

**MOCK TEST PAPER 1**  
**FINAL (NEW) COURSE**  
**PAPER 1: FINANCIAL REPORTING**  
**ANSWERS**

## 1. (a) Statement showing Cost of production line:

Particulars	Amount Rs.'000
Purchase cost	10,000
Goods and services tax – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use (1,200 x 2 months / 3 months)	800
Other overheads – abnormal costs	600
Payment to external advisors – directly attributable cost	500
Dismantling costs – recognized at present value where an obligation exists (2,000 x 0.68)	1,360
<b>Total</b>	<b>13,260</b>

**Carrying value of production line as on 31<sup>st</sup> March, 20X2:**

Particulars	Amount Rs. '000
Cost of Production line	13,260
Less: Depreciation (W.N.1)	(1,694)
<b>Net carrying value carried to Balance Sheet</b>	<b>11,566</b>

**Provision for dismantling cost:**

Particulars	Amount Rs. '000
Non-current liabilities	1,360
Add: Finance cost (WN3)	57
<b>Net book value carried to Balance Sheet</b>	<b>1,417</b>

**Extract of Statement of Profit & Loss**

Particulars	Amount Rs. '000
Depreciation (W.N.1)	1,694
Finance cost (W.N.2)	57
<b>Amounts carried to Statement of Profit &amp; Loss</b>	<b>1,751</b>

**Extract of Balance Sheet**

Particulars	Amount Rs. '000
<b>Assets</b>	
Non-current assets	

Property, plant and equipment	11,566
<b>Equity and liabilities</b>	
Non-current liabilities	
Other liabilities	
Provision for dismantling cost	1417

**Working Notes:**

**1. Calculation of depreciation charge**

Particulars	Amount Rs. '000
In accordance with Ind AS 16 the asset is split into two depreciable components: Out of the total capitalization amount of 13,260, Depreciation for 3,000 with a useful economic life (UEL) of four years ( $3,000 \times \frac{1}{4} \times 10/12$ ). This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life	625
For balance amount, depreciation for 10,260 with an useful economic life (UEL) of eight years will be : $10,260 \times \frac{1}{8} \times 10/12$	1,069
<b>Total (To Statement of Profit &amp; Loss for the year ended 31<sup>st</sup> March 20X2)</b>	<b>1,694</b>

**2. Finance costs**

Particulars	Amount Rs. '000
<b>Unwinding of discount (Statement of Profit and Loss – finance cost)</b> $1,360 \times 5\% \times 10/12$	57
<b>To Statement of Profit &amp; Loss for the year ended 31<sup>st</sup> March 20X2</b>	<b>57</b>

(b) Method I : NCI measured at Fair value

Method II: NCI measured at proportionate share of identifiable net assets

	<b>Method I</b>	<b>Method II</b>
	Rs.'000	Rs.'000
Cost of investment		
Share exchange (12 million x 75% x 2/3 x Rs.6.50)	39,000	39,000
Deferred consideration (7.15 million/1.10)	6,500	6,500
Contingent consideration	25,000	25,000
Non-controlling interest at date of acquisition:		
Fair value – 3 million x Rs.6.00	18,000	
% of net assets – 68,000 (W.N.1) x 25%	<u>17,000</u>	
	88,500	87,500
Net assets at date of acquisition (W.N.1)	<u>(68,000)</u>	<u>(68,000)</u>
Goodwill on acquisition	<u>20,500</u>	<u>19,500</u>

Impairment – 10% 2,050                      1,950

Where the NCI is measured at fair value, the impairment should be attributed partly to retained earnings and partly to NCI. The allocation is normally based on the group structure (75/25 in this case).

Where the NCI is measured at % of net assets, the impairment should be attributed wholly to retained earnings.

**Working Notes:**

**1. Net assets at date of acquisition**

	Rs. '000
Fair value at acquisition date	70,000
Deferred tax on fair value adjustments (20% x(70,000 – 60,000))	<u>(2,000)</u>
	<u>68,000</u>

2. (a) As per Ind AS 8 ‘Accounting Policies, Accounting Estimates and Errors, prospective application of a change in accounting policy has to be done since retrospective application is not practicable.

**Property, plant and equipment at the end of 31<sup>st</sup> March,20X2:**

	Rs.
As per the engineering survey:	
Valuation of PPE	17,000
Estimated residual value	3,000
Average remaining asset life (years)	7
Depreciation expense on existing property, plant and equipment for 20X1-20X2 (new basis)(17,000 – 3,000)/7	2,000

From the start of 20X1-20X2, Blue Ocean group changed its accounting policy for depreciating property, plant and equipment, so as to apply components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values.

The policy has been applied prospectively from the start of the year 20X1-20X2 because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly, the adoption of the new policy has no effect on prior years.

**The impact on the financial statements for 20X1-20X2 would be as under:**

Particulars	Rs.
Increase the carrying amount of property, plant and equipment at the start of the year (17,000-11,000)	6,000
Increase the opening deferred tax provision (6,000 x 30%)	1,800
Create a revaluation surplus at the start of the year (6,000 – 1,800)	4,200
Increase depreciation expense by (Rs.2,000 – Rs.1,500)	500
Reduce tax expense on depreciation (30%)	150

**(b) Balance Sheet as at 31<sup>st</sup> March, 20X2 (Extracts)**

Financial Assets:	Rs.
Interest rate option (W.N.1)	15,250
6% Debentures in Fox Ltd. (W.N.2)	1,53,000
Shares in Cox Ltd. (W.N.3)	1,87,500

**Statement of Profit and Loss (Extracts)**

Finance Income:	
Gain on interest rate option (W.N.1)	5,250
Effective interest on 6% Debentures (W.N.2)	12,000

**Working Notes:**

**1. Interest rate option**

This is a derivative and so it must be treated as at fair value through profit or loss

Particulars		Rs.	Rs.
<i>Initial measurement (at cost)</i>			
Financial Asset	Dr.	10,000	
To Cash A/c			10,000

At 31<sup>st</sup> March, 20X2

Particulars		Rs.	Rs.
<i>(Re-measured to fair value)</i>			
Financial Asset (Rs. 15,250 - Rs.10,000)	Dr.	5,250	
To Profit and loss A/c			5,250

Financial Assets (Rs.10,000 + Rs.5,250) = **Rs.15,250 (Balance Sheet)**

Gain on interest option = **Rs.5,250 (Statement of Profit and Loss)**

**2. Debentures**

On the basis of information provided, this can be treated as a held-to-maturity investment

Particulars		Rs.	Rs.
<i>Initial measurement (at cost)</i>			
Financial Asset	Dr.	1,50,000	
To Cash A/c			1,50,000

At 31<sup>st</sup> March, 20X2 (Amortized cost)

Particulars		Rs.	Rs.
Financial Asset (Rs.1,50,000 x 8%)	Dr.	12,000	
To Finance Income			12,000

Cash (Rs. 1,50,000 x 6%)	Dr.	9,000	
To Financial asset			9,000

Amortized cost at 31<sup>st</sup> March, 20X2

(Rs. 150,000 + Rs. 12,000 – Rs. 9,000) = **Rs. 153,000 (Balance Sheet)**

Effective interest on 6% debenture = **Rs. 12,000 (Statement of Profit and Loss)**

### 3. Shares in Cox Ltd.

These are treated as an available for sale financial asset (shares cannot normally be held to maturity and they are clearly not loans or receivables)

Particulars		Rs.	Rs.
<i>Initial measurement (at cost)</i>			
Financial Asset (Rs.50,000 x Rs.3.50) Dr.		1,75,000	
To Cash A/c			1,75,000

At 31<sup>st</sup> March, 20X2 (Re-measured at fair value)

Particulars		Rs.	Rs.
Financial Asset [(Rs.50,000 x 3.75) – 1,75,000] Dr.		12,500	
To Other Equity A/c			12,500

Shares in Cox Ltd (Rs.1,75,000 + Rs.12,500) = **Rs.1,87,500 (Balance Sheet)**

- (c) As per paragraph 9 of Ind AS 24, Related Party Disclosures, “Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.”

Accordingly, key management personnel (KMP) includes any director of the entity who are having authority and responsibility for planning, directing and controlling the activities of the entity. Hence, independent director Mr. Atul and non-executive director Mr. Naveen are covered under the definition of KMP in accordance with Ind AS.

Also as per paragraph 7 and 9 of Ind AS 19, ‘Employee Benefits’, an employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of the Standard, Employees include directors and other management personnel.

Therefore, contention of the Accountant is wrong that they are not employees of X Ltd.

Paragraph 17 of Ind AS requires disclosure about employee benefits for key management personnel. Therefore, an entity shall disclose key management personnel compensation in total i.e. disclosure of directors’ fee of (Rs. 10,00,000 + Rs. 7,50,000) Rs. 17,50,000 is to be made as employees benefits (under various categories).

Since short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services, the sitting fee paid to directors will fall under it (as per Ind AS 19) and is required to be disclosed in accordance with the paragraph 17 of Ind AS 24.

- 3 (a) This information will be incorporated into the consolidated statement of cash flows as follows:

Statement of cash flows for 20X2 (extract)	Amount (Rs.)	Amount (Rs.)
<b>Cash flows from operating activities</b>		
Profit before taxation	70,000	
Adjustments for non-cash items:		
Depreciation	30,000	

Decrease in inventories (Note 1)	9,000	
Decrease in trade receivables (Note 2)	4,000	
Decrease in trade payables (Note 3)	(24,000)	
Interest paid to be included in financing activities	4,000	
Taxation (11,000 + 15,000 – 12,000)	(14,000)	
<i>Net cash inflow from operating activities</i>		79,000
<b>Cash flows from investing activities</b>		
Cash paid to acquire subsidiary (74,000 – 2,000)	(72,000)	
<i>Net cash outflow from investing activities</i>		(72,000)
<b>Cash flows from financing activities</b>		
Interest paid	(4,000)	
<i>Net cash outflow from financing activities</i>		<u>(4,000)</u>
<b>Increase in cash and cash equivalents</b>		<b>3,000</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b><u>5,000</u></b>
<b>Cash and cash equivalents at the end of the year</b>		<b><u>8,000</u></b>

**Working Notes:**

**1. Inventories**

Total inventories of the Group at the end of the year	Rs. 30,000
Inventories acquired during the year from subsidiary	<u>(Rs. 4,000)</u>
	Rs. 26,000
Opening inventory	<u>(Rs. 35,000)</u>
Decrease in inventory	<u>Rs. 9,000</u>

**2. Trade Receivables**

Total trade receivables of the Group at the end of the year	Rs. 54,000
Trade receivables acquired during the year from subsidiary	<u>(Rs. 8,000)</u>
	Rs. 46,000
Opening trade receivables	<u>(Rs. 50,000)</u>
Decrease in trade receivables	<u>Rs. 4,000</u>

**3. Trade Payables**

Trade payables at the end of the year	Rs. 68,000
Trade payables of the subsidiary assumed during the year	<u>(Rs. 32,000)</u>
	Rs. 36,000
Opening Trade payable	<u>(Rs. 60,000)</u>
Decrease in Trade payables	<u>Rs. 24,000</u>

- (b) The amount recognized as an expense in each year and as a liability at each year end is as follows:

Year	Expense Rs.	Liability Rs.	Calculation of Liability
31 December 20X5	2,16,000	2,16,000	= 36 x 1,000 x 12 x ½

31 December 20X6	72,000	2,88,000	= 36 x 1,000 x 8
31 December 20X7	1,62,000	3,90,000	=30 x 1,000 x 13 Expense comprises an increase in the liability of Rs. 102,000 and cash paid to those exercising their SARs of Rs. 60,000(6 x 1,000 x 10).
31 December 20X8	(30,000)	0	Liability extinguished. Excess liability reversed, because cash paid to those exercising their SARs Rs. 3,60,000 (30 x 1,000x 12) was less than the opening liability Rs.3,90,000.

#### Journal Entries

<b>31 December 20X5</b>			
Employee benefits expenses	Dr.	2,16,000	
To Share based payment liability (Fair value of the SAR recognized)			2,16,000
<b>31 December 20X6</b>			
Employee benefits expenses	Dr.	72,000	
To Share based payment liability (Fair value of the SAR re-measured)			72,000
<b>31 December 20X7</b>			
Employee benefits expenses	Dr.	1,62,000	
To Share based payment liability (Fair value of the SAR recognized)			1,62,000
Share based payment liability	Dr.	60,000	
To Cash (Settlement of SAR)			60,000
<b>31 December 20X8</b>			
Share based payment liability	Dr.	30,000	
To Employee benefits expenses (Fair value of the SAR recognized)			30,000
Share based payment liability	Dr.	3,60,000	
To Cash (Settlement of SAR)			3,60,000

4. (a) As per Ind AS 116, Company EFG would first calculate the lease liability as the present value of the annual lease payments, less the lease incentive paid in year 2, plus the exercise price of the purchase option using the rate implicit in the lease of approximately 9.04%.

PV of lease payments, less lease incentive (W.N. 1)	Rs. 37,39,648
PV of purchase option at end of lease term (W.N. 2)	<u>Rs. 12,60,000</u>
Total lease liability	Rs.49,99,648 or Rs.50,00,000 (approx.)

The right-of-use asset is equal to the lease liability because there is no adjustment required for initial direct costs incurred by Company EFG, lease payments made at or before the lease commencement date, or lease incentives received prior to the lease commencement date.

Entity EFG would pass the following journal entry on the lease commencement date.

Right-of-use Asset	Dr.	Rs. 50,00,000	
	To Lease Liability		Rs. 50,00,000
<i>To record ROU asset and lease liability at the commencement date.</i>			

Since the purchase option is reasonably certain to be exercised, EFG would amortize the right-of-use asset over the economic life of the underlying asset (40 years). Annual amortization expense would be Rs. 1,25,000 (Rs. 50,00,000 / 40 years)

Interest expense on the lease liability would be calculated as shown in the following table. This table includes all expected cash flows during the lease term, including the lease incentive paid by Entity H and Company EFG's purchase option.

Year	Payment	Principal paid at the beginning of the year	Interest paid	Interest expense	Lease Liability (end of the year)
	a	b= a-c	c = (d of pvs. year)	d = [(e of pvs. year- a) x 9.04%]	e = (e of pvs. year + d - a)
Commencement					50,00,000
Year 1	5,00,000	5,00,000	-	4,06,800	49,06,800
Year 2	3,15,000*	(91,800)	4,06,800	4,15,099	50,06,899
Year 3	5,30,450	1,15,351	4,15,099	4,04,671	48,81,120
Year 4	5,46,364	1,41,693	4,04,671	3,91,862	47,26,618
Year 5	5,62,754	1,70,892	3,91,862	3,76,413	45,40,277
Year 6	5,79,637	2,03,224	3,76,413	3,58,042	43,18,682
Year 7	5,97,026	2,38,984	3,58,042	3,36,438	40,58,094
Year 8	6,14,937	2,78,499	3,36,438	3,11,261	37,54,418
Year 9	6,33,385	3,22,124	3,11,261	2,82,141	34,03,174
Year 10	6,52,387	3,70,246	2,82,141	2,49,213**	30,00,000
Year 10	<u>30,00,000</u>	<u>27,50,787</u>	<u>2,49,213*</u>	<u>-</u>	-
<b>Total</b>	<b><u>85,31,940</u></b>	<b><u>50,00,000</u></b>	<b><u>35,31,940</u></b>	<b><u>35,31,940</u></b>	

\*(5,00,000 + increased by 3% - lease incentive paid amounting to 2,00,000)

\*\*Difference of Rs. 542 (Rs. 2,48,671 and Rs. 2,49,213) is due to rounding of interest expense calculated @ 9.04%.

Although the lease was for 10 years, the asset had an economic life of 40 years. When Company EFG exercises its purchase option at the end of the 10-year lease, it would have fully extinguished its lease liability but continue depreciating the asset over the remaining useful life.

**Working Notes:****1. Calculating PV of lease payments, less lease incentive:**

Year	Lease Payment (A)	Present value factor @ 9.04% (B)	Present value of lease payments (A x B=C)
Year 1	5,00,000	1	5,00,000
Year 2	3,15,000	0.92	2,89,800
Year 3	5,30,450	0.84	4,45,578
Year 4	5,46,364	0.77	4,20,700
Year 5	5,62,754	0.71	3,99,555
Year 6	5,79,637	0.65	3,76,764
Year 7	5,97,026	0.59	3,52,245
Year 8	6,14,937	0.55	3,38,215
Year 9	6,33,385	0.50	3,16,693
Year 10	6,52,387	0.46	<u>3,00,098</u>
<b>Total</b>			<b><u>37,39,648</u></b>

**2. Calculating PV of purchase option at end of lease term:**

Year	Payment on purchase option (A)	Present value factor @ 9.04% (B)	Present value of purchase option (A x B=C)
Year 10	30,00,000	0.42	<u>12,60,000</u>
<b>Total</b>			<b><u>12,60,000</u></b>

The discount rate for year 10 is different in the above calculations because in the earlier one its beginning of year 10 and in the later one its end of the year 10.

**(b) The values of the liability and equity components are calculated as follows:**

Present value of principal payable at the end of 3 years (Rs. 10 lakhs discounted at 13% for 3 years) = Rs. 6,93,050

Present value of interest payable in arrears for 3 years (Rs. 100,000 discounted at 13% for each of 3 years) = Rs. 2,36,115

Paragraph AG31 of Ind AS 32 states that a common form of compound financial instruments is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivatives features.

The liability component = Present value of principal + Present value of Interest

= Rs. 6,93,050 + Rs.2,36,115 = Rs. 9,29,165

Equity Component = Rs. 10,00,000 –Rs. 9,29,165 = Rs. 70,835

**5. (a) Consolidated Balance Sheet of the Group as on 31<sup>st</sup> March, 20X2**

Particulars	Note No.	(Rs. in lakh)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1	980

<b>Current assets</b>		
(a) Inventory	2	338
(b) Financial assets		
Trade receivables	3	580
Bills receivable	4	2
Cash and cash equivalents	5	<u>308</u>
<b>Total assets</b>		<b><u>2,208</u></b>
<b>EQUITY &amp; LIABILITIES</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital		600
Other Equity		
Reserves (W.N.5)		194
Retained Earnings (W.N.5)		179.8
Capital Reserve (W.N.3)		188
<b>Non-controlling interests (W.N.4)</b>		<u>166.2</u>
<b>Total equity</b>		<b><u>1,328</u></b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		Nil
<b>Current liabilities</b>		
(a) Financial Liabilities		
(i) Trade payables	6	<u>880</u>
<b>Total liabilities</b>		<u>880</u>
<b>Total equity and liabilities</b>		<b><u>2,208</u></b>

**Notes to Accounts**

(Rs. in lakh)

1.	<b>Property, Plant &amp; Equipment</b>		
	P Ltd.	320	
	S Ltd.	360	
	SS Ltd.	<u>300</u>	980
2.	<b>Inventories</b>		
	P Ltd.	220	
	S Ltd. (70-2)	68	
	SS Ltd.	<u>50</u>	338
3.	<b>Trade Receivables</b>		
	P Ltd.	260	
	S Ltd.	100	
	SS Ltd.	<u>220</u>	580
4.	<b>Bills Receivable</b>		
	P Ltd. (72-70)	2	
	SS Ltd. (30-30)	—	2
5.	<b>Cash &amp; Cash equivalents</b>		
	P Ltd.	228	
	S Ltd.	40	
	SS Ltd.	<u>40</u>	308

6.	<b>Trade Payables</b>		
	P Ltd.		
	S Ltd.	470	
	SS Ltd.	230	
		<u>180</u>	880

**Working Notes:**

**1. Analysis of Reserves and Surplus**

(Rs. in lakh)

		S Ltd.		SS Ltd.
<b>Reserves as on 31.3.20X1</b>		80		60
Increase during the year 20X1-20X2	20		20	
Increase for the half year till 30.9.20X1		<u>10</u>		<u>10</u>
<b>Balance as on 30.9.20X1 (A)</b>		<b>90</b>		<b>70</b>
Total balance as on 31.3.20X2		<u>100</u>		<u>80</u>
<b>Post-acquisition balance</b>		<b><u>10</u></b>		<b><u>10</u></b>

		S Ltd.		SS Ltd.
<b>Retained Earnings as on 31.3.20X1</b>		20		30
Increase during the year 20X1-20X2	30		30	
Increase for the half year till 30.9.20X1		<u>15</u>		<u>15</u>
<b>Balance as on 30.9.20X1 (B)</b>		<b>35</b>		<b>45</b>
Total balance as on 31.3.20X2		<u>50</u>		<u>60</u>
Post-acquisition balance		15		15
Less: Unrealised Gain on inventories (10 x 25%)		-		<u>(2)</u>
<b>Post-acquisition balance for CFS</b>		<b><u>15</u></b>		<b><u>13</u></b>
<b>Total balance on the acquisition date ie.30.9.20X1 (A +B)</b>		<b>125</b>		<b>115</b>

**2. Calculation of Effective Interest of P Ltd. in SS Ltd.**

Acquisition by P Ltd. in S Ltd.	= 80%
Acquisition by S Ltd. in SS Ltd.	= 75%
Acquisition by Group in SS Ltd. (80% x 75%)	= 60%
Non Controlling Interest	= 40%

**3. Calculation of Goodwill / Capital Reserve on the acquisition date**

	S Ltd.	SS Ltd.
Investment or consideration	340	(280 × 80%) 224
Add: NCI at Fair value		
(400 × 20%)	80	
(320 × 40%)		
	<u>420</u>	<u>128</u>
Less: Identifiable net assets (Share capital + Increase in the		352

Reserves and Surplus till acquisition date)	(400+125) (525)	(320+115) (435)
Capital Reserve	<u>105</u>	<u>83</u>
Total Capital Reserve (105 + 83)	<u>188</u>	

#### 4. Calculation of Non-Controlling Interest

	S Ltd.	SS Ltd.
At Fair Value (See Note 3)	80	128
Add: Post Acquisition Reserves (See Note 1)	(10× 20%) 2	(10× 40%) 4
Add: Post Acquisition Retained Earnings (See Note 1)	(15× 20%) 3	(13× 40%) 5.2
Less: NCI share of investment in SS Ltd.	(280×20%) <u>(56)*</u>	<u>      </u>
	<u>29</u>	<u>137.2</u>
Total (29+ 137.2)	166.2	

\* **Note:** The Non-controlling interest in S Ltd. will take its proportion in SS Ltd. so they have to bear their proportion in the investment by S Ltd. (in SS Ltd.) also.

#### 5. Calculation of Consolidated Other Equity

	Reserves	Retained Earnings
P Ltd.	180	160
Add: Share in S Ltd.	(10 x 80%) 8	(15× 80%) 12
Add: Share in SS Ltd.	(10× 60%) <u>6</u>	(13× 60%) <u>7.8</u>
	<u>194</u>	<u>179.8</u>

- (b) The entity considers the requirements in paragraphs 56–58 of Ind AS 115 on constraining estimates of variable consideration to determine whether the estimated amount of variable consideration of Rs. 48,500 (Rs. 50 × 970 products not expected to be returned) can be included in the transaction price. The entity considers the factors in paragraph 57 of Ind AS 115 and 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, the entity concludes that it is highly probable that a significant reversal in the cumulative amount of revenue recognised (i.e. Rs. 48,500) will not occur as the uncertainty is resolved (i.e. over the return period).

The entity 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 1,000 products, the entity does not recognise revenue for the 30 products that it expects to be returned. Consequently, in accordance with paragraphs 55 and B21 of Ind AS 115, the entity recognises the following:

- revenue of Rs. 48,500 (Rs. 50 × 970 products not expected to be returned);
- a refund liability of Rs. 1,500 (Rs. 50 refund × 30 products expected to be returned); and
- an asset of Rs. 900 (Rs. 30 × 30 products for its right to recover products from customers on settling the refund liability).

6. (a) Reconciliation of Plan asset and Defined benefit obligations

	Plan Asset Rs.	Defined benefit obligations Rs.
Fair value/present value as at 1 <sup>st</sup> April 20X1	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost		5,10,000
Contributions received	4,25,000	-
Benefits paid	(2,55,000)	(2,55,000)
Return on gain (assets) (balancing figure)	68,000	-
Actuarial Loss (balancing figure)	-	2,33,750
Closing balance as at March 31,20X2	23,80,000	27,20,000

In the Statement of Profit and loss, the following will be recognised:

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

Defined benefit re-measurements recognised in other comprehensive income:

	Rs.
Loss on defined benefit obligation	(2,33,750)
Gain on plan assets	<u>68,000</u>
	<u>(1,65,750)</u>

In the Balance sheet, the following will be recognised:

	Rs.
Net defined liability (Rs. 27,20,000 – Rs. 23,80,000)	3,40,000

- (b) Since all customers will receive a 10% discount on purchases during the next 30 days, the only additional discount that provides the customer with a material right is the incremental discount of 30% on the products purchased. The entity accounts for the promise to provide the incremental discount as a separate performance obligation in the contract for the sale of Product A.

The entity believes there is 80% likelihood that a customer will redeem the voucher and on an average, a customer will purchase Rs. 500 of additional products. Consequently, the entity's estimated stand-alone selling price of the discount voucher is Rs. 120 (Rs. 500 average purchase price of additional products x 30% incremental discount x 80% likelihood of exercising the option). The stand-alone selling prices of Product A and the discount voucher and the resulting allocation of the Rs. 1,000 transaction price are as follows:

Performance obligations	Stand-alone selling price
Product A	Rs. 1,000
Discount voucher	<u>Rs. 120</u>
Total	<u>Rs. 1,120</u>

Performance obligations		Allocated transaction price (to nearest Rs.10)
Product A	(Rs. 1000 ÷ Rs. 1120 × Rs. 1000)	Rs. 890
Discount voucher	(Rs. 120 ÷ Rs. 1120 × Rs. 1000)	<u>Rs. 110</u>
Total		<u>Rs. 1000</u>

The entity allocates Rs. 890 to Product A and recognises revenue for Product A when control transfers. The entity allocates Rs. 110 to the discount voucher and recognises revenue for the voucher when the customer redeems it for goods or services or when it expires.

(c) Journal Entries showing accounting for the significant financing component:

(a) Recognise a contract liability for the Rs. 4,000 payment received at contract inception:

Cash	Dr.	Rs. 4,000	
	To Contract liability		Rs. 4,000

(b) During the two years from contract inception until the transfer of the asset, the entity adjusts the promised amount of consideration and accretes the contract liability by recognising interest on Rs. 4,000 at 6% for two years:

Interest expense	Dr.	Rs. 494*	
	To Contract liability		Rs. 494

\* Rs. 494 = Rs. 4,000 contract liability × (6% interest per year for two years).

(c) Recognise revenue for the transfer of the asset:

Contract liability	Dr.	Rs. 4,494	
	To Revenue		Rs. 4,494

(d) As per para 20 of Ind AS 33, Earnings per share, the weighted average number of ordinary shares outstanding during the period reflects the possibility that the amount of shareholders' capital varied during the period as a result of a larger or smaller number of shares being outstanding at any time. The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

**Formula**

The weighted average number of shares is calculated as follows:

Number of shares x (number of days the shares were held during the year / 365)

Following the above formula, the weighted average number of shares for calculation of EPS for the year 20X1-20X2 will be as follows:

Sr. No.	Date	Particulars	No of shares	No of days shares were outstanding	Weighted average no of shares
1	1April 20X1	Opening balance of outstanding equity shares	1,00,000	365	1,00,000
2	15June 20X1	Issue of equity shares	75,000	290	59,589

3	8November 20X1	Conversion of convertible preference shares in Equity	50,000	144	19,726
4	22February 20X2	Buy back of shares	<u>(20,000)</u>	(38)*	<u>(2,082)</u>
5	31March 20X2	Closing balance of outstanding equity shares	<u>2,05,000</u>		<u>1,77,233</u>

\*These shares had already been considered in the shares issued. The same has been deducted assuming that the bought back shares have been extinguished immediately.

**OR**

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 greater than or equal to Rs. 500 Crore: This criterion is not satisfied.
- (2) Sales greater than or equal to Rs. 1000 Crore: This criterion is not satisfied.
- (3) Net profit greater than or equal to Rs. 5 crore: This criterion is satisfied in financial year ended March 31, 20X3 ie immediate preceding financial year.

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