INDAS – 1
PRESENTATION OF FINANCIAL STATEMENTS & ANALYSIS OF FINANCIAL STATEMENTS

(TOTAL NO. OF QUESTIONS – 12)

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RTPs QUESTIONS

Q1 (MAY 18)

Company A has taken a long-term loan arrangement from Company B. In the month of December 20X1, there has been a breach of material provision of the arrangement. As a consequence of which the loan becomes payable on demand on March 31, 20X2. In the month of May 20X2, the Company started negotiation with the Company B for not to demand payment as a consequence of the breach. The financial statements were approved for the issue in the month of June 20X2. In the month of July 20X2, both companies agreed that the payment will not be demanded immediately as a consequence of breach of material provision.

Advise on the classification of the liability as current / non –current.

Solution

As per para 74 of Ind AS 1 "Presentation of Financial Statements" where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

In the given case, Company B (the lender) agreed for not to demand payment but only after the financial statements were approved for issuance. The financial statements were approved for issuance in the month of June 20X2 and both companies agreed for not to demand payment in the month of July 20X2 although negotiation started in the month of May 20x2 but could not agree before June 20X2 when financial statements were approved for issuance.

Hence, the liability should be classified as current in the financial statement for the year ended March 31, 20X2.

Q2 (May 18) – Analysis of Financial Statements

A Ltd. is an entity who prepares its financial statements based on Accounting Standards. Following is the draft financial statement for the year ended on 31st March, 20X1:

(Note all figures are Rs in million)

Balance Sheet

Particulars	Note	As at March 31, 20X1
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital (shares of Rs. 10 each)		2,000
Reserves and surplus	1	4,000
Non-current liabilities		
Long-term borrowings	2	11,110
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		600
Short-term provisions		500
Other current liabilities	4	300
TOTAL		**18,910**
ASSETS		
Non - current assets		
Fixed Assets		11,310
Deferred Tax Assets	3	1,000
Current assets		
Inventories		2,000
Trade receivables	5	2,200
Cash and bank balances		2,400
TOTAL		**18,910**

Note 1: *The Company has achieved a major breakthrough in its consultancy services in South Asia following which it has entered into a contract of rendering services with Floral Inc. for Rs 12 Billion during the year. The termination clause of the contract is equivalent to Rs 14 Million and is payable in case transition time schedule is missed from 15th December 20X5. The management however is of the view that the liability cannot be treated as onerous.*

Note 2: *The Company is not able to assess the final liability for a particular tax assessment pertaining to the assessment year 20X1-20X2 wherein it has received a demand notice of Rs 12 Million. However, the company is contesting the same with CIT (Appeals) as on the reporting date.*

Statement of Profit & Loss

Particulars	Note	Year ended March 31, 20X1
Revenue from operations Expenses		11,000
Employee Benefit Expense		2,400
Operating Costs		4,400
Depreciation		1,998
Total Expenses		8,798
Profit before tax		**2,202**
Tax Expense		(300)
Profit after tax		**1,902**

Notes to Accounts:

Note 1: Reserves and Surplus (INR in millions)

Capital Reserve	1,000
Surplus from P & L	
Opening Balance 98	
Additions 1,902	2,000
Reserve for foreseeable loss	1,000
Total	**4,000**

Note 2: Long Term Borrowings

Term Loan from Bank	11,110
Total	**11,110**

Note 3: Deferred Tax

Deferred Tax Asset	1,000
Deferred Tax Liability	(400)
Total	**600**

Note 4: Other Current Liabilities

Unclaimed dividends	6
Billing in Advance	294
Total	**300**

Note 5: Trade Receivables

Considered good (outstanding within 6 months)	2,130
Considered doubtful (due from past 1 year)	80
Provision for doubtful debts	(10)
Total	**2,200**

Additional Information:

(a) Share capital comprises of 200 million shares of Rs 10 each

(b) Term Loan from bank for Rs 11,110 million also includes interest accrued and due of Rs 11,110 million as on the reporting date.

(c) Reserve for foreseeable loss is created against a service contract due within 6 months.

Required:

(1) Evaluate and report the errors and misstatements in the above extracts; and,

(2) Prepare the corrected Balance Sheet & Statement of Profit and Loss.

Solution

On evaluation of the financial statements, following was observed:

1. For foreseeable loss provision is made and not reserves. Hence, reserve for foreseeable loss for INR 1000 million, (due within 6 months), should be a part of provision. Therefore, it needs to be regrouped. If it was also a part of previous year's comparatives, then a note should be added in the notes to account for regrouping done this year.

2. Interest accrued and due of INR 1,110 million on term loan will be a part of current liabilities since it is supposed to be paid within 12 months from the reporting date. Hence, it should be shown under the heading "Other Current Liabilities".

3. It can be inferred from Note 3, that the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws. Hence, these shall be set off, in accordance with AS 22. The net DTA of INR 600 million shall be shown in the balance sheet.

4. The note to trade receivables was incorrectly presented. The rectified note would be as follows:

Trade receivables (Unsecured)	INR in million
(a) Over six months from the date they were due for payment	
i. Considered good	0
ii. Considered doubtful	80
Less: Provision for doubtful debts	(10)
(A)	70
(b) Others	
i. Considered good	2,130
ii. Considered doubtful	0
Less: Provision for doubtful debts	0
(B)	2,130
Total (A + B)	**2,200**

1. It is common to have a termination clause in service contracts. Just by having a termination clause, a company cannot create a liability. Para 14 of AS 29 inter alia states that a provision will be recognized when an enterprise has a present obligation as a result of a past event.

Since there is nothing to show that there is a present obligation, no provision will be made.

As per para 27 of AS 29, a contingent liability is recognized only where the possibility of an outflow of resources embodying economic benefits is not remote. Since there is no onerous liability as on the reporting date, the possibility of an outflow becomes remote. Therefore, no contingent liability will arise. In fact, the management has wrongly worded it as 'onerous liability' in its notes to accounts. Onerous liability arises only when the unavoidable costs of meeting the obligation under the contract exceeds the economic benefits expected to be received from it. This note should be eliminated.

2. The demand notice from the tax department (that is under litigation) is a clear instance of a 'contingent liability'. Accordingly, the note should be revised as –

'Contingent Liability:

There is a demand notice INR 12 Million, which is under CIT (Appeals) as on the reporting date.

3. The Statement to Profit and Loss needs to represent earnings per share, as per AS 20.

Revised extracts of the financial statements

Balance Sheet (INR in Million)

	Note No.	As at March 31, 20X1
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital		2,000
Reserves and surplus	1	3,000
Non-current liabilities		
Long-term borrowings	2	10,000
Current liabilities		
Trade payables		600
Short-term provisions		1,500
Other current liabilities	4	1,410
TOTAL		**18,510**
ASSETS		
Non - current assets		
Fixed Assets		11,310
Deferred Tax Assets	3	600
Current assets		
Inventories		2,000
Trade receivables	5	2,200
Cash and Cash Equivalents		2,400
TOTAL		**18,510**

Statement of Profit and Loss (INR in Million)

	Note No.	Year ended March 31, 20X1
Revenue from operations		**11,000**
Expenses		
Operating Costs		4,400
Employee Benefit Expense		2,400
Depreciation		1,998
Total Expenses		**8,798**
Profit Before Tax		2,202
Tax Expense		300
Profit for the period		**1,902**
Earnings Per Equity Share		
Basic		9.51
Diluted		9.51
Number of equity shares (face value of Rs. 10 each)		200 million

Revised Notes (wherever applicable):

Note on Reserves and Surplus **(INR in Million)**

Capital Reserve		1,000
Surplus from P & L		
Opening Bal	98	
Additions	1,902	2,000
Total		**3,000**

Note on Long Term Borrowings

Term Loan from Bank	10,000
Total	**10,000**

Note on Other Current Liabilities

Unclaimed dividends	6
Interest on Term Loan	1,110
Billing in Advance	294
Total	**1,410**

Q3 (Nov 19)

An entity has taken a loan facility from a bank that is to be repaid within a period of 9 months from the end of the reporting period. Prior to the end of the reporting period, the entity and the bank enter into an arrangement, whereby the existing outstanding loan will, unconditionally, roll in to the new facility which expires after a period of 5 years.

(a) *Should the loan be classified as current or non-current in the balance sheet of the entity?*

(b) *Will the answer be different if the new facility is agreed upon after the end of the reporting period?*

(c) *Will the answer to (a) be different if the existing facility is from one bank and the new facility is from another bank?*

(d) *Will the answer to (a) be different if the new facility is not yet tied up with the existing bank, but the entity has the potential to refinance the obligation?*

SOLUTION

Ind AS 1 defines current liabilities as follows:

An entity shall classify a liability as current when:

i) *it expects to settle the liability in its normal operating cycle;*

ii) *it holds the liability primarily for the purpose of trading;*

iii) *the liability is due to be settled within twelve months after the reporting period; or*

iv) *it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.*

An entity shall classify all other liabilities as non-current.

Accordingly, following will be the classification of loan in the given scenarios:

a) *The loan is not due for payment at the end of the reporting period. The entity and the bank have agreed for the said roll over prior to the end of the reporting period for a period of 5 years. Since the entity has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period, the loan should be classified as* ***non-current.***

b) *Yes, the answer will be different if the arrangement for roll over is agreed upon after the end of the reporting period because as per paragraph 72 of Ind AS 1, "an entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if: (a) the original term was for a period longer than twelve months, and (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue." As at the end of the reporting period, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Hence the loan is to be classified as* ***current.***

c) *Yes, loan facility arranged with new bank cannot be treated as refinancing, as the loan with the earlier bank would have to be settled which may coincide with loan facility arranged with a new bank. In this case, loan has to be repaid within a period of 9 months from the end of the reporting period, therefore, it will be classified as* ***current liability.***

d) *Yes, the answer will be different and the loan should be classified as current. This is because, as per paragraph 73 of Ind AS 1, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.*

Q4 (Nov 20) – Analysis of Financial Statements

Deepak started a new company Softbharti Pvt. Ltd. with Iktara Ltd. wherein investment of 55% is done by Iktara Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company formed was the subsidiary of Iktara Ltd. with two directors, and Deepak eventually becomes one of the directors of company. A consultant was hired and he charged Rs. 30,000 for the incorporation of company and to do other necessary statuary registrations. Rs. 30,000 is to be charged as an expense in the books after incorporation of company. The company, Softbharti Pvt. Ltd. was incorporated on 1st April 2019.

The financials of Iktara Ltd. are prepared as per Ind AS.

An accountant who was hired at the time of company's incorporation, has prepared the draft financials of Softbharti Pvt. Ltd. for the year ending 31st March, 2020 as follows:

Statement of Profit and Loss

Particulars	Amount (Rs.)
Revenue from operations	10,00,000
Other Income	1,00,000
Total Revenue (a)	**11,00,000**
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses (b)	**7,45,000**
Profit before tax (c) = (a)-(b)	3,55,000
Current tax	1,06,500
Deferred tax	6,000
Total tax expense (d)	1,12,500
Profit for the year (e) = (c) – (d)	**2,42,500**

Balance Sheet

Particulars	Amount (Rs.)
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	1,06,500
TOTAL	**5,21,000**
ASSETS	

(1) Non-Current Assets	
(a) Property, plant and equipment (net)	1,00,000
(b) Long-term Loans and Advances	40,000
(c) Other Non-Current Assets	50,000
(2) Current Assets	
(a) Current Investment	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	51,000
TOTAL	**5,21,000**

Additional information of Softbharti Pvt Ltd.:

- Deferred tax liability of Rs. 6,000 is created due to following temporary difference: Difference in depreciation amount as per Income tax and Accounting profit
- There is only one property, plant and equipment in the company, whose closing balance as at 31st March, 2020 is as follows:

Asset description	As per Books	As per Income tax
Property, plant and equipment	Rs. 1,00,000	Rs. 80,000

- Pre-incorporation expenses are deductible on straight line basis over the period of five years as per Income tax. However, the same are immediately expensed off in the books.
- Current tax is calculated at 30% on PBT - Rs. 3,55,000 without doing any adjustments related to Income tax. The correct current tax after doing necessary adjustments of allowances / disallowances related to Income tax comes to Rs. 1,25,700.
- After the reporting period, the directors have recommended dividend of Rs. 15,000 for the year ending 31st March, 2020 which has been deducted from reserves and surplus. Dividend payable of Rs. 15,000 has been grouped under 'other current liabilities' along with other financial liabilities.
- There are 'Government statuary dues' amounting to Rs. 15,000 which are grouped under 'other current liabilities'.
- The capital advances amounting to Rs. 50,000 are grouped under 'Other non-current assets'.
- Other current assets of Rs. 51,000 comprise Interest receivable from trade receivables.
- Current investment of Rs. 30,000 is in shares of a company which was done with the purpose of trading; current investment has been carried at cost in the financial statements. The fair value of current investment in this case is Rs. 50,000 as at 31st March, 2020.
- Actuarial gain on employee benefit measurements of Rs. 1,000 has been omitted in the financials of Softbharti private limited for the year ending 31st March, 2020.

The financial statements for financial year 2019-2020 have not been yet approved.

You are required to ascertain that whether the financial statements of Softbharti Pvt. Ltd. are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti Pvt. Ltd. after the careful analysis of mentioned facts and information.

Solution

If Ind AS is applicable to any company, then Ind AS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of

individual qualification of set of standards on such companies.

In the given case it has been mentioned that the financials of Iktara Ltd. are prepared as per Ind AS. Accordingly, the results of its subsidiary Softbharti Pvt. Ltd. should also have been prepared as per Ind AS. However, the financials of Softbharti Pvt. Ltd. Have been presented as per accounting standards (AS).

Hence, it is necessary to revise the financial statements of Softbharti Pvt. Ltd. as per Ind AS after the incorporation of necessary adjustments mentioned in the question.

The revised financial statements of Softbharti Pvt. Ltd. as per Ind AS and Division II to Schedule III of the Companies Act, 2013 are as follows:

STATEMENT OF PROFIT AND LOSS

for the year ended 31st March, 2020

Particulars	Amount (Rs.)
Revenue from operations	10,00,000
Other Income (1,00,000 + 20,000) (refer note -1)	1,20,000
Total Revenue	**11,20,000**
Expenses:	
Purchase of stock in trade	5,00,000
(Increase) / Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses	**7,45,000**
Profit before tax	**3,75,000**
Current tax	1,25,700
Deferred tax (W.N.1)	(1,200)
Total tax expense	1,24,500
Profit for the year (A)	**2,50,500**
OTHER COMPREHENSIVE INCOME	
Items that will not be reclassified to Profit or Loss: Remeasurements of net defined benefit plans	1,000
Tax liabilities relating to items that will not be reclassified to Profit or Loss Remeasurements of net defined benefit plans (tax) [1000 x 30%]	(300)
Other Comprehensive Income for the period (B)	**700**
Total Comprehensive Income for the period (A+B)	**2,51,200**

BALANCE SHEET

as at 31st March, 2020

Particulars	(Rs.)
ASSETS	
Non-current assets	
Property, plant and equipment	1,00,000
Financial assets	
Other financial assets (Long-term loans & advances)	40,000
Deferred tax asset (1200-300)	900
Other non-current assets (capital advances) (refer note-2)	50,000

Current assets	
Inventories	80,000
Financial assets	
Investments (30,000 + 20,000) (refer note -1)	50,000
Trade receivables	55,000
Cash and cash equivalents/Bank	1,15,000
Other financial assets (Interest receivable from trade receivables)	51,000
TOTAL ASSETS	**5,41,900**
EQUITY AND LIABILITIES	
Equity	
Equity share capital	1,00,000
Other equity	2,51,200
Non-current liabilities	
Provision (25,000 – 1,000)	24,000
Current liabilities	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (Refer note 5)	15,000
Other current liabilities (Govt. statuary dues) (Refer note 3)	15,000
Current tax liabilities	1,25,700
TOTAL EQUITY AND LIABILITIES	**5,41,900**

STATEMENT OF CHANGES IN EQUITY
For the year ended 31st March, 2020

A. EQUITY SHARE CAPITAL

	Balance (Rs.)
As at 31st March, 2019	-
Changes in equity share capital during the year	1,00,000
As at 31st March, 2020	1,00,000

B. OTHER EQUITY

	Reserves & Surplus
	Retained Earnings (Rs.)
As at 31st March, 2019	-
Profit for the year	2,50,500
Other comprehensive income for the year	700
Total comprehensive income for the year	2,51,200
Less: Dividend on equity shares (refer note – 4)	-
As at 31st March, 2020	2,51,200

DISCLOSURE FORMING PART OF FINANCIAL STATEMENTS:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance Sheet date. (refer note-4)

Notes:

1. *Current investments are held for the purpose of trading. Hence, it is a financial asset classified as FVTPL. Any gain in its fair value will be recognised through profit or loss. Hence, Rs. 20,000 (50,000 – 30,000) increase in fair value of financial asset will be recognised in profit and loss.*
2. *Assets for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.*
3. *Liabilities for which there is no contractual obligation to deliver cash or other financial asset to another entity, are not financial liabilities.*
4. *As per Ind AS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.*
5. *Other current financial liabilities:*

	(Rs.)
Balance of other current liabilities as per financial statements	45,000
Less: Dividend declared for FY 2019 - 2020 (Note – 4)	(15,000)
Reclassification of government statuary dues payable to 'other current liabilities'	(15,000)
Closing balance	**15,000**

Working Note:

Calculation of deferred tax on temporary differences as per Ind AS 12 for financial year 2019 – 2020:

Item	**Carrying amount (Rs.)**	**Tax base (Rs.)**	**Difference (Rs.)**	**DTA / DTL @ 30% (Rs.)**
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
			Net DTA	**1,200-DTA**

Q5 (May 21)

An entity has the following trial balance line items. How should these items be classified, i.e., current or non-current as per Ind AS 1?

(a) *Receivables (viz., receivable under a contract of sale of goods in which an entity deals)*

(b) *Advance to suppliers*

(c) *Income tax receivables [other than deferred tax]*

(d) *Insurance spares*

SOLUTION

(a) *As per paragraph 66(a) of Ind AS 1, an entity shall classify an asset as current when it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle.*

Paragraph 68 provides the guidance that current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period.

If the operating cycle exceeds twelve months, then additional disclosure as required by paragraph 61 of Ind

AS 1 is required to be given in the notes.

(b) As discussed in point (a) above, advances to suppliers for goods and services would be classified in accordance with normal operating cycle if it is given in relation to the goods or services in which the entity normally deals. If the advances are considered a part the normal operating cycle, it would be classified as a current asset. If the operating cycle exceeds twelve months, then additional disclosure as required by paragraph 61 of Ind AS 1 is required to be given in the notes.

(c) Classification of income tax receivables [other than deferred tax] will be driven by paragraph 66 (c) of Ind AS 1, i.e., based on the expectation of the entity to realise the asset. If the receivable is expected to be realised within twelve months after the reporting period, then it will be classified as current asset else non-current asset.

(d) Para 8 of Ind AS 16 states that items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

Accordingly, the insurance spares that are treated as an item of property, plant and equipment would normally be classified as non-current asset whereas insurance spares that are treated as inventory will be classified as current asset if the entity expects to consume it in its normal operating cycle.

Q6 (May 21)

HIM Limited having net worth of Rs.250 crores is required to adopt Ind AS from 1 April, 20X2 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

Rahul, the senior manager, of HIM Ltd. has identified following issues which need specific attention of CFO so that opening Ind AS balance sheet as on the date of transition can be prepared:

Issue 1: As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The carrying value of land as on the date of transition was Rs. 5,00,000. The land was acquired for a consideration of Rs. 5,00,000. However, the fair value of land as on the date of transition was Rs. 8,00,000.

Issue 2: Under Ind AS, the Company has designated mutual funds as investments at fair value through profit or loss. The value of mutual funds as per previous GAAP was Rs.4,00,000 (at cost). However, the fair value of mutual funds as on the date of transition was Rs.5,00,000.

Issue 3: Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is Rs. 1,80,000 as against the carrying amount of loan which at present equals Rs. 2,00,000.

Issue 4: The company has declared dividend of Rs. 30,000 for last financial year. On the date of transition, the declared dividend has already been deducted by the accountant from the company's 'Reserves & Surplus' and the dividend payable has been grouped under 'Provisions'. The dividend was only declared by board of directors at that time and it was not approved in the annual general meeting of shareholders. However,

subsequently when the meeting was held it was ratified by the shareholders.

Issue 5: The company had acquired intangible assets as trademarks amounting to Rs. 2,50,000. The company assumes to have indefinite life of these assets. The fair value of the intangible assets as on the date of transition was Rs. 3,00,000. However, the company wants to carry the intangible assets at Rs. 2,50,000 only.

Issue 6: After consideration of possible effects as per Ind AS, the deferred tax impact is computed as Rs. 25,000. This amount will further increase the portion of deferred tax liability. There is no requirement to carry out the separate calculation of deferred tax on account of Ind AS adjustment.

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding. Prepare Ind AS Impact Analysis Report (Extract) for HIM Limited for presentation to the management wherein you are required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue for preparation of transition date balance sheet. Also pass journal entry for each issue.

SOLUTION

1. Preliminary Impact Assessment on Transition to Transition to Ind AS in HIM Limited's Financial Statements

Issue 1: Fair value as deemed cost for property plant and equipment:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS 10, Property, Plant and Equipment is recognised at cost less depreciation	Ind AS 101 allows entity to elect to measure property, Plant an Equipment on the transition date at its fair value or previous GAAP carrying value (book value) as deemed cost.	The company has decided to adopt fair value as deemed cost in this case. Since fair value exceeds book value, so the book value should be brought up to fair value. The resulting impact of fair valuation of land Rs.3,00,000 should be adjusted in other equity

Journal Entry on the date of transition

Particulars	Debits (Rs.)	Credit (Rs.)
Property Plant and Equipment Dr.	3,00,000	
To Revaluation Surplus (OCI- Other Equity)		3,00,000

Issue 2: Fair valuation of Financial Assets

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on company's financial statements
As per Accounting Standard, investments are measured at lower of cost and fair value.	On transition, financial assets including investments measured at fair values except for investments in subsidiaries, associates and JVs' which are	All financial assets (other than in subsidiaries, associates and JVs' which are recorded at cost) are initially recognized at fair value. The subsequent measurement of such assets are based on its categorization either Fair Value through Profit & Loss (FVTOCI) or at business model assessment and contractual cash flow.

	recorded at cost.	Since investment in mutual fund are designated at FVTPL, increase of Rs.1,00,000 in mutual funds fair value would increase the value of investments with corresponding increase to Retained Earnings.

Journal Entry on the date of transition

Particulars	Debits (Rs.)	Credit (Rs.)
Investment in mutual funds Dr.	1,00,000	
To Retained earnings		1,00,000

Issue 3: Borrowings Processing fees/transaction cost:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on company's financial statements
As per AS, such expenditure is charged to Profit and Loss account or capitalized as the case may be.	As per IND AS, such expenditure is amortised over the period of the loan. Ind AS 101 states that if it is impracticable for an entity to apply retrospectively the effective interest method in Ind AS 109, the value of the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability.	Fair value as on the date of transition is Rs. 1,80,000 as against its book value of Rs. 2,00,000. Accordingly, the difference of Rs. 20,000 is adjusted through retained earnings.

Journal Entry on the date of transition

Particulars	Debits (Rs.)	Credit (Rs.)
Borrowing / Loan payable Dr.	20,000	
To Retained earning		20,000

Issue 4: Proposed dividend:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on company's financial statements
As per AS, provision for proposed dividend is made in the year when it has been declared and approved.	As per Ind AS, liability for proposed dividend is recognised in the year in which it has been declared and approved.	Since dividend should be deducted from retained earnings during and approved. Therefore, the provision declared for preceding year should be reserved (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment.

Journal Entry on the date of transition

Particulars	Debt (Rs.)	Credit (Rs.)
Provisions Dr.	30,000	
To Retained earnings		30,000

Issue 5: Intangible assets:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on company's financial statements
The useful life of an intangible asset cannot be indefinite under IGAAP principles. The Company amortised brand/ trademark on a straight-line basis over maximum of 10 years as per AS 26.	The useful life of an intangible asset like brand/trademark can be indefinite. Not required to be amortised to be amortised and only tested for impairment. Company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.	Consequently, there would be no impact as on the date of transition since company intends to use the carrying amount instead of book value at the date of transition.

Issue 6: Deferred tax

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on company's financial statements
As per AS, deferred taxes are accounted as per income statement approach	As per Ind AS, deferred taxes are accounted as per balance sheet approach.	On date of transition to Ind AS, deferred tax liability would be increased by Rs. 25,000.

Journal Entry on the date of transition

Particulars	Debt (Rs.)	Credit (Rs.)
Retained earnings Dr.	25,000	
To Deferred tax liability		25,000

Q7 (NOV 21)

Is offsetting permitted under the following circumstances?

(a) *Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary - whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?*

(b) *Whether profit on sale of an asset against loss on sale of another asset can be offset?*

When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?

SOLUTION

a) As per paragraph 33 of Ind AS 1, offsetting is permitted only when the offsetting reflects the substance of the transaction.

In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. If the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

b) Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising on disposal of various items of property,

plant and equipment shall be presented on net basis. However, gains or losses should be presented separately if they are material.

MTPs QUESTIONS

Q8 (Aug.18 Series) (Analysis of Financial Statements)

Following is the financial statements of Arish Ltd. prepared on the basis of Accounting Standards: (Note all figures are in INR million)

Balance Sheet

Particulars	Note	As at 31st March, 2018
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital (shares of Rs. 10 each)		1,000
Reserves and surplus	1	2,000
Non-current liabilities		
Long-term borrowings	2	5,555
Deferred tax liabilities	3	200
Current liabilities		
Trade payables		300
Short-term provisions		250
Other current liabilities	4	150
TOTAL		**9,455**
ASSETS		
Non - current assets		
Fixed Assets		5,655
Deferred Tax Assets	3	500
Current assets		
Inventories		1,000
Trade receivables	5	1,100
Cash and bank balances		1,200
TOTAL		**9,455**

Note 1: *The Company has achieved a major breakthrough in its consultancy services in Middle East following which it has entered into a contract of rendering services with Finland Inc for INR 6 billion during the year. The termination clause of the contract is equivalent to INR 7 Million and is payable in case transition time schedule is missed from 15th December 2022. The management however is of the view that the liability cannot be treated as onerous.*

Note 2: *The Company is not able to assess the final liability for a particular tax assessment pertaining to assessment year 2018-2019 wherein it has received a demand notice of INR 6 Million. However, the company is contesting the same with CIT (Appeals) as on the reporting date.*

Statement of Profit & Loss

Particulars	Note	Year ended March 31, 2018
Revenue from operations		**5,500**
Expenses:		
Employee Benefit Expense		1,200

Operating Costs		2,200
Depreciation		999
Total Expenses		**4,399**
Profit before tax		**1,101**
Tax Expense		(150)
Profit after tax		**951**

Notes to Accounts:

Note 1: Reserves and surplus **(INR in millions)**

Capital Reserve	500
Surplus from P & L	
Opening Balance 49	
Additions 951	1,000
Reserve for foreseeable loss	500
Total	**2,000**

Note 2: Long Term Borrowings

Term Loan from Bank	5,555
Total	**5,555**

Note 3: Deferred Tax

Deferred Tax Asset	500
Deferred Tax Liability	(200)
Total	**300**

Note 4: Other Current Liabilities

Unclaimed dividends	3
Billing in Advance	147
Total	**150**

Note 5: Trade Receivables

Considered good (outstanding within 6 months)	1,065
Considered doubtful (due from past 1 year)	40
Provision for doubtful debts	(5)
Total	**1,100**

Additional Information:

(a) Share capital comprises of 100 million shares of INR 10 each

(b) Term Loan from bank for INR 5555 million also includes interest accrued and due of INR 555 million as on the reporting date.

(c) Reserve for foreseeable loss is created against a service contract due within 6 months.

Required:

(i) Evaluate and report the errors and misstatements in the above extracts; and

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

SOLUTION

On evaluation of the financial statements, following was observed:

1. Reserve for foreseeable loss for INR 500 million, due within 6 months, should be a part of provisions. Hence it needs to be regrouped, and if it was a part of previous year's comparatives, a Note should be added in the notes to account on the regrouping done this year.
2. Interest accrued and due of INR 555 million on term loan will be a part of current liabilities since it is supposed to be paid within 12 months from the reporting date. Hence, it should be shown under the heading "Other Current Liabilities".
3. It can be inferred from Note 3, that the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws, hence these shall be set off, in accordance with AS 22. The net DTA of INR 300 million shall be shown in the balance sheet.
4. The notes to trade receivable is incorrectly presented. The recommended notes would be as below:

Trade receivables (Unsecured) consist of the following:	**INR in million**
a) Over six months from the date they were due for payment	
i. Considered good	0
ii. Considered doubtful	40
Less: Provision for doubtful debts	(5)
(A)	**35**
(b) Others	
i. Considered good	1,065
ii. Considered doubtful	0
Less: Provision for doubtful debts	0
(B)	**1,065**
Total	**1,100**

5. It is common to have a termination clause in service contracts and having a termination clause per se will not create a liability on the company. Para 14 to AS 29 states that a provision will be recognized when:
   (a) An enterprise has a present obligation as a result of a past event;
   (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
   (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognized.

In the above case, there is nothing to show that there is a present obligation, and hence there is no provision to be made.

As per para 27 of AS 29, a contingent liability is recognized only where the possibility of an outflow of resources embodying economic benefits is not remote. Since there is no onerous liability as of date, the possibility of an outflow being remote, no contingent liability arises. In fact, the management has wrongly worded 'onerous liability' in its notes to accounts. Onerous liability arises only if the unavoidable costs of

meeting the obligation under the contract should exceed the economic benefits expected to be received under it, which doesn't seem to be the case as far as Arish Ltd. is concerned. Hence, this note shall be eliminated.

6. The demand notice from the tax department that is under litigation is a clear instance of a 'contingent liability'. Accordingly, the note should be revised as –

   'Contingent Liability- Demand notice from income tax department pertaining to INR 6 Million, under contest with CIT (Appeals) as on the reporting date.

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

Revised extracts of the financial statements

Balance Sheet

(INR in Million)

	Note No.	As at 31st March, 2018
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital		1,000
Reserves and surplus	1	1,500
Non-current liabilities		
Long-term borrowings	2	5,000
Current liabilities		
Trade payables		300
Short-term provisions		750
Other current liabilities	4	705
TOTAL		**9,255**
ASSETS		
Non - current assets		
Fixed Assets		5,655
Deferred Tax Assets	3	300
Current assets		
Inventories		1,000
Trade receivables	5	1,100
Cash and Cash Equivalents		1,200
TOTAL		**9,255**

Statement of Profit and Loss

(INR in Million)

	Note No.	Year ended 31st March, 2018
Revenue from operations		**5,500**
Expenses		
Operating Costs		2,200
Employee Benefit Expense		1,200
Depreciation		999
Total Expenses		**4,399**
Profit Before Tax		**1,101**

Tax Expense		150
Profit for the period		**951**
Earnings Per Equity Share		
Basic		9.51
Diluted		9.51
Number of equity shares (face value of Rs. 10 each)		100 million

Revised Notes (wherever applicable

Note on Reserves and Surplus **(INR in Million)**

Capital Reserve		500
Surplus from P & L		
Opening Balance	49	
Additions	951	1,000
Total		**1,500**

Note on Long Term Borrowings

Term Loan from Bank	5,000
Total	**5,000**

Note on Other Current Liabilities

Unclaimed dividend	3
Interest on Term Loan	555
Billing in Advance	147
Total	**705**

QUESTIONS FROM PAST EXAM PAPERS

Q9 (May 19 – 4 Marks)

Mike Ltd. has undertaken following various transactions in the financial year ended 31.03.2018:

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

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

SOLUTION

Items impacting the Statement of Profit and Loss for the year ended 31st March, 2018

(Rs.)

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

Items impacting the Other Comprehensive Income for the year ended 31st March, 2018

(Rs.)

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

Q10 (Nov 19 – 12Marks) (Analysis of Fin. Statements)

Following are the Financial Statements of Abraham Ltd.:

Balance Sheet

Particulars	Note No.	As at 31st March, 2019 (Rs in lakh)
EQUITY AND LIABILITIES:		
Shareholders' funds		
Share capital (shares of Rs 10 each)		1,000
Reserves and surplus	1	2,400
Non-current liabilities		
Long term borrowings	2	5,700
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		300
Short-term provisions		300
Other current liabilities	4	200
Total		**10,300**
ASSETS		
Non-current assets		
Fixed assets		5,000
Deferred tax assets	3	700
Current assets		
Inventories		1,500
Trade receivables	5	1,100
Cash and bank balances		2,000
Total		**10,300**

Statement of Profit & Loss

Particular	Note No.	Year ended 31st March, 2019 (Rs in lakh)
Revenue from operations		**6,000**
Expenses:		
Employee benefit expense		1,200
Operating costs		3,199
Depreciation		450
Total expenses		**4,849**
Profit before tax		**1,151**
Tax expense		201
Profit after tax		**950**

Notes to Accounts:

Note 1: Reserves and surplus (Rs in lakh)

Capital reserve		500
Surplus from P & L		
Opening balance	550	
Additions	950	1,500
Reserve for foreseeable loss		400
Total		**2,400**

Note 2: Long-term borrowings

Term loan from bank	5,700
Total	**5,700**

Note 3: Deferred tax

Deferred tax asset	700
Deferred tax liability	400
Total	**300**

Note 4: Other current liabilities

Unclaimed dividends	10
Billing in advance	150
Other current liabilities	40
Total	**200**

Note 5: Trade Receivables

Considered good (outstanding within 6 months)	1,065
Considered doubtful (due from past 1 year)	40
Provision for doubtful debts	(5)
Total	**1,100**

Additional information:

(i) Share capital comprises of 100 lakh shares of Rs 10 each.

(ii) Term Loan from bank for Rs 5,700 lakh also includes interest accrued and due of Rs 700 lakh as on the reporting date.

(iii) Reserve for foreseeable loss is created against a service contract due within 6 months.

(iv) Inventory should be valued at cost Rs 1,500 lakh, NRV as on date is Rs 1,200 lakh.

(v) A dividend of 10 % was declared by the Board of directors of the company.

(vi) Accrued Interest income of Rs 300 lakh is not booked in the books of the company.

(vii) Deferred taxes related to taxes on income are levied by the same governing tax laws.

Identify and report the errors and misstatements in the above extracts and prepare corrected Balance Sheet and Statement of Profit & Loss and where required the relevant notes to the accounts with explanations thereof.

Solution

Following adjustments / rectifications are required to be done

1. Reserve for foreseeable loss for Rs 400 lakh, due within 6 months, should be a part of provisions. Hence it needs to be regrouped. If it was also part of previous year's comparatives, a note should be added in the notes to account on the regrouping done this year.
2. Interest accrued and due of Rs 700 lakh on term loan will be a part of current liabilities. Thus, it should be shown under the heading "Other Current Liabilities".
3. As per Ind AS 2, inventories are measured at the lower of cost and net real is able value. The amount of any write down of inventories to net realizable value is recognized as an expense in the period the write-down occurs. Hence, the inventories should be valued at Rs 1,200 lakh and write down of Rs 300 lakh (Rs 1,500 lakh – Rs 1,200 lakh) will be added to the operating cost of the entity.
4. In the absence of the declaration date of dividend in the question, it is presumed that the dividend is declared after the reporting date. Hence, no adjustment for the same is made in the financial year 2018-2019. However, a note will be given separately in this regard (not forming part of item of financial statements).
5. Accrued income will be shown in the Statement of Profit and Loss as 'Other Income' and as 'Other Current Asset' in the Balance Sheet.
6. Since the deferred tax liabilities and deferred tax assets relate to taxes on income levied by the same governing taxation laws, these shall be set off, in accordance with Ind AS 12. The net DTA of Rs 300 lakh will be shown in the balance sheet.
7. As per Division II of Schedule III to the Companies Act, 2013, the Statement of Profit and Loss should present the Earnings per Equity Share.
8. In Ind AS, Assets are not presented in the Balance sheet as 'Fixed Asset'; rather they are classified under various categories of Non-current assets. Here, it is assumed as 'Property, Plant and Equipment'.
9. The presentation of the notes to 'Trade Receivables' will be modified as per the requirements of Division II of Schedule III.

Balance Sheet of Abraham Ltd. For the year ended 31st March, 2019

	Note No.	(Rs in lakh)
ASSETS		
Non-current assets		
Property, plant and equipment		5,000
Deferred tax assets	1	300
Current assets		
Inventories		1,200
Financial assets		
Trade receivables	2	1,100
Cash and cash equivalents		2,000
Others financial asset (accrued interest)		300

TOTAL		9,900
EQUITY AND LIABILITIES		
Equity		
Equity share capital	3	1,000
Other equity	4	2,000
Non-current liabilities		
Financial liabilities		
Long-term borrowings	5	5,000
Current liabilities		
Financial liabilities		
Trade payables		300
Others	6	710
Short-term provisions (300 + 400)	7	700
Other current liabilities	8	190
TOTAL		9,900

Statement of Profit and Loss of Abraham Ltd.

For the year ended 31st March, 2019

	Note No.	(Rs in lakh)
Revenue from operations		**6,000**
Other income		300
Total income		6,300
Expenses		
Operating costs		3,199
Change in inventories cost	9	300
Employee benefits expense		1,200
Depreciation		450
Total expenses		**5,149**
Profit before tax		**1,151**
Tax expense		(201)
Profit for the period		**950**
Earnings per equity share		
Basic		9.5
Diluted		9.5
Number of equity shares (face value of Rs 10 each)		100 lakh

Statement of Changes in Equity of Abraham Ltd.

For the year ended 31st March, 2019

3. Equity Share Capital Rs in lakh)

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
1,000	0	1,000

4. Other Equity (Rs in lakh)

Particulars	Reserves & Surplus		Total
	Capital reserve	Retained Earnings	
Balance at the beginning of the year	500*	550	1,050
Total comprehensive income for the year		950	950
Balance at the end of the year	**500**	**1,500**	**2,000**

***Note:** Capital reserve given in the Note 1 of the question is assumed to be brought forward from the previous year. However, alternatively, if it may be assumed as created during the year.

1. Deferred Tax (Rs in lakh)

Deferred Tax Asset	700
Deferred Tax Liability	400
	300

2. Trade Receivables (Rs in lakh)

Trade receivables considered good		1,065
Trade receivables which have significant increase in credit risk	40	
Less: Provision for doubtful debts	(5)	35
Total		**1,100**

5. Long Term Borrowings (Rs in lakh)

Term Loan from Bank (5,700 - 700)	5,000
Total	**5,000**

6. Other Financial Liabilities (Rs in lakh)

Unclaimed dividends	10
Interest on term loan	700
Total	**710**

7. Short-term provisions (Rs in lakh)

Provisions	300
Foreseeable loss against a service contract	400
Total	**700**

8. Other Current Liabilities (Rs in lakh)

Billing in Advance	150
Other	40
Total	**190**

9. Dividends not recognised at the end of the reporting period

At year end, the directors have recommended the payment of dividend of 10% i.e., Rs 1 per equity share. This proposed dividend is subject to the approval of shareholders in the ensuing annual general meeting.

Q11 (Jan 21 – 5 Marks)

Entity A had obtained a long-term bank loan during January 2019, which is subject to certain financial covenants. One of such covenant states that during the tenure of the loan, debt equity ratio of 65:35 is to be maintained at all time. In case of breach of this covenant, the loan will be repayable immediately. The loan agreement also states that these covenants will be assessed at the end of each quarter and reported to the bank within a month from the end of each quarter. If the covenants are breached at this time, the loan will be repayable immediately. The entity closes its annual accounts as on 31st March every year.

You are required to show how the loan will be classified as on 31st March 2020, if:

(i) *At the financial year end, Entity A determines that it is not in breach of any of the covenants;*

(ii) *At the quarter ending 31st December 2019, Entity A's debt equity ratio became 75:25 and thus breaches the covenant, however it obtains a waiver from the bank. The terms of the waiver specify that if Entity A rectifies the breach within a period of 12 months from the reporting date then the bank cannot demand repayment immediately on account of the breach during this period. Entity A expects to rectify the breach by raising additional equity capital by means of a rights issue to the existing shareholders and expects that the issue will be fully subscribed;*

Considering the same facts as in (ii) above, except obtaining the waiver clause, what would be your answer?

Solution

Para 74 of Ind AS 1 'Presentation of Financial Statements', states that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

However, an entity classifies the liability as non-current, if the lender agreed by the end of the reporting period to provide 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.

(i) *The entity has obtained a long-term loan during January, 2019. Since repayment period of the loan is not mentioned in the question, it is assumed that on 31st March, 2020, the repayment period of the loans in more than 12 months. Further, the entity has not breached the covenants specified in the loan; therefore, as at 31stMarch, 2020, the loan will be classified as 'non-current liability.*

(ii) *In the second case though, there is a breach of covenant on 31st December, 2019 i.e. before reporting date of 31st March, 2020, yet the bank agreed to provide a period of grace for twelve months from the reporting period, within which the entity. A can rectify the breach and during this period bank cannot demand immediate repayments. Also, entity A has intention to rectify the breach. Thus, entity A will classify the liability of bank loan as non-current liability in its books as at 31stMarch, 2020.*

(iii) *(b) Para 74 of Ind AS 1 'Presentation of Financial Statements', states that where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.*

NEWLY ADDED QUESTIONS BY ICAI IN MAY 22 MODULE

Q12 (ICAI MODULE)

Is offsetting permitted under the following circumstances?

(a) *Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary - whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?*

(b) *Whether profit on sale of an asset against loss on sale of another asset can be offset?*

(c) *When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?*

SOLUTION

a) *As per paragraph 33 of Ind AS 1, offsetting is permitted only when the offsetting reflects the substance of the transaction.*

In this case, the agreement/arrangement, if any, between the holding and subsidiary company needs to be considered. If the arrangement is to reimburse the cost incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

b) *Paragraph 35 of Ind AS 1 requires an entity to present on a net basis gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising on disposal of various items of property, plant and equipment shall be presented on net basis. However, gains or losses should be presented separately if they are material.*

c) *Ind AS 1 prescribes that assets and liabilities, and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per paragraph 42 of Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously.*

In accordance with the above, the receivable and payable should be offset against each other and net amount is presented in the balance sheet if the entity has a legal right to set off and the entity intends to do so. Otherwise, the receivable and payable should be reported separately.