PAPER –1: FINANCIAL REPORTING

PART I

RELEVANT AMENDMENTS, NOTIFICATIONS AND ANNOUNCEMENTS

A. Not Applicable for May, 2021 Examination

Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities has been withdrawn on 6th July, 2020 by the Institute. Hence, the same has been removed from the list of Guidance Notes applicable for May, 2021. Students are advised not to study the same for May, 2021 examination.

B. Applicable for May, 2021 Examination

1. Significant amendments in certain Ind AS notified by the MCA on 24th July, 2020

Headings	Details
Definition of 'Material' in Ind AS 1	Earlier definition of Material has been improvised as follows: "Information is material if omitting, misstating **or obscuring** it **could reasonably be expected to** influence decisions that the **primary users** of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured: (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear; (b) information regarding a material item, transaction or other event is scattered throughout the financial statements; (c) dissimilar items, transactions or other events are inappropriately aggregated;

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<tr><td></td><td>(d) similar items, transactions or other events are inappropriately disaggregated; and

(e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.</td></tr>
<tr><td>Definition of 'Business' in Ind AS 103</td><td>Currently, Ind AS 103 defines business as 'an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants'.

As per the revised definition,

Business is 'an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities'.

Related amendment has been made to the definition of 'output' as an element of business.

- Elements of a business: The three elements of a business as defined under Ind AS 103 include, inputs, processes applied to those inputs and outputs. Although businesses usually have outputs,</td></tr>
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	outputs are not essential for an integrated set of activities and assets to qualify as a business. In order to be considered as a business, the amendments have clarified that an integrated set of activities and assets must include, at a minimum, an input and a *substantive process* that together significantly contribute to the ability to create output. Further, if an acquired set of activities and assets has outputs, continuation of revenue does not on its own indicate that both an input and a substantive process have been acquired. - **Optional concentration test:** The amendments include an election to use a 'concentration test'. This is a simplified assessment that would result in an acquisition to qualify as an asset acquisition. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. An entity may elect to apply, or not to apply, the concentration test. Such an election can be made separately for each transaction or other event. If the concentration test is not met or if the entity elects not to apply the test, then it assesses whether the set of assets and activities meet the definition of a business, such that it consists of an input and a substantive process that together significantly contribute to the ability to create outputs. - **Assessment of a substantive acquired process:** The amendments prescribe how to assess whether an acquired process is substantive in the following situations: – *A set of activities and assets do not have outputs at the acquisition date:* An example of an acquired set of activities and assets that do not have outputs at the acquisition date is an early-stage entity that has not started generating revenues. Accordingly, in such cases, an acquired process or a group of processes would be considered substantive only if both the given criteria are met: a. It is critical to the ability to develop or convert an acquired input(s) into outputs and

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b. The inputs acquired include both an organised workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs that the organised workforce could develop or convert into outputs. Those other inputs could include:
i. Intellectual property that could be used to develop a good or service
ii. Other economic resources that could be developed to create outputs or
iii. Rights to obtain access to necessary materials or rights that enable the creation of future outputs.
– A set of activities and assets have outputs at the acquisition date: An acquired set of activities and assets would be considered to have outputs at the acquisition date, if it was generating revenue at that date, irrespective of the fact that subsequently it will no longer generate revenue from external customers as it will be integrated by the acquirer. Accordingly, in such cases, an acquired process or a group of processes would be considered substantive only if, when applied to an acquired input or inputs, it:
a. Is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process (or group of processes) or
b. Significantly contributes to the ability to continue producing outputs and:
i. Is considered unique or scarce or
ii. Cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.
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<tr><td>Practical expedient permitting lessees not to account for COVID -19 related rent</td><td>
<u>Position before amendment:</u>
Ind AS 116 defines a lease modification as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. If a change in lease payments results from a lease modification, then unless the change meets particular criteria to be accounted for as a separate lease, a lessee is required to remeasure
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<td>concessions as a lease modification</td>
<td>the lease liability by discounting the revised lease payments using a revised discount rate. The amendment does not affect lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

<u>Amendment:</u>

Under Ind AS 116, rent concessions often meet the definition of a lease modification. The accounting for lease modifications can be complex. For instance, the lessee may be required to calculate lease liabilities using a revised discount rate and adjust right-of-use assets. To address the challenge, in line with IASB, MCA has issued amendment to Ind AS 116 and introduces a practical expedient for lessees which allows a lessee not to account rent concessions as a direct consequence of COVID-19 as lease modifications.

Following amendments have been made with respect to accounting of COVID-19 related rent concessions such as rent holidays and temporary rent reductions:

As a practical expedient, a lessee may elect not to assess a rent concession as a lease modification only if <u>all</u> of the following conditions are met:

a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) any reduction in lease payments affects only payments originally due on or before the 30th June, 2021 (for example, a rent concession would meet this condition if it results in <u>reduced l</u>ease payments <u>on or before the 30th June, 2021</u> <u>and increased</u> lease payments that extend beyond the 30th June, 2021); and

c) there is no substantive change to other terms and conditions of the lease.

A lessee that makes this election shall account for any change in lease payments resulting from the rent concession as if the change were not a lease modification.

<u>Note:</u> The above practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and needs to be disclosed in the financial statements.</td>
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2. The Companies (Indian Accounting Standards) Second Amendments Rules, 2019 notified on 30th March, 2019

Headings	Details
Appendix C, Uncertainty over Income Tax *Treatments,* to Ind AS 12	MCA has inserted a new Appendix C to Ind AS 12, *Uncertainty over Income Tax Treatments.* The appendix explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses: ➢ how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty; ➢ that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. detection risk should be ignored; ➢ that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment; ➢ that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty; and ➢ that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.
Amendments to Ind AS 12 – Income tax consequences of payments on financial instruments classified as equity	The amendments clarify that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends. Previously, it was unclear whether the income tax consequences of dividends should be recognised in profit or loss, or in equity, and the scope of the existing guidance was ambiguous
Amendments to Ind AS 19 – Plan amendment,	The amendments to Ind AS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

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curtailment or settlement	➢ calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; ➢ any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling; and ➢ separately recognise any changes in the asset ceiling through other comprehensive income.
Amendments to Ind AS 23 – Borrowing costs eligible for capitalisation	In computing the capitalisation rate for generally borrowed funds, the entity should exclude borrowing costs on borrowings which are specifically used for the purpose of obtaining a qualifying asset until that specific asset is ready for its intended use or sale. Once such specific asset is ready for its intended use or sale, borrowing costs related to borrowings of such asset shall be considered as part of general borrowing costs of the entity and be used for computation of capitalisation rate on general borrowings.
Amendment to Ind AS 28 - Long-term Interests in Associates and Joint Ventures	An entity's net investment in associate or joint venture includes investment in ordinary shares, other interests that are accounted using the equity method, and other long term interests, such as preference shares and long term receivables or loans, the settlement of which is neither planned nor likely to occur in the foreseeable future. These long term interests are not accounted for in accordance with Ind AS 28, instead they are governed by the principles of Ind AS 109. As per para 10 of Ind AS 28, the carrying amount of entity's investment in its associate and joint venture increases or decreases (as per equity method) to recognise the entity's share of profit or loss of its investee associate and joint venture. Para 38 of Ind AS 38 further states that the losses that exceed he entity's investment in ordinary shares are applied to other components of the entity's interest in the associate or joint venture in the reverse order of their superiority.

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	In this context, the amendments to Ind AS 28 clarify that the accounting for losses allocated to long-term interests would involve the dual application of Ind AS 28 and Ind AS 109. The annual sequence in which both standards are to be applied can be explained in a three step process: **Step 1: Apply Ind AS 109 independently** Apply Ind AS 109 (such as impairment, fair value adjustments etc.) ignoring any adjustments to carrying amount of long-term interests under Ind AS 28 (such as allocation of losses, impairment etc.) **Step 2: True-up past allocations** If necessary, prior years' Ind AS 28 loss allocation is trued up in the current year, because Ind AS 109 carrying value may have changed. This may involve recognizing more prior year's losses, reversing these losses or re-allocating them between different long-term interests. **Step 3: Book current year equity share** Any current year Ind AS 28 losses are allocated to the extent that the remaining long-term interest balance allows. Any current year Ind AS 28 profits reverse any unrecognized prior years' losses and then allocations are made against long-term interests.
Amendment to Ind AS 103 – Control over a joint operation achieved in stages	When a party to a joint operation, obtains control of a joint operation business, the transaction will be considered as a business combination achieved in stages. The acquirer should re-measure its previously held interest in the joint operation at fair value at the acquisition date.
Amendment to Ind AS 109 – Prepayment Features with Negative Compensation	Some prepayment options could result in other party being forced to accept negative compensation – e.g. the lender receives an amount less than the unpaid amounts of principal and interest if the borrower chooses to prepay. Earlier, these instruments were measured at FVTPL. However, now after amendment, such financial assets could be measured at amortised cost or at FVOCI if they meet the other relevant requirements of Ind AS 109. In other words, to qualify for amortised cost measurement**, the negative compensation must be 'reasonable compensation** for early termination of the contract' and the asset must be held within a 'held to collect' business model.

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	To be eligible for the exception, the fair value of the prepayment feature would have to be **insignificant on initial recognition** of the asset. If this is impracticable to assess based on the facts and circumstances that existed on initial recognition of the asset, then the exception would not be available. Also financial assets prepayable at current fair value would be measured at FVTPL.
Amendment to Ind AS 111 – Joint control over a joint operation achieved in stages	The amendments clarify that the entity, who is a party to joint operation but was not having joint control earlier, now obtains joint control of a business that is a joint operation should not re-measure its previously held interest in the joint operation.

3. Amendment in Schedule III notified by MCA on 12.10.2018

Following amendments have been made in Schedule III to the Companies Act, 2013

(a) In Division I which covers formats and instructions for financial statements drawn as per Accounting Standards ie Indian GAAP

Following amendments have been made

(i) Clause (ii) of paragraph 4 under 'General instructions for preparation of Balance Sheet and statement of Profit an d Loss of a company', states uniform use of unit of measurement in the financial statements. In the given sentence the word 'shall' has been replaced with the word 'should' through this notification. Hence, now the clause (ii) of paragraph 4 shall be read as follows:

*"Once a unit of measurement is used, it **should** be used uniformly in the Financial Statements."*

(ii) Underneath Part I in the format of Balance Sheet, under the heading "II Assets" sub-heading "Non-current assets", **the words "Fixed assets" should be replaced as "Property, Plant and Equipment".** This amendment has been done since the title of revised AS 10 is now 'Property, Plant and Equipment' instead of 'Fixed Assets'.

Similar substitution has been done in Point W of the "Notes" under the heading "General Instructions for preparation of Balance Sheet".

(iii) Point 6B of the "Notes", under the heading "General Instructions for preparation of Balance Sheet" deals with the classification of Reserves and Surplus. One of the category was 'Securities Premium Reserve'. As per the amendment the word 'Reserve' after Securities Premium has been omitted. Now it should be read as **'Securities Premium'** only.

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(b) In Division II which covers formats and instructions for financial statements drawn as per Indian Accounting Standards ie Ind AS

Following amendments have been made

(i) In Part I which specifies the format of Balance Sheet, under the heading 'Equity and Liabilities', Trade Payables (both under 'non-current liabilities' and 'current liabilities') shall further be classified as

"(A) total outstanding dues of micro enterprises and small enterprises; and

(B) total outstanding dues of creditors other than micro enterprises and small enterprises.";

(ii) In the table (format) for 'Other Equity' under the 'Statement of Changes in Equity', "Securities Premium Reserve" is substituted as "Securities Premium". Also below the table on 'Other Equity' a note has been given which shall be renumbered as '(i)' and further a note has been added as follows:

"(ii) *A description of the purposes of each reserve within equity shall be disclosed in the Notes."*

(iii) Paragraph 6A and 6B of "General Instructions for Preparation of Balance Sheet" is on 'Non-current assets' and 'current assets' respectively.

(A) Under point 'VII. Trade Receivables' of 6A and 'III. Trade Receivables' of 6B, sub point (i) has been substituted as follows:

"(i) *Trade Receivables shall be sub-classified as:*

(a) Trade Receivables considered good - Secured;

(b) Trade Receivables considered good - Unsecured;

(c) Trade Receivables which have significant increase in Credit Risk; and

(d) Trade Receivables - credit impaired."

(B) Under point 'VIII. Loans' of 6A and 'V. Loans' of 6B, sub point (ii) is substituted as follows:

"(ii) Loans Receivables shall be sub-classified as:

(a) Loans Receivables considered good - Secured;

(b) Loans Receivables considered good - Unsecured;

(c) Loans Receivables which have significant increase in Credit Risk; and

(d) Loans Receivables - credit impaired,"

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(iv) After paragraph F of "General Instructions for Preparation of Balance Sheet" paragraph FA shall be inserted as follows:

*"**FA. Trade Payables***

The following details relating to micro, small and medium enterprises shall be disclosed in the notes:

(a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;

(b) the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006), along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;

(c) the amount of interest due and payable for the period of delay in making payment (which has been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;

(d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and

(e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.

***Explanation-** The terms 'appointed day', 'buyer', 'enterprise', 'micro enterprise', 'small enterprise' and 'supplier', shall have the same meaning as assigned to them under clauses (b), (d), (e), (h), (m) and (n) respectively of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006."*

(v) In paragraph 9, after the words "For instance,", the words "plain vanilla" has been inserted. This amendment has been done to bring clarity to the treatment of redeemable preference shares ie which redeemable preference shares should fall in the category of 'borrowings'. Accordingly, the last sentence of para 9 will be read as follows:

*"For instance, **plain vanilla** redeemable preference shares shall be classified and presented under 'non-current liabilities' as 'borrowings' and the disclosure requirements in this regard applicable to such borrowings shall be applicable mutatis mutandis to redeemable preference shares."*

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(c) Division III (newly notified division applicable for NBFCs)

Through this notification, MCA added/notified Division III in the Schedule III which is applicable to Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015. **However, this Division III has not been made applicable for CA Final Students**.

4. Amendment in Ind AS 20 notified by MCA in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 20th September 2018

Amendment has been made in Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance'. The amendment provides entities the option for recording non-monetary government grants at a nominal amount and presenting government grants related to assets by deducting the grant from the carrying amount of the asset.

5. Notification of Ind AS 115 and withdrawal of Ind AS 11 and Ind AS 18 alongwith the consequential amendments in other Ind AS and other amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 28th March, 2018

The Rules have brought in the following significant amendments to Ind AS:

- New revenue standard Ind AS 115 has been notified which supersedes Ind AS 11, Construction Contracts and Ind AS 18, Revenue. ***(Refer Annexure IV for overview of Ind AS 115)***
- Appendix B, Foreign Currency Transactions and Advance Consideration to Ind AS 21, The Effects of Changes in Foreign Exchange Rates has been notified. The appendix applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The date of the transaction determines the exchange rate to be used for initial recognition of the related asset, expense or income. Ind AS 21 requires an entity to use the exchange rate at the 'date of the transaction', which is defined as the date when the transaction first qualifies for initial recognition.

  Here, the question arises that whether the date of the transaction is the date when the asset, expense or income is initially recognised, or an earlier date on which the advance consideration is paid or received, resulting in recognition of a prepayment or deferred income.

  The appendix provides guidance for when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

  - **Single payment/receipt** The appendix states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, should be the date on which an entity

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initially recognises the non-monetary asset or liability arising from an advance consideration paid/received.

- **Multiple receipts/payments** The appendix states that, if there are multiple payments or receipts in advance of recognising the related asset, income or expense, the entity should determine the date of the transaction for each payment or receipt.

- Amendment to Ind AS 40, Investment Property stating that when assets are transferred to, or from, investment properties. The amendment states that to transfer to, or from, investment properties there must be a change in use supported by evidence. A change in intention, in isolation is not enough to support a transfer.

  The amendment has re-described the list of evidence of change in use as a non-exhaustive list of examples and scope of these examples have been expanded to include assets under construction and development and not only transfers of completed properties.

  Examples of evidence of a change in use include:

  a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;

  b) commencement of development with a view to sale, for a transfer from investment property to inventories;

  c) end of owner-occupation, for a transfer from owner-occupied property to investment property;

  d) inception of an operating lease to another party, for a transfer from inventories to investment property.

- Amendments to Ind AS 12, Income Taxes elucidate the existing guidance in Ind AS 12. They do not change the underlying principles of recognition of deferred tax asset. As per the amendment:

  - Existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value in the books of the holder for which the tax base remains at cost gives rise to a deductible temporary difference. This is regardless of whether the holder expects to collect all the contractual cash flows of the debt instrument.

  - Determining the existence and amount of temporary differences and estimating future taxable profit against which deferred tax assets can be utilised are two separate steps. Recovering assets for more than their carrying

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amounts is inherent in an expectation of taxable profits and should therefore be included in estimated taxable profit if there is sufficient evidence to conclude that it is probable that the entity will recover the asset for more than its carrying amount. For example, an entity should assume that a debt investment measured at fair value will be recovered for more than its carrying value when that outcome is probable even if carrying value is below its tax base (original investment cost).

  - Recoverability of deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply (for example where capital losses can be set off against capital gains), deferred tax assets are assessed in combination only with other deferred tax assets of the same type.
  - When comparing deductible temporary differences against future taxable profits, the determination of future taxable profits shall exclude tax deductions resulting from reversal of these deductible temporary differences.

- Amendment to Ind AS 28, Investments in Associates and Joint Ventures and Ind AS 112, Disclosure of Interests in Other Entities stating that:
  - Disclosures requirement of Ind AS 112 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of Ind AS 112).
  - In Ind AS 28, the option available with venture capital organisations, mutual funds, unit trusts and similar entities to measure their investments in associates or joint ventures at fair value through profit or loss (FVTPL) is available for each investment in an associate or joint venture.

- Consequential amendments to other Ind AS due to notification of Ind AS 115 and other amendments discussed above

  (i) Ind AS 101, First-time Adoption of Indian Accounting Standards: The Rules introduce two additional exemptions in Ind AS 101 related to Ind AS 115 and Appendix B to Ind AS 21. These are:

  - Ind AS 115: A first-time adopter can apply the transition provisions in paragraphs C5 and C6 of Ind AS 115 (related to practical expedients when applying Ind AS 115 retrospectively) at the date of transition to Ind AS. Further, a first-time adopter is not required to restate contracts that were completed before the earliest period presented.
  - Appendix B to Ind AS 21: A first-time adopter need not apply Appendix B to Ind AS 21 to assets, expenses and income in the scope of the appendix initially recognised before the date of transition to Ind AS.

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(ii) **Ind AS 2, Inventories:** Costs of services by a service provider that does not give rise to inventories will need to be accounted for as costs incurred to fulfil a contract with customer in accordance with Ind AS 115. Such costs can be capitalised under Ind AS 115 if they

(1) relate directly to the contract,

(2) enhance the resources of the entity to perform under the contract and relate to satisfying a future performance obligation, and

(3) are expected to be recovered.

Earlier paragraph 8 of Ind AS 2 which stated that in case of a service provider, inventories include costs of the service, for which the entity has not yet recognised the related revenue, has been deleted.

(iii) **Ind AS 16, Property, Plant and Equipment, Ind AS 38, Intangible Assets and Ind AS 40, Investment Property:** These standards have been amended to require use of principles of Ind AS 115 for recognition of a gain or loss on the transfer of non-financial assets i.e. property, plant and equipment, intangible asset and investment property, that are not an output of an entity's ordinary activities. Although a gain or loss on this type of sale generally does not meet the definition of revenue, an entity should apply the guidance in Ind AS 115 related to the transfer of control and measurement of the transaction price including the constraint on variable consideration, to evaluate the timing and amount of the gain or loss recognised.

Further, since Ind AS 115 deals with accounting for contract assets, Ind AS 38 has been amended to add a scope exclusion for such contract assets.

(iv) **Ind AS 37, Provisions, Contingent Assets and Contingent Liabilities:** Ind AS 115 does not have any specific requirement to address the accounting of contracts with customers that are, or have become, onerous. Previously, depending upon type of contract, such onerous contracts were accounted under Ind AS 11 or Ind AS 37. With the omission of Ind AS 11, a consequential amendment has been made to Ind AS 37 to bring all onerous revenue contracts within the scope of the Ind AS 37. Ind AS 37 defines onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

(v) **Ind AS 109, Financial Instruments:** Amendments to Ind AS 109 are discussed below:

(i) The current Ind AS 109 states that an entity shall measure trade receivables at their transaction price. Due to notification of Ind AS 115, an entity is required to measure trade receivables at their transaction

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price if the trade receivables do not contain a significant financing component in accordance with Ind AS 115.

(ii) An entity shall have an accounting policy choice to measure loss allowance on trade receivables or contracts assets within the scope of Ind AS 115 containing a significant financing component at an amount equal to life time expected credit losses (simplified approach) or using the general model (3 stage).

(iii) Entities shall now consider the principles of Ind AS 115 for subsequent measurement of financial guarantee and loan commitments.

6. Applicability of Amendments to Ind AS 7 and Ind AS 102 issued by the MCA dated 17th March 2017

To align Ind AS with IFRS, the recent amendments made in IAS 7 and IFRS 2 by the IASB have been incorporated in Ind AS 7 'Statement of Cash Flows' and Ind AS 102 'Share-based Payment' by way of a notification issued by the Ministry of Corporate Affairs on 17th March, 2017.

I. Amendments in Ind AS 7 'Statement of Cash Flows'- Disclosure requirements

The amendments made to Ind AS 7 require certain additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

In addition to the above, the disclosure is required for changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

As per the amendment, one of the way for disclosure is providing a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified, by linking items included in the reconciliation to the balance sheet and the statement of cash flows for the sake of information to the users.

If an entity provides disclosures of changes in other assets and liabilities besides changes in liabilities arising from financing activities, it shall disclose the later changes separately from changes in those other assets and liabilities.

II. Amendments in Ind AS 102 'Share-based Payment'

The amendments cover following accounting areas:

Measurement of cash-settled share-based payments

Under Ind AS 102, the measurement basis for an equity-settled share-based payment should not be 'fair value' in accordance with Ind AS 113, 'Fair value

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measurement'. However, 'fair value' was not defined in connection with a cash-settled share-based payment. The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. Market-based performance conditions and non-vesting conditions are reflected in the 'fair value', but non-market performance conditions and service conditions are reflected in the estimate of the number of awards expected to vest.

The amendment to Ind AS 102 with respect to measurement of cash-settled awards has most impact where an award vests (or does not vest) based on a non-marketing condition. Absent this clarification, it may be argued that the fair value of a cash-settled award is to be determined using the guidance in Ind AS 113 and reflecting the probability that non-market and service vesting conditions would be met. The amendment clarifies that non-market and service vesting conditions are ignored in the measurement of fair value.

Classification of share-based payments settled net of tax withholdings

Tax laws or regulations may require the employer to withhold some of the shares to which an employee is entitled under a share-based payment, and to remit the tax payable on it to the tax authority.

Ind AS 102 would require such share based payment to be split into a cash settled component for the tax payment and an equity settled component for the net shares issued to the employee. The amendment now adds an exception that requires the share based payment to be treated as equity-settled in its entirety. The cash payment to the tax authority is treated as if it was part of an equity settlement. The exception would not apply to any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment.

Accounting for a modification of a share-based payment from cash-settled to equity-settled

As per the amendment, if the terms and conditions of a cash-settled share-based payment transactions are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification. Specifically:

- The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date. The equity-settled share-based payment transaction is recognised in equity on the modification date to the extent to which goods or services have been received.
- The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date.
- Any difference between the carrying amount of the liability derecognised and the amount of equity recognised on the modification date is recognised immediately in profit or loss.

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- o The amendment requires any change in value to be dealt with before the change in classification. Accordingly, the cash-settled award is remeasured, with any difference recognised in the statement of profit and loss before the remeasured liability is reclassified into equity.

7. Notification of Ind AS 116 and withdrawal of Ind AS 17 alongwith the consequential amendments in other Ind AS and other amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 on 30th March, 2019.

(Refer Annexure V for overview of Ind AS 116)

Annexure IV

Overview of Ind AS 115 "Revenue from Contracts with Customers"

The objective of Ind AS 115 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The standard applies to all contracts with customers, except the lease contracts within the scope of Ind AS 17, Leases; insurance contracts within the scope of Ind AS 104, Insurance Contracts; financial instruments and other contractual rights or obligations; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The core principle of Ind AS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue shall be recognised by an entity in accordance with this core principle by applying the following five steps:

1. **Identify contract with a customer:** This Standard defines a 'contract' and a 'customer' and specifies five mandatory criteria to be met for identification of a contract.
2. **Identify performance obligations in contract:** At contract inception, assess the goods or services promised and identify as a performance obligation each promise to transfer to the customer either:
   (a) a good or service (or a bundle of goods or services) that is distinct; or
   (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
3. **Determine transaction price:** This Standard uses transaction price approach instead of fair value approach in Ind AS 18 while determining amount of consideration. The transaction price is the amount of consideration to which an entity expects to be entitled

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in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised may include fixed amounts, variable amounts, or both. If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. Estimate amount of variable consideration by using either the expected value method or the most likely amount method. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component for any consideration payable to the customer.

4. **Allocate the transaction price to the performance obligations in the contract:** An entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract. If a stand-alone selling price is not observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. The requirements specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations in the contract. Any subsequent changes in the transaction price shall be allocated to the performance obligations on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

5. **Recognise revenue when the entity satisfies a performance obligation:** An entity recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognised is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time or over time. If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time. For performance obligations satisfied over time, an entity recognises revenue over time by selecting an appropriate method (output methods and input methods) for measuring the entity's progress towards complete satisfaction of that performance obligation.

Treatment of Contract Costs

Ind AS 115 specifies the following requirements for contract costs:

1. *Incremental costs of obtaining a contract:*

   Those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. An entity shall recognise these costs as an asset if the entity expects to recover those costs. Costs to obtain a contract that

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would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

2. *Costs to fulfil a contract:*

   If costs incurred in fulfilling a contract are not within scope of another Standard, entity shall recognise an asset from the costs incurred to fulfil a contract only if some specified criteria are met. If costs incurred in fulfilling a contract are within scope of another Standard, entity shall account for those costs in accordance with those other Standards.

Contract costs recognised as an asset shall be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

An impairment loss shall be recognised in profit or loss to the extent that the carrying amount of contract costs recognised as an asset exceeds the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates after deducting the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

Presentation

When either party to a contract has performed, an entity shall present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

- If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e. a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier).
- If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable.
- An entity shall present any unconditional rights to consideration separately as a receivable.

Sale with a right of return

To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following:

- revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);
- a refund liability; and
- an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

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Warranties

If customer has the option to purchase warranty separately, the warranty is a distinct service because the entity promises to provide the service to the customer in addition to the product that has the functionality described in the contract. In that case, entity shall account for the promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation.

Principal versus agent considerations

When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the entity is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer. If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

Repurchase agreements

Repurchase agreements generally come in three forms viz. (i) an entity's obligation to repurchase the asset (a forward); (ii) an entity's right to repurchase the asset (a call option); and an entity's obligation to repurchase the asset at the customer's request (a put option).

Bill-and-hold arrangements

A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but retains physical possession of the product until it is transferred to the customer at a point in time in the future. Ind AS 115 specifies four criteria that must be fulfilled for a customer to have obtained control of a product in a bill-and-hold arrangement.

Disclosure

The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

- its contracts with customers
- the significant judgements, and changes in the judgements, made in applying this Standard to those contracts and
- any assets recognised from the costs to obtain or fulfil a contract with a customer

Appendix D of Ind AS 115 gives guidance on the accounting by operators for public-to-private service concession arrangements. This Appendix applies to both (a) infrastructure that the

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operator constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement. Infrastructure within the scope of this Appendix shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator.

Carve out in Ind AS 115 from IFRS 15

As per IFRS

IFRS 15 provides that all types of penalties which may be levied in the performance of a contract should be considered in the nature of variable consideration for recognising revenue.

Carve out

Ind AS 115 has been amended to provide that penalties shall be accounted for as per the substance of the contract. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration, otherwise the same should not be considered for determining the consideration and the transaction price shall be considered as fixed.

Significant differences in Ind AS 115 from AS 7 and AS 9

S. No.	Particular	Ind AS 115	AS 7 and AS 9
1.	Framework of Revenue Recognition	Ind AS 115 gives a framework of revenue recognition within a standard. It specifies the core principle for revenue recognition which requires the 'revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services'.	AS 7 and AS 9 do not provide any such overarching principle to fall upon in case of doubt.
2.	Comprehensive Guidance on Recognition and Measurement of Multiple Elements within a Contract with Customer:	Ind AS 115 gives comprehensive guidance on how to recognise and measure multiple elements within a contract with customer.	AS 7 and AS 9 do not provide comprehensive guidance on this aspect.
3.	Coverage	Ind AS 115 comprehensively deals with all types of	AS 7 covers only revenue from construction

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		performance obligation contract with customer. However, it does not deal with revenue from 'interest' and 'dividend' which are covered in financial instruments standard.	contracts which is measured at consideration received / receivable. AS 9 deals only with recognition of revenue from sale of goods, rendering of services, interest, royalties and dividends.
4.	Measurement of Revenue	As per Ind AS 115, revenue is measured at transaction price, i.e., the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.	As per AS 9, Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. As per AS 7, revenue from construction contracts is measured at consideration received / receivable and to be recognised as revenue as construction progresses, if certain conditions are met.
5.	Recognition of Revenue	As per Ind AS 115, revenue is recognised when the control is transferred to the customer.	As per AS 9, revenue is recognised when significant risks and rewards of ownership is transferred to the buyer. As per AS 7, revenue is recognised when the outcome of a construction contract can be estimated reliably, contract revenue should be recognised by reference to the stage of

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			completion of the contract activity at the reporting date.
6.	Capitalisation of Costs	Ind AS 115 provides guidance on recognition of costs to obtain and fulfill a contract, as asset	AS 7 and AS 9 do not deal with such capitalisation of costs.
7.	Guidance on Service Concession Arrangements	Ind AS 115 gives guidance on service concession arrangements and disclosures thereof	AS does not provide such guidance.
8.	Disclosure Requirements	Ind AS 115 contains detailed disclosure requirements.	Less disclosure requirements are prescribed in AS

Annexure V

Overview of Ind AS 116 "Leases"

Objective

Ind AS 116 sets out the principles for the recognition, measurement, presentation and disclosure of leases and faithful representation of the transactions by lessees and lessors. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Scope

The standard applies to all leases, including leases of right-of-use assets in a sublease, except for:

(a) Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;

(b) Leases of biological assets within the scope of Ind AS 41, Agriculture held by a lessee;

(c) Service concession arrangements within the scope of Appendix D, Service Concession Arrangements of Ind AS 115, Revenue from Contracts with Customer;

(d) Licences of intellectual property granted by a lessor within the scope of Ind AS 115, Revenue from Contracts with Customers; and

(e) Rights held by a lessee under licensing agreements within the scope of Ind AS 38, Intangible Assets for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

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A lessee may, but is not required to, apply Ind AS 116 to leases of intangible assets other than those described in point (e) above.

This Standard specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply this Standard to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements would not differ materially.

Recognition exemption

In addition to the above scope exclusions, a lessee can elect not to apply the recognition, measurement and presentation requirements of Ind AS 116 to short-term leases; and low value leases.

If a lessee elects for the exemption, then it shall recognise the lease payments associated with those leases as an expense on either a straight line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

The election for short-term leases shall be made by class of underlying asset to which the right of use relates. The low value lease exemption can be applied on a lease-by-lease basis.

The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for exemption regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value.

If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset. Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones.

If an entity applies either exemption, it must disclose that fact and certain information to make the effect of the exemption known to users of its financial statements. (Refer – Disclosure)

Identifying a lease

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

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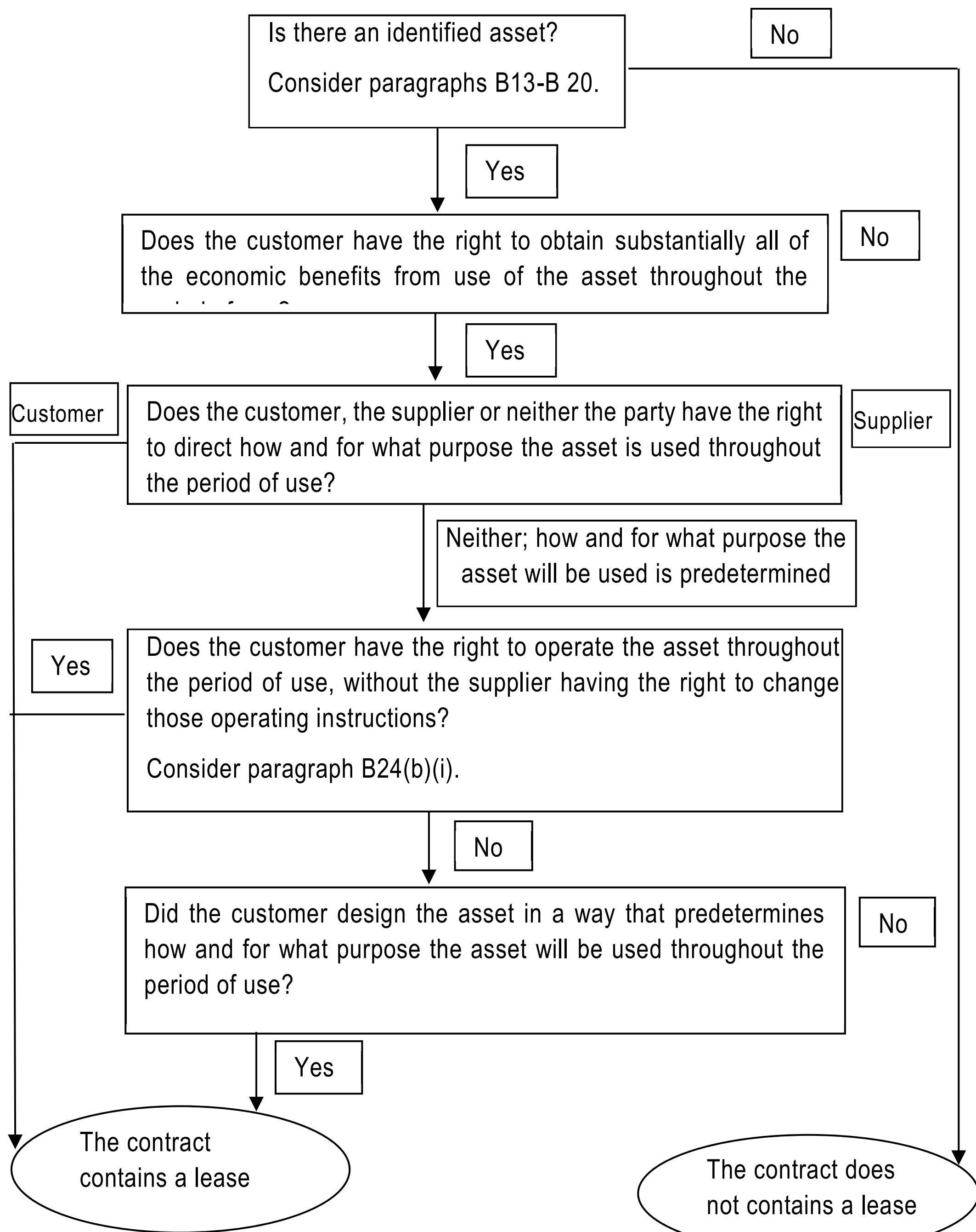

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Separating component of contract

For a contract that contains a lease component, an entity accounts for each lease component within the contract separately from non-lease components. A lessee shall allocate the total contract consideration to each lease component on the basis of relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. A lessee shall account for non-lease components applying other applicable Standards.

As a practical expedient, a lessee may elect not to separate non-lease components from the lease components. Instead it may account for the entire contract including non-lease components as a single lease component.

The practical expedient shall not be applied to embedded derivatives that meet the criteria given Ind AS 109, Financial Instruments.

Lease term

If a contract is, or contains, a lease, the lease term needs to be determined.

The lease term begins on the commencement date (i.e. the date on which the lessor makes the underlying asset(s) available for use by the lessee) and includes any rent-free or reduced rent periods. It comprises:

(a) The non-cancellable period of the lease;

(b) Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and

(c) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option

A lease is no longer enforceable when the lessee and the lessor each have the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

An entity shall revise the lease term if there is a change in the non-cancellable period of a lease.

Recognition and Measurement of lease in the books of Lessee

On the commencement of the lease, lessee needs to recognise the right-of use asset and measure it at cost. Lessee should also recognise a lease liability and measure it at the present value of the lease payments that are not paid at that date. The lease payments should be

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discounted using the interest rate implicit in the lease, if readily determinable or else using the lessee's incremental borrowing rate.

A Cost = Lease Liability + Lease payments made – lease incentives received + initial direct costs + estimated dismantling and restoration costs. Lease Payments = Fixed payments (including in-substance fixed lease payments) – lease incentives + variable payments + expected guaranteed residual value + exercise price of purchase option (if reasonably certain to be exercised) + penalties for termination (if reasonably certain to be terminated).

In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable.

Subsequent measurement

Subsequently, the right-of-use asset shall be measured by applying a cost model or revaluation model if the underlying asset belongs to the class of assets to which the entity applies revaluation model as per Ind AS 16, Property, Plant and Equipment.

Cost model

Lessee shall measure the right-of-use asset at cost less accumulated depreciation and any accumulated impairment losses.

Lessees adjust the carrying amount of the right-of-use asset for remeasurement of the lease liability, unless the carrying amount has already been reduced to zero or the change in the lease liability relates to a variable lease payment that does not depend on an index or rate.

Subsequent measurement of lease liability

After initial recognition, the lease liability is measured at amortised cost using the effective interest method and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Reassessment of lease liability

After the commencement date, a lessee shall remeasure the lease liability in accordance with the standard to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

Presentation

The right-of-use assets should be either presented separately from other assets in the balance sheet or disclosed in the notes. If not presented separately, they should be presented in the

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appropriate line item of the balance sheet as if they were owned and disclose in the notes the line items which include such assets.

The lease liabilities should be presented either separately from other liabilities in the balance sheet or disclose in the notes the line items which include the lease liabilities.

Right-of-use assets that meet the definition of investment property are presented within investment property.

In the statement of profit and loss, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs requires to be presented separately in the statement of profit and loss.

In the statement of cash flows, a lessee shall classify:

a) cash payments for the principal portion of the lease liability within financing activities;

b) cash payments for the interest portion of the lease liability within financing activities applying the requirements in Ind AS 7, Statement of Cash Flows, for interest paid; and

c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Accounting in the books of Lessor

Classification of leases

A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The standard also provides examples of situations that individually or in combination would/could normally lead to a lease being classified as a finance lease.

Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

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Finance lease and Operating lease

Recognition and measurement

Particulars	Finance lease	Operating lease
Balance Sheet impact	Derecognised the underlying asset	Continue to present the underlying asset
	Present lease receivable at an amount equal to the net investment in lease	Add any initial direct costs incurred in connection with obtaining the lease to the carrying amount of the underlying asset
Statement of profit and loss	lessor shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease	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
Statement of profit and loss: In case manufacturer or dealer is lessor	revenue being the fair value of the underlying asset, or, if lower, the present value of the lease payments accruing to the lessor, discounted using a market rate of interest	Recognise depreciation expense over the useful life of asset
	the cost of sale being the cost, or carrying amount if different, of the underlying asset less the present value of the unguaranteed residual value	
	selling profit or loss in accordance with its policy for outright sales to which Ind AS 115 applies	

A lessor initially measures a finance lease receivable at the present value of the future lease payments plus any unguaranteed residual value accruing to the lessor. The lessor discounts these amounts using the rate implicit in the lease.

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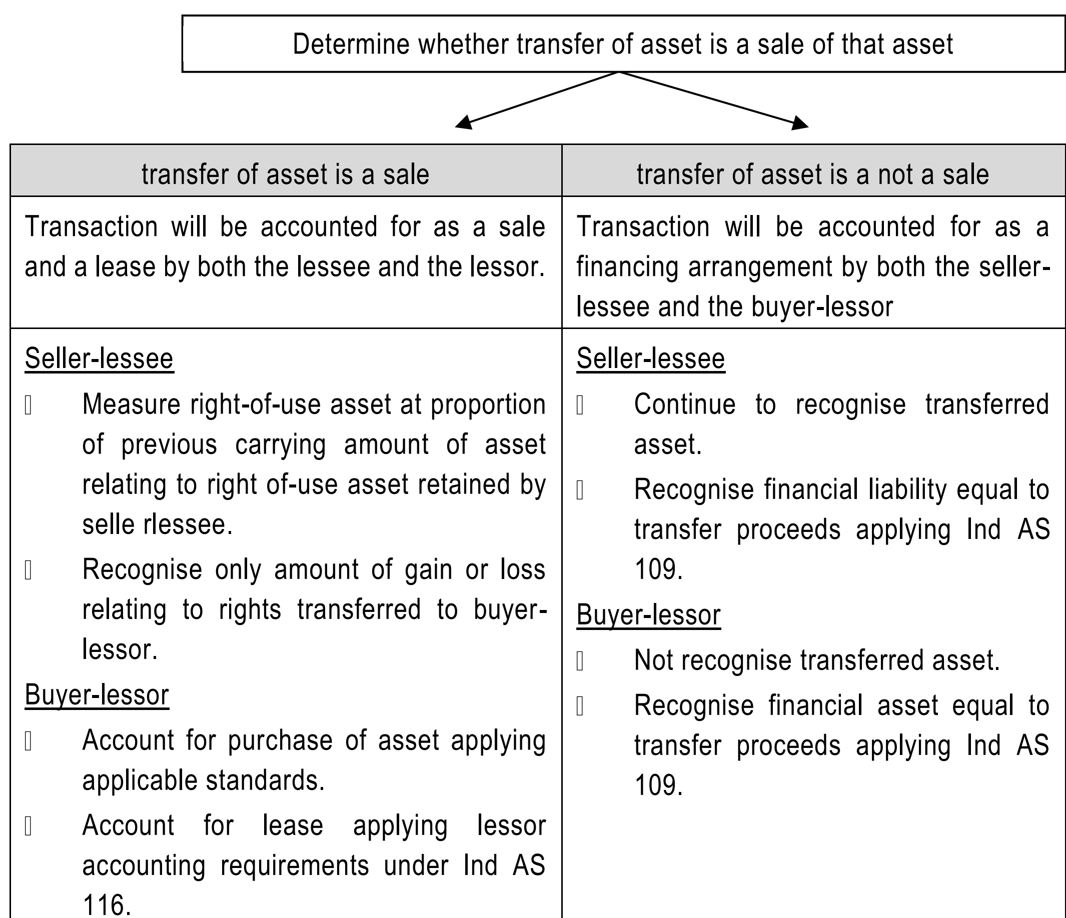
A lessor includes the following lease payments in the measurement of the finance lease receivable:

- fixed payments (including in-substance fixed payments), less lease incentives payable;
- variable payments that depend on an index or rate;
- residual value guarantees provided to the lessor at the guaranteed amount;
- the exercise price of purchase options if the lessee is reasonably certain to exercise; and
- termination penalties payable in accordance with the expected lease term.

Presentation

Lessor shall present underlying assets subject to operating leases in its balance sheet according to the nature of the underlying asset.

Sale and lease back – recognition and measurement



Determine whether transfer of asset is a sale of that asset

transfer of asset is a sale	transfer of asset is a not a sale
Transaction will be accounted for as a sale and a lease by both the lessee and the lessor.	Transaction will be accounted for as a financing arrangement by both the seller-lessee and the buyer-lessor
<u>Seller-lessee</u> - Measure right-of-use asset at proportion of previous carrying amount of asset relating to right of-use asset retained by selle rlessee. - Recognise only amount of gain or loss relating to rights transferred to buyer-lessor. <u>Buyer-lessor</u> - Account for purchase of asset applying applicable standards. - Account for lease applying lessor accounting requirements under Ind AS 116.	<u>Seller-lessee</u> - Continue to recognise transferred asset. - Recognise financial liability equal to transfer proceeds applying Ind AS 109. <u>Buyer-lessor</u> - Not recognise transferred asset. - Recognise financial asset equal to transfer proceeds applying Ind AS 109.

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Transition date accounting

Definition of lease

On the date of initial application of Ind AS 116, companies have an option not to reassess its previously identified leases contracts (as per Ind AS 17, Leases) and apply the transition provisions of this standard to those leases.

Also, they have an option not to apply this Standard to contracts that were not previously identified as containing a lease applying Ind AS 17.

If an entity chooses the above options then it shall disclose that fact and apply the practical expedient to all of its contracts.

Transition accounting: In the books of Lessee

A lessee is permitted to:

- adopt the standard retrospectively; or
- follow a modified retrospective approach.

A lessee applies the election consistently to all of its leases.

Modified retrospective approach

Lessee shall not restate comparative information and recognise the cumulative effect of initially applying Ind AS 116 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

For leases previously classified as operating leases and finance Leases, the following may be noted:

Operating lease	Lease liability	Measure at the present value of the remaining lease payments, discounted using lessee's incremental borrowing rate at the date of initial application
	Right-of-use asset	Retrospective calculation, using a discount rate based on lessee's incremental borrowing rate at the date of initial application. or Amount of lease liability (adjusted by the amount of any previously recognised prepaid or accrued lease payments relating to that lease).

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		Lessee can choose one of the alternatives on a lease-by-lease basis.
Finance lease	Lease liability	Carrying amount of the lease liability immediately before the date of initial application.
	Right-of-use asset	Carrying amount of the lease asset immediately before the date of initial application.
	Application of Ind AS 116	Apply the provisions of this standard to Right of Use asset and lease liability from the date of initial application.

The standard also prescribes certain practical expedients under Modified retrospective approach to leases previously classified as operating leases applying Ind AS 17.

Transition accounting: In the books of Lessor

Except for sub-leases and sale-and-leaseback transactions, a lessor does not make any adjustments on transition:

Sales and leaseback transaction

Sale and leaseback transactions entered into before the date of initial application shall not be reassessed to determine whether the transfer of the underlying asset satisfies the requirements in Ind AS 115 to be accounted for as a sale.

For a sale-and-leaseback transaction accounted for as a sale and finance lease in accordance with Ind AS 17, the seller-lessee:

- accounts for the leaseback in the same way as for any finance lease that exists at the date of initial application; and
- continues to amortise any gain on the sale over the lease term

For a sale-and-leaseback transaction accounted for as a sale and operating lease in accordance with Ind AS 17, the seller-lessee:

- accounts for the leaseback in the same way as for any other operating lease that exists at the date of initial application; and
- adjusts the leaseback right-of-use asset for any deferred gains or losses that relate to off-market terms recognised in the statement of financial position immediately before the date of initial application.

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Major change in Ind AS 116 vis-à-vis IFRS 16 not resulting in carve out

1. With regard to subsequent measurement, paragraph 34 of IFRS 16 provides that if lessee applies fair value model in IAS 40 to its investment property, it shall apply that fair value model to the right-of use assets that meet the definition of investment property. Since Ind AS 40, Investment Property, does not allow the use of fair value model, paragraph 34 has been deleted in Ind AS 116.
2. Paragraph 50(b) of IFRS 16 requires to classify cash payments for interest portion of lease liability applying requirements of IAS 7, Statement of Cash Flows. IAS 7 provides option of treating interest paid as operating or financing activity. However, Ind AS 7 requires interest paid to be treated as financing activity only. Accordingly, paragraph 50(b) has been modified in Ind AS 116 to specify that cash payments for interest portion of lease liability will be classified as financing activities applying Ind AS 7.

Major Changes in Ind AS 116 vis-à-vis AS 19

S. No.	Particular	Ind AS 116	AS 19
1.	**Lease definition**	Under Ind AS 116, the definition of lease is similar to that in AS 19. But, in Ind AS 116, there is substantial change in the guidance of how to apply this definition. The changes primarily relate to the concept of 'control' used in identifying whether a contract contains a lease or not.	No such guidance given therein
2.	**Modifications**	Ind AS 116 brings in comprehensive prescription on accounting of modifications in lease contracts.	No such guidance given therein
3.	**Scope:**	Ind AS 116 has no such scope exclusion.	AS 19 excludes leases of land from its scope.
4.	**Inception of lease and commencement of lease**	Ind AS 116 makes a distinction between 'inception of lease' and 'commencement of lease'	No such distinction is there
5	**Classification**	Ind AS 116 eliminates the requirement of classification of leases as either operating leases or finance leases for a lessee and instead, introduces a single	AS 19 requires a lessee to classify leases as either finance leases or operating leases.

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		lessee accounting model which requires lessee to recognise assets and liabilities for all leases unless it applies the recognition exemption applies.	
6	**Sale & Leaseback transactions**	In Ind AS 116, the approach for computation of gain/loss for a completed sale is different. The amount of gain/loss should reflect the amount that relates to the right transferred to the buyer-lessor.	As per AS 19, if a sale and leaseback transaction results in a finance lease, excess, if any, of the sale proceeds over the carrying amount shall be deferred and amortised by the seller-lessee over the lease term in proportion to depreciation of the leased asset.
		Ind AS 116 requires a seller-lessee and a buyer-lessor to use the definition of a sale as per Ind AS 115, Revenue from Contracts with Customers to determine whether a sale has occurred in a sale and leaseback transaction. If the transfer of the underlying asset satisfies the requirements of Ind AS 115 to be accounted for as a sale, the transaction will be accounted for as a sale and a lease by both the lessee and the lessor. If not, then the seller-lessee shall recognise a finance liability and the buyer-lessor will recognise a financial asset to be accounted for as per the requirements of Ind AS 109, Financial Instruments.	AS 19 does not contain such specific requirement.

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7.	For lessor, the treatment of initial direct costs -Finance lease lessor accounting		
	Non-manufacturer/Non-dealer	Interest rate implicit in the lease is defined in such a way that the initial direct costs included automatically in the finance lease receivable.	Either recognised as expense immediately or allocated against the finance income over the lease term.
	Manufacturer/dealer	Same as per AS 19.	Recognised as expense immediately.
	Operating lease-Lessor accounting	Added to the carrying amount of the leased asset and recognised as expense over the lease term on the same basis as lease income.	Either deferred and allocated to income over the lease term in proportion to the recognition of rent income or recognized as expense in the period in which incurred.
8.	**Interest rate implicit in the lease'**	Definition of the term 'interest rate implicit in the lease' has been modified	Different definition given
9.	**Presentation**	As a consequence of introduction of single lease model for lessees, there are many changes in the presentation in the three components of financial statements viz. Balance sheet, Statement of P&L, Statement of Cash flows.	Difference in presentation requirement
10.	**Disclosure**	There are a number of changes in the disclosure relating to qualitative aspects of leasing transactions. For eg. Entities are required to disclose the nature and risks arising from leasing transactions. Also, in case of lessor, there are changes in the disclosure of maturity analysis of leases payments receivable.	Difference in disclosure requirement

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PART – II : QUESTIONS AND ANSWERS

QUESTIONS

AS 1 and AS 10

1. (a) A private limited company engaged in IT support and management services is operating in India. Its management has decided that all assets having purchase cost below ₹ 40,000 should be fully depreciated on the same day and ₹ 1 would be carrying cost just for identification purposes. The management believes that all assets below ₹ 40,000 are immaterial for the entity. The actual useful life of such assets could be more than 2 years.

State with appropriate reason:

(i) Whether the management is right in fully depreciating all assets below ₹ 40,000?

(ii) If yes, then whether a simple disclosure of such accounting policy in financial statements will suffice?

(iii) If no, then can management decide useful life of assets which is different from the one mentioned in Schedule II to the Companies Act, 2013.

(iv) If yes, then whether it is permissible to decide useful life of all assets below a threshold amount or it should be done only with respect to a particular class of assets such as computer/laptops, vehicles, furniture etc.?

AS 2, AS 5 and AS 26

(b) A company 'X' Ltd was incorporated under the Companies Act, 1956 in 2010 for carrying out the business of real estate development in the state of Himachal Pradesh.

It entered in agreements for purchase of lands for developing real estate projects in the state and paid advances worth ₹ 3.50 crore. The company was not able to execute conveyance deeds for those lands in the name of the company and was also refused permissions for initiating development activities in the state. Since then there is no other activity undertaken by the company neither on the said land nor anywhere else.

The company has not prepared Statement of Profit and Loss for any of the Financial Year since 2010-2011 to 2019-2020 considering that the business activities never commenced and therefor capitalized the preliminary expenses of ₹ 35,000, general expense of ₹ 2.50 lac (such as Book-Keeping, Auditing, Legal Expense) and Interest Costs of approx. 2.50 crore as preoperative expenses incurred during these ten years under the head inventories – work-in-progress. The extract of the balance sheet is reproduced below for your reference:

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INVENTORIES as at 31.03.2020

Work-in-Progress	
Preliminary Expenses	35,000
Pre-operative Expense	2,52,50,000
Total Inventory	2,52,85,000

Now for financial year 2020-2021, the new auditors are of the opinion, that the company shall prepare the Statement of Profit and Loss.

State

(i) Whether the company is right in not preparing its Profit and Loss Statement for these so many years? Whether the company should prepare its Profit and Loss Statement for financial year 2020-2021?

(ii) What should be the Accounting for preliminary expenses capitalized earlier?

(iii) What should be the Accounting for preoperative expenses capitalized earlier?

(iv) How the above items and inventory to be appeared in the Statement of Profit and Loss for the financial year 2020-2021?

AS 3

2. (a) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS 3:

		(₹ in lacs)	(₹ in lacs)
Net Profit			60,000
Add:	Sale of Investments	70,000	
	Depreciation on Property, plant and equipment	11,000	
	Issue of Preference Shares	9,000	
	Loan raised	4,500	
	Decrease in Inventory	12,000	1,06,500
			1,66,500
Less:	Purchase of Property, plant and equipment	65,000	
	Decrease in Trade payables	6,000	
	Increase in Trade receivables	8,000	
	Exchange gain	8,000	
	Profit on sale of investments	12,000	
	Redemption of Debenture	5,700	
	Dividend paid	1,400	

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	Interest paid	945	(1,07,045)
			59,455
Add:	Opening cash and cash equivalent		12,341
Closing cash and cash equivalent			71,796

AS 4

(b) A private Limited is following IGAAP as a financial reporting framework. It is following POCM method for calculation of gratuity liability. It has funded gratuity plan and as per actuarial valuation as on 31 March, 2020. Net liability comes to ₹ 70,00,000, of which actuary has bifurcated ₹ 30,00,000 as current liability and remaining as non-current liability. The company has remitted entire liability of ₹ 70,00,000 to the gratuity fund as on 30 June, 2020.

Whether non-current gratuity liability of ₹ 40,00,000, which was paid within 12 months from the reporting date shall be disclosed as non-current or to be disclosed as current in the financial statements as on 31 March, 2020. It is assumed that operating cycle of the company is not more than 12 months and date of approval of financial statement is subsequent to 30 June, 2020

AS 7

3. (a) Contractors Ltd. have recognized contract revenue on a contract awarded in the financial year 2020-2021. The target date of completion is 5 years. The contract provides for incentives for early completion at the rate of ₹ 1,000 per day subject to a maximum of ₹ 3,00,000. The company has included this amount in contract revenue (in the first year of contract) on the ground that based on the previous experience in similar contracts, it is confident of completing the contract in 4 years. The company's past track record shows that company was able to complete such contracts well in time and earn incentives. Comment on the company's accounting policies.

AS 9

(b) The Board of Directors of Gautam Ltd. seeks your advice in the finalization of financial statements for the year ended 31 March, 2021. On a review of financial statements, it is noticed that:

Sale of goods costing ₹ 54,000 with a profit margin of 10% on selling price is included in the inventory as delivery of goods was postponed at buyer's request.

Advise the company on changes to be effected in the draft financial statements. Give reasons in support of your advice. There is no necessity to discuss disclosure requirements in this regard.

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AS 10

4. (a) An entity has the following items of property, plant and equipment:

- Property A — a vacant plot of land on which it intends to construct its new administration headquarters;
- Property B — a plot of land that it operates as a landfill site;
- Property C — a plot of land on which its existing administration headquarters are built;
- Property D — a plot of land on which its direct sales office is built;
- Properties E1–E10 — ten separate retail outlets and the land on which they are built;
- Equipment A — computer systems at its headquarters and direct sales office that are integrated with the point of sale computer systems in the retail outlets;
- Equipment B — point of sale computer systems in each of its retail outlets;
- Furniture and fittings in its administrative headquarters and its sales office;
- Shop fixtures and fittings in its retail outlets.

How many classes of property, plant and equipment must the entity disclose?

AS 12

(b) S Ltd. received a grant of ₹ 2,500 lakhs during the last accounting year (2019-2020) from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2020-2021, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the current accounting treatment, with reference to the provisions of AS 12.

AS 15

5. (a) The fair value of plan assets at the beginning and end of the year were ₹ 4,000 and ₹ 5,000 respectively. The employer's contribution to the plan during the year was ₹ 500. Benefit payments to retiree were ₹ 400. Calculate the actual return on plan assets.

AS 16

(b) P Ltd. had the following borrowings during a year in respect of capital expansion:

Plant	Cost of Asset (₹)	Remarks
Plant P	100 lakhs	No specific borrowings
Plant Q	125 lakhs	Bank loan of ₹ 65 lakhs at 10%
Plant R	175 lakhs	9% Debentures of ₹ 125 lakhs were issued.

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In addition to the specific borrowings stated above, the Company had obtained term loans from two banks

(1) ₹ 100 lakhs at 10% from Corporation Bank and

(2) ₹ 110 lakhs at 11.50% from State Bank of India, to meet its capital expansion requirements.

Determine the amount of borrowing costs to be capitalized in each of the above Plants, as per AS-16.

AS 17

6. (a) M Ltd. Group has three divisions A, B and C. Details of their turnover, results and net assets are given below:

	(₹ '000)
Division A	
Sales to B	3,050
Other Sales (Home)	60
Export Sales	4,090
	7,200
Division B	
Sales to C	30
Export Sales to Europe	200
	230
Division C	
Export Sales to America	180

Divisions

	Head Office (₹ '000)	A (₹ '000)	B (₹ '000)	C (₹ '000)
Operating Profit or Loss before tax		160	20	(8)
Re-allocated cost from Head Office		48	24	24
Interest cost		4	5	1
Non-current assets	50	200	40	120
Net current assets	48	120	40	90
Long-term liabilities	38	20	10	120

Prepare a Segmental Report for publication in M Ltd. Group.

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AS 18

(b) Mr. Avinash Sharma, a relative of key management personnel received remuneration of ₹ 2,50,000 for his services in the company for the period from 1.4.2020 to 30.6.2020. On 1.7.2020 he left the service.

Should Mr. Avinash Sharma be identified as a related party in the financial statements as at 31.3.2021 as per AS 18?

AS 20

7. Pooja Ltd. had 12,00,000 equity shares of ₹ 10 each fully paid up outstanding prior to rights issue. The details of rights issue are as follows:

(a) One new share for every two shares outstanding

(b) Rights issue price – ₹ 18

(c) Last date to exercise rights is 31 December, 2020

(d) Fair value of each equity share prior to exercise of rights – ₹ 24

The details of net profits earned by the company are as follows:

Year ended 31.3.2020 ₹ 40,00,000

Year ended 31.3.2021 ₹ 54,00,000

Calculate EPS to be reported under AS 20.

AS 24

8. (a) A Cosmetic articles producing company provides the following information:

	Cold Cream	Vanishing Cream
April, 2019 – December, 2019 per month	2,00,000	2,00,000
January, 2020 – March, 2020 per month	1,00,000	3,00,000
April, 2020 - June, 2020 per month	0	4,00,000

The company has enforced a gradual change in product-line on the basis of an overall plan. The approving authority of the company has passed a resolution in June, 2020 to this effect. Should this be treated as a discontinuing operation? Give reasons in support of your answer.

AS 25

(b) On 30.6.2020, A Ltd. incurred ₹ 2,00,000, net loss from disposal of a business segment. Also, on 30.7.2020, the company paid ₹ 60,000 for property taxes assessed for the calendar year 2020. How the above transactions should be included in determination of net income of A Ltd. for the six months interim period ended on 30.9.2020.

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AS 26

9. (a) An Enterprise has incurred expense for purchase of Technical know-how for manufacturing a car. The Enterprise has paid ₹ 5 crores for the use of know-how for a period of 4 years. The Enterprise estimates the production of cars as follows:

Year	No. of Cars
1	25,000
2	50,000
3	75,000
4	1,00,000

How will the Enterprise amortize the Technical know-how fee as per AS 26? Whether this amortization cost should form part of production cost of the cars?

AS 27

(b) A Ltd., a venturer, purchased an asset of ₹ 20 lakhs from a jointly controlled entity, written down value of asset in joint venture books was ₹ 24 lakhs. Under proportionate consolidation method, what adjustments should A Ltd. do while preparing financial statements? A Ltd. has 50% interest in venture.

AS 28

10. (a) A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment.

What is the cash-generating unit for an individual magazine title?

AS 29

(b) X Ltd. has its financial year ended 31.3.2021, fifteen Law suits outstanding, none of which has been settled by the time the accounts are approved by the directors. The directors have estimated that the probable outcomes as below:

Result	Probability	Amount of Loss ₹
For first ten cases:		
Win	0.6	----

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Loss-low damages	0.3	50,000
Loss-high damages	0.1	1,00,000
For remaining five cases:		
Win	0.5	----
Loss-low damages	0.3	60,000
Loss-high damages	0.2	1,00,000

The directors believe that the outcome of each case is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss.

Ind AS vs IFRS

11. What is the treatment of 'Contract Cost' under Ind AS 115 'Revenue from Contracts with Customers'?

Accounting for Corporate Restructuring

12. The following are the summarized Balance Sheets of A Ltd. and B Ltd., as at 31.3.2021:

A Ltd.		*(in ₹000s)*
Equity and Liabilities		
Share capital		
3,00,000 Equity shares of ₹ 10 each		3,000
10,000 Preference shares of ₹ 100 each		1,000
Reserves and Surplus		
General reserve	400	
Profit and Loss account	(16,600)	(16,200)
Non-current liabilities		
Secured loans (secured against pledge of stocks)		16,000
Unsecured loans		8,600
Current liabilities		13,000
		25,400
Assets		
Non-current assets		
Property, plant and equipment		3,400
Current assets		

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Stock (pledged with secured loan creditors)	18,400
Other Current assets	3,600
	25,400

B Ltd.	*(in ₹000s)*
Equity and Liabilities	
Share capital	
1,00,000 Equity shares of ₹ 10 each	1,000
Reserves and Surplus	
General reserve	2,800
Non-current liabilities	
Secured loans	8,000
Current liabilities	4,600
	16,400
Assets	
Non-current assets	
Property, plant and equipment	6,800
Current assets	9,600
	16,400

Both the companies go into liquidation and C Ltd., is formed to take over their businesses. The following information is given:

(a) All current assets of two companies, except pledged stock are taken over by C Ltd. The realisable value of all current assets are 80% of book values in case of A Ltd. and 70% for B Ltd. Non-current assets are taken over at book value.

(b) The break up of current liabilities is as follows:

	Andrew Ltd.	*Barry Ltd.*
	₹	₹
Statutory liabilities (including ₹ 22 lakh in case of A Ltd. in case of a claim being admitted)	72,00,000	10,00,000
Liability to employees	30,00,000	18,00,000

The balance of current liability is miscellaneous creditors.

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(c) Secured loans include ₹ 16,00,000 accrued interest in case of B Ltd.

(d) 2,00,000 equity shares of ₹ 10 each are allotted by C Ltd. at par against cash payment of entire face value to the shareholders of A Ltd. and B Ltd. in the ratio of shares held by them in A Ltd. and B Ltd.

(e) Preference shareholders are issued equity shares worth ₹ 2,00,000 in lieu of present holdings.

(f) Secured loan creditors agree to continue the balance amount of their loans to C Ltd. after adjusting value of pledged security in case of A Ltd. and after waiving 50% of interest due in the case of B Ltd.

(g) Unsecured loans are taken over by C Ltd. at 25% of loan amounts.

(h) Employees are issued fully paid equity shares in C Ltd. in full settlement of their dues.

(i) Statutory liabilities are taken over by C Ltd. at full values and miscellaneous creditors are taken over at 80% of the book value.

Show the Opening Balance Sheet of C Ltd.

Consolidated Financial Statements of Group Companies

13. From the following Balance Sheets of a group of companies and the other information provided, draw up the consolidated Balance Sheet as on 31.3.2021.

Balance Sheets as on 31.3.2021 (₹ in Lakh)

2	X	Y	Z		X	Y	Z
Share capital (in shares of ₹ 10 each)	300	200	100	Property, plant and equipment	130	150	100
Reserves	50	40	30	Cost of investment in Y Ltd.	180	–	–
Profit and loss balance	60	50	40	Cost of investment in Z Ltd.	40	–	–
Bills payables	10	–	5	Cost of investment in Z Ltd.	–	80	–
Creditors	30	10	10	Stock	50	20	20
Y Ltd. balance	–	–	15	Debtors	70	10	20
Z Ltd. balance	50	–	–	Bills receivables	–	10	20
				Z Ltd. balance	–	10	–
				X Ltd. balance	–	–	30
				Cash and bank balance	30	20	10
	500	300	200		500	300	200

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- X Ltd. holds 1,60,000 shares and 30,000 shares respectively in Y Ltd. and Z Ltd.; Y Ltd. holds 60,000 shares in Z Ltd. These investments were made on 1.7.2020 on which date the provision was as follows:

	Y Ltd.	Z Ltd.
Reserves	20	10
Profit and loss account	30	16

- In December, 2020, Y Ltd. invoiced goods to X Ltd. for ₹ 40 lakhs at cost plus 25%. The closing stock of X Ltd. includes such goods valued at ₹ 5 lakhs.
- X Ltd. declared dividend at 10% on the reporting date.
- Z Ltd. sold to Y Ltd. an equipment costing ₹ 24 lakhs at a profit of 25% on selling price on 1.1.2021. Depreciation at 10% per annum was provided by Y Ltd. on this equipment.
- Bills payables of Z Ltd. represent acceptances given to Y Ltd. out of which Y Ltd. had discounted bills worth ₹ 3 lakhs.

Financial Instruments

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

Nature	*Non-cumulative redeemable preference shares*
Repayment	Redeemable after 3 years
Date of Allotment	1 April 2018
Date of Repayment	31 March 2021
Total Period	3 Years
Value of Preference Shares issued	5,00,00,000
Dividend Rate	0.0001% per annum
Market rate of interest	12% per annum
Present value factor	0.7118

Share Based Payment

15. On 1.4.2018, X Ltd grants 200 stock options to each of its 300 employees, which will vest at the end of 3rd year, provided the employees are in service at the end of 3rd year. The exercise price per option is ₹ 60 if average annual output per employee is in the range of 100 units to 120 units, ₹ 50 if the same is in the range of 121 units to 130 units, ₹ 40 if the same is above 130 units.

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Fair value as on grant date is estimated at ₹ 50 per option if the exercise price is ₹ 60, ₹ 40 per option if the exercise price is ₹ 50, ₹ 30 per option if the exercise price is ₹ 40.

On 31.3.2019, 20 employees have left. Actual average annual output per employee is 115 till date. X Ltd. expects that it is most likely that the average output will be 122 over the 3 years and that further 30 employees will leave during next 2 years.

On 31.3.2020, further 25 employees have left. Actual average annual output per employee is 132 till date. X Ltd. expects that it is most likely that the average output will be above 130 units over the 3 years. It also estimates that a further 10 employees will leave during the 3rd year.

On 31.3.2021, further 15 employees have left. Actual average annual output per employees is only 112 till date.

Compute the amounts to be recognized for each year.

Mutual Funds

16. Investors Mutual Fund is registered with SEBI and having its registered office at Pune. The fund is in the process of finalizing the annual statement of accounts of one of its Open ended Mutual Fund Schemes. From the information furnished below you are required to prepare a statement showing the movement of unit holders' funds for the financial year ended 31 March, 2021. (₹ in '000)

Opening Balance of net assets	12,00,000
Net Income for the year (Audited)	85,000
8,50,200 units issued during 2020-2021	96,500
7,52,300 units redeemed during 2020-2021	71,320
The par value per unit is ₹ 100	

Valuation of Business

17. Shree Ltd. gives the following information:

Current profit	₹ 210 lakhs
Compound growth rate of profit	7.5% p.a.
Current cash flows from operations	₹ 270 lakhs
Compound growth rate of cash flows	6.5% p.a.
Current price earning ratio	12
Discount factor	20%

Find out the value of Shree Ltd. taking 10 years projected profit or cash flows based on (i) Discounted earnings method, (ii) Discounted cash flows method.

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Value Added Statement

18. The following is the Profit and Loss Account of Vinayak Ltd. for the year ended 31.3.2021. Prepare a Gross Value Added Statement of Vinayak Ltd. and show also the reconciliation between Gross Value Added and Profit before taxation.

Draft Profit and Loss Account for the year ended 31.3.2021

	Notes	*Amount*	
			(₹ in lakhs)
Income:			
Sales		–	890
Other Income		–	55
			945
Expenditure:			
Production and operational expenses	(a)	641	–
Administration expenses (Factory)	(b)	33	–
Interest	(c)	29	–
Depreciation		17	720
Profit before taxes		–	225
Provision for taxes	(d)	–	30
Profit after tax		–	195
Balance as per last Balance Sheet		–	10
			205
Transferred to General Reserve			45
Dividend paid			95
			140
Surplus carried to Balance Sheet			65
			205

Notes:

(a) Production and Operational expenses	₹ in lakhs
Consumption of raw materials	293
Consumption of stores	59
Salaries, Wages, Gratuities etc. (Admn.)	82
Taxes	98

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Other manufacturing expenses	109
	641

(b) Administration expenses include salaries, commission to Directors ₹9.00 lakhs Provision for doubtful debts ₹ 6.30 lakhs.

(c)

Interest on loan from ICICI Bank for working capital	9
Interest on loan from ICICI Bank for fixed loan	10
Interest on loan from IFCI for fixed loan	8
Interest on Debentures	2
	29

(d) The charges for taxation include a transfer of ₹ 3.00 lakhs to the credit of Deferred Tax Account.

(e) Taxes include GST of ₹ 55 lakh on cost of bought-in material.

Economic Value Added

19. Calculate economic value added (EVA) with the help of the following information of Sapphire Ltd.

    Financial leverage: 1.4 times;

    Equity Capital ₹ 170 lakh;

    Reserve and surplus ₹ 130 lakh;

    10% Debentures ₹ 400 lakh;

    Cost of Equity: 17.5%

    Income Tax Rate: 30%.

Human Resource Accounting

20. Why human resource is not recognized in the balance sheet?

SUGGESTED ANSWERS

1. (a) (i) From the facts given in the question, it is apparent that the assets costing ₹ 40,000 or below is not material for the entity. Hence, management is right in fully depreciating all immaterial assets below ₹ 40,000.

Therefore, if assets costing below ₹ 40,000 are considered to be not material, then the company may recognise those assets as expenses or in any other manner as it wishes which may include recognising the asset as property, plant and equipment and depreciating it fully.

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(ii) Paragraph 17(c) of AS 1 'Disclosure of Accounting Policies' defines that financial statements should disclose all "material" items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

Disclosure of materiality level is not required. A disclosure of immaterial items obscures the material information.

However, if the management feels that making the disclosure would make the financial statements understandable, say that the assets costing ₹ 40,000 or below is material on an aggregate basis. In such a case, the management cannot depreciate those assets fully on the same day.

(iii) Useful life mentioned in Schedule II to the Companies Act 2013 is only indicative. The Pvt Ltd. company is required to estimate the useful life of each item of property, plant and equipment in accordance with AS 10. Pvt Ltd. company can determine the useful life of assets based upon its assessment of the useful life considering history, expected usage, and benefit from the use of such assets, etc. Hence, the determination of useful life is dependent on the assessment and judgement of the entity using the asset.

(iv) Determining useful life purely based upon a particular category of assets having less than the prescribed threshold is not appropriate and not permissible.

Paragraph 83 of AS 10 requires an entity to disclose the policy and method of depreciation in the financial statements. As per the para, selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other enterprises.

Also, useful life is required to be determined for each asset separately and not based upon the overall class of assets. The estimation of the useful life of the asset is a matter of judgement based on the experience of the enterprise with similar assets.

It must be noted that useful life is specific to the "assets" and not to the "class of assets". Therefore, a company can have a different useful life for assets in the same class.

(b) (i) The company is not right in not preparing statement of Profit and loss since its incorporation. The company must prepare statement of Profit and loss for the financial year 31 March 2021.

(ii) Paragraph 56 of AS 26 'Intangible Assets', states that in some cases, expenditure is incurred to provide future economic benefits to an enterprise, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred.

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For example, expenditure of research is always recognised as an expense when it is incurred (see paragraph 41). Examples of other expenditure that is recognised as an expense when it is incurred include:

(a) expenditure on start-up activities (start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment under AS 10. Start-up costs may consist of preliminary expenses incurred in establishing a legal entity such as legal and secretarial costs, expenditure to open a new facility or business (pre-operating costs) or expenditures for commencing new operations or launching new products or processes (pre-operating costs);

(b) expenditure on training activities;

(c) expenditure on advertising and promotional activities; and

(d) expenditure on relocating or re-organising part or all of an enterprise."

Therefore, the company should have recognised the preliminary expenses incurred as an expense in the year of its incurrence in the Statement of Profit and loss.

(iii) The company has capitalised certain expenses as inventory under the nomenclature of pre-operative expenses. Paragraph 5 of AS 2, valuation of inventories, states that inventories should be valued at the lower of cost and net realisable value.

Paragraph 6 of AS 2 states that the cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Paragraph 13 of AS 2 states that in determining the cost of inventories in accordance with paragraph 6, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Examples of such costs are:

(a) abnormal amounts of wasted materials, labour, or other production costs;

(b) storage costs, unless those costs are necessary in the production process prior to a further production stage;

(c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and

(d) selling and distribution costs.

The company has recognised general expenses, book-keeping, auditing, legal expense as cost of inventories which is not in accordance with paragraph 13 of AS 2. Therefore, such expenses should have been recognised as expense in the statement of Profit and loss in the year of incurrence.

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Paragraph 4.3 of AS 5, 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' defines prior period items as prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods.

The company must have recognised the preliminary expenses in Statement of Profit and Loss in its first financial statements prepared after incorporation. Further, the expenses recognised under inventory as stated in paragraph 6 above must have been recognised as expenses in the statement of Profit and loss in the year of its incurrence. Therefore, such expenses are prior period items.

Paragraph 15 of AS 5 states that the nature and amount of prior period items should be separately disclosed in the Statement of Profit and Loss in a manner that their impact on the current profit or loss can be perceived.

Therefore, the company shall recognise those expenses in the Statement of Profit and Loss for the year ended 31 March 2021 and present them separately while disclosing the same as prior period items.

The company shall compare the expenses which are rightly recognised as cost of inventories in accordance with paragraph 6 of AS 2 with net realisable value. As the conveyance deeds for land has no probability of getting executed, the net realisable value is NIL and therefore, the company shall write-down the cost of inventory to NIL and recognise an expense in the Statement of Profit and Loss.

2. (a) Cash Flow Statement (₹ in lacs)

Cash flows from operating activities		
Net profit		60,000
Less: Exchange gain		(8,000)
Less: Profit on sale of investments		(12,000)
		40,000
Add: Depreciation on assets		11,000
Change in current assets and current liabilities		51,000
(-) Increase in debtors	(8,000)	
(+) Decrease in stock	12,000	
(-) Decrease in creditors	(6,000)	(2,000)
Net cash from operating activities		49,000
Cash flows from investing activities		
Sale of investments	70,000	
Purchase of fixed assets	(65,000)	

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Net cash from Investing activities		5,000
Cash flows from financing activities		
Issue of preference shares	9,000	
Loan raised	4,500	
Redemption of Debentures	(5,700)	
Interest paid	(945)	
Dividend paid	(1,400)	
Net cash from financing activities		5,455
Net increase in cash & cash equivalents		59,455
Add: Opening cash and cash equivalents		12,341
Closing cash and cash equivalents		71,796

(b) According to para 8.5 of AS 4 'Contingencies and Events Occurring After the Balance Sheet Date' requires disclosure of special items shall be disclosed in financial statements. It states that there are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. For example, if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognised as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes.

Those events which are indicative of conditions that arose subsequent to the balance sheet date shall not be adjusted for assets and liability recorded in the financial statements. Instead, it shall be classified if it is of special nature.

For considering classification as current and non-current, Pvt limited company is required to assess the conditions existing as on the balance sheet date.

On balance sheet date, the gratuity liability of ₹ 40,00,000 was expected to be paid subsequent to 12 months. Therefore, it shall be classified as non-current.

₹ 40,00,000 shall be classified as non-current liability.

3. (a) The Company's accounting policy is not in accordance with AS 7 "Construction Contracts". Past track record is not the criteria for recognition of incentive payments receivable for early completion of contract. According to AS 7, incentives payments can be included in contract revenue only when

- the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and
- the amount of the incentive payment can be measured reliably.

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The contract is not sufficiently advanced as it is in the first year and its normal time is 4-5 years. Hence, the recognition criteria are not met and it is inappropriate to include incentive payments receivable in the current year as part of contract revenue.

(b) According to AS 9 "Revenue Recognition", when delivery is postponed at buyer's request, revenue should be recognized not withstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made. However, the item must be on hand, identified and ready for delivery to the buyer at the time the sale is recognized rather than there being simply an intention to acquire or manufacture the goods in time for delivery. Thus, ₹ 54,000 should be excluded from inventory, and the amount of ₹ 60,000 (54,000 / 90%) should be included in sales with corresponding increase in debtors balance if the above conditions are fulfilled.

4. (a) To answer this question one must make a materiality judgement.

A class of assets is defined as a grouping of assets of a similar nature and use in an entity's operations.

The nature of land without a building is different to the nature of land with a building.

Consequently, land without a building is a separate class of asset from land and buildings. Furthermore, the nature and use of land operated as a landfill site is different from vacant land. Hence, the entity should disclose Property A separately. The entity must apply judgement to determine whether the entity's retail outlets are sufficiently different in nature and use from its office buildings, and thus constitute a separate class of land and buildings.

The computer equipment is integrated across the organisation and would probably be classified as a single separate class of asset.

Furniture and fittings used for administrative purposes could be sufficiently different to shop fixtures and fittings in retail outlets to be classified in two separate classes of assets.

(b) As per AS 12 'Accounting for Government Grants', Government grants sometimes become refundable because certain conditions are not fulfilled. A government grant that becomes refundable is treated as an extraordinary item as per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Polices". The amount refundable in respect of a government grant related to revenue is applied first against any unamortized deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to Statement of Profit and Loss. In the present case, the amount of refund of government grant should be shown in the profit and loss account of the company as an extraordinary item during the year 2020-2021.

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5. (a) The actual return is computed as follows:

	Amount (₹)
Fair value of plan assets (at the beginning of the year)	4,000
Add: Employer Contribution	500
Add: Actual Return (balancing figure)	900
Less: Benefit Payments	(400)
Fair value of plan assets (at the end of the year)	5,000

(b) (1) Computation of actual borrowing costs incurred during the year

Sources	Loan amount (₹ in lakhs)	Interest rate	Interest amount (₹ in lakhs)
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	110.00	11.5%	12.65
Total	400.00		40.40
Specific Borrowings included in above	190.00		17.75

(2) Weighted Average Capitalization Rate for General Borrowings

$$= \frac{\text{Total Interest} - \text{Interest on Specific borrowings}}{\text{Total Borrowings} - \text{Specific borrowings}}$$

$$= \frac{(40.40 - 17.75)}{(400 - 190)} = 22.65/210 = 10.79\% \text{ (approx.)}$$

(3) Capitalization of Borrowing Costs under AS 16 will be as under: (₹ in lakh)

Plant	Borrowing	Loan Amount	Interest Rate	Interest Amount	Cost of Asset	
P	General	100	10.79%	10.79		110.79
Q	Specific	65	10.00%	6.50	71.50	
	General	60	10.79%	6.47	66.47	137.97
R	Specific	125	9.00%	11.25	136.25	
	General	50	10.79	5.39	55.39	191.64
	Total	400		40.40		440.40

Note: The amount of borrowing costs capitalized should not exceed the actual interest cost.

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6. (a) **M Ltd.**

Segmental Report

					₹ ('000)
	Divisions			*Inter segment eliminations*	*Consolidated Total*
	A	*B*	*C*		
Segment Revenue					
Sales:					
Domestic	60	–	–	–	60
Export	4,090	200	180	-	4,470
External Sales	4,150	200	180	–	4,530
Inter-segment Sales	3,050	30		3,080	-
Total Revenue	7,200	230	180	3,080	4,530
Segment result (given)	160	20	(8)		172
Head office expenses					(96)
Operating profit					76
Interest expense					(10)
Profit before tax					66
Other information					
Non-current assets	200	40	120		360
Net current assets	120	40	90		250
Segment assets	320	80	210		610
Unallocated corporate assets (50 + 48)					98
Segment liabilities	20	10	120		150
Unallocated corporate liabilities					38

Sales Revenue by Geographical Market

(₹ '000)

	Home Sales ie in India	*Export Sales (by division A)*	*Export to Europe*	*Export to America*	*Consolidated Total*
External Sales	60	4,090	200	180	4,530

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(b) According to para 10 of AS 18 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Avinash Sharma a relative of key management personnel should be identified as related party in the financial statements as at 31.3.2021.

7. Calculation of theoretical ex-rights fair value per share

$$= \frac{(12,00,000 \text{ shares} \times ₹\ 24) + (6,00,000 \text{ shares} \times ₹\ 18)}{12,00,000 \text{ shares} + 6,00,000 \text{ shares}}$$

$$= \frac{₹\ 2,88,00,000 + ₹\ 1,08,00,000}{18,00,000 \text{ shares}} = 22$$

Calculation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = \frac{₹\ 24}{₹\ 22} = 1.091$$

Calculation of EPS for the year ended 31.3.2020

EPS originally reported $= \frac{₹\ 40,00,000}{12,00,000 \text{ shares}} = ₹\ 3.33$

EPS restated for rights issue $= \frac{₹\ 40,00,000}{12,00,000 \text{ shares} \times 1.091} = \frac{40,00,000}{13,09,200} = ₹\ 3.05$

Calculation of EPS for the year ended 31.3.2021

$$= \frac{₹\ 54,00,000}{(12,00,000 \times 1.091 \times 9/12) + (18,00,000 \times 3/12)} = \frac{54,00,000}{9,81,900 + 4,50,000} = 3.77$$

8. (a) In response to the market forces, business enterprises often abandon products or even product lines and reduce the size of their work-force. These actions are not in themselves discontinuing operations unless they satisfy the definition criteria.

In the instant case the company has been gradually reducing operation in the product line of cold creams, simultaneously increasing operation in the product line of vanishing creams. The company was not disposing of any of its components. Phasing out a product line as undertaken by the company does not meet definition criteria in paragraph 3 of AS 24, namely, disposing of substantially in its entirety a component of the enterprise. Therefore, this change over is not a discontinuing operation.

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(b) According to para 10 of AS 25 "Interim Financial Reporting", if an enterprise prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements should confirm to the requirements as applicable to annual complete set of financial statements. As on 30.9.2020, A Ltd., would report the entire ₹ 2,00,000 loss on the disposal of its business segment since the loss was incurred during interim period. A cost charged as an expense in an annual period should be allocated to interim periods on accrual basis. Since ₹ 60,000 Property Tax payment relates to entire calendar year 2020, ₹ 30,000 would be reported as an expense for six months ended on 30.9.2020 while remaining ₹ 30,000 would be reported as prepaid expenses.

9. (a) As per AS 26 'Intangible Assets' is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services for rental to other or for administrative purposes.

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

The amortised amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life.

Year	No. of cars	Amortisation charge (p.a.)	
1	25,000	50,00,000	$\left[\frac{500,00,000}{2,50,000}\right]$ x 25,000
2	50,000	100,00,000	$\left[\frac{500,00,000}{2,50,000}\right]$ x 50,000
3	75,000	150,00,000	$\left[\frac{500,00,000}{2,50,000}\right]$ x 75,000
4	1,00,000	200,00,000	$\left[\frac{500,00,000}{2,50,000}\right]$ x 1,00,000

Yes, the amortization cost will form part of production cost of the cars.

(b) A Ltd. (Venturer) should not recognize its share of loss arising to joint venture from the purchase of asset from the jointly controlled entity until the asset is sold to third party provided recoverable amount of asset is not less than 24 lakhs.

10. (a) It is likely that the recoverable amount of an individual magazine title can be assessed. Even though the level of advertising income for a title is influenced, to a certain extent, by the other titles in the customer segment, cash inflows from direct

sales and advertising are identifiable for each title. In addition, although titles are managed by customer segments, decisions to abandon titles are made on an individual title basis. Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent one from another and that each magazine title is a separate cash-generating unit.

(b) In this case, the probability of winning first 10 cases is 60% and for remaining five cases is 50%. In other words, probability of losing the cases is 40% and 50% respectively. According to AS 29 'Provisions, Contingent Liabilities and Contingent Assets', we make a provision if the loss is probable. As the loss does not appear to be probable and the probability or possibility of an outflow of resources embodying economic benefits is not remote rather there is a reasonable possibility of loss, therefore disclosure by way of note of contingent liability will be made. Amount may be calculated as under:

Expected loss in first ten cases = [₹ 50,000 x 0.3 + ₹ 1,00,000 x 0.1] x 10

= [₹ 15,000 + 10,000] x 10

= ₹ 25,000 x 10 = ₹ 2,50,000

Expected loss in remaining five cases = [₹ 60,000 x 0.3 + ₹ 1,00,000 x 0.2] x 5

= [₹ 18,000 + ₹ 20,000] x 5

= ₹ 38,000 x 5 = ₹1,90,000

Total contingent liability = ₹ 2,50,000 + ₹1,90,000

= ₹ 4,40,000.

11. Treatment of Contract Costs

Ind AS 115 specifies the following requirements for contract costs:

1. *Incremental costs of obtaining a contract:*

   Those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. An entity shall recognise these costs as an asset if the entity expects to recover those costs. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

2. *Costs to fulfil a contract:*

   If costs incurred in fulfilling a contract are not within scope of another Standard, entity shall recognise an asset from the costs incurred to fulfil a contract only if some specified criteria are met. If costs incurred in fulfilling a contract are within scope of another Standard, entity shall account for those costs in accordance with those other Standards.

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Contract costs recognised as an asset shall be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

An impairment loss shall be recognised in profit or loss to the extent that the carrying amount of contract costs recognised as an asset exceeds the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates after deducting the costs that relate directly to providing those goods or services and that have not been recognised as expenses.

12. Balance sheet of C Ltd. as at 31 March, 2021

Particulars	*Note No.*	*(₹ '000)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
Share Capital	1	7,000
(2) **Non-Current Liabilities**		
Long-term borrowings	2	10,630
(3) **Current Liabilities**		
(a) Trade Payables	3	5,440
(b) Other current liabilities	7	8,200
Total		31,270
II. **Assets**		
(1) **Non-current assets**		
(a) Property, plant and equipment	4	10,200
(b) Intangible assets	5	9,470
(2) **Current assets**		
(a) Cash and cash equivalents		2,000
(b) Other current assets	6	9,600
Total		31,270

Notes to Accounts

			(₹ 000)
1.	Share Capital		
	Issued, subscribed & Paid up:		
	7,00,000 equity shares of ₹ 10 each, fully paid up (W.N.5)		7,000

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	(of the above 5,00,000 shares have been issued for consideration other than cash)		
2.	Long Term Borrowings		
	Secured loans (₹ 1,280 +₹ 7,200) – W.N. 2	8,480	
	Unsecured Loans (25% of ₹ 8,600)	2,150	10,630
3.	Trade Payables (W.N.1)		
	A Ltd.	4,000	
	B Ltd.	1,440	5,440
4.	Non-current assets		
	Property, plant and equipment (₹ 3,400 + ₹ 6,800)		10,200
5.	Intangible assets		
	Goodwill (W.N.4)		9,470
6.	Other Current Assets		
	A Ltd.	2,880	
	B Ltd.	6,720	9,600
7.	Other current liabilities		
	A Ltd.	7,200	
	B Ltd.	1,000	8,200

Working Notes:

1. Value of trade payables taken over by C Ltd. *(₹ '000)*

	A Ltd.	*B Ltd.*
Given in balance sheet	13,000	4,600
Less: Statutory liabilities [72 lakhs – 22 lakhs]	(5,000)	(1,000)
Liability to employees	(3,000)	(1,800)
Trade payables	5,000	1,800
80% thereof	4,000	1,440

2. Value of total liabilities taken over by C Ltd. *(₹ '000)*

	A Ltd.		*B Ltd.*	
Current liabilities				
Statutory liabilities	7,200		1,000	
Liability to employees	3,000		1,800	
Trade payables (W.N.1)	4,000	14,200	1,440	4,240

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Secured loans				
Given in Balance Sheet	16,000		8,000	
Interest waived	-		800	7,200
Value of Inventory (80% of ₹ 184 lakhs)	14,720	1,280		
Unsecured Loans (25% of ₹ 86 lakhs)		2,150		-
		17,630		11,440

3. Assets taken over by C Ltd. *(₹ '000)*

	A Ltd. ₹	*B Ltd.* ₹
Property, plant and equipment	3,400	6,800
Current Assets 80% and 70% respectively of book value	2,880	6,720
	6,280	13,520

4. Goodwill / Capital Reserve on amalgamation *(₹ '000)*

Liabilities taken over (W.N. 2)		17,630	11,440
Equity shares to be issued to Preference Shareholders		200	-
	A	17,830	11,440
Less: Total assets taken over (W.N. 3)	B	(6,280)	(13,520)
	A-B	11,550	(2,080)
		Goodwill	Capital Reserve
Net Goodwill		9,470	

5. Equity shares issued by C Ltd.

			Number
(i)	For Cash		2,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	4,80,000	
(iii)	To Preference shareholders	20,000	5,00,000
			7,00,000
	Value of shares (₹ 10 x 7,00,000)		₹ 70 lakhs

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13. Consolidated Balance Sheet of X Ltd. and its subsidiaries Y Ltd. and Z Ltd. as at 31 March, 2021

Particulars	*Note No.*	*(₹ in Lacs)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital		300.00
(b) Reserves and Surplus	1	151.90
(2) **Minority Interest (W.N 4)**		79.30
(3) **Current Liabilities**		
(a) Trade payables	2	58.00
(b) Other current liabilities	3	55.00
Total		644.20
II. **Assets**		
(1) **Non-current assets**		
Property, plant and equipment	4	372.20
(2) **Current assets**		
(a) Inventories	5	89.00
(b) Trade receivables	6	123.00
(c) Cash and cash equivalents	7	60.00
Total		644.20

Notes to Accounts

			(₹ in lacs)	*(₹ in lacs)*
1.	Reserves and Surplus			
	Capital Reserve [W.N. 3]		13.40	
	Other Reserves [W.N. 7]		81.60	
	Profit and Loss Account [W.N. 6]		56.90	151.90
2.	Trade payables			
	X Ltd.	₹ 40.00		
	Y Ltd.	₹ 10.00		
	Z Ltd.	₹ 15.00	65.00	

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	Less: Mutual indebtedness	₹ (5.00)		
	Less: Mutual indebtedness [5-3]	₹ (2.00)	(7.00)	58.00
3.	Other current liabilities			
	(a) Current Account Balances			
	X Ltd.	₹ 50.00		
	Z Ltd.	₹ 15.00		
		₹ 65.00		
	Less: Mutual indebtedness (₹ 10+ 30)	(₹ 40.00)	25.00	
	(b) Dividend payable		30.00	55.00
4.	Property, plant and equipment			
	X Ltd.		130.00	
	Y Ltd.		150.00	
	Z Ltd.		100.00	
			380.00	
	Less: Unrealised profit [W.N. 5]		(7.80)	372.20
5.	Inventories			
	X Ltd.		50.00	
	Y Ltd.		20.00	
	Z Ltd.		20.00	
			90.00	
	Less: Unrealised profit [5 x 25 / 125]		(1.00)	89.00
6.	Trade receivables			
	X Ltd.	₹ 70.00		
	Y Ltd.	₹ 20.00		
	Z Ltd.	₹ 40.00	130.00	
	Less: Mutual indebtedness	₹ (5.00)		
	Less: Mutual indebtedness	₹ (2.00)	(7.00)	123.00
7.	Cash and Cash Equivalents			
	X Ltd.	₹ 30.00		

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	Y Ltd.	₹ 20.00		
	Z Ltd.	₹ 10.00		60.00

Working Notes:

Shareholding Pattern

	Y Ltd.	Z Ltd.
Total Shares	2 lakh shares	1 lakh shares
X Ltd.'s holding	1.6 lakh shares [80%]	0.3 lakhs [30%]
Y Ltd.'s holding	NA	0.6 lakhs [60%]
Minority Holding	0.4 lakh shares (20%)	0.1 lakh shares (10%)

		(₹ in lakhs)		
		Capital Profit	*Revenue Reserve*	*Revenue profit*
(1)	Analysis of Profits of Z Ltd.			
	Reserves on 1.7.2020	10.00		
	Profit and Loss A/c on 1.7.2020	16.00		
	Increase in Reserves		20.00	
	Increase in Profit			24.00
		26.00	20.00	24.00
	Less: Minority Interest (10%)	(2.60)	(2.00)	(2.40)
		23.40	18.00	21.60
	Share of X Ltd. [30%]	7.80	6.00	7.20
	Share of Y Ltd. [60%]	15.60	12.00	14.40
(2)	Analysis of Profits of Y Ltd.			
	Reserves on 1.7.2020	20.00		
	Profit and Loss A/c on 1.7.2020	30.00		
	Increase in Reserves		20.00	
	Increase in Profit			20.00
		50.00	20.00	20.00
	Share in Z Ltd. [WN 1]		12.00	14.40
		50.00	32.00	34.40

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	Less: Minority Interest (20%)	(10.00)	(6.40)	(6.88)
	Share of X Ltd. [80%]	40.00	25.60	27.52
(3)	Cost of Control			
	Investments in Y Ltd.			180.00
	Investments in Z Ltd.			120.00
				300.00
	Less: Paid up value of investments			
	in Y Ltd.	(160.00)		
	in Z Ltd.	(90.00)	(250.00)	
	Capital Profit			
	in Y Ltd. [WN 1]	(40.00)		
	in Z Ltd. [WN 2]	(23.40)	(63.40)	(313.40)
	Capital Reserve			13.40
(4)	Minority Interest	Y Ltd.	Z Ltd.	
	Share Capital	40.00	10.00	
	Capital Profit	10.00	2.60	
	Revenue Reserves	6.40	2.00	
	Revenue Profits	6.88	2.40	
		63.28	17.00	
	Less: Unrealised profit on inventory (20% of 1)	(.20)		
	Unrealised profit on equipment (10% of ₹ 7.8)		(0.78)	
		63.08	16.22	
(5)	Unrealised profit on equipment sale			
	Cost	24.00		
	Profit [25% on selling price]	8.00		
	Selling Price	32.00		
	Unrealised profit = $\left[8 - \left(8 \times \frac{10}{100} \times \frac{3}{12}\right)\right]$			
	= 8.00 – 0.20 = 7.80			

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(6)	Profit and Loss Account – X Ltd.			
	Balance	60.00		
	Less: Dividend	(30.00)		
		30.00		
	Share in Y Ltd.	27.52		
	Share in Z Ltd.	7.20		
		64.72		
	Less: Unrealised profit on equipment (90% of 7.8)	(7.02)		
		57.70		
	Less: Unrealised profit on inventory			
	$\left(5 \times \frac{25}{125} \times 80\%\right)$	(0.80)		
		56.90		
(7)	Reserves – X Ltd.			
	X Ltd.	50.00		
	Share in Y Ltd. [WN 2]	25.60		
	Share in Z Ltd. [WN 1]	6.00		
		81.60		

14. 1. Analysis of the financial instrument issued by S Ltd. to its holding company H Ltd. Applying the guidance in Ind AS 109, a 'financial asset' shall be recorded at its fair value upon initial recognition. Fair value is normally the transaction price. However, sometimes certain type of instruments may be exchanged at off market terms (i.e., different from market terms for a similar instrument if exchanged between market participants).

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

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

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Computations on initial recognition: ₹

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

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

Year	Date	Opening Balance	Interest @ 12%	Closing balance
	1 April, 2018	3,55,90,000	-	3,55,90,000
1	31 March, 2019	3,55,90,000	42,70,800	3,98,60,800
2	31 March, 2020	3,98,60,800	47,83,296	4,46,44,096
3	31 March, 2020	4,46,44,096	53,55,904*	5,00,00,000

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

2. **In the books of H Ltd.**

Journal Entries to be done at every reporting date

Date	Particulars		Amount	Amount
1 April, 2018	Investment (Equity portion)	Dr.	1,44,10,000	
	Redeemable Preference Shares	Dr.	3,55,90,000	
	To Bank			5,00,00,000
	(Being initial recognition of transaction recorded)			
31 March, 2019	Redeemable Preference Shares	Dr.	42,70,800	
	To Interest income			42,70,800
	(Interest income on loan component recognized)			
31 March, 2020	Redeemable Preference Shares	Dr.	47,83,296	
	To Interest income			47,83,296
	(Interest income on loan component recognized)			

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31 March, 2020	Redeemable Preference Shares Dr. To Interest income (Interest income on loan component recognized)	53,55,904	53,55,904
31 March, 2020	Bank Dr. To Redeemable Preference Shares	5,00,00,000	5,00,00,000
	(Being settlement of transaction done at the end of the third year)		

15. It should be noted that remaining in service for 3 years and achieving a particular level of average output are vesting conditions which are not market conditions. Their distribution of possible outcomes is not taken into account in arriving at a single fair value. However, since the achieving a particular level of average output affects the exercise price and thus the fair value per option, the enterprise estimates/re-estimates the most likely outcome and takes the corresponding fair value as on the grant date.

Their outcomes are taken into account in estimating/re-estimating the number of employees and the number of options expected to vest.

Particulars		31.3.2019	31.3.2020	31.3.2021
A	Number of employees expected to satisfy vesting conditions	250 [300-20-30]	245 [300-20-25-10]	240 [300-20-25-15] [Actuals]
B	Expected/Most likely average annual output per employee	122	Above 130	112
C	Fair value per option as on grant date, based on most likely outcome	40	30	50
D	Fair value of options expected to vest (A x C x 200 options per employee)	20,00,000	14,70,000	24,00,000
E	Cumulative fair value to be recognized till date	6,66,667 [20,00,000x1/3]	9,80,000 [14,70,000x2/3]	24,00,000 [24,00,000x3/3]

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F	Cumulative fair value already recognized	0	6,66,667	9,80,000
G	Expense to be recognized for the period (E-F)	6,66,667	3,13,333	14,20,000

16.

	(₹000)
Net assets at commencement of accounting period	12,00,000
Add: Par value of units issued (8,50,200 × 100)	85,020
Less:Par value of units redeemed (7,52,300 × 100)	(75,230)
Add: Balance in Reserve/Equalization Fund transferred	7,570
Net income for the year	85,000
Net assets at close of the accounting period	13,02,360

Working Note:

Particulars	*Issued*	*Redeemed*
Units	8,50,200	7,52,300
Par Value thereof (₹ '000)	85,020	75,230
Sale Proceeds / Redemption Value (₹ '000)	96,500	71,320
Profit/(Loss) transferred to Reserve / Equalization A/c (₹ '000)	11,480	(3,910)
Net Balance in Reserve/Equalization Fund (₹ '000)	7,570	

17. (i) Discounted earnings method

			(₹ in lakhs)
Year	*Earnings*	*Discount Factor @ 20%*	*Present value*
1	225.75	0.8333	188.117
2	242.68	0.6944	168.517
3	260.88	0.5787	150.971
4	280.45	0.4823	135.261
5	301.48	0.4019	121.165
6	324.09	0.3349	108.538
7	348.40	0.2791	97.238
8	374.53	0.2326	87.116
9	402.62	0.1938	78.028
10	432.82	0.1615	69.900
			1204.851

Value of the business ₹1204.851 Lakhs

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(ii) Discounted cash flows method

			(₹ In lakhs)
Year	*Earnings*	*Discount Factor @ 20%*	*Present value*
1	287.55	0.8333	239.615
2	306.24	0.6944	212.653
3	326.15	0.5787	188.743
4	347.35	0.4823	167.527
5	369.92	0.4019	148.671
6	393.97	0.3349	131.941
7	419.58	0.2791	117.105
8	446.85	0.2326	103.937
9	475.89	0.1938	92.227
10	506.83	0.1615	81.853
			1484.272

Value of the business ₹1484.272 Lakhs.

18. Vinayak Ltd.

Gross Value Added Statement for the year ended 31 March, 2021

	₹ in lakhs	₹ in lakhs
Sales		890
Less: Cost of bought in materials and services:		
Production and operational expenses (293 + 59 + 109)	461	
Administration expenses (33 – 9)	24	
Interest on working capital loan	9	
GST	55	549
Value added by manufacturing and trading activities		341
Add: Other income		55
Total value added		396

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Application of Value Added

			%
To Employees			
Salaries, wages, gratuities etc.		82	20.71%
To Directors			
Salaries and commission		9	2.27%
To Government			
Other taxes (98 – 55)	43		
Income tax	27	70	17.68%
To Providers of capital			
Interest on debentures	2		
Interest on fixed loan	18		
Dividends	95	115	29.04%
To Provide for maintenance and expansion of the company			
Depreciation	17		
General reserve	45		
Deferred tax	3		
Retained profits (65 – 10)	55	120	30.30%
		396	100%

Statement showing reconciliation of Gross Value Added with Profits before taxation

		₹ in lakhs
Profits before taxes		225
Add:		
Depreciation	17	
Directors' remuneration	9	
Salaries, wages & gratuities etc.	82	
Other taxes	43	
Interest on debentures	2	
Interest on fixed loan	18	171
Total value added		396

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19. Financial Leverage = $\frac{\text{EBIT}}{\text{EBIT} - \text{Interest}} = \frac{\text{EBIT}}{\text{EBIT} - 10\% \text{ of } 400} = 1.40$

EBIT = {(10% of 400) × 1.40] /0.40 = 140

EBIT (I – t) = 140 (1 – 0.30) = 98

Equity capital = 170 + 130 = 300

Debt Capital = 400

Post-tax cost of debt = 10% (1 – 0.30) = 7%

Overall cost of capital [Post-tax] = 17.5% of 300 + 7% of 400 = 80.5

Economic Value Added (EVA) = EBIT (I – t) – Overall cost of capital (Post-tax)

= 98 – 80.5 = 17.5 (₹ Lakh)

20. Although human beings are considered as the prime mover for achieving productivity, and are placed above technology, equipment and money, the conventional accounting practice does not assign significance to the human resources. Human resources are not recognized in balance sheet as there are no measurement criteria for recognition of human resources. Human resource accounting is at developing stage and no accounting principles have been established for valuation of human assets. Costs incurred on human resources are recognized as expenses in profit and loss account.

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