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) *On 1 April 2020, Star Limited has advanced a housing loan of ₹ 15 lakhs to one of its employee at an interest rate of 6% per annum which is repayable in 5 equal annual installments along with interest at each year end. Employee is not required to give any specific performance against this benefit. The market rate of similar loan for housing finance by banks is 10% per annum.*

The accountant of the company has recognized the staff loan in the balance sheet equivalent to the amount of housing loan disbursed i.e. ₹ 15 lakhs. The interest income for the year is recognized at the contracted rate in the Statement of Profit and Loss by the company i.e. ₹ 90,000 (6% of ₹ 15 lakhs).

Analyze whether the above accounting treatment made by the accountant is in compliance with the relevant Ind AS. If not, advise the correct treatment of housing loan, interest and other expenses in the financial statements of Star Limited for the year 2020-2021 along with workings and applicable Ind AS.

You are required to explain how the housing loan should be reflected in the Ind AS compliant Balance Sheet of Star Limited on 31 March 2021. ***(12 Marks)***

(b) *The following information is available relating to Space India Limited for the Financial Year 2019-2020.*

Net profit attributable to equity shareholders	*₹ 90,000*
Number of equity shares outstanding	*16,000*
Average fair value of one equity share during the year	*₹ 90*

Potential Ordinary Shares:

Options	*900 options with exercise price of ₹ 75*
Convertible Preference Shares	*7,500 shares entitled to a cumulative dividend of ₹ 9 per share. Each preference share is convertible into 2 equity shares.*
Applicable corporate dividend tax	*8%*
10% Convertible Debentures of ₹ 100 each	*₹ 10,00,000 and each debenture is convertible into 4 equity shares*
Tax rate	*25%*

You are required to compute Basic and Diluted EPS of the company for the Financial Year 2019-2020. ***(8 Marks)***

Answer

(a) The accounting treatment made by the accountant is not in compliance with Ind AS 109 'Financial Instruments'. As per Ind AS 109, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value. The fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received.

After initial recognition, an entity shall measure a financial asset either at amortised cost or at fair value through profit and loss or fair value through other comprehensive income.

Here, the loan given to employee is not at market rate. Hence, the fair value of the loan will not be equal to its initial loan proceeds. As per Ind AS 109, a financial instrument is initially measured and recorded in the books at its fair value. Further, interest income to be recognised in the Statement of Profit and Loss will be the finance income recognised at effective rate of interest i.e. @ 10% and not the rate of interest charged by the company i.e. @ 6%.

The correct accounting treatment as per Ind AS 109 will be as under:

For measuring the fair value or present value of the loan at initial recognition, market rate of interest of similar loan is considered (level 1 observable input) ie @ 10%, to discount the cash outflows.

The fair value of the loan shall be as follows:

Date	Outstanding loan	Principal	Interest income @ 6%	Total inflow	Discount factor @ 10%	PV
31 March 2021	15,00,000	3,00,000	90,000	3,90,000	0.909	3,54,510
31 March 2022	12,00,000	3,00,000	72,000	3,72,000	0.826	3,07,272
31 March 2023	9,00,000	3,00,000	54,000	3,54,000	0.751	2,65,854
31 March 2024	6,00,000	3,00,000	36,000	3,36,000	0.683	2,29,488
31 March 2025	3,00,000	3,00,000	18,000	3,18,000	0.621	1,97,478
					Fair value of the loan	13,54,602

As per Ind AS 19, employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for termination of employment. Difference of loan proceeds and present value of the loan (fair value) will be treated as prepaid employee cost irrespective of the fact that employee is not required to give any specific performance against this benefit. This is because employee is required to be in service of the company to continue availing the benefits of concessional rate of interest on housing loan. Practically, once the employee leaves the organisation, they have to repay the outstanding loan because the company provides the loan at concessional rate of interest only to its employees.

Hence, it is an employee benefit given by the company to its employees. This deemed employee cost of ₹ 1,45,398 (15,00,000 – 13,54,602) will be deferred and amortised over the period of loan on straight line basis.

Calculation of amortised cost of loan to employees

Financial year ending on 31 March	Amortised cost (opening balance)	Interest to be recognised @ 10%	Repayment (including interest)	Amortised cost (closing balance)
2021	13,54,602	1,35,460	3,90,000	11,00,062
2022	11,00,062	1,10,006	3,72,000	8,38,068
2023	8,38,068	83,807	3,54,000	5,67,875
2024	5,67,875	56,788	3,36,000	2,88,663
2025	2,88,663	29,337*	3,18,000	-

* 2,88,663 x 10% = ₹ 28,866. Difference of ₹ 471 (29,337 – 28,866) is due to approximation in computation.

Journal Entries to be recorded at every period end:

1. **On 1 April 2020**

Particulars		Dr. Amount (₹)	Cr. Amount (₹)
Loan to employee A/c	Dr.	13,54,602	
Prepaid employee cost A/c	Dr.	1,45,398	
To Bank A/c			15,00,000
(Being loan asset recorded at initial fair value)			

2. **On 31 March 2021**

Particulars		Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c	Dr.	3,90,000	
To Finance income A/c (profit and loss) @10%			1,35,460
To Loan to employee A/c			2,54,540

(Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate @ 10%)		
Employee benefit cost (profit and loss) A/c Dr.	29,080	
To Prepaid employee cost A/c (1,45,398/5)		29,080
(Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)		

The Following housing loan balances should appear in the financial statements:

Extracts of Balance sheet of Star Ltd. as at 31 March 2021

Non-current asset	
Financial asset	
Loan to employee (11,00,062 – 3,72,000 + 1,10,006)	8,38,068
Other non-current asset	
Prepaid employee cost	87,238
Current asset	
Financial asset	
Loan to employee (3,72,000-1,10,006)	2,61,994
Other current asset	
Prepaid employee cost	29,080

Deferred tax on temporary differences arising on the above-mentioned account balances (appearing in the balance sheet) should be recognised. However, in the absence of any tax rate in the question no deferred tax has been recognised.

(b) (i) Basic Earnings per share

		Year ended 31.3.2020
Net profit attributable to equity shareholders	(A)	₹ 90,000
Number of equity shares outstanding	(B)	16,000
Earnings per share	(A/B)	₹ 5.625

(ii) Diluted earnings per share

Options are most dilutive as their earnings per incremental share is nil. Hence, for the purpose of computation of diluted earnings per share, options will be considered first. 10% convertible debentures being second most dilutive will be considered next and thereafter convertible preference shares will be considered (as per W.N.).

	Net profit attributable to equity shareholders ₹	*No. of equity shares*	*Net Profit attributable per share* ₹	
Net profit attributable to equity shareholders	90,000	16,000	5.625	
Options		150		
	90,000	16,150	5.572	Dilutive
10% Convertible debentures	75,000	40,000		
	1,65,000	56,150	2.939	Dilutive
Convertible Preference Shares	72,900	15,000		
	2,37,900	71,150	3.344	Anti-Dilutive

Since diluted earnings per share is increased when taking the convertible preference shares into account (₹ 2.939 to ₹ 3.344), the convertible preference shares are anti-dilutive and are ignored in the calculation of diluted earnings per share for the year ended 31 March 2020. Therefore, diluted earnings per share for the year ended 31 March 2020 is ₹ 2.939.

Working Note:

Calculation of incremental earnings per share and allocation of rank

	Increase in earnings (1)	*Increase in number of equity shares (2)*	*Earnings per incremental share (3) = (1) ÷ (2)*	*Rank*
	₹		₹	
Options				
Increase in earnings	Nil			
No. of incremental shares issued for no consideration [900 x (90-75)/90]		150	Nil	1
Convertible Preference Shares				
Increase in net profit attributable to equity shareholders as adjusted by attributable dividend tax [(₹ 9 x 7,500) + 8% (₹ 9 x 7,500)]	72,900			
No. of incremental shares (2 x 7,500)		15,000	4.86	3

10% Convertible Debentures				
Increase in net profit [(₹ 10,00,000 x 10% x (1 – 0.25)]	75,000			
No. of incremental shares (10,000 x 4)		40,000	1.875	2

Note: Grossing up of preference share dividend has been ignored here. At present dividend distribution tax has been abolished. However, the question has been solved on the basis of the information given in the question.

Question 2

(a) ABC Limited supplies plastic buckets to wholesaler customers. As per the contract entered into between ABC Limited and a customer for the financial year 2019-2020, the price per plastic bucket will decrease retrospectively as sales volume increases within the stipulated time of one year.

The price applicable for the entire sale will be based, on sales volume bracket during the year.

Price per unit (INR)	*Sales volume*
90	*0 - 10,000 units*
80	*10,001 - 35,000 units*
70	*35,001 units & above*

All transactions are made in cash.

(i) Suggest how revenue is to be recognised in the books of accounts of ABC Limited as per expected value method, considering a probability of 15%, 75% and 10% for sales volumes of 9,000 units, 28,000 units and 36,000 units respectively. For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under expected value method for the financial year 2019-2020.

(ii) In case ABC Limited decides to measure revenue, based on most likely method instead of expected value method, how will be the revenue recognised in the books of accounts of ABC Limited based on above available information? For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under most likely value method for the financial year 2019-2020.

(iii) You are required to pass Journal entries in the books of ABC Limited if the revenue is accounted for as per expected value method for financial year 2019-2020.

(14 Marks)

(b) Lal Ltd. provides you the following information for financial year 2019-2020:

Estimated Income for the year ended 31 March 2020:

Gross Annual Income (inclusive of Estimated Capital Gains of ₹ 4,00,000)	*₹ 16,50,000*
Quarter I	*₹ 3,50,000*
Quarter II	*₹ 4,00,000*
Quarter III (including Estimated Capital Gains of ₹ 4,00,000)	*₹ 6,00,000*
Quarter IV	*₹ 3,00,000*

Tax Rates	*On Other Income*	*First ₹ 2,50,000*	*20%*
		Balance Income	*30%*
	On Capital Gains		*12%*

Calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income. ***(6 Marks)***

Answer

(a) (i) Determination of how revenue is to be recognised in the books of ABC Ltd. as per expected value method

Calculation of probability weighted sales volume

Sales volume (units)	Probability	Probability-weighted sales volume (units)
9,000	15%	1,350
28,000	75%	21,000
36,000	10%	3,600
		25,950

Calculation of probability weighted sales value

Sales volume (units)	Sales price per unit (₹)	Probability	Probability-weighted sales value (₹)
9,000	90	15%	1,21,500
28,000	80	75%	16,80,000
36,000	70	10%	2,52,000
			20,53,500

Average unit price = Probability weighted sales value/ Probability weighted sales volume

= 20,53,500 / 25,950 = ₹ 79.13 per unit

Revenue is recognised at ₹ 79.13 for each unit sold. First 10,000 units sold will be booked at ₹ 90 per unit and liability is accrued for the difference price of ₹ 10.87 per unit (₹ 90 – ₹ 79.13), which will be reversed upon subsequent sales of 15,950 units (as the question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the expected value method for the financial year 2019-2020). For, subsequent sale of 15,950 units, contract liability is accrued at ₹ 0.87 (80 – 79.13) per unit and revenue will be deferred.

(ii) Determination of how revenue is to be recognised in the books of ABC Ltd. as per most likely method

Note: It is assumed that the sales volume of 28,000 units given under the expected value method, with highest probability is the sales estimated under most likely method too.

Transaction price will be:

28,000 units x ₹ 80 per unit = ₹ 22,40,000

Average unit price applicable = ₹ 80

First 10,000 units sold will be booked at ₹ 90 per unit and liability of ₹ 1,00,000 is accrued for the difference price of ₹ 10 per unit (₹ 90 – ₹ 80), which will be reversed upon subsequent sales of 18,000 units (as question states that ABC Ltd. achieved the same number of units of sales to the customer during the year as initially estimated under the most likely method for the financial year 2019-2020).

Note: Alternatively, the question may be solved based on 25,950 units (as calculated under expected value method assuming that the targets were met) as follows:

Transaction price will be :

25,950 units x ₹ 80 per unit = ₹ 20,76,000

Average unit price applicable = ₹ 80.

First 10,000 units sold will be booked at ₹ 90 per unit and liability is accrued for the difference price of ₹ 10 per unit (₹ 90 – ₹ 80), which will be reversed upon subsequent sales of 15,950 units.

(iii) Journal Entries in the books of ABC Ltd.

(when revenue is accounted for as per expected value method for financial year 2019-2020)

			₹	₹
1.	Bank A/c (10,000 x ₹ 90)	Dr.	9,00,000	
	To Revenue A/c (10,000 x ₹ 79.13)			7,91,300
	To Liability (10,000 x ₹ 10.87)			1,08,700

	(Revenue recognised on sale of first 10,000 units)			
2.	Bank A/c [(25,950 x ₹ 80)- 9,00,000]	Dr.	11,76,000	
	Liability	Dr.	86,124	
	To Revenue A/c (15,950 x ₹ 79.13)			12,62,124
	(Revenue recognised on sale of remaining 15,950 units (25,950 - 10,000). Amount paid by the customer will be the balance amount after adjusting the excess paid earlier since, the customer falls now in second slab)			
3.	Liability (1,08,700 – 86,124)	Dr.	22,576	
	To Revenue A/c [25,950 x (80-79.13)]			22,576
	(On reversal of liability at the end of the financial year 2019-2020 i.e. after completion of stipulated time)			

Alternatively, in place of first two entries, one consolidated entry may be passed as follows:

Bank A/c (25,950 x ₹ 80)	Dr.	20,76,000	
To Revenue A/c (25,950 x ₹ 79.13)			20,53,424
To Liability (25,950 x ₹ 0.87)			22,576
(Revenue recognised on sale of 25,950 units)			

Note: In 2nd journal entry, it is assumed that the customer had paid balance amount of ₹ 11,76,000 after adjusting excess ₹ 1,00,000 paid with first lot of sale of 10,000 unit. However, one can pass journal entry with total sales value of ₹ 12,76,000 (15,950 units x ₹ 80 per unit) and later on pass third entry for refund. In such a situation, alternatively, 2nd and 3rd entries would be as follows:

Bank A/c (15,950 x ₹ 80)	Dr.	12,76,000	
To Revenue A/c (15,950 x ₹ 79.13)			12,62,124
To Liability			13,876
(Revenue recognised on sale of remaining 15,950 units (25,950 - 10,000))			
Liability (1,08,700 + 13,876)	Dr.	1,22,576	
To Revenue A/c [25,950 x (80-79.13)]			22,576
To Bank			1,00,000
(On reversal of liability at the end of the financial year 2019-2020 i.e. after completion of stipulated time and excess amount refunded)			

(b) As per Ind AS 34 '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	12,50,000
(16,50,000 – 4,00,000) (A)	
Tax expense on other income:	
20% on ₹ 2,50,000	50,000
30% on remaining ₹ 10,00,000	3,00,000
(B)	3,50,000
Weighted average annual income tax rate = $\frac{B}{A} = \frac{3,50,000}{12,50,000} = 28\%$	

Tax expense to be recognised in each of the quarterly reports:

		₹
Quarter I - ₹ 3,50,000 x 28%		98,000
Quarter II - ₹ 4,00,000 x 28%		1,12,000
Quarter III - ₹ (6,00,000 - 4,00,000) x 28%	56,000	
₹ 4,00,000 x 12%	48,000	1,04,000
Quarter IV - ₹ 3,00,000 x 28%		84,000
		3,98,000

Question 3

(a) Venus Ltd. (Seller-lessee) sells a building to Mars Ltd. (Buyer-lessor) for cash of ₹ 28,00,000. Immediately before the transaction, the building is carried at a cost of ₹ 13,00,000. At the same time, Seller- lessee enters into a contract with Buyer-lessor for the right to use the building for 20 years, with an annual payment of ₹ 2,00,000 payable at the end of each year.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a performance obligation is satisfied in accordance with Ind AS 115 "Revenue from Contracts with Customers".

The fair value of the building at the date of sale is ₹ 25,00,000. Initial direct costs, if any, are to be ignored. The interest rate implicit in the lease is 12% p.a., which is readily determinable by Seller-lessee. Present Value (PV) of annual payments (20 payments of ₹ 2,00,000 each discounted @ 12%) is ₹ 14,94,000.

Buyer-lessor classifies the lease of the building as an operating lease. How should the said transaction be accounted by Venus Ltd.? ***(8 Marks)***

(b) *Pacific Ocean Railway Ltd. has three Cash Generating units namely Train, Railway station and Railway tracks, the carrying amounts of which as on 31 March 2020 are as follows:*

Cash Generating units	Carrying amount (₹ in crore)	Remaining useful life
Train	1,500	10
Railway station	2,250	20
Railway tracks	3,300	20

Pacific Ocean Railway Ltd. also has two Corporate Assets having a remaining useful life of 20 years.

	(₹ in crore)	
Corporate Assets	Carrying amount	Remarks
Land	1,800	The carrying amount of Land can be allocated on a reasonable basis (i.e., pro rata basis) to the individual cash generating units.
Buildings	600	The carrying amount of Buildings cannot be allocated on a reasonable basis to the individual cash-generating units.

Recoverable amount as on 31 March 2020 is as follows:

Cash Generating units	Recoverable Amount (₹ in crore)
Train	1,800
Railway station	2,700
Railway tracks	4,200
Company as a whole	9,600

Calculate the impairment loss, if any. Ignore decimals. ***(8 Marks)***

(c) *Sophia Ltd. has fabricated special equipment (Inverter panel) during the financial year 2018-2019 as per drawing and design supplied by the customer. However, due to a* *liquidity crunch, the customer has requested the company for postponement in delivery schedule and requested the company to withhold the delivery of finished products and discontinue the production of balance items.*

As a result of the above, the details of customer balance and the goods held by the company as work-in-progress and finished goods as on 31 March 2020 are as follows:

Inverter panel (WIP)	*₹ 255 lakhs*
Inverter panel (Finished goods)	*₹ 165 lakhs*
Sundry Debtor (Inverter panel)	*₹ 195 lakhs*

The petition for winding up against the customer has been filed during the financial year 2019-2020 by Sophia Ltd.

You are required to Comment with explanation on provision to be made for ₹ 615 lakh included in Sundry Debtors, Finished goods and Work-in-Progress in the financial statement for the Financial year 2019-2020. ***(4 Marks)***

Answer

(a) Considering facts of the case, Venus Ltd. (seller-lessee) and Mars Ltd. (buyer-lessor) account for the transaction as a sale and leaseback.

Firstly, since the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer - lessor make adjustments to measure the sale proceeds at fair value. Thus, the amount of the excess sale price of ₹ 3,00,000 (as calculated below) is recognised as additional financing provided by Buyer-lessor to Seller-lessee.

Sale Price:	28,00,000
Less: Fair Value (at the date of sale):	(25,00,000)
Additional financing provided by Buyer-lessor to Seller-lessee	3,00,000

The present value of the annual payments is ₹ 14,94,000 (as given in the question).

Out of this ₹ 14,94,000, ₹ 3,00,000 relates to the additional financing (as calculated above) and balance ₹ 11,94,000 relates to the lease.

Accounting by Venus Ltd. (seller-lessee):

At the commencement date, Seller-lessee measures the ROU asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right-of-use retained by Seller-lessee, calculated as follows:

Carrying Amount	(A)	13,00,000
Fair Value (at the date of sale)	(B)	25,00,000
Discounted lease payments for the 20 year ROU asset	(C)	11,94,000
ROU Asset	[(A / B) x C]	6,20,880

Seller-lessee recognises only the amount of the gain that relates to the rights transferred to Buyer-lessor, calculated as follows:

Fair Value (at the date of sale)	(A)	25,00,000
Carrying Amount	(B)	13,00,000
Discounted lease payments for the 20-year ROU asset	(C)	11,94,000
Gain on sale of building	(D) = (A - B)	12,00,000
Relating to the right to use the building retained by Seller-lessee	(E)=[(D/A)xC]	5,73,120
Relating to the rights transferred to Buyer-lessor	(D - E)	6,26,880

At the commencement date, Seller-lessee accounts for the transaction, as follows:

Bank / Cash A/c	Dr.	28,00,000	
ROU Asset A/c	Dr.	6,20,880	
To Building			13,00,000
To Financial Liability			14,94,000
To Gain on rights transferred			6,26,880

(b) Allocation of corporate assets

The carrying amount of land is allocated to the carrying amount of each individual cash generating unit. A weighted allocation basis is used because the estimated remaining useful life of Train's cash-generating unit is 10 years, whereas the estimated remaining useful lives of Railway station and Railway tracks's cash-generating units are 20 years.

(₹ in crore)				
Particulars	Train	Railway station	Railway tracks	Total
Carrying amount (a)	1,500	2,250	3,300	7,050
Useful life	10 years	20 years	20 years	-
Weight based on useful life	1	2	2	-
Carrying amount (after assigning weight)	1,500	4,500	6,600	12,600
Pro-rata allocation of Land	12% (1,500/12,600)	36% (4,500/12,600)	52% (6,600/12,600)	100%
Allocation of carrying amount of Land (b)	216	648	936	1,800

Carrying amount (after allocation of Land) (a+b)	1,716	2,898	4,236	8,850

Calculation of impairment loss

Step I: Impairment losses for individual cash-generating units and its allocation:

(a) Impairment loss of each cash-generating units

			(₹ in crore)
Particulars	Train	Railway station	Railway tracks
Carrying amount (after allocation of land)	1,716	2,898	4,236
Recoverable amount	1,800	2,700	4,200
Impairment loss	-	198	36

(b) Allocation of the impairment loss

				(₹ in crore)
Allocation to	Railway station		Railway tracks	
Land	44	[198 x (648 / 2,898)]	8	[36 x (936 / 4,236)]
Other assets in cash-generating units	154	[198 x 2,250 / 2,898)]	28	[36 x (3,300/ 4,236)]
Impairment loss	198		36	

Step II: Impairment losses for the larger cash-generating unit, i.e., Pacific Ocean Railway Ltd. as a whole

						(₹ in crore)
Particulars	Train	Railway station	Railway tracks	Land	Building	Pacific Ocean Railway Ltd.
Carrying amount	1,500	2,250	3,300	1,800	600	9,450
Impairment loss (Step I)	-	(154)	(28)	(52)	-	(234)
Carrying amount (after Step I)	1,500	2,096	3,272	1,748	600	9,216
Recoverable amount						9,600
Impairment loss for the 'larger' cash-generating unit						Nil

(c) Sophia Ltd. is a manufacturer of inverter panel. As per Ind AS 2 'Inventories', inventories are assets (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services. Therefore, inverter panel held in its stock will be considered as its inventory. Further, as per the standard, inventory at the end of the year is to be valued at lower of cost or NRV.

As the customer has postponed the delivery schedule due to liquidity crunch the entire cost incurred for inverter panel which were to be supplied has been shown in Inventory. The inverter panel are in the possession of the Company which can be sold in the market. Hence company should value such inventory as per principle laid down in Ind AS 2 i.e. lower of Cost or NRV. Though, the goods were produced as per specifications of the buyer the Company should determine the NRV of these goods in the market and value the goods accordingly. Change in value of such inverter panel should be provided for in the books.

In the absence of the NRV of WIP and Finished product given in the question, assuming that cost is lower, the company shall value its inventory as per Ind AS 2 at ₹ 420 lakhs [i.e inverter panel (WIP) ₹ 255 lakhs + inverter panel (finished products) ₹ 165 lakhs].

Alternatively, if it is assumed that there is no buyer for such fabricated inverter panel, then the NRV will be Nil. In such a case, full value of finished goods and WIP will be provided for in the books.

As regards balance of Sundry Debtors, since the Company has filed a petition for winding up against the customer in 2019-2020, it is probable that amount is not recoverable from the party. Hence, the provision for doubtful debts for ₹ 195 lakhs shall be made in the books against the amount of debtors.

Question 4

(a) On 1 April 2019, 8% convertible loan with a nominal value of ₹ 12,00,000 was issued at par by Cargo Ltd. It is redeemable on 31 March 2023 also at par. Alternatively, it may be converted into equity shares on the basis of 100 new shares for each ₹ 200 worth of loan.

An equivalent loan without the conversion option would have carried interest at 10%. Interest of ₹ 96,000 has already been paid and included as a finance cost.

Present Value (PV) rates are as follows:

Year End	*@ 8%*	*@ 10%*
1	*0.93*	*0.91*
2	*0.86*	*0.83*
3	*0.79*	*0.75*
4	*0.73*	*0.68*

How will the Company present the above loan notes in the financial statements for the year ended 31 March 2020? ***(6 Marks)***

(b) *John Limited has identified four segments for which revenue data is given as per below:*

	External Sale (₹)	Internal Sale (₹)	Total (₹)
Segment A	4,00,000	Nil	4,00,000
Segment B	80,000	Nil	80,000
Segment C	90,000	20,000	1,10,000
Segment D	70,000	6,20,000	6,90,000
Total sales	6,40,000	6,40,000	12,80,000

The following additional information is available with respect to John Limited:

Segment C is a high growing business and management expects that this segment to make a significant contribution to external revenue in coming years.

Discuss, which of the segments would be reportable under the threshold criteria identified in Ind AS 108 and why? ***(6 Marks)***

(c) *P Limited and S Limited are in business of manufacturing garments. P Limited holds 30% of equity shares of S Limited for last several years. P Limited obtains control of S Limited when it acquires further 65% stake of S Limited's shares, thereby resulting in a total holding of 95% on 31 December 2019. The acquisition had the following features:*

(i) *P Limited transfers cash of ₹ 50,00,000 and issues 90,000 shares on 31 December 2019. The market price of P Limited's shares on the date of issue was ₹ 10 per share. The equity shares issued as per this transaction will comprise 5% of the post-acquisition capital of P Limited.*

(ii) *P Limited agrees to pay additional consideration of ₹ 4,00,000, if the cumulative profits of S Limited exceeds ₹ 40,00,000 over the next two years. At the acquisition date, it is not considered probable that extra consideration will be paid. The fair value of contingent consideration is determined to be ₹ 2,00,000 at the acquisition date.*

(iii) *P Limited spent acquisition-related costs of ₹ 2,00,000.*

(iv) *The fair value of the NCI is determined to be ₹ 5,00,000 at the acquisition date based on market price. P Limited decided to measure non-controlling interest at fair value for this transaction.*

(v) *P Limited has owned 30% of the shares in S Limited for several years. At 31 December 20.19, the investment is included in P Limited's consolidated balance sheet at ₹ 8,00,000. The fair value of previous holdings accounted for using the equity method is arrived at ₹ 18,00,000.*

The fair value of S Limited's net identifiable assets at 31 December 2019 is ₹ 45,00,000, determined in accordance with Ind AS 103.

Analyze the transaction and determine the accounting under acquisition method for the business combination by P Limited. ***(8 Marks)***

Answer

(a) There are both 'equity' and 'debt' features in the instrument. An obligation to pay cash i.e. interest at 8% per annum and a redemption amount will be treated as 'financial liability' while option to convert the loan into equity shares is the equity element in the instrument. Therefore, convertible loan is a compound financial instrument.

Calculation of debt and equity component and amount to be recognised in the books:

S. No	Year	Interest amount @ 8%	Discounting factor @ 10%	Amount
Year 1	2020	96,000	0.91	87,360
Year 2	2021	96,000	0.83	79,680
Year 3	2022	96,000	0.75	72,000
Year 4	2023	12,96,000*	0.68	8,81,280
Amount to be recognised as a liability				11,20,320
Initial proceeds				(12,00,000)
Amount to be recognised as equity				79,680

* In year 4, the loan note will be redeemed; therefore, the cash outflow would be ₹ 12,96,000 (₹ 12,00,000 + ₹ 96,000).

Presentation in the Financial Statements:

In Statement of Profit and Loss for the year ended on 31 March 2020

Finance cost to be recognised in the Statement of Profit and Loss (11,20,320 x 10%)	₹ 1,12,032
Less: Already charged to the income statement	(₹ 96,000)
Additional finance charge required to be recognised in the Statement of Profit and Loss	₹ 16,032

In Balance Sheet as at 31 March 2020

Equity and Liabilities	
Equity	
Other Equity (8% convertible loan)	79,680
Non-current liability	
Financial liability [8% convertible loan – [(11,20,320 + 1,12,032 – 96,000)]	11,36,352

(b) Threshold amount of 10% of total revenue is ₹ 1,28,000 (₹ 12,80,000 × 10%).

Segment A exceeds the quantitative threshold (₹ 4,00,000 > ₹ 1,28,000) and hence is a reportable segment.

Segment D exceeds the quantitative threshold (₹ 6,90,000 > ₹ 1,28,000) and hence is a reportable segment.

Segment B & C do not meet the quantitative threshold amount and may not be classified as reportable segment.

However, the total external revenue generated by these two segments A & D represent only 73.44% (₹ 4,70,000 / 6,40,000 x 100) of the entity's total external revenue. If the total external revenue reported by operating segments constitutes less than 75% of the entity's total external revenue, additional operating segments should be identified as reportable segments until at least 75% of the revenue is included in reportable segments.

In case of John Limited, it is given that Segment C is a high growing business and management expects this segment to make a significant contribution to external revenue in coming years. In accordance with the requirement of Ind AS 108, John Limited may designate segment C as a reportable segment, making the total external revenue attributable to reportable segments be 87.5% (₹ 5,60,000/ 6,40,000 x 100) of total entity's external revenue.

In this situation, Segments A, C and D will be reportable segments and Segment B will be shown as other segment.

Alternatively, Segment B may be considered as a reportable segment instead of Segment C, based on the choice of John Ltd. 's management, if it meets the definition of operating segment.

If Segment B is considered as reportable segment, external revenue reported will be ₹ 4,00,000 + ₹ 80,000 + ₹ 70,000 = ₹ 5,50,000

% of Total External Revenue = ₹ 5,50,000 / ₹ 6,40,000 = 85.94%

Segments A, B and D will be reportable segments and Segment C will be shown as other segment.

(c) Identify the acquirer

In this case, P Limited has paid cash consideration to shareholders of S Limited. Further, the shares issued to S Limited pursuant to the acquisition do not transfer control of P Limited to erstwhile shareholders of S Limited. Therefore, P Limited is the acquirer and S Limited is the acquiree.

Determine acquisition date

As the control over the business of S Limited is transferred to P Limited on 31 December 2019, that date is considered as the acquisition date.

Determine the purchase consideration

The purchase consideration in this case will comprise of the following:

Cash consideration	₹ 50,00,000
Equity shares issued (90,000 x 10 i.e., at fair value)	₹ 9,00,000
Contingent consideration (at fair value)	₹ 2,00,000
Fair value of previously held interest	₹ 18,00,000
Total purchase consideration	₹ 79,00,000

Acquisition cost incurred by and on behalf of P Limited for acquisition of S Limited should be recognised in the Statement of Profit and Loss. As such, an amount of ₹ 2,00,000 should be recognised in the Statement of Profit and Loss.

Fair value of identifiable assets and liabilities

The fair value of identifiable net assets (as given in the question) ₹ 45,00,000.

Non-Controlling Interest

The management has decided to recognise NCI at its fair value, which is given in the question as ₹ 5,00,000.

Re-measure previously held interests in case business combination is achieved in stages

In this case, the control has been acquired in stages i.e., before acquisition to control, P Limited exercised significant influence over S Limited. As such, the previously held interest should be measured at fair value and the difference between the fair value and the carrying amount as at the acquisition date should be recognised in the Statement of Profit and Loss. As such, an amount of ₹ 10,00,000 (i.e. 18,00,000 – 8,00,000) will be recognised in the Statement of Profit and Loss.

Determination of goodwill or gain on bargain purchase

Goodwill should be calculated as follows: **(₹)**

Total consideration	79,00,000
Recognised amount of any non-controlling interest	5,00,000
Less: Fair value of net identifiable assets	(45,00,000)
Goodwill	39,00,000

Question 5

(a) Diamond Pvt. Ltd, has a headcount of around 1,000 employees in the organisation in financial year 2019-2020. As per the company's policy, the employees are given 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave. Out of the

total PL and sick leave, 10 PL leave and 5 sick leave can be carried forward to next year. On the basis of past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 days of PL and 5 days of SL.

Also the company has been earning profits since 2010. It has decided in financial year 2019-2020 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diamond Pvt. Ltd. is expected to be around 3.5%. The profits earned during the financial year 2019-2020 are ₹ 4,000 crores.

Diamond Pvt. Ltd. has a post-employment benefit plan which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 200 crores which will fall due within 12 months from the end of accounting period.

The company has paid ₹ 40 crores to this plan in financial year 2019-2020.

What would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of Diamond Pvt. Ltd.? ***(6 Marks)***

(b) Entity A acquired a subsidiary, Entity B, during the year ended 31 March 2020. Summarised information from the Consolidated Statement of Profit and Loss and Balance Sheet is provided, together with some supplementary information.

Consolidated Statement of Profit and Loss for the year ended 31 March 2020.

	Amount (₹)
Revenue	1,90,000
Cost of sales	(1,10,000)
Gross profit	80,000
Depreciation	(15,000)
Other operating expenses	(28,000)
Interest cost	(2,000)
Profit before taxation	35,000
Taxation	(7,500)
Profit after taxation	27,500

Consolidated Balance Sheet

	31 March 2020	31 March 2019
	Amount (₹)	**Amount (₹)**
Assets		
Cash and cash equivalents	4,000	2,500
Trade receivables	27,000	25,000

Inventories	*15,000*	*17,500*
Property, plant and equipment	*80,000*	*40,000*
Goodwill	*9,000*	*-*
Total assets	***1,35,000***	***85,000***
Liabilities		
Trade payables	*34,000*	*30,000*
Income tax payable	*6,000*	*5,500*
Long term debt	*50,000*	*32,000*
Total outside liabilities	***90,000***	***67,500***
Shareholders' equity	*45,000*	*17,500*
Total liabilities & shareholders' equity	***1,35,000***	***85,000***

Other information:

All of the shares of entity B were acquired for ₹ 37,000 in cash. The fair values of assets acquired and liabilities assumed were:

Particulars	*Amount ₹)*
Inventories	*2,000*
Trade receivables	*4,000*
Cash	*1,000*
Property, plant and equipment	*55,000*
Trade payables	*(16,000)*
Long term debt	*(18,000)*
Goodwill	*9,000*
Cash consideration paid	*37,000*

You are required to prepare the Consolidated Statement of Cash Flows for the financial year ended 31 March 2020 in accordance with Ind AS 7. ***(8 Marks)***

(c) Entity H holds a 20% equity interest in Entity S (an associate) that in turn has a 100% equity interest in Entity T. Entity S recognised net assets relating to Entity T of ₹ 10,000 in its consolidated financial statements. Entity S sells 20% of its interest in Entity T to a third party (a non-controlling shareholder) for ₹ 3,000 and recognises this transaction as an equity transaction in accordance with the provisions of Ind AS 110, resulting in a credit in Entity S's equity of ₹ 1,000.

The financial statements of Entity H and Entity S are summarised as follows before and after the transaction:

Before			
H's consolidated financial statements			
Assets	***(₹)***	***Liabilities***	***(₹)***
Investment in S	*2,000*	*Equity*	*2,000*
Total	*2,000*	*Total*	*2,000*

S's consolidated financial statements

Assets	*(₹)*	*Liabilities*	*(₹)*
Assets (from T)	*10,000*	*Equity*	*10,000*
Total	*10,000*	*Total*	*10,000*

The financial statements of S after the transaction are summarised below:

After				
S's consolidated financial statements				
Assets	***(₹)***	***Liabilities***		***(₹)***
Assets (from T)	*10,000*	*Equity*	*10,000*	
Cash	*3,000*	*Equity transaction Impact with non- controlling interest*	*1,000*	
		Equity attributable to owners		*11,000*
		Non-controlling interest		*2,000*
Total	*13,000*	*Total*		*13,000*

Although Entity H did not participate in the transaction, Entity H's share of net assets in Entity S increased as a result of the sale of S's 20% interest in T. Effectively, H's share in S's net assets is now ₹ 2,200 (20% of ₹ 11,000) i.e., ₹ 200 in addition to its previous share.

How this equity transaction that is recognised in the financial statements of Entity S reflected in the consolidated financial statements of Entity H that uses the equity method to account for its investment in Entity S? ***(6 Marks)***

Answer

(a) (i) Treatment of short term compensating absences: Diamond Pvt. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2019-2020 as short-term compensated absences.

(ii) Treatment of profit sharing plan: Diamond Pvt. Ltd. will recognise ₹ 140 crores (4,000 x 3.5%) as a liability and expense in its books of account.

(iii) Treatment of 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.

Under Ind AS 19, the amount of ₹ 160 crores (200-40) will be recognised as a liability (accrued expense), after deducting any contribution already paid i.e. ₹ 40 crores (with contribution of ₹ 200 crores to the plan) and an expense in the statement of profit and loss.

It can also be seen that the contributions are payable within 12 months from the end of the year in which the employees render the related service; hence, they will not be discounted.

(b) Statement of Cash Flows for the year ended 31 March 2020

	Amount (₹)	Amount (₹)
Cash flows from operating activities		
Profit before taxation	35,000	
Adjustments for non-cash items:		
Depreciation	15,000	
Decrease in inventories (W.N. 1)	4,500	
Decrease in trade receivables (W.N. 2)	2,000	
Decrease in trade payables (W.N. 3)	(12,000)	
Interest paid to be included in financing activities	2,000	
Taxation (5,500 + 7,500 – 6,000)	(7,000)	
Net cash generated from operating activities		39,500
Cash flows from investing activities		
Cash paid to acquire subsidiary (37,000 – 1,000)	(36,000)	
Net cash outflow from investing activities		(36,000)
Cash flows from financing activities		
Interest paid	(2,000)	
Net cash outflow from financing activities		(2,000)
Increase in cash and cash equivalents during the year		1,500
Cash and cash equivalents at the beginning of the year		2,500
Cash and cash equivalents at the end of the year		4,000

Working Notes:

1. Calculation of change in inventory during the year

	₹
Total inventories of the Group at the end of the year	15,000
Inventories acquired during the year from subsidiary	(2,000)
	13,000
Opening inventories	(17,500)
Decrease in inventories	(4,500)

2. Calculation of change in Trade Receivables during the year

	₹
Total trade receivables of the Group at the end of the year	27,000
Trade receivables acquired during the year from subsidiary	(4,000)
	23,000
Opening trade receivables	(25,000)
Decrease in trade receivables	(2,000)

3. Calculation of change in Trade Payables during the year

	₹
Trade payables at the end of the year	34,000
Trade payables of the subsidiary assumed during the year	(16,000)
	18,000
Opening trade payables	(30,000)
Decrease in trade payables	(12,000)

4. Calculation of change in Property, plant and equipment (PPE) during the year

	₹
Total PPE balance of the Group at the end of the year	80,000
Less: PPE of the subsidiary acquired during the year	(55,000)
	25,000
Add: Depreciation	15,000
Closing balance of PPE (before depreciation)	40,000
Opening balance of PPE	40,000
Net change in PPE	Nil

5. Calculation of change in Long term debt during the year

	₹
Total long-term debt of the Group at the end of the year	50,000
Less: Long term debt of the subsidiary assumed during the year	(18,000)
	32,000

	Opening balance of long-term debt	32,000
	Net change in long term debt	Nil
6.	**Calculation of change in Shareholders' equity during the year**	₹
	Opening balance	17,500
	Profit during the year	27,500
		45,000
	Closing balance	45,000
	Net change in shareholders' equity	Nil

(c) **Ind AS 28 defines the** equity method as "a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income."

Ind AS 28, states, inter alia, that when an associate or joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income, and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies.

The change of interest in the net assets / equity of the associate as a result of the investee's equity transaction is reflected in the investor's financial statements as 'share of other changes in equity of investee' (in the statement of changes in equity) instead of gain in Statement of profit and loss, since it reflects the post-acquisition change in the net assets of the investee as per the provisions of Ind AS 28 and also faithfully reflects the investor's share of the associate's transaction as presented in the associate's consolidated financial statements.

Thus, in the given case, Entity H recognises ₹ 200 as change in other equity instead of in statement of profit and loss and maintains the same classification as of its associate, Entity S, i.e., a direct credit to equity as in its consolidated financial statements.

Question 6

(a) Nest Ltd. issued 10,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1 April 2017. The SARs will be settled in cash. Using an option pricing model, at that date it is estimated that the fair value of a SAR is ₹ 100. SAR can be exercised any time until 31 March 2020. It is expected that out of the total employees, 94% at the end of period on 31 March 2018, 91% at the end of next year will exercise the option.

Finally, when these were vested i.e. at the end of the 3rd year, only 85% of the total employees exercised the option.*

Fair value of SAR	₹
31 March 2018	132
31 March 2019	139
31 March 2020	141

You are required to pass the Journal entries to show the effect of the above transaction.

(5 Marks)

(b) *Parent Limited, prepares consolidated financial statements of the group on 31 March every year. During the year ended 31 March 2020, the following events affected the tax position of the group:*

(i) *S Limited, a wholly owned subsidiary of Parent Limited, incurred a loss of ₹20,00,000 which is adjustable from future taxable profits of the company for tax purposes. S Limited is unable to utilize this loss against previous tax liabilities. Income Tax Act does not allow S Limited to transfer the tax loss to other group companies. However, it allows S Limited to carry forward the loss and utilize it against company's future taxable profits. The directors of Parent Limited estimate that S Limited will not make any taxable profits in the foreseeable future.*

(ii) *On 1 April 2019, Parent Limited borrowed ₹50,00,000. The cost incurred by Parent Limited for arranging the borrowing was ₹ 1,00,000 on the said date and this expenditure is qualified for deduction under the Income Tax Act for the accounting year 2019-2020. The loan was given for a three-year period. As per agreement, no principal or interest was payable on the loan during the tenure of loan but the amount repayable on 31 March 2022 will be by way of a bullet payment of ₹65,21,900. As per Parent Limited, this equates to an effective annual interest rate of 10% on loan. As per the Income-tax Act, a further expense of ₹15,21,900 will be claimable from taxable income till the loan is repaid on 31 March 2022.*

The rate of corporate income tax to be assumed @ 20%.

Explain and show how each of these events would affect the deferred tax assets/liabilities in the consolidated balance sheet of Parent Limited as at 31 March 2020 as per applicable Ind AS.

You are also required to examine whether the effective rate of interest arrived at by Parent Limited for the loan of ₹50,00,000 is in accordance with applicable Ind AS or not? **(6 Marks)**

* *PS: Read 'vested' as 'exercised'.*

(c) Royal Ltd. is a company which has a net worth of ₹200 crore engaged in the manufacturing of rubber products. The sales of the company are badly affected due to pandemic during the Financial year 2019-2020.

Relevant financial details of the following financial years are as follows: (₹ in crore)

Particulars	*31 March 2020 (Current year) estimated*	*31 March 2019*	*31 March 2018*	*31 March 2017*
Net Profit	*3.00*	*8.50*	*4.00*	*3.00*
Sales (turnover)	*850*	*950*	*900*	*800*

During the pandemic period (till 31 March 2020) various commercial activities were undertaken with considerable concessions/discounts, along the related affected areas. The management intends to highlight the expenditure incurred on such activities as expenditure incurred, on activities undertaken to discharge corporate social responsibility, while publishing its financial statements for the year 2019-2020.

You are requested to advise CFO of Royal Ltd on the below points along with reasons for your advise:

(i) Whether the Company has an obligation to form a CSR committee since the applicability criteria are not satisfied in the current financial year?

(ii) The accounting of expenditure during the pandemic period is to be treated as expenditure on CSR in the financial statement according to the view of the accountant of the company. ***(5 Marks)***

(d) Entity K is owned by three institutional investors - M Limited, N Limited and C Limited - holding 40%, 40% and 20% equity interest respectively. A contractual arrangement between M Limited and N Limited gives them joint control over the relevant activities of Entity K. It is determined that Entity K is a joint operation (and not a joint venture). C Limited is not a party to the arrangement between M Limited and N Limited. However, like M Limited and N Limited, C Limited also has rights to the assets, and obligations for the liabilities, relating to the joint operation in proportion of its equity interest in Entity K.

Would the manner of accounting to be followed by M Limited and N Limited on the one hand and C Limited on the other in respect of their respective interests in Entity K be the same or different?

You are required to explain in light of the relevant provisions in the relevant standard in this regard. ***(4 Marks)***

OR

An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. The entity agrees to buy a specific number of tickets and will pay for those tickets even if it is not able to resell them. The reduced rate paid by the entity for each ticket purchased is negotiated and agreed in *advance. The entity determines the prices at which the airline tickets will be sold to its customers. The entity sells the tickets and collects the consideration from customers when the tickets are sold; therefore, there is no credit risk to the entity.*

The entity also assists the customers in resolving complaints with the service provided by airlines.

However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

Determine whether the entity is a principal or an agent with suitable explanation in light with the provisions given in the relevant standard. ***(4 Marks)***

Answer

(a) Table showing amount of expense to be charged each year

Period	Fair value	To be vested	Cumulative	Expense
	a	b	c= a x b x 10,000	d = c-prev. period c
1 April 2017	100	100%	10,00,000	10,00,000
31 March 2018	132	94%	12,40,800	2,40,800
31 March 2019	139	91%	12,64,900	24,100
31 March 2020	141	85%	11,98,500	(66,400)
				11,98,500

Journal Entries

1 April 2017			
Employee benefits expenses	Dr.	10,00,000	
To Share based payment liability			10,00,000
(Fair value of the SAR recognized)			
31 March 2018			
Employee benefits expenses	Dr.	2,40,800	
To Share based payment liability			2,40,800
(Fair value of the SAR re-measured)			
31 March 2019			
Employee benefits expenses	Dr.	24,100	
To Share based payment liability			24,100
(Fair value of the SAR re-measured)			

31 March 2020			
Share based payment liability	Dr.	66,400	
To Employee benefits expenses			66,400
(Fair value of the SAR remeasured and reversed)			
Share based payment liability	Dr.	11,98,500	
To Cash/Bank			11,98,500
(Settlement of SAR)			

(b) (i) The tax loss creates a potential deferred tax asset for the group since its carrying value is nil and its tax base is ₹ 20,00,000.

However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.

(ii) The carrying value of the loan at 31 March 2020 is ₹ 53,90,000 (₹ 50,00,000 – ₹ 1,00,000 + (₹ 49,00,000 x 10%)).

The tax base of the loan is ₹ 50,00,000.

This creates a deductible temporary difference of ₹ 3,90,000 (₹ 53,90,000 – ₹ 50,00,000) and a potential deferred tax asset of ₹ 78,000 (₹ 3,90,000 x 20%).

If there are prospects of availability of taxable profits in future, deferred tax asset can be recognised.

Amortisation Table for verification of effective rate of interest

Year	Opening balance (₹) (A)	Interest @ 10% (₹) (B)	Closing balance (₹) (A) + (B)
1	(50,00,000 – 1,00,000) 49,00,000	4,90,000	53,90,000
2	53,90,000	5,39,000	59,29,000
3	59,29,000	5,92,900	65,21,900

Since the closing balance calculated as per the above table on the basis of 10% matches with the bullet payment of ₹ 65,21,900, it assures that 10% rate of interest taken as effective rate of interest is correct and is in accordance with Ind AS 109. It considers the impact of cost of borrowing adjusted from the loan amount at initial recognition.

(c) (i) A company which meets the net worth, turnover or net profits criteria in immediate preceding financial year will need to constitute a CSR Committee and comply with provisions of sections 135(2) to (5) read with the CSR Rules.

As per the criteria to constitute CSR committee -

(1) Net worth should be greater than or equal to ₹ 500 Crore: This criterion is not satisfied as per the facts given in the question.

(2) Sales should be greater than or equal to ₹ 1000 Crore: This criterion is not satisfied as per the facts given in the question.

(3) Net profit should be greater than or equal to ₹ 5 Crore: as per the facts given in the question, this criterion is satisfied in financial year ended 31 March 2019 i.e. immediate preceding financial year.

Hence, the Company will be required to form a CSR committee.

(ii) The Companies Act, 2013 mandated the corporate entities that the expenditure incurred for Corporate Social Responsibility (CSR) should not be the expenditure incurred for the activities in the ordinary course of business. If expenditure incurred is for the activities in the ordinary course of business, then it will not be qualified as expenditure incurred on CSR activities.

Further, it is presumed that the commercial activities performed at concessional rates are the activities done in the ordinary course of business of the company other than the activities defined in Schedule VII of the Companies Act, 2013. Therefore, the treatment done by the Management by showing the expenditure incurred on such commercial activities in its financial statements as the expenditure incurred on activities undertaken to discharge CSR, is not correct.

(d) **EITHER**

Ind AS 111 states that a joint operator shall recognise in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;

(b) its liabilities, including its share of any liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly.

A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the Ind AS applicable to the particular assets, liabilities, revenues and expenses.

Further, Ind AS 111 states that a party that participates in, but does not have joint control of a joint operation shall also account for its interest in the arrangement in accordance with above provisions of the standard, if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation.

In the given case, all three investors (M Limited, N Limited and C Limited) share in the assets and liabilities of the joint operation in proportion of their respective equity interest. Accordingly, both M Limited and N Limited (which have joint control) and C Limited (which does not have joint control but participates) shall recognise their interest in joint operation as per above guidance while accounting for their respective interests in Entity K in their respective separate financial statements as well as in the consolidated financial statements.

OR

To determine whether the entity's performance obligation is to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for another party to provide those goods or services (i.e. the entity is an agent), the entity considers the nature of its promise as per Ind AS 115.

The entity determines that its promise is to provide the customer with a ticket, which provides the right to fly on the specified flight or another flight if the specified flight is changed or cancelled. The entity considers the following indicators for assessment as principal or agent under the contract with the customers:

(a) the entity is primarily responsible for fulfilling the contract, which is providing the right to fly. However, the entity is not responsible for providing the flight itself, which will be provided by the airline.

(b) the entity has inventory risk for the tickets because they are purchased before they are sold to the entity's customers and the entity is exposed to any loss as a result of not being able to sell the tickets for more than the entity's cost.

(c) the entity has discretion in setting the sales prices for tickets to its customers.

The entity concludes that its promise is to provide a ticket (i.e. a right to fly) to the customer. On the basis of the indicators, the entity concludes that it controls the ticket before it is transferred to the customer. Thus, the entity concludes that it is a principal in the transaction and recognises revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred.