Test Series: October, 2021

MOCK TEST PAPER 1

FINAL (NEW) COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

ANSWERS

1. (a) **Full Retrospective Approach:**

Under the full retrospective approach, the lease liability and the ROU asset are measured on the commencement date (i.e., 1st April, 20X1 in this case) using the incremental borrowing rate **at lease commencement date** (i.e., 12% p.a. in this case). The lease liability is accounted for by the interest method subsequently and the ROU asset is subject to depreciation on the straight-line basis over the lease term of three years. The Lease Liability and ROU Asset are as follows:

Year	*Payments (Cash flows)*	*Present Value Factor @ 12%*	*Discounted Cash flows / Present Value*
31 Mar 20X2	2,00,000	0.8929	1,78,580
31 Mar 20X3	2,00,000	0.7972	1,59,440
31 Mar 20X4	2,00,000	0.7118	1,42,360
	6,00,000		**4,80,380**

Lease Liability Schedule:

Year	*Opening*	*Interest Expense @ 12%*	*Payments*	*Closing*
31 Mar 20X2	4,80,380	57,646	(2,00,000)	3,38,026
31 Mar 20X3	3,38,026	40,563	(2,00,000)	1,78,589
31 Mar 20X4	1,78,589	21,411*	(2,00,000)	-

*Difference is due to approximation

ROU Asset Schedule:

Year	*Opening*	*Depreciation*	*Closing*
31 Mar 20X2	4,80,380	(1,60,126)	3,20,254
31 Mar 20X3	3,20,254	(1,60,127)	1,60,127
31 Mar 20X4	1,60,127	(1,60,127)	-

The following table shows account balances under this method beginning at lease commencement:

Date	*ROU Asset*	*Lease Liability*	*Interest Expense*	*Depreciation Expense*	*Retained Earnings*
1 Apr 20X1	4,80,380	4,80,380	-	-	-
31 Mar 20X2	3,20,254	3,38,026	-	-	-
1 Apr 20X2	3,20,254	3,38,026			(17,772)
31 Mar 20X3	1,60,127	1,78,589	40,563	1,60,127	-
1 Apr 20X3	1,60,127	1,78,589	-	-	-
31 Mar 20X4	-	-	21,411	1,60,127	-

Ind AS 116 is applicable for the financial year beginning from 1st April, 20X3. Hence, 20X3-20X4 is the first year of adoption and using Full retrospective method the comparative for 20X2-20X3 needs to be restated and 1st April, 20X2 (i.e the opening of the comparative) is taken as transition date for adoption of this standard. At adoption, the lessee would record the ROU asset and lease liability at the 1st April, 20X2 by taking values from the above table, with the difference between the ROU asset and lease liability going to retained earnings as of 1st April, 20X2 (assuming that only the 20X2-20X3 financial information is included as comparatives).

ROU Asset	Dr.	3,20,254	
Retained Earnings	Dr.	17,772	
To Lease Liability			3,38,026
To initially recognise the lease-related asset and liability as of 1 April 20X2.			

The following journal entries would be recorded during 20X2-20X3:

Interest expense	Dr.	40,563	
To Lease Liability			40,563
To record interest expense and accrete the lease liability using the interest method.			
Depreciation expense	Dr.	1,60,127	
To ROU Asset			1,60,127
To record depreciation expense on the ROU asset.			
Lease Liability	Dr.	2,00,000	
To Cash			2,00,000
To record lease payment.			

The following journal entries would be recorded during 20X3-20X4:

Interest expense	Dr.	21,411	
To Lease Liability			21,411
To record interest expense and accrete the lease liability using the interest method.			
Depreciation expense	Dr.	1,60,127	
To ROU Asset			1,60,127
To record depreciation expense on the ROU asset.			
Lease Liability	Dr.	2,00,000	
To Cash			2,00,000
To record lease payment.			

Modified Retrospective Approach (When ROU asset is not equal to lease liability):

Under the modified retrospective approach (Alternative 1), the lease liability is measured based on the remaining lease payments (i.e., from the date of transition to the lease end date, viz., 1st April, 20X3 to 31st March, 20X4 in this case) discounted using the incremental borrowing rate as of the date of initial **application being 1st April, 20X3** (i.e. 10% p.a. in this case). The ROU asset is at its carrying amount as if Ind AS 116 had been applied since the commencement date (i.e., 1st April 20X1 in this case) by using incremental borrowing rate as at transition date. The Lease Liability and ROU Asset are as follows:

Year	Payments (Cash flows)	Discounting Factor @10%	Discounted Cash flows / Present Value
31 Mar 20X4	2,00,000	0.9091	1,81,820
	2,00,000		**1,81,820**

Lease Liability Schedule:

Year	Opening Balance	Interest Expense @ 10%	Payments	Closing Balance
31 Mar 20X4	1,81,820	18,180*	(2,00,000)	-

*Difference is due to approximation

ROU Asset Schedule:

Year	Opening Balance	Depreciation	Closing Balance
31 Mar 20X4	1,65,787***	(1,65,787)	-

***(Refer W.N.3)

The following table shows account balances under this method beginning at lease commencement:

Date	ROU Asset	Lease Liability	Interest Expense	Depreciation Expense	Retained Earnings
1 Apr 20X1	4,97,360*	4,97,360**	-	-	-
31 Mar 20X2	3,31,574	3,47,096	49,736	1,65,786	-
31 Mar 20X3	1,65,787	1,81,806	34,710	1,65,787	(16,019)
1 Apr 20X3	1,65,787	1,81,806	-	-	-
31 Mar 20X4	-	-	18,194	1,65,787	-

*(Refer W.N.1)

**(Refer W.N.2)

At adoption, the lessee would record the ROU asset and lease liability at 1st April 20X3 by taking values from the above table, with the difference between the ROU asset and lease liability going to retained earnings as 1st April 20X3.

ROU Asset	Dr.	1,65,787	
Retained Earnings	Dr.	16,019	
To Lease Liability			1,81,806
To initially recognise the lease-related asset and liability as of 1st April 20X3.			

The following journal entries would be recorded during 20X3-20X4:

Interest expense	Dr.	18,194	
To Lease Liability			18,194
To record interest expense and accrete the lease liability using the interest method.			

Depreciation expense	Dr.	1,65,787	
To ROU Asset			1,65,787
To record depreciation expense on the ROU asset.			
Lease Liability	Dr.	2,00,000	
To Cash			2,00,000
To record lease payment.			

Working Notes

1. **Calculation of Present value of lease payments as at commencement date i.e., 1st April, 20X1**

Year	*Payments (Cash flows)*	*Discounting Factor @10%*	*Discounted Cash flows / Present Value*
31 Mar 20X2	2,00,000	0.9091	1,81,820
31 Mar 20X3	2,00,000	0.8264	1,65,280
31 Mar 20X4	2,00,000	0.7513	1,50,260
	6,00,000		**4,97,360**

2. **Lease Liability Schedule:**

Year	*Opening*	*Interest Expense @ 10%*	*Payments*	*Closing*
31 Mar 20X2	4,97,360	49,736	(2,00,000)	3,47,096
31 Mar 20X3	3,47,096	34,710	(2,00,000)	1,81,806
31 Mar 20X4	1,81,806	18,194*	(2,00,000)	-

*Difference is due to approximation

3. **Calculation of ROU asset as at transition date i.e., 1st April, 20X3**

Year	*Opening*	*Depreciation*	*Closing*
31 Mar 20X2	4,97,360	(1,65,786)	3,31,574
31 Mar 20X3	3,31,574	(1,65,787)	1,65,787
31 Mar 20X4	1,65,787	(1,65,787)	-

(b) (a) Paragraph 66 (c) of Ind AS 1 provides that an asset shall be classified as current when an entity expects to realise the asset within a period of twelve months after the reporting period. To determine the expectation of the entity, the commercial reality of the transaction should also be considered. If the loans have been given with an understanding that these loans would not be called for repayment even though a clause may have been added that these are recoverable on demand, it should be classified as a non-current asset.

(b) Paragraph 69(c) of Ind AS 1 provides that a liability should be classified as current if the liability is due to be settled within twelve months after the reporting period. Since the loan/inter- corporate deposit would become due immediately as and when demanded and presuming that the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, it should be classified as current liability.

2. (a) Ind AS 102 'Share-based Payments' requires a company to remeasure the fair value of a liability to pay cash-settled share-based payments at each reporting date and the settlement date until the liability is settled. Share Appreciation rights fall under this category. Hence, the company should recognize a liability of ₹ 80 million (₹ 8 x 10 million) at 31st March, 20X4, the vesting date.

The liability recognised at 31st March, 20X4 was in fact based on the share price at the previous year-end and would have been shown at ₹ 6 x ½ x 10 million shares – half the cost as the SARs vest over 2 years. This liability at 31st March, 20X4 has not been changed since the previous year-end by the company.

The SARs vest over a two-year period and hence on 31st March, 20X4 there would be a weighting of the eventual cost by 1 year / 2 year. Therefore, an additional liability of ₹ 50 million (30 million + 20 million) should be accounted for in the financial statements at 31st March, 20X4.

The SARs would be settled on 1st May, 20X4 at ₹ 90 million (₹ 9 x 10 million). The increase of ₹ 10 million (over and above ₹ 80 million) in the value of the SARs is a non-adjusting event. Hence, the change in the fair value of ₹ 10 million during the year 20X4-20X5 would be charged to profit and loss for the year ended 31st March, 20X5 and not 31st March, 20X4.

(b) Table showing classification of various items:

S. No.	Item	Classification
(1)	Cash deposited in banks	Financial Instrument
(2)	Gold deposited in banks	Not a financial instrument
(3)	Trade receivables	Financial Instrument
(4)	Investments in debt instruments	Financial Instrument
(5)	Investments in equity instruments	Financial Instrument
(6)	Prepaid expenses	Not a financial instrument
(7)	Inter-corporate loans and deposits	Financial Instrument
(8)	Deferred revenue	Not a financial instrument
(9)	Tax liability	Not a financial instrument
(10)	Provision for estimated litigation losses	Not a financial instrument

(c) Considering that the remaining goods or services are not distinct, the modification will be accounted for on a cumulative catch-up basis, as given below:

Particulars	Hours	Rate (₹)	Amount (₹)
Initial contract amount	200	150	30,000
Modification in contract	50	100	5,000
Contract amount after modification	250	140*	35,000
Revenue to be recognised	100	140	14,000
Revenue already booked	100	150	15,000
Adjustment in revenue			(1,000)

*₹ 35,000 / 250 hours = ₹ 140.

(d) The contract includes a significant financing component. This is evident from the difference between the amount of promised consideration of ₹ 1,21,000 and the cash selling price of ₹ 1,00,000 at the date that the goods are transferred to the customer.

The contract includes an implicit interest rate of 10 per cent (i.e. the interest rate that over 24 months discounts the promised consideration of ₹ 1,21,000 to the cash selling price of ₹ 1,00,000). The entity evaluates the rate and concludes that it is commensurate with the rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception.

Until the entity receives the cash payment from the customer, interest revenue would be recognised in accordance with Ind AS 109. In determining the effective interest rate in accordance with Ind AS 109, the entity would consider the remaining contractual term.

Calculation of interest income:

Year	Opening balance (a)	Interest @ 10% (b) = (a) x 10%	Payment (c)	Closing balance (d) = (a) + (b) -(c)
1	1,00,000	10,000	-	1,10,000
2	1,10,000	11,000	1,21,000	-

Hence, the interest revenue with respect to financing component of the transaction to be recognized in the Year 1 and Year 2 is ₹ 10,000 and ₹ 11,000 respectively.

3. (a) In 2010, the International Integrated Reporting Council (IIRC) was set up which aims to create the globally accepted integrated reporting framework.

The International Integrated Reporting Council (IIRC) is a global coalition of:

- Regulators
- Investors
- Companies
- Standard setters
- The accounting profession and NGOs

Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. With this purpose, they issued the International Integrated Reporting (IR) Framework.

The framework has been developed keeping in mind the greater flexibility to be given to the entity and the management in the reporting but at the same time should target to report the value created by the organisation through various capital.

(b) **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

4. (a)

	1st April, 20X1 ₹	31st March, 20X2 ₹	31st March, 20X3 ₹
Equity alternative (1,500 x 102)	1,53,000		
Cash alternative (1,000 x 113)	1,13,000		
Equity option (1,53,000 - 1,13,000)	40,000		
Cash Option (cumulative) (using period end fair value)		(1,000 x 120 x ½) 60,000	1,32,000
Equity Option (cumulative)		(40,000 x ½) 20,000	40,000
Expense for the period			
Equity option		20,000	20,000
Cash Option		60,000	72,000
Total		80,000	92,000

Journal Entries

31st March, 20X2			₹
Employee benefits expenses	Dr.	80,000	
To Share based payment reserve (equity)*			20,000
To Share based payment liability			60,000
(Recognition of Equity option and cash settlement option)			
31st March, 20X3			
Employee benefits expenses	Dr.	92,000	
To Share based payment reserve (equity)*			20,000
To Share based payment liability			72,000
(Recognition of Equity option and cash settlement option)			
Share based payment liability	Dr.	1,32,000	
To Bank/ Cash			1,32,000
(Settlement in cash)			

*The equity component recognized (₹ 40,000) shall remain within equity. By electing to receive cash on settlement, the employees forfeited the right to receive equity instruments. However, ABC Limited may transfer the share-based payment reserve within equity, i.e. a transfer from one component of equity to another.

(b) Purchase Consideration: ₹ 25 Cr

Non-Controlling Interest [{(12 Cr x (20% / 80%)} x ₹ 2 per share] ₹ 6 Cr

Computation of Net Assets of B Ltd.

As per books	₹ 23.00 Cr
Add: Fair value differences not recognized in books of B Ltd.:	
Property (18 Cr – 15 Cr)	₹ 3.00 Cr
Plant and Equipment (13 Cr – 11 Cr)	₹ 2.00 Cr
Inventory (3 Cr – 2.5 Cr)	₹ 0.50 Cr
	₹ 28.5 Cr
Less: Deferred tax liability on fair value difference @ 20%	
[(3 Cr + 2 Cr + 0.50 Cr) x 20%]	(₹ 1.10 Cr)
Total Net Assets at Fair Value	₹ 27.40 Cr

Computation of Goodwill:

Purchase Consideration	₹ 25.00 Cr
Add: Non-Controlling Interest	₹ 6.00 Cr
	₹ 31.00 Cr
Less: Net Assets at Fair Value	(₹ 27.40 Cr)
Goodwill on acquisition date	₹ 3.60 Cr

(c) As per para 30(c) of Ind AS 34 'Interim Financial Reporting', income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

If different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries) to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income.

		₹
Estimated annual income exclusive of estimated capital gain (33,00,000 – 8,00,000)	(A)	25,00,000
Tax expense on other income:		
30% on ₹ 5,00,000		1,50,000
40% on remaining ₹ 20,00,000		8,00,000
	(B)	9,50,000
Weighted average annual income tax rate = $\frac{B}{A} = \frac{9,50,000}{25,00,000} = 38\%$		

Tax expense to be recognised in each of the quarterly reports

		₹
Quarter I - ₹ 7,00,000 x 38%		2,66,000
Quarter II - ₹ 8,00,000 x 38%		3,04,000
Quarter III - ₹ (12,00,000 - 8,00,000) x 38%	1,52,000	
₹ 8,00,000 x 12%	96,000	2,48,000
Quarter IV - ₹ 6,00,000 x 38%		2,28,000
		10,46,000

5. (a) This is a compound financial instrument with two components – liability representing present value of future cash outflows and balance represents equity component.

a. Computation of Liability & Equity Component

Date	Particulars	Cash Flow	Discount Factor	Net present Value
1 Apr 20X1		0	1	0.00
31 Mar 20X2	Dividend	1,50,000	0.870	1,30,500
31 Mar 20X3	Dividend	1,50,000	0.756	1,13,400
31 Mar 20X4	Dividend	1,50,000	0.658	98,700
31 Mar 20X5	Dividend	1,50,000	0.572	85,800
31 Mar 20X6	Dividend	1,50,000	0.497	74,550
Total Liability Component				5,02,950
Total Proceeds				15,00,000
Total Equity Component (Bal fig)				9,97,050

b. Allocation of transaction costs

Particulars	Amount	Allocation	Net Amount
Liability Component	5,02,950	10,059	4,92,891
Equity Component	9,97,050	19,941	9,77,109
Total Proceeds	15,00,000	30,000	14,70,000

c. Accounting for liability at amortised cost:

- Initial accounting = Present value of cash outflows less transaction costs
- Subsequent accounting = At amortised cost, ie, initial fair value adjusted for interest and repayments of the liability.

The effective interest rate is 15.86%

	Opening Financial Liability A	Interest B	Cash Flow C	Closing Financial Liability A+B-C
1 Apr 20X1	4,92,891	-	-	4,92,891
31 Mar 20X2	4,92,891	78,173	1,50,000	4,21,064
31 Mar 20X3	4,21,064	66,781	1,50,000	3,37845
31 Mar 20X4	3,37,845	53,582	1,50,000	2,41,427
31 Mar 20X5	2,41,427	38,290	1,50,000	1,29,717
31 Mar 20X6	1,29,717	20,283	1,50,000	-

d. Journal Entries to be recorded for entire term of arrangement are as follows:

Date	Particulars	Debit	Credit
1 Apr 20X1	Bank A/c Dr.	14,70,000	
	To Preference Shares A/c		4,92,891
	To Equity Component of Preference shares A/c		9,77,109

	(Being compulsorily convertible preference shares issued. The same are divided into equity component and liability component as per the calculation)		
31 Mar 20X2	Preference shares A/c Dr.	1,50,000	
	To Bank A/c		1,50,000
	(Being Dividend at the coupon rate of 10% paid to the shareholders)		
31 Mar 20X2	Finance cost A/c Dr.	78,173	
	To Preference Shares A/c		78,173
	(Being interest as per EIR method recorded)		
31 Mar 20X3	Preference shares A/c Dr.	1,50,000	
	To Bank A/c		1,50,000
	(Being Dividend at the coupon rate of 10% paid to the shareholders)		
31 Mar 20X3	Finance cost A/c Dr.	66,781	
	To Preference Shares A/c		66,781
	(Being interest as per EIR method recorded)		
31 Mar 20X4	Preference shares A/c Dr.	1,50,000	
	To Bank A/c		1,50,000
	(Being Dividend at the coupon rate of 10% paid to the shareholders)		
31 Mar 20X4	Finance cost A/c Dr.	53,582	
	To Preference Shares A/c		53,582
	(Being interest as per EIR method recorded)		
31 Mar 20X5	Preference shares A/c Dr.	1,50,000	
	To Bank A/c		1,50,000
	(Being Dividend at the coupon rate of 10% paid to the shareholders)		
31 Mar 20X5	Finance cost A/c Dr.	38,290	
	To Preference Shares A/c		38,290
	(Being interest as per EIR method recorded)		
31-Mar-20X6	Preference shares A/c Dr.	1,50,000	
	To Bank A/c		1,50,000
	(Being Dividend at the coupon rate of 10% paid to the shareholders)		
31 Mar 20X6	Finance cost A/c Dr.	20,283	
	To Preference Shares A/c		20,283
	(Being interest as per EIR method recorded)		
31 Mar 20X6	Equity Component of Preference shares A/c Dr.	9,77,109	
	To Equity Share Capital A/c		50,000
	To Securities Premium A/c		9,27,109
	(Being Preference shares converted in equity shares and remaining equity component is recognised as securities premium)		

(b) Current tax= Taxable profit x Tax rate = ₹ 104 thousand x 25% = ₹ 26 thousand

Computation of Taxable Profit:

	₹ in thousand
Accounting profit	100
Add: Donation not deductible	8
Less: Excess Depreciation (6 - 2)	(4)
Total Taxable profit	104

	₹ in thousand	**₹ in thousand**
Profit & loss A/c Dr.	26	
To Current Tax		26

Deferred tax:

Machine's carrying amount according to Ind AS = ₹ 118 thousand (₹ 120 thousand – ₹ 2 thousand)

Machine's carrying amount for taxation purpose = ₹ 114 thousand (₹ 120 thousand – ₹ 6 thousand)

Deferred Tax Liability = ₹ 4 thousand x 25%

	₹ in thousand	
Profit & loss A/c Dr.	1	
To Deferred Tax Liability		1

Tax reconciliation in absolute numbers:

	₹ in thousand
Profit before tax according to Ind AS	100
Applicable tax rate @ 25%	
Tax	25
Expenses not deductible for tax purposes (₹ 8 thousand x 25%)	2
Tax expense (Current and deferred)	27

Tax rate reconciliation

Applicable tax rate	25%
Expenses not deductible for tax purposes	2%
Average effective tax rate	27%

6. (a) 1. The annual depreciation charges prior to the change in estimate were:

Buildings : ₹ 1,50,00,000 / 15 = ₹ 10,00,000

Plant and machinery : ₹ 1,00,00,000 / 10 = ₹ 10,00,000

Furniture and fixtures : ₹ 35,00,000 / 7 = ₹ 5,00,000

Total = ₹ 25,00,000 (A)

2. The revised annual depreciation for the year ending 31st December, 20X4, would be

Buildings : [₹ 1,50,00,000 – (₹ 10,00,000 × 3)]/10 = ₹ 12,00,000

Plant and machinery : [₹ 1,00,00,000 – (₹ 10,00,000 × 3)]/7 = ₹ 10,00,000

Furniture and fixtures : [₹ 35,00,000 – (₹ 5,00,000 × 3)]/5 = ₹ 4,00,000

Total = ₹ 26,00,000 (B)

3. The impact on Statement of profit and loss for the year ending 31st March, 20X5

= (B) – (A)

= ₹ 26,00,000 – ₹ 25,00,000

= ₹ 1,00,000

Change in the useful lives of the various items of property, plant and equipment is a change in accounting estimate. Change in accounting estimate is to be adjusted prospectively in the period in which the estimate is amended and, if relevant, to future periods if they are also affected.

(b) The EPS computations for Year 1 as per Ind AS 33 are as follows.

Basic EPS	**Diluted EPS**
1. Determine the numerator No adjustment is necessary until the convertible bonds are converted and ordinary shares are issued. The numerator is net profit ie. ₹ 46,00,000.	**1. Identify Potential Ordinary Shares (POSs)** The convertible bonds are the only POSs.
2. Determine the denominator There is no change in the number of outstanding shares during the year. The denominator is therefore 30,00,000.	**2. For each POS, calculate Earnings per Incremental Share (EPIS)** Since Zio Life Limited has the choice of settlement, for the purpose of determining the EPIS, it assumes the share-settlement assumption. **Potential adjustment to the numerator for EPIS:** The convertible bonds, when settled in ordinary shares, would increase profit or loss for the year by the post-tax amount of the interest expense: (Interest expense on the convertible bonds) x (1 - income tax rate) = (₹ 1,800) x (1 - 40%) = ₹ 1,080 **Potential adjustment to the denominator for EPIS:** The convertible bonds, when settled in ordinary shares, would increase the number of outstanding shares by 2,00,000 (20,00,000 / 10). **EPIS is calculated as follows:** EPIS = 1,080 / 2,00,000 = 0.01

3. Determine basic EPS Basic EPS = 46,00,000 / 30,00,000 = 1.53	**3. Rank the POSs** This step does not apply, because the convertible bonds are the only class of POSs.
	4. Identify dilutive POSs and determine diluted EPS The potential impact of convertible bonds is determined as follows. (Refer W.N. below)
	Accordingly, Zio Life Limited includes the impact of the convertible bonds in diluted EPS. Diluted EPS = ₹ 1.44

Working Note:

Calculation of Diluted EPS

	Earnings (₹)	Weighted average number of shares	Per Share (₹)	Dilutive?
Basic EPS	46,00,000	30,00,000	1.53	
Convertible bonds	1,080	2,00,000		
Total	46,01,080	32,00,000	1.44	Yes

(c) **Either**

(i) A company which meets the net worth, turnover or net profits criteria in immediately preceding financial year will need to constitute a CSR Committee and comply with provisions of sections 135(2) to (5) read with the CSR Rules.

As per the criteria to constitute CSR committee -

(1) Net worth should be greater than or equal to ₹ 500 Crore: This criterion is not satisfied as per the facts given in the question.

(2) Sales should be greater than or equal to ₹ 1,000 Crore: This criterion is not satisfied as per the facts given in the question.

(3) Net profit should be greater than or equal to ₹ 5 Crore: as per the facts given in the question, this criterion is satisfied in financial year ended 31st March, 20X3 i.e. immediate preceding financial year.

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

(ii) The Companies Act, 2013 mandated the corporate entities that the expenditure incurred for Corporate Social Responsibility (CSR) should not be the expenditure incurred for the activities in the ordinary course of business. If expenditure incurred is for the activities in the ordinary course of business, then it will not be qualified as expenditure incurred on CSR activities.

Further, it is presumed that the commercial activities performed at concessional rates are the activities done in the ordinary course of business of the company other than the activities defined in Schedule VII of the Companies Act, 2013. Therefore, the treatment done by the Management by showing the expenditure incurred on such commercial activities in its financial statements as the expenditure incurred on activities undertaken to discharge CSR, is not correct.

(c) **OR**

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.