PAPER – 1 : FINANCIAL REPORTING

*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) *Following are the financial statements of JSP Limited:*

Balance Sheet

Particulars	*Note*	*As at March, 2018 (₹ in lakh)*
EQUITY AND LIABILITIES		
Shareholders' Funds:		
Share Capital (Share of ₹ 10 each)		*2,000*
Reserves and Surplus	*1*	*2,500*
Non-Current Liabilities:		
Long-Term Borrowings	*2*	*4,860*
Deferred Tax Liabilities	*3*	*100*
Current Liabilities:		
Trade Payables		*400*
Short Term Provisions		*310*
Other Current Liabilities	*4*	*250*
TOTAL		*10,420*

ASSETS		
Non-Current Assets:		
Fixed Assets		*5,600*
Deferred Tax Assets	*3*	*300*
Current Assets:		
Inventories		*1,520*
Trade Receivables	*5*	*1,800*
Cash and Bank Balance		*1,200*
TOTAL		*10,420*

Statement of Profit & Loss

Particulars		Note	Year ended March, 2018 (₹ in lakh)
Revenue from Operations	**(a)**		7,500
Expenses:			
Employee benefit expenses			1,750
Operating Costs			2,860
Depreciation			800
Total Expenses	**(b)**		5,410
Profit before tax	**(a)-(b)**		2,090
Tax Expense			(510)
Profit after tax			1,580

Notes to Accounts:

Note 1: Reserves and Surplus: **(₹ in lakh)**

Capital Reserve		400
Surplus from Profit & Loss		
Opening Balance	225	
Additions	1,580	1,805
Reserves for foreseeable loss		295
Total		2,500

Note 2: Long Term Borrowings: **(₹ in lakh)**

Term Loan from Bank	4,860
Total	4,860

Note 3: Deferred Tax: **(₹ in lakh)**

Deferred Tax Asset	300
Deferred Tax Liability	(100)
Total	200

Note 4: Other Current Liabilities: **(₹ in lakh)**

Unclaimed Dividends	10
Billing in Advance	240
Total	250

Note 5: Trade Receivables: ***(₹ in lakh)***

Considered Good (Outstanding within 6 months)	*1,565*
Considered doubtful (due from past 1 year)	*253*
Provision for doubtful debts	*(18)*
Total	*1,800*

Additional Information:

1. *Share capital comprises of 200 lakh shares of ₹ 10 each.*
2. *Term Loan from bank for ₹ 4,860 lakh also includes interest accrued and due of ₹ 860 lakh as on the reporting date.*
3. *Reserves for foreseeable loss is created against a service contract due within 3 months.*

You are required to :

(i) *Identify and report the errors and misstatements in the above extract, wherever applicable.*

(ii) *Prepare the corrected Balance Sheet and Statement of Profit and Loss.* ***(16 Marks)***

(b) *Mike Ltd. has undertaken following various transactions in the financial year ended 31.03.2018:* *(₹)*

(a)	*Re-measurement of defined benefit plans*	*1,54,200*
(b)	*Current service cost*	*1,05,000*
(c)	*Changes in revaluation surplus*	*75,000*
(d)	*Gains and losses arising from translating the monetary assets in foreign currency*	*45,000*
(e)	*Gains and losses arising from translating the financial statements of a foreign operation*	*39,000*
(f)	*Gains and losses arising from investments in equity instruments designated at fair value through other comprehensive income*	*60,000*
(g)	*Income tax expenses*	*21,000*
(h)	*Share based payments cost*	*2,01,000*

Identify and present the transactions in the financial statements as per Ind AS 1.

(4 Marks)

Answer

*** (a) Analysis of the financial statements:**

1. Reserve for foreseeable loss for ₹ 295 lakh, due within 3 months, should be a part of provisions. Hence it needs to be regrouped. If it was also part of previous year's comparatives, a note should be added in the notes to account for the regrouping done this year.
2. Interest accrued and due of ₹ 860 lakh on term loan will be a part of current liabilities. Thus, it should be shown under the heading "Other Current Liabilities".
3. It can be inferred from Note 3 that the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws, hence these shall be set off, in accordance with AS 22. The net DTA of ₹ 200 lakh will be shown in the balance sheet.
4. The notes to trade receivables is incorrectly presented. The recommended notes would be as below:

(₹ in lakh)

Trade receivables (Unsecured) consist of the following:	
(a) Over six months from the date they were due for payment	
i. Considered good	0
ii. Considered doubtful	253
Less: Provision for doubtful debts	(18)
(A)	235
(b) Others	
i. Considered good	1,565
ii. Considered doubtful	0
Less: Provision for doubtful debts	0
(B)	1,565
Total	1,800

5. The Statement of Profit and Loss needs to represent earnings per share, to be compliant with AS 20.

* This question is based on Accounting Standards. It may be noted this topic is no more relevant from November, 2019 examination under Final new course as per BOS announcement dated 24.06.2019.

6. As per the amendment made in Division I of Schedule III, now the term 'Fixed Asset' will be replaced by the term 'Property, Plant and Equipment'.

Below also the revised extracts of the financial statements:

Balance Sheet **(₹ in lakh)**

	Note No.	*As at March 31, 2018*
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital		2,000
Reserves and surplus	1	2,205
Non-current liabilities		
Long-term borrowings	2	4,000
Current liabilities		
Trade payables		400
Short-term provisions (310 + 295)		605
Other current liabilities	4	1,110
TOTAL		10,320
ASSETS		
Non-current assets		
Property, Plant & Equipment		5,600
Deferred Tax Assets	3	200
Current assets		
Inventories		1,520
Trade receivables	5	1,800
Cash and Cash Equivalents		1,200
TOTAL		10,320

Statement of Profit and Loss **(₹ in lakh)**

	Note No.	Year ended March 31, 2018
Revenue from operations		7,500
Expenses		
Employee Benefits Expense		1,750
Operating Costs		2,860

Depreciation			800
Total Expenses			5,410
Profit Before Tax			2,090
Tax Expense			(510)
Profit for the period			1,580
Earnings Per Equity Share			
Basic			7.90
Diluted			7.90
Number of equity shares (face value of ₹ 10 each)			200 lakh

Revised Notes to Accounts (wherever applicable):

Note 1 : Reserves and Surplus **(₹ in lakh)**

Capital Reserve		400
Surplus from Profit and Loss		
Opening Balance	225	
Additions	1,580	1,805
Total		2,205

Note 2 : Long Term Borrowings

Term Loan from Bank (4,860-860)	4,000
Total	4,000

Note 4 : Other Current Liabilities

Unclaimed dividends	10
Interest on Term Loan	860
Billing in Advance	240
Total	1,110

(b) **Items impacting the Statement of Profit and Loss for the year ended 31st March, 2018** **(₹)**

Current service cost	1,05,000
Gains and losses arising from translating the monetary assets in foreign currency	45,000
Income tax expenses	21,000
Share based payments cost	2,01,000

Items impacting the other comprehensive income for the year ended 31st March, 2018 **(₹)**

Remeasurement of defined benefit plans	1,54,200
Changes in revaluation surplus	75,000
Gains and losses arising from translating the financial statements of a foreign operation	39,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	60,000

Question 2

(a) Summarised Balance Sheets of PN Ltd. and SR Ltd. as on 31st March, 2018 were given as below:

(Amount in ₹)

Particulars	*PN Ltd.*	*SR Ltd.*
Assets		
Land & building	*4,68,000*	*5,61,600*
Plant & Machinery	*7,48,800*	*4,21,200*
Investment in SR Ltd.	*12,48,000*	*-*
Inventories	*3,74,400*	*1,13,600*
Trade Receivables	*1,86,500*	*1,24,800*
Cash & Cash equivalents	*45,200*	*24,900*
Total Assets	***30,70,900***	***12,46,100***
Equity & Liabilities		
Equity Share Capital (Shares of ₹ 100 each fully paid)	*15,60,000*	*6,24,000*
Other Reserves	*9,36,000*	*3,12,000*
Retained Earnings	*1,78,400*	*2,55,800*
Trade Payables	*1,46,900*	*34,300*
Short-term borrowings	*2,49,600*	*20,000*
Total Equity & Liabilities	***30,70,900***	***12,46,100***

(i) PN Ltd. acquired 70% equity shares of ₹ 100 each of SR Ltd. on 1st October, 2017.

(ii) The Retained Earnings of SR Ltd. showed a credit balance of ₹ 93,600 on 1st April, 2017 out of which a dividend of 12% was paid on 15th December, 2017.

(iii) PN Ltd. has credited the dividend received to its Retained Earnings.

(iv) Fair value of Plant & Machinery of SR Ltd. as on 1st October, 2017 was ₹ 6,24,000. The rate of depreciation on Plant & Machinery was 10% p.a.

(v) Following are the increases on comparison of Fair Value as per respective Ind AS with book value as on 1st October, 2017 of SR Ltd. which are to be considered while consolidating the Balance Sheets:

(a) Land & Buildings ₹ 3,12,000

(b) Inventories ₹ 46,800

(c) Trade Payables ₹ 31,200.

(vi) The inventory is still unsold on Balance Sheet date and the Trade Payables are not yet settled.

(vii) Other Reserves as on 31st March, 2018 are the same as was on 1st April, 2017.

(viii) The business activities of both the company are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

Prepare the Consolidated Balance Sheet as on 31st March, 2018 of the group of entities PN Ltd. and SR Ltd. as per Ind AS. ***(15 Marks)***

(b) Mr. Unique commenced business on 1/04/17 with ₹ 20,000 represented by 5,000 units of the product @ ₹ 4 per unit. During the year 2017-18, he sold 5,000 units @ ₹ 5 per unit. During 2017-18, he withdraw ₹ 4.000.

- *31/03/18: Price of the product @ ₹ 4.60 per unit*
- *Average price indices: 1/4/17: 100 & 31/3/18: 120*

Find out:

(i) Financial capital maintenance at Historical Cost

(ii) Financial capital maintenance at Current Purchasing Power

(iii) Physical Capital Maintenance ***(5 Marks)***

Answer

(a) Consolidated Balance Sheet of PN Ltd. and its subsidiary SR Ltd. as on 31st March, 2018

Particulars	Note No.	₹
I. Assets		
(1) Non-current assets		
(i) Property, Plant & Equipment	1	26,83,200
(ii) Goodwill	2	89,402
(2) Current Assets		
(i) Inventories	3	5,34,800

	(ii) Financial Assets		
	(a) Trade Receivables	4	3,11,300
	(b) Cash & Cash equivalents	5	70,100
	Total Assets		36,88,802
II.	**Equity and Liabilities**		
	(1) Equity		
	(i) Equity Share Capital	6	15,60,000
	(ii) Other Equity	7	11,39,502
	(2) Non-controlling Interest (W.N.3)		5,07,300
	(3) Current Liabilities		
	(i) Financial Liabilities		
	(a) Trade Payables	8	2,12,400
	(b) Short term borrowings	9	2,69,600
	Total Equity & Liabilities		36,88,802

Notes to accounts

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

Statement of Changes in Equity:

6. Equity share Capital

Balance at the beginning of the reporting period ₹	Changes in Equity share capital during the year ₹	Balance at the end of the reporting period ₹
15,60,000	0	15,60,000

7. Other Equity

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

Working Notes:

1. Adjustments of Fair Value

The Plant & Machinery of SR Ltd. would stand in the books at ₹ 4,44,600 on 1st October, 2017, considering only six months' depreciation on ₹ $\left(\frac{4,21,200}{90\%}\right)$ = 4,68,000; total depreciation being ₹ $4,68,000 \times 10\% \times \frac{6}{12} = 23,400$. The value put on the assets being ₹ 6,24,000 there is an appreciation to the extent of ₹ 1,79,400.

Acquisition date profits of SR Ltd. ₹

Reserves on 1.4.2017	3,12,000
Profit& Loss Account Balance on 1.4.2017	93,600

Profit for 2017-2018: Total [₹ 2,55,800-(93,600-74,880)]x 6/12 i.e. ₹ 1,18,540 upto 1.10.2017	1,18,540
Total Appreciation	5,07,000*
Total	10,31,140
Holding Co. Share (70%)	7,21,798

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

2. Post-acquisition profits of SR Ltd. ₹

Profit after 1.10.2017 [2,55,800 - (93,600-74,880)] x 6/12	1,18,540
Less: 10% depreciation on ₹ 6,24,000 for 6 months less depreciation already charged for 2nd half of 2017-2018 on ₹ 4,68,800 (ie 31,200 - 23,400)	(7,800)
Total	1,10,740
Share of holding Co. (70%)	77,518
Share of NCI (30%)	33,222

3. Non-controlling Interest ₹

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

4. Goodwill ₹

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

5. Value of Plant & Machinery: ₹

PN Ltd.		7,48,800
SR Ltd.	4,21,200	
Add: Appreciation on 1.10.2017	1,79,400	
	6,00,600	
Add: Depreciation for 2nd half charged on pre-revalued value	23,400	
Less: Depreciation on ₹ 6,24,000 for 6 months	(31,200)	5,92,800
		13,41,600

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

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

Note: Alternatively, the solution can be done on Net Assets approach on the date of acquisition. In such a situation, answer in substance will be same. However, presentation of working notes will be as below:

1. **Net assets of SR Ltd. on the date of acquisition** ₹

Share Capital	6,24,000
Reserves on 1.4.2017	3,12,000
Profit & Loss Account Balance on 1.4.2017	93,600
Profit for 2017-2018: Total [₹ 2,55,800-(93,600-74,880)] x 6/12 i.e. ₹ 1,18,540 upto 1.10.2017	1,18,540
Total Appreciation	5,07,000*
Total	16,55,140
Holding Co. Share (70%)	11,58,598
Non-controlling Interest (30)	4,96,542

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

3. **Non-controlling Interest** ₹

30% Share in net assets of SR Ltd on 1st October, 2017	4,96,542
30% Post-acquisition profits [WN 2]	33,222
Less: Dividend received (30% x 12% x 6,24,000)	(22,464)
	5,07,300

4. **Goodwill** ₹

Amount paid for 4,368 shares	12,48,000
Acquisition date profits share of PN Ltd.	(11,58,598)
Goodwill	89,402

(b) Financial Capital Maintenance at historical costs

	₹	₹
Closing capital (₹ 25,000 – ₹ 4,000)		21,000
Less: Capital to be maintained		

Opening capital (At historical cost)	-	
Introduction (At historical cost)	20,000	(20,000)
Retained profit		1,000

Financial Capital Maintenance at current purchasing power

	₹	₹
Closing capital (₹ 25,000 – ₹ 4,000)		21,000
Less: Capital to be maintained		
Opening capital (At closing price) (5,000 x ₹ 4.80)	24,000	
Introduction (At closing price)	Nil	(24,000)
Retained profit		(3,000)

Physical Capital Maintenance

	₹	₹
Closing capital (₹ 25,000 – ₹ 4,000)		21,000
Less: Capital to be maintained		
Opening capital (At current cost) (5,000 x ₹ 4.60)	23,000	
Introduction (At current cost)	Nil	(23,000)
Retained profit		(2,000)

Question 3

(a) *Orange Ltd. contracts to renovate a five star hotel including the installation of new elevators on 01.10.2017. Orange Ltd. estimates the transaction price of ₹ 480 lakh. The expected cost of elevators is ₹ 144 lakh and expected other costs is ₹ 240 lakh. Orange Ltd. purchases elevators and they are delivered to the site six months before they will be installed. Orange Ltd. uses an input method based on cost to measure progress towards completion. The entity has incurred actual other costs of ₹ 48 lakh by 31.03.2018.*

How much revenue will be recognised as per relevant Ind AS 115 for the year ended 31st March, 2018, if performance obligation is met over a period of time? ***(5 Marks)***

(b) *CARP Ltd. is engaged in developing computer software. The expenditures incurred by CARP Ltd. in pursuance of its development of software is given below:*

(i) Paid ₹ 1,50,000 towards salaries of the program designers.

(ii) Incurred ₹ 3,00,000 towards other cost of completion of program design.

(iii) Incurred ₹ 80,000 towards cost of coding and establishing technical feasibility.

(iv) Paid ₹ 3,00,000 for other direct cost after establishment of technical feasibility.

(v) Incurred ₹ 90,000 towards other testing costs.

(vi) A focus group of other software developers was invited to a conference for the introduction of this new software. Cost of the conference aggregated to ₹ 60,000.

(vii) On March 15, 2018, the development phase was completed and a cash flow budget was prepared.

Net profit for the year 2017-18 was estimated to be equal ₹ 30,00,000.

How CARP Ltd. should account for the above mentioned cost as per relevant Ind AS?

(5 Marks)

(c) XYZ Global Ltd. has a functional currency of USD and needs to translate its financial statements into the functional and presentation currency of XYZ Info. (Euro).

The following is the statement of financial position of XYZ Global Ltd. prior to translation :

	USD	Euro
Property, plant and equipment	*60,000*	
Receivables	*9,00,000*	
Total assets	*9,60,000*	
Issued capital	*40,000*	*25,000*
Opening retained earnings	*25,000*	*15,000*
Profit for the year	*22,000*	
Accounts payable	*8,15,000*	
Accrued liabilities	*58,000*	
Total equity and liabilities	*9,60,000*	

Additional information:

Relevant exchange rates are:

Rate at the beginning of the year - Euro 1 = USD 1.25

Average rate for the year - Euro 1 = USD 1.20

Rate at the end of the year - Euro 1 = USD 1.15

You are required to :

(i) Translate the statement of financial position of XYZ Global Ltd. into Euro which is ready for consolidation by XYZ Info. (Share capital and opening retained earnings have been pre- calculated.)

(ii) Prepare a working of the cumulative balance of the foreign currency translation reserve as per relevant Ind AS. ***(5 Marks)***

(d) In 2017-18, Diana Ltd. has around 3,000 employees in the company. As per the company policy, the employees are given 30 days of Privilege Leave (PL), 12 days of Sick Leave (SL) and 12 days of Casual Leave. Out of the total PL and SL, 10 PL and 5 SL can be carried forward to next year. On the basis of past trends, it has been noted that 1,000 employees will take 5 days of PL and 2 days of SL and 2,000 employees will avail 10 as PL and 5 as SL. Also the company has been incurring profits since incorporation. It has been decided in 2017-18 to distribute profits to its employees @ 8% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diana Ltd. is to be around 7%. The profits earned during 2017-18 is ₹ 12,000 lakh.

Diana Ltd. also has a post-employment benefit plan available which is in the nature of defined contribution plan where contribution to this fund amounts to ₹ 500 lakh which will fall due within 12 months from the end of accounting period. The company has paid ₹ 120 lakh to its employees in 2017-18.

What is the treatment for the short-term compensating absences, profit-sharing plan and the defined contribution plan by Diana Ltd. as per the provisions of relevant Ind AS?

(5 Marks)

Answer

(a) Cost to be incurred comprises two major components – cost for elevators and cost of construction service.

(a) The elevators are part of the overall construction project and are not a distinct performance obligation

(b) The cost of elevators is substantial to the overall project and are incurred well in advance.

(c) Upon delivery at site, customer acquires control of such elevators.

(d) There is no modification done to the elevators, 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 elevators also.

Therefore, applying the guidance on Input method –

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

The revenue to be recognized is measured as follows:

Particulars	**Amount (₹ in lakh)**
Transaction price	480
Costs incurred:	
(a) Cost of elevators	144
(b) Other costs	48
Measure of progress	48 / 240 = 20%

Revenue to be recognised: **(₹ in lakh)**

(a) For costs incurred (other than elevators)	Total attributable revenue = 480 -144 = 336 % of work completed = 20% Revenue to be recognised = 67.20
(b) Revenue for elevators	(equal to costs incurred) 144
Total revenue to be recognised	144 + 67.2 = 211.20

Therefore, for the year ended 31st March, 2018, the company shall recognize revenue of ₹ 211.20 lakhs on the project.

Note: The above solution is given on the basis of Ind AS 115 irrespective of the financial year mentioned in the question.

(b) Costs incurred in creating computer software, should be charged to research & development expenses when incurred until technical feasibility/asset recognition criteria have been established for the product. Here, technical feasibility is established after completion of detailed program design.

In this case, ₹ 5,30,000 (salary cost of ₹ 1,50,000, program design cost of ₹ 3,00,000 and coding and technical feasibility cost of ₹ 80,000) would be recorded as expense in Profit and Loss since it belongs to research phase.

Cost incurred from the point of technical feasibility are capitalised as software costs. But the conference cost of ₹ 60,000 would be expensed off.

In this situation, direct cost after establishment of technical feasibility of ₹ 3,00,000 and testing cost of ₹ 90,000 will be capitalised.

The cost of software capitalised is = ₹ (3,00,000 + 90,000) = ₹ 3,90,000.

(c) **Translation of the financial statements**

	USD a	Rate/Euro b	Euro a/b
Property, plant and equipment	60,000	1.15	52,174

Receivables	9,00,000	1.15	7,82,609
Total assets	9,60,000		8,34,783
Issued capital	40,000		25,000
Opening retained earnings	25,000		15,000
Profit for the year	22,000	1.20	18,333
Accounts payable	8,15,000	1.15	7,08,696
Accrued liabilities	58,000	1.15	50,435
Total equity and liabilities	9,60,000		8,17,464
Foreign Currency Translation Reserve (FCTR) (Refer the below working)			17,319
Total equity and liabilities			8,34,783

Working of the cumulative balance of the FCTR

Particulars	Actual translated amount in Euro	Amount	Difference translated at closing rate of USD 1.15 / EURO
	a	b	b-a
Issued capital	25,000	34,783*	9,783
Opening retained earnings	15,000	21,739**	6,739
Profit for the year	18,333	19,130***	797
	58,333	… 75,652	17,319

* $\frac{40,000}{1.15} = 34,783$ ** $\frac{25,000}{1.15} = 21,739$ *** $\frac{22,000}{1.15} = 19,130$

(d) **(i)** **For short term compensating expenses:** Diana. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 1,000 employees and 10 days of PL for remaining 2,000 employees and 2 days of SL for 1,000 employees and 5 days of SL for remaining 2,000 employees in its books as an unused entitlement that has accumulated in 2017-2018.

(ii) **For profit sharing plan:** Diana. Ltd. will recognise ₹ 840 lakh (12,000 x 7%) as a liability and expense it in books of accounts.

(iii) **For defined contribution plan:** When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) Under Ind AS 19, the amount of ₹ 380 lakh (500-120) may be recognised as a liability (accrued expense), after deducting contribution already paid. However, if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense); and

(b) Also, ₹ 380 lakh will be recognised as an expense in this case study which will be disclosed as an expense in the statement of profit and loss.

Question 4

(a) *Deepak Ltd., an automobile group acquires 25% of the voting ordinary shares of Shaun Ltd., another automobile business, by paying, ₹ 4,320 crore on 01.04.2017. Deepak Ltd. accounts its investment in Shaun Ltd. using equity method as prescribed under Ind AS 28. At 31.03.2018, Deepak Ltd. recognised its share of the net asset changes of Shaun Ltd. using equity accounting as follows:*

	(₹ in crore)
Share of Profit or Loss	*378*
Share of Exchange difference in OCI	*54*
Share of Revaluation Reserve of PPE in OCI	*27*

The carrying amount of the investment in the associate on 31.03.2018 was therefore ₹ 4,779 crore (4,320 + 378 + 54 + 27).

On 01.04.2018, Deepak Ltd. acquired remaining 75% of Shaun Ltd. for cash ₹ 13,500 crore. Fair value of the 25% interest already owned was ₹ 4,860 crore and fair value of Shaun Ltd.' s identifiable net assets was ₹ 16,200 crore as on 01.04.2018.

How should such business combination be accounted for in accordance with the applicable Ind AS? ***(8 Marks)***

(b) *The following information provided to you by JOHN Ltd.*

(i)	*Equity Shares of ₹ 100 each of which ₹ 60 has been called up*	*12,00,000 shares*
(ii)	*Equity Shares in respect of which calls are in arrears @ 20 per share*	*₹ 14,00,000*
(iii)	*General Reserve*	*₹ 1,64,00,000*
(iv)	*Profit & Loss Account (balance at the beginning of the year)*	*₹ (25,00,000)*
(v)	*Profit (Loss) for the year*	*₹ (7,20,000)*
(vi)	*Industry Average Profitability*	*15%*
(vii)	*10% Debentures of ₹ 100 each*	*3,00,000*

JOHN Ltd. is proposing to hire the services of Mr. Neil to turn the company around. Mr. Neil demanded minimum take home salary of ₹ 10,00,000 per month. Take home salary is that remaining after employee's contribution to Provident Fund @ ₹ 1,25,000 per *month and after deduction of Income-tax on salary. Provident Fund contribution by JOHN Ltd. per month will be ₹ 1,25,000. PF contributions are tax exempt. Average Income Tax rate on salaries after considering the impact of exemption amount of ₹ 3 lakh p.a. will be 25%. JOHN Ltd. expects 12% Profits over & above target by hiring Mr. Neil.*

You are required to analyse the proposal and see whether it is worthwhile to employ Mr. Neil and also suggest the maximum emoluments that could be paid to him. ***(8 Marks)***

(c) (1) Vastra Ltd. has 3 lakh units of Certified Emission Reduction (CER) under validation stage and 1,20,000 units have been approved by UNFCCC. What is the treatment required for the above?

(2) 2,00,000 units of carbon credit (CER) has been produced by ACL Ltd. Currently the value of CER under different situations are as follows:

(i) Cost @ ₹ 250 per unit i.e. CER

(ii) Market Value @ ₹ 210 per unit i.e. CER

(iii) Net Realization Value ₹ 200 per unit i.e. CER

(iv) Disposal Value ₹ 190 per unit i.e. CER

Explain how income recognition will be done as per relevant and applicable Accounting Standards. ***(4 Marks)***

Answer

(a) Paragraph 42 of Ind AS 103 provides that in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed of directly the previously held equity interest.

Applying the above, Deepak Ltd. records the following entry in its consolidated financial statements:

		(₹ in crore)	
		Debit	**Credit**
Identifiable net assets of Shaun Ltd.	Dr.	16,200	
Goodwill (W.N.1)	Dr.	2,160	
Foreign currency translation reserve	Dr.	54	
PPE revaluation reserve	Dr.	27	
To Cash			13,500

To Investment in associate -Shaun Ltd.		4,779
To Retained earnings (W.N.2)		27
To Gain on previously held interest in Shaun Ltd. recognised in Profit or loss (W.N.3)		135
(Recognition of acquisition of Shaun Ltd.)		

Working Notes:

1. **Calculation of Goodwill**

	₹ in crore
Cash consideration	13,500
Add: Fair value of previously held equity interest in Shaun Ltd.	4,860
Total consideration	18,360
Less: Fair value of identifiable net assets acquired	(16,200)
Goodwill	2,160

2. The credit to retained earnings represents the reversal of the unrealized gain of ₹ 27 crore in Other Comprehensive Income related to the revaluation of property, plant and equipment. In accordance with Ind AS 16, this amount is not reclassified to profit or loss.

3. **The gain on the previously held equity interest in Shaun Ltd. is calculated as follows:** **₹ in crore**

Fair Value of 30% interest in Shaun Ltd. at 1st April, 2018	4,860
Carrying amount of interest in Shaun Ltd. at 1st April, 2018	(4,779)
	81
Unrealised gain previously recognised in OCI	54
Gain on previously held interest in Shaun Ltd. recognised in profit or loss	135

*** (b) Cost to Company in employing Mr. Neil**

	₹
Salary before tax ₹ [(10,00,000 x 12 months)/75%]	1,60,00,000

* This question is based on 'Human Resource Reporting'. It may be noted this topic is no more relevant from November, 2019 examination under Final new course as per the BOS announcement dated 24.06.2019.

Add: Employee's PF contribution (1,25,000 x 12 months)	15,00,000
	1,75,00,000
Add: Employer's PF contribution (1,25,000 x 12 months)	15,00,000
	1,90,00,000

Capital base

	₹
Equity Share Capital paid up (12,00,000 shares of ₹ 60 each)	7,20,00,000
Less: Calls in arrears	(14,00,000)
	7,06,00,000
General Reserve	1,64,00,000
Profit & Loss A/c (balance) at the beginning of the year	(25,00,000)
Loss for the year	(7,20,000)
10% Debentures of ₹ 100 each (3,00,000x100)	3,00,00,000
Capital base	11,37,80,000
Target Profit 15% of capital base	1,70,67,000
Profits achieved due to Mr. Neil (1,70,67,000 x 112%)	1,91,15,040

Thus, the company is advised to hire him as his CTC ₹1,90,00,000 is less than ₹ 1,91,15,040.

Maximum emoluments that can be paid to Mr. Neil = ₹ 1,91,15,040.

Note: The above solution is given on the basis that 12% expected profit is over the target profit of 15%. **Alternatively,** it can be interpreted that 12% profit is in addition to 15% target profit. In such a situation, 27% profit on capital base will be the expected profit to be achieved due to hiring of Mr. Neil (i.e. ₹ 3,07,20,600). The conclusion will remain same even on the basis of this alternative. However, the maximum emoluments that can be paid to Mr. Neil will be ₹ 3,07,20,600.

* **(c)** 1. CER does not come into existence unless it is validated by UNFCCC. Therefore, only 1,20,000 units will be accounted in the books. Even though CERs are intangible assets these should be accounted for as per the requirements of AS 2.

2. As per AS 9, income will be recognised as and when CERs will be sold. However, at present CERs will be recognised in the books of ACL Ltd. as inventory. The entity

* This question is based on 'Accounting for Carbon Credits'. It may be noted this topic is no more relevant from November, 2019 examination under Final new course as per the BOS announcement dated 24.06.2019.

should apply AS 2 to recognise CERs. Accordingly, CER should be valued at ₹ 200 per CER i.e. at NRV which is less than cost.

Question 5

(a) *Perfect Ltd. issued 50,000 Compulsory Cumulative Convertible Preference Shares (CCCPS) as on 1st April, 2017 @ ₹ 180 each. The rate of dividend is 10% payable at the end of every year. The preference shares are convertible into 12,500 equity shares (Face value ₹ 10 each) of the company at the end of 5th year from the date of allotment. When the CCCPS are issued, the prevailing market interest rate for similar debt without conversion option is 15% per annum.*

Transaction cost on the date of issuance is 2% of the value of the proceeds. Effective Interest Rate is 15.86%. (Round off the figures to the nearest multiple of Rupee)

Discounting Factor @ 15%

Year	1	2	3	4	5
Discount Factor	0.8696	0.7561	0.6575	0.5718	0.4971

You are required to compute Liability and Equity Component and Pass Journal Entries for entire term of arrangement i.e. from the issue of Preference Shares till their conversion into Equity Shares. Keeping in view the provisions of relevant Ind AS. **(12 Marks)**

(b) *Beetel Holding Inc. grants 100 shares to each of its 300 employees on 1st January, 2015. The employees should remain in service during the vesting period. The shares will vest at the end of the*

First year	if the company's earnings increase by 13%
Second year	if the company's earnings increased by more than 21% over the two-year period
Third year	if the entity's earning increased by more than 23% over the three-year period.

The fair value per share at the grant date is ₹ 125.

In 2015, earnings increased by 9% and 20 employees left the organization. The company expects that earnings will continue at a similar rate in 2016 and expects that the shares will vest at the end of the year 2016. The company also expects that additional 30 employees will leave the organization in the year 2016 and that 250 employees will receive their shares at the end of the year 2016.

At the end of 2016, company's earnings increased by 19%. Therefore, the shares did not vest. Only 20 employees left the organization during 2016. Company believes that additional 25 employees will leave in 2017 and earnings will further increase so that the performance target will be achieved in 2017.

At the end of the year 2017, only 22 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

Determine the expense for each year and pass appropriate journal entries. ***(8 Marks)***

Answer

(a) This is a compound financial instrument with two components – liability representing present value of future cash outflows and balance represents equity component.

Total proceeds = 50,000 Shares x ₹ 180 each = ₹ 90,00,000

Dividend @ 10% = ₹ 9,00,000

a. Computation of Liability & Equity Component

Date	Particulars	Cash Flow	Discount Factor	Net present Value
01-Apr-2017		0	1	0.00
31-Mar-2018	Dividend	9,00,000	0.8696	7,82,640
31-Mar-2019	Dividend	9,00,000	0.7561	6,80,490
31-Mar-2020	Dividend	9,00,000	0.6575	5,91,750
31-Mar-2021	Dividend	9,00,000	0.5718	5,14,620
31-Mar-2022	Dividend	9,00,000	0.4971	4,47,390
Total Liability Component				30,16,890
Total Proceeds				90,00,000
Total Equity Component (Bal fig)				59,83,110

b. Allocation of transaction costs

Particulars	Amount	Allocation	Net Amount
	a	b	a-b
Liability Component	30,16,890	60,338	29,56,552
Equity Component	59,83,110	1,19,662	58,63,448
Total Proceeds	90,00,000	1,80,000	88,20,000

c. Accounting for liability at amortised cost

- Initial accounting = Present value of cash outflows less transaction costs
- Subsequent accounting = At amortised cost, ie initial fair value adjusted for interest and repayments of the liability.

	Opening Financial Liability A	Interest @ 15.86% B	Cash Flow (Dividend payment) C	Closing Financial Liability A+B-C
01-Apr-2017	29,56,552			29,56,552
31-Mar-2018	29,56,552	4,68,909	9,00,000	25,25,461
31-Mar-2019	25,25,461	4,00,538	9,00,000	20,25,999
31-Mar-2020	20,25,999	3,21,323	9,00,000	14,47,322
31-Mar-2021	14,47,322	2,29,545	9,00,000	7,76,867
31-Mar-2022	7,76,867	1,23,133*	9,00,000	-

*Difference of ₹ 78 (adjusted in the interest value of 31st March, 2022) is due to approximation of figures in the earlier years.

d. Journal Entries to be recorded for entire term of arrangement are as follows:

Date	Particulars	Debit ₹	Credit ₹
01-Apr-2017	Bank A/c Dr.	88,20,000	
	To Preference Shares A/c		29,56,552
	To Equity Component of Preference shares A/c		58,63,448
	(Being compulsorily convertible preference shares issued. The same are divided into equity component and liability component as per the calculation)		
31-Mar-2018	Preference shares A/c Dr.	9,00,000	
	To Bank A/c		9,00,000
	(Being dividend at the coupon rate of 10% paid to the shareholders)		
31-Mar-2018	Finance cost A/c Dr.	4,68,909	
	To Preference Shares A/c		4,68,909
	(Being interest as per EIR method recorded)		

31-Mar-2019	Preference shares A/c Dr. To Bank A/c (Being dividend at the coupon rate of 10% paid to the shareholders)	9,00,000	 9,00,000
31-Mar-2019	Finance cost A/c Dr. To Preference Shares A/c (Being interest as per EIR method recorded)	4,00,538	 4,00,538
31-Mar-2020	Preference shares A/c Dr. To Bank A/c (Being dividend at the coupon rate of 10% paid to the shareholders)	9,00,000	 9,00,000
31-Mar-2020	Finance cost A/c Dr. To Preference Shares A/c (Being interest as per EIR method recorded)	3,21,323	 3,21,323
31-Mar-2021	Preference shares A/c Dr. To Bank A/c (Being dividend at the coupon rate of 10% paid to the shareholders)	9,00,000	 9,00,000
31-Mar-2021	Finance cost A/c Dr. To Preference Shares A/c (Being interest as per EIR method recorded)	2,29,545	 2,29,545
31-Mar-2022	Preference shares A/c Dr. To Bank A/c (Being dividend at the coupon rate of 10% paid to the shareholders)	9,00,000	 9,00,000
31-Mar-2022	Finance cost A/c Dr. To Preference Shares A/c (Being interest as per EIR method recorded)	1,23,133	 1,23,133
31-Mar-2022	Equity Component of Preference shares A/c Dr. To Equity Share Capital A/c	58,63,448	 1,25,000

	To Securities Premium A/c (Being preference shares converted in equity shares and remaining equity component is recognised as securities premium)		57,38,448

(b) Since the earnings of the entity is non-market related, hence it will not be considered in fair value calculation of the shares given. However, the same will be considered while calculating number of shares to be vested.

Determination of expenses for each year:

		2015	2016	2017
a	Total employees	300	300	300
b	Cumulative- Employees left (Actual)	(20)	(40)	(62)
c	Employees expected to leave in the next year	(30)	(25)	-
d	Year end – No of employees	250	235	238
e	Shares per employee	100	100	100
f	Fair value of a share at grant date	125	125	125
g	Vesting period	1/2	2/3	3/3
h	Cumulative expenses (d x e x f x g)	15,62,500	19,58,333	29,75,000
i	Expenses to be recognised (h-h of previous year)		3,95,833	10,16,667

Journal Entries

31st December, 2015		₹
Employee benefits expenses Dr.	15,62,500	
To Share based payment reserve (equity)		15,62,500
(Equity settled shared based payment expected vesting amount)		
31st December, 2016		
Employee benefits expenses Dr.	3,95,833	
To Share based payment reserve (equity)		3,95,833
(Equity settled shared based payment expected vesting amount)		
31st December, 2017		
Employee benefits expenses Dr.	10,16,667	

To Share based payment reserve (equity) (Equity settled shared based payment expected vesting amount)		10,16,667
Share based payment reserve (equity) Dr. To Share Capital (Share capital issued)	29,75,000	2,97,5,000

Question 6

(a) Shiv Ltd. purchased 70% stake in Shyam Ltd. for ₹ 21,22,400 on 01.04.2016. On the date of the acquisition, Shyam Ltd.'s assets & liabilities were ₹ 54,88,000 and ₹ 4,48,000 respectively. The net assets position of Shyam Ltd. as on 31.03.2017 and 30.09.2017 were ₹ 78,40,000 and ₹ 1,10,60,000 respectively, the increase resulting from profits earned during the period. On 01.10.2017, Shiv Ltd. retained 30% stake in Shyam Ltd. and sold balance for ₹ 50,00,000.

Discuss the nature of the relationship between the two companies on the relevant dates and the accounting adjustments that are necessary as a result of any change in the relationship as per relevant Accounting Standard.

Also, calculate the profit arising on part sale of investment, carrying value of the portion unsold & Goodwill/Capital Reserve that arises on change in nature of the investment.

(12 Marks)

(b) Mediquick Ltd. has received the following grants from the Central Government for its newly started pharmaceutical business:

- *₹ 50 lakh received for immediate start-up of business without any condition.*
- *₹ 70 lakh received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:*
  - *(i) That drugs should be available to the public at 20% cheaper from current market price and*
  - *(ii) The drugs should be in accordance with quality prescribed by the Govt. Drug Control department.*
- *Three acres of land (fair value: ₹ 20 lakh) received for set up of plant.*
- *₹ 4 lakh received for purchase of machinery of ₹ 10 lakh. Useful life of machinery is 4 years. Depreciation on this machinery is to be charged on straight-line basis.*

How should Mediquick Ltd. recognize the government grants in its books of accounts as per relevant Ind AS? ***(4 Marks)***

(c) *Narayan Ltd. provides you the following information and asks you to calculate the tax expense for each quarter with reference to AS 25, assuming that there is no difference between the estimated taxable income and the estimated accounting income:*

Estimated Gross Annual Income	*₹ 33,00,000*
(inclusive of Estimated Capital Gains of ₹ 8,00,000)	

Estimated Income of Quarter I is ₹ 7,00,000, Quarter II is ₹ 8,00,000, Quarter III (including Estimated Capital Gains of ₹ 8,00,000) is ₹ 12,00,000 and Quarter IV is ₹ 6,00,000.

Tax Rates:	*On Capital Gains*		*12%*
	On Other Income:	*First ₹ 5,00,000*	*30%*
		Balance Income	*40%*

(4 Marks)

OR

KAPC Ltd. acquired a machine on 1st April, 2010 for 10 crore that had an estimated useful life of 8 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2014, the carrying value of the machine was reassessed at ₹ 7.10 crore and surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March, 2016 conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹ 1.09 crore. You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of KAPC Ltd. KAPC Ltd, had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from revaluation as per AS 28. ***(4 Marks)***

*** Answer**

(a) Shyam Ltd. became a subsidiary of Shiv Ltd. on 1st April, 2016 when 70% thereof was acquired. The holding–subsidiary relationship continued till 30th September, 2017 and from 1st October, 2017 the relationship between the two companies will change to Associate. As per para 24 of AS 21, "Consolidated Financial Statements", the carrying value of the investment at the date it ceases to be subsidiary is regarded as cost thereafter. Accordingly, if the nature of the investee changes to that of an associate, the carrying amount of the investment in Consolidated Financial Statements of the investor, as on date it ceases to be a subsidiary, would be considered as cost of investment in the associate. Goodwill or capital reserve arising on account of the change in the nature of the investment

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* This question is based on Accounting Standards. It may be noted accounting standards are no more relevant from Nov. 2019 examination under Final new course as per BOS announcement dated 24.06.2019.

will be computed as on the date of such change. Accordingly, when a part of the investment takes the form of an investment in an associate, the results of operations of the subsidiary will be included in the consolidated statement of Profit and Loss for the period from the beginning of the period until it ceased to be a subsidiary.

Ascertainment of Gain or Loss

on disposal of part of the investment in Shyam Ltd.

		₹
Proceeds received on sale of 40% holdings in Shyam Ltd.		50,00,000
Net Assets of Shyam Ltd. on the date of disposal	1,10,60,000	
Less: Minority's interest in Shyam Ltd. on the date of disposal	(33,18,000)	
Share of Shiv Ltd. in Net Assets	77,42,000	
Less: Capital reserve on acquisition (Refer W.N.)	(14,05,600)	
Total value of investment in consolidated financial statements of Shiv Ltd.	63,36,400	
Less: Carrying Value of investment disposed off [(63,36,400 / 70%) x 40%]		36,20,800
Profit on sale of 40% investment		13,79,200

Carrying value of the investment retained in the Consolidated Financial Statements

		₹
Total value of investment in consolidated financial statements of Shiv Ltd.	63,36,400	
Less: Carrying value of investment disposed off	(36,20,800)	
Carrying Value of the investment retained in consolidated financial statements including capital reserve		27,15,600
This amount of ₹ 27,15,600 would be used to apply the equity method of accounting as specified in AS 23		

Capital reserve arising on the carrying value of unsold portion of the investment

	₹
Carrying value of 30% holdings in Shyam Ltd. as on 1st October, 2017	27,15,600
Less: Share in value of equity of Shyam Ltd., as at date of investment when subsidiary relationship is transformed to an associate (1,10,60,000 x 30%)	(33,18,000)
Capital reserve arising on such investment under Equity method as per AS 23	(6,02,400)

Working Note:

Calculation of Goodwill / Capital Reserve on the Date of Acquisition of Shares in Shyam Ltd.

	₹
Net Assets on Acquisition date (₹ 54,88,000 – ₹ 4,48,000)	50,40,000
70% thereof	35,28,000
Less: Cost of investment	(21,22,400)
Capital reserve on acquisition	14,05,600

(b) Mediquick Ltd. should recognise the grants in the following manner:

- ₹ 50 lakhs have been received for immediate start-up of business. This should be recognised in the Statement of Profit and Loss immediately as there are no conditions attached to the grant.
- ₹ 70 lakhs should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expense the related costs for which the grants are intended to compensate. However, for this compliance, there should be reasonable assurance that Mediquick Ltd. complies with the conditions attached to the grant.
- Land should be recognised at fair value of ₹ 20 lakhs and government grants should be presented in the balance sheet by setting up the grant as deferred income.

  Alternatively, since the land is granted at no cost, it may be presented in the books at nominal value.
- ₹ 4 lakhs should be recognised as deferred income and will be transferred to profit and loss account over the useful life of the asset. In this cases, ₹ 1,00,000 [₹ 4 lakhs/ 4 years] should be credited to profit and loss account each year over the period of 4 years.

  Alternatively, ₹ 4,00,000 will be deducted from the cost of the asset and depreciation will be charged at reduced amount of ₹ 6,00,000 (₹ 10,00,000 – ₹ 4,00,000) i.e. ₹ 1,50,000 each year.

(c) **Either**

As per para 29 of AS 25 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

If different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries) to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income.

		₹
Estimated annual income exclusive of estimated capital gain (33,00,000 – 8,00,000)	(A)	25,00,000
Tax expense on other income:		
30% on ₹ 5,00,000		1,50,000
40% on remaining ₹ 20,00,000		8,00,000
	(B)	9,50,000
Weighted average annual income tax rate = $\frac{B}{A} = \frac{9,50,000}{25,00,000} = 38\%$		

Tax expense to be recognised in each of the quarterly reports

		₹
Quarter I - ₹ 7,00,000 x 38%		2,66,000
Quarter II -₹ 8,00,000 x 38%		3,04,000
Quarter III - ₹ (12,00,000 - 8,00,000) x 38%	1,52,000	
₹ 8,00,000 x 12%	96,000	2,48,000
Quarter IV - ₹ 6,00,000 x 38%		2,28,000
		10,46,000

Or

Statement Showing Impairment Loss

	(₹ in crore)
Carrying amount of the machine as on 1st April, 2010	10.00
Depreciation for 4 years i.e. 2010-2011 to 2013-2014 $\left[\frac{10 \text{ crore}}{8 \text{ years}} \times 4 \text{ years}\right]$	(5.00)
Carrying amount as on 31.03.2014	5.00
Add: Upward Revaluation (credited to Revaluation Reserve account)	2.10
Carrying amount of the machine as on 1st April, 2014 (revalued)	7.10
Less: Depreciation for 2 years i.e. 2014-2015 and 2015-2016 $\left[\frac{7.10 \text{ crore}}{4 \text{ years}} \times 2 \text{ years}\right]$	(3.55)
Carrying amount as on 31.03.2016	3.55
Less: Recoverable amount	(1.09)

Impairment loss		2.46
Less: **Balance in revaluation reserve as on 31.03.2016:**		
Balance in revaluation reserve as on 31.03.2014	2.10	
Less: Enhanced depreciation met from revaluation reserve 2014-2015 and 2015-2016 = [(1.775 – 1.25) x 2 years]	(1.05)	
Impairment loss set off against revaluation reserve balance as per para 58 of AS 28 "Impairment of Assets"		(1.05)
Impairment Loss to be debited to profit and loss account		1.41