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) The draft Balance Sheet of JAY Ltd. and KAY Ltd. as at 31st March 2021 is given below:

PARTICULARS	JAY Limited (₹ in lakh)	KAY Limited (₹ in lakh)
ASSETS		
NON-CURRENT ASSETS		
Property, Plant & Equipment	400	500
Investments	450	120
CURRENT ASSETS		
Inventories	180	130
Financial Assets		
- Trade Receivables	520	270
- Cash & Cash Equivalents	260	145
- Others	350	175
TOTAL	2,160	1,340
EQUITY AND LIABILITIES		
EQUITY		
Share Capital - JAY Limited: Equity Shares of ₹ 10 each - KAY Limited: Equity Shares of ₹ 100 each	 600 	 450
OTHER EQUITY	725	210
NON-CURRENT LIABILITIES		
Financial Liabilities		
- Long Term Borrowings	350	250
Long Term Provisions	70	80
Deferred Tax	40	20

CURRENT LIABILITIES		
Financial Liabilities		
- Short Term Borrowings	125	145
- Trade Payables	250	185
TOTAL	2,160	1,340

Other information:

a. *JAY Ltd. acquired 75% shares of KAY Ltd. on 1st April, 2021 by issuing its own shares in the ratio of 2 shares of JAY Ltd. for every 3 shares of KAY Ltd. The fair value of the shares of JAY Ltd. was ₹ 50 per share.*

b. *The fair value exercise resulted in the following:*

   i. *Fair value of Property, Plant & Equipment of KAY Ltd. on 1st April, 2021 was ₹ 425 lakh;*

   ii. *JAY Ltd. also agreed to pay an additional payment as consideration that is higher of ₹ 45 lakh and 30% of any excess profits in the first year, after acquisition, over its profits in the preceding 12 months made by KAY Ltd. This additional amount will be due after 3 years. KAY Ltd. has earned ₹ 15 lakh profit in the preceding year and expects to earn another ₹ 20 lakh;*

   iii. *In addition to the above, JAY Ltd. also had agreed to pay one of the founder shareholder a payment of ₹ 22 lakh provided he stays with the Company for 3 years after acquisition;*

   iv. *KAY Ltd. had certain equity settled share based payment award (original award) which got replaced by the new awards issued by JAY Ltd. As per the original terms, the vesting period was 5 years and as of the acquisition date the employees of KAY Ltd. have already served 2 years of service. As per the replaced awards, the vesting period has been reduced to 1 year (1 year from the acquisition date). The fair value of the award on the acquisition date was as follows:*

      - *Original award - ₹ 6 lakh*
      - *Replacement award - ₹ 9 lakh*

   v. *KAY Ltd. had a lawsuit pending with a customer who made a claim of ₹ 70 lakh. Management reliably estimated the fair value of the liability to be ₹ 7.5 lakh;*

   vi. *The applicable tax rate for both entities is 30%.*

You are required to prepare consolidated balance sheet of JAY Ltd. as on 1st April, 2021. Assume 10% per annum discount rate. Management notes and working notes should form part of your answer. ***(15 Marks)*** *(b) In November 2021, an Ind AS compliant Company entered into a loan agreement with a bank. The loan is repayable in 6 equal annual installments starting from November 2026. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by the promoters of the Company by 4th March, 2022, failing which the loan becomes payable on demand.*

As on 4th March, 2022, the Company has not been able to get the promoter's contribution. On 5th March, 2022, the Company approached the Bank and immediately obtained a grace period up to 30th June, 2022 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period.

The annual reporting period of the Company ends on 31st March, 2022. You are required to respond to the following:

(i) As at 31st March, 2022, how should the Company classify the loan?

(ii) Assume that it may not be able to get the promoter's contribution by the due date, the Company approached the Bank in January 2022 and got the compliance date extended up to 30th June, 2022 for getting promoter's contribution. Will the loan classification as at 31st March, 2022 be different from (i) above? ***(5 Marks)***

Answer

(a) Consolidated Balance Sheet of JAY Ltd. as on 1st April, 2021 (₹ in lakh)

	Amount
Assets	
Non-Current Assets:	
Property, plant and equipment	825.00
Financial assets	
Investment	570.00
Current assets:	
Inventories	310.00
Financial assets	
Trade receivables	790.00
Cash and cash equivalents	405.00
Others	525.00
Total	3,425.00
Equity and Liabilities	
Equity	
Share capital - Equity shares of ₹ 10 each	622.50

Other Equity	1,120.38
Non-controlling Interest	150.56
Non-Current liabilities:	
Financial Liabilities	
Long term borrowings	600.00
Long term provisions	183.81
Deferred tax	35.25
Current Liabilities:	
Financial Liabilities	
Short term borrowings	270.00
Trade payables	435.00
Provision for Lawsuit damages	7.50
Total	3,425.00

Management Notes:

a. As per Ind AS 103, the acquirer is required to record the assets and liabilities acquired at their respective fair value. Accordingly, the PPE of KAY Ltd. will be recorded at ₹ 425 lakh.

b. The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, ₹ 2.4 lakh (6 x 2/5) is considered as a part of purchase consideration and is credited to JAY Ltd. equity as this will be settled in its own equity. The balance of ₹ 6.60 lakh (₹ 9 lakh – ₹ 2.4 lakh) will be recorded as compensation expense in the post combination financial statements over the remaining life, which is 1 year in this scenario.

c. There is a difference between contingent consideration and deferred consideration. In the given case ₹ 45 lakh is the minimum payment to be paid after 3 years and accordingly will be considered as deferred consideration. The other element is if company meet certain target, then they will get 30% of that or ₹ 45 lakh whichever is higher. In the given case, the minimum what is expected to be paid has been considered and the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.

d. The additional consideration of ₹ 22 lakh to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the income statement of JAY Ltd.

Working Notes:

1. Computation for Purchase consideration

Particulars		*Amount (₹)*
Share capital of KAY Ltd.		4,50,00,000
Number of shares	4,50,000	
Shares to be issued 3:2	3,00,000	
Fair value ₹ per share		50
		₹ in lakh
PC (3,00,000 x 75% x ₹ 50 per share) (A)		112.50
Deferred consideration after discounting ₹ 45 lakh for 3 years @ 10% (P.V. Factor 0.7513) (B)		33.81
Replacement award market-based measure of the acquiree award (6) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (5) of the acquiree award ie (6 x 2/5) (C)		2.40
PC in lakh (A+B+C)		148.71

2. Allocation of Purchase price

Particulars	*Book value (A)*	*Fair value (B)*	*FV adjustment (A-B)*
Property, plant and equipment	500.00	425.00	(75.00)
Investment	120.00	120.00	
Inventories	130.00	130.00	
Financial assets:			
Trade receivables	270.00	270.00	
Cash and cash equivalents	145.00	145.00	
Others	175.00	175.00	
	1,340.00	1,265.00	(75.00)
Less: Long term borrowings	(250.00)	(250.00)	
Long term provisions	(80.00)	(80.00)	
Deferred tax	(20.00)	(20.00)	

Short term borrowings	(145.00)	(145.00)	
Trade payables	(185.00)	(185.00)	
Contingent liability	-	(7.50)	(7.50)
Net assets (X)	660.00	577.50	(82.50)
Deferred tax asset on FV adjustment (82.50 x 30%) (Y)		24.75	
Net assets (X+Y)		602.25	
Non-controlling interest (602.50 x 25%) rounded off		150.56	
Purchase consideration (PC)		148.71	
Capital Reserve (Net assets – NCI – PC)		302.98	

3. Computation of consolidated amounts of consolidated financial statements

(₹ in lakh)

	JAY Ltd.	*KAY Ltd. (pre-acquisition)*	*PPA Allocation*	*Total*
Assets				
Non-current assets:				
Property, plant and equipment	400.00	500.00	(75.00)	825.00
Investment	450.00	120.00		570.00
Current assets:				
Inventories	180.00	130.00		310.00
Financial assets:				
Trade receivables	520.00	270.00		790.00
Cash and cash equivalents	260.00	145.00		405.00
Others	350.00	175.00	-	525.00
Total	2,160.00	1,340.00	(75.00)	3,425.00

Equity and Liabilities				
Equity				
Share capital - Equity shares of ₹ 10 each	600.00			
Shares allotted to KAY Ltd. (W.N.1) (3,00,000 x 75% x ₹ 10 per share)			22.50	622.50
Other Equity	725.00			1,120.38
Replacement award (W.N.1)			2.40	
Security Premium (W.N.1) (3,00,000 shares x 75% x ₹ 40)			90.00	
Capital Reserve (W.N.2)			302.98	
Non-controlling interest (W.N.2)	-		150.56	150.56
Non-current liabilities:				
Financial liabilities				
Long term borrowings	350.00	250.00		600.00
Long term provisions (W.N.1)	70.00	80.00	33.81	183.81
Deferred tax (W.N.2)	40.00	20.00	(24.75)	35.25
Current liabilities:				
Financial liabilities				
Short term borrowings	125.00	145.00		270.00
Trade payable	250.00	185.00		435.00
Liability for lawsuit damages	-	-	7.50	7.50
Total	2,160.00	680.00	585.00	3,425.00

(b) (a) Paragraph 75 of Ind AS 1, inter alia, provides that an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

In the present case, following the default, grace period within which an entity can rectify the breach is less than twelve months after the reporting period. Hence as on 31st March, 2022, the loan will be classified as current.

(b) Ind AS 1 deals with classification of liability as current or non-current in case of breach of a loan covenant and does not deal with the classification in case of expectation of breach. In this case, whether actual breach has taken place or not is to be assessed on 30th June, 2022, i.e., after the reporting date. Consequently, in the absence of actual breach of the loan covenant as on 31st March, 2022, the loan will retain its classification as non-current.

Question 2

(a) PK Ltd. has a net worth of ₹ 450 crore. It manufactures bathroom accessories. The sales of the company are affected due to low demand. The company has provided following information:

Particulars	*Amount (₹ in crore) for year ended*			
	31.3.2022	*31.3.2021*	*31.3.2020*	*31.3.2019*
Net Profit	*3.50*	*7.75*	*4.25*	*4.00*
Sales (Turnover)	*600.00*	*850.00*	*700.00*	*710.00*

During the financial year 2021-2022, PK Ltd. decided that on sale of certain selected items of bathroom accessories @ ₹ 0.50 paisa per unit sold will be contributed to the 'Save Water Foundation' which will qualify as a Corporate Social Responsibility (CSR) expense as per Schedule VII to the Companies Act, 2013.

Consequently, by the year end, the Company recognized, ₹ 1,50,000 as CSR expenditure. However, only 50% of the aforesaid amount was paid to the Foundation by the end of the year ending 31st March, 2022. Discuss:

(i) Whether PK Ltd. has an obligation to form a CSR committee as the applicability criteria is not satisfied in the financial year 2021-2022? The net worth has always remained below the applicability threshold.

(ii) Whether ₹ 1,50,000 will qualify as CSR expenditure under section 135 of the Companies Act, 2013? ***(6 Marks)***

(b) ANANDAM Ltd. enters into a contract with a customer on 1st April, 2019 for sale of a machine and spare parts. The manufacturing lead time for the machine and spare parts is 3 years.

On completion of manufacturing, ANANDAM Ltd. demonstrates that the machine and spare parts meet the agreed-upon specifications in the contract. The promises to *transfer the machine and spare parts are distinct and result in two performance obligations each of which will be satisfied at a point in time.*

On 31st March, 2022, the customer pays for the machine and spare parts, but only takes the physical possession of the machine. Although the customer inspects and accepts the spare parts, the customer requests that the spare parts be stored at ANANDAM Ltd.'s warehouse because of its close proximity to the customer's factory.

The customer has legal title to the spare parts and the parts can be identified as belonging to the customer. ANANDAM Ltd. stores the spare parts in a separate section of its warehouse and the parts are ready for immediate shipment at the customer's request. ANANDAM Ltd. expects to hold the spare parts for one to three years and does not have the authority to use the spare parts or direct them to another customer.

Determine how the revenue will be recognized by ANANDAM Ltd. for the different performance obligations as per Ind AS 115? ***(6 Marks)***

(c) Card Ltd. is engaged in the business of manufacturing of car locks and nut bolts.

Car Locks: *Typically, a contract is entered into for sale of car locks and consideration is received in the event of delivery of goods to the customer place. The cost of each car lock is ₹ 1,500 and the selling price is ₹ 1,800. The terms of the contract entitles the customer to return any unused car locks within 30 days and receive a full refund. The Company estimates that the costs of recovering the car lock will be immaterial and expects that the returned car locks can be resold at a profit. The Company has sold a total of 20,000 car locks during the month ended 31st March, 2022. From past experience, Card Ltd. expects that 4% of the car locks will be returned in the financial year 2022 - 2023.*

Nut Bolts: *On 1st April, 2021, Card Ltd. enters into a one year contract with a customer to deliver nut bolts. The contract stipulates that the price per piece will be adjusted retrospectively once the customer reaches certain sales volume, defined, as follows:*

Price per piece	*Cumulative sales volume*
₹ 200	*1 – 50,000*
₹ 190	*50,001 – 1,00,000*
₹ 180	*1,00,001 & above*

Volume is determined based on sales during the financial year. There are no minimum purchase requirements. Card Ltd. estimates that the total sales volume for the year will be 90,000 based on its experience with similar contracts and forecasted sales to the customer.

Card Ltd. sells 24,000 pieces to the customer during the first quarter of the financial year 2021-2022 for a contract price of ₹ 200 per piece.

You are required to:

(i) Analyze the terms of the revenue contracts with customers for sale of car locks as per Ind AS 115. Determine the amount of revenue, refund liability and the asset to be recognized by Card Ltd. for the said contracts of car locks.

(ii) Determine the transaction price, revenue and liability, if any, for nut bolts as per Ind AS 115 at the end of first quarter of the financial year 2021-2022. ***(8 Marks)***

Answer

(a) (i) A company which meets the net worth, turnover or net profits criteria in immediately 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 greater than or equal to ₹ 500 Crore: This criterion is not satisfied.

(2) Sales greater than or equal to ₹ 1000 Crore: This criterion is not satisfied.

(3) Net profit greater than or equal to ₹ 5 crore: The net profit for the immediately preceding financial year ended 31st March, 2021 is ₹ 7.75 crore. Hence, this criterion is satisfied.

Therefore, PK Ltd. will be required to form a CSR committee.

However, sub-section (9) of section 135 of the Companies Act, 2013 provides that if the amount to be spent as CSR expenditure is less than fifty lakh rupees, the requirement of forming a CSR committee will not be applicable and the functions of CSR committee will be discharged by the Board of Directors. In the given case, as the company is required to spend 10.66 lacs being 2% of average net profits ₹ 5.33 crore [(7.75 + 4.25+4)/3], the company need not form the CSR committee.

(ii) The company is obligated to spend a sum of ₹ 1,50,000 by contributing the same to 'Save Water Foundation'; hence, ₹ 1,50,000 shall qualify as CSR expenditure. Since only 50% has been paid to the Foundation, the company will be required to make provision of balance 50% in the books of accounts. It is immaterial whether the company determines the amount of contribution based on sale of product.

Note: The above solution has been provided on integrated reading of the scenario given in the question.

(b) INDENTIFIACTION OF OBLIGATIONS:

ANANDAM Ltd. has made sale of two goods – machine and space parts, whose control is transferred at a point in time. Additionally, company agrees to hold the spare parts for the customer for a period of 1-3 years, which is a separate performance obligation. Therefore, total transaction price shall be allocated amongst 3 performance obligations viz

(i) Sale of machinery

(ii) Sale of spare parts

(iii) Custodial services for storing spare parts.

RECOGNITION OF REVENUE:

Recognition of revenue for each of the three performance obligations shall occur as follows:

(i) Sale of machinery: Machine has been sold to the customer and physical possession as well as legal title passed to the customer on 31st March, 2022. Accordingly, revenue for sale of machinery shall be recognised on 31st March, 2022.

(ii) Sale of spare parts: The customer has made payment for the spare parts and legal title has been passed to specifically identified goods, but such spares continue to be physically held by the entity. In this regard, the company shall evaluate if revenue can be recognized on bill-and-hold basis if **all** below criteria are met:

(a)	The reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement);	The customer has specifically requested the entity to store goods in their warehouse, owing to proximity to customer's factory.
(b)	The product must be identified separately as belonging to the customer;	The spare parts have been specifically identified and inspected by the customer.
(c)	The product currently must be ready for physical transfer to the customer; and	The spares are identified and segregated, therefore, ready for delivery any time.
(d)	The entity cannot have the ability to use the product or to direct it to another customer	Spares have been segregated and cannot be redirected to any other customer.

Therefore, **all** the above conditions of bill-and-hold are met and hence, company can recognize revenue for sale of spare parts on 31st March, 2022.

(iii) **Custodial services:** Such services shall be given for a period of 1 to 3 years from 31st March, 2022. Where services are given uniformly and customer receives &

consumes benefits simultaneously, revenue for such service shall be recognized on a straight-line basis over a period of time.

(c) Analysis:

(i) (a) Nature of consideration received:

Card Ltd. applies the requirements in Ind AS 115 to the portfolio of 20,000 car locks because it reasonably expects that the effects on the financial statements from applying the requirements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio. Since the contract allows a customer to return the products, the consideration received from the customer is variable.

(b) Probability of significant reversal of cumulative revenue:

Card Ltd. considers on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of ₹ 3,45,60,000 (₹ 1,800 x 19,200 car locks not expected to be returned) can be included in the transaction price. Card Ltd. determines that although the returns are outside the entity's influence, it has significant experience in estimating returns for this product and customer class. In addition, the uncertainty will be resolved within a short time frame ie the 30-day return period. Thus, Card Ltd. concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. ₹ 3,45,60,000) will not occur as the uncertainty will be resolved (i.e. over the return period).

Card Ltd. estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

Upon transfer of control of the 20,000 car locks, Card Ltd. does not recognise revenue for 800 car locks that it expects to be returned. Consequently, it recognises the following:

(a) revenue of ₹ 3,45,60,000 (₹ 1,800 x 19,200 products not expected to be returned);

(b) a refund liability of ₹ 14,40,000 (₹ 1,800 refund x 800 products expected to be returned); and

(c) an asset of ₹ 12,00,000 (₹ 1,500 x 800 products for its right to recover products from customers on settling the refund liability).

(ii) (a) Transaction Price: The transaction price will be based on Card Ltd.'s estimate of total sales volume for the year. Since Card Ltd. estimates cumulative sales volume of 90,000 nut bolts during the year, transaction price per nut bolt will be ₹ 190. Card Ltd. will update its estimate of the total sales volume at each reporting date until the uncertainty is resolved.

(b) Determination of Revenue: Card Ltd. concludes that based on a transaction price of ₹ 190 per nut bolt, it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty is resolved. Revenue is therefore recognised at a selling price of ₹ 190 per nut bolt as each nut bolt is sold. Accordingly, for the first quarter of the financial year 2021-2022, Card Ltd. recognizes revenue of ₹ 45,60,000 (24,000 nut bolts x ₹ 190).

(c) Determination of Liability: Card Ltd. will recognise a liability for cash received in excess of the transaction price for the first 50,000 nut bolts sold at ₹ 200 per nut bolt (that is, ₹ 10 per nut bolt) until the cumulative sales volume is reached for the next pricing tier and the price is retroactively reduced. Accordingly, for the first quarter of the financial year 2021-2022, Card Ltd. recognizes liability of ₹ 2,40,000 (24,000 nut bolts x (₹ 200 – ₹ 190).

Question 3

(a) On 1st April, 2021, the fair value of the assets of Raj Ltd.'s defined benefit plan were valued at ₹ 20,40,000 and the present value of the defined obligation was ₹ 21,25,000. On 31st March, 2022, the plan received contributions from Raj Ltd. amounting to ₹ 4,75,000 and paid out benefits of ₹ 2,65,000. The current service cost for the financial year ending 31st March, 2022 is ₹ 5,10,000. An interest rate of 5% per annum is to be applied to the plan assets and obligations. The fair value of the plan assets at 31st March, 2022 was ₹ 23,90,000, and the present value of the defined benefit obligation was ₹ 27,20,000.

Provide a reconciliation from the opening balance to the closing balance for Plan assets and Defined benefit obligation. Also show how much amount should be recognized in the statement of profit and loss, other comprehensive income and balance sheet?

(7 Marks)

(b) Zera Limited obtained a term loan of ₹ 1,080 lakh for complete renovation and modernization of its factory on 1st April, 2021. Plant and Machinery was acquired under the modernization scheme and installation was completed on 30th April, 2022. An expenditure of ₹ 910 lacs was incurred on installation of Plant and Machinery and the balance loan was used for working capital purposes. Management of Zera Limited considers the 12 months period as substantial period of time to get the asset ready for its intended use.

The company has paid total interest of ₹ 94.40 lacs during financial year 2021-2022 on the above loan.

Discuss the treatment in the books of account of Zera Limited of interest paid of ₹ 94.40 lakh during the financial year 2021-2022.

Will your answer be different, if the whole process of renovation and modernization gets completed by 31st December, 2021? ***(7 Marks)*** *(c) GEM Ltd., an Indian company acquired 75% of the share capital of VEW Ltd. on 30th September, 2020, an entity registered as company in USA. The functional currency of GEM Ltd. is Rupees and its financial year end on 31st March, 2021. The functional currency of VEW Ltd. is USD.*

(i) On 30th September, 2020, the fair value of the Net Assets of VEW Ltd. was USD 10 million and the purchase consideration paid was USD 7.8 million. The exchange rate as at 30th September, 2020 was ₹ 71.5 per USD and at 31st March, 2021 was ₹ 73.5 per USD.

(ii) VEW Ltd. sold goods costing USD 1.9 million to GEM Ltd. for USD 3.1 million during the year ended 31st March, 2021. The exchange rate on the date of purchase by GEM Ltd. was ₹ 70.5 per USD and on 31st March, 2021 was ₹ 73.5 per USD. 50% of the goods purchased by GEM Ltd. from VEW Ltd. were unsold as at 31st March, 2021.

For (i) determine the value at which the Goodwill should be recognized in the financial statements of GEM Ltd. as at 31st March, 2021.

For (ii) determine the unrealized profit to be eliminated in the preparation of consolidated financial statements of GEM Ltd. for the year ending on 31st March, 2021. ***(6 Marks)***

Answer

(a) Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets ₹	**Defined benefit obligation** ₹
Fair value/present value as at 1st April, 2021	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost		5,10,000
Contributions received	4,75,000	-
Benefits paid	(2,65,000)	(2,65,000)
Return on gain (assets) (balancing figure)	38,000	-
Actuarial Loss (balancing figure)	-	2,43,750
Closing balance as at 31st March, 2022	23,90,000	27,20,000

In the Statement of Profit and Loss, followings will be recognised:

	₹
Current service cost	5,10,000
Net interest on net defined liability (₹ 1,06,250 – ₹ 1,02,000)	4,250

In Other Comprehensive Income, following Defined Benefits re-measurements will be recognised:

	₹
Loss on defined benefit obligation	(2,43,750)
Gain on plan assets	38,000
	(2,05,750)

In the Balance Sheet, following Net Defined Liability will be recognised:

	₹
Net defined liability (₹ 27,20,000 – ₹ 23,90,000)	3,30,000

(b) Treatment procedure:

As per Ind AS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Where, a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Applicability to the given case:

Accordingly, the treatment of interest of ₹ 94.40 lakh occurred during the year 2021-2022 would be as follows:

(i) When construction of asset completed on 30th April, 2022

The treatment for total borrowing cost of ₹ 94.40 lakh will be as follows:

Purpose	Nature	Interest to be capitalised ₹ in lakh	Interest to be charged to profit and loss account ₹ in lakh
Modernisation and renovation of plant and machinery	Qualifying asset	[94.40 x (910/1,080)] = 79.54	
Working Capital	Not a qualifying asset		[94.40 x (170/1,080)] = 14.86
		79.54	14.86

(ii) When construction of assets is completed by 31st December, 2021

When the process of renovation gets completed in less than 12 months, the plant and machinery will not be considered as a qualifying asset until and unless the entity specifically considers that the asset took substantial period for completing its construction.

Accordingly, the whole of interest will be charged off to Profit and Loss account.

(c) (i) Para 47 of Ind AS 21 requires that goodwill arose on business combination shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42.

When NCI is measured at proportionate share of net assets, the amount of goodwill will be as follows:

Net identifiable asset	Dr.	USD 10 million	
Goodwill (bal. fig.)	Dr.	USD 0.30 million	
To Bank (Purchase consideration)			USD 7.80 million
To NCI (10 x 25%)			USD 2.50 million

Thus, goodwill on reporting date in the books of GEM Ltd. would be

= USD 0.30 million x ₹ 73.50 = ₹ 22.05 million

Alternatively, when NCI is measured at fair value, the amount of goodwill will be as follows:

Net identifiable asset	Dr.	USD 10 million	
Goodwill (bal. fig.)	Dr.	USD 0.40 million	
To Bank (Purchase consideration)			USD 7.80 million
To NCI (7.8/75*25)			USD 2.60 million

Thus, goodwill on reporting date in the books of GEM Ltd. would be

= USD 0.40 million x ₹ 73.50 = ₹ 29.40 million

(ii) Calculation of unrealised profit

Particulars	**USD in million**
Sale price of inventory	3.10
Cost of inventory	1.90
Profit earned by VEW Ltd.	1.20
Unrealised profit (1.20 x 50%) [a]	0.60

Exchange rate as on date of purchase of inventory [b] ₹ 70.50 / USD

Unrealized profit to be eliminated [a x b] = USD 0.60 million x ₹ 70.50

= ₹ 42.30 million

As per para 39 of Ind AS 21, income and expenses for each statement of profit and loss presented (ie including comparatives) shall be translated at exchange rates at the dates of the transactions.

In the given case, purchase of inventory is an expense item shown in the statement profit and loss. Hence, the exchange rate on the date of purchase of inventory is taken for calculation of unrealized profit which is to be eliminated while preparation of consolidated financial statements.

Question 4

(a) *X Ltd. issues ₹ 1.5 crore convertible bonds on 1st April, 2018. The bonds have a life of 8 years and a face value of ₹ 10 each and offer interest @ 5.5% p.a. payable at the end of each financial year.*

Bonds are issued at their face value and each bond can be converted into one ordinary share of X Ltd. at any time in the next eight years.

Companies of a similar risk profile have recently issued debt with similar terms, without the option for conversion, at a rate of 7% p.a.

You are required to:

(i) *Provide the journal entries from financial year 2018-2019 to financial year 2021-2022;*

(ii) *Calculate the interest expenses across all eight years of the life of the convertible bonds;*

(iii) *Give the accounting entries if the holders of the bonds elect to convert the bonds to ordinary shares at the end of the fourth year (after receiving interest for the fourth year).* ***(14 Marks)***

(b) *Discuss the following in the context of 'Conceptual Framework for Financial Reporting under Indian Accounting Standards':*

(i) *The cost constraint on useful financial information*

(ii) *Executory contracts.*

OR

What is Integrated Reporting? Discuss any 5 salient features of Integrated Reporting Framework. ***(6 Marks)***

Answer

(a) (i) **Journal Entries**

	Dr. (₹)	Cr. (₹)
1st April, 2018		
Bank A/c Dr.	1,50,00,000	
To Convertible bonds A/c (liability) (Refer W.N.)		1,36,56,075
To Convertible bonds A/c (equity) (Refer W.N.)		13,43,925
(Being recognition of convertible bonds at the date of issuance into liability and equity components)		
31st March, 2019		
Interest expense A/c Dr.	9,55,925	
To Bank A/c		8,25,000
To Convertible bonds A/c (liability)		1,30,925
(Being interest expense recorded at market rate of 7% and actual interest paid @ 5.5%)		
31st March, 2020		
Interest expense A/c Dr.	9,65,090	
To Bank A/c		8,25,000
To Convertible bonds A/c (liability)		1,40,090
(Being interest expense recorded at market rate of 7% and actual interest paid @ 5.5%)		
31st March, 2021		
Interest expense A/c Dr.	9,74,896	
To Bank A/c		8,25,000
To Convertible bonds A/c (liability)		1,49,896
(Being interest expense recorded at market rate of 7% and actual interest paid @ 5.5%)		
31st March, 2022		
Interest expense A/c Dr.	9,85,389	
To Bank A/c		8,25,000
To Convertible bonds A/c (liability)		1,60,389
(Being interest expense recorded at market rate of 7% and actual interest paid @ 5.5%)		

(ii) Table showing computation of interest expense at market rate and actual interest outflow @ 5.5%

Year	Date	Opening bond liability	Actual interest outflow @ 5.5%	Interest expense @ 7%	Increase in liability	Closing bond liability
		a	b =1.5 cr x 5.5%	c = a x 7%	d = c-b	e = a+d
0	1st April, 2018					1,36,56,075
1	31st March, 2019	1,36,56,075	8,25,000	9,55,925	1,30,925	1,37,87,000
2	31st March, 2020	1,37,87,000	8,25,000	9,65,090	1,40,090	1,39,27,090
3	31st March, 2021	1,39,27,090	8,25,000	9,74,896	1,49,896	1,40,76,986
4	31st March, 2022	1,40,76,986	8,25,000	9,85,389	1,60,389	1,42,37,375
5	31st March, 2023	1,42,37,375	8,25,000	9,96,616	1,71,616	1,44,08,991
6	31st March, 2024	1,44,08,991	8,25,000	10,08,629	1,83,629	1,45,92,620
7	31st March, 2025	1,45,92,620	8,25,000	10,21,483	1,96,483	1,47,89,103
8	31st March, 2026	1,47,89,103	8,25,000	10,35,897*	2,10,897	1,50,00,000

*Difference of ₹ 660 (10,35,897 -10,35,237) is due to rounding off

(iii) When holders of the bonds elect to convert the bonds to ordinary shares at the end of the fourth year (after receiving their interest payments), the entries would be:

		Dr. (₹)	Cr. (₹)
31st March, 2022			
Convertible bonds A/c (liability)	Dr.	1,42,37,375	
Convertible bonds A/c (equity)	Dr.	13,43,925	
To Ordinary share capital A/c			1,55,81,300
(Being bonds converted into ordinary shares of X Ltd.)			

Working Note:

Computation of equity and liability component of convertible bond at 7% market rate

	₹
Present value of principal to be received at the end of eight year discounted at 7% (1,50,00,000 x 0.582)	87,30,000

Annuity of annual interest discounted at 7% for 8 years (1,50,00,000 x 5.5% x 5.971)	49,26,075
Total present value (a)	1,36,56,075
Equity component (balancing figure) (a-b)	13,43,925
Total proceeds received from issuance of convertible bonds (b)	1,50,00,000

(b) **EITHER**

(i) The cost constraint on useful financial information;

Role of Cost: Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that these costs are justified by the benefits of reporting that information.

Basis of Assessment of Cost: Both the providers and users of financial information incur costs in reporting and analysing financial information. In applying the cost constraint, ICAI assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in formulating a proposed Ind AS, the ICAI seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that Ind AS. In most situations, assessments are based on a combination of quantitative and qualitative information.

Cost Perspective: Due to the inherent subjectivity, assessments of different individuals about the costs and benefits of reporting particular items of financial information will vary. Therefore, ICAI seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities.

(ii) Executory Contracts:

Definition: An executory contract is a contract, or a portion of a contract, that is equally unperformed — neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.

Outcome of Executory Contract: An executory contract establishes a combined right and obligation to exchange economic resources. The rights and obligations are inter-dependent and cannot be separated. Hence, the combined rights and obligations constitute a single asset or liability.

The entity has an asset if the terms of the exchange are currently favourable; it has a liability if the terms of the exchange are currently unfavourable.

Basis of Disclosure: Whether such an asset or liability is included in the financial statements depends on both the recognition criteria and the measurement basis selected for the asset or liability, including, if applicable, any test for whether the contract is onerous.

OR

Definition: Integrated reporting is a concept that has been created to better articulate the broader range of measures that contribute to long-term value and the role organizations play in society. Integrated Reporting is enhancing the way organizations think, plan and report the story of their business. Central to this is the proposition that value is increasingly shaped by factors additional to financial performance, such as reliance on the environment, social reputation, human capital skills and others.

The five salient features of Integrated Reporting Framework are as follows:

1. **Principle Based Approach:** This Framework identifies information to be included in an integrated report for use in assessing an organization's ability to create value. It does not set benchmarks for such things as the quality of an organization's strategy or the level of its performance.

2. **Targets the Private Sector or Profit-making Companies:** This Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

3. **Identifiable Communication:** An integrated report may be prepared in response to existing compliance requirements and may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication. An integrated report is intended to be more than a summary of information in other communications (e.g., financial statements, a sustainability report, analyst calls, or on a website); rather, it makes explicit the connectivity of information to communicate how value is created over time.

4. **Financial and Non-financial Items:** The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. It, therefore, contains relevant information, both financial and other.

5. **Value Creation:** Value created by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs. That value has two interrelated aspects – value created for:

- The organization itself, which enables financial returns to the providers of financial capital
- Others (i.e., stakeholders and society at large)

Question 5

(a) *Shagun Ltd. received two different grants from State Government as per details below:*

(i) *A cash grant of ₹ 24 lakh was received on 31st March, 2020 towards the skill development of employees over a period of 18 months, starting from 1st April, 2020. Actual costs of the skill development program in financial year 2020-2021 was ₹ 30 lakh and in financial year 2021-2022 was ₹ 20 lakh.*

State, how this grant should be accounted for in the books of account in financial year 2019-2020, 2020-2021 & 2021-2022?

(ii) *A grant of ₹ 10 lakh receivable over three years (₹ 5 lakh in financial year 2019-2020, ₹ 2 lakh in financial year 2020-2021 and ₹ 3 lakh in financial year 2021-2022), contingent on developing 5 gardens and maintaining them for three years. The gardens are developed in financial year 2019-2020 at a total cost of ₹ 6 lakh, and the maintenance cost for financial year 2019-2020 is ₹ 12 lakh, for financial year 2020-2021 is ₹ 15 lakh and for financial year 2021-2022 is ₹ 17 lakh.*

Calculate the grant income and deferred income to be accounted for in the books for financial years 2019-2020, 2020-2021 & 2021-2022. ***(8 Marks)***

(b) *Black Ltd. is a manufacturing company. The following balances as at 31st March, 2021 are from the audited Financial Statements and as at 30th September, 2021 & 31st March, 2022 are provided by the accountant of Black Ltd:*

Asset / (Liability)	*Carrying Amount as at (₹ in lakh)*		
	31.3.2021	*30.9.2021*	*31.3.2022*
Attributed goodwill	*2,560*	*2,560*	
Intangible assets	*12,680*	*11,080*	
Financial assets measured at Fair Value through Other Comprehensive Income (FVTOCI)	*4,310*	*5,260*	*7,310*
Property, plant & equipment	*16,820*	*18,670*	
Deferred tax assets	*3,120*	*3,120*	*2,970*
Current assets: inventory, receivables, cash & cash equivalents	*8,640*	*7,040*	*4,860*

Current liabilities	*(11,110)*	*(13,230)*	*(16,190)*
Non-current liabilities: Provisions	*(3,670)*	*(4,610)*	*(4,610)*
Total	*33,350*	*29,890*	*(5,660)*

Black Ltd. decided to sell the business on 30th September, 2021. The business meets the condition of disposal group classified as held for sale on that date in accordance with Ind AS 105. However, it does not meet the conditions to be classified as discontinued operations in accordance with Ind AS 105. Black Ltd. proposed to sell the disposal group at ₹ 26,000 lakh. The costs to sell is estimated at ₹ 200 lakh.

As at 31st March, 2022, there has been no change to the plan to sell the disposal group and Black Ltd. still expects to sell it within one year of initial classification. The disposal group has not been trading well and its fair value less costs to sell has fallen to ₹ 19,738 lakh.

You are asked to calculate the value of all assets / liabilities within the disposal group as at 30th September, 2021 and 31st March, 2022 in accordance with Ind AS 105.

(8 Marks)

(c) GOLD Ltd., a manufacturing company, prepares its financial statements on 31st March every year. On 1st April, 2021, it had issued (a) 10,00,000 ordinary shares and (b) 6% convertible bonds amounting to ₹ 1,00,000, the terms of conversion being 120 ordinary shares for every ₹ 100. On 30th June, 2021, ₹ 50,000 bonds converted to ordinary shares. The profit for the year ended 31st March, 2022 is ₹ 2,50,000. The applicable tax rate is 25%.

Calculate basic and diluted EPS. Ignore the need to split the convertible bonds into liability and equity element. ***(4 Marks)***

Answer

(a) (i) At 31st March, 2020 the grant would be recognised as a liability and presented in the balance sheet as a split between current and non-current amounts.

₹ 16 lakh [(12 months / 18 month) x 24 lakh] is current and would be recognised in profit and loss for the year ended 31st March, 2021. The balance amount of ₹ 8 lakh will be shown as non-current.

At the end of the year 2020-2021, there would be a current balance of ₹ 8 lakh (being the non-current balance at the end of year 2019-2020 reclassified as current) in the balance sheet. This would be recognised as profit in the statement of profit and loss for the year ended on 2021-2022.

Balance Sheet (extracts) as at

	31st March,2020	31st March,2021	31st March,2022
Current liabilities			
Deferred income	16 lakh	8 lakh	-
Non-current liabilities			
Deferred income	8 lakh	-	-

Statement of Profit and Loss (extracts) for the year ended

	31st March, 2021	31st March, 2022
Method 1 (As per para 29 of Ind AS 20)		
Other Income - Government grant received	16 lakh	8 lakh
Training costs	(30 lakh)	(20 lakh)
Method 2 (Alternative) (As per para 29 of Ind AS 20)		
Training costs (30 lakh – 16 lakh)	14 lakh	
Training costs (20 lakh – 8 lakh)		12 lakh

(ii) The income of ₹ 10 lakh should be recognised over the three-year period to compensate for the related costs. Since the receipt of grant is depending on fulfilling the contract, it is assumed that on initial date certainty to fulfil the conditions by the entity could not be established. Hence, the grant is recognised in the books on receipt basis.

Calculation of Grant Income and Deferred Income: (₹ in lakh)

Year	Maintenance Cost	Grant Income	Grant received during the year	Deferred Income
	a	b = [(10/50) x a]	c	d
2019-2020	18	3.6	5	(5 – 3.6)1.4
2020-2021	15	3.0	2	[(5 + 2) – (3.6 + 3.0)] 0.4
2021-2022	17	3.4	3	[(5 + 2 + 3) – (3.6+ 3.0 + 3.4)] –
	50	10.0		

Therefore, Grant income to be recognised in Profit & Loss for years 2019-2020, 2020-2021 and 2021-2022 will be ₹ 3.6 lakh, ₹ 3.0 lakh and ₹ 3.4 lakh respectively.

Amount of grant that has not yet been credited to profit & loss i.e. deferred income will be reflected in the balance sheet. Hence, deferred income balance as at year end 2019-2020, 2020-2021 and 2021-2022 will be ₹ 1.4 lakh, ₹ 0.4 lakh and Nil respectively.

(b) (i) As at 30th September, 2021

The disposal group should be measured at ₹ 25,800 lakh (₹ 26,000 lakh - ₹ 200 lakh). The impairment write down of ₹ 4,090 lakh (₹ 29,890 lakh – ₹ 25,800 lakh) should be recorded within profit from continuing operations.

The impairment of ₹ 4,090 should be allocated to the carrying values of the appropriate non-current assets.

Asset / (liability)	**Carrying value as at 30th September, 2021**	**Impairment**	**Revised carrying value as per Ind AS 105**
Attributed goodwill	2,560	(2,560)	-
Intangible assets	11,080	(570)*	10,510
Financial asset measured at fair value through other comprehensive income	5,260	-	5,260
Property, plant & equipment	18,670	(960)**	17,710
Deferred tax asset	3,120	-	3,120
Current assets – inventory, receivables and cash balances	7,040	-	7,040
Current liabilities	(13,230)	-	(13,230)
Non-current liabilities – provisions	(4,610)	-	(4,610)
Total	29,890	(4,090)	25,800

*[(4,090 – 2,560) x {11,080/(11,080 + 18,670)}]

**[(4,090 – 2,560) x {18,670/(11,080 + 18,670)}]

The impairment loss is allocated first to goodwill and then pro-rata to the other assets of the disposal group within Ind AS 105 measurement scope. Following assets are not in the measurement scope of this standard- financial asset measured at other comprehensive income, the deferred tax asset or the current assets. In addition, the impairment allocation can only be made against assets and is not allocated to liabilities.

(ii) As on 31st March, 2022

All the assets and liabilities, outside the scope of measurement under Ind AS 105, are remeasured in accordance with the relevant standards. The assets that are remeasured in this case under the relevant standards are the financial asset measured at fair value through other comprehensive income (Ind AS 109), the deferred tax asset (Ind AS 12), the current assets and liabilities (various standards) and the non-current liabilities (Ind AS 37).

Asset / (liability)	Carrying amount as on 30th September, 2021	Change in value to 31st March, 2022	Impairment	Revised carrying value as per Ind AS 105
Attributed goodwill	-	-	-	-
Intangible assets	10,510	-	(1,051)*	9,459
Financial asset measured at fair value through other comprehensive income	5,260	2,050	-	7,310
Property, plant & equipment	17,710	-	(1,771)**	15,939
Deferred tax asset	3,120	(150)	-	2,970
Current assets – inventory, receivables and cash balances	7,040	(2,180)	-	4,860
Current liabilities	(13,230)	(2,960)	-	(16,190)
Non-current liabilities – provisions	(4,610)	-	-	(4,610)
Total	25,800	(3,240)	(2822)	19,738

*[2,822 x {10,510 /(10,510 + 17,710)}]

**[2,822 x {17,710 /(10,510 + 17,710)}]

(c)

	Number of shares	Profit (₹)
Profit		2,50,000
Outstanding ordinary shares	10,00,000	
New shares on conversion (weighted average) [(9/12 x ₹ 50,000 / 100 x 120)]	45,000	
Figures for basic EPS	10,45,000	2,50,000
Basic EPS is (₹ 2,50,000 / 10,45,000 shares) = ₹ 0.239 per share		
Dilution adjustments		
Unconverted shares (₹ 50,000 / 100 x 120)	60,000	
Interest (₹ 50,000 x 6% x 0.75 net of tax)		2,250
Converted shares pre conversion adjustment (3/12 x ₹ 50,000 / 100 x 120)	15,000	
Interest: [3/12 x ₹ 50,000 x 6% x 0.75 net of tax]		562.50
	11,20,000	2,52,812.50
Diluted EPS is (₹ 2,52,812.50 / 11,20,000 shares) = ₹ 0.226 per share		

Question 6

(a) *Shravan Ltd. owns 6,800 ordinary shares in PQR Ltd., an unquoted company. PQR Ltd. has a total share capital of 2,00,000 shares with nominal value of ₹ 10. PQR Ltd.'s after tax maintainable profits are estimated at ₹ 28,00,000 per year. An appropriate price/earnings ratio determined from published industry data is 12 (before lack of marketability adjustment). Shravan Ltd.'s management estimates that the discount for the lack of marketability of PQR Ltd.'s shares and restrictions on their transfer is 18%.*

Shravan Ltd. values its holding in PQR Ltd.'s shares based on earnings.

Determine the fair value of Shravan Ltd.'s investment in PQR Ltd.'s shares. ***(5 Marks)***

(b) *X Ltd. has made a borrowing from RGD Bank for ₹ 20,000 at a fixed interest of 12% per annum. Loan processing fees were paid additionally amounting to ₹ 1,000 and the loan is payable in 4 half-yearly installments of ₹ 5,000 each.*

Details are as follows:

Particulars	*Details*
Loan amount	*₹ 20,000*
Date of loan (Starting Date)	*1st April, 2020*
Date of loan (Finishing Date)	*31st March, 2022*
Description of repayment	*Repayment of loan starts from 30th September, 2020 (To be paid on half yearly basis)*
Installment amount	*₹ 5,000*
Interest rate	*12% per annum*
Interest charge	*Interest to be charged and paid quarterly*
Upfront fees	*₹ 1,000*

Compute the interest to be charged to the statement of profit & loss every quarter over the period of loan. The effective interest rate is 16.60% per annum. ***(5 Marks)***

(c) F Ltd. owned a land property whose future use was not determined as at 31st March, 2021. How should the property be classified in the books of F Ltd. as at 31st March, 2021?

During June 2021, F Ltd. commenced construction of office building on it for own use. Presuming that the construction of the office building is still in progress as at 31st March, 2022.

(i) How should the land property be classified by F Ltd. in its financial statements as at 31st March, 2022?

(ii) Will there be a change in the carrying amount of the property resulting from any change in use of the investment property?

(iii) Whether the change in classification to, or from, investment properties is a change in accounting policy to be accounted for in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors?

(iv) Would your answer to (i) above be different if there were to be a management intention to commence construction of an office building for own use; however, no construction activity was planned by 31st March, 2022? ***(5 Marks)***

(d) RST Ltd. prepares consolidated financial statements as at 31st March each year. On 1st July, 2021, RST Ltd. acquired 75% of the equity shares of DHF Ltd. and gained control of DHF Ltd. The issued shares of DHF Ltd. are 1,20,00,000 equity shares. Details of the purchase consideration are as follows:

On 1st July 2021, RST Ltd. issued two shares for every three shares acquired in DHF Ltd. On 1st July 2021, the market value of an equity share in RST Ltd. was ₹ 6.50 and the market value of an equity share in DHF Ltd. was ₹ 5.50.

On 30th June 2022, RST Ltd. will make cash payment of ₹ 71,50,000 to the former shareholders of DHF Ltd. who sold their shares to RST Ltd. on 1st July 2021. On 1st July, 2021, RST Ltd. would have to pay interest at an annual rate of 10% on borrowings.

On 30th June 2023, RST Ltd. may make a cash payment of ₹ 3,00,00,000 to the former shareholders of DHF Ltd. who sold their shares to RST Ltd. on 1st July 2021. This payment is contingent upon the revenues of RST Ltd. growing by 15% over the two-year period from 1st July, 2021 to 30th June, 2023. On 1st July 2021, the fair value of this contingent consideration was ₹ 2,50,00,000. On 31st March 2022, the fair value of the contingent consideration was ₹ 2,20,00,000.

On 1st July 2021, the carrying values of the identifiable net assets of DHF Ltd. in the books of that company was ₹ 6,00,00,000. On 1st July 2021, the fair values of these net assets was ₹ 7,00,00,000. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31st March 2022, DHF Ltd. had a poorer than expected operating performance. Therefore, on 31st March, 2022 it was necessary for RST Ltd. to recognize an impairment of the goodwill arising on acquisition of DHF Ltd. amounting to 12.50% of its total computed value.

Compute the impairment of goodwill in the consolidated financial statements of RST Ltd. under the methods permitted by Ind AS 103 for the initial computation of the non-controlling interest in DHF Ltd. at the acquisition date. ***(5 Marks)***

Answer

(a) Calculation of an earnings-based valuation of Shravan Ltd.'s holding of shares in PQR Ltd.:

Particulars		**Unit**
PQR Ltd.'s after-tax maintainable profits	(A)	₹ 28,00,000
Price / Earnings ratio	(B)	12
Adjusted discount factor (1- 0.18)	(C)	0.82
Value of PQR Ltd.	(A) x (B) x (C)	₹ 2,75,52,000

Value of a share of PQR Ltd. = ₹ 2,75,52,000 / 2,00,000 shares = ₹ 137.76

The fair value of Shravan Ltd.'s investment in PQR Ltd.'s shares is estimated at ₹ 9,36,768 (that is, 6,800 shares × ₹ 137.76 per share).

Alternative way of presentation:

Particulars		
PQR Ltd.'s after-tax maintainable profits in ₹	(A)	28,00,000
PQR Ltd.'s number of outstanding shares	(B)	2,00,000
PQR Ltd.'s EPS in ₹	(C = (A/B))	14.00
Industry PE ratio (given)	(D)	12
Market price of PQR Ltd. per share in ₹	(E = (C x D))	168.00
Discount for lack of marketability @ 18% in ₹	(F = E x 18%)	30.24
Adjusted price per share of PQR Ltd. in ₹	(G = (E-F))	137.76
Shravan Ltd.'s holding	(H)	6,800 shares
Fair value of Shravan's investment in PQR Ltd.	(G x H)	9,36,768.00

(b) The loan taken by X Ltd. shall be measured at amortised cost as follows:

Initial measurement = At transaction price less processing fee ie. ₹ 19,000 (20,000 – 1,000)

Subsequent measurement = Interest to be accrued using effective rate of interest as follows:

Quarter	**Opening balance (A)**	**Interest @ 16.60% (B)=[(A) x 16.60%/4]**	**Cash flows (C) = [Refer column of D of W.N.]**	**Closing balance (A) + (B) - (C)**
1	19,000.00	789.00	600.00	19,189.00
2	19,189.00	796.00	5,600.00	14,385.00
3	14,385.00	597.00	450.00	14,532.00
4	14,532.00	603.00	5,450.00	9,685.00
5	9,685.00	402.00	300.00	9,787.00
6	9,787.00	406.00	5,300.00	4,893.00
7	4,893.00	203.00	150.00	4,946.00
8	4,946.00	204.00*	5,150.00	-

* Difference is due to approximation.

Working Note:

Quarter	Opening balance (A)	Interest @ 12% p.a. (B) = [(A) x 12%/4]	Principal repayment at quarter end (C)	Total Cash flow (D) = (B) + (C)	Closing balance (E) = (A) - (C)
1	20,000.00	600.00	-	600.00	20,000.00
2	20,000.00	600.00	5,000.00	5,600.00	15,000.00
3	15,000.00	450.00	-	450.00	15,000.00
4	15,000.00	450.00	5,000.00	5,450.00	10,000.00
5	10,000.00	300.00	-	300.00	10,000.00
6	10,000.00	300.00	5,000.00	5,300.00	5,000.00
7	5,000.00	150.00	-	150.00	5,000.00
8	5,000.00	150.00	5,000.00	5,150.00	-

(c) Treatment for the year ended 31.03.2021:

As per paragraph 8(b) of Ind AS 40, any land held for currently undetermined future use, should be classified as an investment property. Hence the land property should be classified by F Ltd. as an investment property in the financial statements as at 31st March, 2021.

Treatment for the year ended 31.03.2022:

I. Since F Ltd. has commenced construction of office building on it for own use, the property should be reclassified from investment property to owner occupied as at 31st March, 2022.

II. As per para 59 of the standard, transfers between investment property, owner occupied and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or disclosure purposes.

III. No, the change in classification to or from investment properties is due to change in use of the property. No retrospective application is required, and prior period's financial statements need not be restated.

IV. As per para 57 of the Standard, an entity can change the classification of any property to and from an investment property when and only when there is a change in use. A change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. Mere management's intention for use of the property does not provide evidence of a change in use.

Since F Ltd. has no plans to commence construction of the office building during 2021-2022, the property should continue to be classified as an investment property by F Ltd. in its financial statements as at 31st March, 2022.

(d) Computation of goodwill impairment

	NCI at fair value	NCI at proportionate share of net assets
	₹ in 000	₹ in 000
Cost of investment		
Share exchange (12,000 x 75% x 2/3 x ₹ 6.50)	39,000	39,000
Deferred consideration (7,150 / 1.10)	6,500	6,500
Contingent consideration	25,000	25,000
Total Purchase Consideration (a)	70,500	70,500
Non-controlling interest on the date of acquisition: (b)		
Fair value – 3,000 x ₹ 5.50	16,500	
% of net assets – 68,000 (Refer W.N.) x 25%		17,000
Net assets on the acquisition date (Refer W.N.) (c)	(68,000)	(68,000)
Goodwill on acquisition (a+b-c)	19,000	19,500
Impairment @ 12.50%	2,375.00	2,437.50

Working Note:

Net assets on the acquisition date	₹ in 000
Fair value at the acquisition date	70,000
Deferred tax on fair value adjustments [20% x (70,000 – 60,000)]	(2,000)
	68,000