in earnings	Nil			
No. of incremental shares issued for no consideration [900 x (90-75)/90]		150	Nil	1
Convertible Preference Shares				
Increase in net profit attributable to equity shareholders as adjusted by attributable dividend tax [(Rs. 9 x 7,500) + 8% (Rs. 9 x	72,900			

7,500)]				
No. of incremental shares (2 x 7,500)		15,000	4.86	3
10% Convertible Debentures				
Increase in net profit [(Rs. 10,00,000 x 10% x (1 – 0.25)]	75,000			
No. of incremental shares (10,000 x 4)	40,000		1.875	2

Note: Grossing up of preference share dividend has been ignored here. At present dividend distribution tax has been abolished. However, the question has been solved on the basis of the information given in the question.

(8 marks)

<u>ANS-6</u>

(A) Ind AS 8 is applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset. This change in accounting estimate is an outcome of the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Further, the effect of change in an accounting estimate, shall be recognised prospectively by including it in profit or loss in: (a) the period of the change, if the change affects that period only; or (b) the period of the change and future periods, if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were approved for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

On the basis of above provisions, the given situation would be dealt as follows:

The defect was neither known nor reasonably possible to detect at 31 March 20X3 or before the financial statements were approved for issue, so understatement of the warranty provision Rs. 1,00,000 and overstatement of inventory Rs. 2,000 (Note 1) in the 31 March 20X3 financial statements are not a prior period errors.

The effects of the latent defect that relate to the entity's financial position at 31 March 20X3 are changes in accounting estimates.

In preparing its financial statements for 31 March 20X3, the entity made the warranty provision and inventory valuation appropriately using all reliable information that the entity could reasonably be expected to have obtained and had taken into account the same in the preparation and presentation of those financial statements.

Consequently, the additional costs are expensed in calculating profit or loss for 20X3-20X4.

Working Note:

Inventory is measured at the lower of cost (ie Rs. 15,000) and fair value less costs to complete and sell (i.e,Rs. 18,000 originally estimated minus Rs. 5,000 costs to rectify latent defect) = Rs. 13,000.

(5 marks)

(B)

Particulars	**(Rs. In crores)**
Result of first quarter ending 30th June, 2006	
Turnover	80
Other Income	Nil
Total (a)	80
Less: Changes in inventories	Nil
Salaries and other cost	60
Administrative and selling Expenses (4+8)	12
Total (b)	72
Profit (a)-(b)	8

According to IND AS-34 the Income and Expense should be recognized when they are earned and incurred respectively. Therefore seasonal incomes will be recognized when they occur. Thus the company's view is not as per IND AS 34.

As per IND AS 34, the costs should be anticipated or deferred only when

(i) it is appropriate to anticipate that type of cost at the end of the financial year, and

(ii) costs are incurred unevenly during the financial year of an enterprise.

Therefore, the argument given by I-Corp relating to deferment of Rs. 10 crores is not tenable as expenditures are uniform throughout all quarters.

(5 marks)

(C) On 30 April, 2016

At inception, the forward contract has a fair value of zero, so no journal entry is required.

On 31st July 2016

Because the hedge is fully effective, the entire change in the fair value of the hedging instrument is recognized directly in equity. Entity A makes this entry:

Dr Forward asset	5000
Cr OCI	5000

On 31st Oct 2016

As entity still expects to purchase the machine for $10,000, Entity A makes following entry:

Dr Forward asset	1000

Cr OCI	1000

The forward contract is settled and Entity A makes this entry:

Dr Cash	6000
Cr Forward asset	6000

Entity A purchases the machine for $10,000 (Rs. 66,000) and makes this journal entry:

Dr Machine	66,000
Cr Accounts Payable	66,000

Depending on Entity A's accounting policy, the deferred gain or loss remaining in equity of Rs. 6,000 should either (1) remain in equity and be released from equity as the machine is depreciated or otherwise affects profit or loss or (2) be deducted from the initial carrying amount of the machine. Assuming the latter treatment, Entity A would make this journal entry:

Dr Equity	6,000
Cr Machine	6,000

The net effect of the cash flow hedge is to lock in a price of Rs. 60,000 for the machine.

(5 marks)

(D) Sparrow Ltd. became a subsidiary of Eagle Ltd. on 1st April 2010 when 51% thereof was acquired. The holding–subsidiary relationship continued till 30th September 2011 and from 1st October, 2011 the relationship between the two companies will change to Associate.

Ascertainment of Gain or Loss on the Disposal of the Part of the Investment in Sparrow Ltd.

		Rs.
Fair Value of consideration received on sale of 25.5% holdings in Sparrow Ltd.		1,25,00,000
Fair Value of Investment retained as Associate 25.5% holdings in Sparrow Ltd. (assumed proportionate to fair value of investment sold)		1,25,00,000
		2,50,00,000
Less: Net Assets of sparrow Ltd. on the date of disposal	3,95,00,000	
Share of Eagle Ltd. in Net Assets	2,01,45,000	
Less: Capital reserve on acquisition (Refer W.N.)	(16,00,000)	
Total value of investment in consolidated financial statements of Eagle Ltd.		1,85,45,000
Gain on loss of Control		64,55,000

Goodwill / Capital Reserve arising on the application of Equity Method on the date investee become an associate	**Rs.**
Fair Value of 25.5% holdings in Sparrow Ltd. as on 1st October, 2011 – Deemed cost	1,25,00,000
Less: Share in Fair value of INA of Sparrow Ltd., as at date of investment when subsidiary relationship is transformed to an associate (3,95,00,000 x 25.5%)	(1,00,72,500)
Goodwill arising on such investment under Equity method as per IND AS 28	(24,27,500

Working Note:

Calculation of Goodwill / Gain on Bargain Purchase on the Date of Acquisition of Shares in Sparrow Ltd.

Particulars	Rs.
Net Assets on Acquisition date (Rs. 1,96,00,000 – Rs. 16,00,000)	1,80,00,000
51% thereof	91,80,000
Less: Cost of investment	(75,80,000)
Gain on Bargain Purchase transferred to Capital Reserve on acquisition of Subsidiary	16,00,000

(5 marks)