PAPER – 1: FINANCIAL REPORTING

QUESTIONS

Case Scenario I

HIJ Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31st March 20X2, it requires insights and accounting suggestions on the following transactions:

(i) On 1st October 20X1, HIJ Ltd. subscribed for 40 million ₹ 1 loan notes in Z Ltd. The loan notes were issued at 90 paise and were redeemable at ₹ 1.20 on 30th September 20X6. Interest is payable on 30th September in arrears at 4% of par value. This represents an effective annual rate of return for HIJ Ltd. of 9.9%. HIJ Ltd.'s intention is to hold the loan notes until redemption.

(ii) On 1st April 20X1, HIJ Ltd. commenced joint construction of a property with G Ltd. For this purpose, an agreement has been entered into that provides for joint operation and ownership of the property. All the ongoing expenditure, comprising maintenance plus borrowing costs, is to be shared equally. The construction was completed on 30th September 20X1 and utilisation of the property started on 1st January, 20X2 at which time the estimated useful life of the same was estimated to be 20 years.

Total cost of the construction of the property was ₹ 40 crores. Besides internal accruals, the cost was partly funded by way of loan of ₹ 10 crores taken on 1st January, 20X1. The loan carries interest at an annual rate of 10% with interest payable at the end of year on 31st December each year. The company has spent ₹ 4,00,000 on the maintenance of such property.

The company has recorded the entire amount paid as investment in Joint Venture in the books of accounts. Suggest the suitable accounting treatment of the above transaction as per applicable Ind AS.

On the basis of the facts given above, chose the most appropriate answer to Questions 1 to 5 below based on the relevant Indian Accounting Standards (Ind AS).

1. What would be the initial measurement of financial instruments as subscription of loan notes in Z Ltd.?

   (a) ₹ 40 million

   (b) ₹ 37.782 million

   (c) ₹ 38.4 million

   (d) ₹ 36 million

2. What would be the closing balance of financial instruments (as subscription of loan notes in Z Ltd.) as on 31st March 20X2?

   (a) ₹ 37.6 million

   (b) ₹ 34.218 million

   (c) ₹ 37.782 million

   (d) ₹ 36.182 million

3. With respect to point (ii), what is the nature of the agreement?

   (a) Agreement is in the nature of Joint venture

   (b) Agreement is in the nature of Joint Operations

   (c) Agreement is in the nature of Holding subsidiary relationship

   (d) Agreement is in the nature of Associates

4. What will the initial cost of PPE appearing in the books of HIJ Ltd.?

   (a) ₹ 40,50,00,000

   (b) ₹ 40,00,00,000

   (c) ₹ 20,25,00,000

   (d) ₹ 20,00,00,000

5. Calculate the depreciation charge for the year ended 31st March 20X2 to be charged by G Ltd. in its books?

   (a) ₹ 50,62,500

   (b) ₹ 1,01,25,000

   (c) ₹ 1,00,00,000

   (d) ₹ 50,00,000

Case Scenario II

FA Ltd. is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries. Following are the details of some of the transactions entered into by the company:

i. On 1st April 20X2, the company began the construction of a new production line in its aircraft parts manufacturing shed.

   Costs relating to the production line are as follows:

Details	**Amount ₹ in lakhs**
Costs of the basic materials (list price ₹ 12.5 lakhs less 20% trade discount)	10.00
Recoverable goods and services tax incurred but not included in the purchase cost	1.00
Employment costs of the construction staff for three months till 30th June, 20X2	1.20
Other overheads directly related to the construction	0.90
Payments to external advisors relating to the	0.50

construction	
Expected dismantling and restoration costs	2.00

The production line took two months to make ready for use and was brought into use on 31st May, 20X2.

The other overheads were incurred during the two-month period ended on 31st May, 20X2. They included an abnormal cost of ₹ 0.3 lakhs caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. After 8 years, FA Ltd. is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of ₹ 2 lakhs included in the cost estimates is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate discount rate is 5%. The present value of ₹ 1 payable in 8 years at a discount rate of 5% is approximately ₹ 0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is ₹ 3 lakhs.

No impairment of the plant had occurred by 31st March 20X3.

ii. During the year ended 31st March 20X3, FA Ltd. provided consultancy services to a customer regarding the installation of a new production system related to aircraft parts. The system has caused the customer considerable problems, so the customer has taken legal action against the Company for the loss of profits that has arisen as a result of the problems with the system. The customer has claimed damages to the tune of ₹ 1.6 lakhs.

The legal department of FA Ltd. considers that there is a 25% chance the claim can be successfully defended. The legal department further stated that they are reasonably confident the Company is covered by insurance against these types of loss. The accountant feels nothing needs to be provided for this claim as the Company is suitably covered against any possible losses.

iii. FA Ltd. has an associate company, Flynet Limited. Following are the information of Flynet Limited for the year ended 31st March 20X3:

Particulars	₹ in lakhs
Net Income after taxes	120
Decrease in accounts receivables	20
Depreciation	25
Increase in inventory	10
Increase in accounts payable	7
Decrease in wages payable	5
Tax charge for the year (deferred tax liabilities)	15
Profit from sale of land	2

On the basis of the facts given above, chose the most appropriate answer to Questions 6 to 10 below based on the relevant Indian Accounting Standards (Ind AS).

6. Which of the following items need to be capitalized in determining the cost of Production Line?

   (a) Abnormal cost of ₹ 0.3 lakhs

   (b) Recoverable GST of ₹ 1 lakhs

   (c) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 2 lakhs

   (d) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs

7. Calculate the company's associate Flynet Ltd.'s cash flow from operations.

   (a) ₹ 158 lakhs

   (b) ₹ 170 lakhs

   (c) ₹ 174 lakhs

   (d) None of the above

8. What accounting treatment should be done in FA Ltd.'s books for the year ending 31st March 20X3, as the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system?

    (a) Nothing needs to be provided for claim instituted by the customer as the Company is suitably covered against any possible losses.

    (b) Provision of ₹ 1.6 lakhs should be recognised with a corresponding charge to profit or loss.

    (c) Provision of ₹ 0.4 lakhs as per best possible outcome should be recognised with a corresponding charge to profit or loss.

    (d) Contingent Liability would be disclosed in the 31st March 20X3 financial statements. Charge to profit or loss if any would be recognised in the period when the claim is settled.

9. Compute the total amount to be charged to the Statement of Profit and Loss with respect to Production Line for the year ending 31st March 20X3 and the balance of Provision for Dismantling Cost carried to Balance Sheet.

    (a) ₹ 1.70 lakhs; ₹ 1.36 lakhs

    (b) ₹ 1.42 lakhs; ₹ 1.70 lakhs

    (c) ₹ 1.76 lakhs; ₹ 1.42 lakhs

    (d) ₹ 1.42 lakhs; ₹ 1.76 lakhs

10. Compute the cost of the production Line to be capitalized initially on 31st May, 20X2.

    (a) ₹ 13.26 lakhs

    (b) ₹ 14.60 lakhs

    (c) ₹ 13.96 lakhs

    (d) ₹ 15.76 lakhs

Consolidated Financial Statements

11. A Ltd. owns 100% of a subsidiary B Ltd. It disposes of 60% of its interest in the subsidiary for ₹ 360 million and loses control of the subsidiary. It will de-consolidate the subsidiary and account for the remaining 40% interest as an associate using the equity method of accounting. At the disposal date, the fair value of the retained investment in B Ltd. is determined to be ₹ 240 million. The carrying value of the identifiable net assets of the subsidiary is ₹ 440 million, excluding goodwill. There is ₹ 60 million of goodwill recorded related to the previously acquired interests in the subsidiary. A Ltd. tested the subsidiary's goodwill and long-lived assets prior to disposal and there was no impairment. There is ₹ 4 million credit in the available-for-sale reserve and ₹ 10 million credit in the revaluation reserve relating to the subsidiary B Ltd. The tax consequences of the gain have been ignored.

    Required:

    (i) Pass Journal Entries for sale of 60% stake of B Ltd. on disposal date

    (ii) Compute gain on 40% retained investment

Ind AS 105: Non-Current Assets Held for Sale and Discontinued Operations

12. A Ltd. has a wholly owned subsidiary B Ltd. A Ltd. sells subsidiary B Ltd. to C Ltd. a listed entity, for shares in C Ltd. and ends up owning 75% of C Ltd.'s shares.

    The net assets of B Ltd. prior to the disposal are ₹ 10,00,000 (fair value ₹ 13,00,000) and goodwill previously capitalised and not impaired is ₹ 6,00,000; the carrying value of B Ltd. in A Ltd.'s books is ₹ 15,00,000.

    At the date A Ltd. acquired B Ltd., B Ltd.'s profit and loss reserve was ₹ 400,000 and B has since made ₹ 100,000 post acquisition profits.

    The position prior to the transaction was as follows: (Amount in ₹)

Consolidation of A Ltd. and B Ltd. before transaction	A Ltd.	B Ltd.	Elim	Consol
Goodwill	-	-	600,000	600,000

Investment in subsidiary	1,500,000	-	(1,500,000)	-
Net assets	10,000,000	1,000,000	-	11,000,000
Total assets	**11,500,000**	**1,000,000**	**(900,000)**	**11,600,000**
Share capital	2,000,000	500,000	(500,000)	2,000,000
Retained earnings	9,500,000	100,000	-	9,600,000
Pre-acquisition reserves	-	400,000	(400,000)	-
Total equity	**11,500,000**	**1,000,000**	**(900,000)**	**11,600,000**

The net assets of C Ltd. prior to its acquisition of B Ltd. were ₹ 380,000 (fair value ₹ 500,000). C Ltd. then issued shares worth ₹ 17,50,000 (which is the fair value of the consideration given for the acquisition of 100% of B), being ₹ 600,000 nominal value and ₹ 11,50,000 premium. The balance sheets of the three companies directly after the issue of shares by C Ltd. were as follows: (Amount in ₹)

Summarized balance sheets	**A Ltd.**	**B Ltd.**	**C Ltd.**
Investment in subsidiary	1,750,000	-	1,750,000
Net assets	10,000,000	1000,000	380,000
	11,750,000	1000,000	2,130,000
Share capital	2000,000	500,000	800,000
Additional paid in capital	-	-	1,150,000
Retained earnings	9,750,000	500,000	
			180,000
Total equity	11,750,000	1,000,000	2,130,000

The parent A Ltd., had an interest in B Ltd. that cost ₹ 15,00,000 and has in effect swapped this for an interest in C Ltd.'s group. In its separate financial statements, A Ltd. states its investment in C Ltd. group at the fair value of the consideration given ₹ 17,50,000.

The non-controlling interest is determined with reference to the proportionate share of the acquired C Ltd.'s net identifiable assets.

Required:

(i) Compute gain or loss on effective disposal of B Ltd.

(ii) Compute goodwill on acquisition of C Ltd.

Note:

a. C Ltd. is not required to prepare consolidated financial statements.

b. Ignore the possibility that the transaction could be classified as a reverse acquisition of C Ltd. by B Ltd.

Ind AS 28: Investment in Associates and Joint Ventures

13. H Ltd. purchased a 100% subsidiary S Ltd. for ₹ 500,000 at the end of March, 20X3, when the fair value of the S Ltd.'s net assets was ₹ 400,000. H Ltd. sold 60% of its investment in the S Ltd. in March, 20X5 for ₹ 675,000, leaving H Ltd. with 40% investment and significant influence. At the date of disposal, the carrying value of the net assets of S Ltd., excluding goodwill, is ₹ 800,000. The fair value of the investment in S Ltd. retained is proportionate to the fair value of the 60% investment sold.

Required:

Compute gain or loss for H Ltd. on sale of 60% stake in S Ltd. for the purpose of separate financial statements and consolidated financial statements.

Ind AS 41 : Agriculture

14. A Ltd. purchased 100 goats at an auction for ₹ 1,00,000 on 30th September, 20X7. Subsequent transportation costs were ₹ 1,000. A Ltd. would have to incur the same transportation costs if it had sold its goats in this auction. In addition, there would be a 2% auctioneer's fee on the market price of the goats payable by the seller. A Ltd. so incurred ₹ 500 on veterinary expenses.

On 31st March 20X8, the market value of the goats in the most relevant market increases to ₹ 1,10,000. Transportation costs of ₹ 1,000 would have to be incurred by the seller to get the goats to the relevant market. An auctioneer's fee of 2% on the market price of the goats would be payable by the seller.

On 1st June 20X8, the entity sold 18 goats at auction for ₹ 20,000 and incurred transportation charges of ₹ 150. In addition, there was a 2% auctioneer's fee on the market price of the goats paid by the seller.

On 15th September, 20X8, the fair value of the 82 goats was ₹ 82,820. 42 goats were slaughtered on that day, with a total slaughter cost of ₹ 4,200. The total market price of the carcasses on that day was ₹ 48,300, and the estimated transportation cost to sell the carcasses is ₹ 420. No other selling costs are expected.

On 30th September, 20X8, the market price of the remaining 40 goats was ₹ 44,800. The estimated transportation cost is ₹ 400. In addition, there would be a 2% auctioneer's fee on the market price of the goats payable by the seller.

A Ltd. adopts the fair value model to recognize biological assets, as required by the standard, and reports on 30th September and 31st March each year and determines fair value on these dates.

Pass Journal Entries for the above transactions.

Ind AS 28: Investment in Associates and Joint Ventures

15. Beta Limited (investee) has issued 2,000 equity shares which are outstanding at the reporting date. On this date, Beta issues 1,000 share options to its employees, which can be converted into 1,000 equity shares of Beta. The grant-date fair value of each option issued is ₹ 1. The options will vest over five years and all 1,000 options are expected to vest.

    Beta recognises share-based remuneration expense of ₹ 200 in its profit or loss and an offsetting credit to equity in the current year. Alpha Limited (investor) holds 600 shares of Beta. Alpha has significant influence over Beta. Alpha recognises its share of the remuneration expense in its profit or loss as part of income from the equity-accounted investees. It records the offsetting credit as a reduction of its investment in Beta.

At the end of the vesting period, all options vest and are exercised. The exercise price is ₹ 3 per option. The face value per share is ₹ 1.

Required

(i) Pass journal entries in the books of Beta Limited and Alpha Limited for recording share-based payment expenses for the first year.

(ii) Pas Journal entries for exercising of option in the 5^{th} year, in the books of Beta Limited.

(iii) In the books of Alpha Limited, compute the loss on dilution of shares of Beta Limited and pass journal entries for the same. Beta has net assets totalling ₹ 11,000, immediately before the shares are issued.

Ind AS 109 : Financial Instruments

16. Zx issues a fixed-rate loan for ₹ 500,000 and incurs issue costs of ₹ 20,000, resulting in an initial carrying value of ₹ 480,000. The loan carries an interest rate of 8% per annum, and it is repayable at par at the end of year 10. However, under the contract, Zx can call the loan at any time after year 4 by paying a fixed premium of ₹ 30,000. The fair value of the option is ₹ 10,000 at inception. The effective interest rate amounts to 8.30213%.

Required:

(i) How is the embedded issuer-only call feature accounted for by Zx, the issuer initially?

(ii) Explain the accounting of the loan when

  (a) In years 1 and 2, there is no change in interest rate since inception for an instrument of similar maturity and credit rating. The option's fair value (time value) at the end of year 2 is ₹ 6,000.

  (b) At the end of year 3, interest rates have fallen, and the option's fair value increases to ₹ 9,000.

(c) At the end of year 4, interest rates have fallen further. The option's fair value increases to ₹ 20,000, and the entity decides to repay the loan at the end of year 4.

Ind AS 21 : The Effects of Changes in Foreign Exchange Rates

17. PQR Ltd. has entered into a fixed price contract on 1st February, 20X2 to provide annual maintenance services worth USD 10,000 which is rendered uniformly throughout the year over a period of two years (1st April, 20X2 – 31st March 20X4) to a foreign customer. As per the terms of the contract, it has received advance payment of USD 3,000 on 1st February, 20X2 and the balance is to be received on 31st March, 20X4.

    The entity recognises revenue at the end of every year.

    How should the entity account for the said transactions, where the consideration is received in advance?

Ind AS 7 : Statement of Cash Flows

18. A Ltd., whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of ₹ 2,00,000, but no trade receivables or trade payables on 1st April, 20X2. During 20X2-20X3, A Ltd. entered into the following foreign currency transactions:

    1. A Ltd. purchased goods for resale from Europe for € 1,00,000 when the exchange rate was € 1 = ₹ 105. This balance is still unpaid at 31st March, 20X3 when the exchange rate is € 1 = ₹ 100.

    2. A Ltd. sold the goods to an American client for $ 1,50,000 when the exchange rate was $1 = ₹ 85. This amount was settled when the exchange rate was $1 = ₹ 87.

    3. A Ltd. also borrowed € 1,00,000 under a long-term loan agreement when the exchange rate was € 1 = ₹ 105 and immediately converted it to ₹ 1,05,00,000.

    Recommend how cash flows arising from above transactions would be reported in the statement of cash flows under indirect method.

Ind AS 116 : Leases

19. Wealth Ltd. has entered into lease agreement with a lessor for a period of 5 years at the annual lease rental of ₹ 8 lakhs. There is an option at the end of the said period that lease can be owned by lessee. Other factors to be noted are discount rate of 8% per annum and interest rate implicit in the lease of 10% per annum.

    Wealth Ltd. is reasonably certain to exercise the option to purchase the leased asset at the end of lease term and ₹ 56,00,000 is the exercise price agreed in the lease term for purchasing of land at the end of the 5^{th} year. Therefore, the same has been considered in computing the present value of the lease liability.

    At the end of the year 3, Wealth Ltd. exercised the option to purchase the land at value of ₹ 56 lakhs, whereas the market value on that date was ₹ 75 lakhs.

    For revised discount rate, consider the interest rate implicit in the lease.

    Required

    (i) Calculate the lease liability and right of use asset for the lease with the lessor. RoU is depreciated on SLM basis.

    (ii) Provide the amounts reflecting in the balance sheet, profit and loss and statement of cash flows at the end of year 1.

    (iii) What are the accounting entries if Wealth Ltd. decides to purchase the leased property at the end of year 3?

Ind AS 102 : Share-based Payments

20. Max Ltd. enters into a share-based payment arrangement with its employees on the following terms:

    - Each employee will receive 500 shares if they remain employed for a period of five years.

- It is expected that no employees are expected to leave during the five year period.
- The grant date fair value of the award is ₹ 4,000.
- If an employee leaves Max Ltd. after the five -year period, but before its shares are listed, the entity has an option to purchase the shares for fair value from the employee.
- On grant date, Max Ltd. expects to list in the list in the next 3-5 years. This is the first share-based plan and Max Ltd. has no past practice or stated policy of buying back shares from employees when the employees leave. Neither does Max Ltd. expect that it will settle the awards in cash.
- At the end of year 2, Max Ltd. on longer expects to list; and the employees are informed of this fact. Max Ltd. announces to employees that if it is not listed after the five years and employees leave, Max Ltd. will repurchase the shares. The fair value of the shares is ₹ 6,000 on this date.
- At the end of year 3, the fair value of the liability has increased to ₹ 9,000

Required

(i) Determine the accounting for years 1-3.

(ii) What would be the treatment of the awards, if at the end of year 2, Max Ltd. does not inform employees that it will repurchase the shares after a five-year period, and a listing of the entity's shares is still achievable. But at the end of year 6, Max Ltd. has not yet listed and two of the employees leave. Max Ltd. exercises its settlement choice and buys the leaving employee's shares at fair value.

SUGGESTED ANSWERS

Answer to Case Scenario I

1.	**Option (d) :** ₹ 36 million
2.	**Option (c)** : ₹ 37.782 million
3.	**Option (b) :** Agreement is in the nature of Joint Operations
4.	**Option (c)** : ₹ 20,25,00,000
5.	**Option (a) :** ₹ 50,62,500
6.	**Option (d):** Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs
7.	**Option (b) :** ₹ 170 lakhs
8.	**Option (b) :** Provision of ₹ 1.6 lakhs should be recognized with a corresponding charge to profit or loss.
9.	**Option (c) :** ₹ 1.76 lakhs; ₹ 1.42 lakhs
10.	**Option (a) :** ₹ 13.26 lakhs

11. (i) The accounting entry on the disposal date for the 60% interest sold, the gain recognised on the 40% retained investment and the de-recognition of the subsidiary is as follows:

		₹ in million	
Cash / Bank A/c	Dr.	360	
Investment in associate	Dr.	240	
Available -for-sale reserve	Dr.	4	
Revaluation reserve	Dr.	10	
To Net assets (including goodwill)			500
To Retained earnings			10
To Gain on disposal of controlling interest			104

The ₹ 104 million gain on the interest sold and the retained investment is recognised in the income statement and is disclosed in the consolidated financial statements.

(ii) Computation of remeasurement of the retained non-controlling investment to fair value:

	₹ in million
Fair value of retained investment	240
Percentage retained of carrying value of subsidiary [(440+ 60) x 40%]	(200)
Gain on retained investment	40

The gain or loss on the interest sold and on the retained investment recognised in the income statement, is calculated as follows:

	₹ in million
Fair value of the consideration	360
Fair value of retained investment	240
	600
Less: Carrying value of former subsidiary's net assets (440 + 60)	(500)
Available for sale reserve transferred to income	4
Gain on interest sold and on retained investment	104

12. Effective disposal of stake in B Ltd. [100%- (75% of 100%)] = 25% which will be considered as non-controlling interest in B Ltd.

With regard to A Ltd.'s consolidated financial statements, it is necessary to calculate the 'gain or loss' (on the disposal of 25% of B Ltd.) that is recognised in equity and the goodwill arising (on the acquisition of C Ltd.).

When control is retained, it should be noted that goodwill attributed to the portion sold remains unchanged and is allocated to the non-controlling interest. In addition, if control is retained, the gain or loss should be recognised in equity.

Gain or loss on disposal of 25% of B Ltd.	**₹**
Calculation of non-controlling interest B Ltd. in A's consolidated financial statement: Book value of assets and liabilities given up plus attributable goodwill [(₹ 10,00,000 + ₹ 6,00,000) x 25%]	4,00,000
Less: Fair value of business received in consideration (W.N.1)	(4,37,500)
Gain on disposal recognized in equity	37,500

The net assets compared should include an appropriate portion of any cumulative exchange differences and any reserve on FVOCI debt investments previously recognised in other comprehensive income and accumulated in equity.

Goodwill on acquisition of 75% of C Ltd.	**₹**
Fair value of business given in consideration (₹ 17,50,000 x 25%)	4,37,500
Non-controlling interest C Ltd. measured at the proportionate share of the acquired net-asset (₹ 5,00,000 x 25%)	1,25,000
	5,62,500
Less: Fair value of assets and liabilities acquired	(5,00,000)
Goodwill	62,500

The consolidated entry recognised is:

	₹	₹
Fair value of net identifiable assets -C Ltd. Dr.	5,00,000	
Goodwill – C Ltd. Dr.	62,500	
To Non-controlling interest B Ltd. (16,00,000 x 25%)		4,00,000
To Non-controlling interest – C Ltd. (500,000 x 25%)		1,25,000
To Equity		37,500

Consolidation of A Ltd., B Ltd. and C Ltd. after the transaction

(Amount in ₹)

Consolidation of A Ltd., B Ltd. and C Ltd. after the transaction	A Ltd.	B Ltd.	C Ltd.	Elim	Consolidated
Goodwill (W.N.2)	-	-	-	662,500	662,500
Investment in subsidiary (W.N.3)	1,750,000	-	1,750,000	(3,500,000)	-
Net assets	10,000,000	1,000,000	380,000	120,000	11,500,000
	11,750,000	1,000,000	2,130,000	(2,717,500)	12,162,500
Equity share capital	2,000,000	500,000	800,000	(1,300,000)	2,000,000
Additional paid in capital	-	-	1,150,000	(1,150,000)	-
Retained earnings (W.N.4)	9,750,000	500,000	180,000	(792,500)	9,637,500
Non-controlling interest	-	-	-	525,000	525,000
Total equity	11,750,000	1,000,000	2,130,000	(2,717,500)	12,162,500

Note:

C Ltd.'s net assets are adjusted to fair value for the purpose of the consolidation as A Ltd. has acquired 75% of C Ltd. and gained control of C Ltd.

Working Notes:

1. A Ltd. receives consideration (that is, shares in C Ltd.) with a fair value of ₹ 17,50,000. However, the amount included in the calculation is the amount attributable to the interest in B Ltd. that has been disposed of, that is 25% of ₹ 17,50,000 = ₹ 4,37,500.

   The fair value of the part of the subsidiary B that is effectively disposed of is derived from the price paid by C Ltd. for the whole of B Ltd. which is ₹ 17,50,000.

2. The goodwill balance of ₹ 6,62,500 represents the previous balance of the goodwill of ₹ 6,00,000 arising on the acquisition of B Ltd., plus the goodwill of ₹ 62,500 arising on the acquisition of C Ltd. The original goodwill arising on the acquisition of B Ltd. is

retained and a portion (25%) is allocated to the non-controlling interest.

3. On consolidation the net assets of C Ltd. are increased from ₹ 3,80,000 to their fair value of ₹ 5,00,000.

4. **Computation of consolidated retained earnings**

	₹
Retained earnings of A Ltd. (excluding the investment revaluation gain of ₹ 2,50,000, which is reversed)	95,00,000
Add: Post-acquisition profits of B Ltd.	1,00,000
Add: Gain on disposal (recognised directly in equity)	37,500
	96,37,500

5. **Computation of non-controlling interest**

	₹
25% of C Ltd.'s fair value of net assets (₹ 5,00,000 x 25%)	1,25,000
Add: 25% of B Ltd.'s net assets (including goodwill) (₹ 16,00,000 x 25%)	4,00,000
	5,25,000

13. (i) Computation of gain on the sale of 60% investment in Separate Financial Statements of H Ltd.'s for the year ended 31st March, 20X5

	₹
Sale proceeds	6,75,000
Less: Cost of investment in S Ltd. (5,00,000 x 60%)	(3,00,000)
Gain on sale in the parent's financial statements	3,75,000

(ii) Computation of gain on the sale of 60% investment in Consolidated Financial Statements of H Ltd.'s for the year ended 31st March, 20X5

In the consolidated financial statements, the group will calculate the gain or loss on disposal differently. The carrying amounts of all of the assets, including goodwill and the full amount of any cumulative exchange differences and any FVOCI-reserve previously recognised in equity, are de-recognised. when control is lost. This is compared to the proceeds received and the fair value of the investment retained.

The gain on disposal will be calculated as follows:

	₹
Sale proceeds	6,75,000
Add: Fair value of 40% interest retained	4,50,000
	11,25,000
Less: Net assets disposed, including goodwill (8,00,000 + 1,00,000)	(9,00,000)
Gain on sale in the group's financial statements	2,25,000

This gain on loss of control would be recorded in profit or loss. The gain or loss includes the gain of ₹ 1,35,000 (₹ 6,75,000 - (₹ 9,00,000 x 60%)) on the portion sold. However, it also includes a gain on remeasurement of the 40% retained interest of ₹ 90,000 (₹ 4,50,000 - ₹ 3,60,000). The entity will need to disclose the portion of the gain that is attributable to remeasuring any remaining interest to fair value that is ₹ 90,000).

14. Journal Entries

		₹	₹
Initial recognition of goats at 30th September, 20X7			
Biological asset (goats)	Dr.	97,000	
Loss on initial recognition	Dr.	4,000	

To Cash (purchase and transport to farm) (Initial recognition of the goats at fair value less costs to sell)		101,000
Veterinary expenses Dr. To Cash Recognition of veterinary expenses at 30th September, 20X7 (such expenses do not, in themselves, affect the fair value)	500	 500
Biological asset (goats) Dr. To Gain on change in fair value less costs to sell (1,06,800-97,000) (Subsequent measurement of biological assets at fair value less costs to sell at 31st March, 20X7 reporting date)	9,800	 9,800
Sale of goats on 1st June, 20X8 Cash Dr. Selling expenses (150+400) Dr. To Revenue (Recognition of the revenue from the sale of goats)	 19,450 550	 20,000
Transfer of biological assets to inventory on 15th September, 20X8 Inventory (Carcasses) Dr. Fair value loss on goats Dr. To Biological asset (goats) (the proportion of goats sold using the fair value at the previous reporting period, 31st March, 20X8) (1,06,800 x 42/100) To Cash (Transfer of goats slaughtered to inventory)	 47,880 1,176	 44,856 4,200
Subsequent measurement of goats at 30th September, 20X8 Loss on change in fair value less costs to sell Dr.	 18,440	

To Biological asset (goats) (fair value of goats at last reporting date less transfer to inventory) (43,504-(1,06,800-44,856))		18,440
(Subsequent measurement of biological assets at fair value less costs to sell at 30th September, 20X8 reporting date)		

Working Notes:

1.	**The fair value less costs to sell at initial recognition**	**₹**
	Fair value in the most relevant market	1,00,000
	Transport costs	(1,000)
	Auctioneer's fee	(2,000)
		97,000
2.	**The fair value less costs to sell at 31st March, 20X8 and gain thereupon**	
	Fair value in the most relevant market	1,10,000
	Transport costs	(1,000)
	Auctioneer's fee	(2,200)
		1,06,800
	Less: Original cost recorded	(97,000)
		9,800
3.	**The fair value less estimated costs to sell of the carcasses on 15th September, 20X8**	
	Market value of carcasses	48,300
	Transport costs	(420)
		47,880
	Initial cost of the carcasses at the date of transfer to inventory is measured at the fair value less costs to sell of the carcasses. [Ind AS 41.13]	
4.	**The fair value less costs to sell at 30th September, 20X8**	
	Fair value in most relevant market	44,800
	Transport costs	(400)
	Auctioneer's fee	(896)
		43,504

The reduction in the herd due to the sale of goats at 1st June, 20X8 is included in the fair value adjustment at 30th September, 20X8. An alternative to the above presentation is to remeasure the goats to fair value just prior to the point at which they are sold and record a cost of sales figure separately with a corresponding reduction in the value of the biological assets. This will result in the same net profit for the period, but the presentation of cost of sales and net fair value re-measurements on biological assets will be different.

15. (i) Journal Entries to be recorded over the five-year vesting period:

	₹	₹
In Beta's books		
Share based payments remuneration (profit or loss) Dr.	200	
To Shareholders' equity (ESOP reserve)		200
(To recognise share based payment at associate level)		
In Alpha's books		
Share based payment remuneration (profit or loss) Dr.	60	
Investment in associate		60
(To recognise share based payment at investor level)		

(ii) Journal Entries in the books of Beta to recognise share issue:

	₹	₹
Cash Dr.	3,000	
Shareholders' equity (ESOP reserve) Dr.	1,000	
To Share capital		1,000
To Share premium		3,000
(To recognise exercise of options at the associate level)		

(iii) Accounting in the Financial Statements of Alpha

The issue of new share options results in a dilution of Alpha's interest in Beta by 10% [30% - {(600/(2,000+1000)x100}]. However, Alpha maintains significant influence over Beta.

Alpha calculates loss on dilution as below.

Alpha's share of net assets before exercise (11,000 x 30%)	3,300
Alpha's share of net assets after exercise ((11,000+3,000) x 20%)	(2,800)
Cumulative adjustment required	500
Less: Adjustment previously recognized for share based payment expense (60 x 5 years)	(300)
Loss on dilution	200

Alpha passes the following entry to recognise dilution

	₹	₹
Loss on dilution (profit or loss) Dr.	200	
To Investment in associate		200
(To recognize dilution of investment in associate)		

16. It is first necessary to determine whether the call option is closely related to the host debt instrument. Because the fixed premium is required to be paid whenever the call option is exercised after year 4, it is not known if it will be equal to the present value of any interest lost during the remaining term after exercise of the option. Additionally, the call option's exercise price is ₹ 5,30,000 (inclusive of the premium) therefore, it is unlikely to be approximately equal to the debt instrument's amortised cost in year 4, or at any subsequent year. Consequently, the call option shall be separated from the host debt contract and accounted for separately. This assumes that the expected life of the instrument is the full 10-year term. Even if the expected life is assumed to be four years, the 10-year loan with a call option after four years is economically same as a four-year loan with a six-year extension option. Because there is no concurrent adjustment to the interest rate after four years, the term extension option would not be closely related, and it would need to be accounted for separately. Thus, whichever way the loan and option are viewed, the embedded derivative needs to be separated.

Even though the option is out of the money at inception, because the option's exercise price is greater than the debt instrument's carrying value, it has a time value.

Since the value of a callable bond is equal to the value of a straight bond less the value of the option feature, the accounting entries at inception is:

		Dr (₹)	Cr. (₹)
Embedded option (derivative asset)	Dr.	10,000	
Cash	Dr.	4,80,000	
To Debt instrument (host)			4,90,000

Since the call option will be fair valued and accounted for separately, with fair value movements taken to profit or loss, it has no impact on the entity's estimate of future cash flows; accordingly, the amortisation period will be the debt host's period to original maturity. The amortisation schedule is shown below:

	Opening amortised cost ₹	Interest expense @ 8.30213% ₹	Cash payments ₹	Closing amortised cost ₹
Year 1	490,000	40,680	40,000	490,680
Year 2	490,680	40,737	40,000	491,417
Year 3	491,417	40,798	40,000	492,216
Year 4	492,216	40,864	40,000	493,080
Year 5	493,080	40,936	40,000	494,016
Year 6	494,016	41,014	40,000	495,030
Year 7	495,030	41,098	40,000	496,128
Year 8	496,128	41,189	40,000	497,317
Year 9	497,317	41,288	40,000	498,605
Year 10	498,605	41,395	540,000	-

The entity would recognize interest expense in profit or loss and the loan's amortised cost in the balance sheet each year, in accordance with the above amortisation schedule.

In years 1 and 2, there is no change in interest rate since inception for an instrument of similar maturity and credit rating. The option's fair value (time value) at the end of year 2 is ₹ 6,000. The decrease in fair value of ₹ 4,000 since inception will be reported in profit or loss, and the option will be recorded at ₹ 6,000 at the end of year 2.

At the end of year 3, interest rates have fallen, and the option's fair value increases to ₹ 9,000. The increase in value of ₹ 3,000 will be recorded in profit or loss, and the option will be recorded at its fair value of ₹ 9,000 at the end of year 3.

At the end of year 4, interest rates have fallen further. The option's fair value increases to ₹ 20,000, and the entity decides to repay the loan at the end of year 4.

The accounting entries, to reflect the change in the option's fair value and the loan's early repayment at the end of year 4, are as follows:

		Dr (₹)	Cr. (₹)
Embedded option	Dr.	11,000	
To Profit or loss			11,000
(Early repayment of loan)			
Debt instrument (host)	Dr.	4,93,080	
Loss on de- recognition of liability	Dr.	56,920	
To Embedded option (derivative asset)			20,000
To Cash			5,30,000

17. If the advance received from the customer is determined to be in the nature of prepayments or progress payments, these are treated as non-monetary items.

Accordingly, in the instant case, PQR Ltd. receives the advance payment of USD 3,000 on 1st February which it translates into its functional currency using the exchange rate on 1st February, 20X2. Applying paragraph 23(b) of Ind AS 21, the entity does not update the translated amount of the nonmonetary liability.

Applying Ind AS 115, Revenue from Contracts with Customers, it recognises revenue over a period of two years.

Since, the entity recognises revenue at the end of the year, revenue of USD 5,000 will be recognised at the end of the first year.

PQR Ltd. has determined that the consideration of USD 3,000 relates to the service it has rendered in the first year. At the end of year 1, the entity is entitled to an unconditional right to USD 2,000 of the remaining consideration.

Accordingly, at the end of the first year, on 31st March 20X3, it recognises revenue of USD 5,000 out of which USD 3,000 will be recognised by derecognising the contract liability and no exchange fluctuation will be involved. Balance of USD 2,000 revenue will be recognised by translating the exchange rate at the date of transaction and a receivable (monetary asset) will be recognised and translated at the exchange rate as at 31st March 20X3.

It will update the translated amount of the receivable until the receivable is settled on 31st March 20X4 and recognises the corresponding gain or loss in profit or loss.

At the end of the second year on 31st March 20X4, it recognises the balance revenue of USD 5,000 using the exchange rate at the date of the transaction.

18. An exchange gain on retranslation of the trade payable of ₹ 5,00,000 is recorded in profit or loss [€ 1,00,000 x (105 – 100) = ₹ 5,00,000].

A further exchange gain of ₹ 3,00,000 regarding the trade receivable is recorded in the statement of profit or loss [$ 1,50,000 x (87 – 85) = ₹ 3,00,000].

The loan was retranslated at 31st March, 20X3 @ ₹ 100 = ₹ 1,00,00,000, with a further exchange gain of ₹ 5,00,000 recorded in the statement of profit or loss.

A Ltd. therefore records a cumulative exchange gain of ₹ 13,00,000 (5,00,000 + 3,00,000 + 5,00,000) in arriving at its profit for the year.

In addition, A Ltd. records a gross profit of ₹ 22,50,000 (₹ 1,05,00,000 – ₹ 1,27,50,000) on the sale of the goods.

Statement of Cash Flows

Cash flows from operating activities (Indirect method)

Particulars	**Amount (₹)**
Profit before taxation (22,50,000 + 13,00,000)	35,50,000
Adjustment for unrealised exchange gains/losses:	
Foreign exchange gain on long term loan	(5,00,000)
Decrease in trade payables	(5,00,000)
Operating cash flow before working capital changes	25,50,000
Changes in working capital (Due to increase in trade payables)	1,05,00,000
Net cash inflow from operating activities	1,30,50,000
Cash inflow from financing activity	1,05,00,000
Net increase in cash and cash equivalents	2,35,50,000
Cash and cash equivalents at the beginning of the period	2,00,000
Cash and cash equivalents at the end of the period (W.N.)	2,37,50,000

Note: Taxation is ignored.

Working Note:

Closing Cash and Cash Equivalents

Particulars	**Amount (₹)**
Opening balance of cash and cash equivalents	2,00,000
Add: Received from settlement of Trade Receivables	1,30,50,000
Add: Received from conversion of loan	1,05,00,000
	2,37,50,000

19. (i) Calculation of ROU Asset and Lease Liability:

Year	Lease Payments / Purchase Price	PVF @ 10%	PV of Lease payments
1	8,00,000	0.909	7,27,200
2	8,00,000	0.826	6,60,800
3	8,00,000	0.751	6,00,800
4	8,00,000	0.683	5,46,400
5	64,00,000 (8,00,000 + 56,00,000)	0.621	39,74,400
			65,09,600

Entity would amortise the right-of-use asset over the useful life of the underlying asset (5 years). Annual amortisation expense would be ₹ 13,01,920 (₹ 65,09,600 / 5 years). Accordingly, ROU Asset balance at the end of Year 1 is ₹ 52,07,680 (₹ 65,09,600 - ₹ 13,01,920).

(ii) Presentation at the end of Year 1:

In Balance Sheet	In Profit and Loss	In Statement of Cash Flows
ROU Asset: ₹ 52,07,680 (W.N.2)	Depreciation = ₹ 13,01,920 (W.N.2)	Cash flow from financing activities: Lease payment = ₹ 8,00,000
Lease Liability: ₹ 63,60,560 (W.N.1)	Interest expense (Finance cost) = ₹ 6,50,960 (W.N.1)	

(iii) In the above part (i), it was considered that lessee was reasonably certain that he will exercise the option at the end of 5th year that's why the same has been considered in determination of lease payment. Now, lessee is exercising the option at the end of 3rd year which implies that there is **change in the assessment of an option** to purchase the underlying asset. Hence, paras 39 and 40(b) of IFRS 16 will come into the picture which are as follows *(only relevant part have been reproduced here):*

39 After the commencement date, a lessee shall apply paragraphs 40–43 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

40 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate,

if either:

(a)

(b) **there is a change in the assessment of an option to purchase the underlying asset**, assessed considering the events and circumstances described in paragraphs 20–21 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

Therefore, the lease liability has to be remeasured on change in the assessment of exercising the option.

Original lease liability is ₹ 60,16,278 (Working Note 1). Since at the end of the 3rd year, the lease has been terminated due to exercise of option to purchase the asset, the revised lease liability is the amount paid on exercising the option i.e. ₹ 56,00,000. The difference of original lease liability and revised lease liability will decrease the carrying amount of the right-of-use asset.

Accordingly, the adjustment to ROU Asset would be

= ₹ 60,16,278–₹ 56,00,000 = ₹ 4,16,278.

Journal Entry

Particulars	**(₹)**	**(₹)**
Lease liability Dr.	4,16,278	
To ROU Asset		4,16,278
(Adjustment of difference in original lease liability and revised lease liability to ROU Asset)		

PPE	Dr.	21,87,562	
To ROU Asset (₹ 26,03,840 (Refer W.N.2) - ₹ 4,16,278) (ROU Asset balance transferred to PPE on exercising of lease option)			21,87,562
Lease Liability	Dr.	56,00,000	
To Bank/Lease payable (Extinguishment of lease liability)			56,00,000

Note: We have stopped till the entry to exercise the option to purchase the leased asset (as per the requirement of the question). Treatment for change in the value of PPE due to its fair value has not been considered here.

Working Notes:

1. Calculation of outstanding Lease Liability at the end of 3rd year

Year	Opening balance (A)	Interest @ 10% (B)	Lease payments (C)	Closing balance (A) + (B) - (C)
	₹	₹	₹	₹
1	65,09,600	6,50,960	8,00,000	63,60,560
2	63,60,560	6,36,056	8,00,000	61,96,616
3	61,96,616	6,19,662	8,00,000	60,16,278

2. Calculation of ROU Asset balance at the end of 3rd year

Year	Opening balance (A)	Depreciation (B)	Closing balance (A-B)
	₹	₹	₹
1	65,09,600	13,01,920	52,07,680
2	63,60,560	13,01,920	39,05,760
3	61,96,616	13,01,920	26,03,840

20. (i) On the grant date, the employer accounts for the arrangement as an equity settled share-based payment because there is no present obligation to settle in cash.

Journal Entries

	₹	₹
Employee benefit expenses (4,000 x 1/5) Dr.	800	
To Share-based payment reserve		800

At the end of year 2, Max Ltd. has created an obligation to settle in cash through a change in stated policy:

Employee benefit expenses (4,000 x 1/5) Dr.	800	
To Share-based payment reserve		800

The above entry is to record ₹ 4,000 vesting over a period of five years which was the expectation until year end.

Share-based payment reserve Dr.	2,400	
To Share-based payment liability (6,000 x 2/5)		2,400

In substance the reclassification represents the repurchase by Max Ltd. of its own shares, so no further expense is recognized. The subsequent measurement of the liability would follow the requirements for a cash settled share – based payment.

At the end of year 3, the award is accounted for on a cash – settled basis as follows:

Employee benefit expenses Dr.	3,000	
To Share-based payment liability (9,000x3/5–2,400)		3,000

(ii) The settlement of the two employee's award may create a valid expectation in the minds of the remaining employees that they will also receive cash when they leave. However, judgement will be required to determine if an isolated transaction establishes past practice resulting in a cash settlement obligation for Max Ltd. Depending on any contrary facts, Max Ltd. should treat the remaining awards as cash settled, because it now revisit the classification of any similar grants that it has made and evaluate if it should reclassify them to cash -settled.