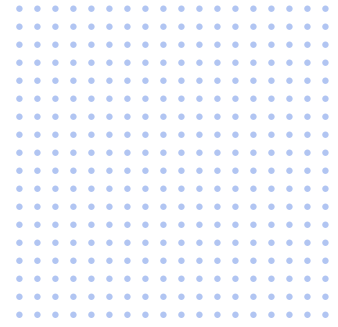




FOR CA FINAL EXAM PREPARATION

CA Final 2023 Suggested Answers · Paper 1 Financial Reporting (Old Scheme)

EXAM	YEAR	TYPE
CA Final	2023	Suggested Answers

SUBJECT	DATE
Paper 1 Financial Reporting (Old Scheme)	May 2023

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Question No.1 is compulsory. Candidates are required to answer any **four** questions from the remaining **five** questions.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Question 1

- (a) The draft balance sheets of Swan Limited and Duck Limited as at 31st March 2023 is as under:

Amount ₹ in lakhs		
Particulars	Swan Limited	Duck Limited
Assets		
Non-Current Assets		
Property, Plant and Equipment	800	1,000
Investments	900	240
Current Assets		
Inventories	360	260
Financial Assets		
- Trade Receivables	1,040	540
- Cash & Cash Equivalents	520	290
Other Current Assets	<u>700</u>	<u>350</u>
Total	<u>4,320</u>	<u>2,680</u>
	Swan Limited	Duck Limited
Equity and Liabilities		
Equity		
Share Capital		
- Swan Limited: Equity Shares of ₹ 10 each	1,200	-
- Duck Limited: Equity Shares of ₹ 100 each	-	900
Other Equity	1,450	420
Non-Current Liabilities		
Financial Liabilities		
- Long-Term Borrowings	700	500
Long-Term Provisions	140	200

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Deferred Tax	80	-
Current Liabilities		
Financial Liabilities		
- Short-Term Borrowings	250	290
- Trade Payables	<u>500</u>	<u>370</u>
Total	<u>4,320</u>	<u>2,680</u>

On 1st April 2023, Swan Limited acquired 80% equity shares of Duck Limited. Swan Limited agreed to pay to each shareholder of Duck Limited, ₹ 20 per equity share in cash and to issue five equity shares of ₹ 10 each of Swan Limited in lieu of every six shares held by the shareholders of Duck Limited. The fair value of the shares of Swan Limited was ₹ 100 per share as on the date of acquisition.

Swan Limited also agreed to pay an additional consideration being higher of ₹ 90 lakhs and 30% of any excess profits in the first year, after acquisition, over Duck Limited's profits in the preceding 12 months (financial year 2022-2023) made by Duck Limited. The additional amount will be due in 3 years post the date of acquisition. Duck Limited earned ₹ 30 lakhs profit in the preceding year and expects to earn ₹ 40 lakhs in financial year 2023-2024.

The fair value exercise resulted in the following:

- Fair value of Property, Plant and Equipment and Investments of Duck Limited on 1st April, 2023 was ₹ 1,200 lakhs and ₹ 300 lakhs respectively.
- Duck Limited owns a popular brand name that meets the recognition criteria for Intangible Assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of ₹ 250 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.
- Following is the statement of contingent liabilities of Duck Limited as on 1st April, 2023:

Particulars	Fair Value (₹ in lakhs)	Remarks
Lawsuit filed by a customer for a claim of ₹ 20 lakhs	5	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. Any amount which would be paid in respect of lawsuit will be tax deductible.
Income tax demand of ₹ 70 lakhs raised by tax authorities. Duck Limited	20	It is not probable that an outflow of resources embodying economic

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has challenged the demand in the High Court		benefits will be required to settle the claim.
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- iv. Duck Limited had certain equity settled share-based payment awards (original award) which were replaced by the new awards issued by Swan Limited. As per the terms of original awards, the vesting period was 5 years and as of the acquisition date the employees of Duck Limited had already served 2 years of service. As per the new awards, the vesting period has been reduced to 1 year (1 year from the acquisition date). The fair value of the award on acquisition date was as follows:

Original Awards: ₹ 12 lakhs

New Awards: ₹ 18 lakhs.

- v. Further, Swan Limited has also agreed to pay one of the founder shareholder of Duck Limited a sum of ₹ 15 lakhs provided he stays with the Company for two years after the acquisition.
- vi. The acquisition cost of Swan Limited for Duck Limited was ₹ 26 lakhs.
- vii. The applicable tax rate for both the companies is 30%.
- viii. Assume 10% per annum discount rate.
- ix. Also, assume, unless stated otherwise, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

You are required to prepare opening Consolidated Balance Sheet of Swan Limited as on 1st April 2023. Working Notes should form part of your answer. **(15 Marks)**

- (b) X Limited has a loan facility from a bank which is to be repaid within a period of six months from the end of the reporting period. Before the end of the reporting period, X Limited and the bank enters into an arrangement as per which the existing outstanding loan will unconditionally roll into the new facility which will expire after a period of 3 years.

- i. How should the loan be classified in the balance sheet of X Limited as at the reporting date? Give reasons.
- ii. Will the answer be different if the new facility is agreed upon after the end of the reporting period? Why? What will be the answer?
- iii. Will the answer to (i) be different if the new facility is not yet tied up with the existing bank, but X Limited has the potential to refinance the obligation. Give reasons.

(5 Marks)

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Answer

(a) Consolidated Balance Sheet of Swan Ltd as on 1st April, 2023

	Notes No.	₹ in lakhs
Assets		
Non-current assets		
Property, plant and equipment	9	2,000.00
Intangible assets	10	250.00
Financial assets		
Investment	11	1,200.00
Current assets		
Inventories	12	620.00
Financial assets:		
Trade receivables	13	1,580.00
Cash and cash equivalents	14	640.00
Other current assets	15	<u>1,050.00</u>
Total		<u>7,340.00</u>
Equity and Liabilities		
Equity		
Share capital - Equity shares of ₹ 10 each	1	1,260.00
Other equity	2	2,475.18
Non-controlling interest (W.N.4)		330.70
Non-current liabilities		
Financial liabilities		
Long-term borrowings	3	1,200.00
Long-term provisions	4	407.62
Deferred tax liability	5	231.50
Current Liabilities		
Financial liabilities		
Short-term borrowings	6	540.00
Trade payables	7	870.00
Short-term provision	8	<u>25.00</u>
Total		<u>7,340.00</u>

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Notes to Accounts (All figures are ₹ in lakhs)**1. Equity Share capital**

Equity shares of ₹ 10 each as per the balance sheet before acquisition of Duck Ltd.	1,200	
Shares allotted to Duck Ltd. (7,50,000 x 80% x ₹ 10)	<u>60</u>	1,260

2. Other Equity

As per the balance sheet before acquisition of Duck Ltd.	1,450	
Less: Acquisition cost <u>(26)</u>	1,424	
Replacement award	4.80	
Security Premium (7,50,000 shares x 80% x ₹ 90)	540	
Capital Reserve (W.N.5)	<u>506.38</u>	2,475.18

3. Long-term borrowings

As per the balance sheet before acquisition of Duck Ltd.	700	
Duck Ltd.	<u>500</u>	1,200

4. Long-term provisions

As per the balance sheet before acquisition of Duck Ltd.	140	
Deferred consideration	67.62	
Duck Ltd.	<u>200</u>	407.62

5. Deferred tax liability

As per the balance sheet before acquisition of Duck Ltd.	80	
Deferred tax impact due to acquisition of Duck Ltd. (W.N.2)	<u>151.50</u>	231.50

6. Short term borrowings

As per the balance sheet before acquisition of Duck Ltd.	250	
Duck Ltd.	<u>290</u>	540

7. Trade payables

As per the balance sheet before acquisition of Duck Ltd.	500	
Duck Ltd.	<u>370</u>	870

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8. Short-term provisions

Lawsuit damages	5	
Income-tax demand	<u>20</u>	25

9. Property, plant and equipment

As per the balance sheet before acquisition of Duck Ltd.	800	
Duck Ltd.	<u>1,200</u>	2000

10. Intangible assets

Brand of Duck Ltd. acquired		250
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11. Investment

As per the balance sheet before acquisition of Duck Ltd.	900	
Duck Ltd.	<u>300</u>	1,200

12. Inventories

As per the balance sheet before acquisition of Duck Ltd.	360	
Duck Ltd.	<u>260</u>	620

13. Trade receivables

As per the balance sheet before acquisition of Duck Ltd.	1,040	
Duck Ltd.	<u>540</u>	1,580

14. Cash and cash equivalents

As per the balance sheet before acquisition of Duck Ltd.	520		
Less: Acquisition cost paid	(26)		
Less: Paid to Duck Ltd.	<u>(144)</u>	350	
Duck Ltd.	<u>290</u>	640	

15. Other current assets

As per the balance sheet before acquisition of Duck Ltd.	700	
Duck Ltd.	<u>350</u>	1,050

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Working Notes:**1. Computation of Purchase Consideration**

Particulars	No. of shares	₹ in lakhs
Share capital of Duck Ltd.		<u>900</u>
Number of shares	9,00,000	
Shares to be issued (5 shares against 6 shares of Duck Ltd.)	7,50,000	
Fair value of Swan Ltd.'s share is ₹ 100 per share		
Purchase consideration		
Shares issued (7,50,000 x 80% x ₹ 100 per share) (A)		600
Cash payment (₹ 20 x 9,00,000 x 80%) (B)		144
Deferred consideration (discounting ₹ 90 lakhs for 3 years @10%) (C)		67.62
Replacement award [Market based measure of the acquiree award (12) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (5) of the acquiree award (ie 12 x 2/5)] (D)		<u>4.80</u>
Purchase consideration for 70% shares (A + B + C + D)		<u>816.42</u>

2. Computation of deferred tax impact due to change in fair value of asset and liabilities acquired

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	1,000	1,200	200
Intangible assets (Brand)	-	250	250
Investment	240	<u>300</u>	<u>60</u>
		1,750	510
Less: Contingent liability acquired			
Provision for lawsuit damages			<u>(5)</u>
Net difference in fair value			<u>505</u>
Deferred tax liability @ 30%			151.5

3. Computation of fair value of net identifiable assets acquired from Duck Ltd.

Particulars	Book value
Total assets as per the balance sheet	2,680
Add: Fair value adjustment in PPE and Investment (200+60)	260
Add: Intangible assets (Brand)	<u>250</u>
Fair value of total identifiable assets	3,190
Less: Total liabilities as per the balance sheet (500+200+290+370)	(1,360)
Less: Contingent liability acquired	
Lawsuit damages	5
Income tax demand	<u>20</u>
	(25)
Less: Defer tax liability (W.N.2)	<u>(151.50)</u>
Fair value of net identifiable assets (100%)	<u>1,653.50</u>

4. Computation of non-controlling interest in Duck Ltd. (Proportionate share basis)

Non-controlling interest (1,653.50 x 20%) = 330.70

5. Computation of capital reserve on acquisition of Duck Ltd.

Particulars	Book value
Fair value of net identifiable assets	1,653.50
Less: Purchase consideration	(816.42)
Less: NCI (W.N.4)	<u>(330.70)</u>
Capital reserve	<u>506.38</u>

Notes:

- (a) The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, ₹ 4.8 lakh (12 x 2/5) is considered as a part of purchase consideration and is credited to Swan Ltd.'s equity as this will be settled in its own equity. Since the fair value of the award on the acquisition date is ₹ 18 lakh the balance of (18 - 4.8) ₹ 13.2 lakh will be recorded as employee expense in the books of Duck Ltd. over the remaining life, which is 1 year in this scenario.
- (b) With respect to deferred consideration, ₹ 90 lakh is the minimum payment to be paid after 3 years. The other element is if company meet certain target then they

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will get 30% of that or ₹ 90 lakh whichever is higher. In the given case, since the minimum what is expected to be paid the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.

- (c) The additional consideration of ₹ 15 lakhs to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the statement of profit and loss of Duck Ltd.
- (b) (i) The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over before the end of the reporting period for a period of 3 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as non-current.
- (ii) Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period, since assessment is required to be made based on terms of the existing loan facility. As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, the loan is to be classified as current.
- (iii) Yes, the answer will be different, and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Question 2

- (a) Venus Limited had purchased on 1st April, 2020, a PPE kits manufacturing plant for ₹ 12.00 lakhs. The useful life of the plant is 8 years. The depreciation is provided on straight line method. On 30th September, 2022, Venus Limited temporarily discontinues production at the said plant due to decline in the demand for PPE kits. However, the plant is maintained in a workable condition, and it can be used in future whenever the demand picks up.

The accountant of Venus Limited decided to treat the plant as held for sale under Ind AS 105 until the demand picks up. She, thus measures the plant at lower of carrying amount and fair value less cost to sell.

She also stopped charging the depreciation for the rest of period as the plant was held for sale. The fair value less cost to sell the said plant on 30th September, 2022 and 31st March, 2023 was ₹ 6.75 lakhs and ₹ 6.00 lakhs respectively.

She performed the following working to determine the carrying amount of the plant on initial classification as held for sale:

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Particulars	₹ in lakhs
Purchase price of the plant	12.00
Less: Accumulated depreciation for 2.5 years (₹ 12.00 lakhs / 8 years x 2.5 years)	<u>(3.75)</u>
	8.25
Fair value less cost to sales as on 30 th September, 2022	6.75
The carrying amount is lower of ₹ 8.25 lakhs and ₹ 6.75 lakhs	6.75

Balance Sheet extracts as at 31st March, 2023

Particulars	₹ in lakhs
Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	6.00

Discuss whether the above accounting treatment made by the accountant is as per applicable Ind AS. If not, what should be the correct treatment. Provide balance sheet extract as at 31st March, 2023 together with the computation of the carrying value of PPE as at 31st March, 2023. **(8 Marks)**

- (b) On 1st April, 2021, Z Limited enters into a contract to construct a manufacturing facility for Mint Limited at a fixed consideration of ₹ 30.00 lakhs. Z Limited can earn an incentive of ₹ 3.75 lakhs if the construction is completed within 24 months. Z Limited expects the costs to be ₹ 16.50 lakhs. At the inception of the contract, Z Limited determines that the contract contains single performance obligation satisfied over time. Z Limited also concludes that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will occur as the completion of the manufacturing facility is highly susceptible to factors outside of the Company's influence, due to exceptionally high rainfall in the region.

At 31st March, 2022, Z Limited has satisfied 65% of its performance obligation on the basis of costs incurred to date and concludes that the variable consideration is still constrained due to uncertain weather conditions.

However, on 15th April, 2022, the contract is modified. The fixed consideration is enhanced by ₹ 2.25 lakhs and the expected costs increases by ₹ 1.20 lakhs. The contract period is also extended by 6 months. Z Limited now concludes that it is highly probable that the incentive award will be achieved. The contract remains a single performance obligation.

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Compute, as per applicable Ind AS: (i) For financial year 2022-2023*, revenue from the contract, contract costs & resultant profit, (ii) Additional revenue (catch up adjustment) as on the date of modification of the contract i.e. 15th April, 2022. **(6 Marks)**

- (c) On 1st January, 2023, Z Limited enters into an agreement with a college for renovation of building including installation of new air conditioners at a transaction price of ₹ 40.00 lakhs. The expected cost of air conditioners is ₹ 12.00 lakhs. The other expected cost is ₹ 20.00 lakhs. Z Limited purchases the air conditioners and they are delivered to the site before 31st March, 2023. Z Limited uses an input method based on cost to measure progress towards completion of the contract.

Z Limited has incurred actual other costs (excluding the air conditioners) of ₹ 4.00 lakhs by 31st March, 2023.

Determine the revenue to be recognized as per applicable Ind AS for the year ended 31st March, 2023, if performance obligation is met over a period of time. **(6 Marks)**

Answer

- (a) The treatment of PPE kits manufacturing plant needs to be examined in the light of the provisions given in Ind AS 16 'Property, Plant and Equipment' and Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'.

Paragraph 6 of Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations' states that an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Paragraph 7 of Ind AS 105 states that for this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable. Thus, an asset cannot be classified as a non-current asset held for sale, if the entity intends to sell it in the distant future.

Further, paragraph 8 of Ind AS 105 states that for the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

* PS: Read financial year '2022-2023' as '2021-2022'.

Paragraph 13 of Ind AS 105 states that an entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

Paragraph 14 of Ind AS 105 states that an entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

Paragraph 55 of Ind AS 16 states that depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Going by the guidance given above, the Accountant of Venus Ltd. has treated the plant as held for sale and measured it at the fair value less cost to sell. Also, the depreciation has not been charged thereon since the date of classification as held for sale which is not correct and not in accordance with Ind AS 105 and Ind AS 16.

Accordingly, the manufacturing plant should neither be treated as abandoned asset nor as held for sale because its carrying amount will be principally recovered through continuous use. Venus Ltd. shall not stop charging depreciation or treat the plant as held for sale because its carrying amount will be recovered principally through continuing use to the end of their economic life.

The working of the same for presenting in the balance sheet is given as below:

Calculation of carrying amount as on 31 st March, 2023	₹
Purchase Price of Plant	12,00,000
Less: Accumulated depreciation (12,00,000/ 8 years) x 3 years	<u>(4,50,000)</u>
	7,50,000
Less: Impairment loss	<u>(1,50,000)</u>
	<u>6,00,000</u>

Balance Sheet extracts as on 31st March, 2023

Assets	₹
Non-Current Assets	
Property, Plant and Equipment	6,00,000

Working Note:

Fair value less cost to sell of the Plant = ₹ 6,00,000

Value in use (not given) or Nil (since plant has temporarily not been used for manufacturing due to decline in demand)

Recoverable amount = higher of above i.e. ₹ 6,00,000

Impairment loss = Carrying amount – Recoverable amount

Impairment loss = ₹ 7,50,000 - ₹ 6,00,000 = ₹ 1,50,000.

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(b) Year 1 i.e. financial year 2021-2022

In the given case, at contract inception, Z Ltd. will exclude the performance bonus of ₹ 3,75,000 from the transaction price because it is concluded that there is high probability that a significant reversal in the amount of cumulative revenue recognised will occur as the completion of the manufacturing facility is highly susceptible to factors outside the entity's influence i.e. exceptionally high rainfall in the region.

Therefore, at the inception of the contract, for Z Ltd:

	₹
Transaction Price	30,00,000
Expected costs	<u>(16,50,000)</u>
Expected profit (45%)	<u>13,50,000</u>

As at the year end, 31st March, 2022, Z Ltd. reassessed the variable consideration (i.e. performance bonus) and has concluded that the amount is still uncertain in accordance with paragraphs 56–58 of Ind AS 115. Therefore, the cumulative revenue and costs recognised for the year ended March, 2022 will be as follows:

	₹
Revenue from the contract (65%)	19,50,000
Contract costs	<u>(10,72,500)</u>
Resultant profit	<u>8,77,500</u>

Year 2 i.e. financial year 2022-2023

On 15th April, 2022, Z Ltd. and Mint Ltd. agreed to modified the contract. As a result, the fixed consideration and expected costs increased by ₹ 2,25,000 and ₹ 1,20,000 respectively.

At the date of the modification, since Z Ltd. concluded that it is highly probable that incentive amount will be achieved, it has to include incentive amount of ₹ 3,75,000 in the transaction price. Therefore, the total potential consideration after the modification is ₹ 36,00,000 (₹ 32,25,000 fixed consideration + ₹ 3,75,000 performance bonus) and total estimated cost is ₹ 17,70,000 (₹ 16,50,000 + ₹ 1,20,000).

Further, since the modified contract remains a single performance obligation, Z Ltd. will account for the contract modification, as if it were part of the original contract in accordance with paragraph 21(b) of Ind AS 115.

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Z Ltd. will update its measure of progress and estimates at the date of the modification as a cumulative catch-up adjustment as follows:

Calculation of cumulative catch-up adjustment:		₹
Total potential consideration after the modification	A	36,00,000
Actual costs incurred	B	10,72,500
Total expected costs to complete	C	17,70,000
Percent completion of performance obligation (rounded off)	D = B/C	60.6%
Revenue recognised till date	E	19,50,000
Additional revenue to recognised	F = (A x D) - E	2,31,600

- (c) Costs to be incurred comprise two major components – air conditioners and cost of construction service.
- The air conditioners are part of the overall construction project and are not a distinct performance obligation.
 - The cost of air conditioners is substantial to the overall project and are incurred well in advance.
 - Upon delivery at site, customer acquires control of such air conditioners.
 - And there is no modification done to the air conditioners, which the company only procures and delivers at site. Nevertheless, as part of materials used in overall construction project, the company is a principal in the transaction with the customer for such air conditioners also.

Therefore, applying the guidance on Input method –

- The measure of progress should be made based on the percentage of costs incurred relative to the total budgeted costs.
- The cost of air conditioners should be excluded when measuring such progress and revenue for such air conditioners should be recognized to the extent of costs incurred.

The revenue to be recognized is measured as follows:

Particulars	Amount (₹)
Transaction price	40,00,000
Costs incurred:	
(a) Cost of air conditioners	12,00,000
(b) Other costs	4,00,000
Measure of progress:	4,00,000 / 20,00,000 = 20%

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Revenue to be recognised:	
(a) For costs incurred (other than air conditioners)	Total attributable revenue = 28,00,000 % of work completed = 20% Revenue to be recognised = 5,60,000
(b) Revenue for air conditioners	12,00,000 (equal to costs incurred)
Total revenue to be recognised	12,00,000 + 5,60,000 = 17,60,000

Therefore, for the year ended 31st March, 2023, the Company shall recognize revenue of ₹ 17,60,000 on the project.

Question 3

- (a) ABC Ltd. is into dairy farm. Cows are milked on a daily basis. After milking, milk is immediately kept in cold storage. The milk is sold to retail distributors on a weekly basis.

On 1st April, 2022, ABC Ltd. had 500 cows which were all 3 years old.

During the financial year 2022-2023, some of the cows became sick and on 30th September, 2022, 20 cows died. On 1st October, 2022, ABC Ltd. purchased 20 replacement cows from the market for ₹ 63,000 each. These 20 cows were all 1-year-old when they were purchased.

On 31st March, 2023, ABC Ltd. had 1,000 litres of milk in cold storage which had not been sold to retail distributors. The market price of milk as at 31st March, 2023 was ₹ 60 per litre. While selling the milk to distributors, ABC Ltd. incurs selling costs of ₹ 3 per litre. These amounts did not change during March, 2023 and are not expected to change during April, 2023.

Information relating to fair value and costs to sell is given below:

Date	Fair value of a dairy cow aged				Cost to sell a cow
	1 year	1.5 year	3 years	4 years	
1.4.2022	60,000	66,000	81,000	75,000	3,000
1.10.2022	63,000	69,000	84,000	78,000	3,000
31.3.2023	64,500	70,500	87,000	79,500	3,300

You can assume that fair value of 3.5 year old cow as on 30th September, 2022 is ₹ 81,000.

Provide necessary journal entries in the books of account with respect to cows for above events & transactions in the financial statements of ABC Ltd. as at-

- (i) 30th September, 2022;
- (ii) 1st October, 2022 and

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(iii) 31st March, 2023.Also determine the value of milk inventory as at 31st March, 2023.**(8 Marks)**

- (b) On 1st May, 2022, Sanskar Limited purchased ₹ 42,00,000 worth of land for construction of a new warehouse for stocking new products.

The land purchased had an old temporary structure which was to be demolished for the purpose of construction of warehouse. The salvaged material from the demolition was to be sold as scrap. The company started the construction work of the warehouse on 1st June, 2022. Following costs were incurred by the company with regard to purchase of land and construction of warehouse:

Particulars	Amount (₹)
Legal fees for purchase contract of land and recording ownership	1,50,000
Architect and consultant's fee	2,70,000
Cost of demolishing existing structure on the purchased land	1,35,000
Site preparation charges for the warehouse	1,00,000
Purchase of cement and other materials for the construction (including GST of ₹ 1,00,000 and GST credit is 50% of the payment)	15,00,000
Employment costs of the construction workers	8,00,000
General overhead costs allocated to the construction work	30,000 per month
Overhead costs incurred directly on the construction of warehouse	35,000 per month
Income received from land used as temporary parking during construction phase	80,000

Additional Information:

- Receipt of ₹ 35,000 being proceeds from sale of salvaged and scrapped materials from demolition of existing structure.
- Materials costing ₹ 40,000 was wasted and further ₹ 1,20,000 was spent to rectify the wrong design work.
- The employment costs are for 10 months i.e. from 1st June 2022 till 31st March, 2023.
- The construction of factory was completed on 28th February, 2023 (which is considered as substantial period of time as per Ind AS 23)
- The use of warehouse commenced on 1st March, 2023.
- The overall useful life of factory building was estimated at 25 years from the date of completion; however, it is estimated that the roof of the warehouse will need to

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be replaced 15 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

- At the end of the 25-year period, Sanskar Limited is legally bound to demolish the factory and restore the site to its original condition. The directors of the company estimate that the cost of demolition in 25 years' time (based on prices prevailing at that time) will be ₹ 80,00,000. An annual risk adjusted discount rate which is appropriate to this project is 10% per annum. The present value of ₹ 1 payable in 25 years' time at an annual discount rate of 10% per annum is ₹ 0.092.
- Sanskar Limited raised a loan of ₹ 60 lakhs @ 10% per annum rate of interest on 1st June, 2022. The building of warehouse meets the definition of a qualifying asset in accordance with Ind AS 23 Borrowing Costs. Sanskar Limited received an investment income of ₹ 25,000 on the temporary investment of the proceeds.
- Assume that cost of demolition of old structure is directly attributable to the cost of land.
- The company follows straight line method of depreciation.

You are required to compute:

- Cost of construction of the warehouse
- Depreciation charge for the year ended 31st March, 2023
- Carrying value of warehouse to be taken to Balance Sheet of the Company on 31st March, 2023.

You should explain your treatment of all the amounts referred to in this question as part of your answer. **(8 Marks)**

(c) Mr. M has an investment in X Limited and Y Limited

- Under what circumstances, Mr. M is a related party of X Limited and Y Limited?
- Will X Limited and Y Limited be related parties, if Mr. M has only significant influence over both X Limited and Y Limited? **(4 Marks)**

Answer

(a) **Journal Entries** **(All figures in ₹)**

S. No.	Date	Particulars		Dr.	Cr.
(i)	30 th September, 2022	Loss (on death of 20 cows) (Refer W.N.) To Biological asset (Loss booked on death of 20 cows)	Dr.	15,60,000	15,60,000

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(ii)	1 st October, 2022	Biological Asset (purchase of 20 new cows) (Refer W.N.)	Dr.	12,00,000	
		Loss on initial recognition (of 20 new cows)	Dr.	60,000	
		To Bank			12,60,000
		(Initial recognition of 20 new purchased cows at fair value less costs to sell)			
(iii)	31 st March, 2023	Loss on remeasurement of old cows	Dr.	8,64,000	
		To Biological asset [(3,90,00,000 – 15,60,000) – 3,65,76,000]			8,64,000
		(Subsequent measurement of cows at fair value less costs to sell)			
		Biological Asset (13,44,000 – 12,00,000)	Dr.	1,44,000	
		To Gain on remeasurement of new cows			1,44,000
		(Subsequent measurement of cows at fair value less costs to sell)			

Inventory (Milk) as at 31st March, 2023 = ₹ 57,000 [1,000 x (60 – 3)]

Working Note:**Calculation of Biological asset at various dates**

Date	Number	Age	Fair Value (₹)	Cost to Sell (₹)	Net (₹)	Biological asset (₹)
1 st April, 2022	500	3 years	81,000	3,000	78,000	3,90,00,000
30 th September, 2022	(20)	3.5 years	81,000	3,000	78,000	(15,60,000)
1 st October, 2022	20	1 year	63,000	3,000	60,000	<u>12,00,000</u>
						<u>3,86,40,000</u>
31 st March, 2023	480	4 years	79,500	3,300	76,200	3,65,76,000
	20	1.5 years	70,500	3,300	67,200	<u>13,44,000</u>
						<u>3,79,20,000</u>

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(b) (i) Computation of the cost of construction of the warehouse

Description	Included in P.P.E. ₹	Explanation
Purchase of land	42,00,000	Separately capitalised as cost of land and do not form part of cost of construction of warehouse
Legal fee for purchase of contract of land	1,50,000	Associated legal costs are direct costs for purchasing the land. Hence, separately capitalised as cost of land and do not form part of cost of construction of warehouse
Net cost of demolishing the existing structure	1,00,000	Given in the question to assume it as directly attributable to the cost of land. However, it will be adjusted with the proceeds from sale of salvaged material from demolition (1,35,000 – 35,000). Further, it will be separately capitalised as cost of land and do not form part of cost of construction of warehouse.
Total cost of land	44,50,000	
Architect and consultant's fee	2,70,000	A direct cost of constructing the warehouse
Site preparation charges	1,00,000	A direct cost of constructing the warehouse
Cement and other materials	14,10,000*	A direct cost of constructing the warehouse net GST credit and wastage (15,00,000 – 50,000 – 40,000)
Expense to rectify the wrong design work	Nil	Assumed to be abnormal cost
Employment costs of the construction workers	7,20,000	A direct cost of constructing the warehouse for a nine-month period till 28 th February, 2023 [(8,00,000/10) x 9]
Direct overhead costs	3,15,000	A direct cost of constructing the warehouse for a nine-month period (35,000 x 9)

Allocated overhead costs	Nil	Not a direct cost of construction
Income from temporary use of land as car parking area	Nil	Not essential to the construction so recognised directly in profit or loss
Finance costs	4,50,000	Capitalise the interest cost incurred in a nine-month period (from 1 st June, 2022 to 28 th February, 2023)
Investment income on temporary investment of the loan proceeds	(25,000)	Offset against the interest amount capitalised
Demolition cost recognised as a provision	<u>7,36,000</u>	Recognised as part of the initial cost at present value (i.e 80,00,000 x 0.092)
Total cost of construction of a warehouse	<u>39,76,000</u>	

(ii) **Computation of depreciation charges for the year ended 31st March, 2023**

Note: Land is not depreciated as per Ind AS 16. Hence, only cost of warehouse is subject to depreciation.

Total depreciable amount as on 1 st March, 2023	<u>39,76,000</u>	
Depreciation for 1 month must be in two parts:		
(a) Depreciation on roof component	5,522	$39,76,000 \times 25\% \times 1/15 \times 1/12$
(b) Depreciation of remaining item	<u>9,940</u>	$39,76,000 \times 75\% \times 1/25 \times 1/12$
Total depreciation for the year 2022-2023	<u>15,462</u>	

(iii) **Computation of carrying value of the warehouse on 31st March, 2023 ₹**

Cost of the warehouse as on 1 st March, 2023 [computed in (i) above]	39,76,000
Less: Depreciation for 1 month as computed in (ii) above	<u>(15,462)</u>
Carrying value of the warehouse as on 31 st March, 2023	<u>39,60,538</u>

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***Note:** In the above solution, it has been assumed that amount spent for rectifying the faulty design is not included in the cement and other material cost. However, **alternatively**, it may be considered as part of gross cement and material cost and in such a case, the cost of material will further be reduced with the amount of rectifying the faulty design as follows:

(i) Computation of the cost of construction of the warehouse

Description	Included in P.P.E. ₹	Explanation
Purchase of land	42,00,000	Separately capitalised as cost of land and do not form part of cost of construction of warehouse
Legal fee for purchase of contract of land	1,50,000	Associated legal costs are direct costs for purchasing the land. Hence, separately capitalised as cost of land and do not form part of cost of construction of warehouse
Net cost of demolishing the existing structure	1,00,000	Given in the question to assume it as directly attributable to the cost of land. However, it will be adjusted with the proceeds from sale of salvaged material from demolition (1,35,000 – 35,000). Further, it will be separately capitalised as cost of land and do not form part of cost of construction of warehouse.
Total cost of land	44,50,000	
Architect and consultant's fee	2,70,000	A direct cost of constructing the warehouse
Site preparation charges	1,00,000	A direct cost of constructing the warehouse
Cement and other materials	12,90,000*	A direct cost of constructing the warehouse net GST credit, wastage and rectification cost (15,00,000 – 50,000 – 40,000 – 1,20,000)
Employment costs of the construction workers	7,20,000	A direct cost of constructing the warehouse for a nine-month period till 28 th February, 2023 [(8,00,000/10) x 9]
Direct overhead costs	3,15,000	A direct cost of constructing the warehouse for a nine-month period (35,000 x 9)

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Allocated overhead costs	Nil	Not a direct cost of construction
Income from temporary use of land as car parking area	Nil	Not essential to the construction so recognised directly in profit or loss
Finance costs	4,50,000	Capitalise the interest cost incurred in a nine-month period (from 1 st June, 2022 to 28 th February, 2023)
Investment income on temporary investment of the loan proceeds	(25,000)	Offset against the interest amount capitalised
Demolition cost recognised as a provision	<u>7,36,000</u>	Recognised as part of the initial cost at present value (i.e 80,00,000 x 0.092)
Total cost of construction of a warehouse	<u>38,56,000</u>	

(ii) Computation of depreciation charges for the year ended 31st March, 2023

Note: Land is not depreciated as per Ind AS 16. Hence, only cost of warehouse is subject to depreciation.

Total depreciable amount as on 1 st March, 2023	<u>38,56,000</u>	
Depreciation for 1 month must be in two parts:		
(a) Depreciation on roof component	5,356	$38,56,000 \times 25\% \times 1/15 \times 1/12$
(b) Depreciation of remaining item	<u>9,640</u>	$38,56,000 \times 75\% \times 1/25 \times 1/12$
Total depreciation for the year 2022-2023	<u>14,996</u>	

(iii) Computation of carrying value of the warehouse on 31st March, 2023 ₹

Cost of the warehouse as on 1 st March, 2023 [computed in (i) above]	38,56,000
Less: Depreciation for 1 month as computed in (ii) above	<u>(14,996)</u>
Carrying value of the warehouse as on 31 st March, 2023	<u>38,41,004</u>

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- (c) (i) As per para 9(a) of Ind AS 24, Mr. M will be considered as a related party to X Limited, when
1. Mr. M has control or joint control over X Limited
 2. Mr. M has significant influence over X Limited
- Similar will be the circumstances for Mr. M being considered as related party to Y Limited.
- (ii) Even if Mr. X has only significant influence over both the entities i.e., X Limited & Y Limited, then both the entities (X Limited & Y Limited) will not be considered as related party, if no direct or indirect control is exercised on each other in any of the manner.

Question 4

- (a) Autumn Limited has a policy of providing subsidized loans to its employees for their personal purposes. Mrs. Jama Bai, a senior HR manager in the Company, took a loan of ₹ 12.00 lakhs on the following terms:

- Interest rate 4% per annum
- Loan disbursement date: 1st April, 2019
- The principal amount of the loan shall be recovered in 4 equal annual installments commencing from 31st March, 2020
- The accumulated interest computed on reducing balance at simple interest is collected in 3 equal annual installments after collection of the principal amount
- Mrs. Jama Bai must remain in service till the principal and interest are paid
- The market rate of a comparable loan to Mrs. Jama Bai is 9% per annum
- The present value of ₹ 1 at 9% per annum at the end of respective years is as follows:

Year ending 31 st March	2020	2021	2022	2023	2024	2025	2026
Present Value	0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470

Under the assumption that no probable future economic benefits except the return of loan has been guaranteed by the employee, you are required to:

- Provide the journal entries at the time of initial recognition of loan on 1st April, 2019 and as at 31st March, 2020; and
- Prepare ledger account of 'Loan to Mrs. Jama Bai' from the inception of the loan till its final payment.

(14 Marks)

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- (b) Discuss with respect to 'Conceptual Framework for Financial Reporting under Indian Accounting Standards', 'faithful representation', one of the qualitative characteristics of financial information. **(6 Marks)**

OR

Discuss the Organizational Structure / Issuing Authority of Integrated Reporting.

(6 Marks)**Answer****(a) (i) Journal Entry**

Date	Particulars	Dr.	Cr.
		₹	₹
1/4/2019	Loan to Mrs. Jama Bai A/c Dr. Pre-paid employee cost A/c Dr. To Bank A/c (Being loan to employee recorded at fair value)	10,43,638 1,56,362	12,00,000
31/3/2020	Loan to Mrs. Jama Bai A/c Dr. To Finance Income A/c (Being finance income @ 9% recorded in the books)	93,927	93,927
31/3/2020	Bank A/c Dr. To Loan to Mrs. Jama Bai A/c (Being installment received at the end of the year)	3,00,000	3,00,000

**(ii) In the books of Autumn Ltd.
Loan to Mrs. Jama Bai A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.2019	To Bank A/c	10,43,638	31.3.2020	By Bank A/c	3,00,000
31.3.2020	To Finance income (W.N.3)	93,927	31.3.2020	By Balance c/d	8,37,565
		<u>11,37,565</u>			<u>11,37,565</u>
1.4.2020	To Balance b/d	8,37,565	31.3.2021	By Bank A/c	3,00,000

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31.3.2021	To Finance income (W.N.3)	<u>75,381</u>	31.3.2021	By Balance c/d	<u>6,12,946</u>
		<u>9,12,946</u>			<u>9,12,946</u>
1.4.2021	To Balance b/d	6,12,946	31.3.2022	By Bank A/c	3,00,000
31.3.2022	To Finance income (W.N.3)	<u>55,165</u>	31.3.2022	By Balance c/d	<u>3,68,111</u>
		<u>6,68,111</u>			<u>6,68,111</u>
1.4.2022	To Balance b/d	3,68,111	31.3.2023	By Bank A/c	3,00,000
31.3.2023	To Finance income (W.N.3)	<u>33,130</u>	31.3.2023	By Balance c/d	<u>1,01,241</u>
		<u>4,01,241</u>			<u>4,01,241</u>
1.4.2023	To Balance b/d	1,01,241	31.3.2024	By Bank A/c	40,000
31.3.2024	To Finance income (W.N.3)	<u>9,112</u>	31.3.2024	By Balance c/d	<u>70,353</u>
		<u>1,10,353</u>			<u>1,10,353</u>
1.4.2024	To Balance b/d	70,353	31.3.2025	By Bank A/c	40,000
31.3.2025	To Finance income (W.N.3)	<u>6,332</u>	31.3.2025	By Balance c/d	<u>36,685</u>
		<u>76,685</u>			<u>76,685</u>
1.4.2025	To Balance b/d	36,685	31.3.2026	By Bank A/c	40,000
31.3.2026	To Finance income (W.N.3)	<u>3,315*</u>			<u>40,000</u>
		<u>40,000</u>			<u>40,000</u>

*Difference of ₹ 13 (₹ 3,315 – ₹ 3,302) is due to approximation.

Working Notes:**1. Calculation of initial recognition amount of loan to employee**

Year	Estimated Cash Flows	PV Factor @9%	Present Value
	₹		₹
31/3/2020	3,00,000	0.9174	2,75,220
31/3/2021	3,00,000	0.8417	2,52,510

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31/3/2022	3,00,000	0.7722	2,31,660
31/3/2023	3,00,000	0.7084	2,12,520
31/3/2024	40,000 (W.N.2)	0.6499	25,996
31/3/2025	40,000 (W.N.2)	0.5963	23,852
31/3/2026	40,000 (W.N.2)	0.5470	<u>21,880</u>
Fair Value of Loan			<u>10,43,638</u>

2. Computation of Interest to be paid

Year	Opening outstanding balance a	Cash Flows b	Principal outstanding at year end c	Interest @ 4% on a d	Cumulative Interest e
		₹	₹	₹	₹
31/3/2020	12,00,000	3,00,000	9,00,000	48,000	48,000
31/3/2021	9,00,000	3,00,000	6,00,000	36,000	84,000
31/3/2022	6,00,000	3,00,000	3,00,000	24,000	1,08,000
31/3/2023	3,00,000	3,00,000	Nil	12,000	1,20,000
31/3/2024	1,20,000	40,000 (1,20,000/3)			
31/3/2025		40,000 (1,20,000/3)			
31/3/2026		40,000 (1,20,000/3)			

3. Computation of finance cost as per amortization table

Year	Opening Balance (1)	Interest @ 9% (2)	Repayment (3)	Closing Balance (1+2-3)
	₹	₹	₹	₹
1/4/2019				10,43,638
31/3/2020	10,43,638	93,927	3,00,000	8,37,565
31/3/2021	8,37,565	75,381	3,00,000	6,12,946
31/3/2022	6,12,946	55,165	3,00,000	3,68,111
31/3/2023	3,68,111	33,130	3,00,000	1,01,241

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31/3/2024	1,01,241	9,112	40,000	70,353
31/3/2025	70,353	6,332	40,000	36,685
31/3/2026	36,685	3,315*	40,000	Nil

*Difference of ₹ 13 (₹ 3,315 – ₹ 3,302) is due to approximation.

(b) EITHER

Faithful representation

To be useful, financial information must faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

To be a perfectly faithful representation, a depiction would have following three characteristics:

- ◆ **Complete:** A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.
- ◆ **Neutral:** A neutral depiction is without bias in the selection or presentation of financial information. Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated, and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses.
- ◆ **Free from error:** Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, being free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

(b) OR

Integrated Reporting is a concept first introduced in South Africa. Later on, this concept travelled to many countries like German, France, Spain, Brazil and UK and integrated reporting was made along with their financial statements in one or the other manner. In

2010, the International Integrated Reporting Council (IIRC) was set up which aims to create the globally accepted integrated reporting framework.

The International Integrated Reporting Council (IIRC) is a global coalition of:

- Regulators
- Investors
- Companies
- Standard setters
- The accounting profession and NGOs

Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. With this purpose they issued the International Integrated Reporting (IR) Framework.

Question 5

- (a) A Limited operates in coating industry. Its business segments comprise Coating (consisting of decorative, automotive, industrial paints and related activities) and Others (consisting of chemicals, polymers and related activities).

Certain information for financial year 2022-2023 is given below:

All amounts in ₹ lakhs						
Segments	External revenue (including GST)	GST	Other operating income	Result	Assets	Liabilities
Coating	1,20,000	3,000	24,000	6,000	30,000	18,000
Others	42,000	1,800	9,000	2,400	18,000	6,000

Additional Information:

- i. Unallocated income net of expenses is ₹ 18,00,00,000
- ii. Interest and bank charges is ₹ 12,00,00,000
- iii. Income tax expenses is ₹ 12,00,00,000 (current tax ₹ 11,70,00,000 and deferred tax ₹ 30,00,000)
- iv. Unallocated Investments are ₹ 60,00,00,000 and other assets are ₹ 60,00,00,000.
- v. Unallocated liabilities, Reserve & Surplus and Share Capital are ₹ 1,20,00,00,000, ₹ 1,80,00,00,000 & ₹ 60,00,00,000 respectively.
- vi. Depreciation amounts for coating & others are ₹ 6,00,00,000 and ₹ 1,80,00,000 respectively.

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- vii. Capital expenditure for coating and others are ₹ 30,00,00,000 and ₹ 12,00,00,000 respectively.
- viii. Revenue from outside India is ₹ 3,72,00,00,000 and segment asset outside India ₹ 60,00,00,000.

Based on the above information, how A Limited would disclose information about reportable segment, revenue, profit or loss, assets and liabilities for financial year 2022-2023. Ignore corresponding figures for the previous year. Give figures in ₹ lakhs.

(16 Marks)

- (b) TCO Limited is a telecom operator. Laying cables across the world is a requirement to enable the entity to run its business. Cables are also laid under the sea and contracts are entered into for the same. By virtue of laws of the countries through which the cable passes, the entity is required to restore the sea bed at the end of the contract period.

Discuss the nature of obligation that TCO Limited has in such a case. (4 Marks)

Answer

(a) Segment information

Information about operating segment

- (1) the company's operating segments comprise:

Coatings: consisting of decorative, automotive, industrial paints and related activities.

Others: consisting of chemicals, polymers and related activities.

- (2) Segment revenues, results and other information: (₹ in lakhs)

	Revenue	Coating	Others	Total
1. External revenue (gross)	1,20,000	42,000		1,62,000
GST	<u>(3,000)</u>	<u>(1,800)</u>		<u>(4,800)</u>
Total revenue (net)	1,17,000	40,200		1,57,200
Other operating income	<u>24,000</u>	<u>9,000</u>		<u>33,000</u>
Total Revenue	<u>1,41,000</u>	<u>49,200</u>		<u>1,90,200</u>
2. Results				
Segment results	6,000	2,400		8,400
Unallocated income (net of unallocated expenses)				<u>1,800</u>
Profit from operation before interest, taxation and exceptional items				10,200
Interest and bank charges				<u>(1,200)</u>

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	Profit before exceptional items			9,000
	Exceptional items			<u>Nil</u>
	Profit before taxation			9,000
	Income taxes			
	Current taxes			(1,170)
	Deferred taxes			<u>(30)</u>
	Profit after taxation			<u>7,800</u>
3.	Other information			
(a)	Assets			
	Segment assets	30,000	18,000	48,000
	Investments			6,000
	Unallocated assets			<u>6,000</u>
	Total assets			<u>60,000</u>
(b)	Liabilities and Shareholder's funds			
	Segment liabilities	18,000	6,000	24,000
	Unallocated liabilities			12,000
	Share capital			6,000
	Reserves and surplus			<u>18,000</u>
	Total liabilities and shareholder's funds			<u>60,000</u>
(c)	Others			
	Capital expenditure	(3,000)	(1,200)	(4,200)
	Depreciation	(600)	(180)	(780)
Geographical Information		India	Outside India	Total
	Revenue	1,53,000	37,200	1,90,200
	Segment assets	54,000	6,000	60,000
	Capital expenditure	4,200		4,200

Notes:

- (i) The operating segments have been identified in line with Ind AS 108, taking into account the nature of products, organisation structure, economic environment and internal reporting system.
- (ii) Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments. Unallocable assets include unallocable non-

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current assets and other current assets. Unallocable liabilities include unallocable current liabilities and net deferred tax liability.

- (b) Paragraph 14 of Ind AS 37 states that a provision shall be recognised when:
- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
 - (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
 - (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

Further, with regard to past event paragraph 17 of Ind AS 37 states that a past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

- (a) where the settlement of the obligation can be enforced by law; or
- (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.

Applying the above guidance in the given scenario, provision should be recognised as soon as the obligating event takes place because the entity is under legal obligation to restore the seabed, provided the other recognition criteria stated in paragraph 14 reproduced above are met. Moreover, the amount of the provision would depend on the extent of the obligation arising from the obligating event. In the instant case, an obligating event is the laying of cables under the sea. To the extent the cables have been laid down under the sea, a legal obligation has arisen and to that extent provision for restoration of seabed should be recognised.

Question 6

- (a) Discuss the following situations as per Ind AS 10:
- i. The financial statements of a Company for the year 2021-2022 are approved by the management and were sent on 5th June, 2022 for review and approval to its supervisory board i.e., Board of Directors. The supervisory board approves the financial statements on 26th June, 2022. The financial statements are then made available to shareholders on 4th July, 2022. The financial statements are approved by shareholders in their annual general meeting on 18th August, 2022 and then filed with Ministry of Corporate Affairs (MCA) on 19th August, 2022. Determine & discuss the date on which financial statements were approved.
 - ii. A Company is in litigation with Income Tax Department with respect to allowability of certain exemptions for financial year 2018-2019. No provision for tax has been made for disallowances of exemptions as the Company was under bonafide belief

based on a legal opinion that it will succeed in litigation. On 21st April, 2023, the Hon'ble Supreme Court rejected the Company's claim. The Order is received on 30th April, 2023. The financial statements for the financial year 2022-2023 of the Company are yet to be approved. The earlier year's financial statements stands approved. Advise in financial statements of which financial year the impact of the Order of the Hon'ble Supreme Court should be recognized.

- iii. Z Limited while preparing its financial statements on 31st March, 2023 made a provision for doubtful debts @ 6% on accounts receivables. In the last week of January, 2023, a debtor for ₹ 3 lakhs had suffered heavy loss due to fire; the loss was not covered by any insurance policy. Z Limited, considering the event of fire made a provision @ 60% of the amount receivables from that debtor apart from the general provision @ 6% on remaining debtors. The same debtor was declared insolvent on 10th April, 2023. The financial statements have not yet been approved. You are required to suggest whether the company should provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31st March, 2023.
 - iv. D Limited acquired equity shares of another company on 1st March, 2023 at a cost of ₹ 28 lakhs. The fair market value of these shares on 31st March, 2023 was ₹ 35 lakhs and the company measured it at ₹ 35 lakhs (assume that it is classified as FVTOCI as per Ind AS 109 and change in fair value is transferred to 'fair value fluctuation reserve'). Due to market conditions subsequent to the reporting date, the value of investments drastically came down to ₹ 20 lakhs. The financial statements have not yet been approved. You are required to suggest whether D Limited should value the investments at ₹ 35 lakhs or ₹ 20 lakhs as on 31st March, 2023.
 - v. Tanmay Limited was in negotiation with Varun Limited from 1st December, 2022 to acquire land for ₹ 5.00 crores. The negotiations were concluded in the first week of April 2023. The transaction was completed by last week of April, 2023. In which financial year, the purchase of land should be recognized? **(5 Marks)**
- (b) Weak Limited, which is a fully owned subsidiary company of Strong Limited approached Strong Limited for an interest free loan for mitigation of its financial difficulties. Strong Limited provided the loan to Weak Limited on the following terms & conditions:

Nature of loan	Interest Free
Amount of loan	₹ 60,00,000
Date of disbursement of loan	1 st April, 2021
Loan period	3 years
Loan repayable by Weak Ltd.	On 31 st March, 2024

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Market rate of interest for similar loan	8% (both for holding and subsidiary) per annum
P.V. factor of ₹ 1 at the end of 3 rd year at 8% per annum is	0.7938

Assuming that there are no transaction costs, you are required to pass necessary accounting entries in the books of Weak Limited for all the three years. **(5 Marks)**

- (c) Summer Solutions Limited is engaged in the manufacturing of customized gifts for its corporate customers. On 1st December, 2022, the company received an order from Rain Limited for the supply of 15,000 customized corporate gifts. On 4th December, 2022, to meet the order, Summer Solutions Limited purchased 20,000 kg of certain material at ₹ 110 per kg. The purchase price includes GST of ₹ 10 per kg in respect of which full GST credit is admissible. Freight incurred amounted to ₹ 1,00,000. During January, 2023, the company incurred the following expenses to design the corporate gift for Rain Limited:

- Fee to external designer ₹ 20,000
- Labour ₹ 8,000

After checking the sample of gift, the management of Rain Limited did not approve the design of gift and suggested some modifications. Consequently, the production team of Summer Solutions Limited made modifications to bring the inventories as per the conditions specified in the order.

Following costs were incurred during testing phase:

- Materials ₹ 45,000
- Labour ₹ 20,000
- Depreciation of plant used during testing phase ₹ 7,000

Some of the materials used during testing phase was scrapped and sold for ₹ 5,000.

During February, 2023, Summer Solutions Limited incurred the following additional costs in the manufacturing of customized corporate gifts:

- Consumable stores ₹ 1,25,000
- Labour ₹ 1,42,000
- Depreciation of plant used in manufacturing of customized corporate gifts: ₹ 38,000

On 15th March, 2023, the customized gifts were ready for delivery. There was no abnormal loss during the manufacturing process.

You are required to compute the cost of customized gifts. Your answer should be supported by appropriate reasons and calculations wherever necessary. **(5 Marks)**

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- (d) On 1st April 2021, P Limited acquired 100% interest in S Limited for ₹ 75.00 lakhs when the fair value of the net assets of S Limited was ₹ 60.00 lakhs. Goodwill of ₹ 15.00 lakhs arose on consolidation. On 31st March, 2023, P Limited disposed off 80% interest in S Limited for ₹ 114.00 lakhs. As on the date of disposal, the carrying value of the net assets of S Limited excluding goodwill was ₹ 1,20,00,000. The fair value of the remaining interest is ₹ 28,50,000.

You are required to:

- i. Calculate the gain or loss on sale of disposal, and
- ii. Pass necessary journal entries on disposal of 80% interest in S Limited in P Limited's separate and consolidated financial statements as on 31st March, 2023.

(5 Marks)

Answer

- (a) i. As per Ind AS 10, in the case of a company, the financial statements will be treated as approved when board of directors approves the same. Hence in the given case, the financial statements are approved for issue on 26th June, 2022 (date of approval by the Board of Directors for issue of financial statements to the shareholders).
- ii. An event after the reporting period is an adjusting event if it provides evidence of a condition existing at the end of the reporting period. Court order received after the reporting period (but before the financial statements are approved) provides evidence of the liability existing at the end of the reporting period. Therefore, the event will be considered as an adjusting event and, accordingly, the amount will be adjusted in financial statements for the financial year 2022-2023.
- iii. In the instant case, the fire took place in January, 2023 (i.e. before the end of the reporting period). Therefore, the condition existed at the end of the reporting date though the debtor is declared insolvent after the reporting period. Accordingly, full provision for bad debt amounting to ₹ 3 lakhs should be made to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended 31st March, 2023.
- iv. A decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue is a non-adjusting event. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period but reflects circumstances that have arisen subsequently. Therefore, D Limited should value the investments at ₹ 35 lakhs as on 31st March, 2023.
- v. As per Ind AS 10, an entity should adjust the financial statements for the events that occurred after the reporting period, but before the financial statements are approved for issue, if those events provide evidence of conditions that existed at the end of the reporting period.

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In this case, negotiations continued with Varun Limited to acquire land from 1st December, 2022 till first week of April, 2023. Since on the reporting date, the condition was only on proposal state and transaction was completed on 1st week of April 2023, the event will be considered as a non-adjusting event as per Ind AS 10. Purchase of land should be recognized in the financial year 2023-2024.

However, the same may be disclosed in the Notes to Accounts for due information to the users of the financial statements.

(b) Accounting in the books of Weak Ltd (Subsidiary)

Date	Particulars	Amount	Amount
1.4.2021	On the date of loan Bank A/c Dr. 60,00,000 To Loan from Strong Ltd. (Payable) 47,62,800 To Equity (Deemed capital contribution from ABC Ltd.) 12,37,200 (Being the loan taken from Strong Ltd. recognised at fair value)		
31.3.2022	At the end of Year 1 Interest expense (Finance cost) Dr. 3,81,024 To Loan from Strong Ltd. (Payable) 3,81,024 (Being interest expense recognised)		
31.3.2023	At the end of Year 2 Interest expense (Finance cost) Dr. 4,11,506 To Loan from Strong Ltd. (Payable) 4,11,506 (Being interest expense recognised)		
31.3.2024	At the end of Year 3 Interest expense (Finance cost) Dr. 4,44,670* To Loan from Strong Ltd. (Payable) 4,44,670 (Being interest expense recognised)		
31.3.2024	On repayment of loan Loan from Strong Ltd. (Payable) Dr. 60,00,000 To Bank A/c 60,00,000 (Being loan repaid by Weak Ltd.)		

*Difference is due to approximation.

Working Notes:

1. **Present Value of Loan** = ₹ 60,00,000 × 0.7938 = ₹ 47,62,800
2. **Amortisation table for computation of interest:**

Year end	Opening balance (1)	Interest @ 8% (2)	Repayment (3)	Closing balance (1) + (2) - (3)
1	47,62,800.00	3,81,024.00	-	51,43,824.00
2	51,43,824.00	4,11,506.00	-	55,55,330.00
3	55,55,330.00	4,44,670.00*	60,00,000.00	-

*Difference is due to approximation.

(c) Statement showing computation of inventory cost

Particulars	₹	Reasons
Costs of purchase of raw material	21,00,000	Purchase price of raw material net of GST plus freight $\{[20,000 \times (110-10)] + 1,00,000\}$
Costs of purchase of consumable stores	1,25,000	Purchase price of consumable stores
Costs of conversion	1,42,000	Direct costs — labour
Production overheads	38,000	Fixed costs — depreciation
Production overheads	28,000	Product design costs and labour cost for specific customer
Other costs	<u>67,000</u>	Refer working note
Total cost of inventories	<u>25,00,000</u>	

Working Note:**Costs of testing product designed for specific customer:**

₹ 40,000 material (net of ₹ 5,000 recovered from the sale of scrapped output) + ₹ 20,000 labour + ₹ 7,000 depreciation = ₹ 67,000

(d) (a) In P Ltd.'s Separate Financial Statements**(i) Calculation of Gain or Loss on disposal in P Ltd.'s separate financial statements**

	₹ in lakhs
Sales proceeds	114.0
Less: Cost of investment in subsidiary (75 x 80%)	<u>(60.0)</u>
Gain on sale in parent's account	<u>54.00</u>

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(ii) Journal Entry in P Limited's separate financial statements ₹ in lakhs

Date	Particulars	Dr.	Cr.
31.3.2023	Bank A/c Dr.	114.00	
	Investment in Associates Dr.	15.00	
	To Investment in subsidiary A/c		75.00
	To Gain on sale of subsidiary A/c		54.00
31.3.2023	Gain on sale of subsidiary A/c Dr.	54	
	To Statement of Profit and Loss		54

Note: In case of partial disposal of investment leading to significant influence because of loss of control, the above solution has been provided by applying proportionate approach. However, cost of retained investment on the date of loss of control has not been defined in Ind AS 27 'Separate Financial Statements'. Therefore, paragraphs 10 and 11(a) of Ind AS 8 (i.e. in the absence of accounting policy that specifically applies to a transaction, management shall refer to, and consider the applicability of the requirements in Ind AS dealing with similar and related issues) have been applied. Further, para 25(b) of Ind AS 110 *inter alia* states that recognition of investment retained in the former subsidiary **to be the fair value** which shall be regarded as the fair value on initial recognition of a financial asset in accordance with Ind AS 109 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

Accordingly, following **ALTERNATE** solution may also be considered:

(i) Calculation of Gain or Loss on disposal in P Ltd.'s separate financial statements:

	₹ in lakhs
Sales proceeds	114.0
Fair value of 20% interest retained	<u>28.50</u>
	142.50
Less: Cost of investment in subsidiary	<u>(75.0)</u>
Gain on sale in parent's account	<u>67.5</u>

(ii) Journal Entry in P Limited's separate financial statements ₹ in lakhs			
Date	Particulars	Dr.	Cr.
31.3.2023	Bank A/c Dr.	114.00	
	Investment in Associate at cost (as per para 25 Ind AS 110) Dr.	28.50	
	To Investment in subsidiary A/c		75.00
	To Gain on sale of subsidiary A/c		67.50
31.3.2023	Gain on sale of subsidiary A/c Dr.	67.50	
	To Statement of Profit and Loss		67.50

(b) In P Ltd.'s Consolidated Financial Statements

(i) Calculation of Gain or Loss on disposal in P Ltd.'s consolidated financial statements

	₹ in lakhs
Sales proceeds	114.00
Fair value of 20% interest retained	<u>28.50</u>
	142.50
Less: Net assets disposed, including goodwill (1,20,00,000 + 15,00,000)	<u>(135.00)</u>
Gain on sale in the group's financial statements	<u>7.50</u>

(ii) Journal Entry in P Limited's consolidated financial statements ₹ in lakhs

Date	Particulars	Dr.	Cr.
31.3.2023	Bank A/c Dr.	114.00	
	Fair value of Net identifiable assets Dr.	28.50	
	To Net asset of subsidiary A/c		120.00
	To Goodwill		15.00
	To Gain on sale of subsidiary A/c		7.50
31.3.2023	Gain on sale of subsidiary A/c	7.50	
	To Statement of Profit or Loss		7.50

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Note:

The above solution has been drawn on the assumption that the retained investment had led to significant influence. Accordingly, investment in an associate has been accounted for on partial disposal of investment by P Ltd.

However, it may alternatively be assumed that the retained investment, after loss of control due to partial disposal of investment, does not lead to significant influence on S Ltd. In such a situation, retained interest will be measured at fair value in P Ltd.'s Separate Financial Statements as given in the alternate solution and main solution will not be applicable in such a case.