Test Series: April, 2019

MOCK TEST PAPER 2

FINAL (NEW) COURSE

PAPER 1: FINANCIAL REPORTING

ANSWERS

1. Consolidated Balance Sheet of P Ltd as on 1st April, 20X2 (Rs. in Lakhs)

	Amount
Assets	
Non-Current Assets:	
Property, plant and equipment	650
Investment	500
Current assets:	
Inventories	400
Financial assets:	
Trade receivables	750
Cash and cash equivalents	300
Others	630
Total	3,230
Equity and Liabilities	
Equity	
Share capital- Equity shares of Rs. 100 each	514
Other Equity	1128.62
NCI	154.95
Non-Current liabilities:	
Long term borrowings	450
Long term provisions (50+70+28.93)	148.93
Deferred tax	28.5
Current Liabilities:	
Short term borrowings	250
Trade payables	550
Provision for Law suit damages	5
Total	3230

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Notes:

a. Fair value adjustment- As per Ind AS 103, the acquirer is required to record the assets and liabilities at their respective fair value. Accordingly, the PPE will be recorded at Rs. 350 lakhs.

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, 2.5 (5 x 2/4) is considered as a part of purchase consideration and is credited to P Ltd equity as this will be settled in its own equity. The balance of 2.5 will be recorded as employee expense in the books of D Ltd. 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 35 is the minimum payment to be paid after 2 years and accordingly will be considered as deferred consideration. The other element is if company meet certain target then they will get 25% of that or 35 whichever is higher. In the given case since the minimum what is expected to be paid the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.

d. The additional consideration of Rs. 20 lakhs to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the income statement of D Ltd.

Working for Purchase consideration **Rs. in lakhs**

Particulars		**Amount**
Share capital of D Ltd		400
Number of shares	4,00,000	
Shares to be issued 2:1	2,00,000	
Fair value per share		40
PC (2,00,000 x 70% x Rs. 40 per share) (A)		56.00
Deferred consideration after discounting Rs. 35 lakhs for 2 years @ 10% (B)		28.93
Replacement award Market based measure of the acquiree award (5) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (4) of the acquiree award ie (5 x 2 / 4) (C)		2.50
PC in lakhs (A+B+C)		87.43

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Purchase price allocation workings

Particulars	Book value (A)	Fair value (B)	FV adjustment (A-B)
Property, plant and equipment	500	350	(150)
Investment	100	100	-
Inventories	150	150	-
Financial assets:			-
Trade receivables	300	300	-
Cash and cash equivalents	100	100	-
Others	230	230	
Less: Long term borrowings	(200)	(200)	-
Long term provisions	(70)	(70)	-
Deferred tax	(35)	(35)	-
Short term borrowings	(150)	(150)	-
Trade payables	(300)	(300)	-
Contingent liability	-	(5)	(5)
Net assets (X)	625	470	(155)
Deferred tax Asset on FV adjustment (155 x 30%) (Y)		46.50	155
Net assets (X+Y)		516.5	
Non-controlling interest (516.50 x 30%) rounded off		154.95	
Capital Reserve (Net assets – NCI – PC)		274.12	
Purchase consideration (PC)		87.43	

Consolidation workings

	P Ltd.	*D Ltd. (pre-acquisition)*	*PPA Allocation*	*Total*
Assets				
Non-Current Assets:				
Property, plant and equipment	300	500	(150)	650
Investment	400	100		500

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Current assets:				
Inventories	250	150		400
Financial assets:				
Trade receivables	450	300		750
Cash and cash equivalents	200	100		300
Others	400	230		630
Total	2,000	1,380	(150)	3,230
Equity and Liabilities				
Equity				
Share capital- Equity shares of Rs. 100 each	500			
Shares allotted to D Ltd. (2,00,000 x 70% x Rs. 10 per share)			14	514
Other Equity	810		318.62	1128.62
Non-controlling interest	0		154.95	154.95
Non-Current liabilities:				
Long term borrowings	250	200		450
Long term provisions	50	70	28.93	148.93
Deferred tax	40	35	(46.5)	28.5
Current Liabilities:				
Short term borrowings	100	150		250
Trade payable	250	300	0	550
Liability for lawsuit damages			5	5
Total	2,000	755	475	3,230
Other Equity				
Other Equity	810			810
Replacement award			2.5	2.5
Security Premium Reserve (2,00,000 shares x 70% x Rs.30)			42	42
Capital Reserve			274.12	274.12
	810		318.62	1,128.62

2. (a) Statement of Profit and Loss

	Rs. '000
Operating lease rental	(260)

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Amortisation of asset leased on finance lease	(225)
Finance cost relating to finance leases	(248·4)

Balance Sheet

	Rs. '000
Property, plant and equipment	4,275
Prepaid operating lease rentals:	
In non-current assets	1,080
In current assets	60
Lease liability:	
In non-current liabilities	(2,592·1)
In current liabilities	(56·3)

Explanation and supporting calculations:

Separate decisions are made for the land and buildings elements of the lease.

1) The **land lease is an operating lease** because land has an indefinite useful economic life and the lease term is 20 years.

   The lease premium and annual rentals are apportioned 40% (3/7·5) to the land element.

   Therefore, the premium for the land element is Rs. 12,00,000 (Rs. 30,00,000 x 40%) and the annual rentals for the land element Rs. 200,000 (Rs. 500,000 x 40%). This makes the total lease payments Rs. 52,00,000 (Rs. 12,00,000 + 20 x Rs. 200,000).

   The rental expense for the current period is Rs. 2,60,000 (Rs. 52,00,000 x 1/20).

   The amount paid in the current period regarding the land element is Rs. 14,00,000 (Rs. 12,00,000 + Rs. 200,000). Therefore, there is a prepayment of Rs. 1,140,000 (Rs. 14,00,000 – Rs. 2,60,000) at the year end.

   In the next 19 periods, the rental expense will be Rs. 260,000 and the rental payment will be Rs. 200,000. Therefore Rs. 60,000 of the rental prepayment will reverse in each period. This means that Rs. 60,000 of the prepayment will be a current asset, and the balance a non-current asset.

2) The **buildings element of the lease will be a finance lease** because the lease term is for substantially all of the useful life of the buildings.

   The premium apportioned to the buildings element is Rs. 18,00,000 (Rs. 30,00,000 x 60%) and the annual rental apportioned to the buildings is Rs. 300,000 (Rs. 500,000 x 60%).

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The initial carrying value of the leased asset in PPE is Rs. 45,00,000 (Rs. 18,00,000 + Rs. 300,000 x 9).

Therefore, the annual depreciation charge is Rs. 2,25,000 (Rs. 45,00,000 x 1/20) and the closing PPE = Rs. 42,75,000 (Rs. 45,00,000 – Rs. 2,25,000).

The finance cost in respect of the finance lease and the closing non-current liability is shown in the working below.

The closing current liability is Rs. 56,300 (Rs. 26,48,400 – Rs. 25,92,100).

Lease liability profile – working

Year ended 31st March	Bal b/f Rs.'000	Finance Cost @ 9.2% Rs. '000	Lease rental payment Rs. '000	Bal c/f Rs. '000
2018	*2,700	248·4	(300)	2,648·4
2019	2,648·4	243·7	(300)	2,592·1

* Balance brought forward is equal to net of lease premium of Rs. 18,00,000 ie. Rs. 45,00,000 – Rs. 18,00,000 = Rs. 27,00,000.

(b) The above treatment needs to be examined in the light of the provisions given in Ind AS 10 *'Events after the Reporting Period'* and Ind AS 2 *'Inventories'*.

Para 3 of Ind AS 10 'Events after the Reporting Period' defines "Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

(b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Further, paragraph 10 of Ind AS 10 states that:

"An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period".

Further, paragraph 6 of Ind AS 2 defines:

"Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale".

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Further, paragraph 9 of Ind AS 2 states that:

"Inventories shall be measured at the lower of cost and net realisable value".

Accountant of Jupiter Ltd. has re-measured the inventories after adjusting the event in its financial statement which is not correct and nor in accordance with provision of Ind AS 2 and Ind AS 10.

Accordingly, the event causing the damage to the inventory occurred after the reporting date and as per the principles laid down under Ind AS 10 'Events After the Reporting Date' is a non-adjusting event as it does not affect conditions at the reporting date. Non-adjusting events are not recognised in the financial statements, but are disclosed where their effect is material.

Therefore, as per the provisions of Ind AS 2 and Ind AS 10, the consignment of inventories shall be recorded in the Balance Sheet at a value of Rs. 8 lakhs calculated below:

Rs.' lakhs

Cost	8.00
Net realisable value	9.60
Inventories (lower of cost and net realisable value)	8.00

3. (a) **Either**

The parent's separate statement of profit and loss for 20X3-20X4 would show a gain on the sale of investment of Rs. 40,000 calculated as follow:

	Rs. '000
Sale proceeds	200
Less: Cost of investment in subsidiary	(160)
Gain on sale in parent's account	40

However, the group's statement of profit & loss for 20X3-20X4 would show a gain on the sale of subsidiary of Rs. 8,000 calculated as follows:

		Rs.'000
Sale proceeds		200
Less: share of net assets at date of disposal (Rs. 2,25,000 X 80%)	(180)	
Goodwill on consolidation at date of sale (W.N 1)	(12)	(192)
Gain on sale in the group's account		8

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Working Note

The goodwill on consolidation (assuming partial goodwill method) is calculated as follows:

		Rs.'000
Fair value of consideration at the date of acquisition		160
Non- controlling interest measured at proportionate share of the acquiree's identifiable net assets (1,75,000 X 20%)	35	
Less: fair value of net assets of subsidiary at date of acquisition	(175)	(140)
Goodwill arising on consolidation		20
Impairment at 31 March 20X3		(8)
Goodwill at 31 March 20X4		12

Or

(i) Carrying amount of investment in Separate Financial Statement of Bright Ltd. as on 31.03.20X2

	Rs.
Amount paid for investment in Associate (on 1.06.20X1)	2,00,000
Less: Pre-acquisition dividend (Rs. 50,000 x 30%)	(15,000)
Carrying amount as on 31.3.20X2 as per AS 13	1,85,000

(ii) Carrying amount of investment in Consolidated Financial Statements of Bright Ltd. as on 31.3.20X2 as per AS 23

	Rs.
Carrying amount as per separate financial statements	1,85,000
Add: Proportionate share of profit of investee as per equity method (30% of Rs. 3,00,000 for 10 months)	75,000
Carrying amount as on 31.3.20X2	2,60,000

(iii) Carrying amount of investment in Consolidated Financial Statement of Bright Ltd. as on 30.6.20X2 as per AS 23

	Rs.
Carrying amount as on 31.3.20X2	2,60,000
Less: Dividend received (Rs. 60,000 x 30% x 10/12)	(15,000)
Carrying amount as on 30.6.20X2	2,45,000

(b) In the above situation, the Borrowing cost needs to determine for interest cost on such foreign currency loan and eligible exchange loss difference if any.

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(a) Interest on Foreign currency loan for the period :

USD 20,000 x 5% = USD 1,000

Converted in Rs. : USD 1,000 x Rs. 48/USD = Rs. 48,000

Increase in liability due to change in exchange difference :

USD 20,000 x (48 - 45) = Rs. 60,000

(b) Interest that would have resulted if the loan was taken in Indian Currency:

USD 20,000 x Rs. 45/USD x 11% = Rs. 99,000

(c) Difference between Interest on Foreign Currency borrowing and local Currency borrowing :

Rs. 99,000 - 48,000 = Rs. 51,000

Hence, out of Exchange loss of Rs. 60,000 on principal amount of foreign currency loan, only exchange loss to the extent of Rs. 51,000 is considered as borrowing costs.

Total borrowing cost to be capitalized is as under :

(a)	Interest cost on borrowing	Rs. 48,000
(b)	Exchange difference to the extent considered to be an adjustment to Interest cost	Rs. 51,000
		Rs. 99,000

The exchange difference of Rs. 51,000 has been capitalized as borrowing cost and the remaining Rs. 9,000 will be expensed off in the Statement of Profit and loss.

(c) The entity also 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:

(a) revenue of Rs. 48,500 (Rs. 50 × 970 products not expected to be returned);

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(b) a refund liability of Rs. 1,500 (Rs. 50 refund × 30 products expected to be returned); and

(c) an asset of Rs. 900 (Rs. 30 × 30 products for its right to recover products from customers on settling the refund liability).

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

Workings:

	20X1	**20X2**	**20X3**
Total employees	500	500	500
Employees left (Actual)	(29)	(58)	(79)
Employees expected to leave in the next year	(31)	(23)	-
Year end – No of employees	440	419	421
Shares per employee	100	100	100
Fair value of share at grant date	122	122	122
Vesting period	1/2	2/3	3/3
Expenses-20X1 (Note 1)	26,84,000		
Expenses-20X2 (Note 2)		7,23,867	
Expenses-20X3 (Note 3)			17,28,333

Note 1:

Expense for 20X1 = No. of employees x Shares per employee x Fair value of share x Proportionate vesting period

= 440 x 100 x 122 X ½

= 26,84,000

Note 2:

Expense for 20X2 = (No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 20X1

= (419 x 100 x 122 x 2/3) – 26,84,000

= 7,23,867

Note 3:

Expense for 20X3 = (No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 20X1 and 20X2

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= (421 x 100 x 122 x 3/3) – (26,84,000 + 7,23,867)

= 17,28,333.

Journal Entries

31st December, 20X1			
Employee benefits expenses	Dr.	26,84,000	
To Share based payment reserve (equity)			26,84,000
(Equity settled shared based payment expected vesting amount)			
31st December, 20X2			
Employee benefits expenses	Dr.	7,23,867	
To Share based payment reserve (equity)			7,23,867
(Equity settled shared based payment expected vesting amount)			
31st December, 20X3			
Employee benefits expenses	Dr.	17,28,333	
To Share based payment reserve (equity)			17,28,333
(Equity settled shared based payment expected vesting amount)			
Share based payment reserve (equity)	Dr.	51,36,200	
To Share Capital			51,36,200
(Share capital Issued)			

(b) Subsidiary's earnings per share

Basic EPS Rs. 5.00 calculated: $\frac{\text{Rs. } 5{,}400 \text{ (a)} - \text{Rs.} 400 \text{ (b)}}{1{,}000 \text{ (c)}}$

Diluted EPS Rs. 3.66 calculated: $\frac{\text{Rs. } 5{,}400 \text{ (d)}}{(1{,}000 + 75 \text{ (e)} + 400\text{(f)})}$

Notes:

(a) Subsidiary's profit attributable to ordinary equity holders.

(b) Dividends paid by subsidiary on convertible preference shares.

(c) Subsidiary's ordinary shares outstanding.

(d) Subsidiary's profit attributable to ordinary equity holders (Rs. 5,000) increased by Rs. 400 preference dividends for the purpose of calculating diluted earnings per share.

(e) Incremental shares from warrants, calculated: [(Rs. 20 – Rs. 10) ÷ Rs. 20] × 150.

(f) Subsidiary's ordinary shares assumed outstanding from conversion of convertible preference shares, calculated: 400 convertible preference shares × conversion factor of 1.

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Consolidated earnings per share

Basic EPS Rs. 1.63 calculated: $\frac{\text{Rs. 12,000(a) + Rs. 4,300(b)}}{\text{10,000(c)}}$

Diluted EPS Rs. 1.61 calculated: $\frac{\text{Rs. 12,000 + Rs. 2,928(d) + Rs. 55(e) + Rs. 1,098(f)}}{\text{10,000}}$

(a) Parent's profit attributable to ordinary equity holders of the parent entity.

(b) Portion of subsidiary's profit to be included in consolidated basic earnings per share, calculated: (800 × Rs. 5.00) + (300 × Re 1.00).

(c) Parent's ordinary shares outstanding.

(d) Parent's proportionate interest in subsidiary's earnings attributable to ordinary shares, calculated: (800 ÷ 1,000) × (1,000 shares × Rs. 3.66 per share).

(e) Parent's proportionate interest in subsidiary's earnings attributable to warrants, calculated: (30 ÷ 150) × (75 incremental shares × Rs. 3.66 per share).

(f) Parent's proportionate interest in subsidiary's earnings attributable to convertible preference shares, calculated: (300 ÷ 400) × (400 shares from conversion × Rs. 3.66 per share).

5. (A) (i) At the time of initial recognition

	Rs.
Liability component	
Present value of 5 yearly interest payments of Rs. 40,000, discounted at 12% annuity (40,000 x 3.605)	1,44,200
Present value of Rs. 5,00,000 due at the end of 5 years, discounted at 12%, compounded yearly (5,00,000 x 0.567)	2,83,500
	4,27,700
Equity component	
(Rs. 5,00,000 – Rs. 4,27,700)	72,300
Total proceeds	5,00,000

Note: Since Rs. 105 is the conversion price of debentures into equity shares and not the redemption price, the liability component is calculated @ Rs. 100 each only.

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Journal Entry

		Rs.	*Rs.*
Bank	Dr.	5,00,000	
To 8% Debentures (Liability component)			4,27,700
To 8% Debentures (Equity component)			72,300
(Being Debentures are initially recorded a fair value)			

(ii) At the time of repurchase of convertible debentures

The repurchase price is allocated as follows:

	Carrying Value @ 12%	*Fair Value @ 9%*	*Difference*
	Rs.	*Rs.*	*Rs.*
Liability component			
Present value of 2 remaining yearly interest payments of Rs. 40,000, discounted at 12% and 9%, respectively	67,600	70,360	
Present value of Rs. 5,00,000 due in 2 years, discounted at 12% and 9%, compounded yearly, respectively	3,98,500	4,21,000	
Liability component	4,66,100	4,91,360	(25,260)
Equity component (5,25,000 -4,91,360)	72,300	33,640*	38,660
Total	**5,38,400**	**5,25,000**	**13,400**

*(5,25,000 – 4,91,360) = 33,640

Journal Entries

		Rs.	Rs.
8% Debentures (Liability component)	Dr.	4,66,100	
Profit and loss A/c (Debt settlement expense)	Dr.	25,260	
To Bank A/c			4,91,360
(Being the repurchase of the liability component recognised)			
8% Debentures (Equity component)	Dr.	72,300	
To Bank A/c			33,640
To Reserves and Surplus A/c			38,660
(Being the cash paid for the equity component recognised)			

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(b) The year-wise anticipated reversal of temporary differences is as under:

Particulars	Year ending on March 31, 20X2	Year ending on March 31, 20X3	Year ending on March 31, 20X4	Year ending on March 31, 20X5
Reversal of taxable temporary difference relating to accelerated depreciation over next 3 years (Rs. 9,000/3)	3,000	3,000	3,000	Nil
Reversal of deductible temporary difference relating to preliminary expenses over next 4 years (Rs. 4,000/4)	1,000	1,000	1,000	1,000

B Limited will recognise a deferred tax liability of Rs. 2,700 on taxable temporary difference relating to accelerated depreciation of Rs. 9,000 @ 30%.

However, it will limit and recognise a deferred tax asset on reversal of deductible temporary difference relating to preliminary expenses reversing up to year ending March 31, 20X4 amounting to Rs. 900 (Rs. 3,000 @ 30%). No deferred tax asset shall be recognized for the reversal of deductible temporary difference for the year ending on March 31, 20X5 as there are no taxable temporary differences. Further, the outlook is also a loss. However, if there are tax planning opportunities that could be identified for the year ending on March 31, 20X5 deferred tax asset on the remainder of Rs. 1,000 (Rs. 4,000 – Rs. 3,000) of deductible temporary difference could be recognised at the 30% tax rate.

6. (a) (i) As per section 135 of the Companies Act 2013

Every company having either

- net worth of Rs. 500 crore or more, or
- turnover of Rs. 1,000 crore or more or
- a net profit of Rs. 5 crore or more

during immediate preceding financial year shall constitute a Corporate Social Responsibility (CSR) Committee of the Board consisting of three or more directors (including at least one independent director).

(ii) A company which meets the net worth, turnover or net profits criteria in immediate preceding financial years, 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 INR 500 Crores: This criterion is not satisfied.

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2) Sales greater than or equal to INR 1000 Crores: This criterion is not satisfied.

3) Net Profit greater than or equal to INR 5 Crores: This criterion is satisfied in financial year ended March 31, 20X3.

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

(b) (i) Calculation and allocation of impairment loss in 2016 ***(Amount in Rs. lakhs)***

	Goodwill	***Identifiable assets***	***Total***
Historical cost	2,000	4,000	6,000
Accumulated depreciation/amortisation (4 yrs.)	(1,600)	(1,067)	(2,667)
Carrying amount before impairment	400	2,933	3,333
Impairment loss*	(400)	(213)	(613)
Carrying amount after impairment loss	0	2,720	2,720

*** Notes:**

1. As per para 87 of AS 28, an impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:

   (a) first, to goodwill allocated to the cash-generating unit (if any); and

   (b) then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

   Hence, first goodwill is impaired at full value and then identifiable assets are impaired to arrive at recoverable value.

2. Since the goodwill has arisen on acquisition of assets, AS 14 comes into the picture. As per para 19 of AS 14, goodwill shall amortise over a period not exceeding five years unless a somewhat longer period can be justified. Therefore, the amortization period of goodwill is considered as 5 years.

(ii) Carrying amount of the assets at the end of 2018 ***(Amount in Rs. lakhs)***

End of 2018	***Goodwill***	***Identifiable assets***	***Total***
Carrying amount in 2018	0	2,225	2,225
Add: Reversal of impairment loss (W.N.2)	-	175	175
Carrying amount after reversal of impairment loss	-	2,400	2,400

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Working Note:

1. Calculation of depreciation after impairment till 2018 and reversal of impairment loss in 2018.

			(Amount in Rs. lakhs)
	Goodwill	Identifiable assets	Total
Carrying amount after impairment loss in 2016	0	2,720	2,720
Additional depreciation (i.e. (2,720/11) x 2)	–	(495)	(495)
Carrying amount	0	2,225	2,225
Recoverable amount			3,420
Excess of recoverable amount over carrying amount			1,195

Note: It is assumed that the restriction by the Government has been lifted at the end of the year 2018.

2. Determination of the amount to be impaired by calculating depreciated historical cost of the identifiable assets without impairment at the end of 2018

(Amount in Rs. lakhs)

End of 2018	*Identifiable assets*
Historical cost	4,000
Accumulated depreciation	(266.67 x 6 years) = (1,600)
Depreciated historical cost	2,400
Carrying amount (in W.N. 1)	2,225
Amount of reversal of impairment loss	175

Notes:

1. As per para 107 of AS 28, in allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset should not be increased above the lower of:

   (a) its recoverable amount (if determinable); and

   (b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.

   Hence impairment loss reversal is restricted to Rs. 175 lakhs only.

2. The reversal of impairment loss took place in the 6th year. However, goodwill is amortised in 5 years. Therefore, there would be no balance in the goodwill account in the 6th year even without impairment loss. Hence in W.N. 2 above there is no column for recalculation of goodwill.

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