MOCK TEST PAPER 2

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWER

1. (a) A Limited

Consolidated Balance Sheet as at 31st March 20X1

(₹ in crore)

Particulars	Note	31st March, 20X1	31st March, 20X0
ASSETS			
Non-current assets			
(a) Property, plant and equipment	1	3,590	3,460
(b) Investment property		3,100	3,100
Total non-current assets		**6,690**	**6,560**
Current assets			
(a) Inventory	2	1,680	1,780
(b) Financial assets			
(i) Trade and other receivables	3	2,100	1,735
(ii) Cash and cash equivalents	4	320	200
Total current assets		**4,100**	**3,715**
Total assets		**10,790**	**10,275**
EQUITY & LIABILITIES			
Equity attributable to owners of the parent			
Share capital		1,130	1,050
Other Equity	5	2,825	2,350
Non-controlling interests		**830**	**540**
Total equity		**4,785**	**3,940**
LIABILITIES			
Non-current liabilities			
(a) Financial Liabilities			
(i) Borrowings - Long-term debt	6	2,800	3,385
(b) Provisions			
(i) Long-term provisions (environmental restoration)		765	640
Total non-current liabilities		**3,565**	**4,025**
Current liabilities			
(a) Financial Liabilities	7		
(i) Trade and other payables (Other than micro enterprises and small enterprises)	8	895	820
(ii) Current portion of long-term debt		500	500

(iii) Interest accrued on long-term debt			260	290
(iv) Dividend payable			150	230
(b) Provisions				
(i) Warranty provision			600	445
(ii) Provisions for accrued leave			35	25
Total current liabilities			**2,440**	**2,310**
Total liabilities			**6,005**	**6,335**
Total equity and liabilities			**10,790**	**10,275**

Working Notes:

Notes	Particulars	Basis	Calculation ₹ in crore	Amount ₹ in crore
1	Property, plant and equipment	Property, plant and equipment (PPE) at cost *less* Accumulated (depreciation on PPE	5,200 – 1,610 (4,700 – 1,240)	3,590 (3,460)
2	Inventory	Inventory at cost *add* Inventory at fair value less cost to complete and sell	1,500 + 180 (1,650 + 130)	1,680 (1,780)
3	Trade and other receivables	Accounts receivable *less* Provision for doubtful receivables	2,300 – 200 (1,800 – 65)	2,100 (1,735)
4	Cash and cash equivalents	Cash and Cash equivalents	250 + 70 (170 + 30)	320 (200)
5	Other Equity	Retained earnings at the beginning of the year *add* Profit for the year *less* Non-controlling interest's share of profit for the year *less* Dividend declared by A Limited	1,875 + 1,200– 160 – 90 (1,740 + 830 – 150 – 70)	2,825 (2,350)
6	Long-term debt	Long-term debt *less* Due on 1st January each year	3,300 – 500 (3,885 – 500)	2,800 (3,385)
7	Trade & other payables	Trade payables add Accrued expenses	880 + 15 (790 + 30)	895 (820)
8	Current portion of long-term debt	Due on 1st January each year	- -	500 (500)

Note: Figures in brackets represent the figures for the comparative year.

(b) At the effective date of the modification (at the beginning of Year 7), Lessee remeasures the lease liability based on:

(a) Remaining lease term = 8 years

(b) Annual payments = ₹ 1,00,000 and

(c) Lessee's incremental borrowing rate = 7% p.a.

The modified lease liability equals ₹ 5,97,100 (W.N.1). The lease liability immediately before the modification (including the recognition of the interest expense until the end of Year 6) is ₹ 3,46,355 (W.N.3). Lessee recognises the difference between the carrying amount of the modified lease liability and the carrying amount of the lease liability immediately before the modification (i.e., ₹ 2,50,745) (W.N.4) as an adjustment to the ROU Asset.

Journal Entry

	₹	₹
ROU Asset A/c Dr.	2,50,745	
To Lease Liability A/c		2,50,745
(Being difference in lease liability on account of modification of lease adjusted through ROU Asset A/c)		

Working Notes:

1. Calculation of present value of modified lease liability at the beginning of 7th year

Year	Lease Payment (A)	Present value factor @ 7% (B)	Present value of lease payments (A x B = C)
7	1,00,000	0.935	93,500
8	1,00,000	0.873	87,300
9	1,00,000	0.816	81,600
10	1,00,000	0.763	76,300
11	1,00,000	0.713	71,300
12	1,00,000	0.666	66,600
13	1,00,000	0.623	62,300
14	1,00,000	0.582	58,200
PV of the modified lease liability at the beginning of the 7th year			**5,97,100**

2. Calculation of present value of lease liability at the commencement date

Year	Lease Payment (A)	Present value factor @ 6% (B)	PV of lease payments (A x B = C)
1	1,00,000	0.943	94,300
2	1,00,000	0.890	89,000
3	1,00,000	0.840	84,000
4	1,00,000	0.792	79,200
5	1,00,000	0.747	74,700
6	1,00,000	0.705	70,500
7	1,00,000	0.665	66,500
8	1,00,000	0.627	62,700
9	1,00,000	0.592	59,200
10	1,00,000	0.558	55,800
Present value of the lease liability at the commencement date			**7,35,900**

3. **Calculation of lease liability immediately before the modification date**

Year	Opening lease liability (A)	Interest @ 6% (B) = [A x 6%]	Lease payments (C)	Closing liability (D) = [A+B-C]
1	7,35,900	44,154	1,00,000	6,80,054
2	6,80,054	40,803	1,00,000	6,20,857
3	6,20,857	37,251	1,00,000	5,58,108
4	5,58,108	33,486	1,00,000	4,91,594
5	4,91,594	29,496	1,00,000	4,21,090
6	4,21,090	25,265	1,00,000	3,46,355
Lease liability as at modification date				**3,46,355**

4. **Adjustment to ROU asset**

Modified Lease liability	5,97,100
Original Lease liability as at modification date	(3,46,355)
Adjustment to ROU asset	**2,50,745**

The ROU asset will be increased by ₹ 2,50,745 on the date of modification.

2. (a) In accordance with Ind AS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalised. Therefore, the initial purchase price of the building would be:

Particulars	**(₹)**
Purchase amount	50,00,000
Non-refundable property tax	2,50,000
Direct legal cost	50,000
	53,00,000
Expenditures on redevelopment:	
Building plan approval	1,00,000
Construction costs (10,00,000 – 60,000)	9,40,000
Total amount to be capitalised at 1st October, 20X1	63,40,000

Treatment of abnormal wastage of material and labour:

As per Ind AS 16, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. It will be charged to Profit and Loss in the year it is incurred. Hence, abnormal wastage of ₹ 40,000 will be expensed off in Profit & Loss in the financial year 20X1-20X2.

Accounting of property- Building

When the property is used as an administrative centre, it is not an investment property, rather it is an 'owner occupied property'. Hence, Ind AS 16 will be applicable.

When the property (land and/or buildings) is held to earn rentals or for capital appreciation (or both), it is an Investment Property. Ind AS 40 prescribes the cost model for accounting of such investment property.

Since equal value can be attributed to each floor, Ground Floor of the building will be considered as Investment Property and accounted for as per Ind AS 40 and First Floor would be considered as Property, Plant and Equipment and accounted for as per Ind AS 16.

Cost of each floor = ₹ 63,40,000 / 2 = ₹ 31,70,000

As on 1st October, 20X1, the carrying value of building vis-à-vis its classification would be as follows:

(i) In the Separate Financial Statements: The Ground Floor of the building will be classified as investment property for ₹ 31,70,000, as it is property held to earn rentals. While First Floor of the building will be classified as item of property, plant and equipment for ₹ 31,70,000.

(ii) In the Consolidated Financial Statements: The consolidated financial statements present the parent and its subsidiary as a single entity. The consolidated entity uses the building for the supply of goods. Therefore, the leased-out property to a subsidiary does not qualify as investment property in the consolidated financial statements. Hence, the whole building will be classified as an item of Property, Plant and Equipment for ₹ 63,40,000.

(b) (i) The Framework for integrated reporting has been written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

(ii) An integrated report may be prepared in response to existing compliance requirements. For example, an organization may be required by local law to prepare a management commentary or other report that provides context for its financial statements. If that report is also prepared in accordance with this Framework, it can be considered as an integrated report. If the report is required to include specified information beyond that required by the Framework, the report can still be considered as an integrated report if that other information does not obscure the concise information required by the Framework.

(c) Segment information

(A) Information about operating segment

(1) The company's operating segments comprise:

Coatings: consisting of decorative, automotive, industrial paints and related activities.

Others: consisting of chemicals, polymers and related activities.

(2) Segment revenues, results and other information. **(₹ in Lakh)**

	Revenue	**Coating**	**Others**	**Total**
1.	**External Revenue (gross)**	**2,00,000**	**70,000**	**2,70,000**
	Less: GST	(5,000)	(3,000)	(8,000)
	Total Revenue (net)	1,95,000	67,000	2,62,000
	Other Operating Income	40,000	15,000	55,000
	Total Revenue	2,35,000	82,000	3,17,000
2.	**Results**			
	Segment results	10,000	4,000	14,000
	Unallocated income (net of unallocated expenses)			3,000
	Profit from operation before interest, taxation and exceptional items			**17,000**
	Interest and bank charges			(2,000)
	Profit before exceptional items			**15,000**
	Exceptional items			Nil
	Profit before taxation			**15,000**

	Income Taxes			
	-Current taxes			(1,950)
	-Deferred taxes			(50)
	Profit after taxation			**13,000**
3.	**Other Information**			
(a)	**Assets**			
	Segment Assets	50,000	30,000	80,000
	Investments			10,000
	Unallocated assets			10,000
	Total Assets			**1,00,000**
(b)	**Liabilities and Shareholder's funds**			
	Segment liabilities	30,000	10,000	40,000
	Unallocated liabilities			20,000
	Share capital			10,000
	Reserves and surplus			30,000
	Total liabilities and shareholder's funds			**1,00,000**
(c)	**Others**			
	Capital Expenditure	(5,000)	(2,000)	(7,000)
	Depreciation	(1,000)	(300)	(1,300)

Geographical Information **(₹ in lakh)**

		India (₹)	Outside India (₹)	Total (₹)
	Revenue	2,55,000	62,000	3,17,000
	Segment assets	90,000	10,000	1,00,000
	Capital expenditure	7,000		7,000

3. **(a)** The legal form of Entity A and the terms of the contractual arrangement indicate that the arrangement is a joint venture. However, the other relevant facts and circumstances mentioned above indicates that:

- the obligation of the parties to purchase all the output produced by Entity A reflects the exclusive dependence of Entity A upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of Entity A.
- the fact that the parties have rights to all the output produced by Entity A means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of Entity A.

These facts and circumstances indicate that the arrangement is a joint operation.

The conclusion about the classification of the joint arrangement in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

If the parties changed the terms of the contractual arrangement so that the arrangement was able to sell output to third parties, this would result in Entity A assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

(b) The accounting treatment made by the accountant is not in compliance with Ind AS 109 'Financial Instruments'. As per Ind AS 109, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value. The fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received.

After initial recognition, an entity shall measure a financial asset either at amortised cost or at fair value through profit and loss or fair value through other comprehensive income.

Here, the loan given to employee is not at market rate. Hence, the fair value of the loan will not be equal to its initial loan proceeds. As per Ind AS 109, a financial instrument is initially measured and recorded in the books at its fair value. Further, interest income to be recognised in the Statement of Profit and Loss will be the finance income recognised at effective rate of interest i.e. @ 10% and not the rate of interest charged by the company i.e. @ 6%.

The correct accounting treatment as per Ind AS 109 will be as under:

For measuring the fair value or present value of the loan at initial recognition, market rate of interest of similar loan is considered (level 1 observable input) ie @ 10%, to discount the cash outflows.

The fair value of the loan shall be as follows:

Date	Outstanding loan	Principal	Interest income @ 6%	Total inflow	Discount factor @ 10%	PV
31st March 20X2	15,00,000	3,00,000	90,000	3,90,000	0.909	3,54,510
31st March 20X3	12,00,000	3,00,000	72,000	3,72,000	0.826	3,07,272
31st March 20X4	9,00,000	3,00,000	54,000	3,54,000	0.751	2,65,854
31st March 20X5	6,00,000	3,00,000	36,000	3,36,000	0.683	2,29,488
31st March 20X6	3,00,000	3,00,000	18,000	3,18,000	0.621	1,97,478
Fair value of the loan						13,54,602

As per Ind AS 19, employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees or for termination of employment. Difference of loan proceeds and present value of the loan (fair value) will be treated as prepaid employee cost irrespective of the fact that employee is not required to give any specific performance against this benefit. This is because employee is required to be in service of the company to continue availing the benefits of concessional rate of interest on housing loan. Practically, once the employee leaves the organisation, they have to repay the outstanding loan because the company provides the loan at concessional rate of interest only to its employees.

Hence, it is an employee benefit given by the company to its employees. This deemed employee cost of ₹ 1,45,398 (15,00,000 – 13,54,602) will be deferred and amortised over the period of loan on straight line basis.

Calculation of amortised cost of loan to employees

Financial year ending on 31st March	Amortised cost (opening balance)	Interest to be recognised @ 10%	Repayment (including interest)	Amortised cost (closing balance)
20X2	13,54,602	1,35,460	3,90,000	11,00,062

20X3	11,00,062	1,10,006	3,72,000	8,38,068
20X4	8,38,068	83,807	3,54,000	5,67,875
20X5	5,67,875	56,788	3,36,000	2,88,663
20X6	2,88,663	29,337*	3,18,000	-

* 2,88,663 x 10% = ₹ 28,866. Difference of ₹ 471 (29,337 – 28,866) is due to approximation in computation.

Journal Entries to be recorded at every period end

1. On 1st April, 20X1

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Loan to employee A/c Dr.	13,54,602	
Prepaid employee cost A/c Dr.	1,45,398	
To Bank A/c		15,00,000
(Being loan asset recorded at initial fair value)		

2. On 31st March, 20X2

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c Dr.	3,90,000	
To Finance income A/c (profit and loss) @10%		1,35,460
To Loan to employee A/c		2,54,540
(Being first instalment of repayment of loan accounted for using the amortised cost and effective interest rate @ 10%)		
Employee benefit cost (profit and loss) A/c Dr.	29,080	
To Prepaid employee cost A/c (1,45,398/5)		29,080
(Being amortization of pre-paid employee cost charged to profit and loss as employee benefit cost)		

The following housing loan balances should appear in the financial statements:

Extracts of Balance Sheet of Star Ltd. as at 31st March, 20X2

Non-current asset	
Financial asset	
Loan to employee (11,00,062 – 3,72,000 + 1,10,006)	8,38,068
Other non-current asset	
Prepaid employee cost	87,238
Current asset	
Financial asset	
Loan to employee (3,72,000-1,10,006)	2,61,994
Other current asset	
Prepaid employee cost	29,080

4. (a) **Consolidated Balance Sheet of the Group as at 31st March, 20X2**

Particulars	Note No.	₹ in lakh
ASSETS		
Non-current assets		
Property, plant and equipment	1	980
Current assets		
(a) Inventory	2	338
(b) Financial assets		
Trade receivable	3	580
Bills receivable	4	2
Cash and cash equipment	5	308
Total assets		**2,208**
EQUITY & LIABILITIES		
Equity attributable to owners of parent		
Share Capital		600
Other Equity		
Reserve (W.N.5)		194
Retained Earnings (W.N.5)		179.8
Capital Reserve (W.N.3)		188
Non-controlling interests (W.N.4)		166.2
Total equity		**1328**
LIABILITIES		
Non-current liabilities		Nil
Current liabilities		
(a) Financial Liabilities		
(i) Trade payables	6	880
Total liabilities		880
Total equity and liabilities		**2,208**

Notes to Accounts **(₹ in lakh)**

1.	**Property Plant & Equipment**		
	P Ltd.	320	
	S Ltd.	360	
	SS Ltd.	300	980
2.	**Inventories**		
	P Ltd.	220	
	S Ltd. (70-2)	68	
	SS Ltd.	50	338
3.	**Trade Receivable**		
	P Ltd.	260	
	S Ltd.	100	

	SS Ltd.	220	580
4.	**Bills Receivable**		
	P Ltd. (72-70)	2	
	S Ltd. (30-30)	-	2
5.	**Cash & Cash equivalents**		
	P Ltd.	228	
	S Ltd.	40	
	SS Ltd.	40	308
6.	**Trade Payables**		
	P Ltd.	470	
	S Ltd.	230	
	SS Ltd.	180	880

Working Notes:

1. **Analysis of Reserves and Surplus** **(₹ in lakh)**

		S Ltd.		SS Ltd.
Reserves as on 31.3.20X1		80		60
Increase during the year 20X1-20X2	20		20	
Increase for the half year till 30.9.20X1		10		10
Balance as on 30.9.20X1 (A)		**90**		**70**
Total balance as on 31.3.20X2		100		80
Post-acquisition balance		**10**		**10**
Retained Earnings as on 31.3.20X1		20		30
Increase during the year 20X1-20X2	30		30	
Increase for the half year till 30.9.20X1		15		15
Balance as on 30.0.20X1 (B)		**35**		**45**
Total balance as on 31.3.20X2		50		60
Post-acquisition balance		15		15
Less: Unrealised Gain on inventories (10 ÷ 100 x 25)		-		(2)
Post-acquisition balance for CFS		**15**		**13**
Total balance on the acquisition date ie.30.9.20X1 (A+B)		**125**		**115**

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

Acquisition by P Ltd. In S Ltd. = 80%

Acquisition by S Ltd. In SS Ltd. = 75%

Acquisition by Group in SS Ltd. (80% x 75%) = 60%

Non-controlling Interest = 40%

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

	S Ltd.	SS Ltd.
Investment or consideration	340	(280 x 80%) 224
Add: NCI at Fair value		
(400 x 20%)	80	
(320 x 40%)	-	128
	420	352
Less: Identifiable net assets (Share Capital + Increase in the Reserves and Surplus till acquisition date)	(400+125) (525)	(320+115) (435)
Capital Reserve	105	83
Total Capital Reserve (105 + 83)	**188**	

4. **Calculation of Non-controlling Interest**

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

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

5. **Calculation of Consolidated Other Equity**

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

(b) The transaction price should include management's estimate of the amount of consideration to which the entity will be entitled for the work performed.

Probability-weighted	Consideration
₹ 1,50,000 (fixed fee plus full performance bonus) x 60%	₹ 90,000
₹ 1,45,000 (fixed fee plus 90% of performance bonus) x 30%	₹ 43,500
₹ 1,40,000 (fixed fee plus 80% of performance bonus) x 10%	₹ 14,000
Total probability-weighted consideration	**₹ 1,47,500**

Based on the probability-weighted estimate, the total transaction price is ₹ 1,47,500. The contractor have to update its estimate at each reporting date.

5. **(a)** The following table shows the amount of income tax expense that is reported in each quarter:

Expected Total Income	= 15,000 x 4 = ₹ 60,000
Expected Tax as per slabs	= 20,000 x 20% + 40,000 x 40% = ₹ 20,000
Average Annual Income tax rate	= 20,000/60,000 x 100 = 33.33%

Amount (₹)

	Q1	Q2	Q3	Q4
Profit before tax	15,000	15,000	15,000	15,000
Tax expense	5,000	5,000	5,000	5,000

(b) T Ltd. concludes that the modem and router are each distinct and that the arrangement includes three performance obligations (the modem, the router and the internet services) based on the following evaluation:

Criterion 1: Capable of being distinct

- C can benefit from the modem and router on their own because they can be resold for more than scrap value.
- C can benefit from the internet services in conjunction with readily available resources – i.e. either the modem and router are already delivered at the time of contract set- up, they could be bought from alternative retail vendors or the internet service could be used with different equipment.

Criterion 2: Distinct within the context of the contract

- T Ltd. does not provide a significant integration service.
- The modem, router and internet services do not modify or customise one another.
- C could benefit from the internet services using routers and modems that are not sold by T Ltd.

Therefore, the modem, router and internet services are not highly dependent on or highly inter-related with each other.

(c) Allocated price per unit (year) is calculated as follows:

Total estimated memberships is 175 members (Year 1 = 100; Year 2 = 50; Year 3 = 25) = 175

Total consideration is ` 12,00,000 {(100 x 7,500) + (50 x 6,000) + (25 x 6,000)}

Allocated price per membership is ` 6,857 approx. (12,00,000 / 175)

Basis on above, it is to be noted that although entity has collected ` 7,500 but revenue can be recognised at ` 6,857 approx. per membership and remaining ` 643 should be recorded as contract liability against option given to customer for renewing their membership at discount.

(d) (i) If Mr. X controls or jointly controls A Limited, then Mr. X is a related party to A limited. B Limited will be considered as related to A Limited when Ms. Y also has control, joint control or significant influence over B Limited because Ms. Y is a domestic partner of Mr. X.

(ii) If Ms. Y controls or jointly controls B Limited, then Ms. Y is a related party to B limited. A Limited will be considered as related to B Limited when Mr. X also has control, joint control or significant influence over A Limited because Mr. X is a domestic partner of Ms. Y.

(iii) No, Significant influence does not lead to direct / indirect control between the A Ltd. and B Ltd. Hence, they will not be considered as related party.

6. (a) **Either**

The amount of borrowing cost to be capitalized requires determination of interest cost on foreign currency loan and eligible exchange loss difference to be adjusted, if any.

(i) Interest on foreign currency loan for the period:

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

Converted in ₹: USD 1,000 x ₹ 48/USD = ₹ 48,000

(ii) Increase in liability due to change in exchange difference:

USD 20,000 x (48 - 45) = ₹ 60,000

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

USD 20,000 x ₹ 45/USD x 11% = ₹ 99,000

(iv) Difference between interest on foreign currency borrowings and interest on local currency borrowings:

₹ 99,000 - 48,000 = ₹ 51,000

Since interest saving of ₹ 51,000 is less than the exchange loss of Rs. 60,000, exchange loss to the extent of ₹ 51,000 will be capitalized as borrowing costs.

Therefore, total borrowing cost to be capitalized will be:

(1)	Interest cost on borrowings in foreign currency	₹ 48,000
(2)	Exchange difference to the extent considered to be an adjustment to interest cost	₹ 51,000
		₹ 99,000

The remaining exchange loss of ₹ 9,000 (60,000 – 51,000) will be expensed off in the Statement of Profit and loss.

(a) **OR**

Presented as disposal group held for sale

(2) PQR Ltd.'s fleet of vehicles is classified as held for sale because it constitutes a group of assets to be sold in their present condition and the sale is highly probable at the reporting date (as a contract has been entered into).

(3) DEF Ltd.'s sale of its retail business will not be completed until the final terms (e.g. of purchase price) are agreed. However, the business is ready for immediate sale and the sale is highly probable to be completed by April, 20X1. This implies that the retail business is a disposal group held for sale, unless other evidence after the reporting date but before the financial statements are approved for issue, comes to light to indicate the contrary.

Not presented as disposal group held for sale

(1) XYZ Ltd.'s shares in Alpha Ltd. are not available for an immediate sale as shareholders' approval is required. Also, no specific potential buyer has been identified. Taking these facts into consideration, it is clear that the sale is not highly probable.

(b) Accounting treatment in the books of M Ltd. (Functional Currency Rupees)

M Ltd. will recognize sales of ₹ 996 lacs (12 lacs Euro x ₹ 83)

Profit on sale of inventory = ₹ 996 lacs – ₹ 830 lacs = ₹ 166 lacs.

On balance sheet date, receivable from G Ltd. will be translated at closing rate i.e. 1 Euro = ₹ 85. Therefore, unrealised forex gain will be recorded in standalone profit and loss by ₹ 24 lacs. (i.e. (₹ 85 - ₹ 83) x 12 Lacs)

Journal Entries

	₹ (in Lacs)	₹ (in Lacs)
G Ltd. Dr.	996	
To Sales		996
(Being revenue recorded on initial recognition)		
G Ltd. Dr.	24	
To Foreign exchange difference (unrealised)		24
(Being foreign exchange difference recorded at year end)		

Accounting treatment in the books of G Ltd. (Functional currency EURO)

G Ltd. will recognize inventory on 1st February, 20X1 of Euro 12 lacs which will also be its closing stock at year end.

Journal Entry

	(in Euros)	(in Euros)
Purchase Dr.	12 lakh	
To M Ltd.		12 lakh

Accounting treatment in the consolidated financial statements

Receivable and payable in respect of above-mentioned sale / purchase between M Ltd. and G Ltd. will get eliminated.

The closing stock of G Ltd. will be recorded at lower of cost or NRV.

	Euro (in lacs)	**Rate**	**₹ (in lacs)**
Cost	12	83	**996**
NRV (Assumed Same)	12	85	1020

Since cost is less than NRV, no write off in the value of inventory is required.

The amount of closing stock of ₹ 996 lacs includes two components–

- Cost of inventory for ₹ 830 lacs; and
- Profit element of ₹ 166 lacs; and

At the time of consolidation, the second element amounting to ₹166 lacs will be eliminated from the closing stock.

Journal Entry

	₹ (in Lacs)	₹ (in Lacs)
Consolidated P&L A/c ‘ Dr.	166	
To Inventory		166
(Being profit element of intragroup transaction. eliminated)		

(c) Para 9 of Ind AS 36 ‘Impairment of Assets’ states that an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Further, paragraph 10(b) of Ind AS 36 states that irrespective of whether there is any indication of impairment, an entity shall also test goodwill acquired in a business combination for impairment annually.

Sun Ltd. has not tested any CGU on account of not having any indication of impairment is partially correct i.e. in respect of CGU A and B but not for CGU C. Hence, the treatment made by the Company is not in accordance with Ind AS 36.

Impairment testing in respect of CGU A and B are not required since there are no indications of impairment. However, Sun Ltd shall test CGU C irrespective of any indication of impairment annually as the goodwill acquired on business combination is fully allocated to CGU 'C'.