ANSWERS OF MODEL TEST PAPER 6

FINAL COURSE GROUP - I

PAPER – 1: FINANCIAL REPORTING

1. **Option (d):** Provision for ₹ 100 crores
2. **Option (c):** Financial asset measured at FVTPL
3. **Option (b):** A, B and E
4. **Option (a):** ₹ 48,753
5. **Option (c):** ₹ 15,00,000
6. **Option (c):** When there is reasonable assurance that the entity will comply with the conditions and receive the grants.
7. **Option (a):** Conflicts of interest should not compromise professional or business judgement
8. **Option (c):** Only (ii), (iii) and (iv) are true
9. **Option (c):** Current financial liability
10. **Option (d):** ₹ 1,512.80 lakhs
11. **Option (c):** ₹ 2,426 lakhs
12. **Option (a):** Expenses incurred for food court and gaming zone should be capitalised
13. **Option (b):** ₹ 16 crores
14. **Option (d):** ₹ 25 crores
15. **Option (c):** Nikhil Pvt. Ltd. should recognise the fair value of the consideration as part of the business combination, thus increasing goodwill and remeasure it at the end of each reporting period. The impact of change in fair value is recognised in the Statement of Profit and Loss.

PART-II Descriptive Questions

1. Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 20X4

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	1	21,070
Goodwill	2	150
Current assets		
Inventory	3	4,275
Financial assets		
Cash and cash equivalents	4	2,540
Trade receivables	5	6,840
Dividend receivable	6	Nil
Total		**34,875**
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 10 each		10,000
Other equity	7	16,292
Non-controlling interest (W.N.4)		1,824
Non-current liabilities		
Financial liabilities		
Borrowings- 13% Debentures	8	2,999
Current Liabilities		
Financial liabilities		
Trade payables	9	2,180
Dividend payable	10	80
Other liabilities		1,500
Total		**34,875**

Notes to Accounts

1. Property, Plant and Equipment **₹ in lakhs**

Particulars		**₹**	**₹**
H Ltd.		14,800	
S Ltd.	6,000		
Add: Fair value gain	300		
Less: Additional depreciation due to fair value gain	(30)	6,270	21,070

2. Goodwill **₹ in lakhs**

Particulars	**₹**	**₹**
Goodwill on acquisition of S Ltd. (Refer W.N.3)	250	
Less: Impairment	(100)	150

3. Inventory **₹ in lakhs**

Particulars		**₹**	**₹**
H Ltd.		2,600	
S Ltd.	2,000		
Less: Fair value loss	(300)		
Less: Unrealised gain (200/80% x 20% x 50%)	(25)	1,675	4,275

4. Cash and cash equivalent **₹ in lakhs**

Particulars	**₹**	**₹**	**₹**
H Ltd.	500		
Add: Cheque in Transit	40	540	
S Ltd.		2,000	2,540

5. Trade Receivable **₹ in lakhs**

Particulars		**₹**	**₹**
H Ltd.	4,000		
Less: Mutual transaction	(160)	3,840	
S Ltd.		3,000	6,840

6. Dividend Receivable **₹ in lakhs**

Particulars	₹	₹
H Ltd.	320	
Less: Mutual transaction	(320)	Nil

7. Other Equity (Retained Earnings) **₹ in lakhs**

Particulars	₹	₹
H Ltd.	16,320	
Less: Share of pre-acquisition dividend (400 x 80%)	(320)	16,000
Post acquisition RE of S Ltd. (W.N.1)	2,370	
Less: Share of NCI in post-acquisition RE of S Ltd. (2,370 x 20%)	(474)	1,896
Less: Impairment of goodwill (100 x 80%)		(80)
Less: Loss on cancellation of debentures (mutual holding) (W.N.5)		(1,499)
Less: Unrealised gain (W.N.6)		(25)
		16,292

8. Borrowings (13% Debentures) **₹ in lakhs**

Particulars	₹	₹
S Ltd.	3,000	
Less: Mutual holding by H Ltd. (1,000 Debentures x ₹ 100)	(1)	2,999

9. Trade Payables **₹ in lakhs**

Particulars		₹	₹
H Ltd.		1,700	
S Ltd.	600		
Less: Mutual transaction	(120)	480	2,180

10. Dividend Payables **₹ in lakhs**

Particulars	₹	₹
S Ltd.	400	
Less: Mutual transaction	(320)	80

Working Notes:

1. Analysis of Retained Earnings of S Ltd. **₹ in lakhs**

Closing balance as on 31st March, 20X4	5,000
Less: Pre-acquisition Retained Earnings as on 1st April, 20X3 (3,000 – 400)	(2,600)
	2,400
Less: Additional depreciation	(30)
Post-acquisition Retained Earnings	2,370

2. Computation of net worth (net identifiable assets) as on 1st April, 20X3 **₹ in lakhs**

Share Capital of S Ltd.	4,000
Pre-acquisition Retained Earnings	3,000
Fair value gain on PPE (2,800 – 2,500)	300
Fair value loss on inventory (500 - 200)	(300)
Net Worth or Net Identifiable Assets	7,000

3. Computation of Goodwill on acquisition date of S Ltd.

₹ in lakhs

Purchase consideration	5,800
NCI (by fair value method) as on 1st April, 20X3 [(5,800/80%) x 20%]	1,450
	7,250
Less: Net worth or Net Identifiable Assets (W.N.2)	(7,000)
Goodwill as on 1st April, 20X3	250

4. Non-Controlling Interest as on 31st March, 20X4 **₹ in lakhs**

NCI (by fair value method) as on 1st April, 20X3	1,450
Less: Share of pre-acquisition dividend (400 x 20%)	(80)
Post-acquisition Retained Earnings (2,370 x 20%)	474

Less: Share of impairment of Goodwill (100 x 20%)	(20)
NCI as on 31st March, 20X4	1,824

5. Loss on settlement of Debentures held by H Ltd. ₹ in lakhs

Investment in Debentures by H Ltd.	1,500
Less: Nominal value of debentures held by H Ltd. (1,000 x ₹ 100)	(1)
Loss on settlement of investment in Debentures	1,499

6. Computation of unrealised gain by H Ltd. on sale of goods to S Ltd. ₹ in lakhs

Cost price of the goods sold	200
Sales price of the goods sold (200/80%)	250
Profit on sale of such goods	50
Unrealized gain on 50% unsold goods (50 x 50%)	25

2. (a) Assessment of the arrangement using the definition of derivative included under Ind AS 109

Derivative is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics:

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

(c) it is settled at a future date.

The contract meets the definition of a derivative as follows:

(a) the value of the contract to purchase USD at a fixed price changes in response to changes in foreign exchange rate.

(b) the initial amount received to enter into the contract is zero. A contract which would give the holder a similar response to foreign exchange rate changes would have required an investment of USD 40,000 on inception.

(c) the contract is settled in future

The derivative liability is a written put option contract.

As per Ind AS 109, derivatives are measured at fair value upon initial recognition and are subsequently measured at fair value through profit and loss.

- **<u>Accounting on 1st January, 20X3</u>**

  As there was no consideration paid and without evidence to the contrary the fair value of the contract on the date of inception is considered to be zero. Accordingly, no accounting entries shall be recorded on the date of entering into the contract.

- **<u>Accounting on 31st March, 20X3</u>**

  The value of the derivative put option contract shall be recorded as a derivative financial liability in the books of Joe & Co. Ltd. by recording the following journal entry:

Particulars	Dr. (₹)	Cr. (₹)
Profit and loss A/c Dr. To Derivative financial liability (Being mark to market loss on the put option contract recorded)	50,000	 50,000

- **<u>Accounting on 30th June, 20X3</u>**

  The change in value of the derivative put option contract shall be recorded as a derivative financial liability in the books of Joe & Co. Ltd. by recording the following journal entry:

Particulars	Dr. (₹)	Cr. (₹)
Derivative financial liability A/c Dr. To Profit and loss A/c (Being partial reversal of mark to market loss on the put option contract recorded)	20,000	 20,000

- **Accounting on 30th September, 20X3**

  The change in value of the derivative option contract shall be recorded at zero in the books of Joe & Co. Ltd. by recording the following journal entry:

Particulars	Dr. (₹)	Cr. (₹)
Derivative financial liability A/c Dr. To Profit and loss A/c (Being gain on mark to market of put option contract booked to make the value of the derivative liability as zero)	30,000	 30,000

- **Accounting on 31st December, 20X3**

  The settlement of the derivative put option contract by actual purchase of USD 40,000 shall be recorded in the books of Joe & Co. Ltd. upon exercise by Box Ltd. by recording the following journal entry:

Particulars	Dr. (₹)	Cr. (₹)
Bank (USD Account) (@40,000 x ₹ 76) Dr. Profit and loss A/c Dr. To Bank (@ 40,000 x ₹ 78) (Being loss on settlement of put option contract booked on actual purchase of USD)	30,40,000 80,000	 31,20,000

(b) It is assumed that net profit for all the quarters of the year 20X3-20X4 excludes the brought forward losses of ₹ 620 lakh.

Computation of estimated total earnings for the year 20X3-20X4

Quarter	Earnings before tax (in lakhs)
1	650 (actual)
2	360 (actual)
3	(160) (estimated)
4	720+160 = 880 (estimated)
	,730 (estimated)

Tax rate for the company = 25 x 110% = 27.5%

Computation of Average Annual Effective Tax Rate

The estimated payment of the annual tax on earnings for the current year:

= (1,730-620) x 27.5% = ₹ 305.25 lakhs.

As per Ind AS 34, income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income-tax rate expected for the full financial year.

Thus, average annual effective tax rate = (305.25 / 1,730) × 100

= 17.645% (approx.)

Tax expense to be shown in each quarter

Quarter	Earnings before tax (in lakhs)	Tax expense @ 17.645%
1	650 (actual)	114.69
2	360 (actual)	63.52
3	(160) (estimated)	(28.23)
4	720+160 = 880 (estimated)	155.27
	1,730 (estimated)	305.25

3. **(a)** Investment property is held to earn rentals or for capital appreciation or both. Ind AS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with the requirements of Ind AS 16 for cost model.

The measurement and disclosure of Investment property as per Ind AS 40 in the balance sheet would be as follows:

	Investment Properties: (₹ in crores)			
Particulars	**Property X**	**Property Y**		**Period ended 31st March, 20X4**
Gross Amount:				
Opening balance	120.00		120.00	

Additions during the year	______	20.00	20.00	
Closing balance A	120.00	20.00		140.00
Depreciation:				
Opening balance	60.00		60.00	
Depreciation during the year (12 + 1)	12.00	1.00	13.00	
Closing balance B	72.00	1.00		(73.00)
Net balance (A-B)	48.00	19.00		67.00

The changes in the carrying value of investment properties for the year ended 31st March, 20X4 are as follows:

Amount recognized in Profit and Loss with respect to Investment Properties (₹ in crores)

Particulars	Period ending 31st March, 20X4
Rental income from investment properties (15.00 + 5.00)	20.00
Less: Direct operating expenses generating rental income (0.50 + 0.10 + 0.25 + 0.15 + 0.20 + 0.10)	(1.30)
Profit from investment properties before depreciation and indirect expenses	18.70
Less: Depreciation	(13.00)
Profit from earnings from investment properties before indirect expenses	5.70

Disclosure Note on Investment Properties acquired by the entity

The investment properties consist of Building X and Building Y. As at 31st March, 20X4, the fair value of the properties is ₹ 105 crores. The valuation is performed by independent valuers, who are specialists in valuing investment properties. A valuation model as recommended by International Valuation Standards Committee has been applied. The Company considers factors like management intention, terms of rental agreements, area leased out, life of the assets etc. to determine classification of assets as investment properties.

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Description of valuation techniques used and key inputs to valuation on investment properties:

Valuation technique	**Significant unobservable inputs**	**Range (Weighted average)**
Discounted cash flow (DCF) method	- Estimated rental value per sq. ft. per month - Rent growth per annum - Discount rate	- ₹ 50 to ₹ 60 - 10% every 3 years - 12% to 13%

(b) Computation of tax base

Particulars	**Carrying amount (₹)**	**Taxbase (₹)**
Carrying balance on 1st April, 20X2	5,00,000	5,00,000
Less: Depreciation	(1,00,000)	(1,00,000)
Balance as on 31st March, 20X3	4,00,000	4,00,000
No Temporary difference as on 31st March, 20X3	--	--
Less: Carrying amount on the date of disposal to be reversed (accounting record) (Refer W.N.)	(32,000)	
Less: Sale proceeds of the asset to be deducted as per tax records		(1,00,000)
Less: Depreciation Accounting depreciation (4,00,000 x 20%) Tax depreciation {(4,00,000 - 1,00,000) x 20%)}	(80,000)	(60,000)
Balance of the asset as on 31st March, 20X4	2,88,000	2,40,000

Working Note:

Accounting book value on 31st March, 20X4

= ₹ 50,000 - ₹ 10,000 - ₹ 8,000

= ₹ 32,000

Carrying amount is greater than Tax base which leads to Deferred Tax Liability i.e. Temporary difference = ₹ 2,88,000 - ₹ 2,40,000 = ₹ 48,000

Deferred Tax Liability = ₹ 48,000 x 35% = ₹ 16,800

4. (a) (i) Accounting Treatment

The present value of such decommissioning and site restoration obligation at the end of 4th year is ₹ 4,41,000 [being 6,00,000 / $(1.08)^4$]. Peacock Ltd. will recognize the present value of decommissioning liability of ₹ 4,41,000 as an addition to cost of PPE and will also recognize a corresponding decommissioning liability.

Further, the entity will recognize the unwinding of discount as finance charge every year till the estimated life of the machine.

(ii) Journal Entries

Date	Particular	Dr. (₹)	Cr. (₹)
1st April, 20X0	Machine A/c (PPE) Dr.	4,41,000	
	To Provision for decommissioning liability		4,41,000
	(Being the present value of decommissioning liability of ₹ 4,41,000 recognized as an addition to cost of PPE with corresponding recognition to decommissioning liability)		
31st March, 20X1	Finance charge Dr.	35,280	
	To Provision for decommissioning liability		35,280
	(Being the unwinding of discount as finance charge recognized at the end of Year 1)		

	Profit and Loss A/ Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	35,280	 35,280
31st March, 20X2	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 2)	38,102	 38,102
	Profit and Loss A/ Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	38,102	 38,102
31st March, 20X3	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 3)	41,151	 41,151
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	41,151	 41,151
31st March, 20X4	Finance charge Dr. To Provision for decommissioning liability (Being the unwinding of discount as finance charge recognized at the end of Year 4)	44,467	 44,467
	Profit and Loss A/c Dr. To Finance charge (Being Finance charge transferred to Profit & Loss A/c)	44,467	 44,467
	Provision for decommissioning liability Dr. To Bank A/c (Being decommissioning liability incurred at the end of the life of the machine i.e. 4th year)	6,00,000	 6,00,000

Working Note:

The following table shows the unwinding of discount (₹)

Year	Opening Decommissioning Liability	Unwinding of Interest @ 8%	Closing Decommissioning Liability
1	4,41,000	35,280	4,76,280
2	4,76,280	38,102	5,14,382
3	5,14,382	41,151	5,55,533
4	5,55,533	44,467*	6,00,000

*Difference of ₹ 24 (44,467- 44,443) is due to rounding off.

(b) Journal Entries

31st March, 20X2		**₹**	**₹**
Employee benefits expenses (W.N.1)	Dr.	43,12,500	
To Share-based payment reserve (equity)			43,12,500
(Being 1/3rd expenses on share-based payment recognised)			
Profit and Loss A/c	Dr.	43,12,500	
To Employee benefits expenses			43,12,500
(Being employee benefits expenses transferred to P/L)			
31st March, 20X3			
Share-based payment reserve (equity) (W.N.1)	Dr.	3,75,000	
To Employee benefits expenses (transferred to P/L)			3,75,000
(Being reversal of excess expenses booked on computation of 2/3rd expenses on share-based payment)			
Employee benefits expenses	Dr.	3,75,000	
To Profit and Loss A/c			3,75,000
(Being employee benefits expenses transferred to P/L)			

31st March, 20X4			
Employee benefits expenses (W.N.3)	Dr.	35,62,500	
To Share-based payment reserve (equity)			35,62,500
(Being final recognition of expenses on vesting of share-based options)			
Profit and Loss A/c	Dr.	35,62,500	
To Employee benefits expenses			35,62,500
(Being employee benefits expenses transferred to P/L)			
31st March, 20X5			
Share-based payment reserve (equity) (W.N.4)	Dr.	75,00,000	
Bank A/c (W.N.4)	Dr.	42,18,750	
To Share Capital (W.N.4)			9,37,500
To Securities Premium (W.N.4)			1,03,12,500
To Retained Earnings (W.N.4)			4,68,750
(Being accounting on exercise of 375 options and lapse of 25 options)			

Working Notes:

1. Calculation of Employee Benefit Expenses

	31.3.20X2	31.3.20X3	31.3.20X4
No of Employees	750	750	750
Less: Employees left	(25)	(300)	(350)
Less: Employees expected	(35)	(135)	
No of employees eligible	690	315	400
No of options per employee	250	250	250
Total options expected to vest	172,500	78,750	100,000
Fair value per option	75	75	75
Total FV	12,937,500	5,906,250	7,500,000
	1/3	2/3	3/3
Cumulative expenses	4,312,500	3,937,500	7,500,000
Expense already recognised	-	4,312,500	3,937,500
Expense to be recognised	4,312,500	-375,000	3,562,500

2. **For the year ended 31st March, 20X5**

Bank = 375 employees x 250 options x ₹ 45 = ₹ 42,18,750

Share capital = 375 employees x 250 options x ₹ 10 = ₹ 9,37,500

Securities Premium = 375 employees x 250 options x ₹ (75 + 35)

= ₹ 1,03,12,500

Retained Earnings = (400-375) employeesx250 options x ₹ 75

= ₹ 4,68,750

5. **(a)** Points earned on ₹ 1,50,00,000 @ 6 points on every ₹ 400

= [(1,50,00,000/400) x 6] = 2,25,000 points.

Out of 2,25,000 points, it is estimated that 54,000 points will remain unredeemed in the current year. Further, it is expected that 75% of the unredeemed points will be redeemed in the future.

Accordingly, value of points will be computed as follows:

Value of points redeemed in the current year

= (2,25,000-54,000) points x ₹ 0.6 each point = ₹ 1,02,600

Value of points estimated to be redeemed in future

= 54,000 points x 75% x ₹ 0.6 each point = ₹ 24,300

Total value of loyalty points = ₹ 1,02,600 + ₹ 24,300 = ₹ 1,26,900

Revenue recognized for sale of goods

= ₹ 1,48,74,165 [1,50,00,000 x (1,50,00,000 / 1,51,26,900)]

Revenue for points = ₹ 1,25,835 [1,26,900 x (1,50,00,000 / 1,51,26,900)]

Journal Entry for the year 20X3-20X4

		₹	₹
Bank A/c	Dr.	1,50,00,000	
To Sales A/c			1,48,74,165
To Liability under Customer Loyalty programme			1,25,835
(On sale of Goods)			
Liability under Customer Loyalty programme	Dr.	1,01,739	
To Sales A/c			1,01,739
(On redemption of (2,25,000 – 54,000) points)			

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year

= 54,000 x 75% = 40,500 points

Total points to be redeemed within 3 years

= [(2,25,000 – 54,000) + 40,500] = 2,11,500 points

Revenue to be recognised with respect to discounted points

= ₹ 1,25,835 x (1,71,000/2,11,500) = ₹ 1,01,739

Note: The above answer is based on the consideration that 75% likelihood of redemption of award points in future. **Alternatively,** the 75% likelihood of redemption of award points in future might not be considered. In such a case, the answer would be as follows:

Points earned on ₹ 1,50,00,000 @ 6 points on every ₹ 400

= [(1,50,00,000/400) x 6] = 2,25,000 points.

Out of 2,25,000 points, it is estimated that 54,000 points will remain unredeemed in the current year.

Accordingly, value of points redeemed in the current year

= 2,25,000 points x ₹ 0.6 each point = ₹ 1,35,000

Revenue recognized for sale of goods

= ₹ 1,48,66,204 [1,50,00,000 x (1,50,00,000 / 1,51,35,000)]

Revenue for points = ₹ 1,33,796 [1,35,000 x (1,50,00,000 / 1,51,35,000)]

Journal Entry for the year 20X3-20X4

		₹	₹
Bank A/c	Dr.	1,50,00,000	
To Sales A/c			1,48,66,204
To Liability under Customer Loyalty programme			1,33,796
(On sale of Goods)			
Liability under Customer Loyalty programme	Dr.	1,08,175	
To Sales A/c			1,08,175
(On redemption of (2,25,000 – 54,000) points)			

Revenue for points to be recognized

Undiscounted points estimated to be recognized next year

= 54,000 x 75% = 40,500 points

Total points to be redeemed within 3 years

= [(2,25,000 – 54,000) + 40,500] = 2,11,500 points

Revenue to be recognised with respect to discounted points

= ₹ 1,33,796x (1,71,000 / 2,11,500) = ₹ 1,08,175

(b) Assessment of Preliminary Impact Assessment on transition to Ind AS of Z Ltd.'s Financial Statements

(i) Fair value as deemed cost for property plant and equipment:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS 10, Property, Plant and Equipment is recognised at cost less depreciation.	Ind AS 101 allows entity to elect to measure Property, Plant and Equipment on the transition date at its fair value or	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, the book value

	previous GAAP carrying value (book value) as deemed cost.	should be brought up to fair value. The resulting impact of fair valuation of land ₹ 1,00,000 should be adjusted in other equity.

Journal Entry on the date of transition

Particulars	Debit (₹)	Credit (₹)
Property, Plant and Equipment Dr.	1,00,000	
To Revaluation Surplus (OCI- Other Equity)		1,00,000
(Being PPE recorded at fair value on the date of transition to Ind AS)		

(ii) Borrowings - Processing fees/transaction cost:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, such expenditure is charged to Profit and loss account or capitalised as the case may be	As per Ind AS, such expenditure is amortised over the period of the loan. Ind AS 101 states that if it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability.	Fair value as on the date of transition is ₹ 2,80,000 as against its book value of ₹ 3,00,000. Accordingly, the difference of ₹ 20,000 is adjusted through retained earnings.

Journal Entry on the date of transition

Particulars	Debit (₹)	Credit (₹)
Borrowings / Loan payable Dr.	20,000	
To Retained earnings		20,000
(Being Borrowings recorded at fair value on date of transition to Ind AS)		

(c) **Either**

Concept of Offsetting: Offsetting refers to presenting an asset and a liability net or income and expenses net as a single amount, in the financial statements. As per Ind AS, an entity is required to report separately both assets and liabilities, and income and expenses. Offsetting in the statement of profit and loss or balance sheet is not permitted unless when offsetting reflects the substance of the transaction or other event.

Scenarios for determining applicability of the concept of offsetting:

(a) Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising from disposal of various items of property, plant and equipment shall be presented on a net basis. However, gains or losses should be presented separately if they are material.

(b) As per paragraph 33 of Ind AS 1, offsetting is permitted only when offsetting reflects the substance of the transaction. In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. If the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

(c) Ind AS 1 prescribes that assets and liabilities, and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per paragraph 42 of Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously. Accordingly, the receivable and payable should be offset against each other and net amount is presented in the balance sheet if the entity has a legal right to set off and the entity intends to do so. Otherwise, the receivable and payable should be reported separately.

Or

The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

1. **Comparability:** Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability refers to the use of the same methods for the same items, and uniformity implies that like things must look alike and different things must look different.

2. **Verifiability:** Verifiability means that different knowledgeable and independent observers could reach a consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

3. **Timeliness:** Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because some users may need to identify and assess trends.

4. **Understandability:** Classifying, characterising and presenting information clearly and concisely makes it understandable.

   Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or does not provide a faithful representation of what it purports to represent.

Sometimes, one enhancing qualitative characteristic may have to be diminished to maximise another qualitative characteristic. For example, a temporary reduction in comparability as a result of prospectively applying a new Ind AS may be worthwhile to improve relevance or faithful representation in the longer term. Appropriate disclosures may partially compensate for non-comparability.

6. (a) To identify the performance obligations under the contract and determine if they are distinct, an automated process can be implemented using technology. The following steps can be taken:

a. Analyze the clauses in the contract related to the services provided (broadband services, voice call services, modem sales).

b. Each clause should be codified using appropriate parameters or tags to capture the relevant information.

c. Assign Boolean values (0 or 1) to each parameter or tag in the codified clauses.

d. Use "0" to represent "No" and "1" to represent "Yes" for each parameter.

e. Define the criteria for evaluating the performance obligations based on the parameters and their Boolean values.

f. Consider factors such as the type of service involved, benefits derived by the customer, and promises made in the contract regarding the transfer of goods or services.

g. Develop an automated algorithm or script that evaluates the Boolean values of the parameters according to the defined criteria.

h. Calculate scores or weights for each parameter based on their significance in determining performance obligations.

i. Utilize the scores or weights assigned to the parameters to determine if the performance obligations are distinct.

j. If the total score exceeds a certain threshold, consider it a separate performance obligation.

The automated process should flag and identify these distinct performance obligations based on the evaluation results.

Considering the above facts, the following conclusion arises:

There are three separate obligations

- Broadband Service
- Voice Call Services
- Modem

(b) According to paragraph 35 of Ind AS 16, when an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(i) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

In such a situation, the revised carrying amount of the machinery will be as follows:

Gross carrying amount ₹ 5,00,000 [(4,00,000/2,40,000) x 3,00,000]

Less: Net carrying amount (₹ 3,00,000)

Accumulated depreciation ₹ 2,00,000 (1,60,000 + 40,000)

Journal Entry **(₹)**

Plant and Machinery (Gross Block) Dr.	1,00,000	
To Accumulated Depreciation		40,000
To Revaluation Reserve		60,000
(Being the value of gross block of the asset restated to make it consistent with revalued amount)		

Depreciation subsequent to revaluation

Since the Gross Block has been restated, the depreciation charge will be revised to ₹ 50,000 per annum (₹ 5,00,000 /10 years).

Journal Entry **(₹)**

Depreciation Dr	50,000	
To Accumulated Depreciation		50,000
(Being the revised depreciation after revalued charged)		

(ii) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39 and 40 of Ind AS 16.

In this case, the gross carrying amount is restated to ₹ 3,00,000 to reflect the fair value and accumulated depreciation is set at zero.

Journal Entry

Accumulated Depreciation Dr.	₹ 1,60,000	
To Plant and Machinery (Gross Block)		₹1,60,000
(Being the asset brought down to the carrying value)		
Plant and Machinery (Gross Block) Dr.	₹ 60,000	
To Revaluation Reserve		₹ 60,000
(Being revaluation of the asset recognised)		

Depreciation subsequent to revaluation

Since the revalued amount is the revised gross block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of ₹ 50,000 per annum as per Option A (₹ 3,00,000 / 6 years).

Journal entry

Depreciation Dr. To Accumulated Depreciation (Being the revised depreciation charged to the Gross Block)	50,000	 50,000

(c) (a) In case, it is assumed that the judgement of court has been received after the approval of previous year's financial statements of the reporting entity and the probability for payment of arrears of salaries and wages was remote in the previous year because of which the entity had neither made any provision or disclosure, then the liability for arrears of salary and wages would be considered as a change in accounting estimate in the current year.

Alternatively, if it is assumed that in case the judgement of court has been received before the approval of financial statements of the previous year, then the entity should have adjusted the liability in that year itself. In the absence of said accounting treatment in the previous year, it will be considered a mistake and would be accounted for as a prior period error.

(b) In the given case, since the information regarding expenses of ₹ 1,50,000 in the previous year was available with the entity, and was omitted due to an oversight, it will be considered as a prior period error.

(c) As per para 32 of Ind AS 8, a loss allowance for expected credit losses (i.e. provision for doubtful debts) applying Ind AS 109, *Financial Instruments,* is an example of accounting estimate. Hence, any change in the previous year's estimate on account of recovery of such loss allowance in the current year would be a change in the accounting estimate in the current year because of the uncertainties inherent in business activities and it is not possible to measure the provision for doubtful debts with precise accuracy.

(d) This is neither a case of prior period error nor a change in accounting estimates. In the given case, the company did not have any information as on the balance sheet date and it is the mistake committed by the Group Insurance company and not the reporting entity. Hence, the demand for an additional premium amount by the Group Insurance Company will not be considered as a prior period error for the reporting entity. Further, the entity had paid the premium amount in the previous year, so no accounting estimate was involved thereupon. Therefore, the additional demand cannot be considered as a change in accounting estimate for the reporting entity.