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PAPER – 6E: GLOBAL FINANCIAL REPORTING STANDARDS

The question paper comprises three case study questions. The candidates are required to answer any two case study questions out of three.

Question No. I (Contains Part – A and Part – B)

Part-A

You are the Finance Manager of Giant Ltd., an Indian company preparing financials under Accounting Standards notified by the Companies (Accounting Standards) Rules, 2006 as amended (hereinafter referred to as IGAAP) and, after due approval from the concerned authorities, follows 31st December as its year end.

The CFO of the Company informs you that the Company wants to adopt Ind AS on voluntary basis from the year ended 31st December, 2017. Accordingly, the Company will be required to:

- *Restate its comparative consolidated statement of financial position as per Ind AS as on 31st December, 2016.*
- *Present its opening consolidated statement of financial position as per Ind AS as on 1st January, 2016 i.e. transition date.*

You have the Consolidated Balance Sheet of Giant Ltd. as at 31st December, 2016 and 1st January, 2016 prepared under IGAAP as follows:

(₹ in lakhs)

Particulars	*31st December, 2016*	*1st January, 2016*
EQUITY AND LIABILITIES		
SHAREHOLDERS' FUNDS:		
Equity Share Capital (face value of ₹ 100 each)	*17,000*	*17,000*
Reserves and Surplus	*13,258*	*10,800*
Minority Interest	*5,110*	*4,845*
Non-current Liabilities:		
Long term borrowings	*9,750*	*4,750*
Deferred Tax Liabilities (net)	*1,335*	*1,178*
Other long-term liabilities	*-*	*1,740*
Long-term provisions	*2,201*	*2,367*

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Current liabilities:		
Short term borrowings	*5,060*	*5,011*
Trade payables	*2,626*	*1,894*
Other current liabilities	*5,581*	*4,768*
Short-term provisions	*1,342*	*1,000*
TOTAL	*63,263*	*55,353*
ASSETS		
Non-current assets:		
Property, Plant & Equipment		
Tangible assets	*21,792*	*19,138*
Intangible assets	*5,345*	*5,598*
Goodwill on consolidation	*5,945*	*5,945*
Non-current investments	*10,150*	*10,150*
Long-term loans and advances	*3,918*	*1,615*
Current assets:		
Current investments	*3,730*	*1,080*
Inventories	*2,818*	*2,514*
Trade receivables	*4,392*	*3,746*
Cash and bank balances	*285*	*260*
Short-term loans and advances	*4,888*	*5,307*
TOTAL	*63,263*	*55,353*

The above financials include the following:

(1) *Borrowings include 8% Optionally Convertible Debentures (OCD) issued on 1st July, 2016 for ₹ 5,000 lakhs. These debentures are convertible into equity shares of Giant Ltd. at the option of the holder at the end of the tenure of 5 years in the ratio of 1:1 i.e. each OCD will be converted to one equity share. Interest is paid annually on 30th June, each year. The market rate for issue of debentures without a conversion option is 10%. Accrued interest is included under Other current liabilities.*

(2) *Long-term loans and advances include interest-free security deposit for ₹ 700 lakhs placed by Giant Ltd. on 1st April, 2015 for premises that it has taken on lease. The amount of security deposit placed is abnormally higher as compared with other leasing transactions. The lease is non-cancellable operating lease for a term of 6 years. The rate of interest for such deposits is 9%. Rent expenses are straight-lined over the lease period.*

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(3) *Investments consist of the following. These are measured at cost in the financials of Giant Ltd.* *(₹ in lakhs)*

Nature of investment	*Current/Non -current*	*31st December, 2016*		*1 January, 2016*	
		Cost	*Fair value*	*Cost*	*Fair value*
Debt oriented mutual fund	*Current*	*1,200*	*1,350*	*1,080*	*1,210*
Equity oriented mutual fund	*Current*	*2,530*	*2,682*	*-*	*-*
Equity shares of Strategy Ltd. not held for trading (in the books of Dwarf Ltd.	*Non-current*	*5,400*	*5,620*	*5,400*	*5,550*
Redeemable Debentures @ 10% coupon	*Non-current*	*3,000*	*3,050*	*3,000*	*3070*
Optionally convertible preference shares @ 9%	*Non-current*	*1,750*	*1,740*	*1,750*	*1,720*
Total		*13,880*	*14,442*	*11,230*	*11,550*

Any diminution in value was considered as temporary and was not given effect.

(4) *On 20th August, 2015, Giant Ltd. paid interim dividend of ₹ 1 per equity share. On 31st December, 2016, the Board of the Company has proposed dividend at ₹ 1.5 per equity share. The proposed dividend is included in short-term provisions.*

Giant Ltd. is considering electing for the following exemptions on first-time adoption of Ind AS, if permissible.

(a) *Consider the fair value of property comprising of a building as deemed cost. The fair value as on 1st January, 2016 was ₹ 6,000 lakhs. On this date, the cost less accumulated depreciation of the property was ₹ 4,750 lakhs and the remaining useful life was 20 years. Based on the recent structural report obtained by the Company, the remaining useful life of the building is 15 years as on 31st December, 2017. This was the only building in this particular class of assets within Property, Plant and Equipment. The carrying amount of all other items of Property, Plant and Equipment qualify as carrying cost in accordance with Ind AS 16.*

(b) *Restate past business combinations from 1st January, 2014. It had acquired a 60% stake in an unrelated entity, Dwarf Ltd. on 1st January, 2015. It had applied purchase method for accounting for the acquisition. The break-up of the net assets of Dwarf Ltd. recorded as on 1st January, 2015 is as follows:*

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(₹ in lakhs)

Particulars	Book value	Fair value
Plant and equipment (remaining life-10 years)	6,262	8,140
Investments in equity instruments of Strategy Ltd. (5% stake)	5,400	5,130
Trade receivables	303	303
Trade payables and other current liabilities	290	290
Total net assets acquired	11,675	13,283

Giant Ltd. had recognized these assets at book value.

The purchase consideration was as follows:

(i) 70,00,000 shares at ₹ 100 each of Giant Ltd.

(ii) Cash of ₹ 5,800 lakhs payable over a period of three years as below:

Date of payment	Amount (₹ In lakhs)
31st December,2015	2,320
31st December,2016	1,740
31st December,2017	1,740

The amount is disclosed under Other long-term liabilities and Other current liabilities.

You can assume the amount of payment in the next 12 months as the current portion. The discount rate on similar liabilities can be considered as 10%.

(iii) Giant Ltd. shall pay an additional consideration at 20% of the Earnings Before Interest and Tax (EBIT) of Dwarf Ltd. contingent upon the EBIT reaching specified levels at the end of the year 2018. Under IGAAP, this amount shall be recognised when payable.

The fair value of the consideration is as follows:

Date	(₹ in lakhs)
1st January, 2015	500
31st December, 2015	505
31st December, 2016	507

The changes in fair value are not on account of new information obtained about facts and circumstances that existed as of the acquisition date.

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Giant Ltd. incurred legal and professional fees of ₹ 150 lakhs in connection with the acquisition of Dwarf Ltd. and debited these costs in the goodwill amount while accounting under IGAAP.

It had recognized goodwill at ₹ 5,945 lakhs and non-controlling interest at ₹ 4,670 lakhs as on 1st January, 2015. Giant Ltd. has chosen the policy to measure the non-controlling interest at their proportionate share of net assets under Ind AS.

(c) On 31st December, 2013, it had merged its subsidiary, Miniature Ltd. in which it held 70% stake. It had accounted for the assets and liabilities taken over using the Pooling of Interest method. The break-up of the net assets of Miniature Ltd. recorded as on 31st December, 2013 is as follows: (₹ in lakhs)

Particulars	Book value	Fair value
Plant and equipment (remaining life-5 years)	1361	1200
Trade receivables	109	105
Trade payables and other current liabilities	70	70

The remaining shareholders were issued 4,20,000 equity shares at ₹ 100 per share of Giant Ltd. No goodwill or capital reserve was recognised on this transaction.

In the books of Giant Ltd., you are required to prepare the following:

- *Opening Ind AS consolidated statement of financial position (Balance Sheet) as on 1st January, 2016.*
- *Comparative Ind AS consolidated statement of financial position (Balance Sheet) as on 31st December, 2016.*
- *Net worth reconciliation from IGAAP to Ind AS as on 1st January, 2016 and 31st December, 2016.*

Support your answer with detailed workings.

You may ignore deferred tax implications for the above. ***(30 Marks)***

Part-B

Answer the following with reference to the relevant Ind AS with reasons and workings. if applicable.

(1) On 1st April, 2017, two entities enter into a five-year lease. The lessor agrees to a rent-free period of one year as an incentive to the lessee for entering into the lease. The lessee will pay a fixed rent of ₹ 60 lakhs per annum for years 2 to 5. The lease income to be

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recognized by the lessor for the month of March, 2018 is ______ and March, 2019 is _________* ***(2 Marks)***

(2) *Konglomerate Ltd. has a wide range of businesses and needs your help to identify which of the following items should be accounted for using Ind AS 17 Leases (select all that apply)*

(A) *Employment contracts.*

(B) *Right to use a unit in a multi-storey office complex.*

(C) *Licensing agreements for motion picture films.*

(D) *Agreements to explore for oil or natural gas.* ***(2 Marks)***

(3) *Fresho Ltd. is planning to adopt Ind AS for the first time as at 31st March, 2018, with 1st April, 2016 as the date of transition. As at 31st March, 2016, the value of raw material inventories was incorrectly reported due to an error. The amounts are significant and the CFO is concerned as to whether this error is to be reported in the Ind AS financial statements and how to rectify it (choose one response):*

(A) *Fresho Ltd. shall report the impact of the error as a correction to Statement of Profit and Loss for the comparative period i.e., the year ended 31st March, 2017.*

(B) *The correction shall be reflected in a reconciliation as at the end of the first Ind AS reporting period i.e., as at 31st March, 2017.*

(C) *The impact of the correction is significant and it shall be amortized on a rational and systematic basis in the two first periods of Ind AS reporting i.e., years ended 31st March, 2017 and 31st March, 2018.*

(D) *The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 2016.* ***(2 Marks)***

(4) *Your colleague recently attended a seminar on fair value measurement, but the notes are drenched in sudden rains. Help her complete the following sentences using the choice of words given below.*

(a) *The fair value definition is based on the notion of an _________.*

(b) *Fair value is ___________.*

(c) *The definition assumes ___________.*

(d) *Fair value shall reflect ____________.*

* PS: Read 'month of' as 'year ended on'.

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Market participants' current market conditions	*Entry price*	*An equity-specific value*
A market-based measurement	*A hypothetical and orderly exchange transaction*	*Exist price*

(2 Marks)

(5) HighEnd is an exclusive private club that has several facilities including restaurants, swimming pool, gym and golf. Members can only enroll by invitation and have an option to pay a single up-front, non-refundable membership fee rather than monthly or annual payments. The fee entitles members to most but not all of the Club's services for the member's life. For example, the Club has a highly popular aerobics and fitness facility. All members of HighEnd are entitled to attend daily classes by paying ₹ 20,000 for one year. No adjustment is made for classes not attended. There is an initial registration fee of ₹ 1,000 for the welcome kit and the amount is non-refundable. How should the revenue be recognised by HighEnd? (select all that apply):

(A) The registration fee for the welcome kit etc. must be recognised upfront.

(B) The registration fee for the welcome kit etc. must be apportioned over the one-year period.

(C) The annual fees for the aerobics and fitness classes must be recognised rateably over the time the individual is expected to require services of the club.

(D) The annual fees for the aerobics and fitness classes must be apportioned over the one-year period.

(E) The lifetime membership fee must be apportioned over the one-year period.

(F) The lifetime membership fee must be recognised upfront.

(G) The lifetime membership fee must be recognised rateably over the time the individual is expected to require services of the club. ***(2 Marks)***

(6) In accordance with Ind AS 18 Revenue, interest shall be recognised using the _______ method and royalties shall be recognised on ________ basis in accordance with the substance of the relevant agreement. ***(2 Marks)***

(7) Pins and Needles Ltd. prepared its draft financial statements for the year ended 31st March, 2017 by 28th May, 2017. The audit took place during June and July and the Management authorised them for issue to the Board on 7th August, 2017. The Board approved the financial statements on 23rd August, 2017, with one amendment requested. Financial statements were sent to shareholders on 30th August, 2017.

On what date did Pins and Needles Ltd. authorise the financial statements for issue?

(A) 28th May, 2017

(B) 7th August, 2017

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(C) 23rd August, 2017

(D) 30th August, 2017 **(2 Marks)**

(8) Needcash Ltd. is looking to raise funds using various methods but it is also concerned that some items may impact the income statement. Your advice is required on which of the following items will impact the Statement of Profit and Loss:

(A) Dividend payments on preference shares that are classified as financial liabilities.

(B) Incremental directly attributable costs incurred in successfully issuing a bond.

(C) Interest payments on bonds issued by Needcash Ltd.

(D) Dividend payments of shares classified wholly as equity.

(E) Incremental directly attributable costs incurred in successfully issuing equity shares. **(2 Marks)**

(9) The junior accountant at LeaseLand Ltd. is muddled up with accounting for various properties. Your help is required to identify which of the following are not examples of investment property:

(A) Property intended for sale in the ordinary course of business.

(B) Land held for long-term capital appreciation.

(C) A building that is vacant but is held to be leased out under one or more operating leases.

(D) Owner-occupied property.

(E) Land held for a currently undetermined future use.

(F) A building owned by the entity and leased out under one or more operating leases.

(G) Property that is leased to another entity under a finance lease.

(H) Property that is being constructed or developed for future use as investment property. **(2 Marks)**

(10) In accordance with Appendix A of Ind AS 11, the operator of a service concession arrangement shall recognize a financial asset in respect of the arrangement to the extent that (select one or more that apply):

(A) The grantor has guaranteed to pay the operator any shortfall between amounts received from users and a specified amount.

(B) The public are required to pay the operator a specified amount to use the service.

(C) The grantor will pay the operator based on the extent that the public uses the service.

(D) The grantor has guaranteed to pay the operator a specified amount. **(2 Marks)**

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Answer to Case Study Question I

Answer to first two subparts of Part A of Question No. I

CONSOLIDATED BALANCE SHEET OF GIANT LTD.

(All figures are ₹ in lakhs)

	Particulars	Note No.	As at 31st December, 2016	As at 1st January, 2016
	ASSETS			
(1)	**Non-current assets**			
	(a) Property, Plant and Equipment	1	24481.90	22078.20
	(b) Goodwill on consolidation	2	4383.06	4383.06
	(c) Other Intangible assets		5345	5598
	(d) Financial Assets			
	(i) Investments	3	10360	10270
	(ii) Loans and advances			
	- Security deposit for lease	4	485.44	445.36
	- Other loans and advances	5	3218	915
	(e) Other non-current assets			
	- Prepaid rent expenses	6	153.19	200.32
(2)	**Current assets**			
	(a) Inventories		2818	2514
	(b) Financial Assets			
	(i) Investments	7	4032	1210
	(ii) Trade receivables		4392	3746
	(iii) Cash and cash equivalents		285	260
	(iv) Loans		4888	5307
	(v) Others (prepaid rent expenses)	8	47.13	47.13
	Total Assets		**64888.72**	**56974.07**

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	EQUITY AND LIABILITIES			
(1)	**Equity**			
	(a) Equity Share capital		17000	17000
	(b) Other Equity			
	- Equity component of compound financial instrument	9	379	-
	- Reserves and Surplus - Retained Earnings	10	13556.90	11641.62
	(c) Non-controlling interest	11	5798.96	5581.08
	LIABILITIES			
(2)	**Non-current liabilities**			
	(a) Financial Liabilities			
	(i) Borrowings	12	9371	4750
	(b) Provisions		2201	2367
	(c) Deferred tax liabilities (Net)		1335	1178
	(d) Other non-current liabilities (payment due for Acquisition of business combination)	13	507	1639.65
(3)	**Current liabilities**			
	(a) Financial Liabilities			
	(i) Borrowings		5060	5011
	(ii) Trade payables		2626	1894
	(b) Other current liabilities	14	5755.74	4911.72
	(c) Provisions	15	1087	1000
	Total Equity and Liabilities		**64888.72**	**56974.07**

Notes to the Financial Statements (All figures are ₹ in lakhs)

1. Property Plant and Equipment

	31.12.2016	1.1.2016
Balance as per IGAAP	21,792	19,138
Add: Increase in fair value of PPE as on 1.1.2016 (6000 - 4750)	1250	1250
Less: Short depreciation	(62.50)	

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Add: Retrospective increase on application of Ind AS 103 and Ind AS 101	1878	1878
Less: Short depreciation on increased value on 1.1.16	(187.80)	(187.80)
Less: Short depreciation on increased value on 31.12.16	(187.80)	
	24,481.90	22,078.20

2. Goodwill on consolidation

	31.12.2016	1.1.2016
Balance as per IGAAP	5945	5945
Less: Decrease in value due to retrospective restatement of Business combination	(1561.94)	(1561.94)
	4383.06	4383.06

3. Non-current investment

	31.12.2016	1.1.2016
Balance as per IGAAP	10150	10150
Less: Decrease in value due to retrospective restatement of Business combination		(270)
Add: Increase in Fair value of Equity shares of Strategy Ltd. not held for trading (in the books of Dwarf) (on 31.12.16 = 5620-5400) (on 1.1.16 = 5550-5130)	220	420
Less: Decrease in Fair value of Optionally convertible preference shares	(10)	(30)
	10360	10270

4. Security deposit for lease

	31.12.2016	1.1.2016
Security deposit for acquiring the lease	485.44	445.36

5. Long-term Loans and advances

	31.12.2016	1.1.2016
Balance as per IGAAP	3918	1615
Less: Cost of security deposit as per IGAAP	(700)	(700)
	3218	915

6. Non-current Prepaid rent expenses – Refer working Note 2

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7. Current investment

	31.12.2016	1.1.2016
Balance as per IGAAP	3730	1080
Less: Cost of Debt oriented mutual fund	(1200)	(1080)
Add: Fair value of Debt oriented mutual fund	1350	1210
Less: Cost of Equity oriented mutual fund	(2530)	
Add: Fair value of Equity oriented mutual fund	2682	
	4032	1210

8. Current Prepaid rent expenses – Refer working Note 2

9. Equity component in Optionally Convertible Debentures = ₹ 379 lakhs

10. Reserves and Surplus- Retained Earnings

	31.12.16	1.1.16
Balance as per IGAAP	13258	10800
Less: Difference on account of change in accrued interest on Optionally Convertible Debentures (231-200)	(31)	-
Less: Difference on account of bundling of security deposit as per Ind AS [31.12.2016 = (7.05 + 7.19)]	(14.24)	(7.19)
Add: Increase in fair value of current investment 1.1.2016 = (1210-1080) 31.12.2016 = (1350-1200) + (2682-2530)	 302	 130
Add: Difference in fair value and cost of non-current investment 1.1.2016 = (refer W.N.3) 31.12.2016 = (5620-5400) - (1750 - 1740)	 210	 390
Add: Proposed dividend not declared till 31.12.2016	255	
Add: Increase in the fair value of the PPE on the transition date	1250	1250
Less: Short Depreciation on revaluation of building property	(62.50)	
Add/Less: Difference on account of retrospective restatement of business combination (Refer W. N.)	1878	(150)
Less: Increase in NCI	(643.20)	

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Less: Increase in share of NCI due to change in value of assets 1.1.2016	(45.76)	
31.12.2016		(92.88)
Increase in non-current liability as on 1.1.16	(505)	
Less: Increase in Fair value of contingent consideration 1.1.2016 = (505-500)		(5)
31.12.2016 = (507-505)	(2)	
Less: Interest @ 10% on 2nd instalment (1437.24 x 10%)		(143.72)
Less: Interest @ 10% on 3rd instalment 1.1.2016 = (1306.74 x 10%)		(130.67)
31.12.2016 = (1437.41 x 10%)	(143.74)	
Less: Short depreciation on account of fair value of PPE 1.1.2016 =		(187.80)
31.12.2016 = (187.80 + 187.80))	(375.60)	
Less: Finance cost on deferred consideration of ₹ 2320	(211.12)	(211.12)
Decrease in goodwill on consolidation	(1561.94)	
	13556.90	11641.62

11. Non-controlling interest

	31.12.2016	1.1.2016
Balance as per IGAAP	5110	4845
Add: Restatement as per Ind AS	643.20	643.20
Add: Changes in NCI's share subsequent to acquisition date	45.76	92.88
	5798.96	5581.08

12. Long-term borrowing- Optionally Convertible Debentures

	31.12.2016	1.1.2016
Balance as per IGAAP	9750	4750
Less: Cost of Optionally Convertible Debentures	(5,000)	-
Add: PV of Optionally Convertible Debentures (liability component)	4621	-
	9371	4750

13. Other non-current liability

	31.12.2016	1.1.2016
Balance as per IGAAP	-	1740

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Less: Adjustment on account of restatement of business combination (refer W.N.)		(947.14)
Add: Finance cost on on deferred consideration of ₹ 2320		211.12
Add: Value as per Ind AS (1306.74 x 10%)		130.67
Add: Contingent consideration (500+5)	507	505
	507	1639.65

14. Other current liabilities

	31.12.2016	1.1.2016
Balance as per IGAAP	5581	4768
Less: Accrued interest as per IGAAP	(200)	-
Add: Accrued interest as per Ind AS on PV of Optionally Convertible Debentures (liability component)	231	
Add: Interest @ 10% on deferred payment	143.74	143.72
	5755.74	4911.72

15. Short term provision

	31.12.2016	1.1.2016
Balance as per IGAAP	1342	1000
Less: Reversal of proposed dividend not declared till 31.12.2016 (170 lakhs equity shares x ₹ 1.5)	(255)	-
	1087	1000

Working Notes (All figures are ₹ in lakhs):

1. Optionally Convertible Debentures is a compound financial instrument

Particulars	**(₹ in lakhs)**
Present value of principal paid in the 5th year (5,000 lakhs x 0.621)	3,105
Annuity value of interest payable (5,000 x 8% x 3.79)	1,516
Total liability component	4,621
Less: Consideration paid	5,000
Residual – equity component	379

Therefore, Long term borrowings of 31st December, 2016 which includes ₹ 5,000 lakhs of OCD will be deducted and liability component of ₹ 4,621 lakhs will be added. Further, from other current liabilities, accrued interest for 6 months on OCD of ₹ 200 lakhs (5,000 lakhs x 8% x 6/12) will be deducted and ₹ 231 lakhs (4,621 x 10% x 6/12) will be

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added. The net effect of change in interest value ₹ 31 lakhs (231 lakhs – 200 lakhs) will be reflected in the P&L.

(2) Security deposit made by Giant Ltd. (Lessee) to its Lessor is a kind of loan given

This is an operating lease taken for 6 years. However, the security deposit is a kind of loan given to the lessor for obtaining the lease. The amount of security deposit placed is abnormally higher as compared with lower lease rentals. Therefore, it shall be considered as a financial asset and should be recognized at fair value. The present value of the security deposit shall be calculated at the discounting factor @ 9% and the difference in the present value and the deposit made shall be recognized in the profit and loss account.

Security deposit on 1st April, 2015	=	₹ 700 lakhs
Less: PV of security deposit to be received		
at the end of the 6th year = 0.596 x 700 lakhs	=	(₹ 417.20 lakhs)
Difference recognized as prepaid rent expense	=	₹ 282.80 lakhs

Calculation of finance income with respect to Security Deposit

	Opening Balance	Finance income @ 9%	Closing balance as on 31st Dec.
1st April, 2015	417.20	28.16 (for 9 months)	445.36
1st Jan. 2016	445.36	40.08	485.44
1st Jan. 2017 or 31st Dec. 2016	485.44	43.69	529.13

Calculation of amortization expenses with respect to prepaid rent expense

Amortisation of prepaid rent expense on straight line basis over 6 years

= 282.80 lakhs/6 = 47.13 lakhs p.a.

	Opening Balance	Amortisation on Straight Line Basis	Closing balance as on 31st Dec.
1st April, 2015	282.80	35.35 (for 9 months)	247.45
1st Jan. 2016	247.45	47.13	200.32
1st Jan. 2017 or 31st Dec. 2016	200.32	47.13	153.19

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Treatment on 1st January, 2016

₹ 700 lakhs will be deducted from loan and advances

₹ 445.36 will be shown as security deposit for lease

₹ 7.19 will be deducted from reserves and surplus (35.35-28.16)

₹ 200.32 will be shown as Non-current prepaid rent expense

₹ 47.13 will be shown as current prepaid rent expense

Treatment on 31st December, 2016

₹ 700 lakhs will be deducted from loan and advances

₹ 485.44 will be shown as security deposit for lease

₹ 7.05 will be deducted from reserves and surplus (47.13-40.08)

₹ 153.19 will be shown as Non-current prepaid rent expense

₹ 47.13 will be shown as current prepaid rent expense

(3) Investments appearing in the Consolidated Balance Sheet of Giant Ltd.

S. No.	Nature of Investment	Current/Non-current	Basis as per Ind AS	31st December, 2016	1st January, 2016
1.	Debt oriented mutual fund	Current	FVTPL	1,350	1,210
2.	Equity oriented mutual fund	Current	FVTPL	2,682	
3	Equity shares of Strategy Ltd. not held for trading (in the books of Dwarf Ltd.)	Non-current	FVTPL	5,620	5,550
4.	Redeemable Debentures @ 10% coupon	Non-current	Amortised cost*	3,000	3,000
5.	Optionally convertible preference shares @ 9%	Non-current	FVTPL	1,740	1,720

* Here cost is assumed as amortised cost.

Treatment on 1st January, 2016

Non-current investment will be increased by ₹ 390 lakhs [(₹ 5,550 lakhs – ₹ 5,130 lakhs) – (1,750 – 1720)]

Current investment will increase by ₹ 130 lakhs (1,210 – 1,080)

Retained earnings (P&L) will be credited by ₹ 520 lakhs

Treatment on 31st December, 2016

Non-current investment will be increased by ₹ 210 lakhs [(₹ 5,620 lakhs – ₹ 5,400 lakhs) – (1,750 – 1740)]

Current investment will increase by ₹ 302 lakhs [(1,350- 1,200) + (2,682- 2,530)]

Profit and Loss will increase by ₹ 512 lakhs (210 + 302)

Interim dividend paid during on 20th August 2015 is declared during the year 2015 and does not require adjustment.

(4) **Dividend** of ₹ 1.5 per share ie. (1.5 x 170 lakhs shares= 255 lakhs) proposed on 31st December, 2016 shall not be included in the short-term provisions of 31st December, 2016

Also it shall not be deducted from Reserves and surplus of 31st December, 2016 and not included in the short term provision

Application of first time adoption of Ind AS

(a) PPE Adjustments

In accordance with paragraph D7AA of Ind AS 101, where there is no change in its functional currency on the date of transition to Ind AS, a first time adopter of Ind AS has the option to elect to continue with the carrying value of *all* of its property, plant and equipment as at the date of transition measured as per the previous GAAP and use that as its deemed cost at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A of Ind AS 101.

If a first time adopter wishes to value any of its PPE at fair value as deemed cost on the transition date, then it has to retrospectively compute the carrying cost of all other PPE as per ind AS. Since in the question, it is mentioned that all other items of PPE qualify as carrying cost as per Ind AS 16, the entity can take fair value of Building property at fair value considering its deemed cost. (Refer Note 1 for calculation and impact)

(b) Retrospective restatement of business combination on first time adoption of the standard

Calculation of purchase consideration as per Ind AS 103

70,00,000 shares of ₹ 100 each				7000
Cash paid over the years				
31.12.2015	2320	0.909	2108.88	

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31.12.2016	1740	0.826	1437.24	
31.12.2017	1740	0.751	1306.74	4852.86
Contingent consideration				500
				12352.86

Calculation of NCI by proportionate share of net assets

Net assets of Dwarf Ltd. = 13,283

NCI = 13,283 x 40% = 5,313.20

Calculation of Goodwill as per Ind AS 103

Goodwill = Purchase consideration + NCI – Net assets

= 12,352.86 + 5,313.20 – 13,283 = 4,383.06

Acquisition date cost of 150 shall be expensed.

Contingent consideration shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.

Retrospective restatement of business combination as on 1.1.2015

	Difference	IGAAP	Ind AS
Purchase consideration	447.14	12,800	12,352.86
Less: Net asset	1608	11675	13,283
	2055.14	1125	(930.14)
Add: NCI	(643.2)	4670	5313.20
	1411.95	5795	4383.06
Add: Acquisition cost	150	150	
Goodwill	1561.94	5945	4383.06

Journal entry for the above as on 1.1.2015

PPE	1878	
Shareholders of Dwarf Ltd. (CL + NCL)	947.14	
Retained Earnings	150	
To Investment		270
To NCI		643.20
To Goodwill on consolidation		1561.94
To Contingent consideration		500

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Values of Property and Equipment

	Difference	IGAAP	Ind AS
As on 1.1.15		6262	8140
Less: Depreciation (routed through RE)	(187.80)	626.20	814
Value as on 1.1.16		5635.80	7326
Less: Depreciation (routed through P&L)	(187.80)	626.20	814
Value as on 31.12.16		5009.60	6512

Investment in equity instruments of Strategy Ltd.

Fair valuation of investment in equity as on 1st January 2015 = 5,400 – 5,130= 270

Fair valuation gain on investment as on 1st January 2016 = 5,550 – 5,130= 420

Fair valuation gain on investment for the year ending 31 December 2016 = 5,620 – 5,550 = 70

Changes in Non-controlling Interest due to change in the acquisition date fair values

Adjustments	31st December 2016	1st January 2016
(i) Fair valuation for investment	490.00	420.00
(ii) Additional depreciation on PPE	(375.60)	(187.80)
	114.40	232.20
Giant Ltd.'s shares at 60%	68.64	139.32
NCI's share at 40%	45.76	92.88

Increase in the fair value of contingent consideration

	31.12.2016	1.1.2016
Value at the beginning	505	500
Add: Increase in FV (balancing figure)	2	5
Value as on 31st December	507	505

Unbundling of deferred instalment forming part of purchase consideration

S. No.		Instalment paid on 31.12.2015	Instalment paid on 31.12.2016	Instalment paid on 31.12.2017	Total
a	Instalment to be paid	2320	1740	1740	5800
b	PV @ 10% discounting factor	2108.88	1437.24	1306.74	4852.86
c	Difference	211.12	302.76	433.26	947.14

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d	Interest @ 10% on 1.1.16 to be routed through Retained Earnings	-	143.72	130.67	274.394
e	Short/Long term liability as on 1.1.16 (b+d)	-	1580.96 (STL)	1437.41 (LTL)	
f	Interest @ 10% on 31.12.16 to be routed through Profit and loss		159.04	143.74	
g	Short term liability as on 31.12.16 (e+f)		-	1581.15 (STL)	

(c) For common control business combination

Under Ind AS 103, accounting for common control is done as per pooling of interest method. Since the same method is followed as per IGAAP also, there will not be any change in the transition date balance sheet on account of it. Also Giant Ltd. has elected to restate past business combinations from 1st January, 2014. Therefore, business combinations taken place earlier to this date should not be restated.

Answer to third subpart of Part A of Question No. I

Net worth reconciliation from IGAAP to Ind AS **(All figures are ₹ in lakhs)**

	As on 31.12.16	As on 1.1.2016
Amount as per AS (IGAAP)	30258	27800
Additions due to Ind AS adjustment		
Financial Instruments	379	
Investment (current and non-current) (130 + 390)	512	520
Proposed dividend	255	
PPE	1187.5	1250
Subtractions due to Ind AS adjustment		
Revenue	(31)	
Loans and advances - Security deposit for obtaining leases	(14.24)	(7.19)
Business combination (187.8 + 5 + 143.72 + 130.67+ 150+211.12 + 92.88)	(1399.24)	(921.19)
Amount as per Ind AS	31147.02	28641.62

Working Notes (All figures are ₹ in lakhs):

1. Calculation of net worth as per AS (IGAAP)

	As on 31.12.16	As on 1.1.2016
Share capital	17000	17000
Add: Reserves and surplus	13258	10800
	30258	27800

2. Calculation of net worth as per Ind AS

	As on 31.12.16	As on 1.1.2016
Share capital	17000	17000
Equity component	379	
Add: Reserves and surplus	13545.15	10800
Retained earnings	222.87	841.62
	31147.02	28641.62

Answer to Part B of Question No. I

(1) The lease income to be recognized by the lessor for the year ended on March, 2018 is **₹ 48 lakhs** and March, 2019 is **₹ 48 lakhs.**

Reasoning:

As per Appendix A of Ind AS 17, Net consideration of ₹ 240 lakhs consisting of ₹ 60 lakhs received for each of 4 years in the lease term should be spread over the 5 year lease term, i.e., ₹ 48 lakhs per year.

(2) Option (B) : Right to use a unit in a multi-storey office complex

Reasoning:

Scope of Ind AS 17 specifically excludes other three from its scope.

(3) Option (D) : The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1st April, 2016.

Reasoning:

Refer para 26 of Ind AS 101 which states that if an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.

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(4) (a) Exit price

(b) Market based measurement

(c) Hypothetical and orderly exchange transaction

(d) Market participants' current market conditions.

Reasoning:

As per the concept and definition explained in Ind AS 113.

(5) Option (A) : The registration fee for the welcome kit etc. must be recognized upfront.

Reasoning:

There is no performance obligation due so the revenue from welcome kit shall be recognized upfront.

Option (D) : The annual fees for the aerobics and fitness classes must be apportioned over the one year period.

Reasoning:

Since the fees for aerobics and fitness classes is for the whole year and also the classes missed by the members cannot be adjusted, the fee shall be recognized over the one year period.

Option (G) : The lifetime membership fee must be recognized rateably over the time the individual is expected to require services of the club.

Reasoning:

Though the lifetime membership fee is non-refundable yet the performance obligation has to be met by the entity. The recognition of revenue by reference to the stage of completion of a transaction is recognised in the accounting periods in which the services are rendered.

(6) Effective interest; accrual

Reasoning:

As per para 30 of Ind AS 18, Revenue shall be recognised on the following bases:

(a) **interest shall be recognised using the effective interest method** as set out in Ind AS 109; and

(b) **royalties shall be recognised on an accrual basis** in accordance with the substance of the relevant agreement.

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(7) Option (C) : 23rd August, 2017

Reasoning:

Refer para 3 of Ind AS 10 wherein 'Events after the reporting period' is defined. According to the definition, 'Events after the reporting period' are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are **approved by the Board of Directors** in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Accordingly here 23rd August, 2017 should be considered as the date of approval of financial statements.

(8) Option (A) : Dividend payments on preference shares that are classified as financial liabilities

Option (B) : Incremental directly attributable costs incurred in successfully issuing a bond.

Option (C) : Interest payment on bonds issued by Needcash Ltd.

Reasoning:

Any return on financial liabilities is shown as charge to Statement of Profit and Loss. As per para 35 of Ind AS 32, interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument shall be recognised by the entity directly in equity. Transaction costs of an equity transaction shall be accounted for as a deduction from equity.

(9) Option (A) : Property intended for sale in the ordinary course of business.

Option (D) : Owner-occupied property

Option (G) : Property that is leased to another entity under a finance lease.

Reasoning:

Para 8 of Ind AS 40 provides examples of property which shall be considered as investment property. Option B, C, E, F and H are given there as investment property as these are meant to earn rentals or for capital appreciation or both.

(10) Option (A) : The grantor has guaranteed to pay the operator any shortfall between amounts received from users and specified amount.

and Option (D): The grantor has guaranteed to pay the operator a specified amount.

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Reasoning:

As per para 16 of Appendix A of Ind AS 11, the operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the **grantor contractually guarantees to pay the operator (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even** if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

Question No. II

QA Ltd. is a company registered under Companies Act, 2013 and is currently following IGAAP for preparation and presentation of financial statements. QA Ltd., is currently engaged in different business segments and is also looking to expand its operations. The Company is also exploring investment from an overseas investor to carry out the expansion plan.

During the month of April 2017, an overseas investor showed interest to acquire 51% stake in QA Ltd. and has appointed an independent consultant to carry out the due diligence of QA Ltd. As per one of the conditions of Memorandum of Understanding (MoU), the Company is required to submit its financial statements for the year ended 31st March, 2017 as per Ind AS.

QA Ltd. has approached you to suggest the accounting treatment of the following issues under applicable Ind AS.

(a) QA Ltd. is in the process of computation of the deferred taxes as per applicable Ind AS and wants guidance on the tax treatment for the following:

(i) QA Ltd. does not have taxable income as per the applicable tax laws, but pays 'Minimum Alternate Tax' (MAT) based on its books profits. The tax paid under MAT can be carried forward for the next 10 years and as per the Company's projections submitted to its bankers, it is in a position to get credit for the same by the end of eighth year. The Company is recognising the MAT credit as a current asset under IGAAP. The amount of MAT credit as on 31st March, 2016 is ` 8.5 crores and as on 31st March, 2017 is ` 9.75 crores;

(ii) The Company had acquired 40% in GK LLC for an aggregate amount of ` 45 crores. The shareholding gives QA Ltd. significant influence over GK LLC but not control and therefore the said interest in GK LLC is accounted using the equity method. Under the equity method, the carrying value of investment in GK LLC was ` 70 crores on 31st March, 2016 and ` 75 crores as on 31st March, 2017. As per the applicable tax

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laws, profits recognised under the equity method are taxed if and when they are distributed as dividend or the relevant investment is disposed of.

(iii) The Company measures its head office property using the revaluation model. The property is revalued every year as on 31st March. On 31st March, 2016, the carrying value of the property (after revaluation) was ₹ 40 crores whereas its tax base was ₹ 22 crores. During the year ended 31st March, 2017, the Company charged depreciation in its Statement of Profit and Loss of ₹ 2 crores and claimed a tax deduction for tax depreciation of ₹ 1.25 crores. On 31st March, 2017, the property was revalued to ₹ 45 crores. As per the tax laws, the revaluation of Property, Plant & Equipment does not affect taxable income at the time of revaluation.

The Company has no other temporary differences other than those indicated above. The Company wants you to compute the deferred tax liability as on 31st March, 2017 and the charge/credit to the Statement of Profit and Loss and/or Other Comprehensive Income for the same. Consider the tax rate at 20%. ***(8 Marks)***

(b) QA Ltd. has purchased a machine during the current accounting period for ₹ 2,50,000. Depreciation of ₹ 50,000 was charged in arriving at the accounting profit for the current period. A deduction of ₹ 1,00,000 was available under the applicable tax laws. The remaining cost will be deductible in future periods, either as depreciation or as a deduction on disposal.

The Company also has a current asset of ₹ 60,000 related to interest receivable. The related interest revenue will be taxed on cash basis when it is received.

(i) For the above, difference between the tax base of machine and the carrying amount will result into? (Give brief reasoning for your choice.)

(A) Deferred Tax Asset

(B) Deferred Tax Liability

(C) None of the above ***(2 Marks)***

(ii) What will be the tax base of interest receivable and how will the same be treated in the financial statements prepared as per Ind AS? Give brief reasoning and working for your choice.

(A) ₹ 60,000 and Deferred Tax Assets

(B) ₹ Nil and Deferred Tax Assets

(C) ₹ 60,000 and Deferred Tax Liability

(D) ₹ Nil and Deferred Tax Liability ***(2 Marks)***

(c) QA Ltd. had on 1st April, 2015 granted 1,000 share options each to 2,000 employees. The options are due to vest on 31st March, 2018 provided the employee remains in employment till 31st March, 2018.

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On 1st April, 2015, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 2018. This estimate was amended to 1,850 employees on 31st March, 2016 and further amended to 1,840 employees on 31st March, 2017.

On 1st April, 2015, the fair value of an option was ₹ 1.20. The fair value increased to ₹ 1.30 as on 31st March, 2016 but due to challenging business conditions, the fair value declined thereafter. In September 2016, when the fair value of an option was ₹ 0.90, the Directors repriced the option and this caused the fair value to increase to ₹ 1.05. Trading conditions improved in the second half of the year and by 31st March, 2017 the fair value of an option was ₹ 1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 2016 should be spread over the remaining vesting period from 30th September, 2016 to 31st March, 2018.

The Company has requested you to suggest the suitable accounting treatment for these transaction as on 31st March, 2017. ***(6 Marks)***

(d) During the year, QA Ltd. delivered manufactured products to customer K. The products were faulty and on 1st October, 2016 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, QA Ltd. discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1st December, 2016, the Company commenced legal action against F claiming damages in respect of the supply of defective raw materials.

QA Ltd. has estimated that it's probability of success of both legal actions, the action of K against QA Ltd. and action of QA Ltd. against F, is very high.

On 1st October, 2016, QA Ltd. has estimated that the damages it would have to pay K would be ₹ 5 crores. This estimate was revised to ₹ 5.2 crores as on 31st March, 2017 and ₹ 5.25 crores as at 15th May, 2017. This case was eventually settled on 1st June, 2017, when the Company paid damages of ₹ 5.3 crores to K.

On 1st December, 2016, QA Ltd. had estimated that it would receive damages of ₹ 3.5 crores from F. This estimate was revised to ₹ 3.6 crores as at 31st March, 2017 and ₹ 3.7 crores as on 15th May, 2017. This case was eventually settled on 1st June, 2017 when F paid ₹ 3.75 crores to QA Ltd. QA Ltd. had, in its financial statements for the year ended 31st March, 2017, provided ₹ 3.6 crores as the financial statements were approved by the Board of Directors on 26th April, 2017.

(i) Whether the Company is required to make provision for the claim from customer K as per applicable Ind AS? If yes, please give the rationale for the same. ***(2 Marks)***

(ii) If the answer to (a) above is yes, what is the entry to be passed in the books of account as on 31st March, 2017? Give brief reasoning for your choice.

(A)	*Statement of Profit and Loss A/c Dr.*	*₹ 5.2 crores*	
	To Current Liability A/c		*₹ 5.2 crores*

(B)	*Statement of Profit and Loss A/c Dr.*	*₹ 5.3 crores*	
	To Non-Current Liability A/c		*₹ 5.3 crores*
(C)	*Statement of Profit and Loss A/c Dr.*	*₹ 5.25 crores*	
	To Current Liability A/c		*₹ 5.25 crores*

(2 Marks)

(iii) What will the accounting treatment of the action of QA Ltd. against supplier F as per applicable Ind AS? ***(2 Marks)***

(e) QA Ltd. sold a property on 1st April, 2016 for ₹ 48 crores to raise cash for the future expansion of its business. The carrying value of the property on 1st April, 2016 was ₹ 50 crores and as per the independent valuation report the market value of the property is ₹ 55 crores and the distress sale value is ₹ 52 crores The estimated future life of the property as on 1st April, 2016 was 40 years.

However, since the administrative office of the Company was in the same premises and to avoid and logistic inconvenience, the Company on the same day has taken the same premises on the lease and the annual rental for 10 years is as follows:

Year	*1st*	*2nd*	*3rd*	*4th*	*5th*	*6th*	*7th*	*8th*	*9th*	*10th*
Rent in ₹ crores	*1.00*	*1.20*	*1.30*	*1.40*	*1.50*	*1.60*	*1.70*	*1.80*	*1.90*	*2.00*

The lease agreement is for the period of 10 years, however the same is cancellable after initial period of 5 years. The Company as on date is expected to utilise the premises for entire period of 10 years.

As per market survey, rentals for a similar property for a similar period is expected to be ₹ 8.00 crores for the first five years and ₹ 11 crores for the next five years.

The Company wants you to suggest the accounting treatment of the above lease transaction as per applicable Ind AS. ***(5 Marks)***

(f) QA Ltd. has recently acquired stake in an entity US Ltd. by purchasing 60% of its equity for ₹ 150 crores in cash. The fair value of the non-controlling interest is determined to be ₹ 100 crores. The net aggregate value of the identifiable assets and liabilities, as measured in accordance with Ind AS is determined at ₹ 50 crores. The Company wants you to compute the amount of goodwill to be recognised in the books of account considering both the measurement bases for computing the non-controlling interest as per applicable Ind AS. ***(4 Marks)***

(g) On 1st April, 2016, QA Ltd. purchased 10 Lakhs options to acquire shares in KS Ltd., a listed entity. The Company paid ₹ 0.25 per option which allows the Company to purchase shares in KS Ltd. for a price of ₹ 2 per share. The exercise date for the option was 31st December, 2016. On 31st December, 2016, when the market value of a share in

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KS Ltd. was ₹ 2.6 per share, the Company exercised all its options to acquire shares in KS Ltd.

In addition to the purchase price, the Company has also incurred directly attributable cost of ₹ 1,00,000 for purchase of 10 lakhs shares in KS Ltd. The Company has classified these shares as trading portfolio. However, the Company has not disposed of any of the shares in KS Ltd. between 31st December, 2016 to 31st March, 2017.

The market value of the shares of KS Ltd. as on 31st March, 2017 is ₹ 2.90 per share.

The Company has requested you to suggest the accounting treatment of the above arrangement and transaction of acquisition of shares in KS Ltd. ***(5 Marks)***

(h) (1) QA Ltd. issued 10,00,000 of 8% Long Term bond-A Series of ₹ 1 each on 1st April, 2016. The bond tenure is 3 years. Interest is payable annually on 1st April each year. The investors expect an effective interest rate on the loan at 10%. QA Ltd. wants you to suggest the suitable accounting entries for the issue of these bonds as per applicable Ind AS. Consider the discounting factor 3 years, 10% discounting factor is 0.751315 and 3 years cumulative discounting factor is 2.48685.

(i) What is the principal value of the bond at the initial recognition at the time of issue of bond as per applicable Ind AS? Give brief reasoning and working for your choice.

(A) ₹ 10,00,000

(B) ₹ 8,51,251

(C) ₹ 7,51,315

(D) ₹ 9,20,161 ***(2 Marks)***

(ii) What is the present value of the interest payment to be recognised as part of the sale price of the bond as per applicable Ind AS? Give brief reasoning and working for your choice.

(A) ₹ 1,25,632

(B) ₹ 2,12,213

(C) ₹ 1,98,948

(D) ₹ 2,16,321 ***(2 Marks)***

(iii) What are the proceeds of the sale of the bond to be recognized at the time of initial recognition as per applicable Ind AS? Give brief reasoning and working for your choice.

(A) ₹ 10,00,000

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(B) ₹9,50,263

(C) ₹9,82,576

(D) ₹10,21,122 **(2 Marks)**

(iv) What is the accounting entry to be passed at the time of accounting for payment of interest for the first year? Give brief reasoning and working for your choice.

A)	*Bond Interest expenses A/c*	*₹1,00,000*	
	To Discount on Bond A/c		*₹20,000*
	To Cash/Bank A/c		*₹80,000*
(B)	*Bond Interest expenses A/c*	*₹95,026*	
	To Discount on Bond A/c		*₹15,026*
	To Cash/Bank A/c		*₹80,000*
(C)	*Bond Interest expenses A/c*	*₹98,257*	
	To Discount on Bond A/c		*₹18,257*
	To Cash/Bank A/c		*₹80,000*

(2 Marks)

(2) QA Ltd. has also issued 10,00,000 of 8% Long Term Bond-B Series of ₹1 each on 1st April, 2016. The bond tenure is 3 years. Interest is payable annually on 1st April each year. However, the bond holders of this series are entitled to convert the bonds to shares of ₹1 each on the date of maturity, instead of receiving the principal repayment. Interest rate on the similar bond without conversion option is 10%. QA Ltd. has requested you to suggest the following for this type of instrument:

(a) What is entry to be passed at the date of issuance of the bond as per applicable Ind AS? Give brief reasoning for your choice:

(A)	*Cash/Bank A/c*	*₹10,00,000*	
	To 8% LT Bond Series-B A/c		*₹8,00,000*
	To Share Option A/c		*₹2,00,000*
(B)	*Cash/Bank A/c*	*₹10,00,000*	
	To 8% LT Bond Series-B A/c		*₹9,50,263*
	To Share Option A/c		*₹49,737*
(C)	*Cash/Bank A/c*	*₹10,00,000*	
	To 8% LT Bond Series-B A/c		*₹9,60,287*
	To Share Option A/c		*₹39,713*

(2 Marks)

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(b) *What is entry to be passed at the date of conversion of the bond as per applicable Ind AS? Give brief reasoning for your choice.*

(A)	*8% LT Bond Series-B A/c*	*₹ 10,00,000*	
	Share Option A/c	*₹ 39,713*	
	To Share Capital A/c		*₹ 10,00,000*
	To Share Premium A/c		*₹ 39,713*
	OR		
(B)	*8% LT Bond Series-B A/c*	*₹ 10,00,000*	
	Share Option A/c	*₹ 49,737*	
	To Share Capital A/c		*₹ 10,00,000*
	To Share Premium A/c		*₹ 49,737*

(2 Marks)

Answer to Case Study Question II

(a) Computation of Deferred Tax Liability

(i) MAT credit as on 31st December of ₹ 9.75 crore will be presented in the Balance Sheet as Deferred tax asset. DTA in the current year will be ₹ 1.25 crore (₹ 9.75 crore – ₹ 8.50 crore)

(ii) DTL created on accumulation of undistributed profits as on 31.3.2017

	Carrying value	Value as per tax records	Tax base	Taxable temporary differences	Total Deferred tax liability @ 20%	Charged to P&L during the year
a	b	c	d	E= b-d	F = e x 20%	g
31st March, 2016	70 crore	45 crore	45 crore	25 crore	5 crore	5 crore
31st March, 2017	75 crore	45 crore	45 crore	30 crore	6 crore	1 crore (6 crore – 5 crore)

(iii) As per para 65 of Ind AS 12, when an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects on account of revaluation of asset and the adjustment of the tax base are recognised in other comprehensive income in the periods in which they occur.

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Here, it is important to understand that only the tax effects on account of revaluation of asset and the adjustment of the tax base are recognised in other comprehensive income. However, tax effects on account of depreciation of asset and the adjustment of the tax base are recognized in profit and loss.

Accordingly, first of all the tax effect has been calculated assuming that there is no revaluation (Refer Table (1)) [Since the information for the carrying value before revaluation has not been mentioned, it is assumed to be equal to the carrying amount as per the tax records]. Later the DTA arrived due to difference in depreciation is adjusted with the DTL created due to revaluation. DTA of ₹ 0.15 crore on account of depreciation will be charged to Profit and Loss and DTL of ₹ 1.40 crore will be charged to OCI. Net effect in the year 31.3.2017 will be DTL 1.25 crore (DTL 1.4 crore – DTA 0.15 crore) [Refer Table (2)].

(1) In case deferred tax is created only on account of depreciation

	Carrying value without revaluation	Value as per tax records	Tax base	Taxable / (deductible) temporary difference	Total Deferred tax liability/ (asset) @ 20%	Credit to P&L during the year
A	b	c	d	E= b-d	F = e x 20%	g
31st March, 2016	22 crore	22 crore	22 crore	nil	nil	nil
Less: Depreciation for the year 2016-17	(2 crore)	(1.25 crore)				
Carrying value as on 31st March, 2017	20 crore	20.75 crore	20.75 crore	(0.75 crore)	DTA (0.15 crore)	DTA (0.15 crore)

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(2) Computation of tax effect taking into account the revalued figures and adjusting impact of tax effect on account of difference in depreciation

S. No.		Carrying value after revaluation	Value as per tax records	Tax base	Taxable / (deductible) temporary difference	Total Deferred tax liability/ (asset) @ 20%	Credit to P&L during the year	Charged to OCI during the year
	a	b	c	d	e= b-d	f = e x 20%	g	h
I	31st March, 2016	40 crore	22 crore	22 crore	18 crore	DTL 3.6 crore	-	DTL 3.6 crore
IV	Revalued again on 31.3.2017 **(It is assumed that revaluation has been done after taking into consideration the impact of depreciation for the current year)**	45 crore	20.75 crore (22-1.25)	20.75 crore	24.25 crore	DTL 4.85 crore	DTA (0.15 crore) (Refer table (a) above)	DTL 5 crore (Refer Note below) [5 DTL (B/F) – 0.15 DTA = 4.85 DTL]
V	Additional DTL/DTA required during the year (IV-I)					DTL 1.25 crore	DTA (0.15 crore) (Refer table (a))	DTL (1.40 crore) (Refer Note below)

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(b) Classification of Deferred Tax

(i) Option (B) : Deferred Tax Liability

Reasoning:

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Temporary difference is the difference between the carrying amount of an asset or liability in the balance sheet and its tax base.

The tax base of this item of machine is ` 1,50,000 (` 2,50,000 – ₹ 1,00,000). Therefore, the temporary difference is ₹ 2,00,000 – ₹ 1,50,000 = ₹ 50,000.

Since this temporary difference will be recovered or settled in future, it is a taxable temporary difference, which will lead to creation of deferred tax liability.

(ii) Option (D) : ₹ Nil and Deferred Tax Liability

Reasoning:

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Here the amount attributed for tax purpose is nil, the tax base of the interest receivable will be nil.

Therefore, the temporary difference is ₹ 60,000 – Nil = ₹ 60,000.

Since this temporary difference will be recovered or settled in future, it is a taxable temporary difference, which will lead to creation of deferred tax liability.

(c) Paragraph 27 of Ind AS 102 requires the entity to recognise the effects of repricing that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

If the repricing increases the fair value of the equity instruments granted paragraph B43(a) of Appendix B requires the entity to include the incremental fair value granted (ie the difference between the fair value of the repriced equity instrument and that of the original equity instrument, both estimated as at the date of the modification) in the measurement of the amount recognised for services received as consideration for the equity instruments granted.

If the repricing occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the repricing date until the date when the repriced equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

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Accordingly, the amounts recognised in years 1 and 2 are as follows:

Year	Calculation	Compensation expense for period	Cumulative compensation expense
		₹	₹
1	[1,850 employees x 1,000 options x ₹ 1.20] x $^{1}/_{3}$	7,40,000	7,40,000
2	(1,840 employees x 1,000 options x [(₹ 1.20 x $^{2}/_{3}$) + {(₹ 1.05 - 0.90) x 0.5/1.5}] – 7,40,000	8,24,000	15,64,000

Note: Year 3 calculations have not been provided as it was not required in the question.

(d) (i) Yes, QA Ltd. is required to make provision for the claim from customer K as per Ind AS 37 since the claim is a present obligation as a result of delivery of faulty goods manufactured. Also, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. Further, a reliable estimate of ₹ 5.2 crore can be made of the amount of the obligation while preparing the financial statements as on 31st March, 2017.

(ii) Option (A) : Statement of Profit and Loss A/c Dr. ₹ 5.2 crore

To Current Liability A/c ₹ 5.2 crore

Reasoning:

Since the financial statements are approved by the Board on 26th April, 2017, the estimates on 31st March will only be reflected in the books.

(iii) As per para 31 of Ind AS 37, QA Ltd. shall not recognise a contingent asset. Here the probability of success of legal action is very high but there is no concrete evidence which makes the inflow virtually certain. Hence, it will be considered as contingent asset only and shall not be recognized.

(e) First of all, one has to decide whether the sale and leaseback transaction results in an operating or finance lease. To determine whether the lease arrangement is an operating lease or a finance lease, paragraph 10 of Ind AS 17 provides certain examples (that individually or in combination would normally lead to a lease being classified as a finance lease) which can be analysed as below:

(a) **The lease transfers ownership of the asset to the lessee by the end of the lease term -** Not fulfilled, as the ownership is not transferred to QA Ltd. at the end of the lease.

(b) **The lessee has the option to purchase the asset after completion of the agreement -** Not fulfilled, as QA Ltd. doesn't have an option to purchase the property at the end of the lease.

(c) **The lease term is for the major part of the economic life of the asset even if title is not transferred -** Not fulfilled, as the lease is for 10 years whereas the useful life of the Property is 40 years.

(d) **At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset -** Cannot be determined since the interest rate implicit in the lease is not given in the question. Since the rentals in absolute value is also not equal to fair value of the property, its fair value will definitely will be less.

(e) **The leased assets are of such a specialised nature that only the lessee can use them without major modifications -** Not fulfilled, as the asset is not specialised in nature.

Conclusion:

Based on the evaluation above, Sale and leaseback transaction will result in an operating lease.

Suggested Accounting Treatment

When sale and leaseback transaction results in an operating lease, para 61 of Ind AS 17 will apply which inter alia states that if the sale price of sale and leaseback transaction is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price. If the loss is compensated for by future lease payments at below market price, the difference between carrying value and the sale price shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

Here the market rentals are expected to be ₹ 8 crore for first 5 years and ₹ 11 crores while the lease rentals fixed as per the agreement is ₹ 6.4 crore for first 5 years and ₹ 9 crore for next five years. This implies that the loss in sale price is compensated for by future lease payments at below market price. Accordingly, the difference between carrying value and the sale price i.e. ₹ 2 crore (carrying value ₹ 50 crore – sale price ₹ 48 crore) shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

Alternatively, the difference between carrying value and the sale price i.e. ₹ 2 crore (carrying value ₹ 50 crore – sale price ₹ 48 crore) shall be considered as prepayment which will compensated by the reduced rentals for the whole lease term. The amount will be considered as pre-payment.

The total lease rentals over the whole term are ₹ 15.4 crore (sum of annual rental from 1 to 10 years)

Rental expenses of ₹ 1.54 crore (15.4 cr x 1/10) will be recognized in profit or loss for the year ended 31st March, 2017.

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A proportion of the apparent loss on sale will be recognized in profit or loss for the year ended 31st March, 2017

The amount recognized will be ₹ 0.13 crore [₹ 2 crore x (1/15.4)]

The closing pre-payment will be ₹ 1.33 crore (2 – 0.13 + 1 (rent paid) – 1.54 (rent charged).

(f) Computation of goodwill on consolidation

i. When NCI is measured at NCI's proportionate share of the acquiree's identifiable net assets

	₹ in crore
Cost of investment	150
Add: Non-controlling interest (50 crore x 40%)	20
	170
Less: Net aggregate value of identifiable assets	(50)
Goodwill	120

ii. When NCI is measured at fair value

	₹ in crore
Cost of investment	150
Add: Non-controlling interest (as given in the question which is same as the fair value on a pre-share basis of the purchased interest)	100
	250
Less: Net aggregate value of identifiable assets	(50)
Goodwill	200

(g) The option to acquire shares in KS Ltd. would be regarded as a derivative financial instrument. This is because the value of the option depends on the value of an underlying variable (KS Ltd.'s share price). As per paragraph 4.1.4 and 4.2.1 of Ind AS 109 'Financial Instruments', all derivatives are measured at fair value. On 1 April 2016, when QA purchased 10 lakh options to acquire shares in KS Ltd. at ₹ 0.25 per option, QA will recognise Option Asset for ₹ 2.5lac by passing the following journal entry:

Option on KS Ltd. shares Dr.	₹ 2.5 lac	
To Bank		₹ 2.5 lac

QA shall measure the option at fair value at the end of every reporting period and also before exercise. The increase in share price on exercise date represents fair value of the option as the time value is zero on exercise date. Therefore, QA will measure the option at ₹ 6 lac (10 lac option x (2.6 – 2)) and recognise fair value gain of ₹ 3.5 lac in profit or loss.

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The following journal entry will be passed:

Option on KS Ltd. shares Dr.	₹ 3.5 lac	
To Fair value gain		₹ 3.5 lac

On exercise of the option on 31st December, 2016, QA will pay ₹20 lac for 10 lac shares of KS Ltd and the option derivative will be converted to shares of KS Ltd. Therefore, QA will pass the following entry:

Investment in KS Ltd. equity shares Dr.	₹ 26 lac	
To Bank		₹ 20 lac
To Option on KS Ltd. shares		₹ 6 lac

Paragraph 5.1.1 of Ind AS 109 Financial Instruments requires that the transaction costs shall be added to fair value if the financial asset is measured at other than fair value through profit or loss.

In the given case, ₹ 1 lac incurred by QA for acquiring equity shares of KS Ltd. will not be added to the fair value of the equity shares of KS Ltd. This is because equity shares of KS Ltd. are classified at fair value through profit or loss in accordance with paragraph 4.1.4 of Ind AS 109 Financial Instruments. Therefore, QA shall recognise ₹ 1 lac incurred on acquisition of equity shares of KS Ltd. in profit or loss as on 31st March, 2017.

The investment is included in the statement of financial position at 31st March, 2017 as a current asset at its fair value of ₹ 29 lac. The increase in fair value of ₹ 3 lac is taken to the profit and loss.

(h) **(1)** **(i)** Option (C) : ₹ 7,51,315

(ii) Option (C) : ₹ 1,98,948

(iii) Option (B) : ₹ 9,50,263

(iv) Option (B) : Bond Interest Expenses A/c Dr. ₹ 95,026

To Discount on Bond A/c ₹ 15,026

To Cash/Bank A/c ₹ 80,000

Workings for the above answers

Since the Effective interest rate on the loan is 10% while the Bond has been issued at 8%, the financial liability will be recognized at fair value determined as follows:

Calculation of initial recognition amount of 8% Long term Loan Bond A Series

Particulars	₹
Present value of the principal repayable after 3 years (10,00,000 x .751315)	7,51,315

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Present value of Interest [(10,00,000 x 8%) x 2.48685]	1,98,948
Total Present Value of Long term Loan Bond	9,50,263

Interest for the first year recognized in the books as per effective interest rate method = ₹9,50,263 x 10% = ₹ 95,026

However, interest paid is @ 8% i.e. ₹ 10,00,000 x 8% = ₹ 80,000

(2) **(a)** Option (B) : Cash/Bank A/c ₹ 10,00,000

To 8% LT Bond Series B A/c ₹ 9,50,263

To Share Option A/c ₹ 49,737

Workings for the above

It is a compound instrument.

Calculation of initial recognition amount of 8% Long term Loan Bond B Series liability and equity component

Particulars		₹
Present value of the principal repayable after 3 years (10,00,000 x .751315)		7,51,315
Present value of Interest [(10,00,000 x 8%) x 2.48685]		1,98,948
Total Present Value of Long term Loan Bond B	I	9,50,263
Issue proceeds from convertible bond	II	10,00,000
Value of equity component	(II – I)	49,737

(b) Option (B) : 8% LT Bond Series B A/c ₹ 10,00,000

Share Option A/c ₹ 49,737

To Share Capital A/c ₹ 10,00,000

To Share Premium A/c ₹ 49,737

Reasoning:

As per para AG32 of Ind AS 32, on conversion of a convertible instrument at maturity, the entity derecognises the liability component and recognises it as equity. The original equity component remains as equity (although it may be transferred from one-line item within equity to another). There is no gain or loss on conversion at maturity.

Question No. III

UK Ltd. is a public company incorporated in India under the Company Act, 1956. As on 31st December, 2016, it has two subsidiaries i.e. KK Ltd. and GK Ltd., and one associate concern SK Ltd. For preparation of its financial statements it follows IGAAP. On 1st January, 2017, UK LLC, a company incorporated in the United Kingdom had acquired majority stake and control in UK Ltd. and consequently UK Ltd. became a subsidiary UK, LLC. Since in the near future, UK Ltd. is likely to adopt Ind AS, it has approached you to advice on the below mentioned issues and has requested you to suggest the Ind AS impact, if any, on the following items:

(a) *The Company has purchased a new head office property for ₹ 10 crores. The new office building has 10 floors and the organisation structure of the Company is as follows:*

Floor	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Use	Waiting Area	Admin	HR	Accounts	Inspection	MD Office	Canteen	Vacant		

Since the Company did not need the floors 8, 9 and 10 for its business needs, it has leased out the same to a restaurant on a long-term lease basis. The terms of the lease agreement are as follows:

- *Tenure of Lease Agreement - 5 Years*
- *Non-Cancellable Period - 3 years*
- *Lease Rental-annual lease rental receivable from these floors are ₹ 10,00,000 per floor with an escalation of 5% every year.*

Based on the certificate from its architect, UK Ltd. has estimated the cost of the 3 top floors as approximately ₹ 3 crores. The remaining cost of ₹ 7 crores can be allocated as 25% towards Land and 75% towards Building.

As on 31st December, 2017, UK Ltd. obtained a valuation report from an independent valuer who has estimated the fair value of the property at ₹ 15 crores. UK Ltd. wishes to use the cost model for measuring Property, Plant & Equipment and the fair value model for measuring the Investment Property. UK Ltd. depreciates the building over an estimated useful life of 50 years, with no estimated residual value.

Advise the Company on the accounting and disclosures for the above as per the applicable Ind AS. Also discuss what would be the treatment had the Company adopted IFRS.

(8 Marks)

(b) *In the year 2016, UK Ltd. had purchased a brand name "ALPHA" for an agreed price at ₹ 2.5 crores. Currently UK Ltd. has recorded the brand under the head "Intangible Assets". The Management of the Company believes that the acquired brand has an indefinite useful life. However, it is currently amortising the same over a period of 10 years as per the applicable IGAAP. As on the date of preparation of the financial statements for the year ended 31st March, 2017, there is no available reliable estimate of the selling price for the*

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brand, but the directors estimated that the value in use of the brand was ₹ 3.5 crores. The Directors of the Company wish to use the fair value model for measuring intangible assets whenever permitted by Ind AS.

Whether the Company is permitted to do so? Provide your rationale for the same with specific reference to applicable Ind AS. ***(4 Marks)***

(c) UK Ltd. has lent an amount of ₹ 10 crores to some of its key suppliers. The loan has an annual rate of interest of State Bank of India Marginal Cost of Lending Rate (SBI MCLR) + 3% payable on yearly basis. The said loan is repayable after a period of 5 years from the date of disbursement of the loan. As per the policy of the Company, the Company would assign the loan to a third party in case the interest rates fall below 7%. Currently the SBI MCLR is at 5% and is expected to fall by 1% or 2% more in the near future. As and when the rate falls below 7% the Company will assign these to the third party. The fair value of the loan as on 31st December, 2017 is ₹ 12 crores. The Company has requested you to suggest how these loans to the suppliers need to be recorded as per Ind AS. ***(6 Marks)***

(d) The Company is also in the business of the infrastructure and has two divisions under the same; (I) Toll Roads and (II) Wind Power. The brief details of these business and underlying project details are as follows:

I. Bhilwara-Jabalpur Toll Project - The Company has commenced the construction of the project in the current year and has incurred total expenses aggregating to ₹ 50 crores as on 31st December, 2017. Under IGAAP, the Company has 'recorded such expenses as Intangible Assets in the books of account. The brief details of the Concession Agreement are as follows:

- *Total Expenses estimated to be incurred on the project ₹ 100 crores;*
- *Fair Value of the construction services is ₹ 110 crores;*
- *Total Cash Flow guaranteed by the Government under the concession agreement is ₹ 200 crores;*
- *Finance revenue over the period of operation phase is ₹ 15 crores:*
- *Other income relates to the services provided during the operation phase.*

II. Kolhapur- Nagpur Expressway - The Company has also entered into another concession agreement with Government of Maharashtra in the current year. The construction cost for the said project will be ₹ 110 crores. The fair value of such construction cost is approximately ₹ 200 crores. The said concession agreement is Toll based project and the Company needs to collect the toll from the users of the expressway. Under IGAAP, UK Ltd. has recorded the expenses incurred on the said project as an Intangible Asset.

(i) What would be the classification of Bhilwara-Jabalpur Toll Project as per applicable Ind AS? Give brief reasoning for your choice.

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(A) Financial Asset Model;

(B) Intangible Asset Model;

(C) Bifurcated Model;

(D) None of the above **(2 Marks)**

(ii) What would be the classification of Kolhapur-Nagpur Expressway Toll Project as per applicable Ind AS? Give brief reasoning for your choice.

(A) Financial Asset Model;

(B) Intangible Asset Model;

(C) Bifurcated Model;

(D) None of the above **(2 Marks)**

Also, suggest suitable accounting treatment for preparation of financial statements as per Ind AS for the above 2 projects. **(6 Marks)**

(e) UK Ltd. has installed Wind Turbine Equipment at Rajasthan to generate electricity for which it has entered into a Power Purchase Agreement (PPA) with the State Government. The terms of the PPA are as follows:

- *The PPA is for an initial period of 3 years, renewable at mutual terms and conditions. The Management estimates the useful life of such project around 20 years.*
- *The price per unit is fixed for a period of one year and is renewed every year as per the State Government policy.*
- *The Company's Management is of the view that the power generated by the project will be completely sold to the State Government and not to any third party. However, there is no such restriction prescribed in the PPA.*
- *Currently the Company has classified the Wind Turbine Equipment as part of the Property, Plant & Equipment and is charging depreciation on the same.*

For the above PPA, which condition, as per the applicable Ind AS, is not relevant in determining whether an arrangement is or contains a lease? Give brief reasoning for your choice.

(A) Use of Specific Assets;

(B) Right to Operate the assets;

(C) Right to control the Physical access;

(D) Price is contractually fixed by the purchaser;

(E) None of the above **(2 Marks)**

UK Ltd. also wants you to give your suggestion on the accounting of the above arrangement under applicable Ind AS. **(6 Marks)**

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(f) Under Ind AS, can UK Ltd., in its separate financial statements, account for its investment in subsidiaries and associates at :

(A) Cost

(B) Market Value

(C) In accordance with Ind AS 109

(D) Option between (A) & (C)

Give brief reasoning for your choice. ***(2 Marks)***

(g) The Company accounts for revenue as per applicable IGAAP. However, the Management of UK Ltd. has requested your view/suggestions on the following:

(a) Identify the key differences between IGAAP and Ind AS while recognising the revenue from sale of goods and services. ***(2 Marks)***

(b) The Company has sold certain items to a customer with after sale service for a period of two years from the date of such sale i.e. 1st October, 2017 without any additional charges. The total amount payable by the customer is agreed as follows:

- *₹ 8,00,000, if paid by 31st January, 2018;*
- *₹ 8,10,000, if paid by 28th February, 2018;*
- *₹ 8,20,000, if paid by 31st March, 2018.*

Based on past experience it is highly probable that the customer makes the payment before 28th February, 2018. The standalone selling price of the product is ₹ 7,00,000 and two years' services are offered to the customer at ₹ 1,40,000.

(1) How many transactions are included in the above arrangement as per applicable Ind AS? Give brief reasoning for your choice.

(A) One

(B) Two

(C) Three

(D) None of the above ***(2 Marks)***

(2) What is the amount of revenue to be considered for revenue recognition as per the applicable Ind AS? Give brief reasoning and working for your choice.

(A) ₹ 8,00,000

(B) ₹ 8,10,000

(C) ₹ 8,20,000

(D) None of the above ***(2 Marks)***

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(3) *What is the amount of revenue to be recognised under Ind AS towards sale of product as per the terms of the contract with the customer? Give brief reasoning and working for your choice.*

(A) ₹ 7,00,000

(B) ₹ 6,75,000

(C) ₹ 6,80,000

(D) None of the above **(2 Marks)**

(4) *What is the amount of revenue to be recognised under Ind AS towards sale of service as per the terms of the contract with the customer? Give brief reasoning and working for your choice.*

(A) ₹ 5,725

(B) ₹ 5,200

(C) ₹ 5,625

(D) None of the above **(2 Marks)**

(5) *What is the portion of current and non-current liabilities to be presented in the financial statements as per Ind AS? Give brief reasoning and working for your choice.*

(A) Current - ₹ 52,525, Non-Current - ₹ 62,125

(B) Current - ₹ 67,500, Non-Current - ₹ 61,875

(C) Current - ₹ 62,125, Non-Current - ₹ 52,525

(D) None of the above **(2 Marks)**

Answer to Case Study Question III

(a) 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.

Further, as per para 8 of Ind AS 40, the building owned by the entity and leased out under one or more operating leases will be classified as investment property.

Here top three floors have been leased out for 5 years with a non-cancellable period of 3 years. The useful life of the building is 50 years. The lease period is far less that the useful life of the building leased out. Further, the lease rentals of three years altogether

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do not recover the fair value of the floors leased i.e. 15 crore x 30% = 4.50 crore. Hence the lease is an operating lease. Therefore, the 3 floors leased out as operating lease will be classified as investment property in the books of lessor ie. UK Ltd.

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.

(in crore)

	Total	PPE (70%)		Investment property (30%)
		Land (25%)	Building (75%)	
Cost	10	1.75	5.25	3
FV	15	2.625	7.875	4.5
Valuation model followed		Cost	Cost	Cost (as per para 30 of Ind AS 40)
Value recognized in the books		1.75	5.25	3
Less: Depreciation		Nil	(5.25/50) = 0.105 crore	(3/50) = 0.06
Carrying value as on 31st December, 2017		1.75	5.145	2.94
Impairment loss		No impairment loss since fair value is more than the cost		

In case, UK Ltd. had adopted IFRS, then it had to value its Investment Property subsequently at fair value. In such a case, the investment property will not be depreciated but re-measured at fair value with gains or losses on remeasurement being recognized in profit or loss. The value of investment property on 31st December, 2017 would have been ₹ 4.5 crore and re-measurement gain of ₹ 1.5 cr (4.5 crore – 3 crore) will be recognized in the Statement of Profit or Loss.

(b) Brand shall be recognized in the books initially at cost of ₹ 2.5 crore.

As per para 75 of Ind AS 38, after initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations, **fair value shall be measured by reference to an active market.** Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

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Since the brand has no reliable selling price, it implies that there is **no active market** for the brand. Also recoverable value is more than the cost, the brand will be continuing to be measured at cost of ₹ 2.5 crores. There is no impairment on such brand. However, the company is assessing its useful life as indefinite therefore, no amortization will be charged on it.

(c) The company has a policy of assigning a loan when the interest rates fall below 7%. Therefore, the objective of the business model of the company is to maintain a particular interest yield profile.

Paragraph B4.1.4A of Ind AS 109 states that an entity may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the entity's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model.

Further, as per Paragraph B4.1.2A of Ind AS 109, a financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

a. The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

b. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

It is assumed that the cash flows of the loan give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Therefore, the loans will be measured at fair value through other comprehensive income. Accordingly, these loans will be carried at ₹ 12 crores in Balance Sheet as at 31st December 2017.

Where a financial asset is measured at fair value through other comprehensive income, the interest income which is included in profit or loss is same amount as would be recorded where the asset is measured at amortised cost. Therefore, the interest income on such loan @ 8% will be recorded in the statement of profit and loss.

The increase in the fair value of ₹ 2 crore will be recorded in other comprehensive income.

(d) (i) Option A : Financial Asset Model

Reasoning:

Here the operator has a contractual right to receive cash from the grantor. The grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive

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cash if the grantor contractually guarantees to pay the operator. Hence, operator recognizes a financial asset to the extent it has a contractual right to receive cash.

(ii) Option B : Intangible Asset Model

Reasoning:

Here the operator has a contractual right to charge users of the public services. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. Therefore, the operator shall recognise an intangible asset to the extent it receives a right (a licence) to charge users of the public service.

Accounting treatment for preparation of financial statements

Journal Entries

	Particulars	Dr. (₹ in crores)	Cr. (₹ in crores)
	During construction:		
1	Financial asset A/c Dr.	110	
	To Construction revenue		110
	[To recognise revenue relating to construction services, to be settled in case]		
2	Cost of construction (profit or loss) Dr.	100	
	To Bank A/c (As and when incurred)		100
	[To recognise costs relating to construction services]		
	During the operation phase:		
3	Financial asset Dr.	15	
	To Finance revenue (As and when received or due to receive)		15
	[To recognise interest income under the financial asset model]		
4	Financial asset Dr.	75	
	To Revenue [(200-110) – 15]		75
	[To recognise revenue relating to the operation phase]		
5	Bank A/c Dr.	200	
	To Financial asset		200
	[To recognise cash received from the grantor]		

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Kolhapur-Nagpur Expressway -Intangible asset

Journal Entries

	Particulars	Dr. (₹ in crores)	Cr. (₹ in crores)
	During construction:		
1	Cost of construction (profit or loss) Dr.	110	
	To Bank A/c (As and when incurred)		110
	[To recognise costs relating to construction services]		
2	Intangible asset Dr.	200	
	To Revenue		200
	[To recognise revenue relating to construction services provided for non-cash consideration]		
	During the operation phase:		
3	Amortisation expense Dr.	200	
	To Intangible asset (accumulated amortisation)		200
	[To recogniseamortisation expense relating to the operation phase over the period of operation]		
4	Bank A/c Dr.	?	
	To Revenue		?
	[To recognise revenue relating to the operation phase]		

Note: Amount in entry 4 is kept blank as no information in this regard is given in the question.

(e) Option (D) : Price is contractually fixed by the purchaser

Reasoning:

Accounting of the PPA with the State Government under applicable Ind AS:

As per paragraph 6 of Appendix C to Ind AS 17, "Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether:

(a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and

(b) the arrangement conveys a right to use the asset."

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In the present case, the PPA with the State Government can be fulfilled by the use of the Wind Turbine Equipment which is a specific asset. Accordingly, condition (a) above is satisfied.

With respect to condition (b), paragraph 9 of Appendix C to Ind AS 17 provides as below:

"An arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:

(a) The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.

(b) The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.

(c) Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output."

Continuing the rationale to the above, in the present case, criteria (c) above is fulfilled since:

- The entire output of Wind Turbine Equipment is estimated to be consumed by the purchaser i.e. the State Government
- The price paid by the State Government includes an element of revision in price every year which makes the price for the output variable.

Accordingly, the PPA with the State Government contains an embedded lease arrangement.

It is mentioned in the question that the company's management is of the view that the power generated by the project will be completely sold to the State Government and not to any third party but there is no such restriction prescribed in the PPA.

Here it is underlined that the output of the company will be equivalent to the power supply to the State government. In future, even if the company increases its output, the increase is assumed to be insignificant. Though price revision will take place in the second year, still the company has to abide by the agreement to supply the power for three years to the State Government. Therefore, even if the price offered by the third party is more

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favourable, the company has to supply the power to the Government. Hence, it may be concluded that the PPA contains an embedded lease arrangement.

Further to determine whether the lease arrangement is an operating lease or a finance lease, paragraph 10 of Ind AS 17 provides certain examples (that individually or in combination would normally lead to a lease being classified as a finance lease) which can be analysed as below:

(a) **the lease transfers ownership of the asset to the lessee by the end of the lease term -** Not fulfilled, as the ownership is not transferred to the State Government.

(b) **the lessee has the option to purchase the asset after completion of the agreement -** Not fulfilled, as the State Government doesn't have an option to purchase the Wind Turbine Equipment after the completion of PPA.

(c) **the lease term is for the major part of the economic life of the asset even if title is not transferred -** Not fulfilled, as the PPA is for 3 years whereas the useful life of the Wind Turbine Equipment project is 20 years.

(d) **at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset –** Cannot be determined since the price per unit is not fixed for the entire tenure of the PPA. Definition of the **'inception of the lease'** (given in para 4 of Ind AS 17) inter alia states that in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined. This implies that the given PPA is not a finance lease.

(e) **the leased assets are of such a specialised nature that only the lessee can use them without major modifications -** Not fulfilled, as the asset is not specialised in nature.

Conclusion:

Based on the evaluation above, PPA with the State Government shall be accounted by UL Ltd. as "Property, plant and equipment under an operating lease arrangement".

(f) Option D : Option between (A) & (C)

Reasoning:

As per para 10 of Ind AS 27, when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

(a) at cost, or

(b) in accordance with Ind AS 109.

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(g) (a)

S. No.	Particulars	Ind AS 18	AS 9
1.	*Definition of 'Revenue'*	Definition of 'revenue' given in Ind AS 18 is broad because it covers **all economic benefits** that arise in the ordinary course of activities of an entity which result in increases in equity	Definition of 'Revenue' covers only gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.
2.	*Measurement of revenue*	At fair value of consideration	At charges made to customers
3.	*Barter Transactions*	Ind AS 18 specifically deals with the exchange of goods and services with goods and services of similar and dissimilar nature. In this regard, specific guidance is given regarding barter transactions involving advertising services.	This aspect is not dealt with in AS 9.
4.	*Recognition of Separately Identifiable Components*	Ind AS 18 provides guidance on application of recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.	AS 9 does not specifically deal with the same.
5.	*Recognition of Separately Identifiable Components*	Ind AS 18 provides guidance on application of recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.	AS 9 does not specifically deal with the same.

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6.	*Guidance Regarding Revenue Recognition in Specific Cases*	Ind AS 18 specifically provides guidance regarding revenue recognition in case the entity is under any obligation to provide free or discounted goods or services or award credits to its customers due to any customer loyalty programme.	AS 9 does not deal with this aspect.
7.	*Deferred consideration*	Discounting to present value is required and interest income is accounted for separately.	Normally, discounting to present value is not required except instalment sales
8.	*Revenue recognition-Sale of goods*	Includes criteria of 'no continuing managerial involvement' and 'reliable measurement of costs'.	Does not include such criteria
9.	*Recognition and measurement of dividend*	Not covered under Ind AS 18 (accounting under Ind AS 109)	Accounting under AS 9
10.	*Measurement of interest income*	Not covered under Ind AS 18 (accounting under Ind AS 109)	Accounting under AS 9
11.	*Interest income*	Determined using effective interest rate method	Computed as per applicable rate on time proportion basis

(b) (1) Option (B) : Two

Reasoning:

Sale of item includes following transactions:

(i) Selling price of item

(ii) Two-years' after sale service

(2) Option (B) : ₹ 8,10,000

Reasoning:

As per the information given in the question, company's past experience states high probability for payment before 28th February. Therefore, the fair value of

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the transaction shall be considered as the amount to be received on that date. Variation in the amount payable by the customer is considered as variation is discount value

(3) Option (B) : ₹ 6,75,000

(4) Option (C) : ₹ 5,625

(5) Option (B) : Current - ₹ 67,500, Non-current - ₹ 61,875

Reasoning for both (3) (4) and (5)

Revenue attributable to both the components is calculated as follows:

Total fair value of item and two years' service period	
(7,00,000 + 1,40,000)	8,40,000
Less: Sale price of the item and two years' service period	(8,10,000)
Discount	30,000

Discount and revenue attributable to each component of the transaction:

Proportionate discount attributable to sale of item	25,000
(30,000 x 7,00,000 / 8,40,000)	
Revenue from sale of item (7,00,000 – 25,000)	6,75,000
Proportionate discount attributable to two years' service period	5,000
(30,000 x 1,40,000 / 8,40,000)	
Revenue from two years' service period (1,40,000 – 5,000)	1,35,000

Revenue in respect of sale of item should be recognised immediately and revenue from two years' service period should be recognised over the 2 year period on monthly basis ie on 31st March, 2017 revenue for two years' service period will be ₹ 5,625 (₹ 1,35,000/24 months)

Amount of two years' service period due within 12 months from the reporting date = (1,35,000 / 24 months) x 12 months = ₹ 67,500 (Current).

Amount of two years' service period due after 12 months from the reporting date = (1,35,000 / 24 months) x 11 months = ₹ 61,875 (Non-current).

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