PAPER – 1 : FINANCIAL REPORTING

*Question No.**1** is compulsory. Candidates are required to answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Question 1

(a) Hold Limited acquired 100% ordinary shares of ₹ 100 each of Sub Limited on 1st October, 2017. On 31st March, 2018 the summarized Balance Sheets of the two companies were as given below:

	Particulars	Hold Limited (₹)	Sub Limited (₹)
I.	**Assets**		
	(1) Non-current Assets		
	(i) Property, Plant & Equipment		
	(a) Land & Building	30,00,000	36,00,000
	(b) Plant & machinery	48,00,000	27,00,000
	(ii) Investment in Sub Limited	68,00,000	
	(2) Current Assets		
	(i) Inventory	24,00,000	7,28,000
	(ii) Financial Assets		
	(a) Trade Receivables	11,96,000	8,00,000
	(b) Cash & Cash Equivalents	2,90,000	1,60,000
	Total	**1,84,86,000**	**79,88,000**
II	**Equity and Liabilities**		
	(1) Equity		
	(i) Equity Share Capital (Shares of ₹ 100 each fully paid)	1,00,00,000	40,00,000
	(ii) Other Equity		
	(a) Other Reserves	48,00,000	20,00,000
	(b) Retained Earnings	11,44,000	16,40,000
	(2) Current Liabilities		
	Financial Liabilities		
	(a) Bank Overdraft	16,00,000	-
	(b) Trade Payable	9,42,000	3,48,000
	Total	**1,84,86,000**	**79,88,000**

The retained earnings of Sub Limited showed a credit balance of ₹ 6,00,000 on 1st April, 2017 out of which a dividend of 10% was paid on 1st November 2017. Hold Limited has credited the dividend received to retained earnings account. There was no fresh addition to other reserves in case of both companies during the current financial year. There was no opening balance in the retained earnings in the books of Hold Limited.

Following are the changes in fair value as per respective Ind AS from the book value as on 1st October, 2017 in the books of Sub Limited which is to be considered while consolidating the Balance Sheets.

(i) Fair value of Plant and Machinery was ₹ 40,00,000. (Rate of depreciation on Plant and Machinery is 10% p.a.)

(ii) Land and Building appreciated by ₹ 20,00,000.

(iii) Inventories increased by ₹ 3,00,000.

(iv) Trade payable increased by ₹ 2,00,000.

Prepare Consolidated Balance Sheet as on 31st March, 2018. The Balance Sheet should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013.

(15 Marks)

(b) Determine whether the following are insurance contracts as per Ind AS 104:

(i) Deferred annuity i.e., policyholder will receive, or can elect to receive, a life-contingent annuity at rates guaranteed at inception.

(ii) Deferred annuity i.e., policyholder will receive, or can elect to receive, a life-contingent annuity at rates prevailing when the annuity begins.

(iii) A contract permits the issuer to deduct an MVA (Market Value Adjustment) from surrender values or maturity payments to reflect current market prices for the underlying assets. The contract does not permit an MVA for death benefits.

(iv) A contract permits the issuer to deduct an MVA from surrender payments to reflect current market prices for the underlying assets. The contract does not permit an MVA for death and maturity benefits. The amount payable on death or maturity is the amount originally invested plus interest.

(v) An agreement that entity A will compensate entity B for losses on one or more contracts issued by entity B that do not transfer significant insurance risk.

(5 Marks)

Answer

(a) Consolidated Balance Sheet of Hold Ltd. and its subsidiary, Sub Ltd. as on 31st March, 2018

Particulars	Note No.	₹
I. Assets		
(1) Non-current assets		
Property, Plant & Equipment	1	1,72,00,000
(2) Current Assets		
Inventories	2	34,28,000
Financial Assets		
Trade Receivables	3	19,96,000
Cash & Cash equivalents	4	4,50,000
Total Assets		2,30,74,000
II. Equity and Liabilities		
(1) Equity		
Equity Share Capital	5	1,00,00,000
Other Equity	6	99,84,000
(2) Current Liabilities		
Financial Liabilities		
Short term borrowings	7	16,00,000
Trade Payables	8	14,90,000
Total Equity & Liabilities		2,30,74,000

It may be noted that the consolidation adjustments in respect of tax effect, in particular, deferred tax effect of temporary differences associated with fair value adjustments, determined in accordance with Ind AS 12 'Income Taxes', will affect the above consolidated balance sheet.

Notes to accounts

			₹
1.	**Property Plant & Equipment**		
	Land & Building	86,00,000	
	Plant & Machinery	86,00,000	1,72,00,000
2.	**Inventories**		
	Hold Ltd.	24,00,000	
	Sub Ltd.	10,28,000	34,28,000
3.	**Trade Receivables**		
	Hold Ltd.	11,96,000	
	Sub Ltd.	8,00,000	19,96,000

4.	**Cash & Cash equivalents**		
	Hold Ltd.	2,90,000	
	Sub Ltd.	1,60,000	4,50,000
7.	**Short-term borrowings**		
	Bank overdraft of Hold Ltd.		16,00,000
8.	**Trade Payables**		
	Hold Ltd.	9,42,000	
	Sub Ltd.	5,48,000	14,90,000

Statement of changes in Equity:

5. Equity share Capital

Balance at the beginning of the reporting period	Changes in Equity share capital during the year	Balance at the end of the reporting period
1,00,00,000	0	1,00,00,000

6. Other Equity

	Reserves & Surplus			**Total**
	Capital Reserve	**Other reserves**	**Retained Earnings**	
Balance at the beginning		48,00,000	0	48,00,000
Profit or loss for the year (W.N.4)		0	14,14,000	14,44,000
Other comprehensive income for the year		0	0	0
Total comprehensive income for the year		0	14,14,000	14,14,000
Dividends		0	0	0
Gain on Bargain purchase on acquisition of a subsidiary* (W.N.5)	37,70,000			37,70,000
Balance at the end of reporting period	37,70,000	48,00,000	14,14,000	99,84,000

* It is assumed that there exists no clear evidence for classifying the acquisition of the subsidiary as a bargain purchase and, hence, the bargain purchase gain has been recognised directly in capital reserve. If, however, there exists such a clear evidence, the bargain purchase gain would be recognised in other comprehensive income and then accumulated in capital reserve. In both the cases, closing balance of capital reserve will be ₹ 37,70,000.

Working Notes:

1. **Adjustments of Fair Value- Total Appreciation**

	₹
Plant & Machinery (W.N.7)	11,50,000
Land and Building	20,00,000
Inventories	3,00,000
Less: Trade Payables	(2,00,000)
	32,50,000

2. **Pre-acquisition reserves of Sub Ltd.**

		₹
Other Reserves on 1.4.2017		20,00,000
Retained earnings Balance on 1.4.2017		6,00,000
Retained earnings balance as on 31.3.2018	16,40,000	
Less: Retained earnings balance as on 1.4.2017	(6,00,000)	
Add back: Dividend	4,00,000	
Profit for the year 2017-2018	14,40,000	
Profit for 6 months (14,40,000 x 6/12)		7,20,000
Share of Hold Ltd.		33,20,000

There will be no Non-controlling Interest as 100% shares of Sub Ltd. are held by Hold Ltd.

3. **Post-acquisition profits of Sub Ltd.** ₹

Profit for 6 months from 1.10.2017 to 31.3.2018 (14,40,000 x 6/12)	7,20,000
Less: Additional depreciation on account of revaluation of Plant and Machinery for 6 months [(40,00,000 x 10% x 6/12) – (30,00,000 x 10% x 6/12)]	(50,000)
Adjusted post-acquisition profit attributable to Hold Ltd.	6,70,000

4. **Consolidated profit or loss for the year** ₹

Hold Ltd.	
Retained earnings on 31.3.2018	11,44,000
Less: Retained earnings as on 1.4.2017	(0)
Profits for the year 2017-2018	11,44,000
Less: Elimination of intra-group dividend	(4,00,000)
Adjusted profit for the year	7,44,000
Sub Ltd.	
Adjusted profit attributable to Hold Ltd. (W.N.3)	6,70,000
Consolidated profit or loss for the year	14,14,000

5. Goodwill/Gain on bargain purchase ₹

Amount paid for 40,000 shares of Sub Ltd.		68,00,000
Less: Share of Hold Ltd. in pre-acquisition equity of Sub Ltd.		
Share capital	40,00,000	
Pre-acquisition reserves of Sub Ltd. (W.N.2)	33,20,000	
Fair value adjustments (W.N.1)	32,50,000	(1,05,70,000)
Gain on Bargain Purchase		37,70,000

6. Value of Plant & Machinery ₹

Hold Ltd.		48,00,000
Sub Ltd. Book value as on 31.3.2018 27,00,000		
Book value as on 1.4.2017 (27,00,000/90%)	30,00,000	
Less: Depreciation @ 10% for 6 months	(1,50,000)	
	28,50,000	
Add: Appreciation on 1.10.2017 (Balancing fig. i.e., 40,00,000 – 28,50,000)	11,50,000	
Revalued amount (given)	40,00,000	
Less: Depreciation on ₹ 40,00,000 @ 10% for 6 months	(2,00,000)	38,00,000
		86,00,000

7. Consolidated retained earnings

	Hold Ltd.	Sub Ltd.	Total
As given	11,44,000	16,40,000	27,84,000
Consolidation Adjustments:			
(i) Elimination of pre-acquisition element [6,00,000 + 7,20,000]	0	(13,20,000)	(13,20,000)
(ii) Elimination of intra-group dividend	(4,00,000)	4,00,000	0
(iii) Impact of fair value adjustments	0	(50,000)	(50,000)
Adjusted retained earnings consolidated	7,44,000	6,70,000	14,14,000

Note: The above solution has been drawn by making following assumptions, at required places:

(i) Hold Ltd. measures the investment in Sub Ltd. at cost (less impairment, if any) in its separate financial statements as permitted in Ind AS 27, Separate Financial Statements.

(ii) Increase in land and buildings represents only land element.

(iii) Depreciation on plant and machinery is on WDV method.

(iv) Fair value adjusted trade payables continue to exist on 31.3.2018.

(v) Inventories are valued at cost, being lower than NRV and that application of cost formula for the purposes of consolidated financial statements results in entire fair value adjustment to be included in the carrying amount of inventories of Sub Ltd. on 31.3.2018.

(b) (i) It is an insurance contract if the transfer of insurance risk is significant. The contract transfers mortality risk to the insurer at inception, because the insurer might have to pay significant additional benefits for an individual contract if the annuitant elects to take the life contingent annuity and survives longer than expected (unless the contingent amount is insignificant in all scenarios that have commercial substance).

(ii) It is not an insurance contract at inception, if the insurer can re-price the mortality risk without constraints. Here the transfer of insurance risk is insignificant.

(iii) The policyholder obtains an additional death benefit because no MVA is applied on death. If the risk transferred by that benefit is significant, the contract is an insurance contract.

(iv) The policyholder obtains an additional benefit because no MVA is applied on death or maturity. However, that benefit does not transfer insurance risk from the policyholder because it is certain that the policyholder will live or die and the amount payable on death or maturity is adjusted for the time value of money. The contract is an investment contract.

(v) Even though Entity B does not transfer significant insurance risk still Entity A has to compensate for losses. So indirectly significant insurance risk is transferred. Therefore, reinsurance contract is an insurance contract as per Ind AS 104.

Question 2

(a) Notorola Limited has two divisions A and B. Division A has been making constant profits while Division B has been invariably suffering losses.

On 31st March 2018, the division-wise draft extract of the Balance Sheet was as follows:

(₹ in crore)

	A	*B*	*Total*
Fixed Assets Cost	*500*	*1000*	*1500*
Depreciation	*(450)*	*(800)*	*(1250)*
Net Fixed Assets (A)	*50*	*200*	*250*
Current Assets	*400*	*1000*	*1400*
Less: Current Liabilities	*(50)*	*(800)*	*(850)*
Net Current Assets (B)	*350*	*200*	*550*
Total (A) + (B)	***400***	***400***	***800***

Financed by :			
Loan Funds	-	600	600
Capital : Equity ₹ 10 each	50	-	50
Surplus	350	(200)	150
Total	***400***	***400***	***800***

Division B along with its assets and liabilities was sold for ₹ 50 crore to Senovo Limited a new company, who allotted 2 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of Notorola Limited in full settlement of the consideration, in proportion to their shareholding in the company. One of the members of the Notorola Limited was holding 52% shares of the company.

Assuming that, there are no other transactions, you are required to:

(i) Pass journal entries in the books of Notorola Limited.

(ii) Prepare the Balance Sheet of Notorola Limited after the entries in (i).

(iii) Prepare the Balance Sheet of Senovo Limited.

Balance Sheet prepared for (ii) and (iii) above should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013. Provide Notes to Accounts, for 'Other Equity' in case of (ii) and 'Share Capital' in case of (iii), only. ***(10 Marks)***

(b) Seeds Ltd. is operating in oil industry. Its business segments comprise crushing and refining. Certain information for financial year 2017-18 is given below:

(₹ in lakh)

Segments	***External Sale***	***Tax***	***Other Operating Income***	***Result***	***Assets***	***Liabilities***
Crushing	*1,00,000*	*2,500*	*20,000*	*5,000*	*25,000*	*15,000*
Refining	*35,000*	*1,500*	*7,500*	*2,000*	*15,000*	*5,000*

Additional Information: (₹ in lakh)

– *Unallocated revenue net of expenses is ₹ 1,500.*

– *Interest and bank charges is ₹ 1,000*

– *Income-tax expense is ₹ 1,000 (current tax ₹ 975 and deferred tax ₹ 25)*

– *Investments ₹ 5,000 and unallocated assets ₹ 5,000*

– *Unallocated liabilities, Reserves & Surplus and Share capital are ₹ 10,000; ₹ 15,000 and ₹ 5,000 respectively.*

– *Depreciation amounts for crushing and refining are ₹ 500 and ₹ 150 respectively.*

– *Capital expenditure for crushing and refining are ₹ 2,500 and ₹ 1,000 respectively.*

– *Revenue from outside India is ₹ 15,000 and segment assets outside India ₹ 5,000.*

Based on the above information, how Seeds Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 2017-18? ***(10 Marks)***

Answer

(i) Journal of Notorola Ltd.

(₹ in crore)

		Dr.	**Cr.**
Loan Funds	Dr.	600	
Current Liabilities	Dr.	800	
Provision for Depreciation	Dr.	800	
To Fixed Assets			1,000
To Current Assets			1,000
To Capital Reserve			200
(Being division B along with its assets and liabilities sold to Senovo Ltd. for ₹ 50 crore)			

In the given scenario, this demerger will meet the definition of common control transaction. Accordingly, the transfer of assets and liabilities will be derecognized and recognized as per book value and the resultant loss or gain will be recorded as capital reserve in the books of demerged entity (Notorola Ltd).

Notes: Any other alternative set of entries, with the same net effect on various accounts, may also be given.

(ii) Notorola Ltd.

Balance Sheet after demerger

(₹ in crore)

ASSETS	**Note No.**	**Amount**
Non-current assets		
Property, Plant and Equipment		50
Current assets		400
		450

EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of ₹10 each)	1	50
Other equity	2	350
Liabilities		
Current liabilities		
Current liabilities		50
		450

Notes to Accounts

		(₹ in crore)
1.	**Equity Share Capital**	
	5 crore equity shares of face value of ₹ 10 each	50
	Consequent to transfer of Division B to newly incorporated company Senovo Ltd., the members of the company have been allotted 2 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share of Senovo Ltd., in full settlement of the consideration in proportion to their shareholding in the company	
2.	**Other Equity**	
	Surplus (350 - 200)	150
	Add: Capital Reserve on reconstruction	200
		350

(iii) Balance Sheet of Senovo Ltd.

(₹ in crore)

	Note No.	Amount
ASSETS		
Non-current assets		
Property, Plant and Equipment		200
Current assets		1,000
		1,200
EQUITY AND LIABILITIES		
Equity		
Equity share capital (of face value of INR 10 each)	1	20
Other equity	2	(220)
Liabilities		
Non-current liabilities		
Financial liabilities		
Borrowings		600

Current liabilities		
Current liabilities		800
		1,200

Notes to Accounts

		(₹ in crore)
1.	**Share Capital**	
	Issued and Paid-up capital	
	2 crore Equity shares of ₹ 10 each fully paid up	20
	(All the above shares have been allotted to the members of Notorola Ltd. on takeover of Division B from Notorola Ltd. as fully paid-up pursuant to contract without payment being received in cash)	
2.	**Other Equity**	
	Securities Premium	30
	Capital reserve [50 - (1,200 – 1,400)]	(250)
		(220)

(b) (1) **Segment revenues, results and other information**

(₹ in lakh)

	Revenue	Coating	Others	Total
1.	**External sales (gross)**	1,00,000	35,000	1,35,000
	Tax	(2,500)	(1,500)	(4,000)
	External sales (net)	97,500	33,500	1,31,000
	Other operating income	20,000	7,500	27,500
	Total Revenue	1,17,500	41,000	1,58,500
2.	**Results**			
	Segment results	5,000	2,000	7,000
	Unallocated income (net of unallocated expenses)			1,500
	Profit from operation before interest, taxation and exceptional items			8,500
	Interest and bank charges			(1,000)
	Profit before exceptional items			7,500
	Exceptional items			Nil
	Profit before taxation			7,500
	Less: Income Taxes			

	Current taxes			(975)
	Deferred taxes			(25)
	Profit after taxation			6,500
3.	**Other Information**			
(a)	**Assets**			
	Segment Assets	25,000	15,000	40,000
	Investments			5,000
	Unallocated assets			5,000
	Total Assets			50,000
(b)	**Liabilities/Shareholder's funds**			
	Segment liabilities	15,000	5,000	20,000
	Unallocated liabilities			10,000
	Share capital			5,000
	Reserves and surplus			15,000
	Total liabilities / shareholder's funds			50,000
(c)	**Others**			
	Capital Expenditure	2,500	1,000	3,500
	Depreciation	500	150	650

(2) Geographical Information

			(₹ in lakh)
	India	**Outside India**	**Total**
Revenue	1,43,500	15,000	1,58,500
Segment assets	35,000	5,000	40,000
Capital expenditure	3,500	-	3,500

Note: Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments.

Question 3

(a) S Limited issued redeemable preference shares to its Holding Company -H Limited. The terms of the instrument have been summarized below. Analyse the given situation, applying the guidance in Ind AS 109 'Financial Instruments', and account for this in the books of H Limited.

Nature	***Non-cumulative redeemable preference shares***
Repayment	*Redeemable after 3 years*
Date of Allotment	*1st April 2015*
Date of Repayment	*31st March 2018*

Total Period	*3 Years*
Value of Preference Shares issued	*5,00,00,000*
Dividend Rate	*0.0001% Per Annum*
Market rate of interest	*12% Per Annum*
Present value factor	*0.7118*

(8 Marks)

(b) On 1st January 2017, Expo Limited agreed to purchase USD ($) 40,000 from E&I Bank in future on 31st December 2017 for a rate equal to ₹ 65 per USD. Expo Limited did not pay any amount upon entering into the contract. Expo Limited is a listed company in India and prepares its financial statements on a quarterly basis.

Using the definition of derivative included in Ind AS 109 and following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for each quarter ended till the date of actual purchases of USD.

For the purpose of accounting, use the following information representing marked to market fair value of forward contracts at each reporting date:

As at 31st March, 2017	*₹ (50,000)*
As at 30th June, 2017	*₹ (30,000)*
As at 30th September, 2017	*₹ 24,000*
Spot rate of USD on 31st December, 2017	*₹ 62 per USD*

(8 Marks)

(c) Ruby Ltd. has incurred USD ($) 2,00,000 in CERs registration, certification and other related costs during financial year 2015~16. This entitles the company to 1,80,000 CERs The CERs are being traded at USD 1.2 per CER in MCX at the year end.

Pass journal entries for recognition of CERs, year-end value to be appeared in the financial statements and on the sale of CERs in the next year @ USD 1.2 per CER.

(4 Marks)

Answer

(a) 1. Analysis of the financial instrument issued by S Ltd. to its holding company H Ltd.

Applying the guidance in Ind AS 109, a 'financial asset' shall be recorded at its fair value upon initial recognition. Fair value is normally the transaction price. However, sometimes certain type of instruments may be exchanged at off market terms (ie, different from market terms for a similar instrument if exchanged between market participants).

For example, a long-term loan or receivable that carries no interest while similar instruments if exchanged between market participants carry interest, then fair value for such loan receivable will be lower from its transaction price owing to the loss of interest that the holder bears. In such cases where part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument.

In the above case, since S Ltd has issued preference shares to its Holding Company– H Ltd, the relationship between the parties indicates that the difference in transaction price and fair value is akin to investment made by H Ltd. in its subsidiary. This can further be substantiated by the nominal rate of dividend i.e. 0.0001% mentioned in the terms of the instrument issued.

Computations on initial recognition: ₹

Transaction value of the Redeemable preference shares	5,00,00,000
Less: Present value of loan component @ 12% (5,00,00,000 x .7118)	(3,55,90,000)
Investment in subsidiary	1,44,10,000

Subsequently, such preference shares shall be carried at amortised cost at each reporting date as follows:

Year	Date	Opening Balance	Interest @ 12%	Closing balance
	1st April, 2015	3,55,90,000	-	3,55,90,000
1	31st March, 2016	3,55,90,000	42,70,800	3,98,60,800
2	31st March, 2017	3,98,60,800	47,83,296	4,46,44,096
3	31st March, 2018	4,46,44,096	53,55,904*	5,00,00,000

* ₹ 4,46,44,096 x 12% = ₹ 53,57,292. The difference of ₹ 1,388 (₹ 53,57,292 – ₹ 53,55,904) is due to approximation in present value factor.

2. In the books of H Ltd.

Journal Entries to be done at every reporting date

Date	Particulars		Amount	Amount
1st April, 2015	Investment (Equity portion)	Dr.	1,44,10,000	
	Redeemable Preference Shares	Dr.	3,55,90,000	
	To Bank			5,00,00,000
	(Being initial recognition of transaction recorded)			
31st March, 2016	Redeemable Preference Shares	Dr.	42,70,800	
	To Interest income			42,70,800
	(Being interest income on loan component recognized)			

31st March, 2017	Redeemable Preference Shares To Interest income (Being interest income on loan component recognized)	Dr.	47,83,296	 47,83,296
31st March, 2018	Redeemable Preference Shares To Interest income (Being interest income on loan component recognized)	Dr.	53,55,904	 53,55,904
31st March, 2018	Bank To Redeemable Preference Shares (Being settlement of transaction done at the end of the third year)	Dr.	5,00,00,000	 5,00,00,000

(b) Assessment of the arrangement using the definition of derivative included under Ind AS 109.

Derivative is a financial instrument or other contract within the scope of this Standard with all three of the following **characteristics:**

(a) its value changes in response to the change in foreign exchange rate (emphasis laid)

(b) it requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts with similar response to changes in market factors.

(c) it is settled at a future date.

Upon evaluation of contract in question, on the basis of the definition of derivative, it is noted that the contract meets the definition of a derivative as follows:

(a) the value of the contract to purchase USD at a fixed price changes in response to changes in foreign exchange rate.

(b) the initial amount paid to enter into the contract is zero. A contract which would give the holder a similar response to foreign exchange rate changes would have required an investment of USD 40,000 on inception.

(c) the contract is settled in future

The derivative is a forward exchange contract.

As per Ind AS 109, derivatives are measured at fair value upon initial recognition and are subsequently measured at fair value through profit and loss.

Accounting in each Quarter

(i) Accounting on 1st January 2017

As there was no consideration paid and without evidence to the contrary the fair value of the contract on the date of inception is considered to be zero. Accordingly, no accounting entries shall be recorded on the date of entering into the contract.

(ii) Accounting on 31st March 2017

Particulars		Dr. (₹)	Cr. (₹)
Profit and loss A/c	Dr.	50,000	
To Derivative financial liability			50,000
(Being mark to market loss on forward contract recorded)			

(iii) Accounting on 30th June 2017

Particulars		Dr. (₹)	Cr. (₹)
Derivative financial liability A/c	Dr.	20,000	
To Profit and Loss A/c			20,000
(Being partial reversal of mark to market loss on forward contract recorded)			

(iv) Accounting on 30th September 2017

Particulars		Dr. (₹)	Cr. (₹)
Derivative financial liability A/c	Dr.	30,000	
Derivative financial asset A/c	Dr.	24,000	
To Profit and Loss A/c			54,000
(Being gain on mark to market of forward contract booked as derivative financial asset and reversal of derivative financial liability)			

(v) Accounting on 31st December 2017

The settlement of the derivative forward contract by actual purchase of USD 40,000

Particulars		Dr. (₹)	Cr. (₹)
Cash (USD Account) (USD 40,000 x ₹ 62)	Dr.	24,80,000	
Profit and loss A/c	Dr.	1,44,000	
To Cash (USD 40,000 x ₹ 65)			26,00,000
To Derivative financial asset A/c			24,000
(Being loss on settlement of forward contract booked on actual purchase of USD)			

(c) Journal Entries for recognition of CERs

(1) **During the year 2015-2016 when CERs are granted**

		USD	USD
Inventory (for CERs)	Dr.	200,000	
To Bank / Payable A/c			200,000

(2) **For 2015-2016 year-end financial statements**

The company shall carry out a NRV assessment by comparing the realisable value of CERs with cost of USD 200,000. Since NRV of USD 216,000 (180,000 CERs x USD 1.2) is higher than cost of USD 200,000, the company shall continue to disclose the inventory at cost without any NRV mark-down. Therefore, no journal entry will be passed at the year-end for change in value. However, the company have to provide appropriate disclosure per AS 2.

This inventory of CERs shall be carried forward till related CERs are sold in the market.

(3) **On sale of CERs in the financial year 2016-2017**

		USD	USD
Bank A/c	Dr.	216,000	
To Sale of CERs A/c			216,000
Profit and Loss A/c (Consumption)	Dr.	200,000	
To Inventory			200,000
Sale of CERs A/c	Dr.	216,000	
To Profit and Loss A/c			216,000

Question 4

(a) ABC Limited issued 20,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1st April 2015. The SARs will be settled in cash. At that date it is estimated using an option pricing model, that the fair value of a SAR is ₹ 95. SAR can be exercised any time up to 31st March 2018. At the end of 31st March 2016 it is expected that 95% of total employees will exercise the option, 92% of total employees will exercise the option at the end of next year and finally 89% will be vested only at the end of the 3rd year. Fair values at the end of each period have been given below:

Fair value of SAR	₹
31st March, 2016	*110*
31st March, 2017	*107*
31st March, 2018	*112*

Discuss the applicability of Cash Settled Share based payments under the relevant Ind AS and pass the journal entries. ***(10 Marks)***

(b) Stars Ltd. is a multinational entity that owns three properties. All the three properties were purchased on 1st April 2016. The details of purchase price and the market values of the properties are given as follows:

Particulars	*Property 1*	*Property 2*	*Property 3*
	Factory	*Factory*	*Let-out Building*
Purchase Price	*30,000*	*20,000*	*24,000*

Market Value (31-03-2017)	*32,000*	*22,000*	*27,000*
Life	*10 years*	*10 years*	*10 years*
Subsequent Measurement	*Cost Model*	*Revaluation Model*	*Revaluation Model*

Property 1 and 2 are occupied by Stars Ltd, whilst property 3 is let out to a non-related party at a market rent. The management presents all three properties in balance sheet as' 'Property, plant and equipment'.

The company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Evaluate whether the accounting policies adopted by the Stars Ltd. in relation to these properties is in accordance of relevant Indian Accounting Standards (Ind AS). If not, advise the correct treatment along with workings. ***(10 Marks)***

Answer

(a) Applicability of cash settled share-based payment transactions

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability.

1. When vesting conditions are attached to the share based payment plans

   The recognition of such share based payment plans should be done by recognizing fair value of the liability at the time of goods/ services received and not at the date of grant.

2. When no vesting period / condition is attached or to be fulfilled

   Cash settled share based payment can be recognized in full at initial recognition itself.

   Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period date and difference in fair value will be charged to profit or loss for the period as employee benefit expenses.

   At the date of settlement, the liability is paid in cash based on the fair value on the date of settlement.

Calculation of expenses recognized during the year on account of change in the fair value of SARs

Period	**Fair value**	**To be vested**	**Cumulative expenses**	**Expense / (benefit) for the current year**
	a	**b**	**c = a x b x 20,000**	**d = c-of current period – c of previous period**
1st April, 2015	95	100%	19,00,000	19,00,000

31st March, 2016	110	95%	20,90,000	1,90,000
31st March, 2017	107	92%	19,68,800	(1,21,200)
31st March, 2018	112	89%	19,93,600	24,800
				19,93,600

Journal Entries

Date			
1st April, 2015	Employee benefits expenses Dr.	19,00,000	
	To Share based payment liability		19,00,000
	(Fair value of the SAR recognized initially)		
31st March, 2016	Employee benefits expenses Dr.	1,90,000	
	To Share based payment liability		1,90,000
	(Fair value of the SAR re-measured)		
31st March, 2017	Share based payment liability Dr.	1,21,200	
	To Employee benefits expenses		1,21,200
	(Fair value of the SAR re-measured & reversed)		
31st March, 2018	Employee benefits expenses Dr.	24,800	
	To Share based payment liability		24,800
	(Fair value of the SAR remeasured & recognized)		
	Share based payment liability Dr.	19,93,600	
	To Cash		19,93,600
	(Settlement of SARs in cash)		

(b) (i) For classification of assets

As per Ind AS 16 'Property, Plant and Equipment' states that Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

As per Ind AS 40 'Investment property', investment property is a property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

According, to the facts given in the questions, since Property 1 and 2 are used as factory buildings, their classification as PPE is correct. However, Property 3 is held to earn rentals; hence, it should be classified as Investment Property. Thus, its classification as PPE is not correct. Property 3 shall be presented as separate line item as Investment Property as per Ind AS 1.

(ii) For valuation of assets

Ind AS 16 states that an entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. Also, Ind AS 16 states that If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

However, for investment property, Ind AS 40 states that an entity shall adopt as its accounting policy the cost model to all of its investment property. Ind AS 40 also requires that an entity shall disclose the fair value of investment property.

Since property 1 and 2 is used as factory building, they should be classified under same category or class ie. 'factory building'. Therefore, both the properties should be valued either at cost model or revaluation model. Hence, the valuation model adopted by Stars Ltd. is not consistent and correct as per Ind AS 16.

In respect to property 3 being classified as Investment Property, there is no alternative of revaluation model i.e. only cost model is permitted for subsequent measurement. However, Stars Ltd. is required to disclose the fair value of the investment property in the Notes to Accounts.

(iii) For changes in value on account of revaluation and treatment thereof

Ind AS 16 states that if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading 'revaluation surplus'. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Accordingly, the revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

(iv) For treatment of depreciation

Ind AS 16 states that depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Accordingly, Stars Ltd. is required to depreciate these properties irrespective of that their fair value exceeds the carrying amount.

(v) Rectified presentation in the balance sheet

As per the provisions of Ind AS 1, Ind AS 16 and Ind AS 40, the presentation of these three properties in the balance sheet should be as follows:

Case 1: If Stars Ltd. has applied the Cost Model to an entire class of property, plant and equipment.

Balance Sheet extracts as at 31st March 2017 ₹

Assets		
Non-Current Assets		
Property, Plant and Equipment		
Property 1 (30,000-3,000)	27,000	
Property 2 (20,000 – 2,000)	18,000	45,000

Investment Property Property 3 (Fair value being ₹ 27,000) (Cost = 24,000-2,400)	21,600

Case 2: If Stars Ltd. has applied the Revaluation Model to an entire class of property, plant and equipment.

Balance Sheet extracts as at 31st March 2017 ₹

Assets		
Non-current Assets		
Property, Plant and Equipment		
Property 1	32,000	
Property 2	22,000	54,000
Investment Properties		
Property 3 (Fair value being 27,000) (Cost = 24,000-2,400)		21,600
Equity and Liabilities		
Other Equity		
Revaluation Reserve *		
Property 1 (32,000 – 27,000)	5,000	
Property 2 (22,000 –18,000)	4,000	9,000

* Revaluation reserve should be routed through Other Comprehensive Income (OCI) (subsequently not reclassified to Profit and Loss) in the Statement of Profit and Loss and shown as a separate column in the Statement of Changes in Equity.

Question 5

(a) What are the provisions of section 135 of the Companies Act, 2013 regarding constitution of a Corporate Social Responsibility (CSR) Committee. Also explain the role of Corporate Social Responsibility (CSR) Committee and Board.

XYZ Limited is a company which has net worth of ₹ 250 crore. It manufactures parts for automobiles. The sales of the company are affected due to low demand of the products. The previous year's financial state of company are as below:

(₹ in crore)

	31st March 2018 (Current Year)	*31st March 2017*	*31st March 2016*	*31st March 2015*
Net Profit	*4.25*	*8.00*	*3.50*	*3.25*
Turnover	*500.00*	*900.00*	*400.00*	*350.00*

Examine, whether the company has an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year. ***(8 Marks)***

(b) The following facts are given for the Sky Ltd:

- *A Lease which is non-cancellable was initiated on 1st April 2014 for equipment with an expected useful life of five years.*
- *Three payments are due to the 'Lessor' of an amount of ₹ 1,02,000 per year beginning 31st March 2015. Included in the lease payments is a sum of ₹ 2,000 to be paid annually by the 'Lessee' for insurance.*
- *The 'Lessee' guarantees ₹ 20,000 residual value on 31st March 2017 to the Lessor.*
- *Irrespective of the ₹ 20,000 residual value guarantee, the leased asset is expected to have only ₹ 2,000 residual value to the lessee at the end of the lease term.*
- *The Lessee company depreciates similar equipment that it owns on a straight line basis.*
- *The fair value of the equipment at 1st April 2014 is ₹ 2,64,000.*
- *The Lessor's implicit rate is 10%. This fact is known to the Lessee company.*

As per the provisions of Ind AS 17 'Leases' -

(i) How should Lessee Company classify and record the lease transaction at its inception on 1st April 2014? Indicate journal entry also.

(ii) What are the journal entries the Lessee is required to make to record the lease payments and the interest, insurance and depreciation expenses on 31st March 2015 through 31st March 2017?

(iii) What entry should the Lessee make on 31st March 2017 to record the guaranteed residual value payment (assuming estimated residual value of ₹ 2,000) and to clear the lease related accounts from the lessee's books?

(iv) What would be the Current and Non-current classification in the books of Lessee in the first year?

(Discount factor: 2015: 0.909; 2016: 0.826; 2017: 0.751) ***(12 Marks)***

Answer

(a) A. As per section 135 of the Companies Act 2013

Every company having either

- net worth of ₹ 500 crore or more, or
- turnover of ₹ 1,000 crore or more or
- a net profit of ₹ 5 crore or more

during any financial year shall constitute a Corporate Social Responsibility (CSR) Committee of the Board consisting of three or more directors (including at least one independent director).

B. Role of Corporate Social Responsibility (CSR) Committee

The CSR Committee shall—

(a) formulate and recommend to Board-

a. a CSR Policy indicating the activities to be undertaken by the company as specified in Schedule VII;

b. the amount of expenditure to be incurred on the above activities and

(b) monitor the CSR Policy of the company from time to time.

C. Role of Board

Board shall disclose-

(a) The composition of CSR Committee in its report

(b) Approve the recommended CSR Policy for the company

(c) Disclose the contents of such Policy in its report and place it on the company's website

(d) Ensure that the activities included in CSR Policy of the company are duly executed by the company

(e) Ensure that the **company spends, in every financial year, at least two percent** of the **average net profits** of the company made **during the three immediately preceding financial years** by giving preference to the local area and areas around it where it operates

(f) In case the company fails to spend such amount, the Board shall specify the reasons for not spending the amount.

D. In the given scenario

The MCA has clarified that 'any financial year' referred to under sub-section (1) of section 135 of the Act read with Rule 3(2) of Companies CSR Rule, 2014, implies 'any of the three preceding financial years'.

A company which meets the 'net worth', 'turnover' or 'net profits' criteria in any of the preceding three financial years, but which does not meet the criteria in the relevant financial year, is still required to constitute a CSR Committee and comply with provisions of sections 135 of the Companies Act, 2013.

As per the criteria to constitute CSR committee -

1) Net worth greater than or equal to ₹ 500 Crore: This criterion is not satisfied.

2) Sales greater than or equal to ₹ 1000 Crore: This criterion is not satisfied.

3) Net Profit greater than or equal to ₹ 5 Crore: This criterion is satisfied in financial year ended March 31, 2017 when the net profit was ₹ 8 crore.

Hence, the XYZ Ltd. is required to form a CSR committee.

(b) (i) The Lessee company should record the asset as a finance lease since the risk and reward is transferred. Lessee has guaranteed to the lessor, the residual value of ₹ 20,000, in spite of the fact that the estimated residual value of the asset will be ₹ 2,000.

Further the lease payments substantially cover the fair value of leased asset as per calculation given below.

Calculation of Present value of Minimum Lease Payments (MLP) at implicit rate of 10%

Year	Discount Factor	Minimum Lease payments (see note below)	Present Value of MLP
Annual Lease Rentals			
31st March, 2015	0.909	1,00,000	90,900
31st March, 2016	0.826	1,00,000	82,600
31st March, 2017	0.751	1,00,000	75,100
Guaranteed Residual Value			
31st March, 2017	0.751	20,000	15,020
		Total	2,63,620

Note: The contingent rent, taxes, insurance, maintenance expenses etc. if paid by the lessee to the lessor, then it does not form part of the minimum lease payments and will be expensed when incurred. Insurance expense is a kind of reimbursement from lessee to lessor. Hence in the above case, for calculation of present value of minimum lease payments only lease rental of ₹ 1,00,000 has been considered.

At the time of initial recognition, the lessee will recognise the leasehold asset at lower of below:

Present value of MLP	2,63,620
Fair value of leased asset	2,64,000
Hence, leasehold asset will be recognised at	2,63,620

Accounting entry for initial recognition would be :

Leasehold equipment	Dr.	2,63,620	
To Leasehold obligation			2,63,620

(ii) Lease rentals should split between principal portion of leasehold obligation and finance costs as follows:

Year	Opening balance	Payments	Finance costs @ 10%	Reduction in liability	Closing obligation
	(a)	(b)	(a) x 10% = (c)	(b)-(c)=(d)	(a)-(d) = (e)
1st April, 2014	-				2,63,620
31st March, 2015	2,63,620	1,00,000	26,362	73,638	1,89,982
31st March, 2016	1,89,982	1,00,000	18,998	81,002	1,08,980
31st March, 2017	1,08,980	1,00,000	11,020*	88,980	20,000

* Difference is due to approximation.

In the books of Lessee

Journal Entries (at the time of subsequent measurement)

Date	Particulars		Dr. ₹	Cr. ₹
31st March 2015	Insurance Expenses	Dr.	2,000	
	Leasehold obligation	Dr.	73,638	
	Interest Expenses	Dr.	26,362	
	Depreciation	Dr.	87,207	
	To Cash			1,02,000
	To Accumulated Depreciation			87,207
31st March 2016	Insurance Expenses	Dr.	2,000	
	Leasehold obligation	Dr.	81,002	
	Interest Expenses	Dr.	18,998	
	Depreciation	Dr.	87,207	
	To Cash			1,02,000
	To Accumulated Depreciation			87,207

31st March 2017	Insurance Expenses	Dr.	2,000	
	Leasehold obligation	Dr.	88,980	
	Interest Expenses	Dr.	11,020	
	Depreciation	Dr.	87,206	
	To Cash			1,02,000
	To Accumulated Depreciation			87,206

(iii) Entries at the end of lease period

Leasehold Obligation Account	Dr.	20,000	
Accumulated Depreciation Account	Dr.	2,61,620	
To Cash Account			18,000
To Leasehold Equipment Account			2,63,620

(iv) The Current and Non-current Classification at the end of year 1 in the books of Lessee

Balance Sheet (An extract)

	₹
ASSETS	
Non-current Asset	
Leasehold Asset	
Gross Block	2,63,620
Accumulated Depreciation	(87,207)
LIABILITIES	
Non-current Liability	
Leasehold Obligation (payable after 12 months from the reporting date)	1,08,980
Current Liability	
Leasehold Obligation (payable within 12 months from the reporting date)	81,002

Question 6

(a) XYZ Limited acquired 70% of equity shares of TUV Limited on 1st April, 2010 at cost of ₹ 20,00,000 when TUV Limited had an equity share capital of ₹ 20,00,000 and reserve and surplus of ₹ 1,60,000. In the four consecutive years, TUV Limited, fared badly and suffered losses of ₹ 5,00,000, ₹ 8,00,000, ₹ 10,00,000 and ₹ 2,40,000 respectively. Thereafter in 2014-15, TUV Limited, experienced turnaround and registered an annual profit of ₹ 1,00,000. In the next two years i.e. 2015-16 and 2016-17, TUV Limited recorded annual profits of ₹ 2,00,000 and ₹ 3,00,000 respectively. Calculate the minority

interests and cost of control at the end of each year for the purpose of consolidation, as per AS 21 "Consolidated Financial Statements". ***(10 Marks)***

(b) *A vendor namely 'See', who is in Delhi sells the Laptop worth ₹ 10,00,000 to 'Pee' a customer in Gujarat at ₹ 15,00,000 through 'Bee' an E-Commerce operator who is located in Mumbai. Laptops are purchased by vendor 'See' from another vendor 'Jee' from Kolkata. The E-Commerce operator charges commission at 2%. Pass the necessary journal entries in the books of vendor 'See' and E-Commerce operator, taking into consideration GST @ 18%.* ***(6 Marks)***

(c) *Royal Silks, a textile chain operates a customer loyalty programme. It grants programme members loyalty points when they purchase textiles for a specified amount. Programme members can redeem the points for further purchase of textiles. The points have no expiry date. In one period, the entity grants 10,000 points. Management estimates the fair value of textiles for which each loyalty point can be redeemed as ₹125. This amount takes into account an estimate of the discount that management expects would otherwise be offered to customers who have not earned award credits from an initial sale. In addition, management expects only 8,000 of these points to be redeemed. At the end of the first year, 4,000 of the points have been redeemed in exchange for textiles, i.e. half of those expected to be redeemed. In the second year, management revises its expectations. It now expects 9,000 points to be redeemed altogether. During the second year, 4,100 points are redeemed. In the third year, a further 900 points are redeemed, i.e. that no more points will be redeemed after the third year.*

How would the Royal Silks account for the customer loyalty programme? ***(4 Marks)***

OR

XYZ Limited has a plant with the normal capacity to produce 10,00,000 units of a product per annum and the expected fixed overhead is ₹ 30,00,000, Fixed overhead, therefore based on normal capacity is ₹ 3 per unit.

Determine Fixed overhead as per Ind AS 2 'Inventories' if

(i) Actual production is 7,50,000 units.

(ii) Actual production is 15,00,000 units.

Answer

(a) Calculation of Minority interests and cost of control at the end of each year, as per AS 21

Year	Profit / (Loss)	Minority Interest (30%)	Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by XYZ Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 2010		6,48,000 (W.N.)	-			

2010-2011	(5,00,000)	(1,50,000)	(3,50,000)			4,88,000 (W.N.)
		4,98,000				
2011-2012	(8,00,000)	(2,40,000)	(5,60,000)			4,88,000
	-	2,58,000				
2012-2013	(10,00,000)	(3,00,000)	(7,00,000)			4,88,000
		(42,000)				
	Loss of minority borne by Holding Co.	42,000	(42,000)	42,000	42,000	
		Nil	(7,42,000)			
2013-2014	(2,40,000)	- (on application of AS 21)	(2,40,000)	72,000	1,14,000	4,88,000
		Nil				
2014-2015	1,00,000	- (on application of AS 21)	1,00,000	(30,000)	84,000	4,88,000
		Nil				
2015-2016	2,00,000	- (on application of AS 21)	2,00,000	(60,000)	24,000	4,88,000
		Nil				
2016-2017	3,00,000	90,000	2,10,000	(24,000)	Nil	4,88,000
		(24,000) (application of AS 21)	24,000			
		66,000	2,34,000			

Working Note:

Calculation of Minority interest and Cost of control on 1.1.2010

		Share of Holding Co.	Minority Interest
	100%	**70%**	**30%**
	(₹)	**(₹)**	**(₹)**
Share Capital	20,00,000	14,00,000	6,00,000
Reserve	1,60,000	1,12,000	48,000

			15,12,000	6,48,000
Less: Cost of investment			(20,00,000)	
Goodwill			4,88,000	

(b) In the books of Vendor (See)

		₹	₹
Inter-state Purchases by Vendor			
Purchases A/c	Dr.	10,00,000	
IGST Receivable A/c	Dr.	1,80,000	
To Jee			11,80,000
Inter-state Sales by Vendor			
Pee	Dr.	17,70,000	
To Sales A/c			15,00,000
To IGST Payable A/c			2,70,000
For commission to e-commerce operator			
Commission A/c	Dr.	30,000	
IGST Receivable A/c	Dr.	5,400	
To Bee			35,400
For receipt of payment from e-commerce operator			
Bank A/c (balancing figure)	Dr.	17,34,600	
Bee	Dr.	35,400	
To Pee			17,70,000
For depositing GST to Government			
Cash IGST ledger A/c (2,70,000 – 1,80,000 – 5,400)	Dr.	84,600	
To Bank A/c			84,600
For set-off			
IGST Payable A/c	Dr.	2,70,000	
To IGST Receivable A/c (1,80,000 + 5,400)			1,85,400
To Cash IGST ledger A/c			84,600

In the books of E-Commerce Operator (Bee)

		₹	₹
For amount due			
Pee	Dr.	17,70,000	
To See			17,70,000
For Commission			
See	Dr.	35,400	
To IGST Payable A/c			5,400
To Commission A/c			30,000
For payment received and remitted			
Bank A/c	Dr.	17,70,000	
To Pee			17,70,000
See (17,70,000 – 35,400)	Dr.	17,34,600	
To Bank			17,34,600
Cash Payment to the Government			
Cash IGST Ledger A/c	Dr.	5,400	
To Bank A/c			5,400
For set-off			
IGST Payable A/c	Dr.	5,400	
To Cash IGST Ledger A/c			5,400

(c) **Either**

The fair value of textiles for which each loyalty point can be redeemed as ₹ 125. Since management expects that only 8,000 points to be reimbursed, the revenue that should be deferred is of ₹ 10,00,000 (8,000 x 125).

Year 1

At the end of the first year, 4,000 of the points have been redeemed in exchange for textiles, i.e., half of those expected to be redeemed. The entity recognises revenue of (4,000 points / 8,000 points) x ₹10,00,000 = ₹ 5,00,000.

Year 2

During the second year, 4,100 points are redeemed, bringing the total number redeemed to 4,000 + 4,100 = 8,100 points. The cumulative revenue that the entity recognises is (8,100 points / 9,000 points) × ₹ 10,00,000 = ₹ 9,00,000. The entity has recognised revenue of ₹ 5,00,000 in the first year, so it recognises ₹ 4,00,000 in the second year.

Year 3

In the third year, a further nine hundred points are redeemed, taking the total number of points redeemed to 8,100 + 900 = 9,000. Management continues to expect that only 9,000 points will ever be redeemed, i.e., that no more points will be redeemed after the third year. So the cumulative revenue to date is (9,000 points / 9,000 points) × ₹ 10,00,000 = ₹ 10,00,000. The entity has already recognised ₹ 9,00,000 of revenue (₹ 5,00,000 in the first year and ₹ 4,00,000 in the second year). So it recognises the remaining ₹ 1,00,000 in the third year. All of the revenue initially deferred has now been recognised.

Or

(i) **Actual production is 7,50,000 units:** Fixed overhead is not going to change with the change in output and will remain constant at ₹ 30,00,000, therefore, overheads on actual basis is ₹ 4 per unit (30,00,000 / 7,50,000).

Hence, by valuing inventory at ₹ 4 each for fixed overhead purpose, it will be overvalued and the losses of ₹ 7,50,000 will also be included in closing inventory leading to a higher gross profit then actually earned.

Therefore, it is advisable to include fixed overhead per unit on normal capacity to actual production (7,50,000 x 3) ₹ 22,50,000 and balance ₹ 7,50,000 shall be transferred to Profit & Loss Account.

(ii) **Actual production is 15,00,000 units:** Fixed overhead is not going to change with the change in output and will remain constant at ₹ 30,00,000, therefore, overheads on actual basis is ₹ 2 (30,00,000 / 15,00,000).

Hence by valuing inventory at ₹ 3 each for fixed overhead purpose, we will be adding the element of cost to inventory which actually has not been incurred. At ₹ 3 per unit, total fixed overhead comes to ₹ 45,00,000 whereas, actual fixed overhead expense is only ₹ 30,00,000. Therefore, it is advisable to include fixed overhead on actual basis (15,00,000 x 2) ₹ 30,00,000.

Note:

Various issues related to the applicability of Ind AS / implementation under Companies (Indian Accounting Standards) Rules, 2015, are being raised by preparers, users and other stakeholders. Although many clarifications have been issued by way of ITFG Bulletins or EAC Opinion, still issues are arising on account of varying interpretations on several of its guidance. Therefore, alternate answers may be possible for the above questions based on standards, depending upon the view taken.