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PAPER – 6E: GLOBAL FINANCIAL REPORTING STANDARDS

QUESTION NO. 1

1.1 ENG Ltd. prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 2018, the following events (i) to (v) affected the tax position of the group. In each event, identify the carrying amount and the tax base by selecting the appropriate option.

(i) L Ltd., a wholly owned subsidiary of ENG Ltd., incurred a loss adjusted for tax purposes of ₹ 30 lakh. L Ltd. is unable to utilise this loss against previous tax liabilities and local tax legislation does not allow L Ltd. to transfer the tax loss to other group companies. Local legislation however, allows L Ltd. to carry the loss forward and utilise it against its own future taxable profits. The directors of ENG Ltd. do not consider that L Ltd. will make taxable profit in the foreseeable future.

(A) Carrying amount is ₹ 30 Lakh and tax base is ₹ 30 Lakh.

(B) Carrying amount is Nil and tax base is ₹ 30 Lakh.

(C) Carrying amount is Nil and tax base is Nil.

(D) Carrying amount is ₹30 Lakh and tax base is Nil. ***(2 Marks)***

(ii) Just before 31st March, 2018, ENG Ltd. committed itself to closing a division after the year end, making several employees redundant. Therefore, ENG Ltd. recognised a provision for closure costs of ₹ 20 lakh in its Balance Sheet as at 31st March, 2018. Local tax legislation allows tax deductions for closure costs only when the closure takes place. In the year ended 31st March, 2019, ENG Ltd. expects to make taxable profits which are well more than ₹ 20 lakh. On 31st March, 2018, ENG Ltd. had taxable temporary differences from other sources which were greater than ₹ 20 lakh.

(A) Carrying amount is ₹ 20 Lakh and tax base is Nil.

(B) Carrying amount is Nil and tax base is Nil.

(C) Carrying amount and tax base are ₹ 20 Lakh.

(D) Carrying amount is Nil and tax base is ₹ 20 Lakh. ***(2 Marks)***

(iii) During the year ended 31st March, 2018, ENG Ltd. capitalised development costs which satisfy the criteria of Ind AS 38. The total amount capitalized was ₹ 16 lakh. The development project began to generate economic benefits for ENG Ltd. from 1st January, 2018. The directors of ENG Ltd. estimated that the project would generate economic benefits for 5 years from that date. The development

expenditure was fully deductible against taxable profits for the year ended 31st March, 2018.

(A) *Carrying amount is ₹ 16 Lakh and tax base is Nil.*

(B) *Carrying amounts is ₹ 15.20 Lakh and tax base is ₹ 16 Lakh.*

(C) *Carrying amount is ₹ 15.20 Lakh and tax base is Nil.*

(D) *Carrying amount and tax base are ₹ 16 Lakh.* ***(2 Marks)***

(iv) *On 1st April, 2017, the total goodwill arising on consolidation in ENG Ltd.'s Consolidated Balance Sheet was ₹ 40 Lakh. On 31st March, 2018, the directors reviewed the goodwill for impairment and concluded that the goodwill was impaired by ₹ 6,00,000. There was no tax deduction available for any group company because of this impairment charge as at 31st March, 2018.*

(A) *Carrying amount is ₹6,00,000 and tax base is Nil.*

(B) *Carrying amount is Nil and tax base is ₹6,00,000.*

(C) *Carrying amount is Nil and tax base is Nil.*

(D) *Carrying amount is ₹ 40 Lakh and tax base is Nil.* ***(2 Marks)***

(v) *On 1st April, 2017, ENG Ltd. borrowed ₹ 1 Crore. The cost to ENG Ltd. for arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1st April, 2017. The loan was for 3 years. No interest was payable on the loan but the amount repayable on 31st March, 2020 will be ₹ 1,03,04,380*. This equates to an effective annual interest rate of 10%. Under the tax laws, a further tax deduction off ₹ 3,04,380** can be claimed when the loan is repaid on 31st March, 2020.*

(A) *Carrying amount is ₹ 1.078 Crore and tax base is ₹ 1 crore.*

(B) *Carrying amount is ₹ 1 Crore and tax base is Nil.*

(C) *Carrying amount is ₹ 1.078 Crore and tax base is Nil.*

(D) *Carrying amount and tax base both are ₹1 Crore.* ***(2 Marks)***

1.2 *On 1st April, 2016, K Ltd. made an interest free loan to an employee of ₹ 8,00,000. The loan is due for repayment on 31st March, 2018 and K Ltd. is confident that the employee will repay the loan. K Ltd. normally requires an annual rate of return of 10% on loans. What amount of loan is to be shown as on 31st March, 2017?*

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* PS: Read Rs. 1,03,04,380' as 'Rs. 1,30,43,800'

** PS: Read Rs. 3,04,380' as 'Rs. 30,43,800'.

(A) ₹ 8,00,000

(B) ₹ 1,38,843

(C) ₹ 6,61,157

(D) ₹ 7,27,273 **(2 Marks)**

1.3 On 1st April, 2016, K Ltd. gave a 3-year loan of ₹ 100 lakh to entity X. The market rate of return is 10% per annum. On 31st March, 2019, K Ltd. will receive a fixed number of shares in entity X in full settlement of the loan. Entity X paid the interest due of ₹ 8,00,000 on 31st March, 2017. Entity X has no liquidity problems. Following payment of interest, the fair value of this loan asset at 31st March, 2017 was estimated to be ₹ 105 lakh. As on 31st March, 2017, the loan will stand at what amount?

(A) ₹ 100 lakh

(B) ₹ 105 lakh

(C) ₹ 82,64,463

(D) ₹ 90,90,909 **(2 Marks)**

1.4 On 1st April, 2016 K Ltd. purchased an equity investment in entity Y for ₹ 120 lakh. The investment did not give K Ltd. control or significant influence over entity Y but the investment is seen as long term. K Ltd. plans to hold the investment till 31st March, 2019. On 31st March, 2017, the fair value of K Ltd.'s investment in entity Y was estimated to be ₹130 lakh. Market rate of interest is 10%. What will be investment amount outstanding as on 31st March, 2017?

(A) ₹ 130 lakh

(B) ₹ 120 lakh

(C) ₹ 99,17,355

(D) ₹ 1,09,09,091 **(2 Marks)**

1.5 Entity A has its head office in India but operates an oil refinery in Saudi Arabia. All of the entity's income is denominated and settled in USD. The oil price is subject to the worldwide supply and demand, and crude oil is routinely traded in USD around the world. Around 40% of the entity's cash costs of imports are paid in USD. The remaining costs of 40% are paid in riyals and the balance costs are incurred in INR. What is the functional currency of Entity A?

(A) Riyal

(B) INR

(C) USD

(D) Choice between INR and USD **(2 Marks)**

1.6 Management of Entity A decided to terminate 250 staff members within the next year. However, the costs of termination will arise over a longer period and are expected to be ₹ 200 lakh, payable as ₹ 80 lakh in 1 years' time and ₹ 120 lakh in 2 years' time. The market yield for high-quality corporate bonds of both the years is 5.5%. What is the. provision amount required to be done by Management?

(A) ₹ 2,00,00,000

(B) ₹ 75,82,938

(C) ₹ 1,07,81,429

(D) ₹ 1,83,64,360 **(2 Marks)**

1.7 KK Ltd. is an unlisted public company registered under the Companies Act, 2013. The Company has adopted the Ind AS w.e.f. 1st April, 2017 with a transition date of 1st April, 2016. The Company is in process of preparing the interim financial statements for the period ended 30th June, 2018 as per Ind AS for its internal reporting purposes. The Company has approached you with specific queries and has requested you to provide your views along with reasoning and specific references to Ind AS.

(a) On 1st April, 2018, KK Ltd. has acquired 80% of the equity interest in CK Ltd., a private entity in exchange for cash of ₹150 crore. Because the former owners of CK Ltd. needed to dispose of their investment in CK Ltd. by a specified date, they did not have sufficient time to identify other potential buyers. Additional information with respect to the said acquisition are as follows:

- The identifiable assets are measured at ₹ 250 crore and the liabilities assumed at ₹ 50 crore.
- The Company has also engaged an independent consultant, who has determined that the fair value of the 20% of Non-controlling Interest in CK Ltd. is ₹ 42 crore.

The Company has requested you to suggest the accounting treatment of the above acquisition made as per Ind AS. Whether the Company has any other option other than the fair valuation of the non-controlling interest? If yes, what will be the impact of the same under the Ind AS 103? Further the Company has also requested you to explain the differences in the accounting under corresponding IFRS for the aforementioned transaction. **(8 Marks)** *(b) KK Ltd. has granted an interest free loan of ₹ 10,00,000 to its wholly owned Indian Subsidiary YK Ltd. There is no transaction cost attached to the said loan. The Company has not finalised any terms and conditions including the applicable interest rates on such loans. The Board of Directors of the Company are evaluating various options and has requested your firm to provide your views under Ind AS in following situations:*

(i) The Loan given by KK Ltd. to its wholly owned subsidiary YK Ltd. is interest free and such loan is repayable on demand.

(ii) The said Loan is interest free and will be repayable after 3 years from the date of granting such loan. The current market rate of interest for similar loan is 10%. Considering the same, the fair value of the loan at initial recognition is ₹ 8,10,150.

(iii) The said loan is interest free and will be repaid as and when YK Ltd. has funds to repay the Loan amount.

Based on the same, KK Ltd. has requested you to suggest the accounting treatment of the above loan in the separate financial statements of KK Ltd. and YK Ltd. and also in the consolidated financial statements of the group. Consider interest for only one year for the above loan.

Further the Company is also planning to grant interest free loan from YK Ltd. to KK Ltd. in the subsequent period. What will be the accounting treatment of the same under applicable Ind AS? ***(10 Marks)***

(c) KK Ltd. has developed model to measure the expected credit loss based on the lifetime expected credit loss model. Accordingly, the Company has estimated the following provision matrix:

	Current	*1-30 days past due*	*31-60 days past due*	*61-90 days past due*	*More than 90 days past due*
Default Rate	*0.3%*	*1.6%*	*3.6%*	*6.6%*	*10.6%*

The Company has a portfolio of trade receivables of ₹ 6 crore as on 30th June, 2018 and operates in only one geographical region. The customer base of the Company consists of large number of small clients and trade receivables are categorised by common risk characteristics that are representative of the customer's abilities to pay all amounts due as per the contractual terms.

The trade receivables do not have significant financing component.

The above provision matrix is based on its historically observed default rate over the expected life of the trade receivables and is adjusted for forward looking estimate.

The· Company has asked you to suggest whether the above system of making the provision for the expected credit loss is in accordance with the applicable Ind AS? If yes, please determine the expected credit loss for the Trade receivables outstanding as on 30th June, 2018 which are as follows:

	Current	*1-30 days past due*	*31-60 days past due*	*61-90 days past due*	*More than 90 days past due*
% of Trade Receivables	*50%*	*25%*	*13%*	*8%*	*4%*

(4 Marks)

(d) *As part of its business expansion strategy, KK Ltd. is in process of setting up a pharma intermediates business which is at very initial stage. For this purpose, the Company has acquired on 1st April, 2018, 100% shares of ABR Ltd. that manufactures pharma intermediates. The purchase consideration for the same was by way of a share exchange valued at ₹ 35 crore. The fair value of ABR Ltd.'s net assets was ₹ 15 crore, but does not include:*

(i) *A patent owned by ABR Ltd. for an established successful intermediate drug that has a remaining life of 8 years. A consultant has estimated the value of this patent to be ₹ 10 crore. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated ₹15 crore.*

(ii) *The Company has developed and patented a new drug which has been approved for clinical use. The cost of developing the drug was ₹ 12 crore. Based on early assessment of its sales success, the valuer has estimated its market value at ₹ 20 crore.*

(iii) *The Company's manufacturing facilities have received a favourable inspection by a government department. As a result of this, the Company has been granted an exclusive five-year license to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valuable asset which assures guaranteed sales and the value for the same is estimated at ₹ 10 crore.*

The Company has requested you to suggest the accounting treatment of the above transaction under applicable Ind AS. ***(4 Marks)*** *(e)* *KK Ltd. had, taken loan from State Bank of India, the details of which are as follows:*

(i) *Amount of Loan - ₹ 1,000 crore*

(ii) *Date of Loan – 1st January, 2010*

(iii) *Terms of Payment*

- Interest - No interest for the first two years of the loan tenure;

- Rate of Interest- 8% p.a. for next 3 years, 9% p.a. thereafter till the date of repayment

(iv) *Interest is payable at the end of each year.*

(v) *Repayment - Principal Repayment on 1st January, 2018.*

The Company has requested you to suggest the suitable accounting entries for the 6 months ended 30th September, 2018 in the books of account along with the supporting working in compliance with applicable Ind AS. ***(4 Marks)***

Answer to Question 1

1.1 (i) Option (B) : Carrying Amount is Nil and tax base is ₹ 30 lakh.

(ii) Option (A) : Carrying Amount is ₹ 20 lakh and tax base is Nil.

(iii) Option (C) : Carrying Amount is ₹ 15.20 lakh and tax base is Nil.

(iv) Option (D) : Carrying Amount is ₹ 40 lakh and tax base is Nil.

Note: The carrying value of the goodwill before impairment has been considered.

(v) Option (A) : Carrying amount is ₹ 1.078 crore and tax base is ₹ 1 crore.

1.2 Option (D) : ₹ 7,27,273

1.3 Option (B) : ₹ 105 lakh

1.4 Option (A) : ₹ 130 lakh

1.5 Option (C) : USD

1.6 Option (D) : ₹ 1,83,64,360

1.7 **(a)** **(i)** Since the former owners of CK Ltd. needed to dispose of their investment in CK Ltd. by a specified date and also they did not have sufficient time to identify other potential buyers, there exists clear evidence of the underlying reasons for classifying the business combination as a bargain purchase.

Therefore, the gain on bargain purchase calculated at ₹ 8 crore, will be recognised in other comprehensive income on the acquisition date and accumulated the same in equity as capital reserve as follows:

Journal Entry

		₹ in crore	₹ in crore
Identifiable assets acquired	Dr.	250	
To Bank			150
To Liabilities assumed			50
To NCI (at fair value)			42
To Capital Reserve (Bargain purchase recognized in OCI) (Balancing figure)			8

(ii) Yes, KK Ltd. has the option to value non-controlling interest by proportionate share method at the acquisition date.

(iii) If KK Ltd. chose to measure the non-controlling interest in CK Ltd. on the basis of its proportionate share of identifiable net assets of the acquiree, the recognised amount of the non-controlling interest would be ₹ 40 crore (₹ 200 crore x 20%). The gain on the bargain purchase then would be ₹ 10 crore [₹ 200 crore – (₹ 150 crore + Rs 40 crore)].

(iv) As per IFRS 3, bargain purchase gain arising on business combination is to be recognised in profit or loss as income.

However, Ind AS 103 'Business Combination' requires the bargain purchase gain to be recognised in other comprehensive income and accumulated in equity as capital reserve if there exists clear evidence of the underlying reasons for classifying the business combination as a bargain purchase. If there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, then it shall be recognised directly in equity as capital reserve.

(b) Scenario (i)

Since the loan is repayable on demand, it has fair value equal to cash consideration given. KK Ltd. and YK Ltd. should recognize financial asset and liability, respectively, at the amount of loan given (assuming that loan is repayable within a year). Upon, repayment, both the entities should reverse the entries that were made at the origination.

Journal entries in the books of KK Ltd.

At origination		
Loan to YK Ltd. A/c Dr. To Bank A/c	₹ 10,00,000	 ₹ 10,00,000
On repayment		
Bank A/c Dr. To Loan to YK Ltd. A/c	₹ 10,00,000	 ₹ 10,00,000

Journal entries in the books of YK Ltd.

At origination		
Bank A/c Dr. To Loan from KK Ltd. A/c	₹ 10,00,000	 ₹ 10,00,000
On repayment		
Loan from KK Ltd. A/c Dr. To Bank A/c	₹ 10,00,000	 ₹ 10,00,000

In the consolidated financial statements, there will be no entry in this regard since loan receivable and loan payable will get set off.

Scenario (ii)

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

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

Both KK Ltd. and YK Ltd. should recognise financial asset and liability, respectively, at fair value on initial recognition, i.e., the present value of ₹ 10,00,000 payable at the end of 3 years using discounting factor of 10%. Since the question mentions fair value of the loan at initial recognition as ₹ 8,10,150, the same has been considered. The difference between the loan amount and its fair value is treated as an equity contribution to the subsidiary. This represents a further investment by the parent in the subsidiary.

Journal entries in the books of KK Ltd. (for one year)

At origination			
Loan to YK Ltd. A/c	Dr.	₹ 8,10,150	
Investment in YK Ltd. A/c	Dr.	₹ 1,89,850	
To Bank A/c			₹ 10,00,000
During periods to repayment- to recognise interest *Year 1 – Charging of Interest*			
Loan to YK Ltd. A/c	Dr.	₹ 81,015	
To Interest income A/c			₹ 81,015
Transferring of interest to Profit and Loss			
Interest income A/c	Dr.	₹ 81,015	
To Profit and Loss A/c			₹ 81,015
Note- Interest needs to be recognised in statement of profit and loss. The same cannot be adjusted against capital contribution recognised at origination.			

Journal entries in the books of YK Ltd. (for one year)

At origination			
Bank A/c	Dr.	₹ 10,00,000	
To Loan from KK Ltd. A/c			₹ 8,10,150
To Equity Contribution in KK Ltd. A/c			₹ 1,89,850
During periods to repayment- to recognise interest *Year 1*			
Interest expense A/c	Dr.	₹ 81,015	
To Loan from KK Ltd. A/c			₹ 81,015

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

Scenario (iii)

Generally, a loan which is repayable when funds are available, cannot be stated as loan repayable on demand. Rather the entity needs to estimate the repayment date and determine its measurement accordingly by applying the concept prescribed in Scenario (ii).

In the consolidated financial statements, there will be no entry in this regard since loan and interest income/expense will get set off.

In case the subsidiary YK Ltd. is planning to grant interest free loan to KK Ltd., then the difference between the fair value of the loan on initial recognition and its nominal value should be treated as dividend distribution by YK Ltd. and dividend income by the parent KK Ltd.

(c) As per para 5.5.15 of Ind AS 109 'Financial Instruments', for trade receivables or any contractual right to receive cash or another financial asset that result from transactions that are within the scope of revenue standard, are always measured at an amount equal to lifetime expected credit losses.

The trade receivables from the large number of small customers amount to ₹ 6 crore and are measured using the provision matrix.

	Outstanding Trade Receivables (₹ in crore)	**Default rate**	**Lifetime expected credit loss allowance (₹ in crore)**
	(a)	**(b)**	**(a x b) = (c)**
Current	3	0.3%	0.009
1–30 days past due	1.5	1.6%	0.024
31–60 days past due	0.78	3.6%	0.02808
61–90 days past due	0.48	6.6%	0.03168
More than 90 days past due	0.24	10.6%	0.02544
	6		0.1182

(d) As per para 13 of Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.

Based on the above, the company can recognise following Intangible assets while determining Goodwill / Bargain Purchase for the transaction:

(i) **Patent owned by ABR Ltd.:** The patent owned will be recognised at fair value by KK Ltd. even though it was not recognised by ABR Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 8 years. Since the company is awaiting the outcome of the trials, the value of the patent cannot be estimated at ₹ 15 crore and the extra ₹ 5 crore should only be disclosed as a Contingent Asset and not recognised.

(ii) **Patent internally developed by ABR Ltd.:** Further as per para 75 of Ind AS 38 'Intangible Assets', after initial recognition, an intangible asset shall be carried at 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 under this Standard, fair value shall be determined by reference to an active market.

From the information given in the question, it appears that there is no active market for patents since the fair value is based on early assessment of its sale success. Hence it is suggested to use the cost model and recognise the patent at the actual development cost of ₹ 12 crore.

(iii) **Grant of Licence to ABR Ltd. by the Government:** As regards to the five-year license, para 44 of Ind AS 38 'Intangible Assets' requires to recognize grant asset at fair value. KK Ltd. can recognize both the asset (license) and the grant at ₹ 10 crore to be amortised over 5 years.

Hence the revised working would be as follows:

Fair value of net assets of ABR Ltd.	₹ 15 crore
Add: Patent (10 + 12)	₹ 22 crore
Add: License	₹ 10 crore
Less: Grant for License	(₹ 10 crore)
	₹ 37 crore
Purchase Consideration	₹ 35 crore
Bargain purchase	₹ 2 crore

(e) Since loan taken on 1st January, 2010 has been repaid on 1st January, 2018, there will be no accounting entries to be passed for the 6 months ended on 30th September, 2018.

QUESTION NO. 2

2.1 MS Ltd. follows Ind AS for its financial reporting. The Chief Operating Decision Maker- ("CODM") of the Company reviews all of its segment assets and liabilities based on their fair values. The recently joined finance manager of the Company has sought your advice on the preparation of the financial statements of the Company.

You are required to select the correct answer from the below-mentioned options:

(A) In the operating segment disclosures, the assets and liabilities should be disclosed at the amounts reported in the Balance Sheet. A disclosure should be given in the financial statements that the CODM reviews these amounts based on their fair values.

(B) In the operating segment disclosures, the assets and liabilities should be disclosed at the amounts reported in the Balance Sheet. Since review by CODM is an internal affair of the Company, no additional disclosure is required to be given in the financial statements.

(C) In the operating segment disclosures, the assets and liabilities should be disclosed at the fair values being reviewed by the CODM. The Company should also present a reconciliation between the amounts disclosed under the operating segment disclosures and the amounts reported in the Balance Sheet.

(D) In the operating segment disclosures, the assets and liabilities should be disclosed at the fair values being reviewed by the CODM. The Company should provide a note in the financial statements that the amounts disclosed under operating segment disclosures are at fair value, whereas the amounts reported under the Balance Sheet are measured depending on their nature and classification. A quantitative reconciliation in this regard is not required to be presented. ***(2 Marks)***

2.2 *PQR Ltd. measures its land using the revaluation model under Ind AS. Because of revaluation gains, temporary differences have arisen on which deferred tax liability is required to be recognized. You are required to determine in which section of the financial statements the debit effect of deferred tax liability should be given. Select the correct answer from the below-mentioned options.*

(A) Profit or loss

(B) Other comprehensive income

(C) Property, plant and equipment

(D) General reserve ***(2 Marks)***

2.3 *Twinkle Ltd. is an entity engaged in trading of textiles. It purchased a building with the objective of earning rentals and capital appreciation. Since its parent, Cozy Ltd., required a building for its sales office, Twinkle Ltd. rented the building to Cozy Ltd. on market terms. Twinkle Ltd. classified the lease as an operating lease. Select the appropriate response from the below-mentioned options:*

(A) The building should be recognised as Property, plant and equipment in the standalone Balance Sheet of Twinkle Ltd. as well as Consolidated Balance Sheet of Cozy Ltd.

(B) The building should be recognised as an investment property in the standalone Balance Sheet of Twinkle Ltd. as well as Consolidated Balance Sheet of Cozy Ltd.

(C) The building should be recognised as property, plant and equipment in the standalone Balance Sheet of Twinkle Ltd.; Cozy Ltd. should recognise the building in its Consolidated Balance Sheet as an investment property.

(D) The building should be recognised as an investment property in the standalone Balance Sheet of Twinkle Ltd.; Cozy Ltd. should recognise the building in its Consolidated Balance Sheet as Property, plant and equipment. ***(2 Marks)***

2.4 Which of the following statements regarding the reclassification of financial instruments is CORRECT?

(A) Reclassification of financial assets and financial liabilities is required when the entity changes its business model for managing those financial assets and financial liabilities.

(B) Reclassification of financial assets is required when the entity changes its business model for managing the financial assets. Financial liabilities are not permitted to be reclassified.

(C) Reclassification of financial assets and financial liabilities is permitted when there is a change in the contractual cash flow characteristics of the financial assets and financial liabilities.

(D) Reclassification of financial assets and financial liabilities is permitted when terms of the contract are substantially modified. Determination of whether or not such modification is substantial requires exercise of significant judgement. ***(2 Marks)***

2.5 When a financial instrument is reclassified, the effect of such reclassification should be recognised by the entity, Select the correct answer from the below-mentioned options in respect of accounting of such reclassification:

(A) Accounting of the reclassification should be done retrospectively.

(B) Accounting of the reclassification should be done prospectively from the date on which entity decides to reclassify the instrument.

(C) Accounting of such reclassification should be done with effect from the first day of the reporting period following the reclassification.

(D) *Accounting of the reclassification should be done prospectively only if it is impracticable to account for the change retrospectively.* **(2 Marks)**

2.6 *Which of the following is the correct methodology to separate the liability and the equity component of a compound financial instrument (in the financial statements of the issuer)?*

(A) *Calculate the value of equity and liability components based on their respective fair values on initial recognition. Any residual amount should be recognised in profit or loss immediately.*

(B) *Calculate the value of equity and liability components based on their respective fair values on initial recognition. Any residual amount should be recognised directly in other comprehensive income.*

(C) *Calculate the fair value of the liability component on initial recognition, and allocate the residual value to the equity component.*

(D) *Calculate the fair value of the equity component on initial recognition, and allocate the residual value to the liability component.* **(2 Marks)**

2.7 *Which of the following factors are relevant in determining 'value in use' of a non-current asset for the purpose of recognising impairment loss? Select all the options which are applicable.*

(A) *Expected future cash flows from the asset*

(B) *Future depreciation charge on the asset*

(C) *Potential appreciation in the value of the asset*

(D) *Carrying value of the asset* **(2 Marks)**

2.8. *Efficient Ltd. is engaged in the business of transportation. Owing to the nature of the business, their requirements of short-term funds fluctuates significantly every month. Therefore, to effectively manage the requirements of cash, instead of obtaining a term loan, Efficient Ltd. relies mainly on bank overdrafts which are payable on demand.*

Following table shows the month wise balance of their current account with the bank.

Month	***Debit / Credit balance***	***Balance (₹ in crore)***
October, 2017	*Debit*	*2.0*
November, 2017	*Credit*	*4.0*
December, 2017	*Debit*	*2.0*
January, 2018	*Debit*	*1.5*

February, 2018	*Credit*	*4.5*
March, 2018	*Credit*	*3.7*

For the purpose of Ind AS financial statements of Efficient Ltd. for the year ended 31st March, 2018, its management has requested you to help them in appropriate classification of the bank over drafts. You are required to select the correct answer from the below-mentioned options:

(A) Bank overdrafts should be shown under current financial liabilities in the financial statements; Ind AS do not allow presentation of bank overdrafts as component of cash and cash equivalents in the statement of cash flows.

(B) Bank overdrafts should be shown under current financial liabilities in the financial statements; in the statement of cash flows, bank overdrafts should be presented as a component of cash and cash equivalents.

(C) Bank overdrafts must always be netted with cash and cash equivalents in the Balance Sheet; in the statement of cash flows, bank overdrafts should be presented as a component of cash and cash equivalents.

(D) Bank overdrafts must always be netted with cash and cash equivalents in the Balance Sheet; Ind AS does not allow presentation of bank overdrafts as component of cash and cash equivalents in the statement of cash flows. ***(2 Marks)***

2.9 MR Ltd. prepares its financial statements under IFRS as well as US GAAP. For the purpose of its financial reporting for the year ended 31st March, 2018, it has following two questions for which it seeks your advice:

(i) During the year ended 31st March, 2018, MR Ltd. entered into an agreement with the promoters of XYZ Ltd. to acquire 18% equity stake in XYZ Ltd. As per the agreement, MR Ltd. has an option to purchase additional 5% equity stake in XYZ Ltd. from the promoters. As on 31st March 2018, the right of MR Ltd. to purchase additional 5% equity interest is exercisable. The equity shareholders are entitled to vote in the general meetings of XYZ Ltd. in proportion of the equity stake held by them.

Should the additional 5% equity interest be considered by MR Ltd. in the assessment of whether it has significant influence on XYZ Ltd. as on 31st March, 2018? Select the correct answer from the below mentioned options:

(A) Under US GAAP as well as IFRS, the additional 5% equity interest should be considered in the evaluation.

(B) Under US GAAP as well as IFRS, the additional 5% equity interest should not be considered in the evaluation.

(C) Under US GAAP, the additional 5% equity interest should not be considered in the evaluation; under IFRS, the additional 5% equity interest should be considered in the evaluation.

(D) Under US GAAP, the additional 5% equity interest should be considered in the evaluation; under IFRS, the additional 5% equity interest should not be considered in the evaluation. ***(2 Marks)***

(ii) On 1st January, 2018, MR Ltd. classified one of its associates, ABC Ltd., as held for sale. Prior to such classification, the associate was accounted using equity method in US GAAP as well as IFRS. Following information is provided to you in relation to investment in ABC Ltd.:

Particulars	₹ in lakh
Carrying value of investment as per equity method of accounting as on 1st January, 2018	48
Carrying value of investment as per equity method of accounting as on 31st March, 2018	53
Fair value of investment as on 1st January, 2018	87
Fair value of investment as on 31st March, 2018	95
Estimated cost to sell the investment as on 1st January, 2018	2
Estimated cost to sell the investment as on 31st March, 2018	3

At what amount should the investment in ABC Ltd. be measured as on 31st March, 2018? Select the correct answer from the below mentioned options:

(A) Under US GAAP, at ₹ 53 lakh; under IFRS, at ₹ 48 lakh.

(B) Under US GAAP, at ₹ 95 lakh; under IFRS, at ₹ 48 lakh.

(C) Under US GAAP, at ₹ 53 lakh; under IFRS, at ₹ 95 lakh.

(D) Under US GAAP, at ₹ 93 lakh; under IFRS, at ₹ 95 lakh.

(2 Marks)

2.10 Wellbeing Ltd. and Life-Science Ltd. are Ind AS compliant entities engaged in the manufacturing and sale of various pharmaceutical products including eye care products. On 31st March, 2018, Wellbeing Ltd. acquired certain assets and/or liabilities of Life-Science Ltd.'s eye care division. Assets and liabilities of eye care division of Life-Science Ltd. as on the acquition date are as follows:

Particulars	*Carrying value in the books of Life-Science Ltd. as per Ind AS (₹ in crore)*	*Fair value (₹ in crore)*
Assets:		
Patents	*12.0*	*18.0*
Manufacturing facility	*8.0*	*24.0*
Administrative office building	*5.0*	*20.0*
Liabilities:		
Employee benefits payable to scientists directly engaged in manufacturing	*0.9*	*0.9*
Employee benefits payable to administrative employees not engaged in manufacturing	*0.5*	*0.5*
Net assets	*23.6*	*60.6*

Additional information:

- *Patents are key inputs in the production process. Patents, when combined with other relevant assets of the eye care division, are capable of producing the finished goods (that is, medicines of eye care division).*
- *Administrative office building is used for accommodating employees and infrastructure required for payroll processing, accounting, and other administrative tasks not directly related to the production of medicines.*
- *Wellbeing Ltd. and Life-Science Ltd. are not related parties under Ind AS.*

In each of the three scenarios as mentioned below, you are required to prepare the necessary journal entries for the acquisition, along with a brief reasoning. Ignore taxation.

Scenario 1: *Wellbeing Ltd. has acquired the following items from Life Science Ltd. for a cash consideration off ₹ 42 crore:*

- *Patents*
- *Manufacturing facility*
- *Scientists*
- *Employee benefits payable to scientists*

- *All the strategic and operational processes which are required for the production and sale of medicines.*

Scenario 2: *Wellbeing Ltd. has acquired the following items from Life Science Ltd. for a cash consideration of ₹ 62 crore:*

- *Patents*
- *Manufacturing facility*
- *Administrative office building*
- *Scientists*
- *Administrative Employees*
- *Employee benefits payable to scientists*
- *Employee benefits payable to administrative employees*
- *All strategic and operational processes which are required for the production and sale of medicines.*

Scenario 3: *Wellbeing Ltd. has acquired only the patents for a cash consideration off ₹ 17 crore.* ***(9 Marks)***

2.11 *H Ltd. acquired equity shares of S Ltd., a listed company, in two tranches as mentioned in the below table:*

Date	***Equity stake purchased***	***Remarks***
1st November, 2016	*15%*	*The shares were purchased based on the quoted price on the stock exchange on the relevant dates.*
1st January, 2017	*45%*	

Both the above-mentioned companies have INR as their functional currency. Consequently, H Ltd. acquired control over S Ltd. on 1st January, 2017. Following is the Balance Sheet of S Ltd. as on that date:

Particulars	***Carrying value (₹ in crore)***	***Fair value (₹ in crore)***
ASSETS:		
Non-current assets		
(a) Property, plant and equipment	*40.0*	*90.0*
(b) Intangible assets	*20.0*	*30.0*
(c) Financial assets		

- Investments	*100.0*	*350.0*
Current assets		
(a) Inventories	*20.0*	*20.0*
(b) Financial assets		
- Trade receivables	*20.0*	*20.0*
- Cash held in functional currency	*4.0*	*4.5*
(c) Other current assets		
Non-current asset held for sale	*4.0*	*4.5*
TOTAL ASSETS	***208***	
EQUITY AND LIABILITIES:		
Equity		
(a) Share capital (face value ₹100)	*12.0*	*50.4*
(b) Other equity	*141.0*	*Not applicable*
Non-current liabilities		
(a) Financial liabilities		
- Borrowings	*20.0*	*20.0*
Current liabilities		
(a) Financial liabilities		
- Trade payables	*28.0*	*28.0*
(b) Provision for warranties	*3.0*	*3.0*
(c) Current tax liabilities	*4.0*	*4.0*
TOTAL EQUITY AND LIABILITIES	***208.0***	

Other information:

Property, plant and equipment in the above Balance Sheet include leasehold motor vehicles having carrying value of ₹ 1 crore and fair value of ₹ 1.2 crore. The date of inception of the lease was 1st April, 2010. On the inception of the lease, S Ltd. had correctly classified the lease as a finance lease. However, if facts and circumstances as on 1st April, 2017 are considered, the lease would be classified as an operating lease.

Following is the statement of contingent liabilities of S Ltd. as on 1st January, 2017:

Particulars	**Fair value (₹ in crore)**	**Remarks**
Law suit filed by a customer for a claim of ₹ 2 crore	*0.5*	*It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.*

		Any amount which would be paid in respect of law suit will be tax deductible.
Income tax demand of ₹ 7 crore raised by tax authorities; S Ltd. has challenged the demand in the court.	*2.0*	*It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.*

In relation to the above-mentioned contingent liabilities, S Ltd. has given an indemnification undertaking to H Ltd. up to a maximum of ₹ 1 crore.

₹ 1 crore represents the acquisition date fair value of the indemnification undertaking.

Any amount which would be received in respect of the above undertaking shall not be taxable.

The tax bases of the assets and liabilities of S Ltd. is equal to their respective carrying values being recognised in its Balance Sheet.

Carrying value of non-current asset held for sale of ₹ 4 crore represents its fair value less cost to sell in accordance with the relevant Ind AS.

In consideration of the additional stake purchased by H Ltd. on 1st January, 2017, it has issued to the selling shareholders of S Ltd. 1 equity share of H Ltd. for every 2 shares held in S Ltd. Fair value of equity shares of H Ltd. as on 1st January, 2017 is ₹ 10,000 per share.

On 1st January, 2017, H Ltd. has paid ₹ 50 crore in cash to the selling shareholders of S Ltd. Additionally, on 31st March, 2019, H Ltd. will pay ₹ 30 crore to the selling shareholders of S Ltd. if return on equity of S Ltd. for the year ended 31st March, 2019 is more than 25% per annum. H Ltd. has estimated the fair value of this obligation as on 1st January, 2017 and 31st March, 2017 as ₹ 22 crore and ₹ 23 crore respectively. The change in fair value of the obligation is attributable to the change in facts and circumstances after the acquisition date.

Quoted price of equity shares of S Ltd. as on various dates is as follows:

As on November, 2016 ₹ 350 per share

As on 1st January, 2017 ₹ 395 per share

As on 31st March, 2017 ₹ 420 per share

On 31st May, 2017, H Ltd. learned that certain customer relationships existing as on 1st January, 2017, which met the recognition criteria of an intangible asset as on that date, were not considered during the accounting of business combination for the year *ended 31st March, 2017. The fair value of such customer relationships as on 1st January, 2017 was ₹ 3.5 crore (assume that there are no temporary differences associated with customer relations; consequently, there is no impact of income taxes on customer relations).*

On 31st May, 2017 itself, H Ltd. further learned that due to additional customer relationships being developed during the period 1st January, 2017 to 31st March, 2017, the fair value of such customer relationships has increased to ₹ 4 crore as on 31st March, 2017.

On 31st December, 2017, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and that more information is not obtainable.

H Ltd. and S Ltd. are not related parties and follow Ind AS for financial reporting. Income tax rate applicable is 30%.

You are required to provide your detailed responses to the following, along with reasoning and computation notes:

(a) What should be the goodwill or bargain purchase gain to be recognised by H Ltd. in its financial statements for the year ended 31st March, 2017. For this purpose, measure non-controlling interest using proportionate share of the fair value of the identifiable net assets of S Ltd.

(b) Will the amount of non-controlling interest, goodwill, or bargain purchase gain so recognised in (a) above change subsequent to 31st March, 2017? If yes, provide relevant journal entries.

(c) What should be the accounting treatment of the contingent consideration as on 31st March, 2017? ***(15 Marks)***

2.12 *Angel Ltd. has adopted Ind AS with a transition date of 1st April, 2017. Prior to Ind AS adoption, it followed Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as "IGAAP").*

It has made investments in equity shares of Pharma Ltd., a listed company engaged in the business of pharmaceuticals. The shareholding pattern of Pharma Ltd. is given below

Shareholders (refer footnote 1)	***Percentage shareholding as on 1st April, 2017***
Angel Ltd.	*21%*
Little Angel Ltd. (refer footnote 2)	*24%*

Wealth Master Mutual Fund (refer footnote 3)	*3%*
Individual public shareholders (refer footnote 4)	*52%*

Footnotes:

(1) None of the shareholders have entered into any shareholders' agreement.

(2) Little Angel Ltd. is a subsidiary of Angel Ltd. (under Ind AS) in which Angel Ltd. holds 51% voting power.

(3) Wealth Master Mutual Fund is not related party of either Little Angel Ltd. or Pharma Ltd.

(4) Individual public shareholders represent 17,455 individuals. None of the individual shareholders hold more than 1% of voting power in Pharma Ltd.

All commercial decisions of Pharma Ltd. are taken by its directors who are appointed by a simple majority vote of the shareholders in the annual general meetings ("AGM'). The following table shows the voting pattern of past AGMs of Pharma Ltd.:

Shareholders	AGM for the financial year:		
	2013-14	2014-15	2015-16
Angel Ltd.	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions
Little Angel Ltd.	Attended and voted as per directions of Angel Ltd.	Attended and voted as per directions of Angel Ltd	Attended and voted as per directions of Angel Ltd
Wealth Master Mutual Fund	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors	Attended and voted in favour of all the resolutions except for the reappointment of the retiring directors
Individuals	7% of the individual shareholders attended the AGM. All the individual	8% of the individual shareholders attended the AGM. All the individual	6% of the individual shareholders attended the AGM. All the individual

	shareholders voted in favour of all the resolutions, except that 50% of the individual shareholders voted against the resolution to appoint the retiring directors.	*shareholders voted in favour of all the resolutions, except that 50% of the individual shareholders voted against the resolution to appoint the retiring directors.*	*shareholders voted in favour of all the resolutions, except that 50% of the individual shareholders voted against the resolution to appoint the retiring directors.*

Pharma Ltd. has obtained substantial long term borrowings from a bank. The loan is payable in 20 years from 1st April, 2017. As per the terms of the borrowing, following actions by Pharma Ltd. will require prior approval of the bank:

- *Payment of dividends to the shareholders in cash or kind;*
- *Buyback of its own equity shares;*
- *Issue of bonus equity shares;*
- *Amalgamation of Pharma Ltd. with any other entity; and*
- *Obtaining additional loans from any entity.*

Recently, the Board of Directors of Pharma Ltd. proposed a dividend of ₹ 5 per share. However, when the CFO of Pharma Ltd. approached the bank for obtaining their approval, the bank rejected the proposal citing concerns over the short-term cash liquidity of Pharma Ltd. Having learned about the developments, the Directors of Angel Ltd. along with the Directors of Little Angel Ltd. approached the bank with a request to re-consider its decision. The Directors of Angel Ltd. and Little Angel Ltd. urged the bank to approve a reduced dividend of at least ₹ 2 per share. However, the bank categorically refused to approve any payout of dividend.

Under IGAAP, Angel Ltd. has classified Pharma Ltd. as. its associate. As the CFO of Angel Ltd., you are required to comment on the correct classification of Pharma Ltd. on transition to Ind AS. ***(6 Marks)***

Answer to Question 2

2.1 Option (C): In the operating segment disclosures, the assets and liabilities should be disclosed at the fair values being reviewed by the CODM. The Company should also present a reconciliation between the amounts disclosed under the operating segment disclosures and the amounts reported in the Balance Sheet.

2.2 Option (B): Other comprehensive income

2.3 Option (D): The building should be recognised as an investment property in the standalone Balance Sheet of Twinkle Ltd.; Cozy Ltd. should recognise the building in its Consolidated Balance Sheet as Property, plant and equipment.

2.4 Option (B): Reclassification of financial assets is required when the entity changes its business model for managing the financial assets. Financial liabilities are not permitted to be reclassified.

2.5 Option (C): Accounting of such reclassification should be done with effect from the first day of the reporting period following the reclassification.

2.6 Option (C): Calculate the fair value of the liability component on initial recognition, and allocate the residual value to the equity component.

2.7 Option (A): Expected future cash flows from the asset.

2.8 Option (B): Bank overdrafts should be shown under current financial liabilities in the financial statements; in the statement of cash flows, bank overdrafts should be presented as a component of cash and cash equivalents.

2.9 **(i)** Option (C): Under US GAAP, the additional 5% equity interest should not be considered in the evaluation; under IFRS, the additional 5% equity interest should be considered in the evaluation.

(ii) Option (A): Under US GAAP, at ₹ 53 lakh; under IFRS, at ₹ 48 lakh.

2.10 Scenario 1

Paragraph B7 of Ind AS 103 'Business Combination', inter alia, provides that a business consists of inputs and processes applied to those inputs that have the ability to create outputs.

As per the information given in the question, patents are key inputs in the production process. Patents, **when combined with other relevant assets of the eye care division**, are capable of producing the finished goods (ie. medicines of eye care division).

Further, paragraph B8 of Ind AS 103 *inter alia* states a business need not include all of the inputs or processes that the seller used in operating that business if market participants are capable of acquiring the business and continuing to produce outputs, by integrating the business with their own inputs and processes.

Since in the given case Wellbeing Ltd. is also engaged in the same business, its own administrative office building can be used. This is because administrative office building of Life Science Ltd. is not directly related to the production of the medicines.

Moreover, as per Scenario 1, Wellbeing Ltd. has acquired along with the patents of Life Science Ltd., other relevant assets like Manufacturing facility, Scientists and processes applied to those inputs that have the ability to create outputs ie all the strategic and operational processes which are required for the production and sale of medicines have been acquired. Therefore, this acquisition shall be considered as Business acquisition.

Journal Entry

		₹ in crore	₹ in crore
Patents A/c	Dr.	18	
Manufacturing facility A/c	Dr.	24	
Goodwill (Balancing figure)	Dr.	0.9	
To Employee benefits payable to scientists directly engaged in manufacturing			0.9
To Bank A/c			42
(Entry for business acquisition of Life Science Ltd.)			

Note: Presence of goodwill also confirms the conclusion that the pool of assets and liabilities acquired represents a business.

Scenario 2

Since Wellbeing Ltd. has acquired the whole eye care division of Life Science Ltd. it is a business combination as it acquires all the relevant assets and liabilities which lead to acquisition of business.

Journal Entry

		₹ in crore	₹ in crore
Patents A/c	Dr.	18	
Manufacturing facility A/c	Dr.	24	
Administrative office building	Dr.	20	
Goodwill (Balancing figure)	Dr.	1.40	
To Employee benefits payable to scientists directly engaged in manufacturing			0.90

To Employee benefits payable to administrative employees not engaged in manufacturing			0.50
To Bank A/c			62
(Entry for business acquisition of Life Science Ltd.)			

Note: Presence of goodwill also confirms the conclusion that the pool of assets and liabilities acquired represents a business.

Scenario 3

As per paragraph 2(b) of Ind AS 103, the standard does not apply to the acquisition of an asset that does not constitute a business. Therefore, in the given case, the acquisition of patent does not represent acquisition of a business. Though the patent is the key input in the production process but it can lead to output until it is combined with other relevant assets of the eye care division of Life Science Ltd.

In such cases, the acquirer shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in Ind AS 38 'Intangible Assets') and liabilities assumed. Such a transaction or event does not give rise to goodwill. As per para 24 of Ind AS 38, an **intangible asset** acquired shall be measured initially at **cost. Accordingly, the patent shall be recorded at ₹ 17 crore.**

Journal Entry

		₹ in crore	₹ in crore
Patent A/c	Dr.	17	
To Cash/Bank A/c			17
(Patent acquired has been recorded at cost)			

2.11 (i) As an only exception to the principle of classification or designation of assets as they exist at the acquisition date is that for lease contract and insurance contracts classification which will be based on the basis of the conditions existing at inception and not on acquisition date.

Therefore, H Ltd. would be required to retain the original lease classification of the lease arrangements and thereby recognise the lease arrangements as finance lease.

(ii) The requirements in Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', do not apply in determining which contingent liabilities to recognise as of the acquisition date as per Ind AS 103 'Business Combination'. Instead, the acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to Ind AS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Hence H Ltd. will recognize contingent liability of ₹ 2.5 cr.

Since S Ltd. has indemnified for ₹ 1 cr., H Ltd. shall recognise an indemnification asset at the same time for ₹ 1 cr.

As per the information given in the question, this indemnified asset is not taxable. Hence, its tax base will be equal to its carrying amount. No deferred tax will arise on it.

(iii) As per Ind AS 103, non-current assets held for sale should be measured at fair value less cost to sell in accordance with Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'. Therefore, its carrying value as per balance sheet has been considered in the calculation of net assets.

(iv) Any equity interest in S Ltd. held by H Ltd. immediately before obtaining control over S Ltd. is adjusted to acquisition-date fair value. Any resulting gain or loss is recognised in the profit or loss of H Ltd.

Calculation of purchase consideration as per Ind AS 103 **₹ in lakh**

Investment in S Ltd.			
On 1st Nov. 2016	15%	[(12/100) x 395 x 15%]	7.11
On 1st Jan. 2017	45%		
Own equity given		10,000) x 12% x 45% x ½	270
Cash			50
Contingent consideration			22
			349.11

(v) Calculation of defer tax on assets and liabilities acquired as part of the business combination, including current tax and goodwill.

Item	₹ in crore				
	Book value	Fair value	Tax base	Taxable (deductible) temporary difference	Deferred tax assets (liability) @ 30%
Property, plant and equipment	40	90	40	50	(15)
Intangible assets	20	30	20	10	(3)

Investments	100	350	100	250	(75)
Inventories	20	20	20	-	-
Trade receivables	20	20	20	-	-
Cash held in functional currency	4	4	4	-	-
Non-current asset held for sale	4	4	4	-	-
Indemnified asset	-	1	1	-	-
Borrowings	20	20	20	-	-
Trade payables	28	28	28	-	-
Provision for warranties	3	3	3	-	-
Current tax liabilities	4	4	4	-	-
Contingent liability		0.5	-	(0.5)	0.15
Deferred tax Liability					(92.85)

(vi) Calculation of identifiable net assets acquired

	₹ in crore	₹ in crore
Property, plant and equipment	90	
Intangible assets	30	
Investments	350	
Inventories	20	
Trade receivables	20	
Cash held in functional currency	4	
Non-current asset held for sale	4	
Indemnified asset	1	
Total asset		519
Less: Borrowings	20	
Trade payables	28	
Provision for warranties	3	
Current tax liabilities	4	
Contingent liability (2 + 0.5)	2.50	
Deferred tax liability (W.N.2)	92.85	(150.35)
Net identifiable assets		368.65

(a) Calculation of NCI by proportionate share of net assets

Net identifiable assets of S Ltd. on 1.1.2017 (Refer W.N.3) = 372.85 crore

NCI on 1.1.2017 = 368.65 crore x 40% = 147.46 crore

Calculation of Goodwill as per Ind AS 103

Goodwill on 1.1.2017 = Purchase consideration + NCI – Net assets

= 349.11 + 147.46 – 368.65

= 127.92 crore

(b) As per para 45 of Ind AS 103 'Business Combination', if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Further, as per para 46 of Ind AS 103, the measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Ind AS:

(a) the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;

(b) …..

(c) ……; and

(d) the resulting goodwill or gain on a bargain purchase.

Para 48 states that the acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by means of a decrease (increase) in goodwill.

Para 49 states that during the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date.

Para 50 states that after the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

On 31st December, 2017, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and the more information is not obtainable. Therefore, the measurement period for acquisition of S Ltd. ends on 31st December, 2017.

On 31st May, 2017 (ie within the measurement period), H Ltd. learned that certain customer relationships existing as on 1st January, 2017 which met the recognition criteria of an intangible asset as on that date were not considered during the accounting of business combination for the year ended 31st March, 2017. Therefore, H Ltd. shall account for the acquisition date fair value of customer relations existing on 1st January, 2017 as an identifiable intangible asset. The corresponding adjustment shall be made in the amount of goodwill.

Accordingly, the amount of goodwill will be changed due to identification of new asset from retrospective date for changes in fair value of assets and liabilities earlier recognised on provisional amount (subject to meeting the condition above for measurement period). NCI changes would impact the consolidated retained earnings (parent's share). Also NCI will be increased or decreased based on the profit during the post-acquisition period.

Journal entry

Customer relationship	Dr.	3.5 crore	
To NCI			1.4 crore
To Goodwill			2.1 crore

However, the increase in the value of customer relations after the acquisition date shall not be accounted by H Ltd., as the customer relations developed after 1st January, 2017 represents internally generated intangible assets which are not eligible for recognition on the balance sheet.

(c) Since the contingent considerations payable by H Ltd is not classified as equity and is within the scope of Ind AS 109 'Financial Instruments', the changes in the fair value shall be recognised in profit or loss. Change in Fair value of contingent consideration (23-22) ₹ 1 crore will be recognized in the Statement of Profit and Loss.

2.12 To determine whether Pharma Limited can be continued to be classified as an associate on transition to Ind AS, we will have to determine whether Angel Limited controls Pharma Limited as defined under Ind AS 110 'Consolidated Financial Statements'.

An investor controls an investee if and only if the investor has all the following:

(a) Power over investee

(b) Exposure, or rights, to variable returns from its involvement with the investee

(c) Ability to use power over the investee to affect the amount of the investor's returns.

Since Angel Ltd. does not have majority voting rights in Pharma Ltd. we will have to determine whether the existing voting rights of Angel Ltd. are sufficient to provide it power over Pharma Ltd.

Analysis of each of the three elements of the definition of control:

Elements / conditions	**Analysis**
Power over investee	Angel Limited along with its subsidiary Little Angel Limited (hereinafter referred to as "the Angel group") does not have majority voting rights in Pharma Limited. Therefore, in order to determine whether Angel group have power over Pharma Limited. we will need to analyse whether Angel group, by virtue of its non-majority voting power, have *practical ability to unilaterally direct the relevant activities* of Pharma Limited. In other words, we will need to analyse whether Angel group has ***de facto* power** over Pharma Limited. Following is the analysis of *de facto* power of Angel over Pharma Limited: - The public shareholding of Pharma Limited (that is, 52% represents thousands of shareholders none individually holding material shareholding, - The actual participation of Individual public shareholders in the general meetings is minimal (that is, in the range of 6% to 8%). - Even the public shareholders who attend the meeting do not consult with each other to vote. - Therefore, as per guidance of Ind AS 110 'Consolidated

	Financial Statements', the public shareholders will not be able to outvote Angel group (who is the largest shareholder group) in any general meeting. Based on the above-mentioned analysis, we can conclude that Angel group has *de facto* power over Pharma Limited.
Exposure, or rights, to variable returns from its involvement with the investee	Angel group has exposure to variable returns from its involvement with Pharma Limited by virtue of its equity stake.
Ability to use power over the investee to affect the amount of the investor's returns	Angel group has ability to use its power (in the capacity of a principal and not an agent) to affect the amount of returns from Pharma Limited because it is in the position to appoint directors of Pharma Limited who would take all the decisions regarding relevant activities of Pharma Limited. Here, it is worthwhile to evaluate whether certain rights held by the bank would prevent Angel Limited's ability to use the power over Pharma Limited to affect its returns. It is to be noted that, all the rights held by the bank in relation to Pharma Limited are protective in nature as they do not relate to the relevant activities (that is, activities that significantly affect he Pharma Limited's returns) of Pharma Limited. As per Ind AS 110, protective rights are the rights designed to protect the interest of the party holding those rights *without giving that party power over the entity to which those rights relate.* Therefore, the protective rights held by the bank should not be considered while evaluating whether or not Angel Group has control over Pharma Limited.
Conclusion: Since all the three elements of definition of control is present, it can be concluded that Angel Limited has control over Pharma Limited.	

Since it has been established that Angel Limited has control over Pharma Limited, upon transition to Ind AS, Angel Limited shall classify Pharma Limited as its subsidiary.

QUESTION NO.-3

3.1 Which of the following can be classified as a Biological Assets as per the applicable Ind AS?

(A) Hides

(B) Harvested grapes

(C) Processed Coffee beans

(D) Lambs **(2 Marks)**

3.2 For the purpose of inducing industries to set up businesses in rural areas, the U.P State Government has launched a scheme, wherein any industrial company who sets up a new plant in specified rural areas of U.P., with certain more specified terms, would be eligible to receive the benefit of deferring sales tax payment to the Government for 10 years. Consequently, an entity eligible for this scheme would be entitled to collect sales tax from its customers; but, need not deposit the collected amount to the UP Government for the· next 10 years, but needs to deposit the 1st year sales tax in the 11th year, 2nd year sales tax in the 12th year and so on. There is also no interest liability that would accrue to an entity for deferring this payment for 10 years. Under which Ind AS does this arrangement get covered?

(A) Ind AS 16

(B) Ind AS 109

(C) Ind AS 20

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

3.3 Company X provides gas supply to its customers through gas cylinders and gas pipelines. The government has directed Company X to reduce the gas pipeline charges and fix the price for next 5 years. This will cost ₹ 10 lakh and Company X cannot reduce its cost of supply. How will Company account this under Ind AS?

(A) Create a provision of ₹ 10 lakh.

(B) No provision is required.

(C) No provision is required as it an onerous contract.

(D) Disclose as contingent liability. **(2 Marks)**

3.4 A company has spare parts, which it terms as 'insurance spares', which are required to be used along with the main equipment. How will the same be accounted under Ind AS?

(A) Under Ind AS 2

(B) Under Ind AS 38

(C) Under Ind AS 16

(D) Will be expensed off in the books **(2 Marks)**

3.5 A share broking company is dealing in sale/purchase of shares on its own account and is holding inventory of shares purchased during the year for trading. How will the same be accounted as per Ind AS in the books of the company?

(A) At Fair value through Profit and Loss

(B) At Fair value through Other Comprehensive Income

(C) At Cost

(D) At Cost or Net Realizable Value whichever is less **(2 Marks)**

3.6 Which of the following activities cannot be classified as an 'Operating activities' for a company engaged in investment activities?

(A) Interest received on loans and advances

(B) Dividends paid on preference shares

(C) Penal interest received from customers for late payments

(D) Interest paid on deposits and other borrowings **(2 Marks)**

3.7 In which of the following obligations is a 'provision' necessary?

(A) Amount payable for future salary increments

(B) Financial guarantee given by the parent to lenders for loan taken by its subsidiary

(C) Warranty obligation

(D) Interest paid on borrowings **(2 Marks)**

3.8 XYZ Ltd. has recently purchased a 'Hussain' painting to display in their client reception area, with a hope that it will lead to more contracts and that the painting will appreciate. The cost of the painting in the books will be accounted as per which Ind AS?

(A) Ind AS 16

(B) Ind AS 40

(C) Ind AS 2

(D) Cost to be charged to Statement of Profit and Loss. **(2 Marks)**

3.9 On 31st March, 2018, the inventories of D Ltd. included a consignment of components which D Ltd. had been supplying to a number of different customers for some years. The cost of the consignment was ₹ 100 lakh and based on retail price at 31st March, 2018, the expected selling price of the consignment would be ₹ 120 lakh. On 15th May, 2018, a competitor completed the development of an alternative component which seems likely *to make D Ltd.'s consignment obsolete. The directors of D Ltd. estimate that the consignment (currently unsold) will now fetch only ₹ 75 lakh. Based on this, the inventories to be valued as on 31st March, 2018 will be:*

(A) ₹ 100 lakh

(B) ₹ 120 lakh

(C) ₹ 75 lakh

(D) ₹ 120 lakh less costs to sell **(2 Marks)**

3.10 An entity issues a non-redeemable bond with 'call' option, where the fixed dividend of 5% can be deferred at the issuer's option. There is an economic compulsion for the issuer to pay dividend. What is the classification of the bond as per Ind AS?

(A) It is a Compound instrument

(B) It is a financial liability

(C) It is equity

(D) It is neither of the above **(2 Marks)**

3.11 XYZ Pvt. Ltd. is a company registered under the Companies Act, 2013 following Accounting Standards. notified under the Companies (Accounting Standards) Rules, 2006. The Company has decided to voluntary adopt Ind AS w.e.f. 1st April, 2018 with a transition date of 1st April, 2017.

The Company has one Wholly Owned Subsidiary and one Joint Venture which are into manufacturing of automobile spare parts.

The -consolidated financial statements of the Company under Indian GAAP are as under:

Consolidated Financial Statements

(₹ in Lakh)

Particulars	***31.03.2018***	***31.03.2017***
Shareholder's Funds		
Share Capital	*7,953*	*7,953*
Reserves & Surplus	*16,547*	*16,597*
Non-Current Liabilities		
Long Term Borrowings	*1,000*	*1,000*
Long Term Provisions	*1,101*	*691*
Other Long-Term Liabilities	*5,202*	*5,904*

Current Liabilities		
Trade Payables	*9,905*	*8,455*
Short Term Provisions	*500*	*475*
Total	***42,208***	***41,075***
Non-Current Assets		
Property Plant & Equipment	*21,488*	*22,288*
Goodwill on Consolidation	*1,507*	*1,507*
Investment Property	*5,245*	*5,245*
Long Term Loans & Advances	*6,350*	*6,350*
Current Assets		
Trade Receivables	*4,801*	*1,818*
Investments ·	*1,263*	*3,763*
Other Current Assets	*1,554*	*104*
Total	***42,208***	***41,075***

Additional Information:

(a) *The Reserves & Surplus of the Company consists of the following:*

(₹ In Lakh)

Particulars	***31.03.2018***	***31.03.2017***
General Reserve	*3,200*	*3,200*
Surplus in Statement of Profit & Loss	*13,347*	*13,3 97*

(b) *The long term borrowing of the Company represents Loan from Central Bank of India, the outstanding balance of such loan as on 31.03.2018 is ₹ 1,000 Lakh. The other terms and condition of the loan is as follows:*

- *Date of Loan - 1st April, 2011*
- *No interest payment upto 31st March, 2013,*
- *Rate of Interest- 8% from 1st April, 2013 till 31st March, 2016 and 9% thereafter*
- *Interest is payable at the end of each year*
- *Repayment - bullet repayment on 31st March, 2019.*

(c) *The short-term provision for the year ended 31st March, 2017 inter alia includes interim dividend of ₹ 295 crore declared on 25th March, 2017 and paid to the shareholders on 10th April, 2017. The same was ratified by the shareholders in its Annual General Meeting held on 15th September, 2017.*

(d) The Property, Plant & Equipment inter alia includes following:

Particulars	**31.03.2018**	**31.03.2017**
Buildings (₹ in lakh)	5,797	6,100

The Company has decided to adopt the fair value as deemed cost as on the date on transition. The fair value of the building on date of transition is ₹ 6,350 lakh. The cost of the building includes pre-operative expenses capitalised in the building ₹ 150 lakh. These costs were indirect overheads and were not directly attributable to bring the building to its current condition.

(e) The Company has entered into a joint arrangement by acquiring 50% of the equity shares of ABC Pvt. Ltd. Presently, the same has been accounted as per the proportionate consolidated method. The proportionate share of assets and liabilities of ABC Pvt. Ltd. included in the consolidated financial statement of XYZ Pvt. Ltd. is as under:

Particulars	**Rs in Lakh**
Property, Plant & Equipment	1,200
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Trade Payables	75
Short Term Provisions	35

The Investment is in the nature of Joint Venture as per Ind AS 111.

The Company has approached you to advice and suggest the accounting adjustments which are required to be made in the opening Balance Sheet as on 1st April, 2017. **(10 Marks)**

3.12 PQR Ltd. is preparing the opening consolidated· financial statements of the .group under Ind AS and has approached you to suggest the possible deferred tax impact on the following transactions/events:

(i) On 1st April, 2015, PQR Ltd. acquired 100% shares of ABC Ltd. for ₹ 4,373 crore. By March 31, 2017, ABC Ltd. has made profit of ₹ 5 crore, which remained undistributed. Based on tax legislation in India, the tax base of the investment in XYZ Ltd. is its original cost. Assume dividend distribution tax rate applicable is 15%.

(ii) On 15th March, 2017, ABC Ltd. sells to PQR Ltd. inventory with a cost of ₹ 120 crore giving rise to taxable profit of ₹ 20 crore in the books of ABC Ltd. The inventory is lying in the books of PQR Ltd. as on 31st March 2017. The corporate income tax applicable to PQR Ltd. is 30%, while that of ABC Ltd. is 34%.

(iii) PQR Ltd. acquired 50% of shares KKR Ltd. on 1st January, 2017 for ₹ 1,000 crore. By 31st March, 2017, KKR Ltd. has made profit of ₹ 50 crore (Share of PQR) which remain undistributed. Based on the tax legislation in India, the tax base of the investment in KKR Ltd. is its original cost. Assume the dividend distribution tax rate applicable is 15%. ***(6 Marks)***

3.13 KK Ltd. runs a departmental store which awards 10 points for every purchase of ₹ 500 which can be discounted by the customers for further shopping with the same merchant. Unutilised points will lapse on expiry of two years from the date of credit. Value of each point is 0.50. During the accounting period 2017, the entity awarded 1,00,00,000 points to various customers of which 18,00,000 points remained undiscounted. The management expects only 80% will be discounted in future of which normally 60%-70% are redeemed during the next year. During 2018, 70% of the outstanding points were discounted.*

The Company has approached your firm with the following queries and has asked you to suggest the accounting treatment under the applicable Ind AS:

(a) How should the recognition be done for the sale of goods worth ₹ 10,00,000 on a particular day?

(b) How should the redemption transaction be recorded? The Company has requested you to present the sale of goods and redemption as independent transaction. Total sales of the entity is ₹ 5,000 lakh.

(c) How much of the deferred revenue should be recognised at the year-end (2017) because of the estimation that only 80% of the outstanding points will be redeemed?

(d) In the next year 2018, 60% of the outstanding points were discounted. Balance 40% of the outstanding points of 2017 still remained outstanding. How much of the deferred revenue should the merchant recognize? ***(6 Marks)***

3.14 CK Ltd. prepares the financial statement under Ind AS for the quarter year ended 30th June, 2018. During the 3 months ended 30th June, 2018 following events occurred:

On 1st April, 2018, the Company has decided to sell one of its divisions as a going concern following a recent change in its geographical focus. The proposed sale would involve the buyer acquiring the non-monetary assets (including goodwill) of the division, with the Company collecting any outstanding trade receivables relating to the division and settling any current liabilities.

* PS: Read '70%' as '60%'.

On 1st April, 2018, the carrying amount of the assets of the division were as follows:

- *Purchased Goodwill – ₹ 60,000*
- *Property, Plant & Equipment (average remaining estimated useful life two years) ₹ 20,00,000*
- *Inventories ₹ 10,00,000*

From 1st April, 2018, the Company has started to actively market the division and has received number of serious enquiries. On 1st April, 2018, the directors estimated that they would receive ₹32,00,000 from the sale of the division. Since 1st April, 2018, market condition has improved and as on 1st August, 2018 the Company received and accepted a firm offer to purchase the division for ₹ 33,00,000.

The sale is expected to be completed on 30th September, 2018 and ₹ 33,00,000 can be assumed to be a reasonable estimate of the value of the division as on 30th June, 2018. During the period from 1st April to 30th June inventories of the division costing ₹ 8,00,000 were sold for ₹ 12,00,000. At 30th June, 2018, the total cost of the inventories of the division was ₹ 9,00,000. All of these inventories have an estimated net realisable value that is in excess of their cost.

The Company has approached you to suggest how the proposed sale will be reported in the interim financial statements for the quarter ended. 30th June, 2018 giving relevant explanations. ***(6 Marks)***

Answer to Question 3

3.1 Option (D) : Lambs

3.2 Option (C) : Ind AS 20

3.3 Option (A) : Create a provision of ₹ 10 lakh

3.4 Option (C) : Under Ind AS 16 **or** Option (A) : Under Ind AS 2

> **Note:**
>
> **Assumption 1:** In case candidates assume the expected useful life of the insurance spares is **more than 1 year**, the entity would account them **as per Ind AS 16.**
>
> **Assumption 2:** If the candidates assume the expected useful life of the insurance spares is **less than 1 year**, the entity would account them **as per Ind AS 2.**

3.5 Option (A) : At Fair value through Profit and Loss

3.6 Option (B) : Dividends paid on preference shares

3.7 Option (C) : Warranty obligation

3.8 Option (A) : Ind AS 16

3.9 Option (A) : ₹ 100 lakh

3.10 Option (C) : It is an equity instrument

3.11 Workings for

(b) As per Ind AS 109, the financial liability will be measured at its fair value on the initial recognition and amortised cost on subsequent measurement. In order to compute the amortised cost, the company will calculate the effective interest rate. The EIR would be around 6% using the present value table or by interpolation.

Date	Cash Flow	Coupon rate	EIR @ 6%	Amortised cost
1.4.2011	1000			1000
31.3.2012	-		60	1060
31.3.2013	-		63.6	1123.6
31.3.2014	(80)	(80)	67.416	1111.02
31.3.2015	(80)	(80)	66.66	1097.68
31.3.2016	(80)	(80)	65.86	1083.54
31.3.2017	**(90)**	**(90)**	**65.01**	**1058.55**
31.3.2018	(90)	(90)	63.51	1032.06
31.3.2019	(1090)	(90)	57.94	1000

Journal Entry

Retained Earnings A/c (1,058.55 – 1,000)	Dr. 58.55	
To Loan from CBI (Current) (1,058.55 – 1,032.06)		26.49
To Loan from CBI (Non-current) (58.55 – 26.49)		32.06

(c) As per Ind AS 10 'Events after the Reporting Period', if an entity declares dividend to holders of equity instruments after the reporting period, the entity shall not recognize dividend as liability at the end of the reporting period.

However, in this case the dividend is in the nature of interim dividend and has been declared on 25th March, 2017 and paid on 10th April, 2017. Hence, it should be considered as liability on 31st March, 2017. Thus, no adjustment shall be further done to it.

(d) Since company has adopted fair value of Building as deemed cost, it is assumed that it has applied Ind AS to all remaining PPE retrospectively. It is also assumed that the carrying value of remaining PPE is same in both the GAAP.

Accordingly, carrying value of building as on 31.3.2017 ie ₹ 6,100 lakh will be deducted from the total cost of PPE (₹ 22,288 lakh) as on 1.4.2017 and ₹ 6,350 lakh will be added. Correspondingly the adjustment of ₹ 250 (6,350 - 6,100) will be done in the retained earnings account due to revaluation. Entry in the Opening Balance Sheet will be:

Building	Dr.	250 crore	
To Retained Earnings			250 crore

(e) As per paras D31AA and D31AB of Ind AS 101 'First Time Adoption of Indian Accounting Standards', when changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS.

That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. The balance of the investment in joint venture at the date of transition to Ind ASs, determined in accordance with paragraph D31AA above is regarded as the deemed cost of the investment at initial recognition.

Accordingly, the deemed cost of the investment will be

Property, Plant & Equipment	1,200
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Total Assets	1,935
Less: Trade Payables	75
Short Term Provisions	35
Deemed cost of the investment in JV	1,825

Accordingly, assets and liabilities of Joint Venture will be removed from the respective aggregate values of assets and liabilities appearing in the balance sheet on 31.3.2017 and Investment in JV of ₹ 1,825 lakh will appear under non-current asset in the transition date balance sheet as on 1.4.2017.

Adjustments made in I GAAP balance sheet to arrive at Transition date Ind AS Balance Sheet

Particulars	31.3.2017	Ind AS Adjustment	Transition date Balance Sheet as per Ind AS
Non-Current Assets			
Property Plant & Equipment	22,288	(950)	21,338

Intangible assets - Goodwill on Consolidation	1,507	-	1,507
Investment Property	5,245	-	5,245
Long Term Loans & Advances	6,350	(405)	5,945
Non- current investment in JV	-	1,825	1,825
Current Assets	-		
Trade Receivables	1,818	(280)	1,538
Investments ·	3,763	-	3,763
Other Current Assets	104	(50)	54
Total	**41,075**	**140**	**41,215**
Shareholder's Funds			
Share Capital	7,953	-	7,953
Reserves & Surplus	16,597	191.45	16788.45
Non-Current Liabilities			
Long Term Borrowings-Loan from CBI (Non-current)	1,000	32.06	1,032.06
Long Term Provisions	691		691
Other Long-Term Liabilities	5,904		5,904
Current Liabilities			
Short-term Borrowings-Loan from CBI (Current)		26.49	26.49
Trade Payables	8,455	(75)	8,380
Short Term Provisions	475	(35)	440
Total	**41,075**	**140**	**41,215**

Note: In the above solution, it is considered that goodwill on consolidation given in the balance sheet does not include goodwill on acquisition of shares in Joint venture. **Alternatively,** it may be assumed that this goodwill on consolidation includes share of goodwill on acquisition of joint venture, then the calculation for part (e) would be as follows:

(e) As per paras D31AA and D31AB of Ind AS 101 'First Time Adoption of Indian Accounting Standards', when changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture at transition date to Ind AS.

That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the **relative** carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged. The balance of the investment in joint venture at the date of transition to Ind AS, determined in accordance with paragraph D31AA above is regarded as the deemed cost of the investment at initial recognition.

Accordingly, the deemed cost of the investment will be

Property, Plant & Equipment	1,200
Goodwill (Refer Note below)	119
Long Term Loans & Advances	405
Trade Receivables	280
Other Current Assets	50
Total Assets	2054
Less: Trade Payables	(75)
Short Term Provisions	(35)
Deemed cost of the investment in JV	1944

Calculation of proportionate goodwill share of Joint Venture ie ABC Pvt. Ltd.

Property, Plant & Equipment	22,288
Goodwill	1,507
Long Term Loans & Advances	6,350
Trade Receivables	1,818
Other Current Assets	104
Total Assets	32,067
Less: Trade Payables	(8,455)
Short Term Provisions	(475)
	23,137

Proportionate Goodwill of Joint Venture

= [(Goodwill on consolidation of subsidiary and JV/Total relative net asset) x Net asset of JV]

= (1507 / 23,137) x 1825 = 119 (approx.)

Accordingly, the proportional share of assets and liabilities of Joint Venture will be removed from the respective values assets and liabilities appearing in the balance sheet on 31.3.2017 and Investment in JV will appear under non-current asset in the transition date balance sheet as on 1.4.2017.

Adjustments made in I GAAP balance sheet to arrive at Transition date Ind AS Balance Sheet

Particulars	31.3.2017	Ind AS Adjustment	Transition date Balance Sheet as per Ind AS
Non-Current Assets			
Property Plant & Equipment	22,288	(950)	21,338
Intangible assets - Goodwill on Consolidation	1,507	(119)	1,388
Investment Property	5,245	-	5,245
Long Term Loans & Advances	6,350	(405)	5,945
Non- current investment in JV	-	1,944	1,944
Current Assets			
Trade Receivables	1,818	(280)	1,538
Investments ·	3,763	-	3,763
Other Current Assets	104	(50)	54
Total	**41,075**	**140**	**41,215**
Shareholder's Funds			
Share Capital	7,953	-	7,953
Reserves & Surplus	16,597	250	16,847
Non-Current Liabilities			
Long Term Borrowings	1,000		1,000
Long Term Provisions	691		691
Other Long-Term Liabilities	5,904		5,904
Current Liabilities			
Trade Payables	8,455	(75)	8,380
Short Term Provisions	475	(35)	440
Total	**41,075**	**140**	**41,215**

3.12 (i) As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability.

In accordance with the above, the deferred tax liability (DTL) is not recognised on the accumulated undistributed profits of the subsidiary company in the consolidated financial statements of the parent entity, if it is determined that such accumulated undistributed profits will not be distributed in the foreseeable future.

However, if based on evaluation of facts and circumstances, it is concluded that it is probable that the accumulated undistributed profits will be distributed in the foreseeable future, then DTL on accumulated undistributed profits of the subsidiary company should be recognised in the consolidated statement of profit and loss of the parent company.

(ii) In the Consolidated Balance Sheet the profit made by ABC Ltd. will be eliminated. Under Ind AS 12 'Income Taxes', a deferred tax asset would be recognized on the unrealized profit of ₹ 20 crore based on PQR Ltd. tax rate of 30% ie ₹ 6 cr. [20 cr x 30%]. The additional ₹ 0.80 crore tax actually paid by ABC Ltd. ie [(20 cr x 34%) -6 cr] would be recognized in Profit or loss for the period ended 31st March, 2017.

(iii) Similar to the treatment given in point (i) above, the deferred tax liability (DTL) is not recognised on the accumulated undistributed profits of the KKR Ltd. (joint venture) in the consolidated financial statements of the parent entity, if it is determined that such accumulated undistributed profits will not be distributed in the foreseeable future.

However, if based on evaluation of facts and circumstances, it is concluded that it is probable that the accumulated undistributed profits will be distributed in the foreseeable future, then DTL on proportionate accumulated undistributed profits of the KKR Ltd. (joint venture) should be recognised in the consolidated statement of profit and loss of the parent company at ₹ 7.5 crore.

Retained Earnings	Dr.	7.5 crore	
To DTL			7.5 crore.

3.13 (a) As per Ind AS 18 'Revenue'*, Accounting for sale of goods:

Segregation of fair value of revenue into sale of goods and customer loyalty programme:

Bank A/c	Dr.	10,00,000	
To Sales A/c			9,90,000
To Liability under customer loyalty programme			10,000

₹ 10,00,000 sales = 20,000 points

Fair Value of 20,000 points = ₹ 10,000

(b) Recording redemption transaction:

Sale of Goods for 2017: (Liability for 1,00,00,000 reward points)

Bank A/c	Dr.	50,00,00,000	
To Sales A/c			49,50,00,000
To Liability under customer loyalty programme			50,00,000

Sales pertaining to the points redeemed during the current year:

Liability under customer loyalty programme	Dr.	41,00,000	
To Sales A/c			41,00,000

(c) During 2017, the balance of liability under customer loyalty programme stands at ₹ 9,00,000. During the current year, deferral of revenue is to the extent of fair value of outstanding reward i.e. 18,00,000 x 80% x ₹ 0.50 = ₹ 7,20,000.

Balance amount of deferred revenue = 18,00,000 x 20% x ₹ 0.50 - ₹ 1,80,000 is recognised as revenue.

Liability under customer loyalty programme	Dr.	1,80,000	
To Sales A/c			1,80,000

(d) At the end of 2018, the entity should re-assess the obligations under customer loyalty program against the outstanding points of 2017 (80% of 18,00,000 = 14,40,000 points for which the liability was created deferring the revenue) 60% of the outstanding points of 2017 were redeemed during 2018 and the balance remains outstanding. This is within the framework of estimation of provision. So no

* For November, 2018 examination, Ind AS 18 'Revenue' was applicable.

further revenue recognition other than that linked to redemption of outstanding point should be recognised.

Total Outstanding points	14,40,000
Redeemed points	(8,64,000)
Balance outstanding points	5,76,000

Liability under customer loyalty programme Dr.	4,32,000	
To Sales A/c		4,32,000

Out of the awards points outstanding from 2017 (ie. 14,40,000), 5,76,000 points valued at ₹ 2,88,000 will be appearing in the balance sheet under the head current liabilities.

3.14 The decision to offer the division for sale on 1st April, 2018 means that from that date the division is classified as held for sale. The division is available for immediate sale, is being actively marketed at a reasonable price and the sale is expected to be completed within one year.

The consequence of this classification is that the assets of the division will be measured at the lower of their existing carrying amounts and their fair value less cost to sell. Here the division shall be measured at their existing carrying amount ie ₹ 30,60,000 since it is less that the fair value less cost to sell ₹ 32,00,000.

The increase in expected selling price will not be accounted for since earlier there was no impairment to division held for sale.

The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes should be separately disclosed either on the face of the balance sheet or in the notes.

The Property, Plant and Equipment shall not be depreciated after 1st April, 2018 so its carrying value at 30th June, 2018 will be ₹ 20,00,000 only. The inventories of the division will be shown at ₹ 9,00,000.

The division will be regarded as discontinued operation for the quarter ended 30th June, 2018. It represents a separate line of business and is held for sale at the year end.

The Statement of Profit and Loss should disclose, as a single amount, the post-tax profit or loss of the division on classification as held for sale.

Further, as per Ind AS 33, EPS will also be disclosed separately for the discontinued operation.