ANSWERS OF MODEL TEST PAPER 1

FINAL COURSE GROUP I

PAPER 1: FINANCIAL REPORTING

PART – I CASE SCENARIO BASED MCQS

1. **Option (b) :** 38%
2. **Option (c) :** ₹ 2,48,000; ₹ 2,28,000
3. **Option (d) :** ₹ 1,30,000
4. **Option (a) :** ₹ 2,05,00,000
5. **Option (c) :** ₹ 1,70,83,333
6. **Option (d) :** ₹ 34,16,667
7. **Option (c) :** 1.4 million EURO
8. **Option (a) :** ₹ 117.6 million
9. **Option (b) :** ₹ 4,32,573
10. **Option (b) :** ₹ 68,091
11. **Option (d) :** Since A Ltd. is not a listed entity and if X Ltd. does not object to A Ltd. for not preparing consolidated financial statements, A Ltd. will not be required to prepare CFS.
12. **Option (b) :** Since X Ltd. is not preparing CFS under Ind AS, A Ltd. is mandatorily required to prepare CFS under Ind AS
13. **Option (d) :** Even if A Ltd. is an unlisted entity, it is mandatorily required to prepare CFS
14. **Option (a) :** S Pvt. Ltd. has to mandatorily prepare its financial statements as per Ind AS
15. **Option (d) :** Automation requires ongoing training and education to keep up with the latest technology

PART – II DESCRIPTIVE QUESTIONS

1. **Statement showing Cost of production line:**

Particulars	**Amount ₹'000**
Purchase cost	10,000
Goods and services tax – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use (1,200 x 2 months / 3 months)	800
Other overheads – abnormal costs	600
Payment to external advisors – directly attributable cost	500
Dismantling costs – recognized at present value where an obligation exists (2,000 x 0.68)	1,360
Total	13,260

Carrying value of production line as on 31st March, 20X2:

Particulars	**Amount ₹ '000**
Cost of Production line	13,260
Less: Depreciation (W.N.1)	(1,694)
Net carrying value carried to Balance Sheet	11,566

Provision for dismantling cost:

Particulars	**Amount ₹ '000**
Non-current liabilities	1,360
Add: Finance cost (WN3)	57
Net book value carried to Balance Sheet	1,417

Extract of Statement of Profit & Loss

Particulars	**Amount ₹ '000**
Depreciation (W.N.1)	1,694
Finance cost (W.N.2)	57
Amounts carried to Statement of Profit & Loss	1,751

Extract of Balance Sheet

Particulars	Amount ₹ '000
Assets	
Non-current assets	
Property, plant and equipment	11,566
Equity and liabilities	
Non-current liabilities	
Other liabilities	
Provision for dismantling cost	1417

Working Notes:

1. **Calculation of depreciation charge**

Particulars	Amount ₹ '000
In accordance with Ind AS 16 the asset is split into two depreciable components: Out of the total capitalization amount of 13,260, Depreciation for 3,000 with a useful economic life (UEL) of four years (3,000 x ¼ x 10/12). This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life	625
For balance amount, depreciation for 10,260 with an useful economic life (UEL) of eight years will be: 10,260 x 1/8 x 10/12	1,069
Total (To Statement of Profit & Loss for the year ended 31st March 20X2)	1,694

2. **Finance costs**

Particulars	Amount ₹ '000
Unwinding of discount (Statement of	57

Profit and Loss – finance cost) 1,360 x 5% x 10/12	
To Statement of Profit & Loss for the year ended 31st March 20X2	57

2. **Consolidated Balance Sheet of PN Ltd. and its subsidiary SR Ltd.**

as at 31 March 20X2

Particulars	**Note No.**	**₹**
I. Assets		
1. Non-current assets		
(i) Property, Plant & Equipment	1	26,83,200
(ii) Goodwill	2	89,402
2. Current Assets		
(i) Inventories	3	5,34,800
(ii) Financial Assets		
(a) Trade Receivables	4	3,11,300
(b) Cash & Cash equivalents	5	70,100
Total Assets		36,88,802
II. Equity and Liabilities		
1. Equity		
(i) Equity Share Capital	6	15,60,000
(ii) Other Equity	7	11,39,502
2. Non-controlling Interest (W.N.3)		5,07,300
3. Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	8	2,12,400
(b) Short term borrowings	9	2,69,600
Total Equity & Liabilities		36,88,802

Notes to accounts

			₹
1.	**Property, Plant & Equipment**		
	Land & Building	13,41,600	
	(4,68,000+5,61,600+3,12,000)	13,41,600	26,83,200
2.	Plant & Machinery (W.N.5)		89,402
3.	**Goodwill (W.N.4)**		
	Inventories	3,74,400	
	PN Ltd.	1,60,400	5,34,800
4.	SR Ltd. (1,13,600 +46,800)		
	Trade Receivables	1,86,500	
	PN Ltd.	1,24,800	3,11,300
5.	SR Ltd.		
	Cash & Cash equivalents	45,200	
	PN Ltd.	24,900	70,100
8.	SR Ltd.		
	Trade Payables	1,46,900	
	PN Ltd.	65,500	2,12,400
9.	SR Ltd. (34,300 + 31,200)		
	Short-term borrowings	2,49,600	
	PN Ltd.	20,000	2,69,600
	SR Ltd.		

Statement of Changes in Equity:

6. 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** ₹
15,60,000	0	15,60,000

7. Other Equity

	Reserves & Surplus			Total
	Capital reserve ₹	Retained Earnings ₹	Other Reserves ₹	₹
Balance at the beginning of the reporting period	0	0	9,36,000	9,36,000
Total comprehensive income for the year	0	1,78,400	0	1,78,400
Dividends	0	(52,416)	0	(52,416)
Total comprehensive income attributable to parent (W.N.2)	0	77,518	0	77,518
Gain on Bargain purchase	0	0	0	0
Balance at the end of reporting period	0	2,03,502	9,36,000	11,39,502

Working Notes:

1. Adjustments of Fair Value

The Plant & Machinery of SR Ltd. would stand in the books at ₹ 4,44,600 on 1 October 20X1, considering only six months' depreciation on ₹ $\left(\frac{4,21,200}{90\%}\right)$ = 4,68,000;

total depreciation being ₹ $4,68,000 \times 10\% \times \frac{6}{12} = 23,400$.

Being the fair value of the asset ₹ 6,24,000, there is an appreciation to the extent of ₹ 1,79,400 (₹ 6,24,000 – ₹ 4,44,600).

Acquisition date profits of SR Ltd. ₹

Reserves on 1.4.20X1	3,12,000
Profit& Loss Account Balance on 1.4.20X1	93,600
Profit for 20X1-20X2: Total [₹2,55,800 - (93,600 - 74,880)] x 6/12 i.e. ₹ 1,18,540 upto 1.10.20X1	1,18,540
Total Appreciation	5,07,000*
Total	10,31,140
Holding Co. Share (70%)	7,21,798
NCI	3,09,342

*Appreciation = Land & Building ₹ 3,12,000 + Inventories ₹ 46,800+ Plant & Machinery ₹ 1,79,400 –Trade Payables (₹ 31,200) = ₹ 5,07,000

2. Post-acquisition profits of SR Ltd. ₹

Profit after 1.10.20X1 [2,55,800 - (93,600-74,880)] x 6/12	1,18,540
*Less:*10% depreciation on ₹6,24,000 for 6 months less depreciation already charged for 2nd half of 20X1-20X2 on ₹4,68,800 (ie 31,200-23,400)	(7,800)
Total	1,10,740
Share of holding Co. (70%)	77,518
Share of NCI (30%)	33,222

3. Non-controlling Interest ₹

Par value of 1872 shares	1,87,200
*Add:*30% Acquisition date profits [(10,31,140–74,880)x30%]	2,86,878
30% Post-acquisition profits [W.N.2]	33,222
	5,07,300

4. **Goodwill** ₹

Amount paid for 4,368 shares		12,48,000
Less : Par value of shares	4,36,800	
Acquisition date profits-share of PN Ltd. (W.N.1)	7,21,798	(11,58,598)
Goodwill		89,402

5. **Value of Plant & Machinery:** ₹

PN Ltd.		7,48,800
SR Ltd.	4,21,200	
Add: Appreciation on 1.10.20X1	1,79,400	
	6,00,600	
Add: Depreciation for 2nd half charged on pre-revalued value	23,400	
Less: Depreciation on ₹ 6,24,000 for 6 months	(31,200)	5,92,800
		13,41,600

6. **Consolidated Profit & Loss account** ₹

PN Ltd. (as given)	1,78,400	
Less: Dividend	(52,416)	1,25,984
Share of PN Ltd. in post-acquisition profits (W.N.2)		77,518
		2,03,502

3. (a) **Balance Sheet as at 31st March, 20X2 (Extracts)**

Financial Assets:	₹
Interest rate option (W.N.1)	15,250
6% Debentures in Fox Ltd. (W.N.2)	1,53,000
Shares in Cox Ltd. (W.N.3)	1,87,500

Statement of Profit and Loss (Extracts)

Finance Income:

Gain on interest rate option (W.N.1)	5,250
Effective interest on 6% Debentures (W.N.2)	12,000

Working Notes:

1. **Interest rate option**

   This is a derivative and so it must be treated as at fair value through profit or loss

Particulars	₹	₹
Initial measurement (at cost) Financial Asset Dr. To Cash A/c	 10,000 	 10,000

At 31st March, 20X2

Particulars	₹	₹
(Re-measured to fair value) Financial Asset (₹ 15,250 - ₹10,000) Dr. To Profit and loss A/c	 5,250 	 5,250

Financial Assets (₹10,000 + ₹5,250) = ₹ 15,250 (Balance Sheet)

Gain on interest option = ₹ 5,250 (Statement of Profit and Loss)

2. **Debentures**

   On the basis of information provided, this can be treated as a held-to-maturity investment

Particulars	₹	₹
Initial measurement (at cost) Financial Asset Dr. To Cash A/c	 1,50,000 	 1,50,000

At 31st March, 20X2 (Amortized cost)

Particulars	₹	₹
Financial Asset (₹1,50,000 x 8%) Dr.	12,000	
To Finance Income		12,000
Cash (₹ 1,50,000 x 6%) Dr.	9,000	
To Financial asset		9,000

Amortized cost at 31st March, 20X2

(₹ 150,000 + ₹ 12,000 – ₹ 9,000) = ₹ 153,000 (Balance Sheet)

Effective interest on 6% debenture = ₹ 12,000 (Statement of Profit and Loss)

3. Shares in Cox Ltd.

These are treated as an available for sale financial asset (shares cannot normally be held to maturity and they are clearly not loans or receivables)

Particulars	₹	₹
Initial measurement (at cost) Financial Asset (₹ 50,000 x ₹3.50) Dr.	1,75,000	
To Cash A/c		1,75,000

At 31stMarch, 20X2 (Re-measured at fair value)

Particulars	₹	₹
Financial Asset Dr. [(₹ 50,000 x 3.75) – 1,75,000]	12,500	
To Equity A/c		12,500

Shares in Cox Ltd (₹ 1,75,000 + ₹ 12,500) = ₹ 1,87,500 (Balance Sheet)

(b) As per Ind AS 36, the revised carrying amount of asset ASSOTA would be ₹ 6,50,000.

The tax base of asset ASSOTA is given as ₹ 8,00,000.

Carrying base of asset = ₹ 6,50,000

Tax base of asset = ₹ 8,00,000

Since tax base is greater than carrying base of asset, so deferred tax asset would be created on the temporary difference of ₹1,50,000 (₹8,00,000 – ₹6,50,000) at the given tax rate of 30%.

Hence, Deferred tax asset for the asset ASSOTA would be ₹1,50,000 x 30% = ₹45,000.

4. (a) (i) Points earned on ₹ 10,00,000 @ 10 points on every ₹ 500 = [(10,00,000 / 500) x 10] = 20,000 points.

Value of points = 20,000 points x ₹ 0.5 each point = ₹ 10,000

Revenue recognized for sale of goods	₹ 9,90,099	[10,00,000 x (10,00,000/10,10,000)]
Revenue for points deferred	₹ 9,901	[10,00,000x (10,000/10,10,000)]

Journal Entry

		₹	₹
Bank A/c	Dr.	10,00,000	
To Sales A/c			9,90,099
To Liability under Customer Loyalty programme			9,901

(ii) Points earned on ₹ 50,00,00,000 @ 10 points on every ₹ 500 = [(50,00,00,000/500) x 10] = 1,00,00,000 points.

Value of points

= 1,00,00,000 points x ₹ 0.5 each point = ₹ 50,00,000

Revenue recognized for sale of goods

= ₹ 49,50,49,505 [50,00,00,000 x (50,00,00,000/ 50,50,00,000)]

Revenue for points

= ₹ 49,50,495 [50,00,00,000 x (50,00,000/ 50,50,00,000)]

Journal Entry in the year 20X1

		₹	₹
Bank A/c	Dr.	50,00,00,000	
To Sales A/c			49,50,49,505
To Liability under Customer Loyalty programme			49,50,495
(On sale of Goods)			
Liability under Customer Loyalty programme	Dr.	42,11,002	
To Sales A/c			42,11,002
(On redemption of (100 lakhs -18 lakhs) points)			

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year =18,00,000 x 80% = 14,40,000 points

Total points to be redeemed within 2 years

= [(1,00,00,000-18,00,000) + 14,40,000] = 96,40,000

Revenue to be recognised with respect to discounted point = 49,50,495 x (82,00,000/96,40,000) = 42,11,002

(iii) Revenue to be deferred with respect to undiscounted point in 20X1-20X2 = 49,50,495 – 42,11,002 = 7,39,493

(iv) In 20X2-20X3, KK Ltd. would recognize revenue for discounting of 60% of outstanding points as follows:

Outstanding points = 18,00,000 x 60% = 10,80,000 points

Total points discounted till date

= 82,00,000 + 10,80,000 = 92,80,000 points

Revenue to be recognized in the year 20X2-20X3 = [{49,50,495 x (92,80,000 / 96,40,000)} - 42,11,002] = ₹ 5,54,620.

Liability under Customer Dr. Loyalty Programme To Sales A/c (On redemption of further 10,80,000 points)	₹ 5,54,620	 ₹ 5,54,620

The Liability under Customer Loyalty programme at the end of the year 20X2-20X3 will be ₹ 7,39,493 – ₹ 5,54,620 = ₹ 1,84,873.

(v) In the year 20X3-20X4, the merchant will recognize the balance revenue of ₹ 1,84,873 irrespective of the points redeemed as this is the last year for redeeming the points. Journal entry will be as follows:

Liability under Customer Loyalty programme To Sales A/c (On redemption of balance points)	Dr.	₹ 1,84,873	 ₹ 1,84,873

(b) **Either**

As per paragraph 9 of Ind AS 24, Related Party Disclosures, "Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."

Accordingly, key management personnel (KMP) includes any director of the entity who are having authority and responsibility for planning, directing and controlling the activities of the entity. Hence, independent director Mr. Atul and non-executive director Mr. Naveen are covered under the definition of KMP in accordance with Ind AS.

Also as per paragraph 7 and 9 of Ind AS 19, 'Employee Benefits', an employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of the Standard, Employees include directors and other management personnel.

Therefore, contention of the Accountant is wrong that they are not employees of X Ltd.

Paragraph 17 of Ind AS requires disclosure about employee benefits for key management personnel. Therefore, an entity shall disclose key management personnel compensation in total i.e. disclosure of directors' fee of (₹ 10,00,000 + ₹ 7,50,000) ₹ 17,50,000 is to be made as employees benefits (under various categories).

Since short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services, the sitting fee paid to directors will fall under it (as per Ind AS 19) and is required to be disclosed in accordance with the paragraph 17 of Ind AS 24.

Or

(i) The land and government grant should be recognized by A Ltd. at fair value of ₹ 12,00,000 and this government grant should be presented in the books as deferred income. Alternatively, if the company is following the policy of recognising non-monetary grants at nominal value, the company will not recognise any government grant. Land will be shown in the financial statements at ₹ 1)

(ii) As per para 10A of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', loan at concessional rates of interest is to be measured at fair value and recognised as per Ind AS 109. Value of concession is the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for as Government grant.

(iii) ₹ 25 lakh has been received by D Ltd. for immediate start-up of business. Since this grant is given to provide immediate financial support to an entity, it should be recognised in the Statement of Profit and Loss immediately with disclosure to ensure that its effect is clearly understood, as per para 21 of Ind AS 20.

(iv) ₹ 10 lakh should be recognized by S Ltd. as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 1,00,000 [₹ 10 lakh/10 years] should be credited to profit and loss each year over period of 10 years. Alternatively, if the company is following the policy of recognising non-monetary grants at nominal value, the company will not recognise any government grant. The machinery will be recognised at ₹ 70 lakh (₹ 80 lakh - ₹ 10 lakh). Reduced depreciation will be charged to the Statement of Profit or Loss.

(v) As per para 12 of Ind AS 20, the entire grant of ₹ 25 lakh should be recognized immediately as deferred income and charged to profit and loss over a period of two years based on the related costs for which the grants are intended to compensate provided that there is reasonable assurance that U Ltd. will comply with the conditions attached to the grant.

5. (a) **Allocation of proceeds of the bond issue:**

Liability component (W.N.1)	₹ 18,47,720
Equity component	₹ 1,52,280
	₹ 20,00,000

The liability and equity components would be determined in accordance with Ind AS 32. These amounts are recognised as the initial carrying amounts of the liability and equity components. The amount assigned to the issuer conversion option equity element is an addition to equity and is not adjusted.

Basic earnings per share Year 1:

$$\frac{₹\ 10,00,000}{12,00,000} = ₹\ 0.83 \text{ per ordinary share}$$

Diluted earnings per share Year 1:

It is presumed that the issuer will settle the contract by the issue of ordinary shares. The dilutive effect is therefore calculated in accordance with the Standard.

$$\frac{₹\ 10,00,000 + ₹\ 1,66,295 \text{ (W.N.2)}}{12,00,000 + 5,00,000 \text{ (W.N.3)}} = ₹\ 0.69 \text{ per ordinary share}$$

Working Notes:

1. This represents the present value of the principal and interest discounted at 9%

1,20,000 x 2.531	=	₹ 3,03,720
20,00,000 x 0.772	=	₹ 15,44,000
		₹ 18,47,720

2. Profit is adjusted for the accretion of ₹ 1,66,295 (₹ 18,47,720 × 9%) of the liability because of the passage of time. However, it is assumed that interest @ 6% for the year has already been adjusted.

3. 5,00,000 ordinary shares = 250 ordinary shares x 2,000 convertible bonds

(b) This information will be incorporated into the consolidated statement of cash flows as follows:

Statement of cash flows for 20X2 (extract)	**Amount (₹)**	**Amount (₹)**
Cash flows from opening activities		
Profit before taxation	70,000	
Adjustments for non-cash items:		
Depreciation	30,000	
Decrease in inventories (Note 1)	9,000	
Decrease in trade receivables (Note 2)	4,000	
Decrease in trade payables (Note 3)	(24,000)	
Interest paid to be included in financing activities	4,000	
Taxation (11,000 + 15,000 – 12,000)	(14,000)	
Net cash inflow from operating activities		79,000
Cash flows from investing activities		
Cash paid to acquire subsidiary (74,000 – 2,000)	(72,000)	
Net cash outflow from investing activities		(72,000)
Cash flows from financing activities		
Interest paid	(4,000)	

Net cash outflow from financing activities		(4,000)
Increase in cash and cash equivalents		**3,000**
Cash and cash equivalents at the beginning of the year		**5,000**
Cash and cash equivalents at the end of the year		**8,000**

Working Notes:

1. Inventories

Total inventories of the Group at the end of the year	₹ 30,000
Inventories acquired during the year from subsidiary	(₹ 4,000)
	₹ 26,000
Opening inventory	(₹ 35,000)
Decrease in inventory	₹ 9,000

2. Trade Receivables

Total trade receivables of the Group at the end of the year	₹54,000
Trade receivables acquired during the year from subsidiary	(₹8,000)
	₹46,000
Opening trade receivables	(₹50,000)
Decrease in trade receivables	₹ 4,000

3. Trade Payables

Trade payables at the end of the year	₹ 68,000
Trade payables of the subsidiary assumed during the year	(₹32,000)
	₹ 36,000
Opening Trade payable	(₹ 60,000)
Decrease in Trade payables	₹ 24,000

6. (a) **Presentation of Revenue numbers:**

Ind AS 115 requires revenue to be recognized only on satisfaction of the performance obligations under the contract. It is crucial that the performance obligations be identified at the commencement of the contract, so that the trigger points for revenue recognition become identifiable.

Management would always have an incentive to present higher revenue numbers. In the given case, the fact that the COO is given an incentive for revenues and EBITDA indicates that revenue is a potential area for material misstatement, given the personal interest of the COO in the same.

The sale of fibre optic cable cannot be recognized on 31st March 20X2 as the goods are not yet transferred to the customer Ethernet Bullet Ltd.'s factory premises, which is one of the critical obligations of Astra Ltd. The contention of the COO that it takes merely a few minutes to shift the goods, and hence the sale can be recognized does not hold true. One can always cross-question as to why the movement of goods did not happen if it was merely a few minutes job. It could be a possibility that the goods may not be packed, or there may still be some pending inspection of the goods before transferring the same etc. In view of this, the performance obligation under this contract has not been completed, and hence booking the revenue has resulted in an overstatement of revenue by ₹ 2 crores, and a consequent inflation of profits, assuming that Astra Ltd. is making profit on this sale transaction. Additionally, booking this sale has resulted in an understatement of inventory as at the reporting date of 31st March 20X2.

In view of the above, multiple conflicts of interest arise for Ms. Suparna Dasgupta:

- Pressure to present favourable revenue figures and chartered accountant's personal circumstances.

- The chartered accountant is under pressure to present favourable numbers, notably in favour of the COO, thereby increasing the incentives to the COO, and in turn benefiting with the continued job prospects. Thus, the ethical and professional standards required of the accountant are at odds with the pressures of her personal circumstances.

Duty to stakeholders

The directors have a duty to act in the best interests of the company's stakeholders. While higher revenue numbers do indicate a good growth trajectory of the company, recognizing the revenue before fulfilling the performance obligations, or incorrectly booking grant income as revenue, results in misleading the stakeholders about the actual performance of the entity, thereby actually becoming detrimental to the stakeholders.

Ethical principles guiding the chartered accountant's response

By exhibiting bias in reporting higher revenue figures due to the risk of losing the job, objectivity stands compromised. Knowingly disclosing incorrect information compromises integrity, and erring in complying with Ind AS requirements, though continuing to report so in the financial statements, results in displaying absence of professional competence.

Appropriate action

In the given case, the chartered accountant faces an ethical dilemma, and must apply her moral and ethical judgment. As a professional, she is responsible for presenting the truth, and to avoid indulging in 'creative accounting practices' due to pressure.

The chartered accountant accordingly must put the interests of the company and professional ethics first and insist that the financial statements represent correct revenue numbers, in compliance with the relevant Ind AS. Being an advisor to the directors, she must prevent deliberate misrepresentation / fraudulent financial reporting, regardless of the personal consequences. The accountant should not allow any undue influence from the directors to override her professional judgment or integrity. This is in the long-term interests of the company,

Further, knowingly providing incorrect information is regarded as professional misconduct. To prevent such misconduct, the chartered accountant should not sign off on the financial statements containing incorrect financial information. By adhering to the ethical principles, the chartered accountant will maintain her professional integrity and contribute to the trust and reliability placed in the work expected from her.

However, if she signs the financial statements containing the inflated revenue numbers, Ms. Suparna Dasgupta would be guilty of professional misconduct under Clause I of Part II of Second Schedule to the Chartered Accountants Act, 1949. The Clause states that a member of the Institute, whether in practice or not, shall be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder, or any guidelines issued by the Council. As per the Council guidelines, a member of the Institute who is an employee shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.

(b) For 80,000 share-based options vested before transition date:

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments **that vested before the date of transition to Ind AS**. Hence, Nuogen Ltd. may opt for the exemption given in Ind AS 101 for 80,000 share options vested before the transition date. However, since no earlier accounting was done for these share-based options under previous GAAP too, therefore this led to an error on the transition date, as detected on the reporting date i.e. 31st March, 20X4. Hence, being an error, no exemption could be availed by Nuogen Ltd. on transition date with respect to Ind AS 102.

While preparing the financial statements for the financial year 20X3-20X4, an error has been discovered which occurred in the year 20X1-20X2, i.e., for the period which was earlier than earliest prior period presented. The error should be corrected by restating the opening balances of relevant assets and/or liabilities and relevant component of equity for the year 20X2-20X3. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2).

Accordingly, on retrospective calculation of Share based options with respect to 80,000 options, Nuogen Ltd. will create 'Share based payment reserve (equity)' by ₹ 16,00,000 and correspondingly adjust the same though Retained earnings.

For 40,000 share-based options to be vested on 31st March, 20X5:

Since share-based options have not been vested before transition date, no option as per Ind AS 101 is available to Nuogen Ltd. The entity will apply Ind AS 102 retrospectively. However, Nuogen Ltd. did not account for the same at the grant date. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2). Adjustment is to be made by recognising the 'Share based payment reserve (equity)' and adjusting the retained earnings by ₹ 2,00,000.

Further, expenses for the year ended 31st March, 20X3 and share based payment reserve (equity) as at 31st March, 20X3 were understated because of non-recognition of 'employee benefits expense' and related reserve. To correct the above errors in the annual financial statements for the year ended 31st March, 20X4, the entity should restate the comparative amounts (i.e., those for the year ended 31st March, 20X3) in the statement of profit and loss. In the given case, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000

For the year ending 31st March, 20X4, 'Share based payment reserve (equity)' would be credited by ₹ 2,00,000 and 'employee benefits expense' would be debited by ₹ 2,00,000.

Working Note:

Period	Lot	Proportion	Fair value	Cumulative expenses	Expenses
		a	b	d= b x a	e = d-previous period d
20X1-20X2	1 (1-year vesting period)	1/1	16,00,000	16,00,000	16,00,000
20X1-20X2	2 (4-year vesting period)	1/4	8,00,000	2,00,000	2,00,000
20X2-20X3	2 (4-year vesting period)	2/4	8,00,000	4,00,000	2,00,000
20X3-20X4	2 (4-year vesting period)	3/4	8,00,000	6,00,000	2,00,000