MOCK TEST PAPER 1

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWER

1. (a) **Assessment of Preliminary Impact Assessment of Transition to Ind AS on H 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 and 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 ₹ 3,00,000 should be adjusted in other equity (revaluation reserve).

Journal Entry on the date of transition

Particulars		Debit (₹)	Credit (₹)
Property Plant and Equipment (Land)	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 are measured at fair values except for investments in subsidiaries, associates and JVs' which are recorded at cost.	All financial assets (other than Investment 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 (FVTPL) or Fair Value through Other Comprehensive Income (FVTOCI) or at Amortised Cost based on business model assessment and contractual cash flow characteristics. Since investment in mutual fund are designated at FVTPL, increase of ₹ 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	Debit (₹)	Credit (₹)
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 capitalised 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 fair value of the financial asset or 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 ₹ 1,80,000 as against its book value of ₹ 2,00,000. Accordingly, the difference of ₹ 20,000 is adjusted through Retained Earnings.

Journal Entry on the date of transition

Particulars	Debit (₹)	Credit (₹)
Borrowings / Loan payable Dr.	20,000	
To Retained earnings		20,000

Issue 4: Proposed dividend:

Accounting Standards (Erstwhile IGAAP)	Ind AS	Impact on Company's financial statements
As per AS, provision for proposed divided 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 the year when it has been declared and approved. Therefore, the provision declared for preceding year should be reversed (to rectify the wrong entry). Retained earnings would increase proportionately due to such adjustment

Journal Entry on the date of transition

Particulars	Debit (₹)	Credit (₹)
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 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 ₹ 25,000.

Journal Entry on the date of transition

Particulars		Debit (₹)	Credit (₹)
Retained earnings	Dr.	25,000	
To Deferred tax liability			25,000

(b) (i) Basic Earnings per share

		Year ended 31.3.20X2
Net profit attributable to equity shareholders	(A)	₹ 90,000
Number of equity shares outstanding	(B)	16,000
Earnings per share	(A/B)	₹ 5.625

(ii) Diluted earnings per share

Options are most dilutive as their earnings per incremental share is nil. Hence, for the purpose of computation of diluted earnings per share, options will be considered first. 10% convertible debentures being second most dilutive will be considered next and thereafter convertible preference shares will be considered (as per W.N.).

	Net profit attributable to equity shareholders ₹	*No. of equity shares*	*Net Profit attributable per share* ₹	
Net profit attributable to equity shareholders	90,000	16,000	5.625	
Options		150		
	90,000	16,150	5.572	Dilutive

10% Convertible debentures	75,000	40,000		
	1,65,000	56,150	2.939	Dilutive
Convertible Preference Shares	67,500	15,000		
	2,32,500	71,150	3.268	Anti-Dilutive

Since diluted earnings per share is increased when taking the convertible preference shares into account (₹ 2.939 to ₹ 3.268), the convertible preference shares are anti-dilutive and are ignored in the calculation of diluted earnings per share for the year ended 31st March, 20X2. Therefore, diluted earnings per share for the year ended 31st March, 20X2 is ₹ 2.939.

Working Note:

Calculation of incremental earnings per share and allocation of rank

	Increase in earnings (1)	*Increase in number of equity shares (2)*	*Earnings per incremental share (3) = (1) ÷ (2)*	*Rank*
	₹		₹	
Options				
Increase in earnings	Nil			
No. of incremental shares issued for no consideration [900 x (90-75)/90]		150	Nil	1
Convertible Preference Shares				
Increase in net profit attributable to equity shareholders as adjusted by attributable dividend tax [(₹ 9 x 7,500) + 8% (₹ 9 x 7,500)]	67,500			
No. of incremental shares (2 x 7,500)		15,000	4.50	3
10% Convertible Debentures				
Increase in net profit [(₹ 10,00,000 x 10% x (1 – 0.25)]	75,000			
No. of incremental shares (10,000 x 4)		40,000	1.875	2

2. (a) (i) (a) **Calculation of operating cycle**

	Month
Period of manufacturing the aircraft	9
Credit period for settlement of delivery amount	7
	16

Hence, the length of the operating cycle will be 16 month.

(b) Since the inventory and debtors will be realised within normal operating cycle, i.e., 16 months, both the inventory as well as debtors should be classified as current.

(ii) Charming Ltd must present ₹ 80,000 accrued interest and ₹ 1,00,000 current portion of the non-current bond (i.e. the portion repayable on 1st April, 20X4) as current liabilities. The ₹ 9,00,000 due later than 12 months after the end of the reporting period shall be presented as a non-current liability.

(b) In the instant case, since fire took place after the end of the reporting period, it is a non-adjusting event. However, in accordance with paragraph 21 of Ind AS 10, disclosures regarding material non-adjusting event should be made in the financial statements, i.e., the nature of the event and the expected financial effect of the same.

With regard to going concern basis followed for preparation of financial statements, the company needs to determine whether it is appropriate to prepare the financial statements on going concern basis, if there is only one plant which has been damaged due to fire. If the effect of deterioration in operating results and financial position is so pervasive that management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so, preparation of financial statements for the financial year 20X0-20X1 on going concern assumption may not be appropriate. In that case, the financial statements may have to be prepared on a basis other than going concern.

However, if the going concern assumption is considered to be appropriate even after the fire, no adjustment is required in the financial statements for the year ending 31st March, 20X1.

(c) (i) De-commissioning Obligation of G Ltd. and recognition of decommissioning cost:

Retrospective application of Ind AS 37 requires management to recognise the provision for decommissioning cost on the opening Ind AS Balance Sheet. The provision should reflect the net present value of the management's best estimate of the amount required to settle the obligation.

Accounting Treatment:

The obligation should be capitalised as a separate component of property, plant and equipment, together with the accumulated depreciation from the date when the obligation was incurred to the transition date. The amount to be capitalised as part of the cost of the asset is calculated by discounting the liability back to the date when the obligation initially arose, using the best estimate of historical discount rate. The associated accumulated depreciation is calculated by applying the current estimate of the asset's useful life, using the entity's depreciation policy for the asset.

Any difference between the provision and the related component of the property, plant and equipment is adjusted against the retained earnings.

The entity could elect to apply the deemed cost exemption. Property, plant and equipment would be restated to fair value, with the corresponding adjustment to the retained earnings. Management would need to ensure that the fair value obtained was the gross fair value and not net of the decommissioning obligation. Management would recognise the provision for decommissioning costs in accordance with Ind AS 37. No cost in respect of provision should be added to property, plant and equipment but such cost should be recognised in the entity's opening retained earnings.

(ii) Measurement basis for valuation of PPE:

An entity has the following options with respect to measurement of its property, plant and equipment (Ind AS 16) in the opening Ind AS Balance Sheet:

- Measurement basis as per the respective standards applied retrospectively. This measurement option can be applied on an item-by-item basis. For example, Plant A can be measured applying Ind AS 16 retrospectively and Plant B can be measured applying the "fair value" or "revaluation" options mentioned below.

- Fair value at the date of transition to Ind AS. This measurement option can be applied on an item-by-item basis in similar fashion as explained above.
- Previous GAAP revaluation, if such revaluation was, at the date of revaluation, broadly comparable to (a) fair value or (b) cost or depreciated cost in accordance with other Ind AS adjusted to reflect changes in general or specific price index. This measurement option can be applied on an item-by-item basis in similar fashion as explained above.

Analysis of given case:

	Asset 1	Asset 2	Asset 3	Asset 4
Basis used in previous GAAP	Revaluation Model	Revaluation Model	Cost Model	Cost Model
Intent of G Ltd. on transition	To continue with Revaluation model	Use previous valuation as deemed cost	Adopt a policy of revaluation	Continue to use a policy of cost less depreciation
Treatment at the time of transition to Ind AS	Since fair value at the transition date is not materially different from its carrying value under previous GAAP, G Ltd. can carry forward with revalued carrying value ₹ 4,000 as per previous GAAP in Ind AS books and continue to disclose a revaluation surplus of ₹ 2,500.	An entity may elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date. In Ind AS financial statements, asset will be carried forward at ₹ 1,500 and previously disclosed revaluation surplus is transferred to retained earnings or another component of equity.	Fair value at the date of transition to Ind AS is materially different from its carrying value under previous GAAP. The asset should be revalued and stated at its fair value of ₹ 5,000 on the date of transition to Ind AS. A revaluation surplus of ₹ 3,000 (5,000 – 2,000) will be transferred to revaluation reserve.	The entity is not availing any exemption given in Ind AS 101. The entity can measure applying Ind AS 16 retrospectively. It is assumed that measurement bases for cost of asset as per previous GAAP and Ind AS are same so asset will be shown in the Ind AS financial statements at ₹ 2,800.

3. (a) Allocation of corporate assets

The carrying amount of land is allocated to the carrying amount of each individual cash generating unit. A weighted allocation basis is used because the estimated remaining useful life of Train's cash-generating unit is 10 years, whereas the estimated remaining useful lives of Railway station and Railway tracks's cash-generating units are 20 years.

(₹ in crore)				
Particulars	Train	Railway station	Railway tracks	Total
Carrying amount (a)	1,500	2,250	3,300	7,050
Useful life	10 years	20 years	20 years	-
Weight based on useful life	1	2	2	-
Carrying amount (after assigning weight)	1,500	4,500	6,600	12,600
Pro-rata allocation of Land	12% (1,500/12,600)	36% (4,500/12,600)	52% (6,600/12,600)	100%
Allocation of carrying amount of Land (b)	216	648	936	1,800
Carrying amount (after allocation of Land) (a+b)	1,716	2,898	4,236	8,850

Calculation of impairment loss

Step I: Impairment losses for individual cash-generating units and its allocation:

(a) Impairment loss of each cash-generating units

(₹ in crore)			
Particulars	Train	Railway station	Railway tracks
Carrying amount (after allocation of land)	1,716	2,898	4,236
Recoverable amount	1,800	2,700	4,200
Impairment loss	-	198	36

(b) Allocation of the impairment loss

(₹ in crore)				
Allocation to	Railway station		Railway tracks	
Land	44	[198 x (648 / 2,898)]	8	[36 x (936 / 4,236)]
Other assets in cash-generating units	154	[198 x (2,250 / 2,898)]	28	[36 x (3,300/ 4,236)]
Impairment loss	198		36	

Step II: Impairment losses for the larger cash-generating unit, i.e., Pacific Ocean Railway Ltd. as a whole

(₹ in crore)						
Particulars	Train	Railway station	Railway tracks	Land	Building	Pacific Ocean Railway Ltd.
Carrying amount	1,500	2,250	3,300	1,800	600	9,450

Impairment loss (Step I)	-	(154)	(28)	(52)	-	(234)
Carrying amount (after Step I)	1,500	2,096	3,272	1,748	600	9,216
Recoverable amount						9,600
Impairment loss for the 'larger' cash-generating unit (company as a whole						Nil

(b) The term 'contract' is defined in Ind AS 115 as an agreement between two or more parties that creates enforceable rights and obligations.

In the given case:

- Gifts are distributed by MIL to doctors as a part of its sales promotion activities without there being an agreement between MIL and the doctors creating enforceable rights and obligations.
- The doctors to whom gifts are distributed are not 'customers' of MIL as they have not contracted with it to obtain goods or services in exchange for consideration.
- The items distributed as gifts are not an output of MIL ordinary activities.

In view of the above, the distribution of gifts to doctors does not fall under the scope of Ind AS 115.

As per Ind AS 38, sometimes expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In the case of the supply of goods, the entity recognises such expenditure as an expense when it has a right to access those goods.

Examples of expenditure that is recognised as an expense when it is incurred include expenditure on advertising and promotional activities (including mail order catalogues).

Items acquired by MIL to be distributed as gifts as a part of sales promotion activities have no other purpose than to undertake those activities. In other words, the only benefit of those items for MIL is to develop or create brands or customer relationships, which in turn generate revenue. Ind AS 38 requires an entity to recognise expenditure on such items as an expense when the entity has a right to access those goods. Ind AS 38 states that an entity has a right to access goods when it owns them, or otherwise has a right to access them regardless of when it distributes the goods.

In view of the above, MIL should recognise the cost of the items to be distributed as gifts as an expense when it owns those items, or otherwise has a right to access them, regardless of when it distributes the items to doctors.

(c) **EITHER**

The carrying amount of the debenture on the date of transition under previous GAAP, assuming that all interest accrued other than premium on redemption have been paid, will be ₹ 31,50,000 [(30,000 x 100) + (30,000 x 100 x 10/100 x 2/4)]. The premium payable on redemption is being recognised as borrowing costs as per para 4(b) of AS 16 ie under previous GAAP on straight-line basis.

As per para D18 of Ind AS 101, Ind AS 32, Financial Instruments: Presentation, requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 would involve separating two portions of equity. The first portion is recognised in retained earnings and represents the cumulative interest accreted on the liability component.

The other portion represents the original equity component. However, in accordance with this Ind AS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to Ind AS.

In the present case, since the liability is outstanding on the date of transition, S Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, we will first measure the liability component by discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

	(₹)
Interest payments p.a. on each debenture	6
Present Value (PV) of interest payment for years 1 to 4 (6 × 3.17) (Note 1)	19.02
PV of principal repayment (including premium) 110 × 0.68 (Note 2)	74.80
Total liability component per debenture	93.82
Equity component per debenture (Balancing figure)	6.18
Face value of debentures	100.00
Total equity component for 30,000 debentures	1,85,400
Total debt amount (30,000 x 93.82)	28,14,600

Thus, on the date of initial recognition, the amount of ₹ 30,00,000 being the amount of debentures will be split as under:

Debt	₹ 28,14,600
Equity	₹ 1,85,400

However, on the date of transition, unwinding of ₹ 28,14,600 will be done for two years as follows:

Year	**Opening balance**	**Finance cost @ 10%**	**Interest paid**	**Closing balance**
1	28,14,600	2,81,460	1,80,000	29,16,060
2	29,16,060	2,91,606	1,80,000	30,27,666

Therefore, on transition date, S Ltd. shall –

a. recognise the carrying amount of convertible debentures at ₹ 30,27,666;

b. recognise equity component of compound financial instrument of ₹ 1,85,400;

c. debit ₹ 63,066 to retained earnings being the difference between the previous GAAP amount of ₹ 31,50,000 and ₹ 30,27,666 and the equity component of compound financial instrument of ₹ 1,85,400; and

d. derecognise the debenture liability in previous GAAP of ₹ 31,50,000.

Notes:

1. 3.17 is present value of annuity factor of ₹ 1 at a discount rate of 10% for 4 years.

2. On maturity, ₹ 110 will be paid (₹ 100 as principal payment + ₹ 10 as premium)

OR

Date	Particulars		(₹)	(₹)
15/3/20X1	Investment A/c	Dr.	20,000	
	Transaction Cost A/c	Dr.	400	
	To Bank			20,400
31/3/20X1	Investment A/c	Dr.	4,000	
	To Fair Value Gain A/c			4,000
31/3/20X1	P&L A/c	Dr.	400	
	To Transaction Cost A/c			400
31/3/20X1	Fair Value Gain A/c	Dr.	4,000	
	To P&L A/c			4,000

4. (a) Assessment of applicability of Ind AS 38 in the given scenario

As per Ind AS 38, to be an intangible asset the asset should meet following criteria:

- Identifiability;
- Control over a Resource (Asset); and
- Existence of Future Economic Benefits.

Crystal Systems Limited manages and controls the application software available on a cloud infrastructure and New Age Technology Limited has limited rights to use the same. Merely right to access the application of Crystal Systems Limited, does not give New Age Technology Limited power to obtain future economic benefits flowing from the software itself. Hence, the application software should not be recognised as an asset under Ind AS 38.

Assessment of applicability of Ind AS 116 in the given scenario

At the inception of a contract, an entity shall assess whether the contract is or contains a lease. For the purpose, a lease is defined as a contract, or part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This right to control the asset throughout the period of use is emphasized ONLY if the customer has both (i) right to obtain substantially all the economic benefits from the use of the identified asset, and (ii) the right to direct the use of the identified asset.

In the given case, the contract gives the New Age Technology Limited only the right to access the Crystal Systems Limited's application software over the contract term, and hence the contract is not a lease contract within the meaning of Ind AS 116.

Conclusion

The right to access the Crystal Systems Limited's application software for a price over a specified period is a service contract. If the Crystal Systems Limited pays amounts for which the services are yet to be received, then the advance payment is a prepayment and an asset for the Crystal Systems Limited.

(b) As per para 81 of Ind AS 115

- a customer receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract.

- except when an entity has observable evidence in accordance with paragraph 82 that the entire discount relates to only one or more, but not all, performance obligations in a contract, the entity shall allocate a discount proportionately to all performance obligations in the contract.

- the proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the underlying distinct goods or services.

Amount to be recognised:

In this case, there are two separately identifiable performance obligations one being sale of the equipment and second being maintenance contract for three years.

For recognition of revenue, relative stand-alone selling price of the individual components may be taken and the consideration allocated in proportion of relative fair values, i.e. 4,85,500: 37,500* (i.e. 12,500 x 3). Hence, the sale of equipment should be recognised at ₹ 4,64,149 [₹ 5,00,000 x {4,85,500 / (4,85,500 + 37,500)}] when all other conditions for sale of the equipment are fulfilled and the revenue from maintenance services of ₹ 35,851 [₹ 5,00,000 x {37,500 / (4,85,500 + 37,500)}] should be the service revenue recognised over a period of three years as per its stage of completion.

(c) Number of SARs = 80 Employees x 500 SARs = 40,000 SARs

1. When the term of the awards is 4 years of service

Period	Fair value	To be vested	Cumulative	Expense in proportion to the award earned	Cumulative expenses recognized
	a	b	c = 40,000 x a x b	d = [{(c / no. of total years) x years completed} – e of pvs year]	e
1st April, 20X1	100	100%	40,00,000	-	-
31st March, 20X2	110	100%	44,00,000	11,00,000	11,00,000
31st March, 20X3	120	100%	48,00,000	13,00,000	24,00,000
31st March, 20X4	115	100%	46,00,000	10,50,000	34,50,000
31st March, 20X5	130	100%	52,00,000	17,50,000	52,00,000

Journal Entries

31st March, 20X2		
Employee benefits expenses/Profit and Loss A/c Dr. To Share based payment liability (Fair value of SARs has been recognised)	11,00,000	 11,00,000
31st March, 20X3		
Employee benefits expenses/Profit and Loss A/c Dr. To Share based payment liability (Fair value of SARs has been re-measured)	13,00,000	 13,00,000

31st March, 20X4		
Employee benefits expenses/Profit and Loss A/c Dr.	10,50,000	
To Share based payment liability		10,50,000
(Fair value of SARs has been recognized)		
31st March, 20X5		
Employee benefits expenses A/c Dr.	17,50,000	
To Share based payment liability		17,50,000
(Fair value of SARs has been recognized)		

2. When the term of the awards is modified to 3 years of service instead of 4 years of service

Period	Fair value a	%age of vesting b	Cumulative c = 40,000 x a x b	Expense in proportion to the award earned d = [{(c / no. of total years) x years completed} – e of pvs year]	Cumulative expenses recognized e
1st April, 20X1	100	100%	40,00,000	-	-
31st March, 20X2	110	100%	44,00,000	11,00,000	11,00,000
31st March, 20X3	120	100%	48,00,000	21,00,000	32,00,000
31st March, 20X4	115	100%	46,00,000	14,00,000	46,00,000

Journal Entries

31st March, 20X2		
Employee benefits expenses Dr.	11,00,000	
To Share based payment liability		11,00,000
(Fair value of SARs has been recognised)		
31st March, 20X3		
Employee benefits expenses Dr.	21,00,000	
To Share based payment liability		21,00,000
(Fair value of SARs has been re-measured)		
31st March, 20X4		
Employee benefits expenses Dr.	14,00,000	
To Share based payment liability		14,00,000
(Fair value of SARs has been recognized)		

5. (a) Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd. as at 31st March, 20X3

Particulars	₹ in 000s
I. Assets	
(1) Non-current assets	
(i) Property Plant & Equipment (W.N.4)	7,120.00
(ii) Intangible asset – Goodwill (W.N.3)	1,032.00
(2) Current Assets	
(i) Inventories (550 + 100)	650.00
(ii) Financial Assets	
(a) Trade Receivables (400 + 200)	600.00
(b) Cash & Cash equivalents (200 + 50)	250.00
Total Assets	9,652.00
II. Equity and Liabilities	
(1) Equity	
(i) Equity Share Capital (2,000 + 200)	2,200.00
(ii) Other Equity	
(a) Retained Earnings (W.N.6)	1190.85
(b) Securities Premium	160.00
(2) Non-Controlling Interest (W.N.5)	347.40
(3) Non-Current Liabilities (3,000 + 400)	3,400.00
(4) Current Liabilities (W.N.8)	2,353.75
Total Equity & Liabilities	9,652.00

Working Notes:

1. Calculation of purchase consideration at the acquisition date i.e. 1st April, 20X1

	₹ in 000s
Payment made by A Ltd. to S Ltd.	
Cash	1,000.00
Equity shares (2,00,000 shares x ₹ 1.80)	360.00
Present value of deferred consideration (₹ 5,00,000 x 0.75)	375.00
Total consideration	1,735.00

2. Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 20X1

	₹ in 000s
Share capital of S Ltd.	500.00
Reserves of S Ltd.	125.00
Fair value increase on Property, Plant and Equipment	200.00
Net worth on acquisition date	825.00

3. Calculation of Goodwill at the acquisition date i.e. 1st April, 20X1 and 31st March, 20X3

	₹ in 000s
Purchase consideration (W.N.1)	1,735.00
Non-controlling interest at fair value (as given in the question)	380.00
	2,115.00
Less: Net worth (W.N.2)	(825.00)
Goodwill as on 1st April 20X1	1,290.00
Less: Impairment (as given in the question)	258.00
Goodwill as on 31st March 20X3	1,032.00

4. Calculation of Property, Plant and Equipment as on 31st March 20X3

			₹ in 000s
A Ltd.			5,500.00
S Ltd.		1,500.00	
Add: Net fair value gain not recorded yet	200.00		
Less: Depreciation [(200/5) x 2]	(80.00)	120.00	1,620.00
			7,120.00

5. Calculation of Post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 20X3

		₹ in 000s	₹ in 000s
		NCI (20%)	A Ltd. (80%)
Acquisition date balance		380.00	Nil
Closing balance of Retained Earnings	300.00		
Less: Pre-acquisition balance	(125.00)		
Post-acquisition gain	175.00		
Less: Additional Depreciation on PPE [(200/5) x 2]	(80.00)		
Share in post-acquisition gain	95.00	19.00	76.00
Less: Impairment on goodwill	258.00	(51.60)	(206.40)
		347.40	(130.40)

6. Consolidated Retained Earnings as on 31st March 20X3

	₹ in 000s
A Ltd.	1,400.00
Add: Share of post-acquisition loss of S Ltd. (W.N.5)	(130.40)
Less: Finance cost on deferred consideration (37.5 + 41.25) (W.N.7)	(78.75)
Retained Earnings as on 31st March 20X3	1,190.85

7. Calculation of value of deferred consideration as on 31st March 20X3

	₹ in 000s
Value of deferred consideration as on 1st April 20X1 (W.N.1)	375.00
Add: Finance cost for the year 20X1-20X2 (375 x 10%)	37.50
	412.50

Add: Finance cost for the year 20X2-20X3 (412.50 x 10%)	41.25
Deferred consideration as on 31st March 20X3	453.75

8. **Calculation of current Liability as on 31st March, 20X3**

	₹ in 000s
A Ltd.	1,250.00
S Ltd.	650.00
Deferred consideration as on 31st March, 20X3 (W.N.7)	453.75
Current Liability as on 31st March, 20X3	2,353.75

(b) Accounting treatment for Government Grant:

Government grants, related to assets, including non-monetary grants at fair value should be presented in the Balance Sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the asset's carrying amount. (Para 24 of Ind AS 20)

Government grants should be recognised as income over the periods in which the entity recognises as expenses the related costs that they are intended to compensate, on a systematic basis. The outcome should be same in the Profit and Loss account statement regardless of whether grants are netted or deferred.

In case the grant had been offset against the acquisition cost of the factory and net carrying value is less than the recoverable amount, there would be no need for an impairment write-down. The Profit and Loss account would be charged with annual depreciation on the net acquisition cost.

Government grant relating to 'Innovative Product':

To match the same result for the grant 'Innovative Product' which has been shown as deferred income and the factory is initially recorded at its cost, it is reasonable to release an amount of deferred income to the Profit and Loss account to compensate for the impairment write-down.

Treatment in case of further conditions attached:

If there are further conditions attached to the grant beyond construction of the factory, it may not be appropriate to release an amount of the deferred income to compensate for the impairment write down. An entity would need to assess those further conditions to determine the amount, if any, of deferred income to release.

6. (a) On the date of initial recognition, the effective interest rate of the loan shall be computed keeping in view the contractual cash flows and upfront processing fee paid. The following table shows the amortisation of loan based on effective interest rate:

Date	**Cash flows (principal)**	**Cash flows (interest and fee)**	**Amortised cost (opening + interest – cash flows)**	**Interest @ EIR (11.50%)**
1 April, 20X1	(500,000,000)	5,870,096	494,129,904	
31 Mar 20X2	100,000,000	55,000,000	395,954,843	56,824,939
31 Mar 20X3	100,000,000	44,000,000	297,489,650	45,534,807
31 Mar 20X4	100,000,000	33,000,000	198,700,959	34,211,310
31 Mar 20X5	100,000,000	22,000,000	99,551,570	22,850,610
31 Mar 20X6	100,000,000	11,000,000	(0)	11,448,430

a. 1st April, 20X1

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c Dr.	494,129,904	
To Loan from bank A/c		494,129,904
(Being loan recorded at its fair value less transaction costs on the initial recognition date)		

b. 31st March, 20X2

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Loan from bank A/c Dr.	98,175,061	
Interest expense (profit and loss) Dr.	56,824,939	
To Bank A/c		155,000,000
(Being first instalment of loan and payment of interest accounted for as an adjustment to the amortised cost of loan)		

c. 31st March, 20X3 – Before Wheel Co. Limited approached the bank –

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Interest expense (profit and loss) Dr.	45,534,807	
To Loan from bank A/c		1,534,807
To Bank A/c		44,000,000
(Being loan payment of interest recorded by the Company before it approached the Bank for deferment of principal)		

Upon receiving the new terms of the loan, Wheel Co. Limited, re-computed the carrying value of the loan by discounting the new cash flows with the original effective interest rate and comparing the same with the current carrying value of the loan. As per requirements of Ind AS 109, any change of more than 10% shall be considered a substantial modification, resulting in fresh accounting for the new loan:

Date	Cash flows (principal)	Interest outflow @15%	Discount factor	PV of cash flows
31 Mar 20X3	(400,000,000)			
31 Mar 20X4	40,000,000	60,000,000	0.8969	89,686,099
31 Mar 20X5	40,000,000	54,000,000	0.8044	75,609,805
31 Mar 20X6	40,000,000	48,000,000	0.7214	63,483,092
31 Mar 20X7	40,000,000	42,000,000	0.6470	53,053,542
31 Mar 20X8	40,000,000	36,000,000	0.5803	44,100,068
31 Mar 20X9	40,000,000	30,000,000	0.5204	36,429,133
31 Mar 20Y0	40,000,000	24,000,000	0.4667	29,871,422
31 Mar 20Y1	40,000,000	18,000,000	0.4186	24,278,903
31 Mar 20Y2	40,000,000	12,000,000	0.3754	19,522,235
31 Mar 20Y3	40,000,000	6,000,000	0.3367	15,488,493

Present Value (PV) of new contractual cash flows discounted at 11.50%	451,522,791
Carrying amount of loan	397,489,650
Difference	54,033,141
Percentage of carrying amount	13.59%

Note: Calculation above done on full decimal, though in the table discount factor is limited to 4 decimals.

Considering a more than 10% change in PV of cash flows compared to the carrying value of the loan, the existing loan shall be considered to have been extinguished and the new loan shall be accounted for as a separate financial liability. The accounting entries for the same are included below:

d. 31st March, 20X3 – Accounting for extinguishment

Particulars		Dr. Amount (₹)	Cr. Amount (₹)
Loan from bank (old) A/c	Dr.	397,489,650	
Finance cost (profit and loss)	Dr.	2,510,350	
To Loan from bank (new) A/c			400,000,000
(Being new loan accounted for at its principal amount in absence of any transaction costs directly related to such loan and correspondingly a de-recognition of existing loan)			

e. 31st March, 20X4

Particulars		Dr. Amount (₹)	Cr. Amount (₹)
Loan from bank A/c	Dr.	40,000,000	
Interest expense (profit and loss)	Dr.	60,000,000	
To Bank A/c			100,000,000
(Being first instalment of the new loan and payment of interest accounted for as an adjustment to the amortised cost of loan)			

(b) **(i)** **Treatment of short term compensating absences:** Diamond Pvt. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2X19-2X20 as short-term compensated absences.

(ii) **Treatment of defined contribution plan:** When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service.

Under Ind AS 19, the amount of ₹ 160 crore (200-40) will be recognised as a liability (accrued expense), after deducting any contribution already paid i.e. ₹ 40 crore (with contribution of ₹ 200 crore to the plan) and an expense in the statement of profit and loss.

It can also be seen that the contributions are payable within 12 months from the end of the year in which the employees render the related service; hence, they will not be discounted.