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Answer Paper	
Financial Reporting	**Duration**: 80
Details:Test- 3 (Chapter- 6,8,9 & 14)	**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:

Extract from the statement of profit & loss

Income	WN	Amount
Change in fair value of purchase dairy cow	WN 2	2,00,000
Government Grant	WN 3	20,00,000
Changes in the fair value of newly born calves	WN 4	2,60,000
Fair value of milk	WN 5	72,000
Total Income		25,32,000
Less: Expenses		
Maintenance cost	WN 2	12,00,000
Breeding Fees	WN 2	8,00,000
Total Expense		**(20,00,000)**
Net Income		**5,32,000**

Extract from Balance sheet

Property Plant & Equipment:		
Land	WN 1	1,00,00,000
Dairy Cow	WN 2	22,00,000

Calves	WN 4	2,60,000
		1,12,30,000
Inventory		
Milk	WN 5	72,000
		72,000

(2 mark)

Working Notes:

1. Land: The purchase of the land is not covered by Ind AS 41. The relevant standard which would apply to this transaction is Ind AS 16. Under this standard the land would initially be recorded at cost and depreciated over its useful economic life. This would usually be considered to be infinite in the case of land and so no depreciation would be appropriate. Under Cost Model no recognition would be made for post - acquisition changes in the value of land. The allowed alternative treatment under Revaluation Model would permit the land to be revalued to market value with the revaluation surplus taken to the other comprehensive income. We have followed the Cost Model.

(1 marks)

2. Dairy Cows : Under the ' fair value model laid down in Ind AS 41 the mature cows would be recognised in the Balance Sheet at 31 March 2020 at the fair value of 200 x 11,000 = 22,00,000. Increase in price change 200 x (10,400-10,000) = 80,000

   Increase in physical change 200 x (11,000-10,400) = 120,000

   The total difference between the fair value of matured herd and its initial cost (22,00,000 - 20,00,000 = a gain of 2,00,000) would be recognised in the profit and loss along with the maintenance costs and breeding fee of 6,00,000 and 4,00,000 respectively.

(1 marks)

3. Grant: Grand relating to agricultural activity is not subject to the normal requirement of Ind AS 20. Under Ind AS 41 such grants are credited to income as soon as they are unconditionally receivable rather than being recognised over the useful economic life of the herd. Therefore, 10,00,000 would be credited to income of the company.

(1 mark)

4. Calves: They are a biological asset and the fair value model is applied. The breeding fees are charged to income and an asset of 100 x 2,600 = 2,60,000 recognised in the Balance sheet and credited to Profit and loss .

(0.5marks)

5. Milk: This is agricultural produce and initially recognised on the same basis as biological assets. Thus the milk would be valued at 1,500 x 48 = 72,000 . This is regarded as ' cost for the future application of Ind AS 2 to the unsold milk.

(0.5 mark)

Solution- 2:

Paragraph 80 of Ind AS 37 provides —A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

– Necessarily entailed by the restructuring; and
– not associated with the ongoing activities of the entity.‖ Paragraph 81 of Ind AS 37 provides

—A restructuring provision does not include such costs as:

(a) Retraining or relocating continuing staff;

(b) Marketing; or

(c) Investment in new systems and distribution networks.

These expenditures relate to the future conduct of the business and are not liabilities for restructuring at the end of the reporting period. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

In accordance with the above, cost of employee termination is an expenditure, which is necessarily entailed by restructuring. Therefore, it should be included in restructuring provision. Staff training cost and recruitment cost and cost of new manager relates to future conduct of business, therefore should not be included. Further, paragraph 83 clarifies that any gain on expected disposal of assets should not be taken into consideration while determining the cost of provision. Accordingly, provision for restructuring should not be made net of any expected gain on disposal of assets at units.

(4 marks)

Solution- 3:

Statement of Profit or Loss	**31.12.2020**
Current Service Cost	(80)
Past Service Cost	(250)
Net Interest:	
Interest Expense (CU 6,000 × 6%) (360)	
Interest Income (CU 5,800 × 6%) 348	(12)
Curtailment Gain / Loss	-
Total Charge	(342)

Other Comprehensive Income	
Re-measurements:	
Loss on Defined benefit Liability	(94)
Gain on Plan Asset	46
	(48)

(2 marks)

Working Note- 2

Statement of Financial Position	**31.12.2020**
Present Value of Defined Benefit Liability at Reporting Date	6,700
Fair Value of Plan Asset at Reporting Date	(6150)
Net Liability	550

(1 marks)

Working Note -3

Define Benefit Liability a/c	**31.12.2020**
Balance b/ f at 31.12.2019	6,000
Current Service Cost	80
Past Service Cost	250
Interest Expense (CU6,000 × 6%)	360

Benefit Paid Out	(84)
Re-measurement Loss (Balancing Figure)	94
Present Value of Defined Benefit Liability at 31.12.2020	6700

(1 marks)

Working Note -4

Plan Asset a/c	**31.12.2020**
Balance b/ f at 31.12.2019	5,800
Contribution into Plan Asset during the year	40
Interest Income (CU5,800 × 6%)	348
Benefit Paid Out	(84)
Re-measurement Loss (Balancing Figure)	46
Present Value of Defined Benefit Liability at 31.12.2020	6,150

(2 marks)

Solution- 4:

Consolidated Balance Sheet of the Group as on 31stMarch,2018

Particulars	**Note No.**	**(Rs in lakh)**

ASSETS		
Non-current assets		
Property, plant and equipment	1	490
Current assets		
(a) Inventories	2	169
(b) Financial assets		
Trade receivables	3	290
Bills receivable	4	1
(c) Cash and cash equivalents	5	154
Total assets		1,104
EQUITY & LIABILITIES		
Equity attributable to owners of the parent		
Share capital		300
Other Equity		
Reserves (W.N.5)		97

Retained Earnings (W.N.5)		89.9
Capital Reserve (W.N.3)		94
Non-controlling interests (W.N.4)		83.10
Total equity		664
LIABILITIES		
Non-current liabilities		Nil
Current liabilities		
(a) Financial Liabilities		
(i) Trade payables	6	440
Total liabilities		440
Total equity and liabilities		1,104

(3 marks)

Notes to Accounts

(Rs in lakh)

1.	**Property Plant & Equipment**		

	Parent	160	
	Nisha Ltd.	180	
	Sandhya Ltd.	<u>150</u>	490
2.	**Inventories**		
	Parent	110	
	Nisha Ltd. (35-1)	34	
	Sandhya Ltd.	<u>25</u>	169
3.	**Trade Receivables**		
	Parent	130	
	Nisha Ltd.	50	
	Sandhya Ltd.	<u>110</u>	290
4.	**Bills Receivable**		
	Parent (36-35)	1	
	Sandhya Ltd. (15-15)	-	1
5.	**Cash & Cash equivalents**		

	Parent	114	
	Nisha Ltd.	20	
	Sandhya Ltd.	20	154
6.	**Trade Payables**		
	Parent	235	
	Nisha Ltd.	115	
	Sandhya Ltd.	90	440

(3 marks)

Working Notes:

1. Analysis of ReservesandSurplus

(Rs. in lakh)'

		Nisha Ltd.		Sandhya Ltd.
Reserves as on 31.3.2017		40		30
Increase during the year 2017-2018	10		10	
Increase for the half year till 30.9.2017		5		5

Balance ason30.9.2017 **(A)**		45		35
Total balance as on 31.3.2018		50		40
Post-acquisition balance		5		5

		Nisha Ltd.		Sandhya Ltd.
Retained Earnings as on 31.3.2017		10		15
Increase during the year 2017-2018	15		15	
Increase for the half year till 30.9.2017		7.5		7.5
Balance ason30.9.2017 **(B)**		17.5		22.5
Total balance as on 31.3.2018		25		30
Post-acquisition balance		7.5		7.5
Unealised gain on inventories (5 x25%)		-		(1)
Post-acquisition balance for CFS		7.5		6.5
Total balance on the acquisition date				

ie.30.9.2017	**(A+B)**		62.5		57.5

(2 marks)

2. Calculation of Effective Interest of Parent company i.e. Usha Ltd. in SandhyaLtd.

Acquisition by Usha Ltd. inNishaLtd. = 80%

Acquisition by Nisha Ltd. inSandhya Ltd. = 75%

Acquisition by Group in Sandhya Ltd. (80% x 75%) = 60%

Non-controllingInterest =40%

3. Calculation of Goodwill / Capital Reserve on the acquisitiondate

	Nisha Ltd.	**Sandhya Ltd.**
Investment or consideration	170	(140 × 80%)112
Add: NCI at Fair value		
(200 x 20%)	40	
(160 x 40%)		64
	210	176
Less: Identifiable net assets (Share capital + Increase in the Reserves and Surplus till acquisitiondate)	(200+62.5)(262.5)	(160+57.5)(217.5)

Capital Reserve	52.5	41.5
Total Capital Reserve (52.5 + 41.5)	94	

(2 marks)

4. Calculation of Non-ControllingInterest

	Nisha Ltd.	Sandhya Ltd.
At Fair Value (See Note 3)	40	64
Add: Post Acquisition Reserves (See Note1)	(5× 20%) 1	(5 × 40%) 2
Add: Post Acquisition Retained Earnings (See Note 1)	(7.5 × 20%) 1.5	(6.5 × 40%) 2.6
Less: NCI shareof investment in SandhyaLtd.*	(140x20%) (28)*	
	14.5	68.6
Total (14.5 + 68.6)	83.1	

***Note:** The Non-controlling interest in Nisha Ltd. will take its proportion in Sandhya Ltd. So they have to bear their proportion in the investment madeby Nisha Ltd. (As a whole) in Sandhya Ltd.

(1 mark)

5. Calculation of Consolidated Other Equity

	Reserves	Retained Earnings
Usha Ltd.	90	80
Add: Share in Nisha Ltd.	(5 x 80%) 4	(7.5 × 80%) 6
Add: Share in Sandhya Ltd.	(5 ×60%) 3	(6.5 ×60%) 3.9
	97	89.9

Note: In theabove solution, it is assumed date the sale of goods by Sandhya Ltd. is done after acquisition of shares by Nisha Ltd. Alternatively, one may assume that the sale has either been done before acquisition of shares by Nisha Ltd. in Sandhya Ltd. or sale has been throughout the year. Accordingly, there treatment for unrealized gain may vary.

(1 mark)

Solution- 5:

A joint arrangement is an arrangement of which two or more parties have joint control. A joint arrangement has the following characteristics:

a. The parties are bound by a contractual arrangement.
b. The contractual arrangement gives two or more of those parties joint control of the arrangement

Paragraph 7 of Ind AS 111 states that —joint control is the contractually agreed sharing ofcontrol of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

As per Ind AS 110, in assessing control, an investor considers voting or other decision-making rights as well any potential voting rights held by it (or held by others) in the investee. Potential voting rights are considered only if the rights are substantive. Substantive potential voting rights alone, or in combination with other rights, can give an investor the current ability to direct the relevant activities.

In the present case, Satya Limited already holds 50% shares in Surya Limited. Besides, it has the right to purchase the remaining 50% shares held by Murti Limited and this right has been evaluated to be substantive. Considering its existing shareholding in Surya Limited and its right to acquire the remaining shares in Surya Limited from Murti Limited, Satya Limited controls Surya Limited.

Consequently, Murti Limited does not have joint control of Surya Limited. Entity Murti Limited needs to evaluate whether it has ‗significant influence' over Surya Limited within the meaning of Ind AS 28.

(4 marks)

Solution- 6:

Ind AS 110 states that, —if a parent loses control of a subsidiary, the parent:

a. derecognises the assets and liabilities of the former subsidiary from the consolidated balance sheet.
b. recognises any investment retained in the former subsidiary at its fair value whencontrol is lost and subsequently accounts for it and for any amounts owed by or to theformer subsidiary in accordance with relevant Ind ASs. That fair value shall be regardedas the fair

value on initial recognition of a financial asset in accordance with IndAS 109or, when appropriate, the cost on initial recognition of an investment in an associate orjoint venture.

c. recognises the gain or loss associated with the loss of control attributable to the formercontrolling interest.

Further Ind AS 110 states that, on loss of control over a subsidiary, a parent shall reclassify to profit or loss, or transfer directly to retained earnings if required by other Ind ASs, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis specified in paragraph B99 i.eif a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.

Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the parent shallreclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary. If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

(2 marks)

In view of the basis in its consolidated financial statements, Macintosh Limited shall:

a. re-classify the FVOCI reserve in respect of the debt investments of Rs. 5.4 crore (90% of Rs. 6 crore) attributable to the owners of the parent to the statement of profit or loss inaccordance with paragraph B5.7.1A of Ind AS 109, Financial Instruments which requires that the cumulative gains or losses previously recognised in OCI shall be recycled toprofit and loss upon derecognition of the related financial asset. This is reflected in thegain on disposal. Remaining 10% (i.e., Rs. 0.6 crore) relating to non-controlling interest (NCI) is included as part of the carrying amount of the non-controlling interest that is derecognised in calculating the gain or loss on loss of control of the subsidiary;

(1 marks)

b. transfer the reserve relating to the net measurement losses on the defined benefit liability of Rs. 2.7 crore (90% of Rs. 3 crore) attributable to the owners of the parentwithin equity to retained earnings. It is not reclassified to profit or loss. The remaining10% (i.e., Rs. 0.3 crore) attributable to the NCI is included as part of the carrying amountof NCI that is derecognised in calculating the gain or loss on loss of control over thesubsidiary. No amount is reclassified to profit or loss, nor is it transferred within equity, in respect of the 10% attributable to the non-controlling interest.

(1 marks)

c. reclassify the cumulative gain on fair valuation of equity investment of Rs. 3.6 crore (90% of Rs. 4 crore) attributable to the owners of the same parent from OCI to retainedearnings under equity as per paragraph B5.7.1 of Ind AS 109, Financial Instruments,which provides that in case an entity has made an irrevocable election to recognize the changes in the fair value of an investment in an equity instrument not held for trading inOCI, it may subsequently transfer the cumulative amount of gains or loss within equity.Remaining 10% (i.e., Rs. 0.4 crore) related to the NCI are derecognised along with the balance of NCI and not reclassified to profit and loss.

(1 marks)

d. reclassify the foreign currency translation reserve of Rs. 7.2 crore (90% × Rs. 8 crore) attributable to the owners of the parent to statement of profit or loss as per paragraph 48 of Ind AS 21, The Effects of Changes in Foreign Exchange Rates, which specifies that the cumulative amount of exchange differences relating to the foreign operation, recognised in OCI, shall be reclassified from equity to profit or loss on the disposal offoreign operation. This is reflected in the gain on disposal. Remaining 10% (i.e., Rs. 0.8crore) relating to the NCI is included as part of the carrying amount of the NCI that is derecognised in calculating the gain or loss on the loss of control of subsidiary, but isnot reclassified to profit or loss in pursuance of paragraph 48B of Ind AS 21, which provides that the cumulative exchange differences relating to that foreign operationattributed to NCI shall be derecognised on disposal of the foreign operation, but shall not be reclassified to profit or loss.

(1 marks)

The impact of loss of control over Dingwall Limited on the consolidated financial statements of Macintosh Limited is summarised below:

Particular	**Amount (Dr)**	**Amount (Cr)**	**PL Impact**	**RE Impact**
Gain / Loss on Disposal on Investments				
Bank	56			
Non-controlling interest (Derecognised)	6			
Investment at FV (20%Retained)	16			
Gain on Disposal (PL)balancing figure		18	18	
De-recognition of total net assets of subsidiary		60		
Reclassification of FVTOCI reserve on debt instruments to profit or loss				
FVTOCI reserve on debt instruments (6 cr. x 90%)	5.4			
To Profit and loss		5.4	5.4	
Reclassification of net measurement loss reserve				

to profit or loss				
Reserve and Surplus	2.7			-2.7
To Net measurement loss reserve (FVTOCI) [(3 cr. x90%)]		2.7		
Reclassification of FVTOCI reserve on equity instruments to retained earnings				
FVTOCI reserve on equity instruments (4 cr.x 90%)	3.6			
To reserve and surplus		3.6		3.6
Foreign currency translation reserve reclassified to profit or loss				
Foreign currency translation reserve (FVOCI) [8cr. x 90%]	7.2			
To Profit and loss		7.2	7.2	
Total			30.6	0.9

(2 marks)