FINAL PAPER 1: FINANCIAL REPORTING

Part I : Amendments applicable for May, 2023 Examination

I. Amendments to the Companies (Corporate Social Responsibility) Rules, 2014 (issued on 20th September, 2022) applicable for May, 2023 Examination

The Ministry of Corporate Affairs (MCA), vide a notification dated 20th September 2022 issued the Companies (Corporate Social Responsibility) Amendment Rules, 2022. These amendments are effective from the date of their publication in the official gazette i.e., 20th September 2022. Some of the significant amendments notified therein are:

- **Constitution of a CSR Committee by a company having any amount in its unspent CSR account**

  As per the amendment, a proviso has been added under Rule 3(1), stating that a company that has any amount outstanding in its unspent CSR account should constitute a CSR Committee and comply with the relevant provisions of Section 135 of the Companies Act, 2013.

- **Omission of Rule 3(2) of the Companies (Corporate Social Responsibility) Rules, 2014**

  Rule 3(2) required that every company that ceases to fulfil the criteria prescribed under Section 135(1) of the Companies Act, 2013 for three consecutive financial years is not required to constitute a CSR Committee. Now as per the amendment, this Rule 3(2) of the Companies (Corporate Social Responsibility) Rules, 2014 has been omitted.

- **Inclusion in the list of entities that can be engaged as implementation agencies**

  Rule 4(1) of the Companies (Corporate Social Responsibility) Rules, 2014 provides that the Board of Directors must ensure that CSR activities can be undertaken by a company itself or through certain implementation agencies which were listed therein. As per the amendment, in addition to the class of companies listed under Rule 4(1) of the Companies (Corporate Social Responsibility) Rules, 2014, new class of entities exempted under Section 10 of Clause (23C), which may be approved by the Principal Commissioner or Commissioner, have been included as implementation agencies. These entities are:

  - Any fund or institution established for charitable purposes having regard to the objects of the fund or institution and its importance throughout India, or throughout any State or States,

- Any trust (including any other legal obligation), or institution wholly for public religious purposes, or wholly for public religious and charitable purposes, having regard to the manner in which the affairs of the trust or institution are administered and supervised for ensuring that the income accruing thereto is properly applied for the objects thereof,
- Any university or other educational institution existing solely for educational purposes and not for purposes of profit, other than those mentioned in sub-clause (iiiab) or sub-clause (iiiad) of Clause 23(C) of the Income Tax Act, 1961, and
- Any hospital or other institution for the reception and treatment of persons suffering from illness or mental defectiveness, or for the reception and treatment of persons during convalescence, or of persons requiring medical attention or rehabilitation, existing solely for philanthropic purposes and not for purposes of profit, other than those mentioned in sub-clause (iiiac) or sub-clause (iiiae) of Clause 23(C) of the Income Tax Act, 1961.

♦ **Change in the limits of expenses incurred towards impact assessment**

Earlier Rule 8 of the Companies (Corporate Social Responsibility) Rules, 2014 provides that every company having an average CSR obligation of ₹ 10 crore or more in pursuance of Section 135(5) of the Companies Act, 2013 in the three immediately preceding financial years, should undertake an impact assessment, through an independent agency, of their CSR projects having outlays of ₹ 1 crore or more, and which have been completed not less than one year before undertaking the impact study.

Such a company may book an expenditure towards CSR for that financial year, which should not exceed five per cent of the total CSR expenditure for that financial year or ₹ 50 lakh, whichever is less.

As per the amendment, the limit to book expenditure towards impact assessment has now been reduced to two per cent (earlier five percent) of the total CSR expenditure for that financial year or ₹ 50 lakh, whichever is higher (earlier whichever is lower).

♦ **Revision in Annexure II and e-form of the Companies (Corporate Social Responsibility) Rules, 2014.**

Annexure II of the Companies (Corporate Social Responsibility) Rules, 2014 prescribes a format for the annual report on CSR activities included in the company's board report. Some of the significant amendments in the format are:

- **Executive summary:** As per the amendment in the Annexure II, companies are required to provide an executive summary along with the weblinks of impact assessment of CSR projects, which have been carried out.
- **Disclosure on CSR spent:** As per the amendment, companies are required to disclose only the total amount spent on on-going and other CSR projects. Earlier, the format required disclosures of details of each project undertaken by the company (both ongoing projects as well as other projects).
- **Additional disclosure on unspent CSR amount:** In disclosure of unspent CSR amount for the preceding three financial years, companies are also required to disclose the balance amount in unspent CSR account, and deficiency, if any, in accordance with Section 135(6) of the Companies Act, 2013.

II. Companies (Indian Accounting Standards) (Amendment) Rules, 2022

MCA has issued Companies (Indian Accounting Standards) (Amendment) Rules, 2022 to amend Companies (Indian Accounting Standards) Rules, 2015 vide notification G.S.R. 255(E) dated 23rd March, 2022. These amendments are generally brought by MCA to keep uniformity between Ind AS and IFRS. However, this time MCA has come out with a carve out in Ind AS 16. These amendments come into effect from 1st April, 2022 and is applicable for the financial year 2022-2023 onwards for the financial statements prepared on the basis of Ind AS. Following are the areas in which the amendments have been brought in by the MCA through this notification:

- Amendment to Ind AS 16 'Property, Plant and Equipment' on accounting of proceeds from selling of items produced during testing and carve out in this regard from IAS 16
- Amendment to Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' on determination of cost of fulfilling a contract for measurement of provision for an onerous contract.
- Amendments to Ind AS 103 'Business Combinations' with reference to Conceptual Framework for Financial Reporting and insertion of certain paragraphs under exceptions to recognition principle on liabilities, contingent liabilities and contingent assets
- Annual improvements to Ind AS (2021) in Ind AS 101 'First Time Adoption of Indian Accounting Standards', Ind AS 109 'Financial Instruments' and Ind AS 41 'Agriculture'.

The key amendments to Ind AS pursuant to the Companies (Indian Accounting Standards) (Amendments) Rules, 2022 are explained below:

Ind AS	Significant amendment made in 2022
Ind AS 16, 'Property, Plant and Equipment'	Para 17(e) of Ind AS 16 has been amended by adding a clarification that the excess of net proceeds from sale of items produced during testing will not be credited to Profit or loss i.e. it will be deducted from the cost of an item of property, plant and equipment. However, amendment made in IAS 16 by IASB prohibited deduction of proceeds of items produced during testing from cost of an item of property, plant and equipment. This differential treatment in IAS 16 and Ind AS 16 has led to a carve out, which will have consequential impact on depreciation, impairment and deferred tax.
Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets'	Paragraph 68A has been inserted which clarifies which cost needs to be considered in the costs to fulfil a contract while determining whether the contract as onerous. As per the amendment made in 2022, both the incremental costs to fulfil a contract and allocation of directly attributable costs will form part of the cost used for determination of onerous contract. Para 69 has been amended by replacing **'assets dedicated to the contract'** to **'assets used in fulfilling the contract'.** This amendment requires to take into consideration the impairment loss on all the assets whose cost will be considered in assessing the contract as onerous. These amendments are prospective from 1st April, 2022 with cumulative effect recognised in the opening balance of retained earnings or other component of equity, as appropriate on 1st April, 2022. Comparative period financials not to be restated.
Ind AS 103 'Business Combinations'	In March, 2018, IASB revised Conceptual Framework for Financial Reporting. Accordingly, ICAI in August, 2020 came out with the revised Conceptual Framework for Financial Reporting (the Conceptual

Ind AS	Significant amendment made in 2022
	Framework) under Ind AS. The amendments made in Ind AS 103 is due to change in reference to Conceptual Framework without change in the accounting requirements for business combinations. Due to revision in the Conceptual Framework, there were certain accounting implications to contingent liabilities and levies within the scope of Ind AS 37 and Appendix C 'Levies'. As per it, the assets and liabilities in a business combination are recognised if they meet the definition of an asset or liability as per the Conceptual Framework. The timing of recognition of a levy may sometimes be different due to specific guidance given in Appendix C. Therefore, while recognizing levies at the acquisition date, an acquirer might recognise at the acquisition date a liability to pay a levy that it would not recognise subsequently when applying Appendix C 'Levies'. This difference would arise because an entity might recognise a liability earlier by applying the Conceptual Framework. This liability would be derecognized immediately afterwards when principles of Appendix C are applied, and the entity would recognise a so-called Day 2 gain. Therefore, to resolve this implication, Ind AS 103 has been amended with regards to recognition exception for contingent liabilities and levies by inserting para 21A to 21C. An exception has been added to the requirements of para 11 of Ind AS 103 for liabilities and contingent liabilities that would be within the scope of Ind AS 37 or Appendix C if incurred separately, rather than assumed in a business combination. Further, Ind AS 103 prohibited the recognition of contingent assets even prior to the 2022 amendments. However, prohibition was not stated explicitly in Ind AS 103 itself. Therefore, para 23A has been inserted in Ind AS 103 to explicitly prohibit recognition of contingent asset.

Ind AS	Significant amendment made in 2022
Ind AS 101 'First time adoption of Indian Accounting Standards'	Para D13 of Ind AS 101 provides an exemption to a first-time adopter of Ind AS with regard to cumulative translation differences on the date of transition to Ind AS. According to it, first time adopter of Ind AS are permitted to deem all cumulative translation differences for all foreign operations to be zero on the date of transition to Ind AS. Para D13A has been inserted in Ind AS 101 which removes the conflict between the requirements of paragraph D16(a) of Ind AS 101 which provides exemption where a subsidiary adopts Ind AS later than its parents and the exemptions on cumulative translation differences at the carrying amount included in the parent's consolidated financial statements. Similar exemption is available to joint venture and an associate that uses the exemption in para D16(a) of Ind AS 101. Para D16(a) of Ind AS 101 provides that a subsidiary can measure its assets and liabilities at the carrying amounts in parent's consolidated financial statements.
Ind AS 109 'Financial Instruments'	As per Ind AS 109, a financial liability is derecognised when it is extinguished, which includes exchange between an existing borrower and lender due to different or substantial modification in terms of the contract. Further, Ind AS 109 clarified that terms are considered to have been substantially modified when the net present value of the cash flows under the new terms **(including any fees paid net of any fees received)** and discounted using the original EIR differs by atleast 10% from the present value of the remaining cash flows under the original terms. Earlier what is to be included in the **<u>fees paid and fees received</u>** was not mentioned in the standard. Now the amendment has been made in 2022 by substituting para B3.3.6 and inserting para B3.3.6A in Ind AS 109 which clarify that the **<u>fees paid</u>** (for the above purpose) includes amount paid by the borrower to or on behalf of the lender and **<u>fees received</u>** includes

Ind AS	Significant amendment made in 2022
	fees amounts paid by the lender to or on behalf of the borrower. The above amendment will be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.
Ind AS 41 'Agriculture'	Earlier para 22 of Ind AS 41 prescribed certain cash flows that would not be considered for the purpose of assessing the fair values. Out of those cash flows, the amendment made in 2022 deleted the cash flows for taxation from the exclusion list for measurement of fair value. This implies that tax cash flows must be included in the fair value measurement of biological assets as per Ind AS 41.

PART II : QUESTIONS AND ANSWERS

QUESTIONS

Ind AS 110

1. 'High Speed Limited' manufactures and sells cars. The Company wants to foray into the two-wheeler business and therefore it acquires 30% interest in Quick Bikes Limited for ₹ 5,00,000 as at 1st November, 20X1 and an additional 25% stake as at 1st January, 20X2 for ₹ 5,00,000 at its fair value.

   Following is the Balance Sheet of Quick Bikes Limited as at 1st January, 20X2:

Liabilities	Carrying value	Fair value	Assets	Carrying value	Fair value
Share capital	1,00,000		Plant and equipment	3,50,000	7,50,000
Reserves	5,50,000		Investment in bonds	4,00,000	5,00,000
Trade payables	1,50,000	1,50,000	Trade Receivables	50,000	50,000
Total	8,00,000		Total	8,00,000	

   Quick Bikes Limited sells the motorcycles under the brand name 'Super Start' which has a fair value of ₹ 3,50,000 as at 1st January, 20X2. This is a self- generated brand therefore Quick Bikes Limited has not recognized the brand in its books of accounts. Following is the separate balance sheet of High Speed Limited as at 1st January, 20X2:

Liabilities	Amount	Assets	Amount
Share capital	5,00,000	Plant and equipment	13,50,000
Reserves	15,00,000	Investment in Quick Bike	10,00,000
Short term loans	4,00,000	Trade Receivables	80,000
Trade payables	3,00,000	Cash and bank balances	5,20,000
Other liabilities	2,50,000		
Total	29,50,000	Total	29,50,000

   In relation to the acquisition of Quick Bikes Limited, you are required to:

   (i) Pass the necessary journal entries to give effect of business combination in accordance with Ind AS 103 as at acquisition date 1st January, 20X2. NCI is measured by the entity at fair value. Provide working notes, Ignore deferred tax implication; and

(ii) Prepare a consolidated balance sheet of High Speed Limited as at 1st January, 20X2.

Ind AS 2

2. An entity has following details regarding cost and retail price of the goods purchased and unsold at the beginning of the year:

	Cost	**Retail Price**
Opening inventory	6,250	8,000
Purchases	19,500	34,000
Inventory on hand		(23,000)
Sales for the period		19,000

Applying the retail method, compute the following:

(a) Percentage of cost price over retail price;

(b) Cost of closing inventory;

(c) Value of cost of sales (at cost); and

(d) Profit earned during the year on sale of inventory

Ignore the impact of mark-ups or mark-downs on the selling price.

Ind AS 19

3. From the following particulars, compute the net defined benefit liability and expense to be recognized in Profit and Loss account. **(₹ in lakhs)**

Particulars	Defined benefit obligation		Plan Assets	
	31st Dec. 20X2	31st Dec. 20X1	31st Dec. 20X2	31st Dec. 20X1
Balance at the beginning of the year	63.25	47.08	21.80	14.65
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Changes in demographic assumptions	0.62	1.86	-	-
Changes in financial assumptions	3.58	1.93	-	-

Experience variance	(2.49)	4.46	-	-
Benefits paid	-	(0.61)	-	(0.61)
Investment income	-	-	1.47	1.12
Employers' contribution	-	-	8.00	7.00
Return on plan assets	-	-	2.12	(0.35)

Ind AS 102

4. Entity A runs a copper-mining business. Entity A has a year-end of 31st March. Dividends declared on the shares accrue to the employees during the three-year period. If the condition is met, the employees will receive the shares together with the dividends that have been declared on those shares during the three years upto 31st March, 20X3.

   The entity estimates that on 1st April, 20X0 its shares are valued at ₹ 10 each. The grant date fair amount of each share is ₹ 10.

   Entity A prepares annual financial statements for the year ended 31st March and:

   - on 1st April, 20X0 it estimates that 800 shares will vest;
   - at the end of the first year (31st March, 20X1) it has revised this estimate to 780;
   - at 31st March, 20X2 it has further revised this estimate to 750; and
   - 750 shares vest on 31st March, 20X3 based on the number of employees still employed on that date.

   On 1st April, 20X0 as part of a long-term incentive scheme, Entity A provisionally awards its sales employees 1,000 Entity A's shares receivable on 31st March, 20X3. Explain the accounting treatment for the above share-based awards based on satisfaction of the condition that the sales employees must remain in employment until 31st March, 20X3. The requirement to remain in employment is a service condition and would not be reflected in the fair value of the share awards.

Ind AS 101

5. ABC Ltd., a public limited company, is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India. It operates overseas projects directly and/or through subsidiaries, by participation in various joint arrangements and investment in associates. The company was following Accounting Standards as notified under the Companies (Accounting Standards) Rules until 31st March, 20X1. However, it has adopted Indian Accounting Standards (Ind AS) with effect from 1st April, 20X1.

The goodwill recognised in accordance with AS 21 and AS 27 was due to corporate structure and the line-by-line consolidation of subsidiaries'/proportionate consolidation of jointly controlled entities' financial statements which was prepared on historical costs convention. ABC Ltd. has not taken into consideration the valuation of underlying oil and gas reserves for which excess amount (i.e. goodwill calculated as per the relevant AS requirements) has been paid by the company at the time of acquisition. The company further considered that in oil and gas companies, the goodwill generated on acquisition of mineral rights either through jointly controlled entities or subsidiaries, inherently derives its value from the underlying mineral rights and, accordingly, value of such goodwill depletes as the underlying mineral resources are extracted.

Therefore, taking a prudent approach and considering the above substance, the company amortised the goodwill in respect of its subsidiaries / jointly controlled assets over the life of the underlying mineral rights using Unit of Production method. This allowed the company to utilise the value of goodwill over the life of mineral rights and completely charging off the goodwill over the life of the reserves.

For financial year 20X0-20X1, the company has availed transition exemption under Ind AS 101 and has not applied the principles of Ind AS 103.

ABC Ltd. considering the substance over form of the goodwill to be in the nature of 'acquisition costs' intends to continue amortisation of the goodwill recognised under AS in respect of its subsidiaries / joint ventures (jointly controlled entities under AS) over the life of the underlying mineral rights using Unit of Production method, under Ind AS also post transition date.

Comment on appropriateness of the accounting treatment, under Ind AS, for amortisation of the goodwill by the company and state whether the accounting treatment in respect of amortisation of goodwill is correct or not.

Ind AS 23

6. LT Ltd. is in the process of constructing a building. The construction process is expected to take about 18 months from 1st January 20X1 to 30th June 20X2. The building meets the definition of a qualifying asset. LT Ltd. incurs the following expenditure for the construction:

1st January, 20X1	₹ 5 crores
30th June, 20X1	₹ 20 crores
31st March, 20X2	₹ 20 crores
30th June, 20X2	₹ 5 crores

On 1st July 20X1, LT Ltd. issued 10% Redeemable Debentures of ₹ 50 crores. The proceeds from the debentures form part of the company's general borrowings, which it uses to finance the construction of the qualifying asset, ie, the building. LT Ltd. had no borrowings (general or specific) before 1st July 20X1 and did not incur any borrowing costs before that date. LT Ltd. incurred ₹ 25 crores of construction costs before obtaining general borrowings on 1st July 20X1 (pre-borrowing expenditure) and ₹ 25 crores after obtaining the general borrowings (post-borrowing expenditure).

For each of the financial years ended 31st March 20X1, 20X2 and 20X3, calculate the borrowing cost that LT Ltd. is permitted to capitalize as a part of the building cost.

Ind AS 115

7. Company X enters into an agreement on 1st January, 20X1 with a customer for renovation of hospital and install new air-conditioners for total consideration of ₹ 50,00,000. The promised renovation service, including the installation of new air-conditioners is a single performance obligation satisfied over time. Total expected costs are ₹ 40,00,000 including ₹ 10,00,000 for the air-conditioners. Company X determines that it acts as a principal in accordance with Ind AS 115 because it obtains control of the air conditioners before they are transferred to the customer. The customer obtains control of the air conditioners when they are delivered to the hospital premises.

   Company X uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation.

   As at 31st March, 20X1, other costs incurred excluding the air conditioners are ₹ 6,00,000.

   Whether Company X should include cost of the air conditioners in measure of its progress of performance obligation? How should revenue be recognized for the year ended 31st March, 20X1?

Ind AS 16

8. Company X built a new plant that was brought into use on 1st April, 20X1. The cost to construct the plant was ₹ 1.5 crore. The estimated useful life of the plant is 20 years and Company X accounts for the plant using the cost model.

   The initial carrying amount of the plant included an amount of ₹ 10 lakh for decommissioning, which was determined using a discount rate of 10%. On 31st March, 20X2, Company X remeasures the provision for decommissioning to ₹ 13 lakh.

Provide necessary journal entries at the end of the year i.e. 31st March, 20X2 for recording of depreciation and decommissioning provision.

Ind AS 20

9. A Ltd. received a government grant of ₹ 10,00,000 to defray expenses for environmental protection. Expected environmental costs to be incurred is ₹ 3,00,000 per annum for the next 5 years. How should A Ltd. present such grant related to income in its financial statements?

Ind AS 116

10. How will Entity Y account for the incentive in the following scenarios:

    Scenario A:

    Entity Y (lessor) enters into an operating lease of property with Entity X (lessee) for a five-year term at a monthly rental of ₹ 1,10,000. In order to induce Entity X to enter into the lease, Entity Y provides ₹ 6,00,000 to Entity X at lease commencement for lessee improvements (i.e., lessee's assets).

    Scenario B:

    Entity Y (lessor) enters into an operating lease of property with Entity X (lessee) for a five-year term at a monthly rental of ₹ 1,10,000. At lease commencement, Entity Y provides ₹ 6,00,000 to Entity X for leasehold improvements which will be owned by Entity Y (i.e., lessor's assets). The estimated useful life of leasehold improvements is 5 years

Ind AS 103

11. In October 20X1, IHL acquired 75% of Very Relevant Limited by paying cash consideration of ₹ 0.80 million. The fair value of non-controlling interest on the date of acquisition is ₹ 0.20 million. The value of Very Relevant Limited's identifiable net assets as per Ind AS 103 is ₹ 1.10 million.

    With respect to acquisition of Very Relevant Limited, determine the value of gain on bargain purchases, when NCI is measured as per:

    (a) Fair value method

    (b) Proportionate share of net identifiable assets method.

Ind AS 41

12. Fisheries Ltd. practices pisciculture in sweet waters (ponds, tanks and dams). The fishing activity of Fisheries Ltd. in such sweet waters consists only of catching the fishes. Comment whether such fishing activity will be covered within the scope of Ind AS 41?

Ind AS 32

13. State whether the following items meet the definition of Financial Asset or Financial Liability for an entity:

    (i) A bank advances an entity a five-year loan. The bank also provides the entity with an overdraft facility for a number of years.

    (ii) Entity A owns preference shares in Entity B. The preference shares entitle Entity A to dividends, but not to any voting rights.

    (iii) An entity has a present obligation in respect of income tax due for the prior year.

    (iv) In a lawsuit brought against an entity, a group of people is seeking compensation for damage to their health as a result of land contamination believed to be caused by waste from the entity's production process. It is unclear whether the entity is the source of the contamination since many entities operate in the same area and produce similar waste.

Ind AS 33

14. Company P has both ordinary shares and equity-classified preference shares in issue. The reconciliation of the number of shares during Year 1 is set out below:

Number of shares

Dates in Year 1	Transaction	Ordinary shares	Treasury shares	Preference shares
1st April	Balance	30,00,000	(5,00,000)	5,00,000
15th April	Bonus issue – 5% (no corresponding changes in resources)	1,50,000	(25,000)	-
1st May	Repurchase of shares for cash	-	(2,00,000)	-
1st November	Shares issued for cash	4,00,000	-	-
31st March	Balance	35,50,000	(7,25,000)	5,00,000

The following additional information is relevant for Year 1.

- Company P's net profit for the year is ₹ 46,00,000.
- On 15th February, non-cumulative preference dividends of ₹ 1.20 per share were declared. The dividends were paid on 15th March. Preference shares do not participate in additional dividends with ordinary shares.
- Dividends on non-cumulative preference shares are deductible for tax purposes. The applicable income tax rate is 30%.

The financial year of Company P ends on 31st March.

Determine the Basic EPS of the Company P for Year 1. Use the number of months or part of months, rather than the number of days in the calculation of EPS.

Ind AS 8

15. In 20X3-20X4, after the entity's 31st March, 20X3 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that was not discoverable by reasonable or customary inspection). As a result of the latent defect, the entity incurred ₹ 1,00,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31st March, 20X3. An additional ₹ 20,000 was incurred to rectify the latent defect in products sold during 20X3-20X4 before the defect was detected and the production process rectified, ₹ 5,000 of which relates to items of inventory at 31st March, 20X3. The defective inventory was reported at cost (₹ 15,000) in the financial statements of 20X2-20X3 when its selling price less costs to complete and sell was estimated at ₹ 18,000. The accounting estimates made in preparing the 31st March, 20X3 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

    Analyse the above situation in accordance with Ind AS 8.

Ind AS 109

16. In an arm's length transaction, Entity X buys 10,000 convertible preference shares in Company Z for cash payments of ₹ 40,000, with ₹ 25,000 payable immediately and ₹ 15,000 payable in two years. The market rate of annual interest for a two-year loan to the entity would be 6%.

    Explain the accounting treatment for the said transaction.

Ind AS 24 / Ind AS 109

17. SEL has applied for a term loan from a bank for business purposes. As per the loan agreement, the loan required a personal guarantee of one of the directors of SEL to be executed. In case of default by SEL, the director will be required to compensate for the loss that bank incurs. Mr. Pure Joy, one of the directors had given guarantee to the bank pursuant to which the loan was sanctioned to SEL. SEL does not pay premium or fees to its director for providing this financial guarantee.

    Whether SEL is required to account for the financial guarantee received from its director? Will there be any disclosures under Ind AS 24?

Ind AS 38 / Ind AS 103

18. An entity acquired two trade secrets (secret recipes) in a business combination. Recipe A is patented. Recipe B is not legally protected.

How the acquisition of Recipe A and Recipe B would be accounted for by the entity as per relevant Ind AS.

Ind AS 34

19. The entity's financial year ends on 31st March. What are the "reporting periods" for which financial statements (condensed or complete) in the interim financial report of the entity as on 30th September, 20X1 are required to be presented, if:

    (i) Entity publishes interim financial reports quarterly

    (ii) Entity publishes interim financial reports half-yearly.

Ind AS 105

20. On 1st January, 20X1, the carrying amounts of the relevant assets of the division of an entity, Star Ltd. were as follows:

    - Purchased goodwill ₹ 1.2 lakhs;
    - Property, plant and equipment (average remaining estimated useful life two years) ₹ 4 lakhs;
    - Inventories ₹ 2 lakhs.

    From 1st January, 20X1, Star Ltd. began to actively market the division and has received a number of serious enquiries.

    On 1st January, 20X1, the directors estimated that they would receive ₹ 6.4 lakhs from the sale of the division. Since 1st January, 20X1, market conditions have improved and on 30th April, 20X1, Star Ltd. received and accepted a firm offer to purchase the division for ₹ 6.6 lakhs. The sale is expected to be completed on 30th June, 20X1.

    ₹ 6.6 lakhs can be assumed to be a reasonable estimate of the value of the division on 31st March, 20X1.

    During the period from 1st January 20X1 to 31st March, 20X1, inventories of the division costing ₹ 1.6 lakhs were sold for ₹ 2.4 lakhs. At 31st March, 20X1, the total cost of the inventories of the division was ₹ 1.8 lakhs. All of these inventories have an estimated net realizable value that is in excess of their cost.

    Explain the disclosure requirement related to sale of division and provide the accounting treatment of property held for sale and discontinued operations.

ANSWERS

1. (i) **Journal Entry**

	₹	₹
Plant and Equipment Dr.	7,50,000	
Investment in bonds Dr.	5,00,000	
Trade Receivables Dr.	50,000	
Brand Dr.	3,50,000	
Goodwill (balancing figure) Dr.	5,00,000	
To Investment in Quick Bikes		10,00,000
To Profit or loss A/c (W.N.1)		1,00,000
To Trade Payables		1,50,000
To NCI (W.N.3)		9,00,000
(Being assets and liabilities acquired at fair value and previous investment considered at fair value on the acquisition date)		

Working Notes:

1. Calculation of fair value of shares on the acquisition date 1st January, 20X2

25% Shares purchase on 1st January, 20X2 (fair value)	₹ 5,00,000
30% Shares purchase on 1st November, 20X1 at ₹ 5,00,000	
Fair value = [(5,00,000 / 25%) x 30%]	₹ 6,00,000
Total consideration at fair value on acquisition date	₹ 11,00,000
Less: Cost of investment (5,00,000 + 5,00,000)	(₹ 10,00,000)
Gain recognised to Profit or Loss/OCI (as appropriate)	₹ 1,00,000

2. Computation of Net Identifiable Assets at fair value

	₹
Plant and Equipment	7,50,000
Investment in bonds	5,00,000
Trade Receivables	50,000
Self-generated Brand	3,50,000
	16,50,000

Less: Trade Payables	(1,50,000)
Net Identifiable Assets at fair value	15,00,000

3. **Measurement of Non-controlling Interest** (on fair value basis)

Share of NCI (100- 30-25)	45%
Taking fair value of shares on 1st January, 20X2 as a base [(11,00,000/ 55%) x 45%]	₹ 9,00,000

(ii) Consolidated Balance Sheet of High Speed Limited as at 1st January, 20X2

	Note No.	₹
Assets		
Non-current assets		
(a) Property, plant and equipment	1	21,00,000
(b) Intangible asset	2	8,50,000
(c) Investment in bonds		5,00,000
Current Assets		
(a) Financial assets		
(i) Trade receivables	3	1,30,000
(ii) Cash and cash equivalents	4	5,20,000
		41,00,000
Equity and Liabilities		
Equity		
(a) Equity share capital		5,00,000
(b) Other Equity	5	16,00,000
Non-controlling Interest (W.N.3)		9,00,000
Current Liabilities		
(a) Financial liabilities		
(i) Borrowings	6	4,00,000
(ii) Trade Payables	7	4,50,000
(b) Other Current Liabilities	8	2,50,000
		41,00,000

Notes to Accounts

S. No.		₹	₹
1.	Property, plant and equipment		
	High Speed Ltd.	13,50,000	
	Quick Bikes Ltd.	7,50,000	21,00,000
2.	Intangible asset		
	Goodwill	5,00,000	
	Brand value of Quick Bikes Ltd.	3,50,000	8,50,000
3.	Trade Receivables		
	High Speed Ltd.	80,000	
	Quick Bikes Ltd.	50,000	1,30,000
4.	Cash and cash equivalents		
	Quick Bikes Ltd.		5,20,000
5.	Other Equity - Reserves		
	High Speed Ltd.	15,00,000	
	Add: Gain on investment in Quick Bikes Ltd.	1,00,000	16,00,000
6.	Borrowings		
	Short term loans of High Speed Ltd.		4,00,000
7.	Trade Payables		
	High Speed Ltd.	3,00,000	
	Quick Bikes Ltd.	1,50,000	4,50,000
8.	Other Current Liabilities		
	High Speed Ltd.		2,50,000

2. **Table showing application of Retail method for calculation of the goods sold during the year and unsold inventory**

S. No.	*Particulars*		₹
	Cost price of goods	6,250 + 19,500	25,750
	Retail price of goods	8,000 + 34,000	42,000
(a)	Cost percentage of retail price	25,750 / 42,000	61%
(b)	Closing inventory (at cost)	23,000 x 61%	14,030

(c)	Cost of sales for the period	[(6,250 + 19,500) - 14,030]	11,720
	Sales for the period		19,000
(d)	Profit earned on sale of goods during the year	19,000 – 11,720	7,280

3. Computation of defined benefit liability and expenses to be charged to Statement of Profit and Loss:

	Defined benefit obligation (₹ in lakhs)		*Plan Assets (₹ in lakhs)*	
	31st Dec 20X2	*31st Dec 20X1*	*31st Dec 20X2*	*31st Dec 20X1*
Balance at the beginning of year	63.25	47.08	21.80*	14.65
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Changes in demographic assumptions	0.62	1.86	-	-
Changes in financial assumptions	3.58	1.93	-	-
Experience variance	(2.49)	4.46	-	-
Benefits paid	-	(0.61)	-	(0.61)
Investment income	-	-	1.47	1.12
Employers' contribution	-	-	8.00	7.00
Return on plan assets	-	-	2.12	(0.35)
Balance at the end of year	75.07	63.25	33.39	21.81*

*Difference is due to approximation.

In the BALANCE SHEET, the following will be recognised:

Net defined liability to be recognised for the period ending 31st December, 20X1:

= ₹ 41.44 lakhs (₹ 63.25 lakhs - ₹ 21.81 lakhs)

Net defined liability to be recognised for the period ending 31st December, 20X2:

= ₹ 41.68 lakhs (₹ 75.07 lakhs - ₹ 33.39 lakhs)

In the STATEMENT OF PROFIT AND LOSS, the following will be recognised:

	Defined benefit obligation (₹ in lakhs)		Plan Assets (₹ in lakhs)	
	31st Dec., 20X2	31st Dec., 20X1	31st Dec., 20X2	31st Dec., 20X1
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Investment income	-	-	(1.47)	(1.12)
Total	10.11	8.53	(1.47)	(1.12)

Expense to be recognised in the Statement of Profit and Loss for the period ending 31st December, 20X1 = ₹ 7.41 lakhs (₹ 8.53 lakhs - ₹ 1.12 lakhs)

Expense to be recognised in the Statement of Profit and Loss for the period ending 31st December, 20X2 = ₹ 8.64 lakhs (₹ 10.11 lakhs - ₹ 1.47 lakhs).

4. The grant date fair value amount would be recognised as an expense over the three year service period adjusted by the number of shares expected to vest. Consequently, for each period, Entity A estimates how many eligible employees are expected to be employed on 31st March, 20X3 and this forms the basis for that adjustment. The journal entries would be:

Year 1 (Year ended 31st March, 20X1)

Employee benefit expenses A/c	Dr.	₹ 2,600	
To Share-based payment reserve			₹ 2,600

(To recognise the receipt of employee services in exchange for shares)

Year 2 (Year ended 31st March, 20X2)

Employee benefit expenses A/c	Dr.	₹ 2,400	
To Share-based payment reserve			₹ 2,400

(To recognise the receipt of employee services in exchange for shares)

Year 3 (Year ended 31st March, 20X3)

Employee benefit expenses A/c	Dr.	₹ 2,500	
To Share-based payment reserve			₹ 2,500

(To recognise the receipt of employee services in exchange for shares)

Working Notes:

1. Year 1

   780 shares expected to vest x ₹ 10 grant date fair value of each share x 1/3 of vesting period elapsed = ₹ 2,600 recognised in Year 1.

2. Year 2

   (750 shares expected to vest x ₹ 10 grant date fair value of each share x 2/3 of vesting period elapsed) less ₹ 2,600 recognised in Year 1 = ₹ 2,400 recognised in Year 2.

3. Year 3

   (750 shares x ₹ 10 grant date fair value of each share) less ₹ 5,000 recognised in Years 1 and 2 = ₹ 2,500 recognised in Year 3.

5. Point (g) of para C4 of Ind AS 101 states that the carrying amount of goodwill or capital reserve in the opening Ind AS Balance Sheet shall be its carrying amount in accordance with previous GAAP at the date of transition to Ind AS after the two adjustments. One of the adjustment states that the standard requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill or capital reserve in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill or increase the carrying amount of capital reserve accordingly (and, if applicable, adjust deferred tax and non-controlling interests)

As per the facts given, the entity paid excess amount to avail the rights to use the underlying oil and gas reserves. However, since the rights was not recorded in the books at that time, the value of goodwill subsumed the value of that intangible asset which should be separately identified in the books. Hence, value of goodwill will be reduced accordingly and intangible asset for rights for using mine should be recognised.

Further, regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply Ind AS 36 in testing the goodwill for impairment at the date of transition to Ind AS and in recognising any resulting impairment loss in retained earnings (or, if so required by Ind AS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to Ind AS. No other adjustments (eg- previous amortisation of goodwill) shall be made to the carrying amount of goodwill / capital reserve at the date of transition to Ind AS.

However, once goodwill is recognised in the opening transition date balance sheet, the entity has to follow the provisions of Ind AS, which states that goodwill is not amortised but rather tested for impairment annually. Accordingly, the amortization of goodwill based on 'Unit of Production' method is not correct after implementation of Ind AS.

6. Applying paragraph 17 of Ind AS 23 to the fact pattern, the entity would not begin capitalising borrowing costs until it incurs borrowing costs (i.e. from 1st July, 20X1)

In determining the expenditures on a qualifying asset to which an entity applies the capitalisation rate (paragraph 14 of Ind AS 23), the entity does not disregard expenditures on the qualifying asset incurred before the entity obtains the general borrowings. Once the entity incurs borrowing costs and therefore satisfies all three conditions in para 17 of Ind AS 23, it then applies paragraph 14 of Ind AS 23 to determine the expenditures on the qualifying asset to which it applies the capitalisation rate.

Calculation of borrowing cost for financial year 20X0-20X1

Expenditure		Capitalization Period (current year)	Weighted average Accumulated Expenditure
Date	Amount		
1st January 20X1	₹ 5 crore	0/3	Nil

Borrowing Costs eligible for capitalisation = NIL. LT Ltd. cannot capitalise borrowing costs before 1st July, 20X1 (the day it starts to incur borrowing costs).

Calculation of borrowing cost for financial year 20X1-20X2

Expenditure		Capitalization Period (current year)	Weighted average Accumulated Expenditure
Date	Amount		
1st January, 20X1	₹ 5 crore	9/12*	₹ 3.75 crore
30th June, 20X1	₹ 20 crore	9/12	₹ 15 crore
31st March, 20X2	₹ 20 crore	0/12	Nil
Total			₹ 18.75 crore

Borrowing Costs eligible for capitalisation = 18.75 cr. x 10% = ₹ 1.875 cr.

*LT Ltd. cannot capitalise borrowing costs before 1st July, 20X1 (the day it starts to incur borrowing costs). Accordingly, this calculation uses a capitalization period from 1st July, 20X1 to 31st March, 20X2 for this expenditure.

Calculation of borrowing cost for financial year 20X2-20X3

Expenditure		Capitalization Period (current year)	Weighted average Accumulated Expenditure
Date	Amount		
1st January, 20X1	₹ 5 crore	3/12	₹ 1.25 crore
30th June, 20X1	₹ 20 crore	3/12	₹ 5 crore
31st March, 20X2	₹ 20 crore	3/12	₹ 5 crore
31st March, 20X2	₹ 1.875crore	3/12	₹ 0.47 crore
30th June, 20X2	₹ 5 crore	0/12	Nil
Total			₹ 11.72 crore

Borrowing costs eligible for capitalisation = ₹ 11.72 cr. x 10% = ₹ 1.172 cr.

7. Paragraph B19 of Ind AS 115 inter alia, states that, "an entity shall exclude from an input method the effects of any inputs that, in accordance with the objective of measuring progress in paragraph 39, do not depict the entity's performance in transferring control of goods or services to the customer".

In accordance with the above, Company X assesses whether the costs incurred to procure the air conditioners are proportionate to the entity's progress in satisfying the performance obligation. The costs incurred to procure the air conditioners i.e ₹ 10,00,000 are significantly relative to the total costs to completely satisfy the performance obligation i.e. ₹ 40,00,000. Also, Company X is not involved in manufacturing or designing of air conditioners.

Company X concludes that including the costs to procure the air conditioners in the measure of progress would overstate the extent of the entity's performance. Consequently, in accordance with paragraph B19 of Ind AS 115, the entity adjusts its measure of progress to exclude the costs to procure the air conditioners from the measure of costs incurred and from the transaction price. The entity recognises revenue for the transfer of the air conditioners at an amount equal to the costs to procure the air conditioners (i.e., at a zero margin). Accordingly, the total revenue on account of renovation would be ₹ 50,00,000 – ₹ 10,00,000 = ₹ 40,00,000.

Company X assesses that as at 31st March, 20X1, the performance is 20% complete (i.e., ₹ 6,00,000 / ₹ 30,00,000).

Total revenue from renovation work would be

= ₹ 50,00,000 – ₹ 10,00,000 = ₹ 40,00,000.

Consequently, as at 31st March, 20X1, Company X recognises the following:

		₹
Revenue	[(₹ 40,00,000 x 20%) + ₹ 10,00,000]	18,00,000
Less: Cost of goods sold	(₹ 6,00,000 of costs incurred + ₹ 10,00,000 costs of air conditioners)	(16,00,000)
Profit		2,00,000

8. Journal Entries in the books of Company X

for the year ending ended 31st March, 20X2

	₹ in lakh	₹ in lakh
Depreciation (profit or loss) Dr.	7.5	
To Accumulated depreciation (plant)		7.5
(Being depreciation on plant recognised under straight-line method (1,50,00,000 x 1/20))		
Interest expense (profit or loss) Dr.	1.0	
To Provision for decommissioning		1.0
(Being unwinding of decommissioning provision @10% recognised in the books)		
Plant Dr.	2.0	
To Provision for decommissioning		2.0
(Being increase in decommissioning provision recognised [13,00,000 – (10,00,000 +1,00,000)] at the end of the year)		

9. As per paragraph 29 of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'. Alternatively, they are deducted in reporting the related expense.

In accordance with the above, presentation of grants related to income under both the methods would be as follows:

Method 1: Credit in the Statement of Profit and Loss

The entity can recognise the grant as income on a straight-line basis i.e., ₹ 2,00,000 per year in the statement of profit and loss either separately or under the head "Other Income".

This method considered on the contention that it would be inappropriate to present income and expense items on a net basis and that separation of the grant from the expense would facilitate comparison with other expenses not affected by a grant.

Method 2: As a deduction in reporting the related expense

Since the grant relates to environmental expenses incurred/to be incurred by the entity, it can present the grant by reducing the grant amount every year from the related expense i.e., environmental expense of ₹ 1,00,000 (i.e., net expense ₹ 3,00,000 – ₹ 2,00,000).

This method is considered based on the contention that the expenses might well not have been incurred by the entity if the grant had not been available and presentation of the expense without offsetting the grant might therefore be misleading.

The Standard regards both the methods as acceptable for the presentation of grants related to income. However, method 2 may be more appropriate when the company can relate the grant to a specific expenditure.

The Standard also provides that disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

10. Para 70 of Ind AS 116 state that at the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

(a) fixed payments (including in-substance fixed payments as described in para B42), less any lease incentives payable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in para B37); and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Further para 71 of the standard states that a lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished."

Scenario A

In accordance with above, in the given case, **at lease commencement**, Entity Y accounts for the incentive as follows:

To account for the lease incentive

Deferred lease incentive	Dr.	₹ 6,00,000	
To Cash			₹ 6,00,000

Recurring monthly journal entries in Years 1 – 5

To record cash received on account of lease rental and amortisation of lease incentive over the lease term

Cash	Dr.	₹ 1,10,000	
To Lease income			₹ 1,00,000
To Deferred lease incentive			₹ 10,000*

* This is calculated as ₹ 6,00,000 ÷ 60 months.

Scenario B

Entity Y has provided lease incentive amounting to ₹ 6,00,000 to Entity X for leasehold improvements in the premises. As Entity Y has the ownership of the leasehold improvements carried out by the lessee, it shall account for the same as property, plant and equipment and shall depreciate the same over its useful life.

In accordance with above, in the given case, **at lease commencement**, Entity Y accounts for the incentive as follows:

To record the lease incentive

Property, plant & Equipment	Dr.	₹ 6,00,000	
To Cash			₹ 6,00,000

Recurring monthly journal entries in Years 1 – 5

To record cash received on account of lease rental over the lease term

Cash	Dr.	₹ 1,10,000	
To Lease income			₹ 1,10,000

To record depreciation on PPE over the lease term using straight line method

Depreciation	Dr.	₹ 10,000	
To Accumulated Depreciation			₹ 10,000

11. (a) **When NCI is measured as per fair value method**

	₹ in million
Fair value of consideration transferred	0.80
Fair value of non-controlling interest	0.20
	1.00
Value of Very Relevant Limited's identifiable net assets as per Ind AS 103	(1.10)
Gain on bargain purchase	0.10

(b) **When NCI is measured as per proportionate share method**

	₹ in million
Fair value of consideration transferred	0.80
Proportional share of non-controlling interest in the net identifiable assets of acquiree (1.10 x 25%)	0.275
	1.075
Value of Very Relevant Limited's identifiable net assets as per Ind AS 103	(1.10)
Gain on bargain purchase	0.025

12. Paragraph 5 of Ind AS 41, defines agricultural activity as follows:

"Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets."

For fishing to qualify as agricultural activity, it must satisfy both of the below mentioned conditions:

a) management of biological transformation of a biological asset; **and**

b) harvesting of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Therefore, when fishing involves managed activity to grow and procreate fishes in designated areas, such fishing is an agricultural activity as per the above definition. Managing the growth of fish for subsequent sale is an agricultural activity as per Ind AS 41.

In the aforementioned scenario, only fish harvesting is managed by Fisheries Ltd. Therefore, mere fish harvesting without management of biological transformation cannot be termed as an agricultural activity as per Ind AS 41.

Hence, fishing in sweet waters (pond, tanks and dams) where only fishing (harvesting) is carried out without any management of biological transformation is outside the scope of Ind AS 41.

13. (i) The entity has two financial liabilities namely (a) the obligation to repay the five-year loan and (b) the obligation to repay the bank overdraft to the extent that it has borrowed using the overdraft facility. Both the loan and the overdraft result in contractual obligations for the entity to pay cash to the bank for the interest incurred and for the return of the principal.

(ii) For Entity B: The preference shares may be equity instruments or financial liabilities of Entity B, depending on their terms and conditions.

For Entity A: Irrespective of Entity B's treatment, the preference shares are a financial asset because the investment satisfies the definition of a financial asset.

(iii) An income tax liability is created as a result of statutory requirements imposed by the government. The rights and obligations are not created by a contract. Hence, the liability for income-tax dues is not a financial liability.

(iv) The fact that a lawsuit may result in the payment of cash does not create a financial liability for the entity because there is no contract between the entity and the affected group. The entity will need to consider providing for the payment as per Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

14. Determination of numerator for calculation of Basic EPS

The first step in the basic EPS calculation is to determine the profit or loss that is attributable to ordinary shareholders of Company P for the period.

Non-cumulative dividends paid on equity-classified preference shares are not deducted in arriving at net profit or loss for the period, but they are not returns to ordinary shareholders. Accordingly, these dividends are deducted from net profit or loss for the period in arriving at the numerator.

		(₹)
Net profit		46,00,000
Preference dividends (5,00,000 shares x 1.2)	(6,00,000)	
Related tax (₹ 6,00,000 x 30%)	1,80,000	(4,20,000)
Profit or loss attributable to P's ordinary shareholders		**41,80,000**
Accordingly, the numerator for calculation of Basic EPS is ₹ 41,80,000		

Determination of denominator for calculation of Basic EPS

The second step in the basic EPS calculation is to determine the weighted-average number of ordinary shares outstanding for the reporting period.

Number of shares	Time weighting	Weight	Weighted average number of shares
1st April – opening balance (30,00,000 – 5,00,000)	25,00,000	1	
15th April – bonus issue (1,50,000 – 25,000)	1,25,000		
1st April to 30th April	26,25,000	1/12	2,18,750
1st May – repurchase of shares	(2,00,000)		
1st May to 31st October	24,25,000	6/12	12,12,500
1st November – new shares issued	4,00,000		
1st November to 31st March	28,25,000	5/12	11,77,083
Weighted average number of shares for the year			**26,08,333**

The denominator for calculation of Basic EPS is 26,08,333 shares.

Basic EPS = ₹ 41,80,000 / 26,08,333 shares = ₹ 1.60 per share (approx.).

15. The defect was neither known nor reasonably possible to detect at 31st March, 20X3 or before the financial statements were approved for issue, hence ₹ 1,00,000 understatement of the warranty provision and ₹ 2,000 [refer Working Note] overstatement of inventory in the 31st March, 20X3 financial statements is not a prior period error. The effects of the latent defect that relate to the entity's financial position at 31st March, 20X3 are changes in accounting estimates. In preparing its 31st March, 20X3 financial statements the entity made the warranty provision and inventory valuation appropriately using all reliable information that the entity could reasonably be expected to have obtained and taken into account in the preparation and presentation of those financial statements. Consequently, the additional costs will be expensed in calculating profit or loss for 20X3-20X4.

Working Note:

Inventory is measured at the lower of cost (ie ₹ 15,000) and net realisable value (ie ₹ 18,000 originally estimated minus ₹ 5,000 costs to rectify latent defect = ₹ 13,000). Therefore, defective inventory was overstated by ₹ 2,000 (₹ 15,000 – ₹ 13,000) in the year 20X2-20X3.

16. Since payment of ₹ 15,000 is deferred for two years, the fair value of the consideration given for the shares is equal to ₹ 25,000 plus the present value of ₹ 15,000. The present value of ₹ 15,000 deferred payment is ₹ 13,350 (₹ 15,000 ÷ 1.06^2).

Entity X will initially measure the shares purchased at ₹ 38,350 (i.e., ₹ 25,000 + ₹ 13,350).

Since this transaction took place at an arm's length, this is considered to be fair value for initial recognition in the absence of evidence to the contrary.

The difference between the ₹ 40,000 cash paid out and the ₹ 38,350, i.e. ₹ 1,650, will be recognised as interest expense in profit or loss over the two year period of deferred payment.

17. Ind AS 109 'Financial Instruments', defines a financial guarantee contract as 'a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Based on this definition, an evaluation is required to be done to ascertain whether the contract between director and Bank qualifies as a financial guarantee contract as defined in Appendix A to Ind AS 109. In the given case, it does qualify as a financial guarantee contract as:

- the reference obligation is a debt instrument (term loan);
- the holder i.e. Bank is compensated only for a loss that it incurs (arising on account of non-repayment); and
- the holder is not compensated for more than the actual loss incurred.

Ind AS 109 provides principles for accounting by the issuer of the guarantee. However, it does not specifically address the accounting for financial guarantees by the beneficiary. In an arm's length transaction between unrelated parties, the beneficiary of the financial guarantee would recognise the guarantee fee or premium paid as an expense.

It is also pertinent to note that the entity needs to exercise judgment in assessing the substance of the transaction taking into consideration relevant facts and circumstances, for example, whether the director is being compensated otherwise for providing guarantee. Based on such an assessment, an appropriate accounting treatment based on the principles of Ind AS should be followed.

In the given case, SEL is the beneficiary of the financial guarantee and it does not pay a premium or fees to its director for providing this financial guarantee. Accordingly, SEL will not be required to account for such financial guarantee in its financial statements considering the unit of account as being the guaranteed loan, in which case the fair value would be expected to be the face value of the loan proceeds that SEL received.

In the given case based on the limited facts provided, SEL will be required to make necessary disclosures of such financial guarantee in accordance with Ind AS 24 as follows:

(a) the amount of the transactions;

(b) the amount of outstanding balances, including commitments, and:

  (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

  (ii) details of any guarantees given or received;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

18. Para 11 and 12 of Ind AS 38 states that the definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

Further, an asset is identifiable if it either:

(a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

In the given case, Recipe A meets the contractual-legal criterion for identification as an intangible asset because it is protected by a patent. This recipe is identified an recognised separately from goodwill while accounting the business combination.

Since Recipe B is not protected by a patent, it does not meet the contractual-legal criterion for identification as an intangible asset. However, Recipe B is identified as a separate intangible asset because it meets the separability criterion. Such recipes can be, and often are, exchanged, licensed or leased to others. Therefore, the unpatented Recipe B should be accounted for as a separate intangible asset acquired in the business combination.

19. Paragraph 20 of Ind AS 34, Interim Financial Reporting states as follows:

"Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year.

b) statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.

c) statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

d) statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

Accordingly, periods for which interim financial statements are required to be presented are provided herein below:

(i) Entity publishes interim financial reports quarterly

The entity will present the following financial statements (condensed or complete) in its interim financial report of 30th September, 20X1:

Balance sheet at	30th September 20X1	31st March 20X1	-	-
Statement of profit and loss for	3 months ended 30th September 20X1	3 months ended 30th September 20X0	6 months ended 30th September 20X1	6 months ended 30th September 20X0
Statement of changes in equity for	6 months ended 30th September 20X1	6 months ended 30th September 20X0		
Statement of cash flows for	6 months ended 30th September 20X1	6 months ended 30th September 20X0	-	-

(ii) Entity publishes interim financial reports half-yearly

The entity's financial year ends 31st March. The entity will present the following financial statements (condensed or complete) in its half-yearly interim financial report of 30th September, 20X1:

Balance sheet at	30th September, 20X1	31st March, 20X1
Statement of profit and loss for	6 months ending 30th September, 20X1	6 months ending 30th September, 20X0
Statement of changes in equity for	6 months ending 30th September 20X1	6 months ending 30th September 20X0
Statement of cash flows for	6 months ending 30th September 20X1	6 months ending 30th September 20X0

20. The decision to offer the division for sale on 1st January, 20X1 means that from that date the division is classified as held for sale. The division 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 (₹ 7.20 lakhs i.e. Goodwill ₹ 1.2 lakh + PPE ₹ 4 lakhs + Inventory ₹ 2 lakhs) and their fair value less costs to sell (₹ 6.40 lakhs). This implies that the assets of the division will be measured at ₹ 6.40 lakhs on 1st January, 20X1.

The reduction in carrying value of the assets of ₹ 0.80 lakhs (₹ 7.20 lakhs – ₹ 6.40 lakhs) will be treated as an impairment loss and allocated to goodwill, leaving a carrying amount for goodwill of ₹ 0.40 lakhs (₹ 1.20 lakhs – ₹ 0.80 lakhs).

The increased expectation of the selling price of ₹ 0.20 lakhs (₹ 6.60 lakhs – ₹ 6.40 lakhs) will be treated as a reversal of an impairment loss. However, since this reversal relates to goodwill, it cannot be recognised.

The assets of the division need to be presented separately from other assets in the balance sheet. Their major classes of assets classified as held for sale should be separately disclosed, either in the balance sheet or in the notes.

The property, plant and equipment should not be depreciated after 1st January, 20X1, so it's carrying value at 31st March, 20X1 will be ₹ 4 lakhs. The inventories of the division will be shown at their year-end cost of ₹ 1.80 lakhs.

The division will be regarded as a discontinued operation for the year ended 31st March, 20X1. It will represent a separate line of business and will be 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 and the impairment loss arising on the re-measurement of the division on classification as held for sale. Further analysis of this single amount may be presented in the notes or in the statement of profit and loss. If it is presented in the statement of profit and loss it shall be presented in a section identified as relating to discontinued operations, i.e. separately from continuing operations.