PAPER –1: FINANCIAL REPORTING PART – I

Amendments applicable from November, 2022 examination

Companies (Indian Accounting Standards) (Amendment) Rules, 2022

MCA has issued Companies (Indian Accounting Standards) (Amendment) Rules, 2022 to amend Companies (Indian Accounting Standards) Rules, 2015 vide notification G.S.R. 255(E) dated 23rd March, 2022. These amendments are generally brought by MCA to keep uniformity between Ind AS and IFRS. However, this time MCA has come out with a carve out in Ind AS 16. These amendments come into effect from 1st April, 2022 and is applicable for the financial year 2022-2023 onwards for the financial statements prepared on the basis of Ind AS. Following are the areas in which the amendments have been brought in by the MCA through this notification:

- *Amendment to Ind AS 16 'Property, Plant and Equipment' on accounting of proceeds from selling of items produced during testing and carve out in this regard from IAS 16 .*
- *Amendment to Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' on determination of cost of fulfilling a contract for measurement of provision for an onerous contract.*
- *Amendments to Ind AS 103 'Business Combinations' with reference to Conceptual Framework for Financial Reporting and insertion of certain paragraphs under exceptions to recognition principle on liabilities, contingent liabilities and contingent assets*
- *Annual improvements to Ind AS (2021) in Ind AS 101 'First Time Adoption of Indian Accounting Standards', Ind AS 109 'Financial Instruments' and Ind AS 41 'Agriculture'.*

The key amendments to Ind AS pursuant to the Companies (Indian Accounting Standards) (Amendments) Rules, 2022 are explained below:

Ind AS	Significant amendment made in 2022
Ind AS 16, 'Property, Plant and Equipment'	Para 17(e) of Ind AS 16 has been amended by adding a clarification that the excess of net proceeds from sale of items produced during testing will not be credited to Profit or loss i.e. it will be deducted from the cost of an item of property, plant and equipment.

Ind AS	Significant amendment made in 2022
	However, amendment made in IAS 16 by IASB prohibited deduction of proceeds of items produced during testing from cost of an item of property, plant and equipment. This differential treatment in IAS 16 and Ind AS 16 has led to a carve out, which will have consequential impact on depreciation, impairment and deferred tax.

Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets'	Paragraph 68A has been inserted which clarifies which cost needs to be considered in the costs to fulfil a contract while determining whether the contract as onerous. As per the amendment made in 2022, both the incremental costs to fulfil a contract and allocation of directly attributable costs will form part of the cost used for determination of onerous contract. Para 69 has been amended by replacing 'assets dedicated to the contract' to 'assets used in fulfilling the contract'. This amendment requires to take into consideration the impairment loss on all the assets whose cost will be considered in assessing the contract as onerous. These amendments are prospective from 1st April, 2022 with cumulative effect recognised in the opening balance of retained earnings or other component of equity, as appropriate on 1st April, 2022. Comparative period financials not to be restated.
Ind AS 103 'Business Combinations'	In March, 2018, IASB revised Conceptual Framework for Financial Reporting. Accordingly, ICAI in August, 2020 came out with the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) under Ind AS. The amendments made in Ind AS 103 is due to change in reference to Conceptual Framework without change in the accounting requirements for business combinations. Due to revision in the Conceptual Framework, there were certain accounting implications to contingent liabilities and levies within the scope of Ind AS 37 and Appendix C 'Levies'. As per it, the assets and liabilities in a business combination are recognised if they meet the definition of an asset or liability as per

Ind AS	**Significant amendment made in 2022**
	the Conceptual Framework. The timing of recognition of a levy may sometimes be different due to specific guidance given in Appendix C. Therefore, while recognizing levies at the acquisition date, an acquirer might recognise at the acquisition date a liability to pay a levy that it would not recognise subsequently when applying Appendix C 'Levies'. This difference would arise because an entity might recognise a liability earlier by applying the Conceptual Framework. This liability would be derecognized immediately afterwards when principles of Appendix C are applied, and the entity would recognise a so-called Day 2 gain. Therefore, to resolve this implication, Ind AS 103 has been amended with regards to recognition exception for contingent liabilities and levies by inserting para 21A to 21C. An exception has been added to the requirements of para 11 of Ind AS 103 for liabilities and contingent liabilities that would be within the scope of Ind AS 37 or Appendix C if incurred separately, rather than assumed in a business combination. Further, Ind AS 103 prohibited the recognition of contingent assets even prior to the 2022 amendments. However, prohibition was not stated explicitly in Ind AS 103 itself. Therefore, para 23A has been inserted in Ind AS 103 to explicitly prohibit recognition of contingent asset.
Ind AS 101 'First time adoption of	Para D13 of Ind AS 101 provides an exemption to a first -time adopter of Ind AS with regard to cumulative translation differences on the date of

Indian Accounting Standards'	transition to Ind AS. According to it, first time adopter of Ind AS are permitted to deem all cumulative translation differences for all foreign operations to be zero on the date of transition to Ind AS. Para D13A has been inserted in Ind AS 101 which removes the conflict between the requirements of paragraph D16(a) of Ind AS 101 which provides exemption where a subsidiary adopts Ind AS later than its parents and the exemptions on cumulative translation differences at the carrying amount included in the parent's consolidated financial statements. Similar exemption is available to joint venture and an associate that uses the exemption in para D16(a) of Ind AS 101. Para D16(a) of

Ind AS	**Significant amendment made in 2022**
	Ind AS 101 provides that a subsidiary can measure its assets and liabilities at the carrying amounts in parent's consolidated financial statements.
Ind AS 109 'Financial Instruments'	As per Ind AS 109, a financial liability is derecognised when it is extinguished, which includes exchange between an existing borrower and lender due to different or substantial modification in terms of the contract. Further, Ind AS 109 clarified that terms are considered to have been substantially modified when the net present value of the cash flows under the new terms (including any fees paid net of any fees received) and discounted using the original EIR differs by atleast 10% from the present value of the remaining cash flows under the original terms. Earlier what is to be included in the fees paid and fees received was not mentioned in the standard. Now the amendment has been made in 2022 by substituting para B3.3.6 and inserting para B3.3.6A in Ind AS 109 which clarify that the fees paid (for the above purpose) includes amount paid by the borrower to or on behalf of the lender and fees received includes fees amounts paid by the lender to or on behalf of the borrower. The above amendment will be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.
Ind AS 41 'Agriculture'	Earlier para 22 of Ind AS 41 prescribed certain cash flows that would not be considered for the purpose of assessing the fair values. Out of those cash flows, the amendment made in 2022 deleted the cash flows for taxation from the exclusion list for measurement of fair value. This implies that tax cash flows must be included in the fair value measurement of biological assets as per Ind AS 41.

PART – II QUESTIONS

Ind AS 101, Ind AS 102 and Ind AS 8

Question 1

On 1st April 20X1, Nuogen Ltd. had granted 1,20,000 share options to its employees with the vesting condition being a service condition as follows:

- Vesting date : 31st March 20X2 - 80,000 share options (1-year vesting period since grant date)
- Vesting date : 31st March 20X5 - 40,000 share options (4-year vesting period since grant date)

Each option can be converted into one equity share of Nuogen Ltd. The fair value of the options on grant date, i.e., on 1st April 20X1 was Rs. 20.

Nuogen Ltd. is required to prepare financial statements in Ind AS for the financial year ending 31st March 20X4. The transition date for Ind AS being 1st April 20X2.

The entity has disclosed publicly the fair value of both these equity instruments as determined at the measurement date, as defined in Ind AS 102.

The previous applicable GAAP for the entity was IGAAP (AS) and therein, the entity had not adopted intrinsic method of valuation.

The share options have not been yet exercised by the employees of Nuogen Ltd.

How the share based payment should be reflected in, the books of Nuogen Ltd. as on 31st March 20X4, assuming that the entity has erred by not passing any entry for the aforementioned transactions in the books of Nuogen Ltd. on grant date, i.e. 1st April 20X1?

Ind AS 116

Question 2

A company manufactures specialised machinery. The company offers customers the choice of either buying or leasing the machinery. A customer chooses to lease the machinery. Details of the arrangement are as follows:

(i) The lease commences on 1st April, 20X1 and lasts for three years.

(ii) The lessee is required to make three annual rentals payable in arrears of Rs. 57,500.

(iii) The leased machinery is returned to the lessor at the end of the lease.

(iv) The fair value of the machinery is Rs. 1,50,000, which is equivalent to the selling price of the machinery

(v) The machinery cost Rs. 1,00,000 to manufacture. The lessor incurred costs of Rs. 2,500 to negotiate and arrange the lease.

(vi) The expected useful life of the machinery is 3 years. The machinery has an expected residual value of Rs. 10,000 at the end of year three. The estimated residual value does not change over the term of the lease.

(vii) The interest rate implicit in the lease is 10.19%. The lessor classifies the lease as a finance lease.

How should the Lessor account for the same in its books of accounts? Pass necessary journal entries.

Ind AS 20

Question 3

To encourage entities to expand their operations in a specified development zone, the government provides interest-free loans to fund the purchase of manufacturing equipment.

In accordance with the development scheme, an entity receives an interest -free loan of Rs. 5,00,000 from the government for a period of three years. The market rate of interest for similar loans for 3 years is 5% per year.

There are no future performance conditions attached to the interest -free loan.

Discuss how to account for the above loan. Pass necessary journal entries in the entity's books of accounts from year 1 to year 3, as per relevant Ind AS.

Ind AS 1

Question 4

As per the statutory requirements, exceptional items are required to be disclosed whereas Ind AS 1 requires separate disclosures of material items and how these are to be presented in the financial statements. Does that imply that 'exceptional' means 'material'? Give examples. How should these be presented in the financial statements?

Ind AS 12

Question 5

Following is the summarized statement of profit and loss of EARTH Limited as per Ind AS for the year ended 31st March 20X1:

Particulars	Rs. in Crore
Revenue from operations	1,160.00
Other income	56.00
Total Income (A)	1,216.00
Purchase of stock-in-trade	40.00
Changes in inventories of stock-in-trade	6.00
Employee benefits expense	116.00
Finance costs	130.00
Depreciation and amortization expense	30.00
Other expenses	300.00
Total Expenses (B)	622.00
Profit Before Tax (A-B)	594.00
Current tax	165.40
Deferred tax	1.50
Tax Expenses	166.90
Profit after Tax	427.10

Additional information:

- Corporate income tax rate applicable to EARTH Limited is 30%.
- Other income includes long-term capital gains of Rs. 10 crore which are taxable at the rate of 10%.
- Other expenses include the following items which are not deductible for income tax purposes:

Item	Rs. in Crore
Penalties	1.00
Impairment of goodwill	44.00
Corporate Social Responsibility expense	6.00

- Other expenses include research and development (R & D) expenditure of Rs. 8 crore in respect of which a 200% weighted deduction is available under income tax laws.
- Other income includes dividends of Rs. 4 crore, which is exempt from tax.
- Profit before tax of Rs. 594 crore includes (i) agriculture income of Rs. 55 crore which is exempt from tax; and (ii) profit of Rs. 60 crore earned in the USA on which EARTH Limited is required to pay tax at the rate of 20%.
- Depreciation as per income tax laws is Rs. 25.0 crore.

During review of the financial statements of EARTH Limited, the CFO multiplied profit before tax by the income tax rate and arrived at Rs. 178.2 crore as the tax expense (Rs. 594 crore x 30% = Rs. 178.2 crore). However, actual income tax expense appearing in the summarized statement of profit and loss is Rs. 166.9 crore.

The CFO has sought your help in reconciling the difference between the two tax expense amounts. Prepare a reconciliation containing the disclosure as required under the relevant Ind AS.

Ind AS 34

Question 6

PQR Ltd. is preparing its interim financial statements for quarter 3 of the year. How the following transactions and events should be dealt with while preparing its interim financials:

(i) It makes employer contributions to government-sponsored insurance funds that are assessed on an annual basis. During Quarter 1 and Quarter 2 larger amount of payments for this contribution were made, while during the Quarter 3 minor payments were made (since contribution is made upto a certain maximum level of earnings per employee and hence for higher income employees, the maximum income reaches before year end).

(ii) The entity intends to incur major repair and renovation expense for the office building. For this purpose, it has started seeking quotations from vendors. It also has tentatively identified a vendor and expected costs that will be incurred for this work.

(iii) The company has a practice of declaring bonus of 10% of its annual operating profits every year. It has a history of doing so.

Ind AS 41

Question 7

ABC Ltd. is in the business of manufacturing an apple beverage and requires large quantity of apples to manufacture such beverage. In order to satisfy its requirement of apples, it enters into 3 years lease contracts with owners of apple orchards. The lease contracts are mainly of two types:

(1) Contract 1: The owner of the apple orchard (i.e. the lessor) raises the apple trees to produce apples. ABC Ltd. (i.e. lessee) makes a fixed annual payment to the owner of the apple orchard who is required to cultivate the produce as per the specifications of ABC Ltd. ABC Ltd. harvests the apples itself for fulfilling its requirement of apples.

(2) Contract 2: ABC Ltd. obtains the apple orchard from owner (i.e. the lessor) to raise the apple trees for subsequent harvest of the apples to ensure that the apples are as per the requirements of ABC Ltd. ABC Ltd. makes a fixed annual payment to the owner of the apple orchards (i.e. the lessor).

Explain whether ABC Ltd. is engaged in agricultural activity as per Ind AS 41 in both of the cases?

Ind AS 23

Question 8

Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be operational as soon as they are completed.

Following is the detail of the work done on different phases of the building during the current year:

(Rs. in lakh)

	Phase I	Phase II	Phase III	Phase IV
	Rs.	Rs.	Rs.	Rs.
Cash expenditure	10	30	25	30
Building purchased	24	34	30	38
Total expenditure	34	64	55	68
Total expenditure of all phases				221
Loan taken @ 15% at the beginning of the year				200

After taking substantial period of construction, at the mid of the current year, Phase I and Phase II have become operational. Find out the total amount to be capitalized and to be expensed during the year.

Ind AS 103

Question 9

How should contingent consideration payable in relation to a business combination be accounted for on initial recognition and at the subsequent measurement in the following cases:

(a) *On 1st April 20X1, A Ltd. acquires 100% interest in B Ltd. As per the terms of agreement the purchase consideration is payable in the following 2 tranches:*

- *an immediate issuance of 10 lakhs shares of A Ltd. having face value of Rs. 10 per share;*
- *a further issuance of 2 lakhs shares after one year if the profit before interest and tax of B Ltd. for the first year following acquisition exceeds Rs. 1 crore.*

The fair value of the shares of A Ltd. on the date of acquisition is Rs. 20 per share. Further, the management has estimated that on the date of acquisition, the fair value of contingent consideration is Rs. 25 lakhs.

During the year ended 31st March, 20X2, the profit before interest and tax of B Ltd. exceeded Rs. 1 crore. As on 31st March, 20X2, the fair value of shares of A Ltd. Is Rs. 25 per share.

(b) *Continuing with the fact pattern in (a) above except for:*

- *The number of shares to be issued after one year is not fixed.*
- *Rather, A Ltd. agreed to issue variable number of shares having a fair value equal to Rs. 40 lakhs after one year, if the profit before interest and tax for the first year following acquisition exceeds Rs. 1 crore.*

Ind AS 102

Question 10

The following particulars in respect of stock options granted by a company are available:

No. of Employees covered	400	Nominal Value per share	Rs. 100
No. of options per Employee	60	Exercise price per share	Rs. 125

Shares offered were put in three groups. Group I was for 20% of shares offered with vesting period one-year. Group II was for 40% of shares offered with vesting period two- years. Group III was for 40% of shares offered with vesting period three-years. Fair value of option per share on grant date was Rs. 10 for Group I, Rs. 12.50 for Group II and Rs. 14 for Group III.

Position on Ist Year	Position on 2nd Year	Position on 3rd Year
- No. of employees left = 40 - Estimate of employees to leave in Year 2 = 36 - Estimate of employees to leave in Year 3 = 34 - Employees exercising Options in Group I = 350	- Employees left = 35 - Estimate of employees to leave in Year 3 = 30 - Employees exercising Options in Group II = 319	- Employees left = 28 - Employees exercising Options in Group III = 295

Options not exercised immediately on vesting, were forfeited. Compute expenses to recognise in each year and show important accounts in the books of the company.

Ind AS 7

Question 11

What will be the classification for following items in the statement of cash flows of both

(i) Banks / Financial institutions and (ii) Other Entities?

S. No.	Particulars
1.	Interest received on loans and advances given
2.	Interest paid on deposits and other borrowings
3.	Interest and dividend received on investments in subsidiaries, associates and in other entities
4.	Dividend paid on preference and equity shares, including tax on dividend paid on preference and equity shares by other entities
5.	Finance charges paid by lessee under finance lease
6.	Payment towards reduction of outstanding finance lease liability
7.	Interest paid to vendor for acquiring fixed asset under deferred payment basis
8.	Principal sum payment under deferred payment basis for acquisition of fixed assets
9	Penal interest received from customers for late payments
10.	Penal interest paid to suppliers for late payments
11.	Interest paid on delayed tax payments
12.	Interest received on tax refunds

Ind AS 38

Question 12

An entity has an intangible asset in the form of a product protected by patented technology which is expected to be a source of net cash inflows for at least 15 years. It has been recognised in the books on initial date at Rs. 12,00,000. The entity has a commitment from a third party to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and the entity intends to sell the patent in five years. Company is amortising the asset in 15 years considering its residual value to be Zero. Annual amortization charged to Profit and Loss is Rs. 80,000. State, whether the accounting treatment done by the Company is in accordance with Ind AS 38? If not, then calculate the annual amortization of the intangible asset and also the amount at which it will be reflected in the balance sheet.

Ind AS 115

Question 13

A Ltd. owns 20 resorts across India. Every customer who stays in any of the resorts owned by A Ltd. is entitled to get points on the basis of total amount paid by him. Under this scheme, 1 point is granted for every Rs. 100 spent for stay in the resort. As per the past experience of A Ltd., the likelihood of exercise of the points is 100% and the standalone price of each such point is Rs. 5. Customer X spends Rs. 10,000 in one of the resorts of A Ltd. What is the accounting treatment for the points granted by A Ltd.?

Ind AS 105

Question 14

Company A has financial year ending 31st March, 20X0. On 1st June, 20X0, the Company has classified its Division B as held for sale in accordance with Ind AS 105. How property, plant and equipment (PPE) for which the company has adopted cost model shall be measured immediately before the classification as held for sale on 1st June, 20X0?

Ind AS 37

Question 15

HVCL manufactures heavy equipment for construction industry. An order for supply of 90 equipment was received from ABIL. The unit price of the equipment was agreed at Rs. 190 lakhs each. 64 equipment was supplied during the year 20X1-20X2 and balance quantity remaining to be supplied as on 31.3.20X2. HVCL has 5 equipment in its inventory as on 31.3.20X2. HVCL considered that the contract was an onerous contract and therefore, the net realisable value of inventory has been taken as value of inventory as on 31.3.20X2.

The management of HVCL contends that costs incurred towards administrative overheads, finance charges, R & D expenses, sales overhead, head quarter expenditure etc., are considered as period cost and hence not considered for creation of provision. Hence, the same have not been included in the computation of unavoidable cost.

The management of HVCL has submitted the details of costs that have been considered for creation of provision towards onerous contract:

- *Material cost - includes cost of material procured, cost of freight & insurance incurred for material* procurement and handling, loading and unloading charges incurred.

- Labour cost/ Factory Overheads - includes salaries and other expenses of direct production department, and also expenses allocated from indirect departments to direct department.
- Material Overheads - Includes salaries and other expenses (including expenses allocated from other departments) booked under departments linked with materials like purchases, stores and quality control.

Accordingly, provision has been made considering the above costs only. The value of provision created for 21 remaining equipment to be produced is as per the working shown below:

Particulars	Value (Rs. in lakh)
(i) Cost of production (which includes material cost, labour cost/factory overhead and material overhead)	199.00
(ii) Selling price	(190.00)
(iii) Differential cost per equipment	9.00
(iv) Differential cost of Rs. 9 Lakh per equipment for 21 equipment	189.00

Whether the company's accounting treatment of cost for creation of provision towards onerous contracts is in line with the provisions of Ind AS 37?

Ind AS 2 and Ind AS 16

Question 16

(i) A retailer company imported goods at a cost of Rs. 1,30,000 including Rs. 20,000 non-refundable import duties and Rs. 10,000 refundable purchase taxes. The risks and rewards of ownership of the imported goods were transferred to the retailer company upon collection of the goods from the harbour warehouse. The retailer company was required to pay for the goods upon collection. The retailer company incurred Rs. 5,000 to transport the goods to its retail outlet and a further Rs. 2,000 in delivering the goods to its customer. Further selling costs of Rs. 3,000 were incurred in selling the goods.

State whether delivery charges and selling expenses will form part of the cost of inventory. If not, then why? Also calculate the cost of inventory.

(ii) Company A incurred Rs. 20,000 as cost for restoring the site on which the item of PPE was located. This item was used for manufacturing of goods and the requirement for restoring will arise due to manufacturing of goods.

What will the treatment of this Rs. 20,000 in the books of Company A? Analyse on the basis of the provisions of relevant Ind AS.

Ind AS 33

Question 17

Company S is a subsidiary of Company P. Following facts are in respect of Company S:

- Company S has 10,000 ordinary shares and 1,000 options outstanding, of which Company P owns 9,000 shares and 500 options, respectively.
- The options have an exercise price of Rs. 40.
- The average market price of Company S's ordinary share was Rs. 50 in 20X1.

- *In 20X1, Company S's profit was Rs. 30,000.*

Following facts are in respect of Company P:

- *Company P has 5,000 ordinary shares outstanding.*
- *In 20X1, Company P's profit (excluding any distributed and undistributed earnings of subsidiaries) was Rs. 7,000.*
- *The options outstanding are dilutive at P's level.*

Determine the diluted EPS of Company P for the year 20X1. Ignore income tax.

Ind AS 32 and Ind AS 109

Question 18

On 1st April, 20X1 an entity granted an interest-free loan of Rs. 5,00,000 to an employee for a period of three years. The market rate of interest for similar loans is 5% per year.

On 31st March, 20X3, because of financial difficulties, the employee asked to extend the interest-free loan for further three years. The entity agreed. Under the restructured terms, repayment will take place on 31st March, 20X7. However, the entity only expects to receive a payment of Rs. 2,50,000, given the financial difficulty of the employee.

Explain the accounting treatment on initial recognition of loan and after giving effect of the changes in the terms of the loan as per Ind AS 109. Support your answer with Journal entries and amortised cost calculation, as on the date of initial recognition and on the date of change in terms of loan.

Ind AS 40 and Ind AS 16

Question 19

An entity owns a two-storey building. Floor 1 is rented out to independent third parties under operating leases. Floor 2 is occupied by the entity's administration and maintenance staff. The entity can measure reliably the fair value of each floor of the building without undue cost or effort. How the same will be classified / presented in the balance sheet as per relevant Ind AS. What will be the accounting treatment as per relevant Ind AS on initial and subsequent date?

Ind AS 8 and Ind AS 34

Question 20

While preparing interim financial statements for the half-year ended 30th September, 20X1, an entity notes that there has been an under-accrual of certain expenses in the interim financial statements for the first quarter ended 30 th June, 20X1. The amount of under accrual is assessed to be material in the context of interim financial statements. However, it is expected that the amount would be immaterial in the context of the annual financial statements. The management is of the view that there is no need to correct the error in the interim financial statements considering that the amount is expected to be immaterial from the point of view of the annual financial statements. Whether the management's view is acceptable?

ANSWERS

Solution 1

For 80,000 share-based options vested before transition date:

Ind AS 101 provides that a first-time adopter is encouraged, but not required, to apply Ind AS 102 on 'Share-based Payment' to equity instruments that vested before the date of transition to Ind AS. Hence, Nuogen Ltd. may opt for the exemption given in Ind AS 101 for 80,000 share options vested before the transition date. However, since no earlier accounting was done for these share-based options under previous GAAP too, therefore this led to an error on the transition date, as detected on the reporting date i.e. 31st March, 20X4. Hence, being an error, no exemption could be availed by Nuogen Ltd. on transition date with respect to Ind AS 102.

While preparing the financial statements for the financial year 20X3 -20X4, an error has been discovered which occurred in the year 20X1 -20X2, i.e., for the period which was earlier than earliest prior period presented. The error should be corrected by restating the opening balances of relevant assets and/or liabilities and relevant component of equity for the year 20X2-20X3. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2).

Accordingly, on retrospective calculation of Share based options with respect to 80,000 options, Nuogen Ltd. will create 'Share based payment reserve (equity)' by Rs. 16,00,000 and correspondingly adjust the same though Retained earnings.

For 40,000 share based options to be vested on 31st March, 20X5:

Since share-based options have not been vested before transition date, no option as per Ind AS 101 is available to Nuogen Ltd. The entity will apply Ind AS 102 retrospectively. However, Nuogen Ltd. did not account for the same at the grant date. This will result in consequential restatement of balances as at 1st April, 20X2 (i.e, opening balance sheet as at 1st April, 20X2). Adjustment is to be made by recognising the ' Share based payment reserve (equity)' and adjusting the retained earnings by Rs. 2,00,000.

Further, expenses for the year ended 31st March, 20X3 and share based payment reserve (equity) as at 31st March, 20X3 were understated because of non-recognition of 'employee benefits expense' and related reserve. To correct the above errors in the annual financial statements for the year ended 31st March, 20X4, the entity should restate the comparative amounts (i.e., those for the year ended 31 st March, 20X3) in the statement of profit and loss. In the given case, 'Share based payment reserve (equity)' would be credited by Rs. 2,00,000 and 'employee benefits expense' would be debited by Rs. 2,00,000

For the year ending 31st March, 20X4, 'Share based payment reserve (equity)' would be credited by Rs. 2,00,000 and 'employee benefits expense' would be debited by Rs. 2,00,000.

Working Note:

Period	Lot	Proportion	Fair value	Cumulative expenses	Expenses
		a	b	d= b x a	e = d- previous period d
20X1-20X2	1 (1-year vesting period)	1/1	16,00,000	16,00,000	16,00,000
20X1-20X2	2 (4-year vesting period)	1/4	8,00,000	2,00,000	2,00,000

20X2-20X3	2 (4-year vesting period)	2/4	8,00,000	4,00,000	2,00,000
20X3-20X4	2 (4-year vesting period)	3/4	8,00,000	6,00,000	2,00,000

Solution 2

The cost to the lessor for providing the machinery on lease consists of the book value of the machinery (Rs. 1,00,000), plus the initial direct costs associated with entering into the lease (Rs. 2,500), less the future income expected from disposing of the machinery at the end of the lease (the present value of the unguaranteed residual value of Rs. 10,000 discounted @ 10.19%, being Rs. 7,470). This gives a cost of sale of Rs. 95,030.

The lessor records the following entries at the commencement of the lease:

		Rs.	Rs.
Lease receivable	Dr.	1,50,000	
Cost of sales	Dr.	95,030	
To Inventory			1,00,000
To Revenue			1,42,530
To Creditors/Cash			2,500

The sales profit recognised by the lessor at the commencement of the lease is therefore Rs. 47,500 (Rs. 1,42,530 - Rs. 95,030). This is equal to the fair value of the machinery of Rs. 1,50,000, less the book value of the machinery (Rs. 1,00,000) and the initial direct costs of entering into the lease (Rs. 2,500). Revenue is equal to the lease receivable (Rs. 1,50,000), less the present value of the unguaranteed residual value (Rs. 7,470).

Year	Lease receivable at the beginning of year (Rs.) (a)	Lease payments (Rs.) (b)	Interest Income (10.19% per annum) (Rs.) (c)	Decrease In lease receivable (Rs.) (d)=(b)-(c)	Lease receivable at the end of year (Rs.) (e)=(a)-(d)
1	1,50,000	57,500	15,285	42,215	1,07,785
2	1,07,785	57,500	10,983	46,517	61,268
3	61,268	57,500	6,232*	51,268	10,000

*Difference is due to approximation

The lessor will record the following entries:

			Rs.	Rs.
Year 1	Cash/Bank	Dr.	57,500	
	To Lease receivable			42,215
	To Interest income			15,285
Year 2	Cash/Bank	Dr.	57,500	
	To Lease receivable			46,517
	To Interest income			10,983
Year 3	Cash/Bank	Dr.	57,500	
	To Lease receivable			51,268
	To Interest income			6,232

At the end of the three-year lease term, the leased machinery will be returned to the lessor, who will record the following entries:

	Rs.	Rs.
Inventory Dr.	10,000	
To Lease receivable		10,000

Solution 3

The entity measures the loan on initial recognition at Rs. 4,32,000, which is the present value of the loan (financial liability) — Rs. 5,00,000/(1.05)3. Rs. 68,000, the difference between the loan proceeds received Rs. 5,00,000 (the loan's face value) and present value of the loan Rs. 4,32,000, is a government grant and is recognised immediately as there are no specified future performance conditions.

The amount recognised on day one will accrete to Rs. 5,00,000 over the three-year term using the effective interest method.

Journal Entries

On initial recognition:

	Rs.	Rs.
Cash/Bank (financial asset) Dr.	5,00,000	
To Loan (financial liability)		4,32,000
To Income (profit or loss)		68,000
(Being interest-free loan recognised at fair value and the receipt of a government grant)		

At the end of Year 1:

	Rs.	Rs.
Finance cost (profit or loss) Dr.	21,600	
To Loan (financial liability)		21,600
(Being accretion of time value recognised on the financial liability)		

Year 2

	Rs.	Rs.
Finance cost (profit or loss) Dr.	22,680	
To Loan (financial liability)		22,680
(Being accretion of time value recognised on the financial liability)		

Year 3

	Rs.	Rs.
Finance cost (profit or loss) Dr.	23,720	
To Loan (financial liability)		23,720
(Being accretion of time value recognised on the financial liability)		

Immediately after all the accretions are recognised, the carrying amount of the loan is equal to its face value of Rs. 5,00,000, which is also the amount payable to the government.

		Rs.	Rs.
Loan (financial liability)	Dr.	5,00,000	
To Cash/Bank			5,00,000
(Being loan repaid to the government)			

Working Note:

Calculation of Amortised Cost

Year	Opening balance (A)	Interest at 5% (B) = (A) x 5%	Cash flow (C)	Closing balance (A) + (B) – (C)
1	4,32,000	21,600	–	4,53,600
2	4,53,600	22,680	–	4,76,280
3	4,76,280	23,720*	(5,00,000)	–

* Difference is due to approximation.

Solution 4

Exceptional items have not been defined in Indian Accounting Standards (Ind AS). However, paragraph 97 of Ind AS 1 requires that when items of income or expense are material, an entity shall disclose their nature and amount separately.

As per Ind AS 1, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provi de financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both and it could be the determining factor.

When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Generally, items of income or expense fulfilling the abovementioned criteria are classified as exceptional items and are disclosed separately.

From the above, it appears that all material items are not exceptional items. In other words, exceptional items are those items which meet the test of 'materiality' (si ze and nature) and the test of 'incidence'.

Following are some examples which may give rise to a separate disclosure of items as an 'exceptional item' in financial statements if they meet the test of 'materiality' and 'incidence':

(i) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(ii) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(iii) disposals of items of property, plant and equipment;

(iv) disposals of investments;

(v) discontinued operations;

(vi) litigation settlements; and

(vii) other reversals of provisions.

Solution 5

Reconciliation of income tax expense and current tax as per accounting profit for the year ended 31st March, 20X1

Particulars		Rs. in crore
Accounting profit		594.00
Tax at the applicable tax rate of 30%		178.20
Tax effect of expenses that are not deductible in determining taxable profits:		
Penalties (1.00 x 30%)	0.30	
Impairment of goodwill (44.00 x 30%)	13.20	
Corporate social responsibility expense (6.00 x 30%)	1.80	15.30
Tax effect of expenses that are deductible in determining taxable profits:		
Research and development expenses (8.00 x 30%)		(2.40)
Tax effect of income that are exempted in determining taxable profits:		
Dividend income (Exempt) (4.00 x 30%)	1.20	
Agriculture income (Exempt) (55.00 x 30%)	16.50	(17.70)
Tax effect of income on which different tax rates are used for determining taxable profits:		
Differential income tax on long term capital gain [10.00 x (30% - 10%)]	2.00	
Foreign income in USA [60.00 x (30%-20%)]	6.00	(8.00)
Income tax expense (Current) reported in the Statement of Profit and Loss for the current year		165.40

Reconciliation of deferred tax:

Particulars	Rs. in crore
Deferred tax in relation to depreciation and amortization [(30 – 25) x 30%]	1.50
Tax expense (deferred) reported in the Statement of Profit or Loss for the current year	1.50

Solution 6

Paragraph 28 of Ind AS 34, Interim Financial Reporting states that an entity shall apply the same accounting recognition and measurement principles in its interim financial statements as are applied in its annual financial statements.

Further, paragraphs 32 and 33 of Ind AS 34, Interim Financial Reporting state that for assets, the same tests of future economic benefits apply at interim dates and at the end of an entity's financial year. Costs that, by their nature, would not qualify as assets at financial year-end would not qualify at interim dates either. Similarly, a liability at the end of an interim reporting period must represent an existing obligation at that date, just as it must at the end of an annual reporting period.

An essential characteristic of income (revenue) and expenses is that the related inflows and outflows of assets and liabilities have already taken place. If those inflows or outflows have taken place, the related revenue and expense are recognised otherwise not. The Conceptual Framework does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

Considering the above guidance, while preparing its interim financials, the transactions and events of the given case should be dealt with as follows:

(i) If employer contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised using an estimated average annual effective contribution rate in its interim financial statements, even though a large portion of the payments have been made early in the financial year. Accordingly, it should work out an average effective contribution rate and account for the same accordingly, in its interim financials.

(ii) The cost of a planned overhaul expenditure that is expected to occur in later part of the year is not anticipated for interim reporting purposes unless an event has caused the entity to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.

(iii) A bonus is anticipated for interim reporting purposes, if and only if,

    (a) the bonus is a legal obligation or past practice would make the bonus a constructive obligation for which the entity has no realistic alternative but to make the payments, and

    (b) a reliable estimate of the obligation can be made. Ind AS 19, Employee Benefits provides guidance in this regard.

A liability for bonus may arise out of legal agreement or constructive obligation because of which it has no alternative but to pay the bonus and accordingly, needs to be accrued in the annual financial statements.

Bonus liability is accrued in interim financial statements on the same basis as they are accrued for annual financial statements. In the instant case, bonus liability of 10% of operating profit for the year to date may be accrued.

In the given case, since the company has past record of declaring annual bonus every year, the same may be accrued using a reasonable estimate (applying the principles of Ind AS 19, Employee Benefits) while preparing its interim results.

Solution 7

Paragraph 5 of Ind AS 41, Agriculture defines agricultural activity and biological transformation as follows:

"Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

"Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset."

Contract 1:

As per contract 1, during the 3 years of the contract, ABC Ltd. only harvests apples from the apple orchards whereas biological transformation is managed by the owners of the apple orchards (i.e. the lessor). Since ABC Ltd. is not involved in the biological transformation of the apple orchards and is only harvesting biological assets , it cannot be said to be an agricultural activity as per Ind AS 41. Hence, ABC Ltd. is not engaged in agricultural activity as per Ind AS 41.

Contract 2:

As per contract 2, ABC Ltd. obtains the apple orchards and is actively involved in the raising of apple trees in order to ensure that the apples are as per its requirements. Since, it is actively managing the biological transformation and harvest of biological asset, Hence, ABC Ltd. is engaged in agricultural activity as per Ind

AS 41.

Solution 8

	Particulars	Rs.
1.	Interest expense on loan Rs. 2,00,00,000 at 15%	30,00,000
2.	Total cost of Phases I and II (Rs. 34,00,000 +64,00,000)	98,00,000
3.	Total cost of Phases III and IV (Rs. 55,00,000 + Rs. 68,00,000)	1,23,00,000
4.	Total cost of all 4 phases	2,21,00,000
5.	Total loan	2,00,00,000
6.	Interest on loan used for Phases I & II, based on proportionate Loan amount = (30,00,000/2,21,00,000) X 98,00,000	13,30,317 (approx.)
7.	Interest on loan used for Phases III & IV, based on proportionate Loan amount = (30,00,000/2,21,00,000) X 1,23,00,000	16,69,683 (approx.)

Accounting treatment:

1. For Phase I and Phase II

Since Phase I and Phase II have become operational at mid of the year, half of the interest amount of Rs. 6,65,158.50 (i.e. Rs. 13,30,317/2) relating to Phase I and Phase II should be capitalized (in the ratio of asset costs 34:64) and added to respective assets in Phase I and Phase II and remaining half of the interest amount of Rs. 6,65,158.50 (i.e. Rs. 13,30,317/2) relating to Phase I and Phase II should be expensed off during the year.

2. For Phase III and Phase IV

Interest of Rs. 16,69,683 relating to Phase III and Phase IV should be held in Capital Work-in-Progress till assets construction work is completed, and thereafter capitalized in the ratio of cost of assets. No part of this interest amount should be charged/expensed off during the year since the work on these phases has not been completed yet.

Solution 9

Paragraph 39 of Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32

Paragraph 58 of Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.

(a)

(i) In the given case, the amount of purchase consideration to be recognized on initial recognition shall as follows:

Fair value shares issued (10,00,000 x Rs. 20)	Rs. 2,00,00,000
Fair value of contingent consideration	Rs. 25,00,000
Total purchase consideration	Rs. 2,25,00,000

(ii) Subsequent measurement of contingent consideration payable for business combination

In the given case, given that the acquirer has an obligation to issue fixed number of shares on fulfillment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS32.

As per paragraph 58 of Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.
In the given case, the obligation to pay contingent consideration amounting to Rs. 25,00,000 is recognised as a part of equity and therefore not be re-measured subsequently or on issuance of shares.

(b)

(i) In the given case, the amount of purchase consideration to be recognized on initial recognition is as follows:

Fair value shares issued (10,00,000 x Rs. 20)	Rs. 2,00,00,000
Fair value of contingent consideration	Rs. 25,00,000
Total purchase consideration	Rs. 2,25,00,000

(ii) Subsequent measurement of contingent consideration payable for business combination

In the given case, the contingent consideration will be classified as liability as per Ind AS 32.
As per paragraph 58 of Ind AS 103, contingent consideration not classified as equity should be measured at fair value at each reporting date and changes in fair value should be recognised in profit or loss.
As at 31st March, 20X2 (being the date of settlement of contingent consideration), the liability would be measured at its fair value and the resulting loss of Rs. 15,00,000 (Rs. 40,00,000 – Rs. 25,00,000) should be recognised in the profit or loss for the period. A Ltd. would recognize issuance of 1,60,000 (Rs. 40,00,000 / 25) shares at a premium of Rs. 15 per share.

Solution 10

Total number of Options per employee = 60

Group I - 20% vesting in Year I = 12 options, Vesting period = 1 Yr.	Group II - 40% vesting in Year 2 = 24 options, Vesting period = 2 Yrs.	Group III - 40% vesting in Yr. 3 = 24 options, Vesting period = 3 Yrs.

Computation of Expenses for all the years

Group = No. of Options	**Group I = 12 Options**	**Group II = 24 Options**		**Group III = 24 Options**		
	Year 1	**Year 1**	**Year 2**	**Year 1**	**Year 2**	**Year 3**
) Employees at year end = [Opening No. of Employees - Forfeiture]	400 - 40 = 360	400 - 40 = 360	360 - 35 = 325	400 - 40 = 360	360 - 35 = 325	325 - 28 = 297
) Expected to leave in future	NA	36	NA	36 + 34 = 70	30	NA
(c) No. of employees eligible (a - b)	360	324	325	290	295	297
(d) Options expected to Vest = [(c) x No. of Shares]	(360 x 12 sh.) 4,320	(324 x 24 sh.) 7,776	(325 x 24 sh.) 7,800	(290 x 24 sh.) 6,960	(295 x 24 sh.) 7,080	(297 x 24 sh.) 7,128
(e) FV per option =	Rs. 10	Rs. 12.50	Rs. 12.50	Rs. 14	Rs. 14	Rs. 14
Value of Total Options = [d x e]	Rs. 43,200	Rs. 97,200	Rs. 97,500	Rs. 97,440	Rs. 99,120	Rs. 99,792

(g) Total Cumulative Cost of Options = [(f) x Completed Yrs/ Total Yrs)	Rs. 43,200	[(f) x 1/2] Rs. 48,600	[(f) x 2/2] Rs. 97,500	[(f) x 1/3] Rs.32,480	[(f) x 2/3] Rs.66,080	[(f) x 3/3] Rs. 99,792
(h) Less: Recognized in last years	0	0	Rs. 48,600	0	Rs.32,480	Rs. 66,080
Expenses to be recognized	Rs. 43,200	Rs. 48,600	Rs. 48,900	Rs.32,480	Rs.33,600	Rs. 33,712
Employees not exercising ESOP	10 Employees	325 - 319 = 6 Employees		297 - 295 = 2 Employees		
(k) Total Expenses for-						
Year 1	Rs. 43,200 (Gr. 1) + Rs. 48,600 (Gr. 2) + Rs. 32,480 (Gr. 3) = Rs. 1,24,280					
Year 2	Rs. 48,900 (Gr. 2) + Rs. 33,600 (Gr. 3) = Rs. 82,500					
Year 3	Rs. 33,712 (Gr. 3 only)					

Employees Benefit Expenses A/c

Year 1			
	Rs.		**Rs.**
To Share-based Payment Reserve A/c	1,24,280	By Profit and Loss A/c	1,24,280
	1,24,280		1,24,280
Year 2			
To Share-based Payment Reserve A/c	82,500	By Profit and Loss A/c	82,500
	82,500		82,500
Year 3			
To Share-based Payment Reserve A/c	33,712	By Profit and Loss A/c	33,712
	33,712		33,712

Share-based Payment Reserve A/c

Year 1			
	Rs.		Rs.
To Retained Earnings [(360 - 350) Emp x 12 Options x Rs. 10]	1,200	By Employees Benefit Expenses A/c	1,24,280
To Share Capital (350 Emp x 12 Options x Rs. 100)	4,20,000	By Bank A/c (350 Emp x 12 Options x Rs. 125)	5,25,000
To Securities Premium (350 Emp x 12 Options x Rs. 35)	1,47,000		
To Balance c/d	81,080		
	6,49,280		**6,49,280**

Year 2			
To Retained Earnings [(325 - 319) Emp x 24 Options x Rs. 12.50]	1,800	By Balance b/d	81,080
To Share Capital (319 Emp x 24 Options x Rs. 100)	7,65,600	By Employees Benefit Expenses A/c	82,500
To Securities Premium (319 Emp x 24 Options x Rs. 37.50)	2,87,100	By Bank A/c (319 Emp x 24 Options x Rs. 125)	9,57,000
To Balance c/d	66,080		
	11,20,580		**11,20,580**
Year 3			
To Retained Earnings [(297 - 295) Emp x 24 Options x Rs. 14]	672	By Balance b/d	66,080
To Share Capital (295 Emp x 24 Options x Rs. 100)	7,08,000	By Employees Benefit Expenses A/c	33,712
To Securities Premium (295 Emp x 24 Options x Rs. 39)	2,76,120	By Bank A/c (295 Emp x 24 Options x Rs. 125)	8,85,000
	9,84,792		**9,84,792**

Working Note:

Calculation of Securities Premium			
	Group I	**Group II**	**Group III**
	Year 1	**Year 2**	**Year 3**
Exercise Price received per share	125.00	125.00	125.00
Value of service received per share, being the FV of the Options	10.00	12.50	14.00
Total Consideration received per share	135.00	137.50	139.00
Less: Nominal Value per share	(100.00)	(100.00)	(100.00)
Securities Premium per share	35.00	37.50	39.00

Solution 11

The following are the classification of various activities in the Statement of Cash Flows:

S. No.	**Particulars**	**Classification for reporting cash flows**	
		Banks / financial institutions	**Other entities**
1.	Interest received on loans and advances given	Operating Activities	Investing activities
2.	Interest paid on deposits and other borrowings	Operating Activities	Financing activities

3.	Interest and dividend received on investments in subsidiaries, associates and in other entities	Investing activities	Investing activities
4.	Dividend paid on preference and equity shares, including tax on dividend paid on preference and equity shares by other entities	Financing activities	Financing activities
5.	Finance charges paid by lessee under finance lease	Financing activities	Financing activities
6.	Payment towards reduction of outstanding finance lease liability	Financing activities	Financing activities
7.	Interest paid to vendor for acquiring fixed asset under deferred payment basis	Financing activities	Financing activities
8.	Principal sum payment under deferred payment basis for acquisition of fixed assets	Investing activities	Investing activities
9.	Penal interest received from customers for late payments	Operating Activities	Operating Activities
10.	Penal interest paid to suppliers for late payments	Operating Activities	Operating Activities
11.	Interest paid on delayed tax payments	Operating Activities	Operating Activities
12.	Interest received on tax refunds	Operating Activities	Operating Activities

Solution 12

For determination of amortisation of the intangible asset, which has finite useful life, two elements need to be determined: useful life and residual value.

Useful life is defined as:

(a) the period over which an asset is expected to be available for use by an entity; or

(b) the number of production or similar units expected to be obtained from the asset by an entity.

In the instant case, since the entity expects that the asset will be available for use by it for the period of 5 years and thereafter it will be transferred, the useful life of the asset is 5 years.

For residual value, paragraphs 100-102 of Ind AS 38 states that the residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

(a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

(b) there is an active market (as defined in Ind AS 113) for the asset and:

 (i) residual value can be determined by reference to that market; and

 (ii) it is probable that such a market will exist at the end of the asset's useful life.

The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used.

On application of above paragraphs, the depreciable amount of the patent will be determined after deducting *the residual value, which is 60 % of its fair value at the date of its acquisition. Accordingly, the patent will be amortised over its useful life of 5 years, with a residual value equal to 60% of its fair value at the date of its acquisition. The patent will also be reviewed for impairment in accordance with Ind AS 36. Therefore, the accounting policy of amortising the asset over a period of 15 years considering its residual value of Zero is not in accordance with Ind AS 38.*

Computation of correct amount of residual value and annual amortization:

		Rs.
Cost of Intangible asset		12,00,000
Residual value	(60% of Rs. 12,00,000)	7,20,000
Depreciable value of intangible asset	(12,00,000 – 7,20,000)	4,80,000
Useful life		5 years
Annual amortisation	(4,80,000 / 5)	Rs. 96,000 p.a.

Solution 13

Paragraph B40 of Ind AS 115, inter alia, states that, "if in a contract, an entity grants a customer the option to acquire additional goods or services, that option gives rise to a separate performance obligation only if the option provides a material right to the customer that it would not receive without entering into that contract".

Further, paragraph B41 states that if a customer has the option to acquire an additional good or service at a price that would reflect the stand-alone selling price for that good or service, that option does not provide the customer with a material right even if the option can be exercised only by entering into a previous contract. In those cases, the entity has made a marketing offer that it shall account for in accordance with this Standard only when the customer exercises the option to purchase the additional goods or services.

In the given case, the customer does get a material right by way of a discount of Rs. 500 for every 100 points that he would not receive without the previous stay in that resort. Thus, the customer in effect pays the entity in advance for future goods and the entity recognises revenue when the goods are transferred.

According to paragraph B42, paragraph 74 requires an entity to allocate the transaction price to performance obligations on a relative stand-alone selling price basis. If the standalone selling price for a customer's option to acquire additional goods or services is not directly observable, an entity shall estimate it on the basis of percentage discount the customer may obtain upon exercising the option and the likelihood of the option getting exercised.

In accordance with above, an entity shall account for award credit as a separate performance obligation of the sales transactions in which they are initially granted. The value of the consideration the entity expects to be entitled in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

In the current case, the standalone selling price of the 100 points is Rs. 500. A Ltd. should allocate the fair value of the consideration (i.e. Rs. 10,000) between the points and the other components of the sale as Rs. 476 (500/10,500 x 10,000) and Rs. 9,524 (10,000/10,500 x 10,000) respectively in proportion of their standalone selli ng price. Since A Ltd. supplies the awards itself (i.e. it acts as a principal), it should recognize Rs. 476 as revenue when points are redeemed.

Solution 14

Paragraph 18 of Ind AS 105 provides that immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Ind AS.

In the instant case, Company A should measure the property, plant and equipment (for which it has adopted cost model), in accordance with Ind AS 16, Property, Plant and Equipment. Hence, depreciation should be provided upto 31st May, 20X0.

Solution 15

As per para 68 of Ind AS 37, onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable cost under a contract reflects the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation for penalties arising from failure to fulfilling it.

Ind AS 37 provides that the amount recognised shall be the best estimate of the expenditure required to settle the present obligation, which is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. In case of onerous contracts, an amount that an entity would rationally pay to settle the obligation would be the lower of the compensation or penalties arising from failure to fulfil the contacts and excess of unavoidable cost of meeting the obligations under the contract from the economic benefits expected to be received under it.

As per para 68 of Ind AS 37, the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both -

(a) the incremental costs of fulfilling that contract—for example, direct labour and materials; and

(b) an allocation of other costs that relate directly to fulfilling contracts— for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

The unavoidable costs of meeting the obligations under the contract are only costs that:

- "are directly variable with the contract and therefore incremental to the performance of the contract;"
- do not include allocated or shared costs that will be incurred regardless of whether the entity fulfils the contract or not; and
- cannot be avoided by the entity's future actions.

Accordingly, HVCL has correctly measured the cost for creation of provision for onerous contracts by considering material cost, labour cost (to the extent it relates directly to production) and material overheads (to the extent it relates directly to production).

Further, HVCL is correct that the period cost will not be considered for measurement of cost for the purpose of creation of provision on onerous contracts as they do not relate directly to fulfilling the contracts.

Solution 16

(i) Calculation of Inventory cost:

Particulars	Amount (Rs.)
Purchase Price (1,30,000 – 20,000 – 10,000)	1,00,000
Non-refundable import duties	20,000
Transport cost	5,000

Total	***1,25,000***

Note: The cost of purchase excludes the refundable purchase taxes paid on acquisition of the goods as the Rs. 10,000 paid will be refunded to the retailer.

Ind AS 2 specifically exclude selling cost from forming part of cost of inventory. However, selling and distribution costs are generally used as single term because both are related, as selling costs are incurred to effect the sale and the distribution costs are incurred by the seller to complete a sale transaction by making the goods available to the buyer from the point of sale to the point at which the buyer takes possession. Since these costs are not related to bringing the goods to their present location and condition, the same are not included in the cost of inventories. Accordingly, though the word 'distribution costs' is not specifically mentioned in Ind AS 2, these costs would continue to be excluded from the cost of inventories. Therefore, it excludes the selling expenses incurred (i.e., Rs. 2,000 delivery costs and Rs. 3,000 other selling costs).

(ii) *Paragraph 16 of Ind AS 16, Property, Plant and Equipment, inter alia states that the cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.*

Further, paragraph 18 of Ind AS 16 states that an entity applies Ind AS 2 to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with Ind AS 2 or Ind AS 16 are recognised and measured in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.

Paragraph 16 of Ind AS 16 clarifies that decommissioning costs that meet the recognition criteria under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, for a provision are added to the cost of an item of property, plant and equipment if such costs are not incurred through the asset's use to produce inventories. Paragraph 18 fills the gap by clarifying where such costs are incurred through the asset's use to produce inventories, they are added to the cost of inventories.

Where the obligation to restore the asset arises due to the use of the asset to produce inventories but not due to the asset's installation, construction or acquisition, the costs are added to the costs of inventories.

Based on the above provisions and discussion, cost of restoring the site Rs. 20,000 incurred during the period of production as a consequence of having used the item to produce inventories during that period should be added to the cost of inventories. However, later the inventories are measured at the lower of cost and net realisable value in accordance with paragraph 9 of Ind AS 2.

Solution 17

To determine the diluted EPS of Company P, the diluted EPS of Company S has to be calculated first.

Calculation of Company S's diluted EPS:

Company S's earnings for the period	*Rs. 30,000*
Weighted average ordinary shares	*10,000*
Incremental shares (refer W.N.)	*200*
Company S's diluted EPS	*Rs. 30,000/ (10,000 + 200)*
	Rs. 2.94

Calculation of Company P's diluted EPS:

Company P's earning for the period		Rs. 7,000
Company P's share of Company S's earning attributable to ordinary shares [(9,000 /10,000) x (2.94 x 10,000)]		Rs. 26,460
Company P's share of Company S's earning attributable to options [(500 /1,000) x (2.94 x 200)]	Rs. 294	
Company P's weighted average ordinary shares outstanding		5,000
Company P's diluted EPS = (7,000 + 26,460 + 294) / 5,000		Rs. 6.75

Working Note:

Computation of Incremental shares related to weighted average options outstanding:

All options are dilutive because their exercise price is below the average market price of Company S's ordinary shares for the period.

The incremental shares are calculated as follows:

Shares issued on assumed exercise of options	1,000
Less: Shares that would be issued at average market Price [(40 x 1,000)/50]	(800)
Incremental shares	200

Solution 18

As the loan is not at a market interest rate, hence it is not recorded at the transaction price of Rs. 5,00,000. Instead, the entity measures the loan receivable at the present value of the future cash inflows discounted at a market rate of interest available for a similar loan.

The present value of the loan receivable (financial asset) discounted at 5% per year is Rs. 5,00,000 ÷ (1.05)3 = Rs. 4,32,000. Therefore, Rs. 4,32,000 is recorded on initial measurement of the loan receivable. This amount will accrete to Rs. 5,00,000 over the three-year term using the effective interest method.

The difference between Rs. 5,00,000 and Rs. 4,32,000 i.e., Rs. 68,000 is accounted for as prepaid employee cost in accordance with Ind AS 19 'Employee Benefits', which will be deferred and amortised over the period of loan on straight line basis.

The journal entries on initial recognition are:

		Rs.	Rs.
Loan receivable (financial asset)	Dr.	4,32,000	
Prepaid employee cost (asset)	Dr.	68,000	
To Cash / Bank (financial asset)			5,00,000
(Being loan granted to the employee recognised)			

The amortised cost calculation at 1st April, 20X1 is as follows:

Period	Carrying amount at 1st April	Interest at 5%	Cash inflow	Carrying amount at 31st March
20X1-20X2	4,32,000	21,600	–	4,53,600
20X2-20X3	4,53,600	22,680	–	4,76,280
20X3-20X4	4,76,280	23,720*	(5,00,000)	–

*Difference of Rs. 94 (Rs. 23,814 – Rs. 23,720) is due to approximation.

On 31st March, 20X3, the carrying amount of the loan receivable is Rs. 4,76,280.

As a result of that modification, on 31st March, 20X3, the present value of estimated cash flows is recalculated to be Rs. 2,05,750 using the asset's original effective interest rate of 5% (Rs. 2,50,000 ÷ $(1.05)^4$).

An impairment loss of Rs. 2,70,530 (Rs. 4,76,280 – Rs. 2,05,750) is recognised in profit or loss in the year 20X2-20X3.

The carrying amount of the loan receivable may be reduced directly, as follows:

		Rs.	Rs.
Profit or loss - impairment loss	Dr.	2,70,530	
To Loan receivable			2,70,530
(Being impairment loss recognised)			

In this case, the loan receivable will be measured at Rs. 2,05,750 at 31st March, 20X3. The revised amortised cost calculation at 1st April, 20X3 is as follows:

Period	Carrying amount at 1st April	Interest at 5% (the original effective interest rate)	Cash inflow	Carrying amount at 31st March
20X3-20X4	2,05,750	10,288	–	2,16,038
20X4-20X5	2,16,038	10,802	–	2,26,840
20X5-20X6	2,26,840	11,342	–	2,38,182
20X6-20X7	2,38,182	11,818	(2,50,000)	–

Solution 19

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

a) use in the production or supply of goods or services or for administrative purposes; or

b) sale in the ordinary course of business.

Property mentioned in (a) above would be covered under Ind AS 16 'Property, Plant and Equipment'.

On applying the above provisions, Floor 1 of the building is classified as an item of investment property by the entity (lessor) because it is held to earn rentals. Ind AS 40 is applicable in this case. An investment property should be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model. However, entities are required to measure the fair value of investment property, for the purpose of disclosure even though they are required to follow the cost model.

Floor 2 of the building will be classified as property, plant and equipment because it is held by administrative staff i.e. it is held for use for administrative purposes. Ind AS 16 is applicable in this case. An item of property, plant and equipment that qualifies for recognition as an asset should be initially measured at its cost. After recognition, an entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Solution 20

Paragraph 41 of Ind AS 8, inter alia, states that financial statements do not comply with Ind AS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

As regards the assessment of materiality of an item in preparing interim financial statements, paragraph 25 of Ind AS 34, Interim Financial Statements, states that while judgement is always required in assessing materiality, this Standard bases the recognition and disclosure decision on data for the interim period by itself for reasons of understandability of the interim figures. Thus, for example, unusual items, changes in accounting policies or estimates, and errors are recognised and disclosed on the basis of materiality in relation to interim period data to avoid misleading inferences that might result from non-disclosure. The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity's financial position and performance during the interim period.

As per the above, while materiality judgements always involve a degree of subjectivity, the overriding goal is to ensure that an interim financial report includes all the information that is relevant to an understanding of the financial position and performance of the entity during the interim period. It is therefore not appropriate to base quantitative assessments of materiality on projected annual figures when evaluating errors in interim financial statements.

Accordingly, the management is required to correct the error in the interim financial statements since it is assessed to be material in relation to interim period data.